Translation

KINGDOM OF CAMBODIA
Nation Religion King

ROYAL GOVERNMENT

SECOND FIVE YEAR SOCIOECONOMIC DEVELOPMENT PLAN

2001-2005

NATIONAL ECONOMIC GROWTH
AND POVERTY REDUCTION STRATEGY

Royal Kram
Promulgation of the Law
on
The adoption of the Second 5 year
Socio-Economic Development Plan
2001-2005

Article 1: Adopted the attached Second 5 year Socio-Economic Development Plan 2001-2005.

Article 2: The Royal Government of Cambodia should continue the implementation of the Second 5 year Socio-Economic Development Plan 2001-2005.

Phnom Penh, 29 July 2002
For and at the king's order
Acting Head of State

Signature: NORODOM RANARIDDH

Having submitted to the king
for signature
Prime Minister

Signature: HUN SEN

Having submitted to
Samdech Prime Minister for signature
Minister of Planning

Signature: CHHAY THAN

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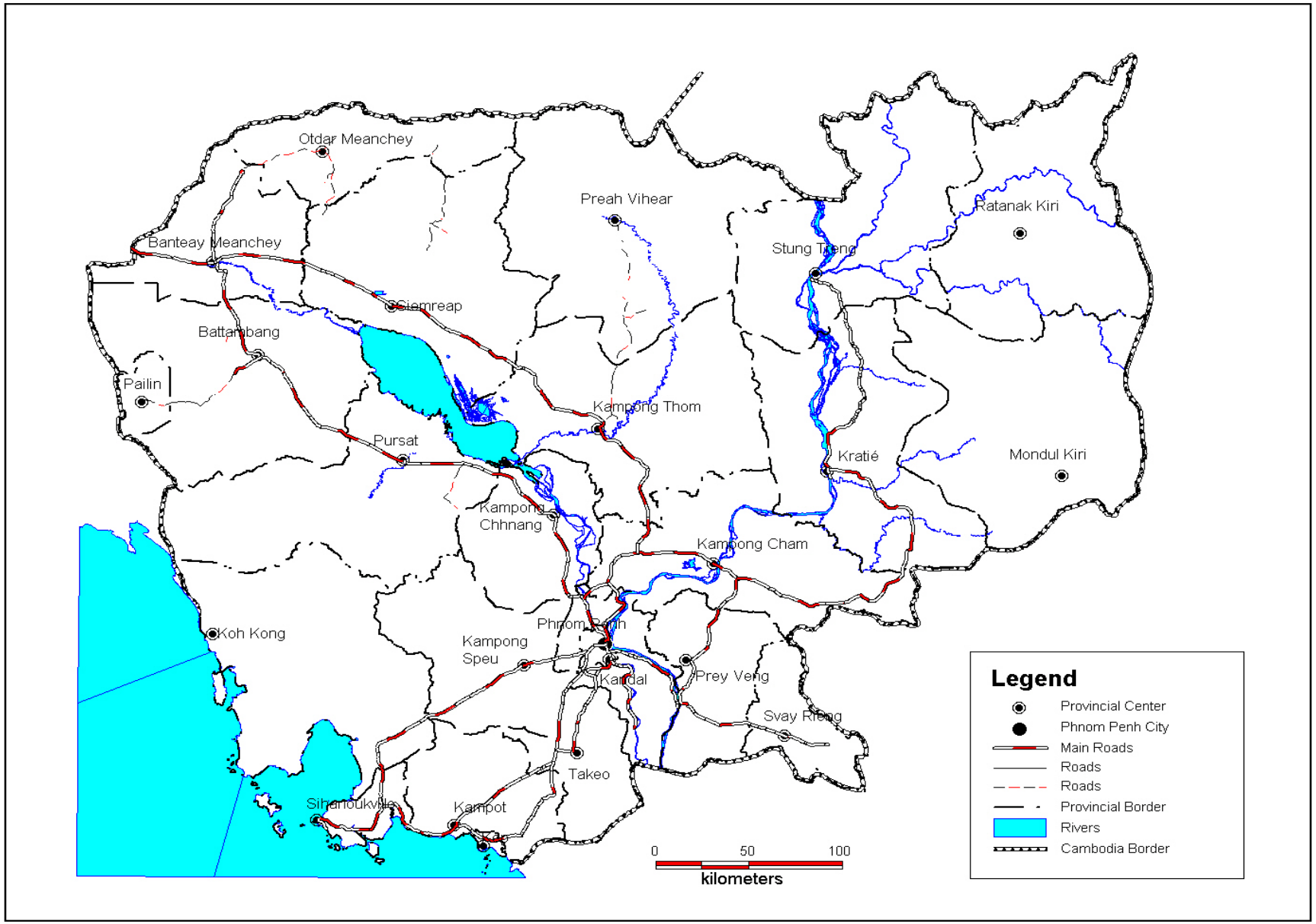
ROYAL GOVERNMENT

SECOND FIVE YEAR SOCIOECONOMIC DEVELOPMENT PLAN

2001-2005

VOLUME 1

MAP OF CAMBODIA



BASIC DATA ON CAMBODIA, 1998

Land area (thousand sq. km)	181.035
Number of provinces / municipalities	24
Number of districts	183
Number of communes	1,609
Number of villages	13,406
Population	11,437,656
Population per sq. km	63
Rural population (percent)	84.3
Annual population growth rate (percent)	2.49
Number of males per 100 females	93.0
Percentage of female headed households	25.7
Dependency ratio	86.1
Population below national poverty line (percent)	36
Life expectancy (years)	54
Infant mortality rate (per 1,000 live births)	89.4
Maternal mortality rate (per 100,000)	47.3
Adult literacy rate, male/female (percent)	79.5/57.0
Households with access to safe drinking water, rural/urban (percent)	23.7/60.3
Households with electricity as main source of light, rural/urban (percent)	8.6/53.6
Households using firewood as main cooking fuel (percent)	90.0
Households with toilet within premises, rural/urban (percent)	8.6/49.0
Gross domestic product, 1999 (US dollars, billion)	3.0
GDP per head, 1999 (US dollars)	257
Official exchange rate, 1999 (Riel per US$)	3,800
Sectoral shares of GDP, 1999 (percent)	
- agriculture	41.9
- industry	20.4
- services	37.7
Sectoral shares of employment	
- agriculture	77.5
- industry	4.3
-services	18.2

Sources: MOP 1999b, pp.xi-xiii; MOP 2000b, p.18.

EXECUTIVE SUMMARY

Purpose and Organization of the Documen

The Second Socio-economic Development Plan 2001-2006 (SEDPII) articulates the national economic growth and poverty reduction strategy of the Royal Government of Cambodia. The Government role in the implementation of the strategy is that of a facilitator that uses the power and resources under its control to influence the development process, so as to achieve desired socioeconomic outcomes.

The SEDPII provides a situational analysis of the present level of development and prioritizes measures designed to obtain a higher economic growth path and faster private sector development, which is a prerequisite for poverty reduction. The Plan also presents quantitative targets and shows how the progress, and impact of Government policy and program priorities will be monitored and evaluated.

The SEDPII comprises two volumes. The Main Volume sets out the development vision of the Government, the objectives and the results to be obtained, the strategies and national policy and program priorities. Volume II contains important background papers and sectoral analyses as well as a summary of the first Cambodia Participatory Poverty Assessment (PPA). The findings presented in Volume II were used to inform and guide the formulation and content of the national economic growth and poverty reduction strategy articulated in Volume I. As such Volume I can be read and used as a stand - alone document.

Participatory Planning Process

The participatory nature of the SEDPII planning process is reflected in the completion of the PPA together with the direct consultations that Government held with important stakeholder groups, as well as the series of SEDPII workshops that facilitated policy dialogue, at national and sub-national levels. A detailed report on the consultative and participatory SEDPII preparation process is available on request from the Ministry of Planning.

Development Vision

The development vision of the Royal Government of Cambodia is to have a socially cohesive, educationally advanced and culturally vibrant Cambodia without poverty, illiteracy and disease. Realizing the vision will require continued adherence to the values of social justice, human welfare and empowerment and the formulation and implementation of policies to reduce poverty by promoting sustainable economic growth and better governance.

The “Triangle Strategy” of the Government, which was adopted after the July 1998 election, is designed to achieve this Vision. Restoring peace and stability, and maintaining security for the nation and people, which formed the first side of the “Triangle” was accomplished during the last two years. Cambodia's integration into the region and normalization of relationships with the international community, the second side of the “Triangle” was also achieved. Cambodia regained its seat at the United Nations and became the 10th member of the Association of South East Asian Nations (ASEAN) and the process of joining the World Trade Organization (WTO) is well advanced.

The third side of the Government's strategic triangle is to promote economic and social development through the implementation of an extensive reform program. Significant

progress has been made in the implementation of these reforms, and economic growth has been strong in the last two years despite the impact of the 2000 floods. However, much remains to be done.

Strategic Priorities To Achieve Vision

In the context of the Triangle Strategy, and building on the *Interim Poverty Reduction Strategy Paper* approved by the Council of Ministers on 27 October 2000, the SEDPII presents the development objectives, strategies and policies of the Government. The strategies are: (1) to foster broad-based sustainable economic growth with equity, with the private sector playing the leading role; (2) to promote social and cultural development by improving the access of the poor to education, health, water and sanitation, power, credit, markets, information and appropriate technology; and (3) to promote sustainable management and use of natural resources and the environment (4) to improve the governance environment through effective implementation of the Governance Action Plan (GAP).

The strategic message of the Plan is that economic growth is a prerequisite for poverty reduction and that the key to economic growth is private sector development, and the pace at which the private sector can develop depends largely on sustained improvements in the governance environment.

The timely implementation of the GAP, and its specific strategies for civil service reform, decentralization, military demobilization, legal and judiciary reform, gender equity, public financial management, anti-corruption and natural resource management, is therefore a key priority for the Government.

The Government is committed to maintaining a stable macroeconomic environment, as sustained economic growth with poverty reduction cannot be achieved in an environment of macroeconomic instability or of serious fiscal and external accounts imbalance. The medium term macroeconomic framework focuses on obtaining an average annual rate of 6-7 percent economic growth, keeping inflation below 4 percent, containing the external account deficit to a level consistent with concessional financing and foreign direct investment flows and increasing gross official reserves to about 3.5 months of import coverage.

Faster growth is essential in order to improve social indicators and allow higher private consumption of welfare increasing items and to provide the tax base to finance public expenditure. Adherence to the ongoing reform program is crucial to higher economic growth, diversification from garments to other types of basic manufacturing and development of Cambodia's tourism potential is of no less importance, as this would encourage increased activities in other services as well as industry and agriculture.

The strategic focus is on implementing those measures that have the dual benefits of both promoting growth and reducing poverty. This will include initiatives to enhance state effectiveness, develop physical infrastructure particularly in underserved rural areas, increase investment in human resources particularly women and children. Success in promoting growth and reducing poverty will require close cooperation within and outside the Government, so that timely actions at the macroeconomic level and across and within sectors are implemented in the way intended.

Continuing fiscal reform is critical in order to build on recent increases in revenue capacity and to accelerate the shift from defense and security expenditures to the socials sectors. The implementation of the military demobilization program is a key element of the reform

program, as savings from downsizing the army are essential for redirecting spending toward the social sectors. Public administration reform is also an important component of the fiscal strategy and its civil service reform component is vital to achieving planned sector wide reform in health and education. Key priorities for the Government include promoting financial transparency and addressing corruption issues particularly in health and education disbursements.

Decentralization offers a range of possibilities including the opportunity for broader political debate about development strategies and new ways of holding government accountable to its actions. The extent to which the development potential of decentralization will be realized depends crucially on success in other related governance, particularly budgeting and in health, education, transport, and gender issue areas.

Accelerating growth in the rural economy would result in the largest reduction in poverty because its incidence is highest there and inequalities are lowest, an important consideration given that economic growth will benefit some more than others. Agricultural improvement is key to broad based economic growth and poverty reduction and there is little doubt that there is much potential for improvement.

In addition the development process must deal with the unexpected, in particular the harm done to the fragile welfare of the poor and the health of the economy as a result of natural disasters. Strengthening national disasters preparedness, relief, mitigation and rehabilitation preparation are important poverty reduction priorities of the Government.

As is providing targeted special programs for those who are unable to effectively participate in the growth process as well as enhancing ongoing preventative measures to combat the HIV/AIDS epidemic. Establishing Cambodia as a popular ecological and cultural tourism destination will also contribute to the success of ongoing efforts to control HIV/AIDS and provide an additional boost to economic growth.

Further development of rural infrastructure will help rural and remote communities, which include the poor and the poorest, facilitate market access for those without it and put essential services within reach of the most needy. Making better use of human capabilities, improving the income earning potential of the poor, widening their range of choice, improving the quality of their lives and reducing their social exclusion make improving the access of the poor to education and health crucial priorities. Women's education is a crucial determinant in birth spacing and reproductive health and in determining the educational level and employment of their daughters

In short, macroeconomic stability, implementation of the GAP, continuing trade liberalization and expansion of economic and social infrastructure will facilitate private sector expansion and thereby fuel higher economic growth, rising incomes and employment, which will pave the way for durable poverty reduction. For those unable to benefit from direct participation in the economic growth process special support programs will be implemented.

PART 1: VISION
VISION FOR THE FUTURE AND REASON FOR BEING

CHAPTER 1: THE PLANNING PROCESS AND DEVELOPMENT VISION

This section of the document has four objectives. First, to explain the purpose of the Second Socioeconomic Development Plan 2001-2005 (SEDPII) and what went in to its preparation. Second, to provide a review of the previous five-year plan and to identify lessons learned from that period. Third, to articulate the long-term development vision of the Government, that envisages a peaceful, democratic and prosperous Cambodia actively participating in regional and global affairs. Fourth, to explain the strategic direction of the SEDPII, which views economic growth as a prerequisite for poverty reduction and private sector development as the key to a higher growth path. With private sector expansion being largely determined by sustained improvements in the governance environment.

1.1 PLANNING PROCESS

The planning process in Cambodia provides a basis for encouraging inter-ministerial, aid agencies, private sector and civil society cooperation and coordination to enable a more consistent mode of action and implementation in support of national development objectives. In line with the participatory principles of SEDPII preparation the Government initiated direct consultation with major stakeholder groups.

Box 1.1: SEDPII Participatory Planning Process

During the process of preparing the SEDPII the Government held direct consultations with representatives of four important stakeholder groups: nongovernmental organizations, the business community, academia and the international community. Consultations with line ministries were conducted through the Inter-Ministerial Working Group and a series of SEDPII workshops were held in Khmer and English at national and sub-national level including workshops on the planning and results of the first Cambodia Participatory Poverty Assessment, which was used to inform and influence the content of sectoral strategies and policy and program priorities.

The purpose of the consultation process was to ensure that all stakeholders had a chance to express their views and have those reflected in the SEDPII or elsewhere and to facilitate broad support for the final Plan document. The Government recognizes the importance of an effective consultation process and that this process does not end with the publication of the Plan. There is a need for public dissemination of the SEDPII, but since much of the population in Cambodia is functionally illiterate innovative solutions for dissemination and feedback need to be sought. In this context Ministry of Planning in consultation with stakeholders within and outside Government will spearhead the establishment of focus group discussions in representative villages and explore other ways of deepening the consultative process both to guide the course and monitoring of SEDPII implementation and the conduct of future strategic planning exercises.

Purpose of the Plan

The SEDPII aims to influence the development process by providing leadership, clarity of purpose and strategic direction. It takes stock of Cambodia's development progress, sets out the development vision of the Government and its medium term national development

strategy, policy and program priorities over the next five years. Within this strategic framework the SEDPII retains a required flexibility, as it is a dynamic Plan that will need to be regularly reviewed during the course of implementation, to reflect new developments, changing circumstances and evolving priorities.

Box 1.2: Drafting the SEDPII

The presentation of the SEDPII aimed to steer between two undesirable alternatives:

1. An excessively detailed plan with very long lists of actions to be undertaken. This approach makes the plan difficult to understand and increases the risk of only part of the plan being implemented with prioritization occurring outside the formal planning process and largely in reaction to the most immediate pressures facing decision-makers, which may not be the most important priorities.

2. Equally ineffective is the type of strategic planning document, which discusses at length high-level development objectives and strategies, but is too short on the specifics of how actions and resources within the power of the Government will be used to achieve them.

Thus, the SEDPII Main Volume aims to present agreement on fundamental development issues and then prioritize the overall strategy identifying the most important tasks in the medium term in order to focus attention and resources on achievement of these objectives. As Plan implementation proceeds policies will be further clarified or adapted and priorities will evolve as the most urgent issues are addressed. This need to continuously adapt and evolve requires a permanent policy analysis and planning capacity within the Government.

The preparation of SEDPII proceeded from a set of key principles and a performance review of the First Socioeconomic Development Plan 1996-2000 (SEDPI) that covered the progress of its implementation (what actions have been completed) and assessment of its impact (what have these actions achieved). The key lessons learnt from the review of SEDPI were taken into account in the formulation of SEDPII.

Box 1.3: Principles of SEDPII Preparation

The preparation of the SEDPII was guided by the following principles:

1. The Plan will show the measures to be continued and introduced to obtain a higher economic growth path
2. The Plan will provide an accurate diagnosis of the causes of poverty and who the poor are and how Government action can help to move them out of poverty
3. The Plan will show how Government expenditure is to be directed towards the priorities that are consistent with economic growth and poverty reduction
4. The Plan will set out a credible mechanism for monitoring the progress of Government policies and programs and evaluation of their impact and for taking corrective action where necessary
5. The Plan preparation will be led and managed by the Government in consultation with important stakeholders including the international community, non-governmental organizations, academia and the business community.

1.2 REVIEW OF SEDPI[1]

The SEDPI was referred to as the first plan for three reasons: it was the first presented with, an orientation to a market economy; it was the first since the national election of May

[1] This section summarizes the main findings of the SEDPI review. The full review is located in Volume II *Background Papers and Sectoral Analyses* Annex I Review of SEDPI.

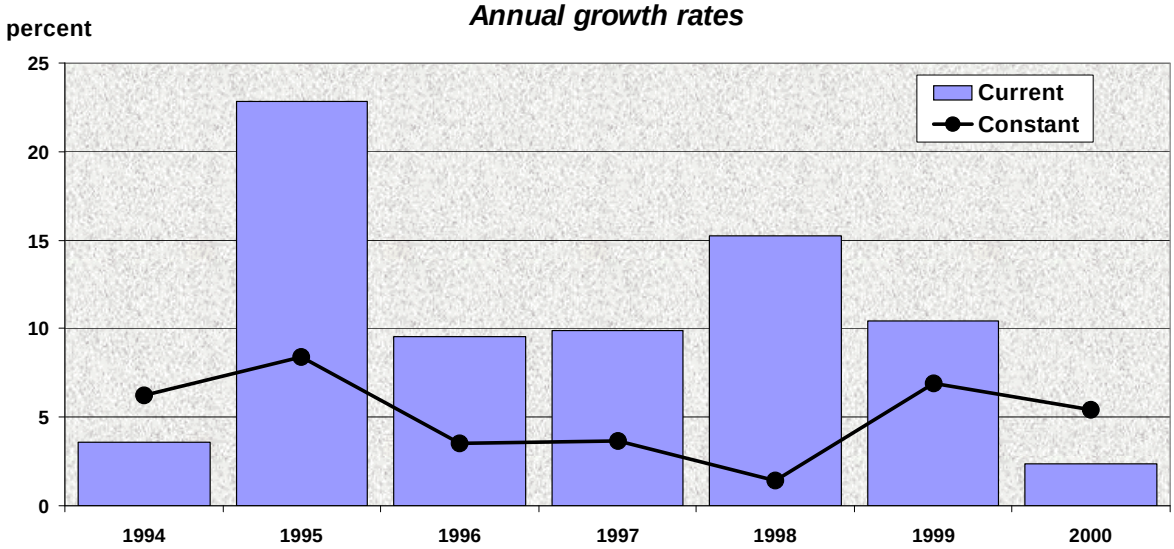
1993 and it was seen as symbolic of a new beginning for Cambodia' development process. Its overall focus was on achieving the conditions for economic growth and poverty reduction. This was to be obtained largely through a process of economic liberalization that would enable a transition to a durable market economy and a rural bias in the allocation of public investments that would promote rural development through the provision of infrastructure and services in under-served rural areas. The latter priority was presented as a key poverty reduction measure on the assumption that investments in rural locations are more likely to have pro-poor benefits than investments in urban areas. However, the SEDPI review found that the intentions of the plan were not effectively translated into a consistent mode of Government action and implementation.

1.2.1 ECONOMIC PERFORMANCE

Economic growth between 1996 and 2000 fell short of the SEDPI target rate of 7.5 percent, but real growth was still quite strong averaging 4 percent during the period. Had it not been for the twin difficulties of domestic political crisis and the Asian financial crisis Cambodia's economic growth in 1997 and 1998 could have been up to the level of previous years - an average real rate of GDP growth of nearly 7 percent from 1992-1996.

Deterioration in the country's macroeconomic fundamentals in 1997 and 1998 was reflected in the reduction of external assistance and lower levels of investment, in capital flight and in reduced public revenues. While budget revenues improved in 1999 and prices rose more slowly public investment and foreign direct investment were slow to recover to previous levels. The 18 months suspension of some aid programs disrupted aid agencies project cycles resulting in a lagged effect on disbursements and hence public investment.

Figure 1.
Gross Domestic Product in Current and Constant Prices
Annual growth rates



Source: National Accounts of Cambodia 1993-2000 Bulletin No.5 Ministry of Planning National Institute of Statistics May 2001

However, the establishment of political stability and favorable weather conditions for increased agricultural output boosted economic activity reflected in a real growth rate of 6.9 percent in 1999. Despite the severe flooding during July-September that was reported to be the worst in 40 years, the economy grew by 5.4 percent in 2000.

A feature of the period was the rapid and unanticipated growth of garment exports, which grew from negligible levels to more than 75 percent of exports in 2000. Textile, apparel and footwear manufacturing value added increased by 63.8 percent in 2000 following increases of 40.6 percent and 46.5 percent in 1999 and 1998. Tourism has recovered strongly and continues to provide growth opportunities in the hotel, restaurant and transport sector. The number of tourists visiting Cambodia increased by more than 30 percent in both 1999 and 2000 with international flights directly from Laos, Thailand, Singapore, Myanmar and Vietnam to Siem Reap providing easier access to the Angkor Wat temple complex.

The economic contribution of the agricultural sector fell to 37.6 percent of GDP in 2000 from an average 41 percent in previous years with, the reported increases in crop volumes being offset by the continued decline in the forestry sector, as a result of the crackdown on illegal logging and livestock losses due to flooding.

Table 1 Gross Domestic Product Economic Activity
(In constant 1993 prices)

	1996	**1997**	**1998/R**	**1999/R**	**2000/P**
	Percent Distribution				
Agriculture, Fisheries & Forestry	40.4	41.2	41.6	40.8	37.6
Industry	14.9	17.3	18.3	19.2	23.5
Services	39.7	36.9	36.1	35.8	35.0
	Growth Rates in Percent				
Agriculture, Fisheries & Forestry	-0.7	5.8	2.5	4.8	-2.7
Industry	11.1	20.4	7.7	12.0	29.0
Services	3.1	-3.7	-0.6	5.8	3.1
	Growth Rate in Percent				
Gross Domestic Product	3.5	3.7	1.5	6.9	5.4

R/ - revised estimates
P/- preliminary estimates
Source: National Accounts of Cambodia 1993-2000 Bulletin No.5 National Institute of Statistics May 2001

The contribution of industry continued to grow nearly doubling during the period to 23.5 percent in 2000 due to the expansion of export-oriented industries and continued construction activity. Although there has been significant growth in tourist oriented sectors in 1999 and 2000, the expansion in the industry sector has swamped this and the service sector contribution to GDP remains at around 35 percent.

Fiscal management improved as the revenue to GDP ratio rose from 9.7 percent of GDP to 11.1 percent in 2000, primarily because of a rise in tax revenue attributable to introduction of a value-added tax in 1998. Current expenditure rose slightly to 9.8 percent of GDP in 2000, and the shift from deficit to surplus in the current budget balance permitted an increase in locally financed investment. The inflation rate was above the target of 5 percent in 1996-1998, but below in 1999 and 2000.

1.2.2 SOCIAL DEVELOPMENT

Progress towards the social development targets set in SEDPI was disappointingly slow, but an assessment of actual outcomes against targets is constrained by the uncertainty about baseline data reliability as well as the limited availability of up to date data. In addition, some of the targets seemed over-ambitious.

A key question is whether the growth performance during the SEDPI period was sufficient to make an impact on ***poverty reduction***? This question cannot be answered with any precision, but evidence from an earlier growth period suggests that the level of growth obtained could have only a negligible impact on poverty reduction. Between 1993-94 and 1997 real per capita private consumption increased about 3 percent suggesting modest improvement in the well being of the average Cambodian over this period. Available data suggest that the incidence of poverty nationwide, as measured by the headcount index, fell moderately between 1993-94 and 1997, from 39 percent to 36 percent. However, this suggested decline in poverty appears to have been concentrated in Phnom Penh and other urban areas with the severity of poverty remaining the same in rural areas. Economic growth during this period was also associated with a significant increase in consumption inequality. While the poorest 20 percent of the population increased their real consumption expenditure per capita by 1.7 percent between 1993-94 and 1997 the corresponding increase for the richest 20 percent of the Cambodian population was 17.9 percent (MOP 1999a).

The key target of channeling 65 percent of ***public investments*** to projects in rural areas and 35 percent to projects in urban areas over the plan period was not obtained with almost the exact opposite achieved. The available evidence suggests that the planning of public investment was in line with the target, but actual public investment implementation revealed a distinctively urban bias.

The inability of the Government to adhere to its public investment priorities was largely due to three factors: (a) weak linkages between planning, multi-year investment programming, annual budgeting and the aid process; (b) insecurity in some rural areas that prevented planned implementation of some public investments; and (c) a slowdown in foreign financing in 1997 and 1998 due to domestic political problems.

SEDPI presented a number of specific ***health*** sector targets and these referred to financial commitments, service delivery, and access and health outcomes. A number of important initiatives to strengthen the health system during the period were taken. They fall into three categories: the extension of rural health services on the basis of the health coverage plan; financial and budget reforms based on the 1996 health financing charter, and organizational and management reforms.

There have been noteworthy advances in the organization of health services and substantial investments in rural health infrastructure. Infant, child and maternal mortality rates seem to have fallen in 1996-1998; and there was some increase by 1999 in the proportions of urban and rural populations with access to safe water, and in the proportion of the rural population with access to toilet facilities. However, the sector has yet to deliver in terms of concrete health gains. There are no nationally representative data about the incidence of communicable diseases or burden of disease estimates and therefore no way to assess progress during the SEDPI period. On the positive side Cambodia has been declared a polio-free country and there is a reported reduction in the incidence of symptomatic malaria by approximately 70 percent between 1996 and 1999, largely due to the introduction of treated bed nets.

Nutrition has also seen improvements over rates in 1996. The recent CDHS2000 finds the <5malnutrition (underweight) rate to be 45 percent, down from 49 percent. Malnutrition rates of women of reproductive age and low birth weights of newborns seem to have stayed flat. Representative data for Vitamin A, iron and iodine deficiency now exist for 2000, but cannot be reliably compared with data from earlier years to assess progress.

Education indicators moved in the desired direction, but outcomes were not commensurate with expenditure. Indicators of access, such as net enrolment ratios in primary and secondary schools, have remained below Plan targets (although it should be noted that part of the decline in lower secondary enrolment reflects the addition of a 6th grade in the primary system). Greater gender equity in education is important because of the well-documented externalities associated with female education; but performance fell short of the gender equity targets, especially for the levels above primary education. Indeed, there was some deterioration in the enrolment ratio in lower secondary grades. Actual instruction time per year, which was targeted to reach 900 hours in 2000, declined from an estimated 600 hours in 1994 to 500-553 hours. Repetition rates for Grades 1 through 6 fell slowly. Government spending on education rose from 1 percent of GDP in 1995 to 1.4 percent in 2000, but still fell short of the target of 2.5 percent. The key impact indicator, the adult literacy rate, showed marginal improvement.

The overall conclusion must be that progress towards achieving SEDPI targets whether examined from the standpoint of inputs or outputs was disappointing. The key questions are how did this happen and how can such a situation be avoided in future?

1.2.3 KEY LESSONS LEARNT FROM SEDPI

Economic growth is a prerequisite for poverty reduction. Overall, the weak governance context held back economic growth and therefore poverty reduction in three main ways throughout most of the SEDPI period.

- Absence of a stable institutional framework including the collapse of the state into political turmoil
- Inadequate public service delivery manifested in an inappropriate distribution of physical infrastructure and services biased against the poor
- Lack of institutional capacity within the Government in the design and implementation of policies and programs to seriously tackle the causes of poverty.

This illustrates that in addition to setting targets, the planning process needs to articulate a clear strategy for achieving its targets. Moreover, an integral part of the planning exercise should be design of an implementation mechanism including procedures for monitoring progress and evaluating impact and for taking corrective action to reflect new developments, changing circumstances and evolving priorities.

The key lesson, however, is that while growth is necessary for poverty reduction, as the incomes of the poor will rise with overall economic expansion, large and growing inequalities associated with observed growth patterns reduce the possibility that growth alone can foster durable poverty reduction. The impact of growth on the poor depends largely on the extent of their participation in the economy and the distribution of benefits from growth. The extent to which the poor are included in the economy reflects their asset ownership, the working of markets for factors of production and the access of the poor to markets for inputs and outputs. To realize sustainable reductions in poverty the poor have to be included in the growth process. Implying that growth has to be broad enough to include sectors where the poor derive a livelihood.

Given the rural location of most poverty in Cambodia the development of the rural economy is therefore a priority for achieving poverty reduction goals. The Government recognizes the importance of promoting policy environments that are supportive of those sectors that increase the income earning opportunities of the poor and implementation of

policies and programs in rural areas that are more sharply focused on tackling the causes of poverty.

1.3 DEVELOPMENT VISION

The development Vision of the Government is to have a socially cohesive, educationally advanced, and culturally vibrant Cambodia without poverty, illiteracy, and disease. Realizing the Vision will require continued adherence to the values of social justice, human welfare, and empowerment, and the formulation and implementation of policies to reduce poverty by promoting sustainable economic growth and social development.

Following the July 26 1998 general elections, the Royal Government of Cambodia adopted the "Triangle Strategy" to fulfill this long-term Vision. The "Strategy" was designed to enable Cambodia to be a peaceful, democratic and prosperous nation actively participating in regional and global affairs.

The first side of the strategic triangle focused on building peace, restoring stability, and maintaining security for the nation and people. During the last two years this task was accomplished due to the strong commitment of the Royal Government, the energy and support of the Cambodian people and generous assistance from development partners.

The second side of the strategic triangle emphasized Cambodia's integration into the region and normalization of relationships with the international community. This was also accomplished. Soon after the formation of the new Government, Cambodia succeeded in regaining its seat at the United Nations and became the 10th member of the Association of South East Asian Nations (ASEAN). Foreign aid and investment flows have recovered and the process of joining the World Trade Organization (WTO) is well advanced.

The third side of the Government's strategic triangle is to promote economic and social development through the implementation of a wide-ranging reform program that was agreed upon after intense discussion and consideration. Significant progress is being made in the implementation of the reform program, and economic growth was strong in the last two years despite the impact of the 2000 floods. However, much remains to be done.

In the context of the Triangle Strategy, and building on the *Interim Poverty Reduction Strategy Paper* (I-PRSP) approved by the Council of Ministers on 27 October 2000, the SEDPII presents the national development objectives, strategies and policies of the Royal Government of Cambodia. The strategies are: (1) to foster broad-based sustainable economic growth with equity, with the private sector playing the leading role; (2) to promote social and cultural development by improving the access of the poor to education, health, water and sanitation, power, credit, markets, information and appropriate technology; (3) to promote sustainable management and use of natural resources and the environment; and (4) to improve the governance environment through effective implementation of the Governance Action Plan (GAP).

Peace and security are necessary conditions for development and poverty reduction, which in turn strengthen peace and security. The Government therefore remains strongly committed to strengthening political stability, security and social order throughout the country, and to thereby building a safe environment for all Cambodians and improving business confidence.

1.3.1 CHALLENGES AND OPPORTUNITIES

The fundamental development challenge is to reduce poverty and improve the quality of life of a growing number of Cambodians. There are several population trends and characteristics, which to varying degrees prevent obstacles to development. The most important is the relatively high rate of population growth. Current rates of high mortality and high fertility are among the most basic barriers to poverty reduction and threaten to erode the gains made in other ways.

The primary objective is to achieve a higher economic growth path, while simultaneously rapidly reducing poverty, disease and malnutrition and creating sufficient employment opportunities to absorb a labor force that is increasing by 228,000 entrants each year. Cambodia stands at a crossroads where it has the opportunity to make the transition from dependency mode to sustainable development. To achieve that shift requires from the Government careful prioritization and sequencing of the actions and resources under its power of control. It also requires that Cambodia' development partners support collaboratively and collectively the development strategy prepared by Government.

Faster growth is essential in order to improve social indicators and allow higher private consumption of welfare increasing items, and to provide the tax base to finance public expenditure. However, the Government recognizes that economic liberalization and private sector led economic growth alone cannot be expected to automatically result in pro-poor growth, as some markets continue to fail the poor and the inability of the poor to make provision for emergencies, floods and other natural disasters contributes to their vulnerability and insecurity, as does inadequate health and education.

Strategies for health, nutrition and education have to work together to meet the challenges of reducing protein energy malnutrition (PEM), micronutrient deficiencies and communicable diseases that have significant negative consequences for the future intellectual and productive capacity of Cambodia. The success of the SEDPII national economic growth and poverty reduction strategy will depend in large measure on the outcome of the duel against HIV/AIDS, malaria, dengue, tuberculosis, PEM, iodine deficiency disorder (IDD) and anemia.

Gender biases add a further significant development challenge. The inferior access of women to education and health, land and credit as well as the excessive demands made on their time by the need to combine income generation activities with childcare and household duties, quite apart from the inequities involved, holds back development potential, notably the progress of agriculture where women's labor is particularly important. In addition, Government recognizes that there are pro-poor externalities to public investment in education, health, water and physical infrastructure particularly in rural areas that are presently under-served.[2]

Although some infrastructure development has been undertaken by private capital, Government recognizes that market pricing of, for example, transport facilities remains the exception rather than the norm and the relatively low densities of population in much of Cambodia reduces the potential for private sector provision. Further development of rural infrastructure will help rural and remote communities, which include the poor and the

[2] The economic justification for Government provision of infrastructure is the presence of positive externalities (where the social gain from an activity exceeds the private gain) leading to inadequate supply from a social point of view if the market is relied upon and public goods (where private investment will not occur because the investor cannot adequately capture the benefits to make a profit).

poorest, facilitate market access for those without it and put essential services within reach of the most needy.

Although market failure requires appropriate Government actions, the Government recognizes that it can also get its interventions wrong with the risk of creating an even worse situation. This calls for improved understanding about the causes of poverty and about how public policies can affect different groups of the poor, particularly the gender impact of Government policies and programs. It also points to the importance of extending Government responsiveness beyond the central level to better channel support and coordinate efforts at the province and commune level.

1.3.2 ASSUMPTIONS AND RISKS

Crucial to the achievement of sustained growth and poverty reduction is maintenance of a sound macroeconomic environment and timely implementation of broad based structural reforms including progress in enhancing governance and implementing policies more sharply focused on eliminating the causes of poverty. The key population strategy will be aimed at bringing about demographic change through the formulation and implementation of social policies, especially in health, education and gender rather than through attempting to bring about direct demographic change. There is also a need to give more encouragement to the private sector and to promote agriculture where growth rates have generally been less, but which is envisaged as the engine of sustainable growth and poverty reduction.

This entails specific strategies to improve productivity and efficiency in agriculture to counter the trends that have made Cambodia production more expensive in recent years and to promote non-farm employment opportunities in the rural economy. Together with a continuing focus on major increases in revenue collection, shift in public expenditure to the social sectors, sustainable forestry policy, civil service reform, military demobilization and improved conditions for private sector development, so that in the long-term the private sector becomes the engine of rising investment, employment and incomes.

Timely implementation of the reform program is crucial to the development of Cambodia. Due to the complex nature of most of the reforms, weak administrative capacity risks remain significant. To strengthen Cambodia's limited implementation capacity extensive technical assistance will need to be provided. The effectiveness of technical assistance will need to be augmented by the Government assuming greater ownership of and responsibility for technical assistance provided. To ensure that this makes a lasting contribution to national development the Government will take the necessary civil service reform steps so that this assistance builds local capacity. Close monitoring and regular evaluation and appropriate use of capacity building technical assistance will be important to achieve SEDPII national development objectives.

In particular, the capacity of Government to implement reform in the social sectors is closely linked to the extent crosscutting and systemic issues are addressed. Success of the planned sector wide reform in health and education could fail if public administration reform is not implemented. Results cannot be expected unless substantive salary increases bring the income of civil servants to those of a living wage. This would help address the low motivation and competence that is endemic in the public sector.

The performance of the economy is fragile with exports predominantly from the textile and apparel industry. Potential for further growth in other export areas notably tourism is severely limited by lack of good infrastructure. The potential for significant growth of small

and medium sized businesses important for creating employment and reducing poverty is equally constrained by inadequate infrastructure and also the high transaction costs of doing business in Cambodia.

Adherence to the reform program is crucial to faster economic growth. Diversification from garments to other types of basic manufacturing and development of Cambodia's tourism potential is of no less importance, as this would encourage increased activities in other services as well as in industry and agriculture.

Growth is central to poverty reduction, but for growth to be poverty reducing requires promoting the conditions for pro-poor growth meaning inclusion of the poor in economic expansion. This requires coordinated actions on a number of fronts in order to make both Government and markets work better for the poor. The challenge is complex, however, as different groups of the poor have better prospects of benefiting from greater economic opportunity than others making the design of policy difficult. The remainder of this document analyses the challenge and articulates the planned strategic responses of the Government including the setting of socioeconomic targets and the institutional arrangements for monitoring progress and evaluating achievement.

PART II: OBJECTIVES
THE CHALLENGE AND WHAT RESULTS TO ACCOMPLISH

CHAPTER 2: THE DEVELOPMENT CHALLENGE: "POPULATION AND POVERTY DYNAMICS"

Introduction

This chapter offers a diagnosis of the current situation in Cambodia. It starts with an overview of where we are. This is followed by a discussion of population dynamics that draws attention to some population characteristics and trends that could undermine development efforts unless they are addressed, in particular, a high population growth rate. The chapter then examines the nature and causes of poverty, drawing not only on quantitative data, but also on the results of a nation-wide PPA. The PPA provided a means for the poor themselves to express their own views on the nature and causes of poverty and possible solutions.

Providing an accurate diagnosis of the causes of poverty in Cambodia and who the poor are is essential to understanding how Government actions can help reduce poverty. The definitions of poverty used and the measurements applied have shaped how the Government views the problem, as well as the formulation of its national development strategy and choice of policies to promote economic growth and combat poverty. The view of the Government presented here builds on and is consistent with the I-PRSP framework and its stresses on capabilities, opportunities, security and empowerment. The discussion in this chapter informed and influenced the strategy content (Part III) as well as the policy and program priorities (Part IV) of the SEDPII.

2.1 WHERE WE ARE

According to the *Cambodia Poverty Assessment* (MOP1999a), 36 percent of the 1997 population had a per capita consumption level below a poverty line defined by food consumption equivalent to 2,100 calories of energy (plus 58 grams of protein) per person per day, plus a small allowance for non-food consumption to cover items like clothing and shelter.[3] Ninety percent of the poor population lived in rural areas, and 71 percent were employed in agriculture. In 1999, approximately 36 percent of the population was still living below the poverty line, which, in monetary terms, was 54,050 Riel per head per month, or about US$14 (less than 50 US cents per day). In 2000, the incidence of poverty may have risen due to the impact of the worst flooding in 70 years. The fundamental development challenge is to reduce this poverty substantially when the size of the population is increasing at the rate of 2.5 percent per year.

[3] Some stakeholders have commented that income/consumption definitions of poverty are too narrow and neglect the non-economic causes of poverty. The Government recognizes the different dimensions of poverty, but the income/consumption data is the most commonly used for international comparison and has the advantage that the data is readily available.

Poverty in Cambodia is more complex, however, than this measurement suggests. Nevertheless, material deprivation is at the core of poverty manifested in low income and consumption levels, resulting in poor nutrition, inadequate clothing and poor housing, but poverty is not just about income or consumption. It also includes lack of productive assets, unequal gender relationships and other forms of social exclusion manifested in the inferior access of the poor to state services and a lack of political influence. Vulnerability and its resulting insecurity are further characteristics, aggravated by an inability to make provisions for emergencies such as droughts, floods and other natural disasters, and human disasters including the death or illness of a breadwinner, as well as economic phenomena such as inflation or weak growth.

2.1.1 HIGH POPULATION GROWTH RATE

The 1998 General Population Census (MOP 1999b) was the first formal census in 36 years, and recorded a population of 11.44 million. Cambodia has a relatively high population growth rate compared to other developing countries in the region. Combining the results of the 1998 Census (MOP 1999b) and the 1996 Demographic Health Survey (MOH 1999c) gives a growth rate estimate of 2.49 percent per annum during 1996-1998. Among ASEAN countries only Laos has a comparably high figure (2.90 percent per annum). Projections based on the 1998 census show that, even if fertility comes down by a modest 0.4 births per woman over the next 5 years, the total population of Cambodia will increase by 1.70 million (or 12.0 percent) during 2001-2006; by 1.81 million during 2006-2011; by 1.86 million during 2011-2016; and by 1.80 million during 2016-2021(MOP 2000 C).

The key issue arising from the high population growth rate is that raising income per head and reducing poverty is made much more difficult, since every extra person requires employment and additional scarce capital in the form of schools, hospitals, equipment and land. A related issue is how to address the differential impact of high population growth on specific population groups.

2.1.2 HIGH FERTILITY AND MORTALITY RATES

Fertility in Cambodia remains high. The total fertility rate (TFR) is estimated to be 5.3 live births per woman (MOP 1999c). This is significantly higher than for any other ASEAN nation except Laos. Women born in the early 1980s are now entering their prime childbearing years and the relatively large birth cohorts of the late 1980s and early 1990s will soon follow them. Consequently, even if the average number of births per woman declines steadily over the next one or two decades, the total number of children born each year will increase in the medium term and remain high because of the large number of women of reproductive age. Moreover, there is no convincing evidence that fertility has begun a significant decline in Cambodia. Reducing infant and child mortality is an important precondition for poor families to reduce their fertility. Couples will not be content with just two or three children if they are not confident that all these children will survive into adulthood and be able to take care of them in their old age. Socioeconomic development itself eventually removes many of the incentives for high fertility, introduces new incentives to limit fertility, and provides access to modern contraception, or the means to limit fertility. In particular, the TFR falls as women become better educated and enter the formal work force.

The key development issue arising from the high fertility rate is its detrimental effect on the health and nutrition of mothers and their infants. High fertility is associated with women having children when they are too young or too old, and with inadequate birth spacing. It

is also associated with women becoming pregnant when other medical conditions indicate this is not safe. High fertility also contributes to high population growth. This is especially the case when, as in Cambodia today, mortality has started to decline while fertility remains high. Mortality declined during the 1980s and early 90s largely because of lower infant mortality (Desbarats 1995, pp. 93,95); but mortality rates in Cambodia are still high by international and ASEAN standards. Estimates of the infant mortality rate are 89 per 1,000 live births for males and 72 per 1,000 for females. Estimates of life expectancy at birth are 54.4 years for males and 58.3 for females (MOP 1999c).

The key issue in relation to high mortality rates is to reduce mortality in line with the development goal of improving quality of life. High mortality denies people their fundamental right to a long and healthy life. It has differential impacts on particular groups, especially mothers, babies and children among the poor and represents a loss of human capital and undermines the effectiveness of efforts to improve productivity.

2.1.3 HIGH MIGRATION

In the 1998 Census (MOP 1999b), persons who reported having a previous residence outside the place of enumeration comprised 31.5 percent of the total population. Among these, 37.0 percent reported the reason for migration (to place of enumeration) as "family moved"; the next highest reasons given were in search of employment (14.5 percent), repatriation/return after displacement (13.9 percent), and marriage (13.2 percent).

The key issues of recent, large-scale politically and violently induced migration (including return migration) for development are both societal and individual. At the societal level there is a need to take into account the loss of human capital for many villages, the loss or disruption of local social institutions and social capital of the sort that is needed normally to advance development, and the presence of vulnerable groups such as orphans, handicapped and demobilized soldiers. At the individual level, extreme psychological trauma affects motivation, ability to trust others, and overall emotional well-being. The effects of out-migration and in-migration and the special needs of affected communities and groups need to be examined before it is possible to formulate a strategic response.

2.1.4 IMBALANCES IN AGE AND SEX STRUCTURE

In 1998 children (aged 0-14) accounted for 42.8 percent of the population. The economically productive group (15-64) comprised 53.7 percent of the population, and the elderly (65 and over) just 3.5 percent. The age dependency ratio is 86 percent. This overall distribution is typical of a developing country at the early stages of the demographic transition, but there are features unique to Cambodia.

The 20-24 cohort is disproportionately small, while the largest cohort is the 5-9, followed by the 10-14 age group. This reflects reduced fertility during the Khmer Rouge years of 1975-79, followed by a baby boom during the 1980s. The fact that the 0-4 cohort appears smaller than the two immediately older cohorts is most likely due to under-reporting and/or exaggeration of children's ages (MOP 1999b, p.14), and should not be interpreted as indicating a decline in fertility or evidence that the so-called demographic transition has begun. Above age 25 the size of each 5-year age group declines fairly regularly. There are similarly striking imbalances in the sex ratio. The Census counted almost 415 thousand more females than males, giving an overall sex ratio of 93.0 males per 100 females. The sex ratio is extremely low for age groups 40-44 and older, reflecting the exceptionally high mortality and out-migration from the country of adult males during the Khmer Rouge period.

The imbalances in the age-sex structure have current and future implications for development planning in a number of areas. In some rural communities the shortage of men has caused labor shortages for some activities demanding physical strength, although increasing numbers of men are now entering the labor force. It seems likely that the surplus of women may have contributed to deterioration in the status of women (Beaufils 2000, p.16; Desbarats 1995, p.211). Marriage patterns appear distinctive, with the proportion of adults (15 and over) married significantly higher for males (64.6 percent) than for females (58.4 percent), and the proportion of adults widowed or divorced much higher for females (14.5 percent) than for males (2.4 percent). Imbalances in the sex ratio contribute to the large number of female-headed households.

Of the 2.16 million regular households in the country, 25.7 percent are headed by women mostly aged 40 and above (MOP 1999b). Female-headed households are not on average poorer than male-headed households (MOP 1998). This may reflect the fact that there are many households headed by aged widows with adult children who may or may not be married, but who hand over their earnings to the aged mother. Thus female-headed households are larger than male-headed on average and contain more income earners. Although available data do not permit a comprehensive analysis of female-headed households, women generally face more constraints than men in accessing resources.

In the context of high population growth the imbalances in the age-sex structure mean that future population growth will fluctuate and will not be uniform across all population groups. Such unevenness will probably be even more marked at the provincial level. Planning must therefore be fine-tuned as unevenly sized age and sex cohorts pass through school years and require health, family planning, and other services. The imbalances also contribute to the formation of certain vulnerable groups, notably female-headed households, with their own special needs.

2.1.5 GENDER INEQUALITIES

Women suffer from poor availability of reproductive health services, especially in rural areas where they are most needed. NIS projections (MOP 2000c) for the rural population show an increase of 40 percent in the size of the 20-24 age group and 30 percent for 25-29 between 2001 and 2006, with a present mean age for marriage of 24.2 years for males and 22.5 years for females (MOP 1999b). Anemia is a major but preventable cause of maternal mortality and morbidity in Cambodia (Chhin, Chan and Sprechmann 1998). In addition, sexual health services related to the spread of HIV are needed to protect women and children.

Studies conducted elsewhere show unequivocally that when reproductive health services are available educated women make better use of these services than uneducated women. According to the 1998 census, the adult literacy rate is 79.5 percent for males and only 57.0 percent for females (MOP 1999c). Of males 15 years and older, 47.6 percent are estimated to be functionally literate, compared to 29.1 percent of females 15 years and older (So and Supote 2000, p.2). Among literate persons 25 years and older, 51.0 percent of males but 68.3 percent of females have not completed primary school. In the current younger generations, such gender inequality appears to be continuing: of those aged 5-24 in the formal school system, 19.2 percent of males but only 13.3 percent of females are enrolled above the primary school level (MOP 1999d).

Gender equality is integral to the development process and cannot be separated from other population issues. The key issue is how to improve gender equity across a range of

sectors in order to give women the skills and status needed to participate in contemporary society on an equal footing with men. In the education sector, ensuring that girls are enrolled in school and stay enrolled is imperative. In the health sector, encouraging better birth spacing and providing more accessible reproductive health services to the current generation of women will produce better maternal and child health and help reduce the current high rates of maternal and child mortality.

2.1.6 POPULATION DENSITY AND SELECTIVE POPULATION PRESSURE

The population density in Cambodia is 64 per km^2, varying between 235 per km^2 in the Plain region, 52 in the Tonle Sap region, 49 in the Coastal region, and 17 in the Plateau and, Mountain region. This is not high by Asian standards, and significantly lower overall than that of either Thailand (114 per km^2) or Vietnam (222 per km^2) (Jones 1999). Nonetheless, population pressure is contributing to environmental degradation and undermining the local population's means of livelihood in certain areas. This is especially the case where some of the land traditionally controlled by the local community has been taken from them and converted to some other use such as a logging concession or a plantation. The local community is then forced to exploit the remaining area under its control more intensively. This results, in effect, in a less favorable population-to-land ratio, and may not be sustainable in the long term, especially where activities such as slash-and-burn cultivation take place and with a reliance on firewood for cooking by the poor. The large area of land, including some prime agricultural land, out of productive use because of mines further contributes to unfavorable population-to-land ratios in certain provinces.

Demographic growth in rural areas is leading to increased landlessness. Rapidly growing numbers of young people in rural areas are increasing the demand for land. A recent study by Oxfam (cited in Desbarats and Sik 2000) interviewed 4,000 landless households. Fifty-five percent of the households had never had land; 44.5 percent had owned land in the past but had sold it or otherwise lost it. Those households who had never had land consisted of two main groups. One group consisted of couples that had married since land was distributed in the 1980s and whose parents could not subdivide their own land any more. The other group consisted overwhelmingly of migrant and returnee households.

Population density in Cambodia is increasing in step with the country's relatively high population growth rate, and in certain areas pressure on natural resources and the environment will intensify. The key issue is to ensure that this selective pressure does not undermine protection of the environment and sustainable use of natural resources.

2.1.7 URBANIZATION AND URBAN-RURAL DIFFERENCES

The urban population is projected to grow at an average annual rate of around 3.4 percent during the SEDPII period, compared with a national rate of almost 2.5 percent. Although the urbanization rate is relatively low at 15 percent, this will increase rapidly and involve the increased dominance of Phnom Penh as the primate city, with approximately 10 times the population size of the next largest urban area. Pressures on an inadequate urban infrastructure will therefore grow.

Socio-economic conditions are quite different in urban and rural areas, with rural residents more disadvantaged in many aspects of life. The *Cambodia Socioeconomic Survey 1999* (CSES MOP 1999d) estimates the average monthly income of Phnom Penh households to be 1,139,553 riel, compared with 314,247 riel for rural households — 3.6 times higher. Adult literacy is 79.1 percent in urban areas, and 64.9 per cent in rural. Access to safe drinking water is 60.3 percent in urban areas, and just 23.7 percent in rural. Access to

electricity is 53.6 percent in urban areas, 8.6 percent in rural. Access to toilet facilities is 49.0 percent in urban areas, 8.6 in rural. The percentage of the population with educational levels beyond primary school is 31.4 percent in urban areas, but only 12.8 percent in rural areas (MOP 1999b, pp. xi-xiii).

The overwhelming majority of poor people are rural, although urban poverty is also a significant problem. The number of new rural households formed in the first decade of the twenty-first century could exceed half a million (Desbarats and Sik 2000). Even accepting that not all these households will need land, these demographic trends still imply a substantial increase in the demand for land in a situation where landlessness is already a problem. They will also place extra pressure on other resources and increase the need for a range of basic health, education and other services. High fertility will exacerbate the problems of poor, rural families. A small family norm would help young landless couples in rural areas that might want smaller families than their parents to resist the social pressures from relatives and tradition-oriented community elders to have many children as soon as possible.

The key issue in relation to rural–urban differences is to ensure that the economic growth process is equitable and that social development is not skewed toward urban areas. This requires a focus on rural and agricultural development and an appropriate balance in public expenditures.

2.1.8 WORKFORCE PARTICIPATION

At the time of the 1998 Census, the economically active population or potential labor force (aged 15-64 years) was 5.1 million, equivalent to 45 percent of the total population. Labor force participation rates ranged from 61 percent for the 15-24 age group to 91 percent for the 35-44 age group. Rates for males exceeded those for females, with the exception of the 15-24 group and were higher in rural than in urban areas. In addition, about 75,000 children aged 10-14 years were in the labor force, with participation rates of 2.7 percent in urban areas and 4.8 percent in rural areas. Almost 78 percent of the employed worked in the primary sector, 18 percent in the tertiary sector, and 4 percent in the secondary sector. The open unemployment rate in urban areas was 9.2 percent (6.7 percent for males and 12.2 percent for females); and in rural areas was 4.7 percent (4.3 percent for males and 5.0 percent for females). The Census did not present estimates of underemployment rates (the proportion of employed persons working less than 35 hours a week), but the *CSES* (MOP 1999d) estimates that in urban areas the rates were 8.6 percent for males and 14.7 percent for females. In rural areas, the rates were 13.9 percent for males and 18.1 percent for females.

High rates of underemployment coexist with high average hours worked by the employed. The *Cambodia Human Development Report 2000* (CHDR MOP 2000a) presents estimates ranging from 51.8 hours per week for female workers in urban areas to 57.3 hours per week for male workers in rural areas. This work is generally low paid or low productivity, so that labor force members hold multiple jobs or engage in multiple income-earning activities. Approximately 35 percent of all workers have more than one occupation. In rural Cambodia, 41.1 percent of males and 34.0 percent of females are involved in multiple income-earning activities, reflecting the low productivity of agriculture. Most workers are self-employed (87 percent of females and 79 percent of males), with the remainder earning wages in government (9 percent of males and just 2 percent of females) and the private sector (10 percent of males and 9 percent of females). Overall, only 15 percent of workers aged 15 and over are wage employees, while 85 percent are own-account or unpaid family workers. Amongst wage employees, average monthly wages for males are

27 percent higher than for females; are highest in Phnom Penh and in the trade, utilities and manufacturing sectors; and are higher for individuals with upper secondary education.

Thus there is already significant unemployment and underemployment, and a problem of low incomes for the employed. Solving these problems is made more difficult by the rapid growth in the labor force that is due to the entry of the large age group born during the 1980s. The population aged 15-64 is estimated at 7.04 million in 2001, and projected to be 9.68 million in 2011. In other words, the labor force is projected to grow at over 3.2 percent per year, meaning that there will be around 228,000 new entrants to the labor market annually, most of whom will have a low skills level. Providing productive employment for these new entrants, and for demobilized soldiers and retrenched civil servants, will be difficult, and will require a rapid expansion in labor demand from the private sector (both formal and informal). The Government's efforts to facilitate private sector-led development and to develop human resources are therefore of crucial importance.

2.2 POVERTY

According to 1997 socioeconomic survey data, approximately 36 percent of Cambodia's population is living below the poverty line (MOP 1999a). Assuming the headcount index is unchanged in 2001, this translates into 4.6 million people living in poverty. The reality of poverty is complex, but it is generally defined to be multidimensional deprivation. The dimensions include low income and consumption; a lack of physical necessities and assets; a lack of access to basic services; isolation; vulnerability to shocks and a lack of means to cope with shock-induced losses; and powerlessness. Among the most important characteristics of the Cambodian poor previously identified in Government poverty profiles are the following:

- Poverty rates are highest in rural areas and highest for those whose household head is engaged in agriculture
- Poorer households tend to be larger, younger and have more children and are more likely to be headed by a male
- The poor are more likely to live in households where the head is illiterate and has few years of schooling
- Poverty is lowest for those whose household head has a secondary or advanced education
- Poverty is lowest in Phnom Penh

2.2.1 THE INCIDENCE OF POVERTY

The Human Development Index (HDI)[4] for Cambodia stands at 0.512 or a rank of 136 amongst 174 countries (HDR 2000 UNDP). The more recent (CHDR MOP 2000a) shows a slightly different score of 0.517 because of variation in data sources used; but Cambodia still ranks low on the human development scale. Of 12 countries in Asia covered in the report, only Laos and Bangladesh have lower HDI'. On the basis of the relationship between HDI and real per capita GDP in purchasing power parity terms for the 12 Asian countries, Cambodia's level of human development is consistent with what would be expected given its level of per capita income. Cambodia's Gender Related Development

[4] The Human Development Index is explained in the Technical Notes.

Index (GDI)[5] of 0.514 is also among the lowest in Asia and Cambodia's Gender Empowerment Measure (GEM)[6] at 0.283 is lower than those of three other Asian countries for which calculations are available - Bangladesh, Sri Lanka, and the Philippines (HDR 2000 UNDP).

Average scores for a country can conceal disparities among social groups. The HDI score for urban Cambodia (0.604) is 21 percent greater than that for rural Cambodia (0.500). The richest 20 percent of Cambodians have an HDI score of 0.623, which is 40 percent greater than that of the poorest 20 percent (0.445). The GDI shows similar disparities. While the HDI, GDI, and GEM are relevant for a holistic assessment of poverty, a core index in this context is the Human Poverty Index (HPI)[7]. The HPI for Cambodia in 1998 is a high 38, surpassed only by Pakistan and Bangladesh. By way of contrast, Vietnam's HPI score is 28 and the lowest, the Philippines, is 16. When disaggregated to reveal differences between urban and rural areas, the HPI index for the rural population is 41 compared to 28 for the urban population. The HPI for women (40) is higher than that for men (37), primarily because of greater illiteracy. Unsurprisingly, there are also large disparities across economic groups, the HPI score of 45 for the poorest 20 percent of Cambodians being 55 percent higher than the 29 for the richest 20 percent.

The distribution of income in Cambodia is more unequal than in other Asian countries at comparable income levels, with an overall Gini coefficient[8] of 0.42. The coefficient is higher in Phnom Penh (0.46), and lower in rural areas (0.33). Such coefficients do not by themselves provide evidence of the incidence of poverty. Rather, they draw attention to the fact that the reduction of poverty depends significantly on growth in the incomes of the poor, which is a function of the pattern of economic growth. Economic growth is generally good for the poor, but growth with increasing inequality limits the extent of poverty reduction and conceivably could even increase the incidence of poverty.

Data from household socioeconomic surveys conducted in 1993-94, 1997, and 1999 have been used to estimate the headcount index – the proportion of the population whose expenditure levels fall below the poverty line – though the numbers arrived at are not strictly comparable because the surveys differ in coverage and methodology. The headcount index for 1993-94 was 39 percent, with 22 percent of households below the food-only poverty line (RGC 1999). The incidence of poverty was lowest in Phnom Penh at 11 per cent; was 37 percent in other urban areas; and was highest in rural areas at 43 per cent. Poverty rates were highest in households headed by farmers (46 per cent) and lowest in households headed by public sector workers (20 per cent). More than 75 per cent of the poor lived in households headed by farmers.

The headcount indexes[9] for 1997 were 36.1 percent overall, 17.9 percent for the food-only poverty line, 11.1 percent for Phnom Penh, 29.9 percent for other urban areas, and 40.1 percent for the rural population. Approximately 3.7 million, or 89.5 percent, of the poor were in rural areas, with the highest poverty rate of 44 percent found amongst households headed by farmers (MOP 1999a). Poverty rates were also high in households whose head had no formal education (42 percent) or only some primary schooling (40 percent), these two groups accounting for 80 percent of the poor. In contrast, poverty rates were much lower for households whose heads had lower secondary education (24 percent) and higher secondary education (12 percent). The incidence of poverty averaged 33 percent

[5] The Gender Related Development Index is explained in the Technical Notes.
[6] The Gender Empowerment Measure is explained in the Technical Notes.
[7] The Human Poverty Index is explained in the Technical Notes.
[8] The Gini coefficient is explained in the Technical Notes.
[9] The Head Count Index is explained in the Technical Notes.

in female-headed households, compared with 37 percent in male-headed households, possibly reflecting the former's relatively greater number of adult income earners. The average size of poor households (5.8) was greater than that of rich households (4.2). Analysis of data from the 1999 socioeconomic survey suggests a total headcount index of 35.9 percent.

The poverty gap index[10] 1993-94 was 9.2 percent, ranging from a low of 3.1 percent in Phnom Penh, through 9.6 percent in other urban areas, to 10.0 percent for rural areas. On the basis of the 1997 data, the gap index is 8.7 percent in total, and only 3.5 percent if the food-only poverty line is used. The index values for Phnom Penh, other urban areas, and rural areas are 2.2, 7.5, and 9.7, respectively. The poverty severity index is an additional measure that takes into account the distribution of per capita consumption of the poor. This index was unchanged at 3.1 in 1993-94 and 1997, ranging in the latter year from 0.6 in Phnom Penh to 2.7 in other urban areas, and 3.4 in rural areas.

The key message from the estimation of these additional indexes is that on average the poor are living close to the poverty line, and that consequently there is considerable potential for poverty reduction through growth with equity. None of the indexes measures the distribution of poverty *within* households, which may be an important gender-related issue (see Kabeer 1995, p.138 for evidence from other countries).

2.2.2 THE DIMENSIONS OF POVERTY

Food Security

Food is the most basic human need and rice is the staple food of all Cambodians. In 1995 Cambodia achieved its first (modest) surplus since the eve of the civil war in the late 1960s, and surpluses have been recorded in every subsequent year. However, there are many Cambodians who lack access to this basic necessity due to insufficient purchasing power (rice being sold in Thailand and Vietnam for higher prices than the very poor can afford) and poor transport and marketing systems. Also, the agricultural production system remains highly vulnerable to natural disasters and pest damage, leading to large fluctuations in yields. Despite the current surplus, nearly half of the 24 provinces are food deficit areas and a significant proportion of the population is unable to meet minimum rice requirements, the critical periods generally being mid-July to mid-October. Groups such as the internally displaced or returnees are particularly vulnerable to food insecurity. In addition to the lack of sufficient rice for many, consumption of rice alone is insufficient to meet dietary needs. For much of the population, rice accounts for over 70 percent of calorie intake and represents about 40 percent of food expenditure, but fish, fruits and vegetables, fish paste (*prahok*), and oils and fats are also needed (MAFF/FAO/UNDP 2000, pp.21-22). In Prey Veng, Kompong Speu, and Kandal provinces, rice constitutes over 80 percent of the calorie intake (MOP 1999c). The non-poor gains more of their calorie intake from the more expensive, non-rice foods.

The predominance of rice in the local diet is a major maternal and child health issue. Rice lacks important nutrients such as iron, thiamin and Vitamin A. Women and young children are particularly susceptible to diseases like anemia and beriberi. The prevalence of anemia in children under the age of 5 is 74 percent, compared to the regional average of 65 percent. For pregnant women the rate is 77 percent compared to the regional average of 80 percent, and for non-pregnant women it is 61 percent compared to the regional average of 60 percent. Under-nutrition in children 6-59 months in 2000 is indicated by

[10] The Poverty Head Index is explained in the Technical Notes.

estimates that 13 percent of children are wasted, 44 percent are underweight but not wasted, and 48 percent are stunted. This suggests that intake of enough food rich in vitamin A and iron plus other important factors like child caring, sanitation and access to health services are inadequate to meet the needs of about half the Cambodian children, especially the poor. The links between poverty, disease and malnutrition are clear.

Non-food necessities — defined to include housing and utilities, education, health, transport and clothing but not ceremonial expenditure — account for 38.9 percent of average monthly per capita consumption on a national basis. In Phnom Penh the percentage is the highest at 60.4 percent, followed by 42.2 percent in the Plains region, 41.2 percent in other urban areas, 35 percent in the Uplands region, 34 percent in the Tonle Sap region, and 33.4 percent in the Coastal region (MOP 1999c, p.126). Nationally, the poorest decile spent 23.8 percent on non-food necessities and the richest decile 59.7 percent. In Phnom Penh the poorest decile spends 37.4 percent, the richest decile 75.4 percent. In other urban areas the percentages are 24.4 percent and 63 percent respectively, and in the rural areas 23.1 percent and 42 percent, respectively (MOP 1999c, pp.128-130).

Access To Land

Land is a critical asset for rural Cambodians; and although there is idle arable land, ownership is unequally distributed, there is population pressure on effectively available land in many areas, and tenure is often insecure. The richest 10 percent of households in surveyed communities owned 40 percent of the land, whereas the poorest 40 percent of households owned just 12 percent of the land (World Bank 2000a, p.5). Much usable agricultural land remains contaminated by mines and other unexploded ordnance. 1997 data suggest that only 0.33 hectares of land is available on a per capita basis; and that 14.4 per cent of rural households are landless, with the proportion varying from 8.6 per cent in the Coastal region to 17.3 per cent in the Tonle Sap region (MOP 1997c). Between 1990 and 1999, the cultivated land area per capita in rural Cambodia declined from 0.29 ha/capita to 0.21 ha/capita, a decline of nearly 30 percent. This growing population pressure on land has resulted in three undesirable consequences: (i) a reduction in farm size and an increase in fragmentation; (ii) migration of labor to urban areas; and (iii) an increase in landless people, with about 13 percent of farmers not owning any land (Oxfam 2000). Some of the poorest villages may appear to have relatively high per-capita availability of agricultural land, but this is because it is often less fertile and less irrigated. Generally, securing land rights is difficult, and there are frequently violent disputes over land ownership and use, including in urban areas where rising land and housing costs prevent access to adequate shelter for the poor. Access to land continues to be a particular problem for returnee refugees. Land reserved for returnee refugees in most provinces was generally low-quality land, affected by mines or lack of security. In some cases the land was already occupied. One survey of returnees found that only 15 per cent of returnees but 79 per cent of local villagers had access to cultivable land and that the land holdings of returnees were on average one-third smaller (MOP1999e, p.18).

Physical Infrastructure

The poor are underserved by physical infrastructure, which is inadequately developed and maintained. The secondary road network is so rundown as to virtually isolate many rural areas, while most tertiary roads are impassable during the wet season. Illegal road taxation compounds the problem of poor, high-cost transportation. According to the 1998 Census (MOP 1999b), only 24 percent of rural households have access to safe drinking water, compared with 60 percent of urban households. For the poorest 20 percent of the rural population, the percentage with access to safe water falls to 4 percent. Access to

sanitation facilities is similarly low at 8.6 percent in rural areas, compared with 49 percent in urban. Over 94 percent of rural households rely on firewood as the main fuel for cooking, while 86 percent relies on kerosene as a source of light. Less than one percent of rural households have access to publicly provided electric lighting. Access to a telephone service is similarly low in rural areas.

Approximately half of rural villages have access to primary schools offering all grades; only 5 percent to a lower secondary school; and less than 2 per cent to an upper secondary school (MOP 1999a). This means that about 50 per cent of children have to commute outside their village, even to attend a primary school. The average distance to the nearest primary school is 1.2 kilometers (kms); to the nearest lower secondary school 5.6 km; and to the nearest upper secondary school 10.8 kms. Distances are longer for children from the poorest 20 percent of households, reaching 6.9 km to the nearest lower secondary school and 11.9 km to the nearest upper secondary school. The poor road network worsens the problem of access, which is so severe as to effectively prevent rural children from being day students at the secondary level. In addition, the schooling of poor rural children is of inferior quality in terms of pupil-teacher ratios, the training level of teachers, and availability of classroom materials including textbooks.

The population's use of health services is low by regional and developing country standards. Average annual contacts per person per year are 1.19, compared with 3.2 for Vietnam and around 2 for most developing countries. The figure in rural areas (1.17) is slightly below the national average, while it is surprisingly low in Phnom Penh (1.02) and 1.49 in other urban areas. For the poorest 20 percent of households, the figure drops to 0.73, as against 1.60 for the richest 20 percent. Private providers account for 46 percent of annual contacts; self-medication via drug vendors for 21 percent; and public sector providers for 32 percent. The poorest 20 percent of the population exhibits relatively high rates of non-treatment (almost 39 percent) and reliance on self-medication (27 percent). They also rely more than the rich on public providers who deliver relatively poor health care services (MOP 1999a). Access to health services by the poor is constrained by high costs that is currently the main impoverishing factor in Cambodia and physical distance. Households finance 82 percent of total health spending, with some poor households spending over a third of household income to meet health care needs that are increased by the lack of clean water and sanitation facilities. For the poorest villages, the nearest public clinic is an average 4 kms away, compared with 1.4 kms for the richest villages. The respective figures for the nearest drug vendor are 9.4 kms and 2.3 kms; and for provincial hospitals 32.6 kms and 8.6 kms (MOP 1999e, pp.36-37).

The formal banking and financial system is largely confined to Phnom Penh. Poor rural households are forced to rely mostly on informal credit markets, usually moneylenders, in order to borrow funds for essential expenditure. The cost of credit in these markets is high, with interest rates of 10-30 percent per month. NGO and donor-financed programs had provided a total of US$23.8 million to about 470,000 clients at the end of 1998. However, the micro-finance component of this lending was just $228,000, or barely one percent, so that the poorest of the poor were not being reached (MOP 1999a, p.71).

Thus it is clear that the poor are disadvantaged by lack of adequate access to physical assets and essential services, and that this severely constrains their ability to increase their income and social welfare. Other interrelated dimensions of poverty include social exclusion and a sense of powerlessness, vulnerability, and inadequate coping mechanisms.

Other Determinants Of Poverty

There are three aspects of social exclusion in Cambodia: (i) illiteracy; (ii) access to decision making; and (iii) corruption and poor governance (MOEF 2000). Only 37.1 per cent of the adult population is functionally literate (So and Supote 2000, p.2) and the connection between illiteracy and poverty is demonstrated by 1997 socioeconomic survey data: the incidence of poverty among households whose heads were reportedly illiterate was 42 percent, compared with 34 percent for those whose heads were reportedly literate (though differences were greater between those households whose heads were primary school leavers and those whose heads were secondary school leavers). Farmers, fisher-folk, housewives, laborers and highland minorities are groups with high levels of illiteracy. Gender imbalances are also severe: 47.6 percent of men are literate, while only about 22 percent of women can read and write. People aged 25 to 40 have a higher illiteracy rate than other age groups because they were deprived of education during the decades of civil war and political instability. Illiteracy is the basis of long-term social exclusion in the wider society.

The lack of access to decision-making has prevented the poor from actively participating in the formulation of policies, plans, programs, and projects, which in turn has inhibited efficient and effective implementation, and exacerbated tensions between local authorities and local populations. Many existing laws and regulations were adopted without consultation with local communities. New problems are emerging, such as land disputes and HIV/AIDS, in which the interests of the poor need to be protected. The poor - particularly the most disadvantaged groups such as internally displaced people and refugee returnees, war widows, orphans, street children, squatters, and people with disabilities - have little or no influence.

Corruption is a major problem that adversely affects the poor; both by its negative effect on sustainable economic growth and government revenue, and by the direct costs imposed on households. In the latter regard, rent seeking in the form of illegal fees for education and health services is especially burdensome. The poor are also victims of illegal logging that destroys forests as a community resource, arbitrary reallocation of fishing resources to private commercial interests, and land grabbing by influential officials and business interests. Feelings of powerlessness are an inevitable result of this social exclusion. The quality of public administration is low, especially at the provincial level, and makes for poor delivery of basic services. Again, the poor find themselves in a powerless position. Governance reforms and decentralization efforts are intended to address these problems.

A key aspect of the lives of the poor is vulnerability to natural shocks (some of disastrous proportions). Large proportions of the population are dependent on rain-fed agriculture and live alongside rivers prone to seasonal flooding. The 2000 floods affected some 444,000 hectares of agricultural land, in over half of all provinces. Of this, 71.8 percent was used for the cultivation of the traditional wet season rice crop. Damage occurred to other crops (maize, vegetables, peanuts, sesame, sugarcane, and mung bean), to rural infrastructure in three provinces, and housing in four provinces. Other natural disasters including drought, crop failure, and fire also have differential impacts on the provinces.

The 1997 socioeconomic survey shows that in villages inhabited by the poor, flood, drought, and crop failure are more frequent than in villages inhabited by the rich. In the 12 months preceding the survey, 81.9 percent of the poorest villages experienced some form of natural disaster compared to only 25.8 percent of the richest villages (MOP 1999e, pp.22-23). Drought affected 24.2 percent of the poorest villages compared to 14.5 percent of the richest villages; flood affected 62.1 percent of the poorest villages but only 18.0 percent of the richest villages; and crop failure affected 12.6 percent of the poorest villages

and just 3.1 percent of the richest villages. Not only are poorer villages more likely to experience natural disasters than better-off villages, but also they are less able to cope because of their lower wealth and extremely limited disaster management capabilities. Disasters can force borrowing and asset sales that undermine the prospects of climbing out, and staying out, of poverty.

Bad health and illness aggravated by chronic malnutrition can generate major crises for the poor, also. The most common complaints in rural areas are malaria, dengue fever, tuberculosis, diarrhea, hepatitis, typhoid, cholera, and birth complications. Health shocks induced by these complaints often lead to indebtedness and asset liquidation. There is also the opportunity cost from labor days lost by both the ill and their caregivers. A village level study undertaken in 1996-97 found that days lost per household ranged from 7.6 days in Prey Veng to 18.7 days in Kandal (Murshid 1998, pp.53-54). Once people living with HIV/AIDS reach the terminal stages, health care expenditures and labor days lost is likely to be even greater.

Animal mortality and disease is systemically linked to other crises that impact upon rural Cambodians (Murshid 1998, p.54). Raising livestock is important for most rural households. While they are unlikely to own draught animals, the poor - especially women - try to raise pigs and poultry, livestock acting as a savings mechanism for times of need. The loss of livestock due to illness or theft means that many rural households have no way to meet the expenditure necessary for crises associated with natural disasters, and the illness or death of household members.

In general, the ability of a household to respond to adverse forces, irrespective of their origin, depends on its ability to command resources. For the poorest households, this is a severe constraint, which forces a choice between a narrow set of usually undesirable alternatives. In the absence of savings or other resources, reliance is placed mainly on labor assets (including migration). Work in garment factories has been an option for young females, as has work in the services sector - including the hospitality industry (with its attendant risks of becoming paid sex workers and being exposed to a range of afflictions, including STDs, HIV/AIDs, drug abuse, and physical violence). Crossing the border to work in Thailand is another option.

Other actions have included increasing hunting and gathering, distress sale of capital assets (if any), and borrowing for consumption purposes. Frequently, labor, credit and grain markets can become interlocked, forcing the poor to under-sell their labor, especially female labor in order, for example, to repay consumption loans. Village level studies show the importance of access to common property resources: all but five of 240 surveyed households considered this to be a moderately or very important issue (Murshid1998, p.56). Sustained access to these resources has become a key issue since 1993.

Box 1.4 Cambodia: Participatory Poverty Assessment

The Ministry of Planning with technical assistance from the Asian Development Bank conducted a nationwide Participatory Poverty Assessment for the Royal Government of Cambodia between late October and December 2000. During this period, 154 villages in 70 communes in all 24 provinces and municipalities of Cambodia and 15 non-rural socioeconomic groups participated by way of Focus Group Discussions (FGDs) in the first Cambodian Participatory Poverty Assessment (PPA). Of the 169 FGDs, 47 percent were held in the Mekong Plain Region, 29 percent in the Tonle Sap Region, 12 percent in the North-Eastern Mountain Region, and 12 percent in the Coastal Region. More than 50 percent of participants were female, and 13 percent were from ethnic minorities. In addition to the FGDs, selected semi-structured interviews with key informants were undertaken to clarify some of the issues raised in the FGDs, or to obtain a more extensive historical background to poverty in villages. The PPA was used to inform the poverty reduction strategy and policies of the SEDP-II.

Listening To The Poor

The findings of the foregoing quantitative analysis of poverty was augmented and largely confirmed, by the results of the first Cambodia Participatory Poverty Assessment (PPA) conducted nationwide between late October and mid-December 2000. The PPA is a qualitative social research approach that is designed to find out what perceptions the poor have towards poverty, the issues that concern them the most and how they would like to see these issues resolved.

Box 1.5 Participatory Poverty Assessment Focus Group Discussions

Sites for Focus Group Discussions (FGDs) were selected in a two-stage process, subject to the requirement that at least one FGD was undertaken in each province. The Government-endorsed World Food Program's poverty mapping in lieu of having reliable baseline data to target the poor was used to identify the poorest communes. Villages were then selected on the basis of guidelines established at the October 2000 PPA Questionnaire Workshop and in consultation with provincial and local authorities. Four PPA teams of three members each (six women and six men) made the selections and conducted the FGDs and interviews.

Participants in the FGDs discussed the definition of poverty, living conditions, the gender and ethnic dimensions of poverty and coping mechanisms used in time of crisis and they prioritised needs and possible solutions to poverty and poverty related problems. FGD facilitators sough to ensure that all participants contributed to the discussions. All FGDs were documented with participants engaging in a series of ranking exercise that prioritised village and non-rural socio-economic concerns.

The main findings of the PPA were that:

i. The poor lack food security
ii. Life crises render poor people even poorer
iii. There is a lack of access to natural resources, physical and social infrastructure, and other basic services
iv. The poor are unempowered, feel hopeless about their lives and those of their children, and are experiencing an erosion of family and community relationships
v. Women suffer from low socioeconomic status
vi. There is a lack of confidence in local and provincial administration.

2.3 GENDER ISSUES AND POVERTY

Females in Cambodia today do not enjoy equal access to the resources and benefits of development (Gorman 1999). Women are more disadvantaged than men by the lack of adequate health services because of the health risks associated with pregnancy and maternity. They have less access to education, especially at the higher levels of educational attainment; less access to paid employment, again especially in the higher categories of the occupational scale; less access to land ownership and other property rights because of inheritance customs and fewer opportunities to ensure their views are included in political processes. Under such circumstances, women are particularly vulnerable to poverty and are constrained from participating effectively in contemporary society.

The war and subsequent migration has resulted in an unusually high proportion of female-headed households and has also increased the burdens of these households due to the frequent absence of economically active male-workers. Despite their added responsibilities, women's access to productive resources is still constrained by tradition and by their heavy time burden due to balancing social reproduction and economic production roles. Women frequently have a further burden due to their increasing responsibilities for the management of community infrastructure such as water, roads and energy.

Women constitute 51.5 percent of the population, 52.3 percent of the economically active population, and head 25.7 percent of households. Cambodia has one of the highest female labor force participation rates in the region at 73.5 percent of women over the age of 15. Women comprise 54 percent of the skilled agriculture and fishery workers and also make substantial contributions in non-agricultural sectors of the economy. They contribute 75 percent of the primary labor force in wholesale and retail trade, and two thirds of the labor force in manufacturing. A great deal of this employment is, however, in the informal sector. Women are often in low-paid, unskilled positions and vulnerable to many forms of exploitation in the work place. They tend to be primarily responsible for home-based businesses that allow them to balance their responsibilities for childcare and housekeeping with their economic activities.

Only 12 percent of women over the age of 25 have more than a primary school level of education. This gender gap is perpetuated by a low retention rate of girls in formal education, with 50 percent higher male enrollment in schools by age 15. The total fertility and maternal mortality rates are the highest in the region and are high even by the standards of countries with similar levels of income. The nutritional situation, especially for children and women, is the worst in Southeast Asia – 41 percent of pregnant women are underweight which, accompanied by high levels of anemia, and is contributing to high maternal and child mortality rates. Moreover, the high rate of growth of HIV/AIDS prevalence is a major national concern. As of 1998, 2.4 percent of pregnant women, 42.6 percent of commercial sex workers, and 19.1 percent of indirect commercial sex workers were infected with HIV. Women also bear primary responsibility for caring for family members with HIV/AIDS.

Cambodia has become a sending, receiving and transit country for trafficking of women and children. There are an estimated 88,000 Cambodian women in Thailand and an estimated 40-60 percent of sex workers (14,000) in Cambodia say they were forced or tricked into the business. Other young girls turn to the sex industry as they have few

viable alternatives. Poverty, social upheaval, underdeveloped legal infrastructure, and weak law enforcement are all contributing to the rapid growth of the sex industry.

Domestic violence continues to represent a threat for Cambodian women. Research in 1996 showed that violence against women in the family was a serious problem experienced by a significant number of women. While it is difficult to determine the actual incidence of domestic violence, some indicators suggest that the number of cases is increasing. Unequal access to wealth and goods, frustration due to economic competition, pressure to earn higher income, and work-induced migration are contributing factors to domestic violence. Poverty, limited availability of jobs, and rises in the price of basic goods and services, act as additional challenges for the already challenged familial and social structures. The involvement of women as primary earners and their increased participation in the labor force, although not necessarily changing their social status, alters the perception of gender roles and increases frustration in male partners.

Tradition plays a significant role in perpetuating gender disparity. Old traditions, customs and life styles have long set a pattern of discriminatory attitudes against women. The Khmer saying, “men are gold, women are cloth” clearly reflects these biases. Many Cambodian families believe that promoting girls’ education would not be of benefit to the family since daughters would carry out housework even if they have completed higher education. Traditions have taught women to obey their husbands even if women are the main breadwinners in the family. Moreover, many Cambodian families consider daughters as essential in performing work at home. Thus, work outside such, as involvement in politics, social action and culture is highly discouraged. These traditions and beliefs remain strong.

CHAPTER 3: NATIONAL DEVELOPMENT OBJECTIVES

INTRODUCTION

This chapter presents the SEDPII national development objectives that were derived from the discussion of population and poverty dynamics in Chapter 2. The content and expected results of these three objectives are elaborated, as is the importance of the governance reform agenda on which the achievement of the objectives depends.

3.1 THREE MAIN PILLARS FOUNDED ON RANGE OF GOVERNANCE REFORMS

The Government's national economic growth and poverty reduction strategy is built on achieving three national development objectives linked to specific targets founded on a range of governance reforms. These objectives are:

- Economic growth that is broad enough to include sectors where the poor derive a livelihood
- Social and cultural development
- Sustainable use of natural resources and sound environmental management.

3.2 BETTER GOVERNANCE

An improvement in the governance environment is essential to the achievement of the three main development objectives. This improvement is to be realized through effective implementation of the Governance Action Plan (GAP RGC 2001), which covers the five crosscutting areas of judicial and legal reform, public finance, civil service reform, anti-corruption, and gender equity, as well as the two specific issues of natural resource management and demobilization of the armed forces.

Weak governance holds back private sector development and increases the perceptions of prospective investors of higher economic and political risk that deters investment constrains incomes and employment generation of benefit to the poor. The poor are less able to avoid the adverse consequences of weak governance and therefore bear a disproportionate share of the ill effects of governance that do not reflect their interests. This includes lack of personal security, payment of unofficial taxes and urban bias in public resource allocation. The consequences of which are the diversion of scarce budgetary resources into unproductive expenditure and the loss of fiscal revenue that could otherwise be spent on critical economic and social infrastructure, and specific poverty reduction programs.

Better governance is about the institutional environment within which individuals interact among themselves and with Government agencies and officials. Enhancing the capacity of the institutional environment is crucially important for realizing the development potential of Cambodia because it will help determine the impact achieved by the implementation of the socioeconomic policies and programs of the Government.

Good governance is required to make sure that Government actions are implemented on time and in the way intended in order to obtain desired socioeconomic outcomes. The Government recognizes that better management of the development process requires extensive reform with a sustained emphasis on strengthening accountability through public administration reform, promoting inclusiveness through participatory planning processes, fostering predictability through appropriate legal frameworks and instilling a general *modus operandi* of information disclosure and openness to establish transparency.

3.3 SUSTAINABLE BROAD BASED ECONOMIC GROWTH

The Government aims to achieve sustainable real rate of inclusive broad based economic growth of 6-7 percent per year during the SEDPII period. If an annual real GDP growth rate of 6 percent were achieved during the period 2001-2005, income per head (in 2000 prices) would reach approximately $320 at the end of 2005. This represents an annual growth rate in real income per head of 3.5 percent. Such growth will ensure significant poverty reduction if it includes agricultural and rural development, so that income-earning opportunities are available to the rural poor. If the growth rate of rural GDP matches that of total GDP, and income distribution remains unchanged, it is estimated that per capita income growth of 3.5 percent per year would reduce the poverty headcount index from 36 percent to around 20 percent in 2005 (based on MOP 1999a, p.33).

This impact of growth on poverty partly reflects the relatively small gap between the poverty line and the average expenditure of poor households. However, if the growth rate of rural GDP lags behind that of total GDP, the reduction in poverty would not be so substantial. For the period 2001-2005, it is projected that agriculture GDP will grow at the average annual rate of 3.5 percent, compared with a rate of 6.1 percent for GDP as a whole. Allowing for this and for the possibility that the 2000 flooding increased the numbers living in poverty, it is projected that the poverty headcount index will fall to approximately 31 percent by the end of 2005.

The Government recognises that growth will affect different groups of the poor differently. The extent to which growth will raise the position of the economically dependent poor (e.g. disabled, street children, the aged, widows, those with HIV/AIDS) depends entirely upon the operation of traditional sharing mechanisms or other social support mechanisms. The Government acknowledges that such groups will require special programs if they are to benefit from general economic and social progress.

In regard to the economically active poor, economic growth will not raise incomes equally and some may miss out altogether. This depends on the growth path and the extent to which it includes the rural economy. For the rural landless and the urban unemployed it will depend on the extent to which growth creates employment opportunities. The key determinants will be the degree to which certain correlates of poverty are effectively addressed (e.g. remoteness, inadequate infrastructure, gender bias, illiteracy) all of which contribute to prevent large sections of the population taking advantage of improvement in technologies and increases in job opportunities that require marketable modern skills.

3.4 SOCIAL AND CULTURAL DEVELOPMENT

Reinforcing the objective of inclusive economic growth is the objective of social and cultural development. Expanding the capabilities of the poor through increased access to health and education is vital to sustained poverty reduction. Avoiding sickness, disability and ignorance are empowering and raise the quality of life. Moreover, better health and education contributes to higher incomes at both the household and macroeconomic levels. Education provides a means to escape poverty because it facilitates access to employment and increases productivity. An otherwise healthy person can be permanently disabled in the absence of timely health interventions and this can remove the main income source and condemn a household to a deepening circle of worsening deprivation.

Hitherto, the poverty reducing potential of education, health and nutrition have not been realised largely because of the low levels of efficiency of public provision and inadequate and misdirected public expenditure. Social development must be undertaken in such a way that eliminates rather than reinforces the barriers the poor face and in part this requires better targeting of public resources to the poor. The Government emphasis on decentralization as a means to greater rural participation is intended to deliver resources more efficiently at the local level and make sure that target groups are reached, as well as enabling the voices of the poor to be heard and holding Government accountable in ways that can protect the poor. Moreover, the Government recognises the need to effectively address the unequal position of women in Cambodia, which will require elimination of attitudinal barriers to the process of empowerment through initiatives that support women in the domain of laws and culture. In order to facilitate the access of women to productive resources and institutional support, to encourage increased participation and representation of women in public and political institutions, and to promote more investment in women's economic, managerial and technical capabilities.

3.5 SUSTAINABLE USE OF NATURAL RESOURCES AND THE ENVIRONMENT

The third development objective is the sustainable management and use of natural resources and the environment. Significant environmental degradation has occurred during the 1970s, 1980s, and 1990s. This degradation has been caused largely by overexploitation of resources and unsustainable management practices.

Forest cover has been reduced from 74 percent of Cambodia's land area in 1969 to 58 percent in 1997. Resulting in reduced biodiversity, increased soil erosion, accelerating river silt, and changes to the shape of the Mekong River, Tonle Sap River and Tonle Sap Great Lake, which has contributed in recent years to extensive flooding. Untreated wastewater is also a significant problem leading to the pollution of rivers. A key issue is how to utilize abundant water resources in a sustainable way particularly for the development of irrigation. Inland fisheries have been depleted and coastal zones degraded, particularly regarding biodiversity and protected areas management. The Government has made significant progress in halting illegal logging during 1999 and 2000, but improved governance in the forestry sector has to be consolidated and extended to encompass the needs of local communities that rely on forest resources. The removal and reduction of fishing lots that was begun in late 2000 will be completed in 2001, with approximately 53 percent of the total lot area becoming available for family fishing. This will require the formulation and implementation of a legal and regulatory framework for community fisheries management.

Using a participative/consultative process, a national land policy will be developed with a view to improving the management of the national land stock. This will involve a strengthening of the legal framework for the commencement of systematic land titling and enforcement of property rights, including the establishment of a land use classification to help the poor gain access to land. In general, the National Environment Action Plan (NEAP) will be implemented, particularly regarding biodiversity and protected areas management.

PART III: STRATEGIES "PLAN TO ACHIEVE VISION AND OBJECTIVES"

CHAPTER 4: NATIONAL ECONOMIC GROWTH AND POVERTY REDUCTION STRATEGY

Introduction

This chapter builds on the objectives presented in Chapter 3 and articulates the medium-term strategic priorities of the Government. The strategic message is that economic growth is a prerequisite for poverty reduction and the key to a higher growth path is private sector development, the expansion of which largely hinges on sustained improvements in the governance environment. The strategy is based on adoption of an approach to development that promotes faster economic growth and a strong private sector supplemented by other poverty reducing Government interventions. The prospects of Cambodia realizing its long-term development potential are encouraging providing the multi-dimensional barriers preventing the poor from full participation in the development process are reduced significantly in the medium term. What matters most is that the mechanisms are put in place to ensure that resources go to those sectors that will make the largest contribution to economic growth and poverty reduction.

The strategy recognizes that previous growth has largely been concentrated in urban areas and has tended to bypass rural areas where the majority of the poor live and agriculture where the majority of the poor work. Poverty is however, also significant in urban and non-agriculture areas and has to be addressed, as it may increase due to growing pressures to move from rural to urban areas. Moreover, creating the conditions for increasing private investment particularly in the manufacturing sector to create labor intensive employment is a key poverty reduction measure. In order to absorb the increase in the labor force and thereby prevent farmers becoming poorer through reducing the size of farmland available to each farmer. The emphasis is on a balanced pro-poor approach to investment rather than a simple rural investment emphasis.

A key concern of the Government is to avoid raising expectations that cannot be realized within the duration of this Plan. The Government recognizes that it has to make choices and will focus its efforts where it will have the largest benefit in promoting economic growth and reducing poverty. The chapter presents the key elements of the strategy. Beginning with a discussion of the opportunity for development and the requirement for strategic prioritisation, so that chosen priorities are commensurate with available resources and national capacity. This is followed by presentation of the Government's strategic priorities at the macro level and within and across sectors. Part IV of the document extends this discussion by providing broad guidelines for decision making derived from the strategy.

4.1 CONSIDERABLE POTENTIAL FOR REDUCING POVERTY

Although the incidence of poverty is high at 36 percent, on average the poor are living close to the poverty line, so that there is considerable potential for poverty reduction through broad based growth that includes those sectors where the poor derive a livelihood.

There is also significant potential for reducing the risk of falling into poverty through disaster prevention and improving national preparedness and responses to natural disasters. Accelerating growth in the rural economy would result in the biggest reduction in poverty because its incidence is highest there and inequalities are lowest, an important consideration given that economic growth will benefit some more than others. In addition to creating the macro conditions for faster growth, further inroads into poverty will require supplementary Government interventions aimed more directly at the causes of poverty.

Given limited resources and weak implementation capacity, Government efforts will focus on implementing those measures that have the dual benefits of both promoting growth and reducing poverty. This includes initiatives to: (a) enhance state effectiveness, (b) develop physical infrastructure emphasizing rural areas, (c) increase investment in human resources, particularly in women and children with also a rural focus. Notwithstanding that such interventions will have more benefits on larger groups of the poor than hitherto, some of the poor in rural and urban areas (e.g. disabled, aged, children and many single women) may still be excluded from the development process, requiring that such groups of the poor receive special attention. In addition, the development process must deal with the unexpected, notably the harm done to the fragile welfare of the poor and the health of the economy as a result of natural disasters. The results of the PPA confirm the relevance of such strategic interventions that have the overall aim of promoting opportunities, reducing vulnerabilities, strengthening capabilities and generating empowerment of the poor.

The temptation to view poverty reduction as solely a Government responsibility needs to be revised in light of the ongoing and desired expanding role of the private sector. With accelerated economic liberalization and structural reform it is imperative to begin defining a role for the private sector in poverty reduction. Nevertheless, there is much that Government can do, not least improving governance, which would facilitate private sector development, but it is important too be realistic about what can be achieved and how rapidly. In the past, Government has revealed limited capacity to deliver education, health, nutrition and other services of a sufficient quality and in appropriate forms to benefit the poor.

An important issue is the relationship between the amounts of future budget resources, the services to be provided from Government funds and the coverage which Government can afford. A recurring problem of public expenditure is a Government commitment to provide a range of services which given available funds cannot be implemented. Consequently, the coverage of Government services is lower than planned with the unintended outcome that the services provided are under-funded leading to ineffective services, which are deserted by those who can afford to go elsewhere. Where Government has sought to close the funding gap by cost recovery measures the evidence suggests that this further impoverishes the poor. In the health sector informal fees are widespread and essential drugs have to be brought by the patient because they are unavailable in the public sector. Moreover, attempts to protect the access of the poor to health services by exemption schemes are largely failing with existing schemes mainly benefiting those who do not need them.

In the medium-term, the extension of services to underserved rural populations must be undertaken in a sequence determined by relative cost effectiveness and fiscal affordability. In the long-term, Government anticipates that its efforts to generate a higher economic growth path will raise the tax capacity of the economy and allow public provision of basic services to the whole population. However, growth and the strengthening of revenue raising capacity will not be sufficient unless and until key governance reforms are put in place.

Poverty has a wide range of causes in Cambodia that cannot be addressed by interventions focusing on a single item or emanating from just one level of Government. However, the established modalities of Government are top-down with little recent tradition of strong local governments and effective grassroots initiatives, which highlights the importance of ongoing and planned efforts to decentralize Government to foster local representation and participation in public decision-making.

4.2 IMPORTANCE OF GROWTH AND PRIVATE SECTOR DEVELOPMENT

Economic growth is a prerequisite for poverty reduction, as the incomes of the poor rise with overall economic growth. Raising the population's standard of living and creating employment opportunities will be achieved through maintaining a sound macroeconomic environment and implementing broad based structural reforms with a view to promoting private sector development, while improving public service delivery. The projected increase in output growth over the medium term is based on agricultural and rural development and further growth in industrial production and tourism.

The key to higher growth and therefore poverty reduction is the pace at which the private sector develops, which hinges largely on sustained and timely improvements in governance. The Government recognizes that achieving national development objectives depends crucially on creation of a more positive and predictable business environment to facilitate the development of the private sector with a special consideration to the development of small and medium-sized enterprises, as the engine of increased investment, higher incomes and more employment. Improvement of the economic environment is crucial to revitalise foreign investment and increase domestic investment. It calls for a sustained focus on addressing the business community concerns. These include the important constraints placed on private sector activity and the expansion of business by corruption and policy uncertainty. In addition, weak dissemination of market information and the inability to use land as loan collateral impedes development of the local private sector in particular, due to inadequate knowledge and the lack of credit for long-term investment.

4.3 BETTER GOVERNANCE

Improved governance is central to economic growth and the elimination of poverty in Cambodia. The Government recognizes that rapid implementation of the GAP is vital to facilitating the private sector, as the driving force of employment generation and wealth creation. To attract needed investment a strong Government effort is needed to improve basic economic infrastructure, the delivery of public services and the overall governance environment including further strengthening of the legal and regulatory framework governing financial sector development.

Better governance is required to ensure execution of budgets that support increased spending on health, education, agriculture and rural development priorities and to ensure that public resources are delivered more efficiently to local administrations and at that level to make sure that the most vulnerable target groups are reached. In addition to specific programs that recognize the special position of children and women, this calls for implementation of the GAP. Specifically, the priorities of developing the rule of law, eliminating corruption, enhancing the transparency of public expenditure management, as

well as the implementation of civil service reform to address low levels of competence and motivation, and military demobilization to free up resources for poverty reduction interventions. Broad dissemination of the GAP among line ministries, local governments and civil society is underway.

Box 1.6: Governance Action Plan

The GAP identifies two categories of governance reform where action will be critical to Cambodia development over the near and medium term. The first category involves five cross cutting issue areas: (a) ***judicial and legal reform*** aimed at establishing basic rules of fairness and predictability; (b) ***civil service reform including decentralization*** which aims at improving the appropriateness, effectiveness and efficiency of public service delivery and local democracy; (c) ***public financial management reform*** encompassing the planning and budgetary process, tax policy and administration, public expenditure management, audit and aid coordination and management; (c) ***anti-corruption***, which aims at establishing rules and standards governing behavior in economic, political and social life; (d) ***gender equity***, which aims at reducing gender disparities and increasing participation of women in all aspects of political, economic and social life.

The second category of governance reform covers two specific policy priorities: (e) ***demobilization*** in the context of redefining the role and size of the military in order to ensure secure national defense, public safety and release public expenditures for social sector development; (f) ***natural resource management*** including water resources, forestry, fisheries management and encompassing the issue of access to resources by the poor.

4.4 MACROECONOMIC STABILITY IS CRUCIAL

Ensuring that Government promotes policy environments that are supportive of the economy as a whole and particularly of sectors that increase the income generating capacities of the poor is essential. Durable poverty reduction cannot be pursued in an environment of macroeconomic instability or of serious fiscal and external accounts imbalance. The medium-term macroeconomic framework focuses on achieving an annual average real rate of 6-7 percent economic growth, keeping inflation below 4 percent, containing the external account deficit to a level consistent with concessional financing and Foreign Direct Investment (FDI) flows and increasing gross official reserves to about 3.5 months of import coverage[11].

The Government will maintain a prudent monetary policy aimed at low inflation and a stable exchange rate and will adhere to a flexible exchange rate policy. Openness to trade will be intensified in the context of ASEAN requirements and anticipated WTO membership. Trade liberalization particularly within the region could have significant benefits, as Cambodia' preferential access can be used to generate export growth and investment from other countries.

Trade reform decisions will take into account potential negative effects on the welfare of the poor and the environment, and the Government will develop a framework for minimizing any negative effects. Investment promotion is vital to development, but will not be allowed to compromise social equity objectives. The Government will strengthen efforts to ensure better implementation and enforcement of health and safety standards at work and will promote a policy environment whereby employers and employees can agree measures collectively to raise workers productivity and living standards.

[11] SEDP-II. Volume II *Background Papers and Sectoral Analyses.* Annex IV: *Macroeconomic Framework.*

The fiscal strategy is aimed at improving revenue mobilization, increasing spending on essential public services, and maintaining a sustainable fiscal position. The GAP is the cornerstone of the Government' fiscal transparency strategy. Actions aimed at addressing corruption in Government agencies, enhancing budget management, tax administration and public expenditure management are central to improving fiscal transparency.

Continuing fiscal reform is critical in order to build on recent increases in revenue capacity and to accelerate the ongoing shift from defense and security expenditures to the social sectors. Further revenue mobilization will depend on making sure that all existing taxes are collected and on implementation of new tax measures. Key priorities include improving customs administration, ensuing more effective use of the pre-shipment program for imports and better tax administration. Meeting revenue mobilization targets is crucial in view of competing expenditure demands. These include the need to further increase social sector spending in support of poverty reduction objectives, expected wage increases as a part of the civil service reform strategy and the costs of local commune elections scheduled for 2002.

The implementation of the military demobilization program is a key element of the fiscal reform program, as savings from downsizing the army are essential for redirecting spending toward the social sectors. The program aims at demobilizing 30,000 soldiers representing 23 percent of the total military size by end-2002. Completion of the program would free up resources estimated up to half of one percent of GDP annually.

Public administration reform is also a key component of the fiscal strategy and vital to achieving poverty reduction objectives. The strategy for the civil service reform component provides for a new job classification system, a new compensation system and significant change in the composition of the civil service workforce. The overall civil service wage bill will be set annually and will be kept below a maximum of 40 percent of current expenditure to ensure adequate funding for non-wage operations and maintenance.

Improving the effectiveness of the Priority Action Program (PAP) for health and education is important to support poverty reduction. This requires improved coordination between the Treasury and line ministries and between central and provincial administrations. Moreover, a sustained commitment to ensure that the PAP is fully funded, which hinges on progress in demobilization to free up scarce resources and close the present gap between expenditure planning and implementation. This is a key challenge as PAP will need to be broadened in the future into a full medium term expenditure framework that better links policy, planning and expenditure programming to desired strategic outcomes for all sectors.

4.5 DECENTRALIZATION

Decentralization offers new possibilities to bring about a broader-based economic growth and to implement a more effective and efficient strategy for poverty alleviation. Including the opportunity for broader political debate about economic and poverty reduction strategies and new ways of holding Government accountable for its actions. As such it may help directly address some of the major shortcomings noted in the review of the SEDPI. By allowing a degree of local choice with respect to both (i) the design of local strategies and (ii) the implementation of national strategies for economic growth and poverty reduction, decentralization may result in substantial efficiency gains. As it brings

the process of decision-making closer to the end beneficiaries, decentralization may help reveal local demands and priorities and result in a more efficient allocation of resources to match them (allocative efficiency). Through its promotion of the mobilization and use of local human, financial and material resources, decentralization may result in lower costs, accelerated programs implementation and more efficient use of limited public funds (productive efficiency).

Decentralization will offer new opportunities for political representation and facilitate direct participation of the poor in the local public decision making process. Properly designed and implemented local participatory planning processes may help to better understand the coping strategies of the poor and to channel local governments' resources to their support and diversification. Where the Government can help the poor to help themselves it will. The Government recognizes that its actions to reduce poverty, needs to reinforce the coping mechanisms of the poor and enable further self-help grassroots poverty reduction schemes. The Government is aware that the international experience regarding the impact of decentralization on poverty reduction is mixed, and that poverty reduction will require close attention to systems accountability, especially the accountability of Commune Councils to their constituents.

The Government has initiated a decentralization reforms process and newly elected Commune Councils will start operating in early 2002, in accordance with a Commune Administration Law, which assigns to them broadly defined responsibilities for local administration and local development promotion. The extent to which the Councils will assume such responsibilities, and discharge them in a way that realizes the development potential of decentralization, will depend on several factors.

The Government recognizes that the Councils' responsibilities must be better defined, particularly with respect to the planned expansion of local-level infrastructure and services, which is both a typical area of local authorities' responsibility and one where coordination and effective partnership arrangements with central agencies must be developed. Then adequate fiscal decentralization measures must be adopted that provide a minimum of resources for local development spending. Also, and most importantly, an appropriate system of support and supervision must be set up to create the incentives for the Councils to adopt good local governance practices and design, and implement pro-poor local policies and programs. Without such measures the Councils may either become irrelevant for the purpose of local development or may be captured by local elites for their own narrower interests. In both cases the diffidence of the poor towards local authorities, and their disengagement from the local political process will continue to prevail, aggravating their exclusion and the local democracy deficit.

Government recognizes that decentralization reforms are bound to have an impact on the national planning system itself. As new relatively autonomous budgetary units (Communes and Provinces) will emerge the centralized sector-based national planning system will start to evolve towards a more complex multilevel decentralized planning system. Neither the traditional "top-down" nor "bottom-up" planning approaches will apply to such a system. Instead, the strategic priority will be for reformed coordination and negotiation mechanisms for the development of new strategic partnership and "contractual" arrangements between central and de-concentrated sector agencies and Local Authorities.

4.6 THE IMPORTANCE OF AGRICULTURE AND RURAL DEVELOPMENT

Effective poverty reduction requires more concerted efforts than in the past and this calls for a sustained focus on the rural poor and development of the potential of agriculture, as well as an improved effort to reduce gender inequalities. The rural population for whom agriculture is the primary source of income account for 90 percent of the poor, women comprise 65 percent of the rural population and 80 percent of them are engaged in agriculture and the sector accounts for about 40 percent of GDP.

The Government recognizes that agriculture growth is of enormous importance to poverty reduction because: (a) it is the primary direct source of incomes in the rural economy; (b) its multiplier effects can potentially have a strong effect on the expansion of the rest of the economy and on the development of off-farm sources of income and (c) it is associated with strong seasonal variations in the welfare of the rural poor. Agricultural improvement is key therefore to broad based economic growth and poverty reduction and there is little doubt that there is much potential for improvement.

In the recent past, however, agriculture has proved too static to propel the desired broad growth of the economy notwithstanding the significant potential of this sector. This calls for a new approach to the sector in which Government interventions are carefully prioritized in order to address the most pressing constraints on poverty reduction rather than attempting to address every agriculture issue. Government intends to promote a supportive policy environment for agriculture including provisions of core economic and social infrastructure and services that allow farmers to make their own investment and production decisions. The agriculture sector can provide labor-intensive growth, generating higher incomes for many of the poorest. More agricultural production will however, only lift people out of poverty if specific measures are taken to enable the poor and if natural resources are used in a sustainable manner.

However, continuing regional and global markets integration and agriculture liberalization raises a question mark about the long-term sustainability of small farmer agriculture. Anticipated greater exposure to competitive pressures imply that the future of Cambodia' agriculture is almost certainly one of accelerated commercialization and development of larger farms with greater use of markets know-how and lower unit costs. Implying increased risk to the welfare of the rural poor unless and until the industrial and service sectors and other aspects of the urban economy create alternative employment and self-employment opportunities for rural migrants.

The implication of this is to place even greater emphasis on the importance of attracting increased levels of domestic and foreign investment of which trade liberalization is a key determinant of the latter, as Cambodia's preferential status can generate much needed investment from other countries. In addition, the simultaneous development of a wider range of non-farming income activities within the rural economy is also crucial. As is efficient labor markets that will encourage labor - intensive development and facilitate the absorption at reasonable levels of productivity and earnings of rural labor within both the rural and urban economies.

Making Markets Work Better For The Poor

Tackling market failures that affect agriculture performance is crucially important. Reversing past under investment in rural infrastructure, particularly in underdeveloped and decaying rural roads and strengthening public market information are key priorities. Such

interventions will reduce farmer's high transport and distribution costs and better disseminate price signals. Thereby enhancing the effect of price incentives on their behavior, which will encourage farmers to raise their yields and productivities and to shift production to potentially higher income earning crops.

Addressing the weaknesses of farm-gate incentives will also contribute to reversing the technological backwardness of much of agriculture, which is still largely reliant on antiquated methods aggravated by the low levels of education, training, research, and extension support characterizing this key sector of the economy. Redirecting resource allocation to increase rural access to education, training, research and extension is thus another priority, as is improving the access of the poor to health services, the lack of which constrains agricultural productivity.

In a perfect world finance would be allocated where it is most needed and thus contribute to greater productivity, employment and poverty reduction. Market failure in the form of information asymmetries[12] and high transaction costs[13] confronts the poor in regard to rural finance, manifested in the paucity of financial services in rural areas. In consequence a plethora of not for profit micro credit initiatives have been launched in recent years as a poverty reduction measure. The main impact of such schemes is however limited, in the sense that while they may stop the poor getting poorer they may not elevate the poor out of poverty.

Defining the scope of the rural finance challenge is relatively easy, but formulating solutions is considerably more difficult. Government views its role as building institutional capacity to enable legal and regulatory systems that help ensure information flows and contract enforcement. Measures to facilitate group-lending techniques (members of the group know each other well reducing information asymmetries) by private banks through changes in official regulation will receive emphasis. In addition, the thrust of rural finance strategy needs to be reoriented from a focus on increasing the access of the poor to credit for productive purposes to include a focus on savings and loans for consumption purposes. This approach is consistent with the vulnerability of the poor to downturns in the economy, natural disasters and illness. In such situations cash constraints force the poor into distress sales of assets that add to their poverty. In this context, rural credit for consumption purposes would be an effective financial service for poverty reduction together with credit for income generating activities.

Land

A priority is to reduce uncertainty and insecurity in regard to land, which will enable land to be used as loan collateral. Thus encouraging long-term farm investment and facilitating the extension of credit to farmers to make productivity improvements. Government efforts will focus on land distribution, land management and land administration in order to address landlessness issues and land speculation including the sale of state property for private gain. Reducing gender inequalities to enable increased access of women to schooling and health, land, credit and support services is a high priority, as this will facilitate the progress of agriculture, where women's labor is particularly important. Moreover, security of access and tenure, combined with improved infrastructure and better access to markets and credit is likely to boost productivity and support more sustainable use of natural resources.

Forests and Fisheries

[12] The high costs of collecting information about the degree of risk involved in lending to poor people.
[13] It costs a lender just as much to assess risk and monitor a client for a small loan as for a larger one.

Forestry reform efforts will be intensified to crackdown on large-scale illegal operations and protect the rights of poor communities and indigenous groups. The most significant and sustainable contribution that forest resources can bring to poverty reduction is the value of timber and non-timber products to local communities. The impact of concessions on community access to these products has not yet been studied and will be the subject of an independent and transparent evaluation. Government also places a high priority on developing new fisheries legislation through a participatory stakeholder process to ensure sustainable management of fisheries and access of the poor to aquatic resources

Water Resources Management

Developing capacities to better manage water resources is a priority. In parallel with the expansion of irrigation and drainage systems the emphasis will be on building capacity of Farmers Water Users Communities (FWUC) to manage water resources more efficiently and effectively. Without the continued development of irrigation and drainage systems the priority of food security and diversification will not be realized. Irrigation is a key determinant of agricultural productivity improvement in particular rice production, which is the mainstay of agricultural production in Cambodia. However, expanding irrigation without simultaneously putting in place management improvement measures may create larger problems of lack of management and inefficient use of resources. Research and extension will be reoriented with an emphasis on rain-fed lowland agro-ecosystem because it comprises around 80 percent of the current cultivated area and about 6 to 7 million people mainly rice farmers depend on this agro-ecosystem.

Physical Infrastructure

The public provision of physical infrastructure particularly to facilitate rural development, rural-urban linkages and provincial growth in intermediate towns is a strategic priority. Not only does the current lack of adequate nationwide infrastructure affect the pattern of growth, but it also worsens poverty, as it prevents access to health and education and increases women workload. The coordinated development of rural infrastructure is crucial in the context of ongoing trade liberalization in order to provide the poor with easier access to markets, particularly through construction and maintenance of all weather feeder roads.

Some agricultural and rural development improvements have been effected in recent years, but much remains to be done, particularly in orienting policies and program priorities to the needs of poor farmers with an emphasis on women. However, improved agricultural policies can be expected to make their best contribution to reducing the hardships of the poor only if the rest of the economy is moving forward at a favorable pace and if the poor have both the incentives, and the capabilities and assistance, needed to be able to participate in the rural marketplace.

4.7 ENCOURAGING REDUCED FERTILITY AND SLOWER POPULATION GROWTH

The relatively high population growth rate of 2.5 percent per year indicates the need for wider birth spacing in poor families, allowing for better health for mothers and their children, and reduced maternal and child mortality. This in turn would increase the likelihood of parents investing more in the health and education of their children, especially females, and thus providing them with the human assets they need to improve their welfare, as well as enabling them to space their families and participate fully in a developing society.

Women's education is a crucial factor in determining birth spacing and reproductive health, and in determining the educational level and employment of their daughters. As the high incidence of poverty is related to high population growth, high fertility, high mortality and high morbidity, an effective population policy is essential for achieving development objectives. This calls for improved health and education levels, especially of women and increased economic opportunities, so that over the long term high mortality and high fertility rates drop.

4.8 REDUCING GENDER BASED POVERTY

The Government recognizes that realization of its development Vision depends crucially on empowering women through initiatives that support women and girls particularly in the areas of laws and culture. This involves promoting a systematic strategy directed towards raising the level of skills and productivity of both rural and urban women through greater investment in basic education, literacy, skills programs and vocational training, and health and nutrition. Eliminating legislative, administrative and gender biased attitudinal barriers to women's access to productive assets (e.g. land, capital, technology) through changes in legislation and proactive economic and social policy, institutional restructuring and socioeconomic and gender analysis training.

Building and empowering women's organizations and enhancing their participation in mainstream policy and decision-making. Changing the thinking and operational procedures of institutions both public and private through advocacy to increase their responsiveness to women's needs. Creating security for women through legal measures and public education, particularly of men, to reduce trafficking of women and other violence against women.

4.9 IMPROVING ACCESS OF THE POOR TO EDUCATION AND HEALTH

Access to affordable health care and education and training is important for the productivity of farmers and other poor groups. Although investments in human capital are poverty reducing the realization of the full benefit of such interventions requires a more dynamic economic environment including improved access to markets and expanded income earning opportunities. Given limited employment openings there is also a requirement for improved access to other factors of production, notably land and capital.

Key priorities for the Government include promoting financial transparency and addressing corruption issues particularly in health and education budget disbursements. This highlights the importance of pressing ahead with the GAP in order to address the chronic under funding of health, nutrition and education. Giving equal priority to tackling PEM and micronutrient deficiencies and the spread of communicable diseases is crucial because of the irreversible damage continuation of IDD, anemia, TB, malaria, dengue and HIV/AIDS will have on the intellectual and productive capacities of the Cambodian people.

Addressing the HIV/AIDS threat through more awareness raising and multi-disciplinary programs that especially target women and children in rural areas is crucial. Prevention is the best strategy and a key part of prevention is promoting a greater sense of individual responsibility for one's own health. In parallel with an emphasis on prevention, the Government recognizes its obligations to those already afflicted with HIV/AIDS, which will require development of measures to include the improved provision of care for HIV/AIDS

victims and their dependents. Specifically the *National Strategic Plan for a Comprehensive and Multisectoral Response to HIV/AIDS 2001-2005* aims to (a) reduce the new infections of HIV; (b) provide care and support to people living with and affected by HIV/AIDS; and (c) alleviate the socioeconomic and human impact of AIDS on the individual, the family, community and society. Greater investment in health services to reduce communicable preventable diseases would mean not only less poverty, as fewer of the poor become ill and temporarily or permanently unable to work, but also that society would benefit from lower rates of communicable diseases.

Investment in education that the poor can access is another area where increased public expenditure has high social as well as individual benefits. Priorities here include raising enrolment rates among the poor. This requires building more schools in rural areas, improving physical access to schools through provision of all weather rural roads and ensuring that costs of schooling do not prevent the poor accessing education. In parallel, the Government will focus on improving school quality and better deployment of educational inputs including increased remuneration of teachers, particularly those taking up rural posts, to achieve quality improvements. Non-formal education forms a key part of the strategy, as poverty reduction and access of the poor to education cannot be achieved without the provision of functional literacy for illiterate youth and adults, especially women and girls.

4.10 EXPANDING VILLAGE LEVEL INFRASTRUCTURE AND SERVICES

Roads and waterways account for the majority of movements of goods and people and their upkeep commensurate with resources availability is crucial to facilitate mobility in general, and access of the poor to necessary economic, social and administrative services in particular. Government intends to end the bias in resource allocation, which has held back rural infrastructure development. Reducing the vulnerability of the poor through sustained expansion of their access to physical assets is important because it contributes to both economic growth and poverty reduction in many ways including employment creation through public works; improved access particularly of poor farmers to markets and services, and greater availability of goods in rural areas.

Moreover, the expansion of the road sector has enormous potential for job creation in construction (short-term), maintenance (long term) and transport services (long term). Labor-intensive public works directly increase the incomes of the poor while at the same time laying the basis for future growth. However, there are potentially negative outcomes to road construction such as increased accidents and the spread of HIV/AIDS. The Government will step up its public education and HIV/AIDS awareness efforts to minimize such negative effects arising from development of the road network and initiate similar programs to increase road safety. In developing the road network the Government aims to strike a balance between a focus on tertiary and sub-tertiary rural roads and a focus on main roads and fostering urban-rural road linkages. The Government recognizes that road maintenance is an enormous problem and that if it is not effectively addressed will undermine its roads development plans.

Rural infrastructure priorities are in the following order: water, roads and electricity. The development of single and multipurpose hydropower has the potential to mitigate floods, provide water for drinking and irrigation and also provide lower cost electricity to farmers and other local investors, as well as foreign investors. In addition to prioritized public provision of infrastructure to supplement areas where private provision is inadequate, the Government will continue to promote policy environments, which recognize the increased

role of the private sector in rural infrastructure services, particularly in electricity and water supply. The planned establishment of an investment capital arrangement including subsidization through a special fund to improve affordability of and accessibility to such services is a priority. Infrastructure improvement together with more access of the poor to credit, education, health and nutrition would ensure that the positive impacts of open markets are not put at risk because of the inability of the poor to participate in economic growth.

4.11 DISASTER PREVENTION AND MANAGEMENT

Most of the rural poor live in an environment marked by wet-dry seasonality, which affects all aspects of their lives from income to consumption, to nutritional status, education and health. The wet season is the time of the greatest difficulty, which is accentuated by natural disasters such as flooding. It is then that exposure to infection is often most pronounced and food prices tend to rise with flooding due to shortages increasing debt. Families have fewer resources to meet the costs of treatment for illness and transport and the labor lost because of this has high opportunity costs for the family. Acute or prolonged sickness risks making people permanently poorer through distress sales of assets, reducing family earning capacity and the possibility of rebuilding lost assets. Combined with all these factors the health services at this time of year are likely to be at their least effective, due to high demand for treatment and shortages of supplies and personnel which are likely to be disrupted by transport difficulties.

Against this background, and the prospect of changing weather patterns due to climate change plans in natural disaster prevention, preparedness, relief, mitigation and rehabilitation are important poverty reduction measures. Moreover, the further development of meteorological and hydrological networks are essential preventative measures and will form an integral part of the Government's disaster prevention and management regime. Government intends to put in place an effective and efficient mechanism in relief and emergency services with good coordination and cooperation at all levels. Ongoing work to develop a national natural disaster preparedness capability are linked to Government's efforts to minimize the vulnerabilities of the rural poor to adverse weather, in particular flooding and drought. Key aspects of national disasters preparation include the elaboration of plans and mechanisms for coordination, monitoring and review.

4.12 TARGETED SPECIAL PROGRAMS

It is also necessary to provide targeted special programs for those groups of the poor who are unable to participate effectively in the economic growth process. NGOs and other aid agencies will continue to be encouraged to be active in these areas, but the Government intends to become more engaged. Targeted assistance through effective food-for-work programs will not only improve food security, but also contribute to an improvement in rural infrastructure at the village level and provide work experience for hitherto marginalized peoples. For those unable to work, food based interventions, such as food distribution and feeding programs, will be implemented to provide basic food items.

The passage of laws dealing with rape, sexual harassment, domestic violence, prostitution and trafficking followed up by wide dissemination of information about these laws and training of relevant officials to ensure proper enforcement is a crucial response to reducing vulnerability through creating security. Education and public awareness building about all

forms of violence against women including education of men in the military and police on issues of domestic violence is also vital. The protection of children will be better achieved through establishment of a national juvenile system, compulsory birth registration and introduction of an appropriate child adoption policy and monitoring system.

PART IV: POLICIES "BROAD GUIDELINES FOR DECISION MAKING"

CHAPTER 5: FACILITATING DESIRED SOCIOECONOMIC OUTCOMES

INTRODUCTION

The Government role in the implementation of the national economic growth and poverty reduction strategy is that of a facilitator that uses its power and resources under its control to influence the development process, so as to achieve desired socioeconomic outcomes. Since the power and resources available to the Government is limited a key task is to ensure that policy and program priorities are not only consistent with the strategy presented in Chapter 4, but are also within the capacity of the Government to implement. The success of the Plan will hinge on the actions required to achieve the desired outcomes of the strategy being implemented in a timely manner and in the way intended.

Chapter 5 outlines broad guidelines for decision making aimed at making the SEDPII work for the achievement of the national economic growth and poverty reduction strategy. Policy priorities will be regularly reviewed in order to take account of the dynamics of the development process, as issues are addressed and new priorities emerge. The first part of the chapter commences with a presentation of how the Government views its role in the development process. This is followed by a discussion of the content of SEDPII policies including reference to key measures to be implemented, as well as an indication of work in progress where the design of implementing actions is underway, but not yet completed. The third part of the chapter discusses the quantitative targets of the SEDPII, the monitoring and evaluation of which will provide indications of progress and achievement. The institutional arrangements governing SEDPII implementation monitoring and performance assessment is also discussed.

5.1 ROLE OF THE GOVERNMENT

Enhancing the institutional capacity of the Government is a crucial part of raising economic growth and lowering poverty. The Government has a vital role to play in providing the institutional and regulatory framework within which market based transactions can expand at lowest cost, creating the conditions under which an increasing number of goods and services can be provided by the private sector and delivering public expenditures in support of higher growth and reduced poverty.

This covers a range of responsibilities including: (a) maintenance of political stability; (b) establishment of the rule of law (c) appropriate public spending and its improved effectiveness and efficiency, as well as more accountability and transparency in budget decision-making and public administration. In addition, maintenance of price and exchange rate stability, which reduces business risk and provides assurance of risk for-seen, as well as open access to global financial markets and global export and import markets. Providing for development and maintenance of human capital and technological capability through measures to promote an educated and healthy workforce and supplying

and maintaining economic and social infrastructure that the market will either not provide or will provide, but in quantities that are socially insufficient.

SEDPII policy measures to reduce perceived uncertainties and raise private returns through public provision of infrastructure will encourage increased domestic capital formation, and provide the engine to drive the projected output of the agriculture, industrial and service sectors. Measures to enhance human capital, technological capabilities and factor productivity will add to the creation of a positive business climate, as well as addressing direct causes of poverty.

5.1.1 MACROECONOMIC MANAGEMENT AND PROMOTING THE PRIVATE SECTOR

The maintenance of macroeconomic stability and continued progress in structural reforms, in particular the implementation of the GAP is crucial to achievement of national development objectives. To improve economic prospects over the medium term it is essential to enhance the attractiveness of Cambodia for foreign and domestic investment and expand export capacity. The recent drop in foreign investment is due to a combination of a stricter investment approval policy and intensified regional competition for foreign capital. This competitive environment can be expected to intensify further with the recent granting to Vietnam of preferential access to US markets for apparel wear and textiles and membership of China in the WTO. In addition, the Government recognizes that the continuing high cost of business associated with corruption as well as a cumbersome bureaucracy, that the GAP is intended to directly address, are barriers to investment. The current uncertainty surrounding discussion of proposed amendments to the Law on Investment is also a potential barrier to new investment given that the incentives under the Law are currently the only attraction that Cambodia has for foreign investors.

The Government recognizes that the provisions of the Foreign Investment Law are generous from a revenue enhancing perspective, but are crucial determinants of foreign investors behavior in relation to Cambodia. Thus, the Government review of the Law and any revision to the Law will be based on direct consultation with the business community, and will strike a balance between the need to revitalize the investment climate and to mobilize additional resources.

Proposed amendments to the Foreign Investment Law include streamlining investment procedures and criteria for the application of tax holidays with general investment incentives in the form of accelerated depreciation and an investment allowance to be incorporated in to the Law on Taxation. The aim is for incentives for investment to remain favorable and apply equally to all investors. The Government recognizes, however, that in a perceived worsening climate for foreign investment making changes to the investment regime must proceed with caution and command consensus. Moreover, the Government recognizes that revenue enhancement must equally emphasize enforcement of measures to ensure full collection of existing taxation.

Hence the priority of the Government on making sustained improvements to the governance environment to accelerate private sector development, as the taxable capacity of the economy will increase with economic growth. This will enable Government access to more resources to fund both its public expenditure program (capital and recurrent) and targeted interventions that tackle more directly the causes of poverty. Including special programs addressed to the needs of the dependent poor, as these particularly vulnerable groups, especially children may not be in a position to benefit from greater growth.

To improve the prospects of meeting revenue targets the Government will introduce new tax and non-tax enhancement measures. These include reducing the number of tariff bands from 12 to 4 and lowering the maximum tariff rate to 35 percent with associated adjustment in excise rates. Improved enforcement of the 10 percent tax on entertainment services. Better collection of VAT and withholding tax though the establishment of a Large Taxpayers Unit to compile data and follow the collection and level of tax arrears by company. Full implementation of the stamp system for taxes on cigarettes and increased collection of revenue from visas though improvement to the monitoring mechanism. Establishing a monitoring mechanism for leases of state assets and increased efforts to collect arrears and payments due on leases of state assets using the task force established in MEF for this purpose. Improving the collection of arrears and payments due on telecommunications through the enlargement of the inter-ministerial task force to include MPTC.

Administrative and staff constraints of the recently commissioned task force on smuggling will be addressed, as pervasive smuggling is undermining trade revenue. Penalties for firms that bypass the pre-shipment inspection will be enforced. MEF will use its full legal authority to cancel leases of state enterprises when payment obligations are not met. A new Customs Law in line with WTO requirements will be prepared and implemented, and ongoing efforts to develop revenue analysis capabilities within the Customs department will continue.

Improvements in both customs administration and the monitoring of state assets are important elements of the GAP. Broad dissemination of the GAP is underway and a framework for further prioritizing, sequencing, costing and monitoring performance is being prepared. In addition, MEF is preparing action plans on budget management, tax administration and expenditure management and for improving accounting and auditing procedures.

Trade liberalization will be intensified in the context of WTO membership and ASEAN requirements. In this regard, the Government is further developing sectoral action plans for key export products and services and identifying needs and gaps in existing institutional capacity. Over the medium term, the tariff reforms and rationalization being undertaken will allow for a more rational allocation of resources by avoiding costly domestic production. In this context, the Government is formulating a trade strategy linked to the economic growth and poverty reduction objectives that will coordinate trade and foreign investment policy.

The Government will maintain a prudent monetary policy aimed at low inflation and a stable, but flexible exchange rate. To that end NBC will adhere to its current intervention policy of using an increased demand for local currency to bolster international reserves while not resisting any downward pressure on the rate, except under exceptional circumstances.

The Government will continue to build confidence in the banking system and improve the quality of the banks operating in Cambodia. The current restructuring of the banking sector will be maintained by the Government to ensure this objective. The NBC will continue to strengthen bank supervision and credit monitoring capabilities. A chart of accounts for fully licensed commercial banks according to international standards will be operational by 2002. The NBC will ensure that all banks adhere to the requirements of the Financial Institutions Law and for banks not capable of meeting the legal requirements exit strategies comprising voluntary liquidations and potential mergers and acquisitions will be

developed. Regulations governing specialized banks are being clarified and strengthened and restrictions on the scope of their activities strictly enforced. The ongoing payments system reform initiated in parallel with bank restructuring will be broadened and a new Payments Law will be submitted to the National Assembly early in the Plan period.

Ongoing activities in preparation for the future privatization of the Foreign Trade Bank of Cambodia will be continued including the building of management capacity and identification of future private investors. Other measures to provide incentives for commercial banks to lend locally through strengthening the enforcement of contracts, so banks can more effectively guard against non-performing loans will be introduced, with a view to making more long term credit available for investment by the local private sector.

Small and medium sized enterprises, especially those in manufacturing and processing play a crucial role in national economic growth and poverty reduction by generating household incomes and providing additional income generation for people in rural areas. The effective development of SMEs requires strong emphasis on enterprise upgrading through the continuous enhancement of SMEs productive capacity to ensure that they can graduate into the formal sector, and an emphasis on access to long term, low interest credits and tax relief.

5.1.2 MILITARY DEMOBILIZATION

Making better use of available public resources is crucial to economic growth and poverty reduction objectives. In this regard implementing the military demobilization program is a policy priority. The program consists of three main stages: (a) registration of the soldiers, (b) discharge and disarmament, (c) reinsertion and reintegration involving a smooth transition of the veterans in to civilian life. The overall cost of the program is estimated at $42 million (1.5 percent of GDP).

The first stage of the pilot program (demobilization of 1,500 soldiers in four provinces) was successfully completed by mid-2000 despite delays in the releases of committed funds. The smooth delivery of committed funds, further streamlining of the procurement process and increased interaction between the Government, development partners, NGOs and local governments at all stages will be crucial for the successful implementation of the full program. The reinsertion and reintegration programs are being carefully designed to reduce the risk of social disruption associated with such a large program.

5.1.3 PUBLIC ADMINISTRATION REFORM

Facilitating private sector development hinges on better governance most crucially introducing a realistic civil service salary system linked to an impartial performance based scale, so that promotion is based on merit. Higher civil service remuneration, as part of a comprehensive restructuring of the civil service will begin to address weak competence and low motivation issues. The Government will implement the civil service reform, summarized in Box 5.1. The Government will pass and implement and enforce, an effective anti-corruption law that will facilitate the desired professionalism of the civil service and remove an important constraint on business transactions.

Box 1.7 Civil Service Reform

The civil service reform provides for needed increases in remuneration within a framework that restructures civil service composition aimed at ensuring an ability to retain qualified staff consistent with medium-term fiscal constraints. The Government embarked on civil service reform with the launching of the civil service census in mid-1999. Following completion of the census in March 2000 a computerized payroll has been prepared for line ministries and is to be expanded to the provinces by end-2001. About 8,000 irregular cases (5 percent of civil service workforce and $1.2 million annual saving) have been eliminated from the payroll as a result of the census.

The civil service reform includes a new job classification system, of four categories (A, B, C and D) based on education levels and a super category "A" comprising senior officials. Within each category a system of pay scales indices defines base wage levels. Additional incentives are also granted to staff under special statutes (e.g. diplomats, teaching personnel) or working in a "Special Operating Agency" (i.e. revenue generating agency). A new compensation scheme consists of base wages and five categories of allowances to account for job complexity, level of responsibility and hardship. The compensation system is aimed at aligning the average compensation level with the minimum wage in the private sector and closing the gap between the education and non-education sectors by 2006. In addition salary supplements would be distributed to members of a "Super Category A" and Priority Mission Groups. Both schemes being aimed at raising income incentives to retain qualified staff. The civil service workforce of 158,498 in 2000 would rise by 4.8 percent in 2001-2006, with the increase in the education sector (16.2 percent) partly offset by a decline in (-18.1 percent) in other sectors. A drastic change in the composition is envisaged, reflecting staffing needs in priority sectors (i.e. education, health, and local government). About 3,000 teachers would be recruited annually in response to the considerable increase in primary enrolment in the last ten years.

5.1.4 REFORMING PUBLIC EXPENDITURE MANAGEMENT

The Government places a high priority on execution of budgets that sustain increased and appropriate spending on health, nutrition, education, agriculture and rural development infrastructure making the effective implementation of the PAP of crucial importance. The correction of anti-poor biases in public expenditure is critical to achieving growth that is more pro-poor. In order to achieve the desired strategic impact the public sector will need to continue to develop better systems that can deliver resources more efficiently particularly to local administrations and at that level to make sure that the target groups are reached.

To achieve these priorities the Government will continue to focus in the short – term on improving resource mobilization and expenditure composition. In the medium - term the Government aims to increase the prospects for securing expenditure priorities and achieving a sustainable fiscal balance by reforming planning and budgeting institutions and adopting new budgeting rules. This will require the design, which is underway, and implementation of a medium term expenditure framework, as well as development of an improved capacity for budget formulation and execution, and public expenditure analysis. The desired outcome will be to better link policy, planning and budgeting by obtaining joint analysis and programming and budgeting of capital and current expenditures.

To improve coordination of monetary and fiscal policies the Government will strengthen the existing Committee on Economic and Financial Policy (CEFP). Regular meetings of the CEFP will be held and the CEFP will be developed as a forum for discussion and

agreement on a macroeconomic framework, fiscal plan and resource allocation program. The desired outcome of an enhanced CEFP will be a rolling five-year fiscal plan consistent with the SEDPII and subsequent strategic development plans. This will bring about the integration of the capital and current budgets in the formulation of an annual budget and provide a comprehensive medium–term resource allocation framework for development planning.

This shift from the present system of budgeting to a unified budget execution system will be gradual, as it will involve a review and reform of existing institutional mechanisms, systems, procedures and staffing. However, the intention is that this should take place early in the SEDPII period and to meet that requirement the preparation of a detailed design for a unified and decentralized budget execution mechanism will be initiated. This will cover a number of tasks including the (a) review of organizational structures; (b) design of institutional reforms that will enhance Government capacity for budget execution; (c) formulation of an action plan for capacity building commensurate with the new budget arrangements; (d) training of key personnel at central and provincial levels on the operations of the new budget execution mechanism.

5.1.5 MEASURES FOR THE ECONOMICALLY ACTIVE POOR

In order for the economically active poor to benefit from measures such as improved infrastructure and agricultural research and extension, it is necessary to improve the property rights of the poor by providing security to land and moreover access to land. Implementing regulations for the new land law will be prepared and the Government will focus on accelerating land registration and establishing a land administration system to enhance land tenure and access in full consultation with major stakeholder groups. The Government will seek ways in consultation with affected parties to encourage an enabling environment to promote access to credit through the extension of micro-finance schemes that will benefit from creation of a credit operators association to facilitate orderly expansion of rural financial services.

The Government will pay greater attention to increasing the productivity of small farmer agriculture through better-targeted research and extension; reducing gender biases for a more rational use of resources, improved infrastructure and marketing arrangements. Greater attention will also be paid to stimulating job creation and improving the incomes of the poor, through measures to encourage relative expansion of labor-intensive sectors and industries, and employment in Government and aid agencies supported construction activities.

Mine removal will remain a key priority. The de-mining effort is essential in supporting agricultural and rural development and in assisting environmental conservation. It also has a key role to play in cooperation with the demobilization program to provide cleared farmlands for productive use of demobilized soldiers and their families.

Food security, good nutrition and health in the agriculture sector will be enhanced by introducing and effectively enforcing laws to protect the health of small farmers and minimize environmental destruction, promoting public education programs on pesticides hazards, alternative pest control and integrated pest management and increasing public resource allocation to research and extension. The Fisheries Master Plan will be implemented and an Inland Fisheries Institute established consistent with the NEAP.

5.1.6 MAINSTREAMING GENDER

Gender bias leads not only to inequities and avoidable poverty, but also to the inefficient use of resources and retards economic expansion, particularly in agriculture. The Government will pursue implementation of the *Neary Rattanak* and the "Partnership for Building Together" prepared by MWVA and elaborated in the ministry's work plan for the SEDPII period.

The overall policy thrust is to build up the capacity of the Government to mainstream gender in all its national policies and programs and to increase public awareness of gender concerns. Specific policy priorities are to: (a) build commitment and capacity; (b) influence policies to be gender sensitive and responsive; (c) increase the participation of women in national and local development planning and governance; (d) enhance capacity for gender planning, monitoring and evaluation and (e) increase public awareness and support.

5.1.7 BUILDING LOCAL GOVERNMENT CAPACITY

Considerable efforts will be undertaken by the Government to clarify responsibilities and implement fiscal decentralization reforms, including the setting up of an appropriate system of fiscal transfers as foreseen by the Commune Administration Law. Equally critical will be the efforts to build the capacity of the Councils in the fields of participatory planning, budgeting, and programs implementation, as well as promotion of local economic development and natural resources management.

The extent to which the decentralization process can contribute to broad based sustainable economic growth and durable poverty reduction will also depend in part on the success of reforms in other key issue areas. Raising health and education levels at the local level in order to provide the time, opportunity, energy and intellectual means for greater participation of the poor is vital. Better transport facilities are equally important to enable greater movement of the poor, as is reducing gender disparities not least attitudinal barriers to an increased decision making role for women. Weakness of action in any of these aspects would run the risk of the better-off and less poor rural groups, that by implication are likely to be more articulate, confident and with more time, capturing the decentralization process for their own narrower interests.

5.1.8 IMPROVING THE HEALTH AND EDUCATION OF THE POOR

Allowing better use of human capabilities, improving the income earning potential of poor people, widening their range of choice, improving the quality of their lives and reducing their social exclusion make improving the access of the poor to education and health crucial policy priorities. The key to improving the health and education status of the poor is implementing the planned improvements to governance, as the low motivation and competence of health and education employees due to low salaries is a major threat to achieving desired health and education outcomes.

Reducing the costs of health care to the poor is a priority. Removing user fees is an option, but the formal introduction of these charges represented a move towards fiscal transparency and is an improvement on the previous arrangement of "under the table" payments. The policy priority is to make the existing exemption schemes work in the way intended so as to eliminate the impoverishing effect of the costs of health care.

Reviewing the monopoly supply of essential drugs with a view to obtaining lower prices is also crucial, as the price of these inputs is too high and is damaging patient care.

The Government will step up its nutrition and health improvement efforts that have clear and strong links to economic growth and poverty reduction at both macro and micro levels. This includes core measures such as addressing protein energy malnutrition and micronutrient deficiencies, the continuation of malaria control efforts and implementation of the *National Strategic Plan for a Comprehensive and Multisectoral Response to HIV/AIDS 2001-2005*.

HIV/AIDS is both a large source of poverty and a grave burden on the economy's growth potential. Higher economic growth to reduce poverty will allow families and communities to assist these populations more easily while preventative measures are needed to halt the spread of HIV/AIDS. Government policy will continue to emphasize prevention through promoting the use of condoms and mass public education and awareness campaigns, and expansion of HIV testing, counselling and patient care.

To disseminate the benefits of growth to the dependent poor, especially those at most risk, particularly children, school feeding and targeted food supplementation programs will be continued and enhanced. The former is of special importance as it has the added advantage of creating an additional incentive for parents to send their children to school.

In education, the Government will implement the ESSP, but accepts that the agenda for education reform is ambitious and that planned actions must proceed commensurate with available resources and capacity in order to command support. The increased pressures on existing primary education services and the demand for expanded secondary education provision mean that policy must be appropriately balanced between accommodating growing education service demand and improving quality and effectiveness.

Policy priorities for education include paving the way over the medium term for ensuring equitable access and quality improvement for 9 years of basic education by around 2010. For post-basic education, Government's priority is to enable more equitable access (including gender equity) for the poorest, alongside a growing public/private partnership in financing and management. The Government is committed to expanding educational opportunities for women at all levels, as education reform in this area is part of the Government effort to slow the rate of population growth. Under the ESSP the Government is committed to enhancing non-formal education and intends to reach 200,000 illiterate people per year. Life long, non-formal and continuing education will be expanded to serve those who have completed primary and literacy education.

The Government's intention is to more than double the education recurrent budget over 2001-2003 as an initial step in securing policy implementation. Increased public spending on education will adopt clearly defined pro-poor policies. The key priority is to reduce direct and indirect costs to parents (the major access barrier) through a significant increase in performance based teacher salaries, thereby eliminating the need for informal parental payments to teachers. An associated priority will be to significantly increase school operating budgets, increasingly managed at provincial/district and school levels. These measures will help to secure teacher and pupil attendance, which, with better availability of instructional materials, will assure quality improvement. These actions will be linked to stronger legislative and regulatory and quality assurance mechanisms. In specific terms, the policy target is increased public spending volumes and shares (both wages and non wages) for basic education, and targeting selective scholarships for the

poorest in post basic education, while encouraging private sector involvement in upper secondary and tertiary education.

5.1.9 DEVELOPING BASIC PHYSICAL INFRASTRUCTURE

The Government will pursue expansion and upkeep of agriculture infrastructure (e.g. irrigation systems, canals, dykes, waterworks etc) and the network of rural roads in order to increase the responsiveness of the rural economy to economic opportunities, which will raise farm-gate prices, lower costs of production and distribution, and reduce the poverty increasing effects of remoteness.

A sustained focus on public works has the dual benefits of directly transferring resources to rural communities, through payments to the poor for their labor and creating the important infrastructure to facilitate private sector development not least in tourism. The promotion of which is severely constrained by lack of infrastructure particularly all weather roads. The Government will aim to make infrastructure development more labor intensive, so as to put cash into the hands of poor people.

The Government will promote wider provision of affordable potable water supply and sanitation, as it contributes broadly to tackling the causes of poverty and improving public health. Rural electrification is also a priority and will involve private rural electricity enterprises. An investment capital arrangement is to be made to enable private sector power suppliers, access to long-term commercial bank loans at a reasonable interest rate that will be subsidized from the Rural Electrification Fund, especially created for this purpose. The Fund will be financed by Government and from other sources including levies imposed on urban electricity utilities and support from development partners. This arrangement will result in an affordable electricity service for rural households and improvement of accessibility to the rural electricity service.

5.1.10 POPULATION POLICY

Satisfying the unmet demand for family planning services will strike a strong blow at one of the most powerful correlates of poverty, as well as weakening a strongly negative influence on economic growth. The Government is in the process of preparing a population policy and better incorporating population into its development planning. As the high incidence of poverty is related to high population growth, high fertility, high mortality and high morbidity, an effective population policy is essential for achieving development objectives. Government health, nutrition and education improvement policies, especially those directed towards women together with implementation of the macroeconomic framework to provide increased economic opportunities, will contribute over the long term to a fall in fertility rates and population growth.

5.1.11 REDUCING TRANSITORY POVERTY

As the poor tend to live close to the poverty line actions to reduce the extent of transitory poverty form an integral part of the Government's national development policies. Prudent macroeconomic management is a key measure, as its aim is greater economic stability, which will reduce the risk of economic crises and foster sustained economic growth. Similarly, policies aimed at increasing food security, water management and conservation capacities and improved transport and communications systems have the benefit of reducing the risk of people moving into poverty.

Unfortunately, however, Cambodia is prone to natural disasters, as the floods in 2000 and 2001 demonstrate. Work is underway to put in place national natural disaster management plans to mitigate the harm that such occurrences have on the economy in general and on the livelihoods of the poor in particular. The Government will ensure the completion of such plans, training exercises and annual reviews, so that roles and responsibilities are clear and that resources are made available to ensure effective national responses to natural disasters.

5.1.12 PROMOTING ECOLOGICAL AND CULTURAL TOURISM

Linked to the ongoing efforts to bring the HIV/AIDS epidemic under control is the Government determination to significantly reduce sex tourism from Cambodia through strict enforcement of existing law and implementation of new laws as and when necessary. Those who procure children for sex and those who pay for such activities will be prosecuted, as will those who traffic in the sex trade.

The Government is fully committed to the elimination of sex tourism in favor of the promotion of ecological and cultural tourism that is less harmful to the social fabric and moreover, friendly to the environment. The public provision of infrastructure particularly roads to facilitate access to national heritage and nature sites is crucial to sustain tourism growth, and to the further development of the tourism sector, which is a significant source of foreign exchange earnings and revenue. However, promotion of any kind of tourism has environmental consequences due to the increase in visitor numbers and associated demand for accommodation and recreational facilities. In this regard, the Government will strictly enforce environmental regulations to reduce soil, water and air pollution consistent with the priorities of the NEAP. In addition, the recently adopted Environmental Impact Assessment regulations will be strictly applied to all investment proposals, in all sectors not just tourism, that may have an undesired effect on the environment.

5.2 MONITORING IMPLEMENTATION AND EVALUATING PERFORMANCE

As the planned actions of the SEDPII are implemented it will be necessary to build further capacities in all aspects of economic and poverty analysis. An integral part of this process is the reengineering of the way Government works and the transfer of know how and the development of much needed technical specializations to monitor the progress of national policies and programs and to evaluate achievement. The Government recognizes that it continually needs to assess the timeliness and effects of its actions, particularly on the private sector and the poor, so as to take corrective action to adjust to changing circumstances or new priorities. Whilst technical assistance has a vital role to play in capacity building the implementation of civil service reform and other priority governance reforms are the key to improving the responsiveness and effectiveness of Government actions.

A key lesson from the review of SEDPI is the need for Government to find out more about development issues and to better monitor the progress and effect of its actions on the development process. This calls for establishment of an effective and efficient monitoring system that will serve three main purposes: (a) recording progress to hold Government accountable for its performance; (b) research that allows economic and poverty analysis and evaluation of the impact of Government policies and programs; (c) formulation of responses to current and emerging economic growth and poverty reduction challenges.

Implementation of these tasks implies a permanent policy analysis capability within the Government, which is presently lacking and for which technical assistance will be required. The data requirements for each of the aforesaid purposes is slightly different and requires: (a) recording progress based on outcome indicators for the recent past such as mortality data and income poverty; (b) poverty analysis based on information on a wider range of variables covering outputs, inputs and process; (c) indicators for Government response including some of a prescriptive nature (i.e. leading indicators) that allows anticipation of problems before they arise.

Poverty monitoring will involve: (a) tracking changes in poverty outcomes over time and across groups and areas; (b) collecting information to study the determinants of such outcomes; (c) providing feedback on the effectiveness of poverty reduction efforts. The major activities of the poverty monitoring and analysis system will be: (a) data collection; (b) data collation; (c) data analysis and (d) dissemination of results to policy formulation agencies and civil society.

In accordance with the multidimensional nature of poverty, the poverty monitoring and analysis system must address the various aspects of deprivation. This involves building capacity for the tracking of changes in a number of key areas including: (a) living standards, using data on household income/consumption, assets and housing, etc; (b) health and nutrition, using data on mortality rates and underweight children under 5, etc; (c) education, using data on female primary school completions and enrolments at different levels, etc; (d) physical infrastructure and utilities, using data on roads, water and sanitation and energy, etc; (e) other services, using data on access to micro-finance and social welfare.

Multiple indicators can be used to measure changes in these key areas, and will be considered during the development of the full-fledged poverty monitoring and analysis system that will be established early in the Plan period, bearing in mind: (a) the need for break-down by gender; (b) the need for context-specific indicators (geographic, social, intra-household); (c) the costs of data production and dissemination. Within this context, the initial focus will be on a basic set of core outcome indicators for which data are readily available, shown in Table 2.

Early in the SEDPII period, the Council for Administrative Reform (CAR) will finalize the GAP, including the further development in consultation with stakeholders of a specific GAP monitoring and evaluation framework with performance indicators. In the case of health and education, reforms have been formulated on a sector wide basis. As such the poverty monitoring system will be developed with a view to linking its operations to cover performance agreements including both targets for service delivery and improvement in output indicators in health and education.

Targets may require adjustment as time passes and more or less than was predicted becomes appropriate. Monitoring, evaluating, and reporting arrangements are needed to ensure implementation, and must be carefully planned and adequately resourced if they are to be effective. This planning should allow for the involvement of the private sector and the public, and for the sensible application of external technical and financial assistance, given the limitations of current administrative capacity, the long-term nature of administrative reform, and the inherent desirability of involving the private sector, the international community, NGOs, and the public in Plan formulation and implementation. The monitoring, evaluation, and reporting system then becomes a judicious mixture between the extremes of an entirely intra-Government exercise conducted under the supervision of the planning agency, and an outsourced review by an independent agency.

Table 2 SEDPII Key Quantitative Target Outcomes

Objective & Indicator	Latest Value (Year)	Target Value (Year)	Frequency & Source of Information/Data
Economic Growth			
Real GDP average annual growth rate	5.4% (2000)	6-7% (01-05)	National accounts. National multi-purpose household surveys.
Agriculture growth rate	-2.7% (2000)	3.5% (01-05)	
Industry growth rate	29.0% (2000)	7.0% (01-05)	
Service growth rate	3.1% (2000)	8.0% (01-05)	
Poverty Reduction			
Headcount Index	36% (1999)	31% (2005)	National multi-purpose household surveys. Socioeconomic surveys every two years. Other appropriate instruments identified in the Poverty Monitoring Analysis system currently being developed in NIS/MOP.
Social Development			
<u>Health and Nutrition</u>			National multi-purpose household surveys. Socioeconomic surveys every two years. Other appropriate instruments identified in the Poverty Monitoring Analysis system currently being developed in NIS/MOP. Line ministries annual reports.
Infant mortality rate	89 per 1,000 live births (1998)	65 per 1,000 live births	
Maternal mortality rate	473 per 100,000 live births (1998)	200 per 100,000 live births	
<5 Stunting rate	44% (2000)	Decrease by 1.5% per year	
<u>Education</u>			
% of 12 year olds completing Grade 6 and functionally literate and numerate	33% (1998)	90%	
<u>Physical infrastructure and utilities</u>			
% of rural population with access to safe drinking water	29% (1999)	40%	
% of urban population with access to safe drinking water	69.5% (1999)	87%	
% of rural population with access to sanitation facilities	8.6% (1999)	20%	
% of urban population with access to sanitation facilities	49% (1999)	90%	
% of expansion of irrigated area	18% (1998)	20%	

Sources: MOP 1999b; MOP 2000a; MOH 1999a and 1999b; MOEYS 2000.

For these reasons the Government has established an inter-ministerial body the Council for Social Development (CSD), which is mandated to facilitate the design and monitoring

of pro-poor policies and programs. The operations of the CSD will provide in addition to permanent analysis of social development and poverty reduction progress alternative policy options in the context of regular adjustment of the SEDPII.

At this stage the *Public Investment Program, 2001-2003* (PIP) is the companion volume to the SEDPII, as it sets out public investment priorities that constitute the Government capital expenditure effort and provides program costs and implementation schedules. The Government recognizes, however, that there is a need during the SEDPII period to improve the connections between policy, planning, investment programming, and budgeting, as well as continuing efforts to strengthen line ministries' capacity to generate full-cost programs. The aforesaid extension of the PAP initiative to the four priority sectors of agriculture, rural development, health and education is one key response to this need. However, in order to avoid the development of "enclave budgeting" that protects special sectors, the Government is also committed to taking a broader medium-term view of resource mobilization and allocation by moving towards the aforementioned development of a medium term expenditure framework that is currently under preparation.

As these reforms in public expenditure proceed, implementation of investment programs and projects will occur according to the varying existing capacities of the responsible line ministries and agencies to spend allocated funds and manage projects. Feedback on PIP implementation will be governed by the Council of Ministers Circular on the *Monitoring of the Implementation of Public Investment Projects in the Framework of International Aid and Loans*, which sets out the responsibilities for establishing monitoring and evaluation units in the planning departments of line ministries and the preparation of regular reports to MOP, MEF and CDC.

5.3 AID COORDINATION AND AID MANAGEMENT

Continuation of the ongoing effort to improve aid coordination and aid management is a priority, so that more resources are channelled to priority areas. Avoiding aid duplication, promotion of rational allocation and efficient utilization of resources will be achieved by the phased introduction of sector-wide and other approaches in specific sectors such as education and health. Such modalities based on forging new partnerships offer the potential for improved aid coordination and aid management.

However, project aid can also effectively contribute to economic growth and poverty reduction objectives if it is appropriately geared towards the Government national development strategy and policy and program priorities on the basis of consultations with stakeholders. In addition, the Government recognizes that the development potential of individual projects would have enhanced prospects of realization if the intended beneficiaries or their representatives were involved from the start in identification and design as well as implementation. The process of decentralization and its potential for greater involvement of the poor in decisions that affect them is a positive move in that direction.

Achieving broad based economic growth and significant poverty reduction is a major policy challenge. It implies a national effort in which all stakeholders under Government leadership work together to obtain agreed development objectives. The tasks ahead are complex and maintaining desired progress will require a sustained collaborative effort. Nevertheless, the Government is confident that with the collective support of Cambodia' development partners the required measures such as sound macroeconomic management, better governance, improvements in health, nutrition, education, land

access, development of physical infrastructure, reduction of gender disparities and environmental protection is within the capacity of the nation to achieve.

5.4 LINK TO VOLUME II

The attention of the reader is drawn to the Volume II of the SEDPII *Background Papers and Sectoral Analyses*. Volume II contains the essential documentary evidence and analytical inputs undertaken by line ministries and agencies of the Government that enabled preparation of the Main Volume including a summary of the PPA, which is available in full in a separate publication. Volume II thus supports and provides more discussion about the background to the findings and thinking articulated in this Main Volume.

Translation

KINGDOM OF CAMBODIA
Nation Religion King

ROYAL GOVERNMENT

SECOND FIVE YEAR SOCIOECONOMIC DEVELOPMENT PLAN

2001-2005

VOLUME 2 / ANNEX OF MAIN VOLUME

ANNEX 1: REVIEW OF FIRST SOCIOECONOMIC DEVELOPMENT PLAN 1996-2000

The *First Socioeconomic Development Plan, 1996-2000* (SEDP-I) contains a breakdown of target growth and investment by sector and a statement of the main policy changes that should be instituted during the plan period. Reducing poverty was the primary development goal of the SEDP-I. Given the distribution of the population and of the poor in particular, the plan emphasized rural development while stressing the need to strike a balance between this objective and that of assisting the urban poor and the development of major urban growth poles. The principal quantitative economic target was an average annual rate of real GDP growth of 7.5 percent. Fiscal priorities included increasing tax collections to achieve a modest current budget surplus, and shifting the emphasis on public expenditure from defense to social welfare. Other priorities covered reducing the external financing of capital expenditure, strengthening the role of monetary policy as an instrument for macroeconomic management, and increasing domestic savings and investment. This annex reviews economic and social development performance in 1996-2000 and the implementation of structural reforms. Key lessons from the experience of this period are drawn. Assessing the performance of SEDP-I is constrained, however, by the absence of a specific plan monitoring system to systematically record progress and report on achievement and/or underachievement of the results obtained.

Box 1: The Main Elements of the SEDP-I Development Program

- Achievement of poverty alleviation and broad participation in the development process through a focus on participatory rural development
- Widening access to social services, especially among women and vulnerable groups
- Establishment of macroeconomic stability and creation of the institutions, instruments and policies necessary for prudent, long-term economic management
- Reform of the administrative and judicial institutions of the State, through reorganization of the public service and more effective liaison between central and provincial administrations
- Substantial investment in the upgrading and development of physical infrastructure, particularly rural roads
- The upgrading of human skills and their adaptation to those commensurate with a modern market economy
- Development of the productive base of the economy through
- Raising rice yields and stabilizing rice output to provide for food security and eventually export of rice
- Promotion of livestock production, particularly through measures for animal health
- Diversification of the commercial agricultural sector and expanding agricultural exports
- Generation of employment through labor-intensive manufacturing for export, the promotion of small-scale enterprises and the urban informal sector, and the development of tourism
- Ensuring sustainable utilization of the natural resource base by strengthening the enforcement of environmental legislation, supervising and monitoring conservation management, and developing sustainable resource use strategies
- Reintegration of Cambodia in to the regional and global economies.

1.1 ECONOMIC PERFORMANCE

Aggregate growth outcomes during the SEDP-I period were below the target of 7.5 percent. Real GDP increased at an average annual rate of 4.1 percent between 1995 and 2000, fluctuating between a high of 6.9 percent in 1999 and a low of 1.5 percent in 1998. Overall economic performance was severely affected by the domestic political crisis and, to a lesser extent, the regional financial crisis during the period 1997-1998. At the time SEDP-I was being prepared, these events could not have been anticipated; but they caused a substantial drop in foreign aid and investment, and a consequent drop in the growth rate. However, political stability, commitment to an economic reform program, and the recovery of Southeast Asian

economies from the 1997 crisis contributed to an economic recovery in 1999 and 2000. Real GDP grew by an estimated 5.4 percent in 2000 despite the impact of the worst flooding in 70 years, which affected one quarter of the population and caused over $100 million in damage to crops, livestock, and infrastructure.

Table 1.1 Gross Domestic Product Economic Activity
(In constant 1993 prices)

	1996	1997	1998/r	1999/r	2000/p
	Percent Distribution				
Agriculture, Fisheries & Forestry	40.4	41.2	41.6	40.8	37.6
Industry	14.9	17.3	18.3	19.2	23.5
Services	39.7	36.9	36.1	35.8	35.0
	Growth Rates in Percent				
Agriculture, Fisheries & Forestry	-0.7	5.8	2.5	4.8	-2.7
Industry	11.1	20.4	7.7	12.0	29.0
Services	3.1	-3.7	-0.6	5.8	3.1
	Growth Rate in Percent				
Gross Domestic Product	3.5	3.7	1.5	6.9	5.4

R/ - revised estimates
P/- preliminary estimates
Source: National Accounts of Cambodia 1993-2000 Bulletin No.5 National Institute of Statistics May 2001

Although the aggregate growth rate in 1996-2000 was less than targeted economic performance was still relatively strong compared with the 3.0 percent average real economic growth rate for Southeast Asia over 1995-1999. However, with population growing at 2.5 percent per year, per capita income (in 1993 prices) only rose at an annual rate of 1.6 percent.

The slow growth in agriculture is of special concern, not only because it held back the aggregate growth rate, but also because it meant slow income growth for the vast majority of the population. Value-added in agriculture grew at an average annual rate of 2.0 percent between 1995 and 2000, which was below the population growth rate. Growth in the crops and livestock sub-sectors was disappointing, with low productivity reflecting the weak control over water resources that leaves crop production dependent on weather conditions. Recorded value-added in the forestry sub-sector declined from 4.7 percent of GDP in 1996 to 4.0 percent in 1999, and declined further in 2000. This largely reflected lower world prices and a crackdown on illegal logging towards the end of the SEDP-I period. The fisheries sub-sector performed above expectations in 1996-2000, with value-added rising from 8.9 percent of GDP to 10.5 percent in 1999 and an estimated 11 percent in 2000. However, there is a concern that growth at annual rates in excess of 5 percent is not sustainable.

The expansion in the output of the industry sector far exceeded the target growth rate of 9.8 percent per year, growing from its 1995 level at an average annual rate of 13.5 percent until 2000. The driving force of this industrial expansion was textile exports to the United States market. Food, beverages and tobacco production grew continuously, whereas wood, paper and publishing manufactures declined as timber availability fell. Rubber manufacturing and construction output fluctuated substantially from year to year. Value-added in mining and electricity, gas and water never exceeded one percent of GDP. The fact that the textile sub-sector was located in the environs of Phnom Penh inevitably encouraged rural-urban population migration as unskilled labor responded to the opportunity to earn a higher income. This in turn increased the pressure on over-burdened urban facilities and contributed to rising urban social problems.

The services sector was hit hard by the disturbances of 1997 and 1998, and output growth did not reach the target rate of 9.0 percent. However, there was a recovery in 1999 and 2000 as business and consumer confidence returned, with tourist arrivals increasing by over 40 percent in each year (see Annex 8). This growth in visitor numbers stimulated expansion in the trade, hotels and restaurants, and transport and communications sub-sectors, all of which had contracted in the period 1996-1998. The public administration sub-sector grew at an average annual rate of around 3 percent throughout the SEDP-I period.

A key question is to what extent the growth performance obtained during the SEDP-I period contributed to poverty reduction. The absence of consistent time series data prevents a definite answer, but evidence from the *Cambodia Poverty Assessment* (MOP 1999a) suggests that poverty declined moderately between 1993-94 and 1997, the headcount index dropping from 39 percent to 36 percent. The drop in poverty occurred primarily in urban areas where growth and employment generation were centered (the headcount index falling from 37 to just under 30 percent), although the poverty reducing impact of growth was limited by a significant increase in consumption inequality. While the poorest 20 percent of the population increased their consumption expenditure per capita by 1.7 percent between 1993-94 and 1997, the corresponding increase for the richest 20 percent of the population was 17.9 percent. Generally, the lack of rapid, sustained and balanced economic growth during the SEDP-I period meant that many new entrants to the labor force had to be absorbed into relatively unproductive employment in agriculture.

A major reason why growth was below target in 1996-2000 was the low level of investment. The ratio of gross domestic investment to GDP averaged just 14.6 percent during 1995-1999, fluctuating between a low of 12.0 percent in 1998 and a high of 18.4 percent in 1999 (Table 1.2). Public investment accounted for 38 percent of total investment, with the private sector accounting for 62 percent. Ministry of Finance and Economy (MEF) data on public investment expenditure indicate that it fluctuated between a low of 4.9 percent of GDP in 1997, and an estimated high of 8.2 percent in 2000.

In nominal terms, the level of public investment was around US$151 million in 1997 and US$267 million in 2000, with a total for the SEDP-I period of US$978.1 million. The latter figure represented approximately 44.5 percent of the SEDP- target for public investment, shown by sector in Table 1.3. This below-target outcome is in part a statistical artifact, in the sense that not all project aid disbursement is captured in the MEF data. It also reflects the constraint imposed by limited absorptive capacity. Generally, external funding agencies succeed in disbursing about half of committed funds.

Table 1.2 Saving and Investment
(Percent of GDP in current prices)

	1995	1996	1997	1998	1999
Gross Domestic Saving	4.4	5.3	6.1	5.4	7.3
Gross National Saving	8.7	9.1	12.9	10.7	14.2
Public	-0.8	-1.2	0.6	-0.3	1.8
Private	9.5	10.4	12.4	11.0	12.4
Domestic Investment	12.9	15.2	14.4	12.0	18.4
Public[1]	5.3	5.9	4.8	5.7	6.2
Private[2]	7.6	9.3	9.6	6.3	12.2
Foreign Saving	-4.2	-6.1	-1.4	-1.3	-4.2
Foreign Direct Investment	4.9	9.3	5.5	4.3	4.0
Official Loan Disbursements	2.3	2.4	1.1	1.7	1.7
Official Transfers[3]	11.3	9.5	6.8	7.0	7.3

Notes: 1. Includes externally financed technical assistance for implementation of capital projects.
2. Includes changes in stocks.
3. As measured by aid agency commitments.
Sources: ADB 2000 based on MOP 1997b and 2000b.

The gross domestic saving ratio averaged 5.7 percent during 1995-1999, so that there was an average resource gap equivalent to 8.9 percent of GDP. The gap was filled by official transfers which, added to domestic savings, generated an average national savings ratio of 11.1 percent; and by foreign savings, which averaged 3.4 percent of GDP Cambodia's economic growth thus remained heavily dependent on official development assistance and foreign direct investment.

The first rolling three-year Public Investment Program (PIP) was prepared together with SEDP-I and over the plan period the SEDP-I target allocation for public investment was a 65/35 percent rural/urban investment split. The absence of a comprehensive, operational project monitoring and reporting system prevents a thorough assessment of actual allocations during the SEDP-I period. However, data on 45 completed projects in the PIP Unit of the Ministry of Planning, presented in the last column of Table 1.3, suggest that outcomes were not on target.

Transport and communications and electricity projects accounted for a much higher proportion of public investment expenditure than envisaged at the beginning of the SEDP-I period. Health and education had no completed projects in the PIP database, although there were numerous ongoing projects in these sectors. In terms of rural/urban orientation, 22 of the completed projects were predominately oriented towards urban development, 9 towards rural development, while 14 contributed to both urban and rural development. Based on project costs, projects with a distinctively urban development orientation constituted 47 per cent of the value of completed projects while those with a distinctively rural development orientation accounted for 17 percent, with the remaining 36 per cent having a dual urban/rural development orientation. Assuming that the latter can be allocated equally, then the rural proportion would be 35 percent and the urban completed projects would be 65 percent. This is exactly opposite to the target allocation in SEDP-I, demonstrating that the linkages between planning, public investment programming and the annual budget had not been effective, although insecurity in rural areas was also a contributory factor.

Table 1.3 Sectoral Allocation Targets for Public Investment, 1996-2000

Sector	Rural (%)	Urban (%)	Sector (%)	Total (US$m.)	Actual[1] (%)
Agriculture	97	3	10	220	2.9
Manufacturing & Mining	25	75	4	88	0
Transport & Communications	85	15	23	506	50.8
Electricity	26	74	8	176	19.4
Water Supply & Sanitation	25	75	8	176	2.2
Education and Training	70	30	11	242	0
Health	75	25	10	220	0
Social & Community Services	70	30	7	154	1.5
Religious & Cultural Affairs	60	40	3	66	8.0
Admin./Special Programs	50	50	11	242	9.4
Unallocated	65	35	5	110	5.7[2]
Total	**65**	**35**	**100**	**2,200**	**100**

Source: RGC 1997, p.110.
Notes: 1. Based on data for 45 projects costing a total of $257.34 million, recorded as completed in the database of the PIP Unit, Ministry of Planning. It should be noted that the PIP database covers only those projects reported by line ministries to MOP.
2. Allocation to the Ministry of Environment.

A profile of private investment can be drawn from statistics compiled by the Council for the Development of Cambodia (CDC) and reported in the Asian Development Bank's (ADB) *Cambodia Country Economic Review* (2000). Over the period from August 1994 to December 1999, 836 projects were approved by CDC for a total commitment of $5.8 billion in fixed assets. Of this amount, 39.4 percent was in industry (led by wood processing, cement, and garments), 55.6 percent was in services (led by tourism and construction), and 5.0 percent was in agriculture. The local share of these investment commitments was 26.6 percent. Malaysia was the primary foreign source of committed funds, with 31.9 percent; 7.8 percent came from other ASEAN countries; 20.0 percent from the other Asia-Pacific countries; 8.2 percent from the Americas; and 5.5 percent from Europe. In 1999, Cambodian investors committed to $274 million in investment projects, up from $167 million in 1997 and $248 million in 1998, and accounting for 58.2 percent of total investment projects approved in 1999. This reflected the positive effect on business confidence of political stability. However, foreign direct investment remained flat.

FISCAL DEVELOPMENTS

Fiscal management improved towards the end of the SEDP-I period, permitting the establishment of macroeconomic stability, the achievement of the key revenue target of SEDPI, the provision of increased funding for social development, and increased local financing of investment expenditure. Revenue increased from 9.0 percent of GDP in 1996 to an estimated 11.8 percent in 2000, largely because of a rise in tax revenue from 6.4 percent of GDP to an estimated 8.6 percent. The latter rise reflected the successful introduction a value-added tax (VAT) in 1999. Non-tax revenue also increased in 1999, but this was the result of exceptional revenue from the auctioning of textile export quotas. Simultaneously, as the Government implemented tariff reductions, revenue from import duties fell from 46 percent of domestic revenue in 1996 to an estimated 27 percent in 2000. Overall, despite the improvement in domestic resource mobilization, revenue as a percentage of GDP remained well below the regional average of around 18 percent.

Table 1.4 Summary of Budget Operations
(In Billion Riel, current prices)

	1996	1997	1998	1999	2000 Est.
REVENUE	749	881	943	1,330	1,423
1. Tax Revenue	534	597	679	963	1,040
- of which VAT	70	75	90	330	313
- of which customs duties	344	347	376	433	390
2. Non Tax Revenue	176	271	230	353	353
- of which forestry	28	37	23	36	41
3. Capital Revenue	39	12	33	14	29
EXPENDITURE	1,343	1,262	1,571	1,839	2,073
1. Current Expenditure	813	808	940	1,111	1,186
Defense and Security	407u	419	453	468	439
- of which wages	223	252	294	327	304
Civil Administration	406	389	487	642	746
- of which wages	122	134	153	191	212
2. Capital Expenditure	629	452	629	728	887
- locally financed investments	62	110	122	224	309
-externally financed investments	567	342	507	504	578
BUDGET BALANCE (cash basis)					
- overall	-692	-379	-626	-509	-650
- current (excluding grants)	-103	59	-30	205	212
FINANCING	692	379	626	509	650
1. Foreign (gross)	680	446	505	515	695
- project aid	467	351	504	511	582
- budget support	150	96	2	4	113
- private loans	0	0	0	0	0
Amortization	-41	-1	0	0	0
2. Domestic	13	-67	123	-44	-49
- central bank	-17	-75	120	-70	-117
- private sector	12	-3	5	0	110
- other debt and debt amortization	18	11	-2	26	-42
3. Outstanding operations 1/			-2	38	0
	AS A PERCENTAGE OF GDP				
REVENUE	9.0	9.6	8.9	11.5	11.8
Tax	6.4	6.5	6.4	8.3	8.6
Non-tax	2.1	3.0	2.2	3.1	2.9
EXPENDITURE	16.1	13.9	14.9	16.0	17.2
Current	9.8	8.9	8.9	9.7	9.9
Capital	7.6	4.9	5.9	6.3	7.4
BUDGET BALANCE					
Current deficit	-1.2	0.6	-0.3	1.8	1.8
Overall deficit	-8.3	-4.2	-6.0	-4.4	-5.4
Memo items					
Exchange rate (Riel to USD)	2638	2991	3770	3800	3881
GDP in current prices	8324.8	9149.2	10531.4	11470.5	12032.2

Source: MEF
Note 1/: Includes expenditure committed, but not yet allocated to the accounts of executing government agencies.

Current expenditure rose slightly from 9.8 percent of GDP in 1996 to an estimated 9.9 percent in 2000. The composition of this expenditure was shifting in the desired direction — away from defense and security spending and towards the priority sectors of health, education, agriculture and rural development. Expenditure on defense and security was approximately 50 percent of total current expenditure in 1996, whereas it was 37 percent in 2000, or 3.6 percent of GDP. Public expenditure on the four priority sectors increased from 1.4 percent of GDP in 1998 to a budgeted 2.5 percent in 2000. However, this is still unacceptably low, and further revenue growth and expenditure reallocation are needed to remedy the under-funding of these key sectors.

The current budget balance shifted from deficit to surplus during the SEDP-I period, except for 1998, when government resorted to central bank financing of the deficit. The current budget

surplus reached 1.8 percent of GDP in 1999, and was an estimated 1.8 percent in 2000. This permitted an increase in locally financed public investment, which rose from 0.7 percent of GDP in 1996 to 2.0 percent in 1999, and an estimated 2.6 percent in 2000. Total capital expenditure as recorded in the budget did not increase as a percentage of GDP during 1996-1999, with project aid growing much slower than nominal output. The 2000 estimates for capital expenditure proved to be optimistic, but expenditure rose to 7.4 percent of GDP nonetheless. The overall budget balance remained in deficit throughout the SEDPI period, ranging between 4.2 and 7.1 percent of GDP. The deficit was financed largely by external grants and concessional loans; and in four of the years of the SEDPI period, the Government was able to reduce its indebtedness to the banking system.

MONEY, PRICES AND THE EXCHANGE RATE

The inflation rate as measured by the Consumer Price Index (CPI) for Phnom Penh doubled during the first three years of the SEDPI period, rising from 7.2 percent in 1996 to 14.8 percent in 1998.

Table 1.5 Average Annual Inflation Rate
(Consumer Price Index, July-Sept. 1994 = 100, percent)

Year	All Items	Food, Beverage, & Tobacco (49.8 %)[1]	Clothing & Footwear (3.6%)	Housing & Utilities (24.0%)	House Furnish. & Operation (2.0%)	Medical Care (5.8%)	Transport & Communi-cation (8.9%)	Recreation & Education (3.3%)	Personal Care & Effects (2.6%)
1996	7.2	7.6	4.1	8.0	8.4	1.0	11.1	2.1	1.6
1997	8.0	6.7	0.5	8.7	1.6	9.5	19.5	2.3	1.7
1998	14.8	14.1	13.0	15.0	19.7	24.1	15.1	7.7	11.0
1999	4.0	7.6	1.7	0.3	13.0	- 7.3	3.5	- 0.9	0.4
2000 (est.)[2]	-0.8	- 4.1	- 2.7	2.7	3.5	- 4.1	6.7	- 6.1	0.3

Source: National Institute of Statistics, Ministry of Planning.
Notes: 1. Numbers in brackets are weights for each group in the CPI.
2. For the year 2000, figures for the subgroups are averages for the first three quarters of 2000 as shown in ADB 2000.

The acceleration of inflation in the latter year was due to the Government's monetary financing of the national elections in August, and a 26 percent depreciation of the Riel against the US dollar. Political stability and greater business confidence in 1999 and 2000 contributed significantly to an inflation slowdown. The CPI rose 4 percent in 1999 and fell to – 0.8 percent in 2000, despite a slight depreciation of the Riel in 1999 and higher food and oil prices in the last quarter of 2000. Thus, the SEDP-I inflation target of 5 percent per year has been achieved in the last two years of the Plan. This has been done under a flexible exchange rate regime in which the monetary authority sets the official exchange rate within a maximum margin of 1 percent from the market rate.

Rapid growth in the broad money supply during 1996 was followed by relatively modest growth in 1997-1999, and a return to rapid growth in 2000. The growth in the money supply reflected an increase in net foreign assets. Over the entire SEDP-I period, the nominal broad money supply grew at an average annual rate of 24.5 percent. Net foreign assets increased at an average annual rate of 37 percent, while net domestic assets fell from 99 billion Riel in 1995 to minus 591 billion Riel in 2000. Net claims on the Government fell substantially during this period as the Government refrained from the use of central bank credit, except in 1998. Credit to the private sector increased at an average annual rate of 26.9 percent, and other items exerted a stronger negative effect as capital and reserves liabilities increased. The increase in

bank lending to the private sector in 2000 indicated that growing business confidence had stimulated effective demand for credit despite the higher cost of borrowing. Nominal interest rates on loans had risen from 17.1 percent in January 1999 to 18.5 percent in mid-2000, which represented an even larger rise in real terms given the falling inflation rate. During this period, the nominal interest rate spread increased from 10.6 to 12.6 percent. Commercial bank credit was concentrated in the services and personal consumption sector (27 percent in June 2000), wholesale and retail trade (25 percent), and manufacturing (19 percent). Credit extended to the agriculture sector remained low at under 4 percent.

Table 1.6 Monetary Survey

Item	1996	1997	1998	1999	2000
	Riel Billion				
Net Foreign Assets	881	1,172	1,726	2,019	2,589
Net Domestic Assets	31	-109	-494	-577	-758
Domestic Credit	567	697	841	876	9,044
Net Claims on Government	128	54	179	103	3
State Enterprises	5	6	6	10	2
Private Sector	435	637	656	763	898
Other Items	-536	-805	-1,335	-1,453	-1,663
Total Liquidity	912	1,063	1,230	1,443	1,830
Money Supply (M1)	329	385	543	532	539
Currency in Circulation	300	356	509	490	492
Demand Deposits	29	29	34	42	45
Quasi Money	583	678	687	911	1,290
Time and Savings Deposits	8	13	20	32	45
Foreign Currency Deposits	575	665	667	879	1,244

Source: National Bank of Cambodia.

EXTERNAL TRADE AND THE BALANCE OF PAYMENTS

A feature of the SEDP-1 period was the rapid and unanticipated growth of domestic exports. In 1995 domestic exports accounted for just 6.3 percent of GDP, with logs and sawn timber constituting 69.0 percent of total domestic export revenue. In 2000 domestic exports accounted for 35.3 percent of GDP, and logs and sawn timber contributed just 3.0 percent of total domestic export revenue. Trade reform and concomitant opening of the economy to foreign direct investment had encouraged expansion in the export of other items.

Table 1.7 Balance of Payments
($ Million)

	1996	1997	1998	1999	2000 (est.)
Trade Balance	-428	-231	-173	-275	-263
Exports (fob)	644	862	890	884	1,261
of which: Domestic	295	534	604	712	1,091
Re-exports[1]	348	327	296	172	170
Imports	-1,072	-1,092	-1,073	-1,159	-1,524
of which: Retained[1]	-723	-765	-777	-987	-1,354
Services (net)	-52	-43	-66	-12	-16
Net income	-86	-53	-33	-42	-51
Private transfers	20	60	66	70	72
Current Account Balance	-546	-268	-207	-259	-257
Official Transfers	437	288	199	208	271

Balance Including Transfers	-109	21	-7	-50	13
Official Loans (net)	90	41	43	44	75
Nonofficial investment (net)	170	123	101	80	33
of which: Foreign Direct Investment (net)	294	168	121	144	126
Other investment (net)	-124	-46	-20	-64	-93
Net Errors and Omissions	-78	-151	-115	-23	-31
Capital Account Balance	183	13	29	101	77
Overall Balance	72	33	21	51	90
Financing	-72	-33	-21	-51	-90
Net foreign assets of NBC	-69	-34	-31	-68	-105
Other	-3	0	11	9	n.a.
Annual Percentage Change					
Domestic Exports	10.1	81.0	13.0	17.9	53.2
Retained Imports	20.4	5.8	1.6	27.0	37.1
Foreign Direct Investment	94.9	-42.8	-28.2	19.0	-12.5
	As Percent of GDP (current prices)				
Domestic Exports	9.3	17.5	21.6	23.3	35.3
Retained Imports	-22.4	-25.0	-27.8	-31.3	-42.5
Current Account Balance (excl. official transfers)	-17.3	-8.8	-7.4	-8.6	-12.5
Memorandum Items:					
Gross Official Reserves ($ million)[2]	234	262	390	422	484
(months of goods & services imports)	2.1	2.4	3.6	3.6	3.1

Source: National Bank of Cambodia.
Notes: 1. Some goods are imported and re-exported to neighbouring countries in order to exploit differences in import duties. 2. Includes US$117 million in gold holdings returned by the Bank of International Settlements in 1998.

In particular, garment exports expanded rapidly following the acquisition of preferential access to United States and European Union markets in 1996 and 1997 respectively. From 10 percent of domestic exports in 1995, garment exports grew to account for 93 percent of domestic exports in 2000. During the same period, exports of rubber fell by 23 percent, logs and sawn timber by 82 percent, and re-exports by 71 percent. Consequently, rapid export growth implied a heavy dependence on one export industry that potentially was vulnerable to US import quotas.

With retained import growth being slower than domestic export growth during 1995-1999, the trade balance improved. The net services balance remained broadly unchanged, while income receipts and private transfers increased. As a result, the current account deficit (exclusive of official transfers) dropped from 17.3 percent of GDP in 1996 to 8.6 percent in 1999, compared with the SEDP-I target of around 11 percent. However, preliminary data indicated that the deficit increased in 2000 as a result of rapid growth in retained imports. The capital account surplus deteriorated substantially in 1997-1999, as both external concessional loans and foreign direct investment fell; but there was a recovery in 2000. The overall balance of payments surplus fluctuated between 0.7 percent of GDP in 1998 and 2.3 percent in 1996, in line with the SEDP-I target level of around 1 percent, and allowing some improvement in the import coverage provided by foreign reserve holdings.

At the end of 2000, the stock of Cambodia's external debt was US$1.6 billion, or approximately 52 percent of GDP. About three-quarters of this amount was pre-1993 bilateral debt to Russia (64 percent) and the United States (14 percent), which was in arrears and eligible for rescheduling under the Paris Club agreement. The rest of outstanding debt was

almost entirely the result of concessional borrowing from the World Bank, the Asian Development Bank, and the International Monetary Fund. Debt service in 1999 was equivalent to 2.0 percent of domestic exports, and 4.1 percent of government revenue. These represented manageable levels of debt servicing.

1.2 STRUCTURAL REFORMS

Economic and structural reforms during the SEDP-I period focused on continuation of a range of measures aimed at a full transition to a durable market-based economy, in which income and employment growth is generated by a vibrant private sector appropriately facilitated and regulated by a more efficient and effective government. This new role of the state involved maintaining a stable macroeconomic environment, improving public service delivery, providing physical infrastructure, promoting investment in health and education, developing the legal and regulatory frameworks within which business enterprises operate, liberalizing trade and investment policies, supporting financial sector development, and ensuring the sustainable management and use of natural resources and the environment.

In the area of money and banking, reforms included the upgrading of the supervisory, internal auditing, reserve management and policy formulation capabilities of the National Bank of Cambodia (NBC). The promulgation of a new Central Bank Law in 1996 and a Financial Institutions Law in November 1999 strengthened the legal framework for the financial system. In June 2000 the NBC initiated the process of re-licensing 29 private commercial banks, with a view to closing those banks identified as insolvent, non-viable, or not in compliance with the law, and starting with the closure of five banks with virtually no deposits and one additional clearly insolvent bank. By the end of the year, a further 11 banks were closed, and new licenses issued to four banks. While these closures involved unavoidable hardship for depositors, they were necessary for establishing the foundations of a stable, efficient financial system in a market-based economy. In addition, the process of restructuring the state-owned commercial bank, the Foreign Trade Bank, was begun, with the intention of establishing operations independently from NBC prior to privatization. Reform in the payments system was also begun, with the NBC's establishment of an arrangement for clearing of US dollar-denominated checks, alongside the Riel clearing house. Other economic reforms were similarly aimed at promoting private sector, market oriented activity. The foreign exchange market was further deregulated to allow the Riel to find its equilibrium level and to promote its use in transactions.

Cambodia became a member of ASEAN and thereby the ASEAN Free Trade Agreement, under which the Government became committed to further tariff deregulation and reduction. The liberal Law on Investment remained in place, although its implementing regulations needed amendment to restrict the number of ad hoc exemptions. Little progress was made, however, in establishing the legal framework for commercial activity, with only one piece of legislation submitted to the National Assembly by the end of 2000. Public enterprise reform also remained as a general area needing attention.

Strengthening the role of the budget as an instrument of economic policy required an emphasis on improved revenue generation and aggregate expenditure discipline in the first instance. The main thrust of fiscal policy accordingly was to restructure the tax system to broaden the revenue base, to fully mobilize revenue through improved revenue collection measures, and to maintain spending within budgeted levels. Steps were taken to ensure the transfer of non-tax revenue to the budget; to improve tax administration and collection (including pre-shipment inspection of imports begun in October 2000); to minimize revenue losses in the form of exemptions; and to introduce new taxes, most notably the successful VAT. Towards the end of the SEDPI period, increased attention was given to the objectives of

ensuring that the allocation of public resources was consistent with policy priorities, and of improving operational management (particularly in respect of achieving desired outcomes). The key initiatives in respect of these public expenditure management objectives were the beginning of the military demobilization program and civil service reform; decentralization of development management; and the introduction of Priority Action Programs (PAPs) for the health, education, agriculture and rural development sectors.

Public administration reform and demobilization of the armed forces proceeded slowly during the SEDP-I period, with the bulk of the work focusing on preparation and design of the reform programs. The Council for Administrative Reform was established, a civil service census was completed in March 2000, and the issuing of identity cards to each civil servant was completed by July 2000. The census showed a civil service size of 164,589 including 6,091 "irregular" cases that were subsequently removed from the list. However, a functional review of ministries and the introduction of a computerized payroll system remained to be completed. A full civil service reform strategy is to be developed early in the period of SEDP-II, which will include a new incentive-based remuneration system and the establishment of priority groups of civil servants. A military census was completed in December 1999, leading to the removal of 15,551 "ghost soldiers" and 163,346 "ghost dependants" from the payroll, and the reduction of military expenditures by over US$4 million annually. An action plan for downsizing the army over three years from 133,817 to about 100,000 was prepared; and a pilot program for demobilizing 1,500 soldiers was completed by June 2000. Implementation of the full program waited external concessional financing.

In line with the SEDP-I emphasis on institution building for the management of rural development, the end of 1999 covering about 26.5 percent of total villages (13,544) established 3,587 Village Development Committees (VDC). Provincial Rural Development Committees (PRDC) and Commune Rural Development Committees (CRDC) are all currently appointed, but the VDCs are democratically elected by villagers (38 percent of VDC members are women) and are the foundation of a participatory rural development structure. Consistent with this decentralization approach, ongoing provincial development schemes were designed and implemented, notably the CARERE/SEILA program and PRASAC. The SEILA program involved the implementation of planning, finance and management systems at provincial and commune level, and at the end of the SEDP-I period covered 1,900 villages in 215 communes, 45 districts, and 5 provinces with a combined population of 1.5 million. The bulk of SEILA Investment Program funds were channeled through a Decentralized Development Fund to the provinces and CDRCs that directly executed the program. The remainder was transferred directly to the commune level, where Commune Development Committees managed the bidding, contracting and payments to private contractors for civil works identified as priorities in the Commune Investment Plan. Concurrent with the Government's plans to hold nation-wide commune elections in early 2002, a Phase II SEILA program 2001-2005 will focus on extending the decentralized systems of support to all commune councils on a gradual basis.

1.3 SECTORAL DEVELOPMENTS

Key reforms introduced during the SEDP-I period in the ***agriculture*** sector included wider dissemination of agricultural marketing and technological information, liberalization of fertilizer pricing and marketing, formulation of a rural finance strategy, planned divestment of the rubber sub-sector, and the above-mentioned establishment of VDCs. Policy and institutional reform was supported by strategic public investments, including village water supplies and rural roads. A review of forestry concessions was completed in May 2000, with 12 concession licenses subsequently revoked and concessions covering 2,172,046 hectares closed. The average royalty level on logging was raised in the 1999 budget from $14 per cubic meter to $54; and a policy of crime prevention, detection, and crackdown strongly supported by the

Prime Minister was adopted. A Forestry Crime Monitoring Unit was created and the NGO Global Witness was designated by the Government as an independent monitor. These measures resulted in a dramatic reduction in the number of illegal forestry activities, although concerns remained about policing capacity. National consultations on a new Forestry Law were initiated in June 2000, but submission of the draft law to the National Assembly was delayed.

Box 2: SEDP-I Agricultural Development Goals

- Ensure food security through expansion in agricultural production and increased availability of rice and other food crops
- Contribute to economic growth and to foreign earnings through agricultural exports
- Improve income opportunities for farm households by diversifying crop production.
- In the Plan, achieving food security was the overriding objective. Increase in production of the main staple food, rice, was expected to reduce the incidence of rural poverty. The main factors identified as contributing to the high incidence of rural poverty were the lack of land, irrigation water, draft power, means to increase rice yields, and veterinary care for farm animals. The Plan recognized that only small amounts of agricultural produce were being exported. The Plan envisaged that farmers would have better access to markets once the Government implemented improvements in the rural and main road network. Farmers would then receive better prices for their farm produce and enjoy higher farm incomes.

During the SEDPI, the agriculture sector grew at a rate of about 3.4 per cent per annum, or about two-thirds the target of 5.2 percent per year. The value-added of paddy production grew by about 3 percent per year. The fisheries sub-sector recorded the highest annual growth rate of 5.7 percent. Rubber and forestry sub-sectors stagnated and livestock and 'other crops' recorded very low growth rates.

Table 1.8 Cultivated Areas Under Major Crops ('000 ha)

Crops	1990	1991	1992	1993	1994	1995	1996	1997	1998	1999
Rice (paddy)	1,890	1,910	1,844	1,857	1,924	2,086	2,153	2,076	2,104	2,158
Maize	47	52	50	43	52	52	49	49	45	60
Cassava	11	11	10	10	11	14	14	11	9	14
Sweet Potato	8	9	10	8	11	10	11	9	9	9
Vegetables	30	35	32	30	35	42	46	36	23	31
Mung Beans	28	30	28	21	27	26	28	28	25	27
Sugar Cane	6	6	6	7	8	9	7	8	7	8
Soybean	15	14	16	20	25	17	29	33	31	35
Peanut	4	4	4	7	8	10	12	10	10	11
Sesame	10	16	14	11	11	9	12	16	15	16
Tobacco	16	17	18	9	15	14	14	15	14	8
Rubber	54	53	52	47	43	44	44	43	43	40
Jute	2	1	2	2	2	1	2	2	1	0
Total	**2,122**	**2,159**	**2,085**	**2,073**	**2,172**	**2,331**	**2,422**	**2,337**	**2,336**	**2,418**

Source: Ministry of Agriculture, Forestry and Fisheries.

There was little change in the total cultivated area during SEDP-I. The total area under paddy remained fairly steady at around 2.15 million ha. There were small increases in the area cultivated with soybean, sesame, maize, and cassava at the expense of tobacco, jute, vegetables, rubber, and sweet potato. The area planted with rubber continued its decline from

44,000 hectares in 1996 to 40,000 hectares in 1999, with old trees being felled for timber and only small areas being replanted. The area planted with sugar cane remained very small at less than 10,000 hectares, this crop being used only for the fresh juice market and not for sugar production.

Notwithstanding the small change in cultivated area, production of rice grew at a relatively high rate -- more than 0.5 million tons increase in annual production from 1996 to 1999. Annual growth rates in production for some other crops (e.g. maize, soybean and cassava) were also quite high, indicating adoption of improved technology. The construction of a new cassava flourmill provided an enlarged demand for this product. Similarly, feed demand for soybean and maize increased in line with the rapid growth of pig and poultry farming, both locally and in neighboring countries.

During the last five years, total paddy production was more than adequate to meet the national food requirements. In aggregate, rice supply per capita ranged from 158 kg/year to 179 kg/year; these amounts are 5 to 18 percent above the country's estimated rice requirement. The estimated average annual surplus averaged about 160,000 tons of milled rice per year. The bulk of this surplus was exported to neighboring countries.

Table 1.9 Annual Production of Major Crops ('000 tons)

Crops	1990	1991	1992	1993	1994	1995	1996	1997	1998	1999
Rice (paddy)	2,500	2,400	2,221	2,383	2,223	3,448	3,458	3,415	3,510	4,041
Maize	88	60	60	45	45	55	65	42	49	95
Cassava	60	56	80	51	65	82	70	77	67	229
Sweet Potato	31	39	60	48	36	39	38	29	30	33
Vegetables	170	249	210	221	197	193	250	177	128	182
Mung Beans	12	13	14	11	17	20	14	15	9	16
Sugar Cane	258	145	142	145	219	202	171	188	133	160
Soybean	22	35	40	39	23	17	28	56	28	35
Peanut	7	8	8	5	5	7	6	7	7	9
Sesame	5	8	6	5	4	4	5	3	5	7
Tobacco	8	9	9	5	12	11	10	10	10	6
Rubber	35	35	28	22	21	35	42	38	41	46
Jute	2	1	2	2	2	1	2	2	1	0

Source: Ministry of Agriculture Forestry and Fisheries

The increase in total production of the main crops during SEDP-I mainly reflects increases in yield levels and cropping intensity. Rice yields increased by 13.3 percent, or 0.22 ton/hectare, over the Plan period, and by more than 0.5 ton/hectare over the last decade. These yield improvements help explain the marketable rice surplus in spite of a rapidly growing population. Substantial yield increases were also recorded for cassava, maize, sesame and rubber. Nevertheless, the yields of all these crops are still very low and less than half of their potential levels.

Table 1.10 Rice Production and Annual Balance ('000 tons)

	1995	1996	1997	1998	1999
Total Paddy Production	3,448	3,458	3,415	3,510	4,041
Less: Seed and Post-harvest losses	517	588	581	597	687
Paddy Available	2,931	2,870	2,903	2,913	3,354
Rice Available (conversion at 62%)	1,817	1,770	1,757	1,806	2,097
Population (millions)	10.50	10.70	10.93	11.75	12.03
Total Rice Requirement (at 151.2 kg/cap.)	1,588	1,618	1,653	1,776	1,819
Surplus Product (rice)	229	162	104	30	261
Surplus Production (paddy)	370	261	168	48	421
Surplus production (%)	12.6	9.1	5.8	1.6	12.6

Source: Ministry of Agriculture, Forestry and Fisheries, Agricultural Statistics, 1995 to 1999.
Note: Seed and post-harvest losses estimated as 15 to 17 percent of crop. Milling recovery assumed as 62 percent (as an average of 55 percent for village mills and 65 percent for commercial mills).

The livestock subsector recorded low growth over the SEDPI period. There was hardly any increase in the numbers of cattle and buffalo, but numbers of pigs and chickens reared during the period increased significantly. After dropping substantially in 1996, the total fish harvest recovered substantially in 1999. All types of fisheries showed significant growth, but there was especially rapid growth in aquaculture production from 9,000 tons in 1996 to 15,000 tons in 1999. However, the fish catch from inland waters, representing about 60 percent of all fish consumed, appears to have reached a peak of 70,000 to 75,000 tons per year; and the total fish available per capita fell from 14.0 kg/capita in 1990 to 10.6 kg/capita in 1999. According to Ministry of Environment estimates (National Environment Action Plan, 1998), availability of fish required to meet minimum nutritional needs was 21.5 kg per head per year.

Table 1.11 Average Yields of Various Crops (T / ha)

Crops	1990	1991	1992	1993	1994	1995	1996	1997	1998	1999
Rice (paddy)	1.32	1.26	1.20	1.28	1.16	1.65	1.61	1.64	1.67	1.87
Maize	1.87	1.15	1.20	1.05	0.87	1.06	1.31	0.86	1.08	1.59
Cassava	5.45	5.09	8.00	5.09	5.91	5.78	4.98	7.35	7.57	16.28
Sweet Potato	3.88	4.33	6.00	5.79	3.27	3.82	3.46	3.10	3.26	3.48
Vegetables	5.67	7.11	6.56	7.28	5.63	4.63	5.43	4.84	5.45	5.78
Mung Beans	0.43	0.43	0.50	0.52	0.63	0.76	0.49	0.56	0.36	0.59
Sugar Cane	43.00	24.17	23.67	21.80	27.38	23.77	24.04	22.47	18.82	18.99
Soybean	1.44	2.43	2.50	1.95	0.92	1.04	0.98	1.71	0.89	1.00
Peanut	1.70	1.90	1.95	0.67	0.63	0.68	0.52	0.72	0.68	0.87
Sesame	0.50	0.50	0.44	0.45	0.36	0.43	0.43	0.19	0.34	0.45
Tobacco	0.48	0.51	0.51	0.56	0.80	0.82	0.70	0.70	0.74	0.77
Jute	0.99	0.93	0.79	0.98	0.95	1.04	1.41	1.15	0.88	1.04
Rubber	0.64	0.66	0.54	0.47	0.49	0.81	0.95	0.87	0.96	1.16

Source: Ministry of Agriculture Forestry and Fisheries.

The agriculture sector's projected share of the SEDP-I public investment program was a relatively modest 10 percent, but the Plan did not specifically propose any new capital investments. However, data from the Cambodian Investment Board (CIB) indicated that approval was given in 1996 to 13 agriculture and plantation projects (total investment of $51 million), two agro-industry projects ($1.3 million), and 11 food processing projects ($7.8 million). The proposed investments in the agricultural sector totalled $60 million, or 5.6 percent

of the planned investments for all sectors of the economy, but actual FDI data are not available.

Table 1.12 Annual Production of Livestock and Fish, 1990-1999

Crops	1990	1991	1992	1993	1994	1995	1996	1997	1998	1999
LIVESTOCK –million										
Cattle	2.2	2.3	2.5	2.5	2.6	2.8	2.8	2.8	2.7	2.8
Buffalo	0.7	0.8	0.8	0.8	0.8	0.8	0.7	0.7	0.7	0.7
Pigs	1.5	1.6	2.0	2.1	2.0	2.0	2.2	2.4	2.3	2.2
Poultry	8.2	8.8	9.9	10.7	10.0	10.1	11.4	12.1	13.1	13.4
FISH -'000tons										
Inland	65.1	74.7	71.3	67.9	65.0	72.5	63.5	73.0	75.7	71.0
Marine	39.9	36.7	34.9	33.1	21.1	30.5	31.2	29.8	32.2	38.1
Aquaculture	6.4	6.7	7.0	7.4	7.6	9.5	9.0	11.8	14.1	15.0
Total	111.4	118.1	113.2	108.4	93.7	112.5	103.7	114.6	122.0	124.1

Source: Ministry of Agriculture Forestry and Fisheries, 1990 to 2000

In addition, the agricultural, forestry and fisheries sector received $107 million of official development assistance (ODA) during the period from 1996 to 1999, or about 6 percent of the total ODA received by Cambodia during this four-year period. A World Bank study of public expenditure during the period 1994 to 1997 revealed that public investment in the agricultural and rural development sectors represented about 11 percent of the total. In 1999, the amount spent by the MAFF was about 2 percent of the national operating budget. These partial data suggest that total investment in agriculture has been proportionately much lower than the sector's contribution to national GDP.

Table 1.13 Export Value and Volume of Agricultural Produce

Items		1995	1996	1997	1998	1999
Logs						
Custom Data	Value (M$)	51.6	0.0	0.0	0.0	3.6
	Volume ('000M3)	297.6	0.1	0.0	0.0	6.3
	Unit Value ($/M3)	173	203	0	0	574
Unrecorded Trade	Value (M$)	60.0	52.5	128.1	88.0	33.6
	Volume ('000M3)	400.0	350.0	900.0	800.0	280.0
	Unit Value ($/M3)	150	150	142	110	120
Total Trade	Value (M$)	111.6	52.5	128.1	88.0	37.2
	Volume ('000M3)	697.6	350.1	900.0	800.0	286.3
	Unit Value ($/M3)	160	150	142	110	130
Sawn Timber						
Custom Data	Value (M$)	15.5	20.9	11.2	6.1	29.5
	Volume ('000M3)	48.2	56.7	147.5	10.8	82.1
	Unit Value ($/M3)	321	370	76	562	359
Unrecorded Trade	Value (M$)	57.6	75.0	84.4	84.0	44.0
	Volume ('000M3)	256.0	300.0	350.0	350.0	200.0
	Unit Value ($/M3)	225	250	241	240	220
Total Trade	Value (M$)	73.1	95.9	95.6	90.1	73.5

	Volume ('000M3)	304.2	356.7	497.5	360.8	282.1
	Unit Value ($/M3)	240	269	192	250	260
Fish Product						
Custom Data	Value (M$)	1.9	3.1	2.9	2.5	3.4
	Volume ('000t)	1.0	1.7	1.8	1.3	3.9
	Unit Value ($/t)	1,976	1,862	1,611	1,925	865
Rubber						
Custom Data	Value (M$)	37.2	27.7	19.1	26.9	27.4
	Volume ('000t)	35.2	26.4	23.0	25.3	55.6
	Unit Value ($/t)	1,058	1,049	831	1,060	492
Unrecorded Trade	Value (M$)	4.0	4.2	3.7	1.5	0.7
	Volume ('000M3)	5.0	6.0	5.5	4.0	2.0
	Unit Value ($/M3)	800	700	664	382	350
Total Trade	Value (M$)	41.2	31.9	22.8	28.4	28.1
	Volume ('000M3)	40.2	32.4	28.5	29.3	57.6
	Unit Value ($/M3)	1,026	984	799	968	487
Others	Million $	10.0	7.6	2.5	1.4	2.0
TOTAL AGRI EXPORTS	Million $	237.8	191.1	251.9	210.4	144.1
TOTAL EXPORTS a/	Million $	268.2	295.2	534.3	603.9	712.0
AGRIC EXPORTS % of total	%	89	65	47	35	20

SEDP-I listed increasing agricultural exports as one of its main objectives. However the Plan did not propose any specific policy changes to promote agricultural exports. Data on export performance for the period from 1995 to 1999 show that export earnings from logs, sawn timber, fish and rubber declined from $295 million in 1996 to $144 million in 1999, with their share of total domestic exports declining from 89 percent to 20 percent. The largest fall was in the exports of logs and sawn timber. The value of fish and rubber exported in 1999 was about three-quarters of the level achieved in 1995.

In summary, the first objective of SEDPI regarding increased food production for food security considerations was almost achieved. There was a significant increase in production of rice and other food crops. In terms of food security, the nation had an exportable surplus of rice that increased from 162,000 tons in 1996 to 261,000 tons in 1999. The average annual net income of a rice farmer with two hectares of land increased from 1.0 million in 1996 to 1.2 million Riel in 1999. The second objective of increasing agriculture's contribution to economic growth and export earnings was only partially achieved, as the actual growth rate of 3.6 percent was below the rather ambitious target. In regard to the third objective of improving income opportunities for farm households through crop diversification, there are still only limited indications of increasing diversification of the rice-based cropping systems. Given the limited investments in agricultural extension etc. and the absence of a clear agricultural development policy, these mixed outcomes are not surprising.

TOURISM

At the beginning of the SEDPI period, the tourism sector was the second-highest foreign exchange earner after timber exports and contributed an estimated 5.5 percent to GDP (MOT 1996). This reflected the relatively low level of export development rather than the size of tourism-related economic activity, which in absolute terms, was still small. The potential for tourism development was recognized in SEDP-I, which noted that sustainable development of the sector depended on: (a) protection and preservation of the socio-cultural and natural environment, and the protection of temples and archeological sites and other aspects of the Cambodian cultural heritage; (b) development of infrastructure (roads, airports, water supply,

energy, and hotels); (c) development of human resources, which was nominated as the main priority in the tourism strategy under formulation in 1996.

The five main components of the tourism strategy were: marketing and promotion of the tourism product, with a focus on Phnom Penh, Siem Reap and Sihanoukville and an aim of increasing the length of stay so as to increase foreign exchange earnings; product development, with an immediate aim of upgrading standards in hotels, restaurants, tourism sites, services and infrastructure; and with the intention of ensuring environmental protection; access provision, through upgrading of airports; human resource development through a comprehensive training needs assessment and formulation and implementation of a multi-sectoral training strategy; organization and implementation, with the aim of restructuring and strengthening the Ministry of Tourism (MOT) in order to ensure effective planning and management of the tourism sector.

Within this framework MOT elaborated specific policies and objectives that emphasized: (1) the importance of integration with national development objectives; (2) The potential for tourism to improve the quality of life across the country, through economic benefits and facilitating protection of cultural heritage and the natural environment; (3) The need for investment in line with the tourism development policy; (4) the link between a high quality tourism product and appropriate markets; and (5) a coordinated approach based on planning, effective management, monitoring and control.

Box 3: SEDP-I Tourism Policies

- The development of tourism to reinforce national aspirations and a sense of identity
- The development of tourism to generate substantial economic benefits in keeping with overall targets for the well-being and prosperity of the people
- Through tourism development, create employment opportunities, generate foreign exchange, foster regional development within the country and produce government revenues
- Through tourism development, strengthen linkages with and stimulate the economic growth of other sectors
- The development of tourism in a balanced manner, in harmony with overall economic and social development goals and integrated with national development policy and planning
- Develop various forms of tourism and spread tourism development widely throughout the country based on the historic, cultural and natural resources of Cambodia and in order to attract a diversity of international, regional and domestic tourist markets. Discourage forms of tourism that generate social, environmental or health problems or give a poor image to the country
- Create opportunities, where possible, for the local ownership and management of tourism facilities and services and local employment in tourism, both directly in tourist facilities and services and in the sectors supplying and supporting tourism
- Seek foreign investment, where needed, to contribute towards the country's tourism development strategy
- Use tourism to conserve the uniqueness of the country's heritage of cultural patterns, religious beliefs, archaeological monuments and historic sites, thereby helping to reinforce traditional cultural values and stimulate further development of cultural facilities and activities
- Use tourism to foster desirable forms of contemporary culture and the arts
- Use tourism to preserve the natural environment, especially the protection of scenic areas, wildlife, important natural sites, reserves and parks and ecosystems
- Develop tourism in suitable areas in suitable areas according to a logical system of planning and zoning, and design tourist facilities in an appropriate manner and according to good building regulations. Ensure that acceptable quality controls are applied to tourist facilities and services
- Attract only the types and numbers of tourists that are consistent with maintaining good quality tourism and who show respect for the country's cultural heritage, society and natural environment
- Develop and make accessible tourist attractions, facilities, services and infrastructure for the benefit and enjoyment of residents as well as tourists, in order to improve the quality of life for Cambodians as well as visitors
- Coordinate and manage tourism development so that, at any particular time, the various components of the tourism product – attractions, facilities, services and infrastructure – remain in balance with one another and with the type and number of tourist markets using the product

- Develop sufficient training facilities and programs to provide good quality tourism services and maximize local employment benefits
- Coordinate all public and private sector agencies, enterprises, organizations and interests involved in tourism in order to ensure an integrated approach for developing and managing tourism. Ensure the continuous, efficient management of tourism, based on effective organizational structures and planning processes and an appropriate legal framework, to control socioeconomic and environmental impacts and monitor all aspects of tourism development.

With Siem Reap and the Angkor temple complex constituting the major attraction for the international tourist, Sihanoukville developing in the short term as an attraction for the domestic tourist, and Phnom Penh developing as a major transport hub and business center, the projection was that there would be one million visitor arrivals by the year 2000. Hitting this target required average annual growth in visitor numbers of 37 percent.

Visitor numbers increased significantly in 1996, but declined in the subsequent two years because of the devastating effects of the domestic political and Asian financial crises of 1997. Arrivals by air into Cambodia dropped substantially in 1997 and 1998, before recovering as traveler confidence returned. In addition to the improvement in Cambodia's international image during the last three years of SEDP-I, visitation rose as a result of increased direct flights to Phnom Penh and Siem Reap from neighboring Asian countries, and the re-opening of the prime archaeological site at Preah Vihear in northern Cambodia. Also, direct flights from Ho Chi Minh City and Singapore began in 2000, which increased accessibility, especially for group tours that account for about one third of all tourists. Total visitor arrivals rose from 367,743 in 1999 to 466,365 in 2000, according to Ministry of Tourism estimates. Three-quarters of the visitors arrived by air and the remainder by land and boat. The United States was the single largest source of visitors, accounting for 13.5 percent of arrivals by air in 2000 (exclusive of direct flights to Siem Reap). China and France accounted for about 12 and 9 percent of visitors, respectively, and were followed closely by Taiwan, Japan, Thailand, and the United Kingdom.

In hindsight, the SEDP-I tourism growth target appears over-optimistic. However, using arrivals by air as a proxy for total visitation, growth during 1995-2000 was reasonably strong despite the bad years of 1997 and 1998. Average annual growth in visitors arriving by air during this period was 9.9 percent.

Table 1.14 Arrivals Via Air In Cambodia

Category	1993	1994	1995	1996	1997	1998	1999	2000
Holiday	70,183	133,341	162,317	194,419	163,005	141,926	199,644	209,581
Business	27,659	34,076	43,909	58,431	48,557	37,610	55,384	46,858
Others	20,341	9,200	13,454	7,639	7,281	6,797	7,879	8,210
Total	118,183	176,617	219,680	260,489	218,843	186,333	262,907	351,661
% Change		49.4	24.4	18.6	-16.0	-14.9	41.1	33.8

Source Ministry of Tourism

The national accounts show the performance of key industries that meet tourism demand. The hotel, restaurant and tourism sector grew annually by 4.3 percent during the period from 1996 to 1999, and in the latter year contributed 4.2 percent of GDP. However during the same period, value added in wholesale and retail trade fell by 2.1 percent per year. This indicates that tourism development was not matched by the growth of the domestic trade sector, which has not fully capitalized on the tourist market as a source of revenue. Specialty stores, provision shops and handicraft centers have not been developed to meet the requirements of

the tourist trade. On the other hand, investment in tourism gained momentum with the completion of several international class hotels, holiday resorts, golf courses, casinos and airport development.

TRANSPORT AND COMMUNICATIONS

During the SEDPI period a number of road projects were completed with external assistance. These included the reconstruction of NR4 from Phnom Penh to Sihanoukville; the reconstruction of NR6 from Phnom Penh to the junction with NR7 at Skun; the reconstruction of NR7 between Skun and Kompong Cham; the construction and rehabilitation of a number of bridges, mostly along NR6; and the rehabilitation of several ferries, provision of new ferries, and improvements to ferry sites at Neak Lang (NR1), Prek Kdam (NR6A), and Tunlebit (Kompong Cham). In total, only 350 km of road were reconstructed to international standards between 1992 and 2000. Construction of a bridge across the Mekong at Kompong Cham was begun in August 1998, with assistance from the Japanese Government, and is scheduled for completion in 2002.

There was a fourfold increase in the number of letters and packages sent and received, although 90 percent were international and concentrated in Phnom Penh. Postal services to rural areas remained constrained by the poor road network and limited domestic air services. Provincial and district post offices continued to suffer from lack of equipment and maintenance.

Between 1996 and 2000, the number of public telephone booths rose from 15,475 (92 percent of them in Phnom Penh) to 37,700 (79 percent of them in Phnom Penh). Noticeable progress was made in extension of services to provincial towns. Mobile phone usage showed remarkable growth from 23,000 in 1996 to 108,000 in 2000, although the service remained relatively expensive and restricted in coverage. At the beginning of 2001, a second mostly privately-owned international telephone service was introduced alongside the Government-owned and run Gateway 1, which had recently been transferred from the Australia-based Telstra. Incoming international calls had increased from 15 million minutes in 1994 to 31 million minutes in 2000. Correspondingly, two internet service providers were available.

POWER

Considerable rehabilitation occurred during SEDPI, with power supply in Phnom Penh, Sihanoukville, and Siem Reap improving substantially. Electricite du Cambodge (EDC) was established as a state-owned limited liability company in 1996 to generate, transmit and distribute electricity throughout the country; and an Electricity Law was drafted as a key element of an improved legal and regulatory framework. Retail energy sales rose from a total of 120,592MWh in 1995 to 311,550MWh in 1999, which represented an average annual growth rate of almost 27 percent.

1.4 SOCIAL DEVELOPMENT PERFORMANCE

Based on the performance indicators shown in Table 1.15, progress towards the social development targets set in SEDP-I was disappointing, although it must be remembered that some of the baseline data may have been overestimates. Also, targets were ambitious, especially given that population was expanding at the rapid rate of 2.5 percent per year, so that just maintaining the existing level of social indicators required considerable effort and resources.

The infant, child and maternal mortality rates seem to have fallen in 1996-1998; and there was some increase by 1999 in the proportions of urban and rural populations with access to safe water, and in the proportion of the rural population with access to toilet facilities. The Phnom Penh Water Supply Authority (PPWSA) introduced a new water tariff in 1997 to permit recovery of operations, maintenance and plant replacement cost, while providing cross-subsidies from industrial and commercial, high consumption users to low-income, low consumption residential users. To allow more low income households to connect to the piped water supply, PPWSA reduced its connection fees by 25 percent, as previous charges discouraged low income groups from gaining access to piped water supply, which increased dependency on unsafe water sources. Education and health indicators moved in the desired direction, the latter apparently more rapidly than those for the education sector.

Overall, there was some improvement in the quality of life during the SEDPI period that was attributable to economic growth and the direct effects of better health and education provision. However, the Human Development Index for Cambodia in 1998 was 0.512 and placed the country in 136th position in a list of 174 countries (UNDP 2000). Life expectancy, though higher than the early 1970s level of 40 years, was still just 53 years; and over one third of the population lived in absolute poverty. These basic statistics summarized the dimension of the development challenge that had only begun to be met during the SEDP-I period.

Table 1.15 Social Development Targets and Performance

Overall	**1996 Estimates**	**2000 Targets**	**Actual (est. end 1998)**
Maternal mortality (per 100,000 live births)	650+	300	473
Infant mortality (per 1,000 live births)	115	80	89.4 per 1,000 live births
Under-5 mortality (per 1,000 live births)			115 per 1,000 live births
Children's nutrition status (% under 5 malnourished)	181	120	40
	40-50	25	
Education			
Children will become functionally literate and numerate through completing primary school	13% of primary school students complete Grade 5 in 5 years	65% of 12 year olds to complete Grade 6 & become functionally literate & numerate	33% of 12 year olds completed Grade 6
Enrolment of female students in first grade of higher secondary education		50% of 16 year old girls to be enrolled in Grade 10	34% of 16 year old girls enrolled in Grade 10
Access to Health Services			
Rural births attended by trained midwife or nurse	More than 90% of rural births at home, mostly attended by traditional midwives.	40% of births in rural areas to be attended by a trained person	33% of births
Access to birth spacing information and services	Services only in urban areas	80% of couples in the 12 most populous provinces to have birth-spacing information & services	70% of couples
Children vaccinated against Tuberculosis Polio Measles	One year olds 78% 54% 53%	Over 80% of one-year olds vaccinated with all antigens	70% of one year olds
Access to Safe Water	26% of rural population	65% of rural population and	28.1% of rural population
	65% of urban	90% of urban	69.5% of urban population (1999)

	population	population to have access to safe water	
Improved Sanitation	74% of urban population 6% of rural population have access to improved toilet facilities	100% of urban population 20% of rural population to have access to improved toilet facilities	49% of urban population 8.6% of rural population

Sources: MOP 1999b; MOP 2000a; MOH 1999a and 1999b; MOEYS 2000.

SOCIAL WELFARE

During SEDP-I, the Government committed itself to strengthening the organizational structure for addressing social welfare issues. Policies were to be defined more clearly, and information and databases strengthened in order to support social strategies and strategic planning. The basic objective for 2000 was to build a strong collaborative network to undertake strategic planning, program development, and service delivery designed to reduce vulnerabilities in society. Activities were undertaken in the areas of capacity building, inter-agency cooperation and coordination, information gathering, strengthening of legal and regulatory systems, public information and advocacy, and in the actual provision of social services targeted to the vulnerable groups.

Institutional development and staff training was undertaken in the various ministries involved in social issues. The Cambodian National Council on Children (CNCC) launched a Plan of Action against Sexual Exploitation of Children, 1999-2003, which deals with prevention, protection, recovery and reintegration of child victims. The Government approved the Plan in April 2000. IN 1997 the CNCC also established a National Steering Committee to ensure implementation, monitoring and evaluation of policies and programs related to child labor and other forms of child exploitation. Other coordination and cooperation mechanisms in the area of children's exploitation include a working group aimed at ending child prostitution, abuse and trafficking in Cambodia; an Action Committee on Child Exploitation; a Legal Network; an International Agency Working Group on Commercial Sexual Exploitation and Trafficking of Women and Children and an Inter-agency Provincial Committee Against Child Abuse and Exploitation.

A *Disability Action Council* (DAC) comprised of relevant ministries, NGOs and individuals committed to working for the well-being of people with disabilities was established in 1998. DAC acts in an advisory capacity to policy makers and serves as a national focal point for the evolution of a comprehensive national approach to rehabilitation, equalization of opportunities, and prevention of disabilities. Work has been ongoing on the establishment of an *Inter-Ministerial Working Group on Juvenile Justice* to assist the government in policy and strategy development in this area. The *Street Children Task Force* is an inter-agency group working with street children since 1995. It has no formal structure and comprises about a dozen NGOs dealing with street children, mostly in Phnom Penh. MOSALVY is represented at its meetings. In the area of substance abuse, a *Drug Abuse Task Force* and a *Working Committee on Substance Abuse* have been formed.

The situation of vulnerable groups is much better known now than it was at the beginning of the SEDPI period, due to the inclusion of relevant questions in national household surveys and to the fielding of small surveys among specific groups. Legal and regulatory systems were strengthened through the above-mentioned 1996 adoption of the Law on the Suppression of Kidnapping, Trafficking, and Exploitation of Human Beings; the 1996 establishment of the Adoption Bureau by MOSALVY and development of clear guidelines and procedures; the 1997 adoption of the Labor Code regulating child labor; and the drafting of a new legal framework

for adoption. The Ministry of Justice performed a review of laws and juvenile justice and is in the process of drafting a Civil Code that will include sections on orphans, foster care and adoptions. It is also finalizing a draft Criminal Procedure Code that comprises dispositions related to minors.

During the SEDP-I period, and in the absence of sufficient government funds, over 35 NGOs provided a wide range of services to the disabled, including physical rehabilitation, outreach services targeted at women and children, and projects on socio-economic reintegration through vocational training and provincial rehabilitation centers and community-based rehabilitation. NGOs were also dominant in interventions for CSWs. Their work covered the five main areas of investigation/rescue operations, legal assistance to victims, rehabilitation services (usually through the operation of rehabilitation centers), cross-border repatriation, and medical care. Government interventions have included follow-up by the Ministry of reintegrated victims, and the establishment of a Young Women's Crisis Center in Phnom Penh. The Ministry of Health has provided health care and education to CSWs in certain areas, mainly in relation to HIV/AIDS education.

Operating under an agreement with MOSALVY, over a dozen NGOs established private centers where some 750 orphaned, abandoned and disadvantaged children are cared for. In addition, the Government runs children's centers that receive financial support from foreign NGOs and care for some 1,600 children. Approximately 10 NGOs have worked with street children in Phnom Penh, as well as in Battambang, Banteay Meanchey and Prey Veng provinces. The provision of services for children in conflict with the law is essentially limited to the Phnom Penh Youth Rehabilitation Center supervised by MOSALVY. The only center in the country for juvenile delinquents holds 48 minors and operates in a legal vacuum, with sub-standard facilities and services.

WOMEN AFFAIRS

Although the Ministry of Women and Veteran Affairs (MWVA) was not formally part of SEDP-I, it achieved relatively good progress during the first Plan period.

Box 4: Progress on Gender Mainstreaming

- Laws and sub-decrees were approved on the establishment and functioning of MWVA
- A proposal to establish the Cambodian National Council for Women was submitted
- Roles and responsibilities to strengthen human resources at both the central and provincial levels were defined
- Gender mainstreaming in line agencies was initiated through training of trainers and gender awareness training provided to key officers in key line agencies
- Members of committees in the local development structure at the district, commune and village level were trained on gender, leadership, and confidence building
- A gender resource and information center was established to collect and disseminate data and information to enhance the analysis and design of gender-responsive policies and programs
- A report on the human rights situation in Cambodia, including the status of implementation of the Convention on the Elimination of Discrimination Against Women (CEDAW), was submitted to the United Nations
- Awareness of gender issues was raised through International Women's Day (8^{th} March) activities
- A national policy on women, the girls and HIV/AIDS was prepared
- A reproductive health project in 70 districts in eight provinces was implemented
- More than half a million women received information and reproductive health education from 800 trained female volunteers
- Non-formal education was provided in 209 villages in five provinces with 16,000 participants in 1993-1998

- Enhanced the capacities of women and veterans at the community level through skills training, literacy programs, family food production programs and micro-credit program
- Implementing a program on the prevention of trafficking of women and children though education and advocacy in six provinces, and coordinating an inter-ministerial committee overseeing a regional counter-trafficking project
- Conducted research on domestic violence
- Drafting a law against domestic violence for submission to the Council of Ministers.

The national program "Partnership for Building Together" supporting the implementation of *Neary Rattanak* started in March 2000. This program aims to build the capacity of MWVA to incorporate gender concerns and principles into policy formulation and development initiatives with due regard for equality, justice and improvement of the quality of life of all citizens.

EDUCATION

SEDP-I targets had to be set in the face of great statistical uncertainty. The validity of baseline data was questionable in some instances; and the absence of recent census data prevented the likely effects of future demographic trends from being anticipated and accurately factored in. A retrospective comparison of the demographic estimates of the March 1996 Demographic Survey and the demographic projections prepared by the National Institute of Statistics provided a crude estimate of the evolution of the school-age population during the SEDP-I period. An approximation of the total school-age population may be obtained by aggregating the three 5-year age groups: 5 to 9, 10 to 14, and 15 to 19, which taken together can be used as a proxy of the maximum potential demand for primary and secondary schooling. During the 5-year period corresponding roughly to the SEDPI period, the population aged 5 to 19 increased by a little over three-quarters of a million, or by 18 percent. The population aged 5 to 14 (which in theory should correspond approximately to primary- and lower secondary-age pupils) increased by 340,000 people or by 10 percent. The population aged 15 to 19 (approximating upper-secondary age pupils) increased much faster in relative terms (by nearly 40 percent) and in absolute terms (440,000 persons). Thus, the increase in the size of the potential school-age population that took place between March 1996 and January 2001 meant that a substantial share of additional investment in the sector would have to be used just to stay even on a per capita basis, rather than to make progress.

Within the severe data constraints, SEDP-I numerical targets were set as follows:

- Increase education's share of the total Government budget to a minimum of 15 percent, and earmark two-thirds for basic education (so that public expenditure on the latter would rise from 1.4 percent of GDP in 1995 to at least 2.5 percent by 2000)
- Extend the duration of primary education by one year as part of a 6 + 3 + 3 school system
- Increase the net primary enrollment ratio (grades 1-6) to 90 percent
- Reduce the repetition rate in primary school to at least 10 percent
- Achieve an equal gender balance in primary enrollment
- Ensure that at least 85 percent of those enrolled in grade 1 completed the sixth grade
- Increase the net lower secondary enrollment ratio (grades 7-9) to 85 percent
- Increase the share of female students in lower secondary schools to at least 45 percent
- Ensure that 65 percent of grade 9 students pass the 9th grade examination.

No targets were set for early childhood education. In upper secondary education, plans were to restore enrolments from 51,400 in 1995 to around 60,000 as early as 1996, or by almost 20 percent in just one year, a figure that would correspond to a gross enrolment ratio around 10 or 11 percent. No targets were set specifically for the year 2000. Higher Education and

Technical and Vocational Education and Training (TVET) were not the object of specific output targets within the framework of the SEDP-I.

In the basic education sub-sector, targets were to be reached through the adoption of a variety of measures designed to increase the overall share of public spending, mobilize additional resources, and improve efficiency in resource use. These included:

- Increased budget share
- Increased community participation (school rehabilitation)
- Enhanced efficiency through curriculum reform and textbook provision, teacher training and service conditions, expansion of school clusters and enhancement of management effectiveness
- Improved quality, through the extension of the primary cycle to 6 years in 1996 and a new official school calendar making for 855 hours of instruction per year
- Expanded non-formal education for school drop-outs, based on a Non-Formal Education Development Plan.

In the upper secondary sub-sector, the main thrust was to have future enrollment growth determined by national workforce skill requirements rather than by parental demand, though it was not specified how this goal was to be reached. The strategy for higher education was to make the sub-sector more responsive to market-driven forces through the formulation by late 1996 of a National Action Plan. The strategies for TVET were to be outlined in a Strategy Plan for Formal and Non-Formal Education to be prepared by MOEYS by 1996. Broad guidelines included economic diversification and a focus on vulnerable groups such as out-of-school youths and dropouts, young adults without skills, women and disadvantaged groups.

An assessment of actual outcomes against targets is constrained by the above-mentioned uncertainty about baseline data reliability; and some of the targets seem over-ambitious in retrospect. However, the overall conclusion must be that progress towards achieving the SEDPI targets, whether examined from the standpoint of inputs or outputs, was disappointing. On the positive side, the Education For All Country Assessment of 1999 and other surveys highlight substantial education achievements in the 1990s. *Access* improvements included increased primary enrolment and additional schools. Potential *quality* improvements included more books, more trained teachers, and reorganized exam systems. Education *financing* gains incorporated teacher salary rises, substantial education aid, and increased education discretionary spending volumes and substantial parental contributions. *Capacity building* efforts at central, provincial, district and cluster levels were also significant. On the other hand, few if any of the original education sector targets set in 1996 were likely to have been met by the end of 2000, despite significant spending levels. Much of the recurrent funding increase was used to pay additional staff recruited to cope with enrolment expansion that in large part reflected the growth in school-age population.

Table 1.16 summarizes performance against targets. Indicators of access, such as net enrolment ratios in primary and secondary schools, have remained below Plan targets (although it should be noted that part of the decline in lower secondary enrolment reflects the addition of a 6^{th} grade in the primary system). Greater gender equity in education is important because of the well-documented externalities associated with female education; but performance fell short of the gender equity targets, especially for the levels above primary education. Indeed, there was some deterioration in the enrolment ratio in lower secondary grades. Actual instruction time per year, which was targeted to reach 900 hours in 2000, declined from an estimated 600 hours in 1994 to 500-553 hours. Repetition rates for Grades 1 through 6 fell slowly. Government spending on education rose from 1 percent of GDP in 1995

to 1.4 percent in 2000, but still fell short of the target of 2.5 percent. The key impact indicator, the adult literacy rate, showed marginal improvement.

Access to education of the poor remained inadequate. While 85 percent of the population lived in rural areas, only three-quarters of the country's schools were located in rural areas. 1997 data showed that students from the poorest families were underrepresented at all levels of the educational system (MOP 1997c):

Table 1.16 Education Performance Indicators for SEDPI

	Target 2000	1995/96	1996/97	1997/98	1998/99	1999/2000
EQUITABLE ACCESS						
Primary						
Net enrolment G1-6	90.0%	80.5%	84.7%	77.8%	78.3%	85.5%
Lower Secondary						
Net enrolment G7-9	85.0%		23.2%	16.6%	14.2%	14.4%
Total upper secondary enrolment	Not set	52,920	61,671	73,849	82,110	108,213
Gender Equity						
Proportion female in G1- 6	50.0%	44.5%	44.9%	45.1%	45.7%	45.8%
Proportion female in G7-9	45.0%	37.9%	37.0%	34.8%	34.4%	35.4%
Proportion female in G10-12	Not set	33.0%	35.0%	34.7%	33.4%	33.7%
Internal Efficiency						
G1-6 repetition rate	<10.0%	n/a	27.0%	26.3%	24.6%	
Proportion in G1 complete G6	85.0%	n/a	28.2%	n/a	32.8%	
Hours teaching time per annum	900	600 (1994)			500-553	
Proportion G9 to pass exam	65.0%		56.5%	41.4%	59.0%	59.5%
Literacy						
Proportion literate	100%	66.6 (93/94)	66.0%			

Source: Education Management Information System, MOEYS.

An estimated 991,000 children of pre-school age did not have access to pre-schools and came predominantly from poor families living in rural and remote areas. Studies on the effectiveness of pre-school activities have shown an association between pre-school attendance and success in early primary school.

The net primary enrollment ratio was 72 percent among the non-poor, but 54 percent among the food-poor. International research has shown that many poverty indicators vary little between the categories "no education" and "some primary education" but jump dramatically between the categories "some primary" and "primary completed".

At the secondary level, the net enrollment rates were 23 among the non-poor and only 5 among the food-poor. Children from the poorest quintile of the population represented 2

percent of upper secondary school enrollments, whereas children from the richest quintile represented 61 percent.

At the tertiary level, the poorest quintile of the population contributed no students at all, while the richest quintile contributed 57 percent of the students. The 1998 Population Census estimated that only 0.2 percent of the population had gone beyond secondary schooling.

HEALTH

SEDP-I presented a number of specific health sector targets for the year 2000. These referred to financial commitments, service delivery, access, and health outcomes:

Box 5: SEDP-I Health Targets

- To increase the health share of the total budget from 4 percent to at least 10 percent
- To ensure that all provincial and district referral hospitals and health centers are equipped with basic essential drugs
- To ensure that all referral hospitals have a qualified doctor and medical assistants
- To ensure that all health centers have qualified nurses and midwives
- To ensure that all functioning health centers and referral hospitals provide birth spacing information and services according to national policy
- To ensure that essential obstetrics services are available in all established health centers and referral hospitals
- To ensure that 80 percent of births in urban areas and 40 percent in rural areas are attended by trained health personnel
- To ensure that the coverage of prenatal care services and tetanus vaccination for pregnant women increases by 50 percent over the 1995 levels
- To sustain the coverage of the Expanded Program on Immunization to the whole country of 80 percent or more
- To ensure that 95 percent of cases of diarrhea and ARI are managed according to national protocols
- To provide for the universal iodization of edible salt
- To eradicate poliomyelitis
- To virtually eliminate neonatal tetanus and measles
- To virtually eliminate Vitamin A deficiency.

A number of important initiatives to strengthen the health system were taken during 1996-2000. They fall into three categories: (1) the extension of rural health services on the basis of the HCP; (2) financial and budget reforms based on the 1996 Health Financing Charter; and (3) organizational and management reforms.

The Cambodia Health Care System Reform (HCSR) includes the three components of organizational reform, financial reform, and human resource development reform. Together, these reforms aim at upholding the basic principles of equity through enhanced access to health care for all Cambodians. They are based on a redefinition of the roles, functions and locational criteria of all levels of health facilities. The health financing policy aims at improving access and equity of services for the poor.

In the health sector, the Ministry of Health (MOH) underwent major organizational and financial reform aimed at improving service delivery. A top priority since 1996 was implementation of the Health Coverage Plan (HCP), which aimed at forming a network of 935 Health Centers and 68 Referral Hospitals grouped into 73 Operational Districts. The Districts are the basic decentralized management units for the delivery of essential public health programs, each District providing a comprehensive health care package through one District Health Office, one Referral Hospital, and 10-15 Health Centers. The latter provides a Minimum Package of Activities (MPA), while Referral Hospitals handle cases referred from health centers and cases requiring admissions (the Complementary Package of Activities). All Operational Districts were

established by 1998, and since 1997 100 health centers and 2 referral hospitals have been constructed or renovated to MOH standards. At the end of 1999, 40 percent of the Health Centers and 55 percent of Referral Hospitals were delivering their planned packages of activities.

The rural extension of the health infrastructure was based upon criteria of population size and accessibility. The HCP established 927 health clinics providing a defined Minimum Package of Activities (MPA) and 67 referral hospitals to provide a defined Complementary Package of Activities (CPA). Both were based on the newly established concept of a decentralized "Operational District" (OD), designed to function as the basic health care unit. The ODs are supposed to cover the whole population without gaps nor overlap. Ideally, health centers must be located within a radius of 5 to 10 kilometers or the equivalent of one to two hours' walk. They provide basic preventative and curative health care and health promotion, as well as outreach services. At the next higher level, referral hospitals receive cases refered from the health centers and manage complicated cases operations, inpatient services, and serious illnesses requiring admission. The referral hospitals and the health centers are managed as a single system of health care. The 1996 HCP envisaged a total of 67 referral hospitals and 935 health centers. As of July 1998, 24 of the planned referral hospitals and 272 of the planned health centers were in place, or 36 and 29 percent of the planned totals, respectively.

The Government increased annual health budgets in 1996, 1999 and 2000, though the budget devoted to health remains around $1 per capita per year. Accessing the full budget approved by the National Assembly can be problematic at the provincial level, where annual budget implementation has generally been between 30 and 50 percent.

The legal basis for financial and budget reforms arose from the Health Financing Charter, jointly approved by the MOH and the MEF in 1996 to ensure community participation to protect the poor in the use and management of services. It also provides the basis for piloting financial alternatives. Health financing reform has focused on specific issues such as equity improvement in budgetary breakdown, based on an allocation formula. Various innovations have included:

- More precise budget allocation rules
- The introduction of formal user fees, in order to suppress informal fees which were viewed as inequitable
- An increase in responsibility to decentralized Budget Centers
- Measures to improve access to the budget, including the Accelerated Development Districts (ADDs) and, more recently, the Priority Action Program (PAP).

The ADD, which consists in a mechanism for direct, regular release of funds on a cash imprest system, was tested in 12 operational districts and extended to 25 by 1998. The advantage of this system is that it provides districts with cash up front. Activities are accounted for as they are completed, which has a beneficial impact on decentralized management and quality of services. This mechanism allowed for an increase in managerial authority and responsibility at the district level, and was complemented by strengthening of the overall management of government funds through the introduction of expenditure monitoring reports, accounting guidelines, staff training, and provision of computer technology. Since 1999, the MOH has also been testing a new model of partnership between the public and private health sectors.

Building on the experience with the ADD system, the Government initiated a new Priority Action Program (PAP) scheme in 2000, starting in October with MOH, and extending it to the other three priority ministries of Agriculture, Forestry and Fisheries, Rural Development, and Education. The PAPs and associated Budget Management Centers are designed to protect core expenditures on program activities of strategic importance to poverty reduction, and to

ensure a closer linkage between core expenditures and program outcomes. Like funds for ADD, the funds for PAPs are allocated in a special section of Chapter 13 of the annual budget (13.2). However, unlike the ADD mechanism, the PAP funds are advanced to the districts through provincial treasuries rather than the relevant ministry; and they take the form of block grants, with no budget lines within them. The PAP mechanism thus provides for greater efficiency and flexibility than the ADD system, giving a boost to decentralized management in the priority sectors. The strategic planning in these sectors is focussed on development of Sector Wide Approaches (SWAPs) that are owned by the Government and underwritten jointly by Government and the donor community.

The first Health Workforce Development Plan 1996-2005 was adopted in May 1997 and its implementation reviewed after two years. In the legislative field, there have been four main activities implemented to date: (1) Legislative reviews and the promulgation of new proclamations and regulations; (2) regulation and licensing of private health providers and private pharmacies; (3) the licensing of pharmaceutical manufacturers; and (4) quality control of imported pharmaceuticals.

The Law on the Management of Private, Medical, Paramedical and Auxiliary Medical Services received royal Assent in November 2000. It defines who can provide health services (and the required qualifications) and in what premises and prescribes penalties for non-compliance. But the law has no provision dealing with the quality of the services provided. More recently, legislation has been passed to create a Cambodian Medical Council/Board to register practitioners and hear complaints.

Legislation on pharmaceutical management has been passed but requires reinforcement. The lack of effective regulation in the fast growing pharmaceutical sector, both formal and illicit, is imposing unnecessary treatment costs and health risks to patients. Legislation on food safety is in preparation and a legal code of medical conduct is likewise in the process of being drafted. Despite legislative progress, the law remains fragmented, incomplete and sometimes inconsistent. Continued legislative progress is necessary, as is improved regulation of the sector.

There have been noteworthy advances in the organization of health services and substantial investments in rural health infrastructure. However, the sector has yet to deliver its benefits in terms of concrete health gains. Indicators of the health status of the population give no cause for complacency, as noted above. Maternal and child health shows a mixed picture. There are no nationally representative data about the incidence of communicable diseases or burden of disease estimates, and therefore no way to assess progress made during the SEDP-I period. On the positive side, Cambodia has now been declared a polio-free country, and there is a reported reduction in the incidence of symptomatic malaria by approximately 70 percent between 1996 and 1999, largely due to the introduction of treated bed nets.

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Article 71 of the Cambodian Constitution embodies the obligations of the Cambodian State to provide for and protect the health of its citizens:

“The health of the people shall be guaranteed. Poor citizens shall receive free consultations in public hospitals, infirmaries and maternities.”

This declaration recognizes that the health needs of the poor are greater than those of the rich, for two reasons: (1) Poverty increases vulnerability to infectious illness and injury because of poor nutrition and unhealthy living conditions; and (2) the poor are more likely to be economically vulnerable to the effects of poor health or injury because they are more dependent on manual labor as a source of income. The organization of the health system

along a socialist model was designed to ensure equity and to guarantee the protection of the poorest and most vulnerable segments of the population.

However, there was an apparent imbalance in the geographic allocation of resources during the SEDP-I period. Overall, donors contributed US$4.10 per capita, or 1.7 percent of GDP, or 70 percent of the total expenditure in the public health sector. But donor assistance was not distributed equitably, with several of the most remote provinces neglected by most potential donors/lending agencies. According to a 1999 World Bank study, the allocation of donor resources in general was heavily biased (51 percent) towards Phnom Penh and its surrounding area where relatively few of the country's poor live. There is a persistent imbalance in the geographic allocation of resources that affects the ability of the poorest to access health services. This imbalance involves both the siting of health facilities and the deployment of the health staff.

The more restricted access of the poor to different kinds of government health services is revealed by data on health center utilization and hospital admissions by socio-economic categories. The proportion of the population seeking no treatment in cases of illness or injury is significantly higher in the lowest category. A 1999 study showed that less than one percent of the poor sought care in a central hospital when ill, compared with more than 9 percent of the richest quintile. Within the highest category, the sick or injured are many times more likely to seek treatment. The type of treatment sought also varies by socio-economic level.

The performance of health services for the poor and those living in rural areas has been rather disappointing, in part because government health facilities and providers are concentrated around the main population centers while remote areas are very poorly served. A recent report on health sector financing concluded that:

The available evidence suggests that most of the MOH's limited budget is used to subsidize services that are consumed mostly by urban middle and upper-income consumers, not to improve the quality of services available to the poor or to provide incentives for them to receive good treatment at Government facilities. The geographical allocation of MOH operating funds is driven mostly by the existing health infrastructure, not by local area poverty estimates or health needs.

An evaluation of the user fee system was undertaken to try to determine whether and to what extent the introduction of user fees has adversely affected health services use and access, particularly for the poor. The still-ongoing study has found some evidence that user fees have a positive effect on the use of services by the poor at the level of the health center. This is possibly due to the resulting improvement in health staff attendance and in drug availability. Health care costs continue to be unaffordable for the poor, however. In 1997, a single outpatient visit to a health center could take up to one third of all non-food expenditures for a year for those in the poorest quintile.

The situation is worse at the level of the referral hospital, where user fees were deemed by the evaluation to have a negative impact on access by the poor. In 1997, a single inpatient visit to a public hospital could take up to 109 percent of non-food expenditure. As a result, the poor and near poor have to go into debt or sell productive assets in order to pay the high user fees in referral hospitals. User fees are thus acting as a barrier to the poor accessing referral services, as hospitals generally fail to give exemptions to those who are unable to pay.

According to Article 6 of the National Health Facilities Financing Charter, facilities are required to set up procedures to exempt the poor from having to pay user fees. Thus, in principle at least, the poor are exempted from paying for services at both health centers and hospitals. Under the present system, however, facilities that grant exemptions are not reimbursed for the

services they provide to exempted clients. Providers do not receive any incentive payments for serving the poor and therefore lose user fee revenue for every exemption they grant. Such a system creates a strong incentive to over-report the number of exemptions granted and a powerful disincentive to grant the exemptions and provide free services to the poor. At some facilities, health providers reportedly discourage the poor from even coming to the facility.

Other factors that deter utilization by the poor include the fact that clients do not know in advance whether they will be granted an exemption, which introduces some price uncertainty. Also, the fact that the poor must first request the exemption constitutes an added deterrent. The incentive system currently in place thus works against the granting of exemptions. As a result, the proportion of the population paying no consultation fee for outpatient visits is 12 percent at provincial hospitals and 14 percent at central hospitals.

Beside the low number of exemptions granted, the system functions ineffectively in granting them to the poor. Even if a facility and its providers were inclined to grant the poor exemptions, there is no formal mechanism for determining which clients are poor. It is up to each facility to decide at the time of service, based on ad hoc identification methods such as clothing worn and general appearance. As a result, not many exemptions are granted to the poor. On the contrary, exemptions that are granted are often granted to the non-poor (e.g. family of staff members). Data collected in 1997 show that those in the richest expenditure quintile were three times more likely to pay no fees in a public hospital (21 percent) than those in the poorest quintile (7 percent).

To provide firm conclusions, more precise data needs to be collected at all levels of the health system to determine the percentage of the poor who do not receive exemptions and the proportion of exemptions that are granted to the non-poor. However, the available evidence suggests that the current exemption system is not effective in targeting the poor and in effect prices the poor out of the market for tertiary care. A recent study by Oxfam provides evidence that catastrophic health costs have become an important cause of landlessness. A key issue in health planning and in poverty alleviation and prevention is therefore how to provide good quality care for the poor and mitigate the risk of catastrophic health expenditures.

The proportion of public subsidies captured by the poor is very low and efforts so far to improve the equity of the health sector have not been effective, as the poor use government health services far less than the non-poor. Poverty prevention, as well as poverty alleviation, therefore hinges crucially on a reform of the fee and exemption system, and providing access to good quality care for the poorest.

1.5 LESSONS LEARNED

The primary element of any poverty reduction strategy is faster economic growth because it creates income-earning opportunities and expands the resources available to fund poverty-reducing interventions. The available evidence suggests that the achievement of the SEDP-I growth targets was prevented largely by the disruption caused by the 1997 domestic political crisis and, to a lesser extent, the regional financial crisis. The growth that actually was achieved is likely at best to have had only a negligible impact on poverty reduction.

A key lesson is that higher rates of economic growth must be achieved and sustained over time if substantial and durable poverty reduction is to be realized. A related lesson is that there is no deterministic link between a Plan and economic performance. A Plan in a market-based economy is not a directive instrument setting out a certain future. It is instead an instrument for establishing a desired, feasible development path, and for presenting the Government's public investment program and policies aimed at encouraging development-promoting responses

from the private sector and civil society. It is these responses that mostly determine the rate of socioeconomic development, which in any society can be affected by domestic and external shocks. The reform program adopted in the SEDP-I period encompasses the policies needed for faster growth and social development, and the credible and irreversible implementation of that program will ensure the establishment of an appropriate enabling environment for the private sector. Thereafter, the crucial factor is how investors evaluate the future of the economy.

A third lesson from the experience with SEDPI implementation relates to monitoring and reporting, and has two dimensions. First, realistic targets need to be based on baseline data of good quality in terms of timeliness, coverage and reliability. Establishing and maintaining the database must be a planned activity. Second, a formal monitoring and reporting system must be designed as a component of the Plan document. The system must identify meaningful performance indicators and responsible monitoring and reporting agencies, which can include NGOs and private business and civil society organizations as well as government departments. The system must also specify reporting arrangements, including timelines. The absence of a monitoring and reporting system was a weakness of SEDP-I preparation.

Second, it is evident that actual public resource allocation was not in line with the target allocation. This reflected the twin facts that the Plan did not control the annual budget and that public investment projects were in large part undertaken on the basis of what funding was available from donors.[14] The PIP and the annual budget were prepared on parallel tracks, with MEF and MOP holding separate discussions with line ministries on the recurrent and capital budgets, respectively. In addition, the Council for the Development of Cambodia held separate discussions with line ministries on public investment priorities to be presented to the Consultative Group of donors' meetings. The failure to coordinate these discussions meant aid flows, the PIP, and the budget were not integrated. A final key lesson from the SEDP-I experience, therefore, is that if development strategies are to be implemented effectively, the PIP must be a genuine investment programming tool linked to annual (recurrent and capital) budget preparation. There is an emerging consensus on this issue, and the development of SWAPs and PAPs in the four priority ministries of Agriculture, Education, Health and Rural Development represents a response aimed at improving the planning-PIP-aid flows-budget linkages.

[14] Between 1996 and 1999, 88 percent of aid came in project form, much of it bypassing the planning and budgetary processes (CDC 2000).

ANNEX 2: POPULATION AND POVERTY

The fundamental development challenge is to reduce poverty and improve the quality of life of the vast majority of a growing number of Cambodians. This Annex first examines the characteristics of the population, providing a profile of the people who are the intended beneficiaries of development and a basic description of the human resources that can be mobilized for development purposes. It also draws attention to some population characteristics and trends that could undermine development efforts unless they are addressed realistically. The annex then examines the nature and causes of poverty, drawing not only on quantitative data, but also on the results of a nation-wide Participatory Poverty Assessment (PPA) conducted in late 2000. The PPA provided a means for the poor themselves to express their own views on the nature and causes of poverty and possible solutions. A third section examines specific vulnerable groups; and a fourth presents the gender mainstreaming strategies aimed at achieving gender equality and equity. Finally, a concluding section presents the key implications of the analysis for the formulation, implementation, and monitoring of a poverty reduction strategy.

2.1 POPULATION[15]

The 1998 General Population Census (MOP 1999b) was the first formal census in 36 years and makes it possible to incorporate essential population characteristics into development planning. In particular, the set of population projections prepared by the National Institute of Statistics on the basis of the 1998 Census results is an important tool (MOP 2000c).

While many of Cambodia's population characteristics are similar to those of comparable developing nations, they are often more extreme, and some show the distinctive results of recent decades of war and political instability. The key characteristics are considered below.

2.1.1 HIGH POPULATION GROWTH RATE

The 1998 census recorded a population of 11.44 million. During the Khmer Rouge years there was negative growth, but today Cambodia has a relatively high population growth rate compared to other developing countries in the region. Combining the results of the 1998 Census (MOP 1999b) and the 1996 Demographic Health Survey (MOH 1999c?) gives a growth rate estimate of 2.49 percent per annum during 1996-1998. Among ASEAN countries only Laos has a comparably high figure (2.90 percent per annum).

Projections based on the 1998 census show that – even if fertility comes down by a modest 0.4 births per woman over the next 5 years – the total population of Cambodia will increase by 1.70 million (or 12.0 percent) during 2001-2006; by 1.81 million during 2006-2011; by 1.86 million during 2011-2016; and by 1.80 million during 2016-2021 (Table 4.1). The tragic population losses during the 1970s have been more than made up by high fertility, especially in the baby boom of the early 1980s.

The key issue arising from the high population growth rate is that raising income per head and reducing poverty is made more difficult, since every extra person requires employment and additional, scarce capital in the form of schools, hospitals, equipment, and land. A related

[15] This section draws on the UNFPA Consultant's report by Adrian Hayes, "Population and Development Strategy for Cambodia", Ministry of Planning, Phnom Penh, October 2000.

issue is how to address the differential impact of high population growth on specific population groups. Lowering the population growth rate would facilitate the achievement of poverty reduction and economic growth objectives.

2.1.2 HIGH FERTILITY AND MORTALITY RATES

Fertility in Cambodia remains high. The total fertility rate (TFR) is estimated to be 5.3 live births per woman (MOP 1999c). This is significantly higher than for any other ASEAN nation except Laos. For example, the TFR for Thailand (1995-2000) is estimated to be 1.6.

Women born in the early 1980s are now entering their prime childbearing years, and the relatively large birth cohorts of the late 1980s and early 1990s will soon follow them. Consequently, even if the average number of births per woman declines steadily over the next one or two decades, the total number of children born each year will increase in the medium term and remain high because of the large number of women of reproductive age. Moreover, there is no convincing evidence that fertility has begun a significant decline in Cambodia. Reducing infant and child mortality is an important precondition for poor families to reduce their fertility. Couples will not be content with just two or three children if they are not confident that all these children will survive into adulthood and be able to take care of them in their old age. Socioeconomic development itself eventually removes many of the incentives for high fertility, introduces new incentives to limit fertility, and provides access to modern contraception, or the means to limit fertility. In particular, the TFR falls as women become better educated and enter the formal work force.

The key development issue arising from the high fertility rate is its detrimental effect on the health of mothers and their infants. High fertility is associated with women having children when they are too young or too old, and with inadequate birth spacing. It is also associated with women becoming pregnant when other medical conditions indicate this is not safe. High fertility also contributes to high population growth. This is especially the case when, as in Cambodia today, mortality has started to decline while fertility remains high.

At the end of the 1970s the infant mortality rate (IMR) in Cambodia is thought to have reached 263 per 1,000 live births, the highest in the world at the time. Life expectancy dropped to around 31 years. Mortality declined during the 1980s and early 90s largely because of lower infant mortality (Desbarats 1995, pp. 93,95); but mortality rates in Cambodia are still high by international and ASEAN standards. Estimates of the infant mortality rate are 89 per 1,000 live births for males and 72 per 1,000 for females. Estimates of life expectancy at birth are 54.4 years for males and 58.3 for females (MOP 1999c).

The key issue in relation to high mortality rates and development is to reduce mortality in line with the development goal of improving quality of life. High mortality denies people their fundamental right to a long and healthy life. It has differential impacts on particular groups – especially mothers, babies and children among the poor – threatening efforts "to achieve a fair, just and peaceful society and … to raise the living standards of all Cambodians" (RGC 1997, p.2). A related development issue is that high mortality represents a loss of human capital and undermines the effectiveness of efforts to improve productivity. As high mortality is associated with high morbidity, high mortality has further indirect effects on quality of life and labor productivity. Lower fertility and mortality rates are needed to foster a healthier population, to improve quality of life, and to prevent the loss of human capital.

Table 2.1 Projected Population by Age and Sex, 2001-2021 (end year)

		2001			2006			2011	
Age Group	**Male**	**Female**	**Both Sexes**	**Males**	**Females**	**Both Sexes**	**Males**	**Females**	**Both Sexes**
0-4	1026677	993031	2018708	1108391	1071827	2180218	1178304	1137798	2316102
5-9	938705	909096	1847801	986681	960182	1946863	1072734	1042245	2114979
10-14	896965	858147	1755112	925094	897605	1822699	974347	949936	1924284
15-19	784015	766854	1550869	884748	848407	1733156	913854	888773	1802627
20-24	536449	564352	1100801	768899	756179	1525079	869256	837980	1707237
25-29	391176	429415	820591	523923	554922	1078845	752599	744950	147549
30-34	406886	446920	853806	381534	421187	802721	512203	545488	1057691
35-39	354160	399555	753715	395872	437110	832982	372159	412995	785155
40-44	272009	342151	614160	342944	389151	732094	384478	426917	811395
45-49	189470	274724	464194	261425	331572	592997	330759	378212	708971
50-54	155444	214700	370144	179792	264029	443821	249075	319665	568740
55-59	120680	164453	285133	144802	203456	348259	168301	251179	419480
60-64	96417	131521	227938	109208	152142	261350	131847	189220	321067
65-69	74676	103644	178320	82995	116433	199428	94760	135680	230440
70-74	53317	74990	128307	59332	85250	144582	66679	96759	163438
75+	52066	77807	129873	60943	92282	153225	70417	108442	178860
Total	6348112	6751360	13099472	7216582	7581734	14798315	8141773	8466240	16608012

		2016			2021	
Age Group	**Males**	**Females**	**Both Sexes**	**Males**	**Females**	**Both Sexes**
0-4	1216639	1173309	2389948	1203463	1159309	2362772
5-9	1146832	1112221	2259053	1190262	1152506	2342768
10-14	1061353	1033052	2094405	1136671	1104357	2241028
15-19	963883	941957	1905840	1051376	1025779	2077155
20-24	899415	879236	1778651	950225	933253	1883478
25-29	852628	827044	1679672	883990	869265	1753256
30-34	737419	733843	1471262	837229	816359	1653588
35-39	500852	536193	1037045	722788	723026	1445815
40-44	362494	404450	766945	489193	526456	1015648
45-49	372079	416090	788169	351953	395265	747218
50-54	316374	365757	682131	357255	403595	760850
55-59	234270	305274	539544	298945	350600	649545
60-64	154171	234822	388993	215866	286853	502720
65-69	115307	169971	285278	135871	212439	348309
70-74	76968	113908	190876	94665	144130	238795
75+	81424	126852	208276	95644	151209	246853
Total	**9092108**	**9373979**	**18466086**	**10015395**	**10254403**	**20269796**

Source: MOP 2000c.

Note: The NIS population projections assume that life expectation at birth will increase by 2 years during each 5-year projection period. This assumption may be optimistic, given that it does not incorporate the estimated prevalence of the human immunodeficiency virus (HIV) of 3.75 percent in the adult population.

2.1.3 HIGH MIGRATION

Cambodia has experienced internal and international migration on a massive scale since 1970, but most of it has been the result of war, violent confrontation and political instability, rather than the result of people looking for opportunities to improve their quality of life. It has typically been associated with personal loss and trauma, disruption and despair. At the level of social organization, politically- and violently-induced migration is associated with erosion or destruction of social institutions (such as traditional community institutions of mutual help in many villages), and with the loss of human and social capital.

In the 1998 Census (MOP 1999b), persons who reported having a previous residence outside the place of enumeration comprised 31.5 percent of the total population. Among these, 37.0 percent reported the reason for migration (to place of enumeration) as "family moved"; the next highest reasons given were in search of employment (14.5 percent), repatriation/return after displacement (13.9 percent), and marriage (13.2 percent).

The key issues of recent, large-scale politically- and violently-induced migration (including return migration) for development are both societal and individual. At the societal level there is a need to take into account the loss of human capital for many villages, the loss or disruption of local social institutions and social capital of the sort that is needed normally to advance development, and the presence of vulnerable groups such as orphans, handicapped and demobilized soldiers. At the individual level, extreme psychological trauma affects motivation, ability to trust others, and overall emotional well-being. The effects of out-migration and in-migration and the special needs of affected communities and groups need to be examined before it is possible to formulate a strategic response.

2.1.4 IMBALANCES IN AGE AND SEX STRUCTURE

In 1998 children (aged 0-14) accounted for 42.8 percent of the population. The economically productive group (15-64) comprised 53.7 percent of the population, and the elderly (65 and over) just 3.5 percent. The age dependency ratio is 86 percent. This overall distribution is typical of a developing country at the early stages of the demographic transition, but there are features unique to Cambodia.

The 20-24 cohort is disproportionately small, while the largest cohort is the 5-9, followed by the 10-14 age group (Table 2.2). This reflects reduced fertility during the Khmer Rouge years of 1975-79, followed by a baby boom during the 1980s. The fact that the 0-4 cohort appears smaller than the two immediately older cohorts is most likely due to under-reporting and/or exaggeration of children's ages (MOP 1999b, p.14), and should not be interpreted as indicating a decline in fertility or evidence that the so-called demographic transition has begun. Above age 25 the size of each 5-year age group declines fairly regularly. There are similarly striking imbalances in the sex ratio. The Census counted almost 415 thousand more females than males, giving an overall sex ratio of 93.0 males per 100 females. The sex ratio is extremely low for age groups 40-44 and older, reflecting the exceptionally high mortality and out-migration from the country of adult males during the Khmer Rouge period (Table 2.3).

The imbalances in the age-sex structure have current and future implications for development planning in a number of areas. In some rural communities the shortage of men has caused labor shortages for some activities demanding physical strength, although increasing numbers of men are now entering the labor force. It seems likely that the surplus of women may have contributed to a deterioration in the status of women (Beaufils 2000, p.16; Desbarats 1995, p.211). Marriage patterns appear distinctive, with the proportion of adults (15 and over) married significantly higher for males (64.6 percent) than for females (58.4 percent), and the proportion of adults widowed or divorced much higher for females (14.5 percent) than for

males (2.4 percent). Imbalances in the sex ratio contribute to the large number of female-headed households.

Of the 2.16 million regular households in the country, 25.7 percent are headed by women mostly aged 40 and above (MOP 1999b). Female-headed households are not on average poorer than male-headed households, even after controlling for age of head of household (MOP 1998). This may reflect the fact that there are many households headed by aged widows with adult children who may or may not be married, but who hand over their earnings to the aged mother. Thus female-headed households are larger than male-headed on average and contain more income earners. Although available data do not permit a comprehensive analysis of female-headed households, women generally face more constraints than men in accessing resources and there is a perception that female-headed households comprise a major vulnerable group with special needs (see section 2.1.6).

As noted in section 2.1.2, the exceptionally large number of births in the early 1980s, followed by sustained high fertility, means that relatively large numbers are now entering their reproductive years. This will serve to keep overall fertility high, as measured by the crude birth rate (CBR), even if the average number of children per couple declines. The National Institute of Statistics (NIS) projections (MOP 2000c) suggest a CBR of 34.1 births per 1,000 population per year on average for 2001-2006, assuming the TFR will decline by 0.4 births per woman during this period. Whether the actual number of babies born is greater or lesser than that built into the NIS projections will depend on a number of factors, including the extent to which the current generation of young adults postpone marriage (especially as education and career opportunities expand), and the extent to which they delay the first birth and then space subsequent births.

In summary, in the context of high population growth the imbalances in the age-sex structure mean that future population growth will fluctuate and will not be uniform across all population groups. Such unevenness will probably be even more marked at the provincial level. Planning must therefore be fine-tuned as unevenly-sized age and sex cohorts pass through school years and require health, family planning, and other services. The imbalances also contribute to the formation of certain vulnerable groups, notably female-headed households, with their own special needs.

2.1.5 LOW LEVEL OF HUMAN DEVELOPMENT

Cambodia's Human Development Index score in 1998 placed the country in 136th position out of 174 developing countries. The low level of human development is also apparent in the population's health and education statistics. High mortality rates have been reported in section 4.1.2. Maternal mortality is reported as high as 473 per 100,000 live births and under-5 mortality as 115 per 1,000 live births. Among children under-5 an estimated 40 percent are malnourished by international weight for age standards (MOH 1999a, p.5; MOH 1999c).

The incidence of malaria is reported as 7.05 cases per year per 1,000 population, causing around 5,000 deaths a year. The incidence of tuberculosis is 4.5 cases per year per 1,000 population, producing a total caseload of over 40,000. These diseases are major causes of adult mortality, and are extremely debilitating for those who survive. TB and HIV comprise a co-epidemic. HIV increases the likelihood of those infected with TB developing the disease. The National TB program noted a 14 percent increase in cases in 1999. Since two thirds of the population are infected with TB, the HIV/AIDS epidemic will dramatically increase theTB burden (CENAT/JICA 2000, p.3).

Table 2.2 Age Distribution of Population, 1998 (percent)

Age Group	Male	Female
0-4	13.6	12.1
5-9	16.4	14.7
10-14	15.4	13.6
15-19	12.1	11.5
20-24	6.4	6.6
25-29	7.7	7.8
30-34	6.7	7
35-39	5.9	6.3
40-44	3.6	5
45-49	3.2	4.1
50-54	2.4	3
55-59	2	2.5
60-64	1.6	2
65-69	1.3	1.6
70-74	0.8	1.1
75-79	0.5	0.7
80+	0.3	0.4

Source: MOP 1999b, pp. 12,13.

Table 2.3 Sex Ratio by Age Group, 1998

Age Group	Sex Ratio
0-4	103.9
5-9	104.0
10-14	105.5
15-19	97.7
20-24	90.4
25-29	92.5
30-34	89.7
35-39	87.8
40-44	67.2
45-49	72.7
50-54	73.5
55-59	75.1
60-64	73.1
65-69	73.4
70-74	71.5
75+	67.6

Source: MOP 1999b, p. 14.

HIV was first detected in 1991 and has now been detected in all regions of the country, although the highest prevalence rates are in urban areas, and in the southeast, central provinces, and along the Thai border. It is estimated that at least 3.75 percent of all sexually-active adults (15-49) in the population are now HIV positive, that close to 50,000 people become infected each year, and that more than 12,000 new cases of full-blown AIDS occur each year. Cambodia's HIV prevalence rate is the highest in South-East Asia, and rising at the

highest rate. HIV/AIDS does not simply kill. It affects all social classes, leads to long periods of incapacity, often strikes people in their most productive years, and demands enormous resources from careers. A disastrous epidemic is likely unless swift preventative action is taken.

Educational and training levels are exceptionally low by developing-country standards. According to the 1998 census, only two thirds of the adult population are literate, and less than 5 percent of the over-25 population have completed the equivalent of high school. A survey conducted by the Ministry of Education, Youth and Sport in collaboration with UNESCO and UNDP found that only 37.1 percent were functionally literate (So and Supote 2000, p.2). This prevents people from participating adequately and working effectively in a rapidly developing society.

Poor population health not only means suffering for the sick, but prevents them and their carers from playing normal roles in society, and is a financial cost for families and the government. Low levels of education and training are a major contributing cause of poverty and place avoidable limitations on economic productivity and good governance.

2.1.6 GENDER INEQUALITIES

Females in Cambodia today do not enjoy equal access to the resources and benefits of development (Gorman 1999). Women are more disadvantaged than men by the lack of adequate health services (because of the health risks associated with pregnancy and maternity). They have less access to education, especially at the higher levels of educational attainment; less access to paid employment, again especially in the higher categories of the occupational scale; less access to land ownership and other property rights (because of inheritance customs); and fewer opportunities to ensure their views are included in political processes. Under such circumstances, women are particularly vulnerable to poverty, and are constrained from participating effectively in contemporary society.

Women suffer from poor availability of reproductive health services, especially in rural areas where they are most needed. NIS projections (MOP 2000c) for the rural population show an increase of 40 percent in the size of the 20-24 age group and 30 percent for 25-29 between 2001 and 2006, with a present mean age for marriage of 24.2 years for males and 22.5 years for females (MOP 1999b). Anemia is a major but preventable cause of maternal mortality and morbidity in Cambodia (Chhin, Chan and Sprechmann 1998). In addition, sexual health services related to the spread of HIV are needed to protect women and children. The critical need for increased family planning, sexual and reproductive health, and maternal and child health services is to be addressed by a new health sector plan and the ongoing reallocation of public expenditure toward the social sectors.

Studies conducted elsewhere show unequivocally that when reproductive health services are available educated women make better use of these services than uneducated women. According to the 1998 census, the adult literacy rate is 79.5 percent for males and only 57.0 percent for females (MOP 1999c). Of males 15 years and older, 47.6 percent are estimated to be functionally literate, compared to 29.1 percent of females 15 years and older (So and Supote 2000, p.2). Among literate persons 25 years and older, 51.0 percent of males but 68.3 percent of females have not completed primary school. In the current younger generations, such gender inequality appears to be continuing: of those aged 5-24 in the formal school system, 19.2 percent of males but only 13.3 percent of females are enrolled above the primary school level (MOP 1999d).

Gender equality is integral to the development process and cannot be separated from other population issues. The key issue is how to improve gender equity across a range of sectors in order to give women the skills and status needed to participate in contemporary society on an equal footing with men. In the education sector, ensuring that girls are enrolled in school and stay enrolled is imperative. In the health sector, encouraging better birth spacing and providing more accessible reproductive health services to the current generation of women will produce better maternal and child health and help reduce the current high rates of maternal and child mortality. Section 2.4 below presents the gender mainstreaming strategy to be implemented during SEDPII.

2.1.7 POPULATION DENSITY AND SELECTIVE POPULATION PRESSURE

The population density in Cambodia is 64 per km^2, varying between 235 per km^2 in the Plain region, 52 in the Tonle Sap region, 49 in the Coastal region, and 17 in the Plateau and Mountain region. This is not high by Asian standards, and significantly lowers overall than that of either Thailand (114 per km^2) or Vietnam (222 per km^2) (Jones 1999).

Nonetheless, population pressure is contributing to environmental degradation and undermining the local population's means of livelihood in certain areas. This is especially the case where some of the land traditionally controlled by the local community has been taken from them and converted to some other use such as a logging concession or a plantation. The local community is then forced to exploit the remaining area under its control more intensively. This results, in effect, in a less favorable population-to-land ratio, and may not be sustainable in the long term, especially where activities such as slash-and-burn cultivation take place and with a reliance on firewood for cooking by the poor. The large area of land, including some prime agricultural land, out of productive use because of mines further contributes to unfavorable population-to-land ratios in certain provinces.

Demographic growth in rural areas is leading to increased landlessness. Rapidly growing numbers of young people in rural areas are increasing the demand for land. A recent study by Oxfam (cited in Desbarats and Sik 2000) interviewed 4,000 landless households. Fifty-five percent of the households had never had land; 44.5 percent had owned land in the past but had sold it or otherwise lost it. Those households who had never had land consisted of two main groups. One group consisted of couples who had married since land was distributed in the 1980s and whose parents could not subdivide their own land any more. The other group consisted overwhelmingly of migrant and returnee households.

Population density in Cambodia is increasing in step with the country's relatively high population growth rate, and in certain areas pressure on natural resources and the environment will intensify. The key issue is to ensure that this selective pressure, and the need for short term profits and tax revenue, do not undermine long-term sustainable use. This is addressed in the context of the Government's National Environmental Plan.

2.1.8 URBANIZATION AND URBAN-RURAL DIFFERENCES

The urban population is projected to grow at an average annual rate of around 3.4 percent during the SEDP-II period, compared with a national rate of almost 2.5 percent. Although the urbanization rate is relatively low at 15 percent, this will increase rapidly and involve the increased dominance of Phnom Penh as the primate city, with approximately 10 times the population size of the next largest urban area. Pressures on an inadequate urban infrastructure will therefore grow. In response, there will be investments in water and sanitation, power, telecommunications, and transport systems; and also in land and urban management and construction standards.

Rehabilitation of the water supply system in Phnom Penh is ongoing; construction of the Sihanoukville water supply is planned for completion in 2002; and construction of a Siem Reap system will begin in 2002. Water supply systems will be restored and developed in Battambang, Pursat, Kampng Thom, Kampong Cham, Kampot and Svay Rieng; and a community sanitation and health awareness program will be implemented in Sihanoukville, Battambang, and Kampong Cham in 2001-2004. A long-term plan for rehabilitation and expansion of provincial water supply systems is under formulation. Private sector participation and cost recovery will be encouraged.

The land and urban management program covers the establishment of a land development policy, protection of natural sites threatened by unregulated urbanization, and preparation of urban development master plans for Phnom Penh, Sihanoukville, Siem Reap and other urban centers. It also includes the enactment and implementation of urban construction regulations, establishment of a soil/building testing laboratory, setting-up of cadastral services for property records, issuance of land title, establishment of services to provide geographical information systems, and topographical mapping. Table 2.4 presents the annual investment allocations for urban development for which the Municipality of Phnom Penh and the Ministry of Territorial Organization, Urbanization and Construction are the executing agencies. The total allocation for the SEDPII period of $63.4 million constitutes 3.8 percent of the PIP grand total. Other Ministries and agencies undertake urban projects that are included in their investment programs.

Socio-economic conditions are quite different in urban and rural areas, with rural residents more disadvantaged in many aspects of life. The *Cambodia Socioeconomic Survey 1999* (MOP 1999d) estimates the average monthly income of Phnom Penh households to be 1,139,553 riel, compared with 314,247 riel for rural households — 3.6 times higher. Adult literacy is 79.1 percent in urban areas, and 64.9 per cent in rural. Access to safe drinking water is 60.3 percent in urban areas, and just 23.7 percent in rural. Access to electricity is 53.6 percent in urban areas, 8.6 percent in rural. Access to toilet facilities is 49.0 percent in urban areas, 8.6 in rural. The percentage of the population with educational levels beyond primary school is 31.4 percent in urban areas, but only 12.8 percent in rural areas (MOP 1999b, pp.xi-xiii).

The overwhelming majority of poor people are rural, although urban poverty is also a significant problem. The number of new rural households formed in the first decade of the twenty-first century could exceed half a million (Desbarats and Sik 2000). Even accepting that not all these households will need land, these demographic trends still imply a substantial increase in the demand for land in a situation where landlessness is already a problem. They will also place extra pressure on other resources and increase the need for a range of basic health, education and other services. High fertility will exacerbate the problems of poor, rural families. A small family norm would help young landless couples in rural areas who might want smaller families than their parents to resist the social pressures from relatives and tradition-oriented community elders to have many children as soon as possible.

The key issue in relation to rural – urban differences is to ensure that the economic growth process is equitable and that social development is not skewed toward urban areas. This requires a focus on rural and agricultural development and an appropriate balance in the public investment program.

Table 2.4 Public Investment Allocations for Urban Development, 2001-2003
($ '000)

	2001	2002	2003
Municipality of Phnom Penh			
Water Resources, Water Supply and Sanitation	13,328	15,586	10,653
Environment & Conservation	5,635	4,465	2,200
Subtotal	18,963	20,051	12,853
Ministry of Territorial Organization, Urbanization and Construction			
Technical & Vocational	367	439	285
Land Management & Urbanization	4,103	3,983	2,395
Subtotal	4,470	4,422	2,680
Grand Total	**23,433**	**24,473**	**15,533**

Source: MOP, *Public Investment Program, 2001-2003.*

2.1.9 WORKFORCE PARTICIPATION

At the time of the 1998 Census, the economically active population or potential labor force (aged 15-64 years) was 5.1 million, equivalent to 45 percent of the total population. Labor force participation rates ranged from 61 percent for the 15-24 age group to 91 percent for the 35-44 age group. Rates for males exceeded those for females, with the exception of the 15-24 group, and were higher in rural than in urban areas. In addition, about 75,000 children aged 10-14 years were in the labor force, with participation rates of 2.7 percent in urban areas and 4.8 percent in rural areas. Almost 78 percent of the employed worked in the primary sector; 18 percent in the tertiary sector; and 4 percent in the secondary sector. The open unemployment rate in urban areas was 9.2 percent (6.7 percent for males and 12.2 percent for females); and in rural areas was 4.7 percent (4.3 percent for males and 5.0 percent for females). The Census did not present estimates of underemployment rates (the proportion of employed persons working less than 35 hours a week), but the *Cambodia Socioeconomic Survey 1999* (MOP 1999d) estimates that in urban areas the rates were 8.6 percent for males and 14.7 percent for females. In rural areas, the rates were 13.9 percent for males and 18.1 percent for females.

High rates of underemployment coexist with high average hours worked by the employed. The *Cambodia Human Development Report 2000* (MOP 2000a) presents estimates ranging from 51.8 hours per week for female workers in urban areas to 57.3 hours per week for male workers in rural areas. This work is generally low paid or low productivity, so that labor force members hold multiple jobs or engage in mutliple income-earning activities. Approximately 35 percent of all workers have more than one occupation. In rural Cambodia, 41.1 percent of males and 34.0 percent of females are involved in multiple income-earning activities, reflecting the low productivity of agriculture. Most workers are self-employed (87 percent of females and 79 percent of males), with the remainder earning wages in government (9 percent of males and just 2 percent of females) and the private sector (10 percent of males and 9 percent of females). Overall, only 15 percent of workers aged 15 and over are wage employees, while 85 percent are own-account or unpaid family workers. Amongst wage employees, average monthly wages for males are 27 percent higher than for females; are highest in Phnom Penh and in the trade, utilities and manufacturing sectors; and are higher for individuals with upper secondary education.

Thus there is already significant unemployment and underemployment, and a problem of low incomes for the employed. Solving these problems is made more difficult by the rapid growth in the labor force that is due to the entry of the large age group born during the 1980s. The population aged 15-64 is estimated at 7.04 million in 2001, and projected to be 9.68 million in

2011. In other words, the labor force is projected to grow at over 3.2 percent per year, meaning that there will be around 228,000 new entrants to the labor market annually, most of whom will have a low skills level. Providing productive employment for these new entrants, and for demobilized soldiers and retrenched civil servants, will be difficult, and will require a rapid expansion in labor demand from the private sector (both formal and informal). The Government's efforts to facilitate private sector-led development and to develop human resources are therefore of crucial importance.

2.1.10 CONCLUSION TO POPULATION

There are several population trends and characteristics which to varying degrees present obstacles to development and poverty reduction, and which therefore need to be taken into account in development planning. The most important is the relatively high rate of population growth. Current rates of high mortality and high fertility are among the most basic barriers to poverty reduction and development. They threaten to erode the gains that are made in other ways. During the SEDP-II period, the key population strategy will be aimed at bringing about demographic change through the formulation and implementation of social policies (especially in the areas of health, education and gender), rather than through attempting to bring about direct demographic change.

2.2 POVERTY

A key characteristic of Cambodia's population that warrants detailed attention is the high incidence of poverty. According to 1997 socio-economic survey data, approximately 36 percent of Cambodia's population is living below the poverty line (MOP 1999a). Assuming the headcount index is unchanged in 2001, this translates into 4.6 million people living in poverty. The reality of poverty is complex, but it is generally defined to be multidimensional deprivation. The dimensions include low income and consumption; a lack of physical necessities and assets; a lack of access to basic services; isolation; vulnerability to shocks and a lack of means to cope with shock-induced losses; and powerlessness. This section provides an analysis of poverty in all its dimensions. It begins with the available quantitative data and proceeds to the results of a nation-wide Participatory Poverty Assessment (PPA) that provides a vehicle for the voices of the poor themselves to be heard.

2.2.1 THE INCIDENCE OF POVERTY

Standardized quantitative measures provide a starting point for understanding poverty. These include the Human Development Index (HDI), the Gender-Related Development Index (GDI), the Gender Empowerment Measure (GEM), the Human Poverty Index (HPI), the Gini coefficient, and measures of the incidence of poverty that involve the definition of a poverty line in monetary terms and its comparison with income or consumption expenditure data collected from a household income and expenditure survey.[16] Headcount, poverty gap, and poverty severity indices can then be calculated to establish a baseline against which to set targets and monitor progress in reducing poverty.

The HDI is a composite measure of longevity (as measured by average life expectancy at birth), educational attainment (as measured by a combination of adult literacy and combined primary, secondary and tertiary enrolment ratios), and standard of living (as measured by real GDP per capita in purchasing power parity terms). The HDI for Cambodia was briefly discussed above in section 2.1.5 with reference to the global *Human Development Report 2000* (UNDP 2000), which shows a score of 0.512 and a ranking of 136 amongst 174

[16] See Technical Notes for explanations of the various indexes.

countries. The more recent *Cambodia Human Development Report 2000: Children and Employment* (MOP 2000a) shows a slightly different score of 0.517 because of variation in data sources used; but Cambodia still ranks low on the human development scale. Of 12 countries in Asia covered in the report, only Laos and Bangladesh have lower HDIs. The HDIs from three earlier human development reports were lower than 0.517, but the rise does not necessarily imply a significant improvement because of a change in the HDI formula. On the basis of the relationship between HDI and real per capita GDP in purchasing power parity terms for the 12 Asian countries, Cambodia's level of human development is consistent with what would be expected given its level of per capita income.

The GDI takes into account gender inequalities in life expectancy, educational attainment and living standards. Cambodia's GDI of 0.514 is also among the lowest in Asia, ranking the country ahead of Pakistan, Laos, and Bangladesh. The GEM is a measure of the relative participation of women and men in political and economic activities, comprising the representation of women in legislative bodies, in administration and management, and in the technical-professional field, relative to their representation in the general population. It includes a measure of income, adjusted for the relative disparity in the male and female shares of earned income. Cambodia's GEM at 0.283 is lower than those of three other Asian countries for which calculations are available - Bangladesh, Sri Lanka, and the Philippines - as reported in the global *Human Development Report 2000* (UNDP 2000).

Average scores for a country can conceal disparities among social groups. The HDI score for urban Cambodia (0.604) is 21 percent greater than that for rural Cambodia (0.500). The richest 20 percent of Cambodians have an HDI score of 0.623, which is 40 percent greater than that of the poorest 20 percent (0.445). The GDI shows similar disparities. While the HDI, GDI, and GEM are relevant for a holistic assessment of poverty, a core index in this context is the Human Poverty Index (HPI). This is based on the percentages of children under 5 who are severely stunted and moderately or severely underweight; the percentage of the population not expected to survive to the age of 40; the percentage of the adult population that is illiterate; and the percentages that have no access to safe water and health services. The HPI for Cambodia in 1998 is a high 38, surpassed only by Pakistan and Bangladesh. By way of contrast, Vietnam's HPI score is 28 and the lowest, the Philippines, is 16. When disaggregated to reveal differences between urban and rural areas, the HPI index for the rural population is 41 compared to 28 for the urban population. The HPI for women (40) is higher than that for men (37), primarily because of greater illiteracy. Unsurprisingly, there are also large disparities across economic groups, the HPI score of 45 for the poorest 20 percent of Cambodians being 55 percent higher than the 29 for the richest 20 percent.

The distribution of income in Cambodia is more unequal than in other Asian countries at comparable income levels, with an overall Gini coefficient of 0.42 (Table 2.5). The coefficient is higher in Phnom Penh (0.46), and lower in rural areas (0.33). Such coefficients do not by themselves provide evidence of the incidence of poverty. Rather, they draw attention to the fact that the reduction of poverty depends significantly on growth in the incomes of the poor, which is a function of the pattern of economic growth. The East Asian economic experience of the period 1965-1995 demonstrates that accelerated growth can be combined with reduced inequality to accelerate the rate of poverty reduction (World Bank 1997). Economic growth is generally good for the poor, but growth with increasing inequality limits the extent of poverty reduction and conceivably could even increase the incidence of poverty. In this regard, it should be noted that limited data suggest that between 1993-94 and 1997, total real per capita consumption in Cambodia increased by 11.8 percent, but that the increase for the poorest 20 percent of the population was just 1.7 percent, and that for the richest 20 percent of the population was 17.9 percent (MOP 1999a, p.32).

Measurements of the incidence of poverty in Cambodia have been based on a poverty line defined as the cash equivalent of food consumption providing at least 2,100 calories of energy (plus 58 grams of protein) per person per day, plus a small allowance for non-food consumption to cover basic items like clothing and shelter. Data from household socioeconomic surveys conducted in 1993-94, 1997, and 1999 have been used to estimate the headcount index – the proportion of the population whose expenditure levels fall below the poverty line – though the numbers arrived at are not strictly comparable because the surveys differ in coverage and methodology. The headcount index for 1993-94 was 39 percent, with 22 percent of households below the food-only poverty line (RGC 1999). The incidence of poverty was lowest in Phnom Penh at 11 per cent; was 37 percent in other urban areas; and was highest in rural areas at 43 per cent. Poverty rates were highest in households headed by farmers (46 per cent) and lowest in households headed by public sector workers (20 per cent). More than 75 per cent of the poor lived in households headed by farmers.

The headcount indexes for 1997 were 36.1 percent overall, 17.9 percent for the food-only poverty line, 11.1 percent for Phnom Penh, 29.9 percent for other urban areas, and 40.1 percent for the rural population. Approximately 3.7 million, or 89.5 percent, of the poor were in rural areas, with the highest poverty rate of 44 percent found amongst households headed by farmers (MOP 1999a). Poverty rates were also high in households whose head had no formal education (42 percent) or only some primary schooling (40 percent), these two groups accounting for 80 percent of the poor. In contrast, poverty rates were much lower for households whose heads had lower secondary education (24 percent) and higher secondary education (12 percent). The incidence of poverty averaged 33 percent in female-headed households, compared with 37 percent in male-headed households, possibly reflecting the former's relatively greater number of adult income earners. The average size of poor households (5.8) was greater than that of rich households (4.2). Analysis of data from the 1999 socio-economic survey suggests a total headcount index of 35.9 percent.

The headcount index shows what percentage of the population is poor, but does not show how far the poor fall below the poverty line. The poverty gap index is the total amount of money that would have to be transferred to bring the income of every poor person up to the poverty line, divided by the total population, and expressed as a percentage of the poverty line. The 1993-94 gap was 9.2 percent, ranging from a low of 3.1 percent in Phnom Penh, through 9.6 percent in other urban areas, to 10.0 percent for rural areas. On the basis of the 1997 data, the gap index is 8.7 percent in total, and only 3.5 percent if the food-only poverty line is used. The index values for Phnom Penh, other urban areas, and rural areas are 2.2, 7.5, and 9.7, respectively. The poverty severity index is an additional measure that takes into account the distribution of per capita consumption of the poor. This index was unchanged at 3.1 in 1993-94 and 1997, ranging in the latter year from 0.6 in Phnom Penh to 2.7 in other urban areas, and 3.4 in rural areas.

Table 2.5 Gini Coefficients for Selected Countries

Country	Gini Coefficient	1998 GNP per capita
Bangladesh (1992)	0.28	350
Lao PDR (1992)	0.30	330
Pakistan (1991)	0.31	480
Indonesia (1993)	0.32	680
Mongolia (1995)	0.33	400
India (1992)	0.34	430
Vietnam (1993)	0.36	330
China (1995)	0.42	750
Cambodia (1997)	**0.42**	**280**
Philippines (1994)	0.43	1,050
Thailand (1992)	0.46	2,200

Source: MOP 1999a, Table 1.3, p.16.

The key message from the estimation of these additional indexes is that on average the poor are living close to the poverty line, and that consequently there is considerable potential for poverty reduction through growth with equity. None of the indexes measures the distribution of poverty *within* households, which may be an important gender-related issue (see Kabeer 1995, p.138 for evidence from other countries).

2.2.2 THE DIMENSIONS OF POVERTY

Food is the most basic human need and rice is the staple food of all Cambodians. In 1995 Cambodia achieved its first (modest) surplus since the eve of the civil war in the late 1960s, and surpluses have been recorded in every subsequent year. However, there are many Cambodians who lack access to this basic necessity due to insufficient purchasing power (rice being sold in Thailand and Vietnam for higher prices than the very poor can afford) and poor transport and marketing systems. Also, the agricultural production system remains highly vulnerable to natural disasters and pest damage, leading to large fluctuations in yields. Despite the current surplus, nearly half of the 24 provinces are food deficit areas and a significant proportion of the population is unable to meet minimum rice requirements, the critical periods generally being mid-July to mid-October. Groups such as the internally displaced or returnees are particularly vulnerable to food insecurity. In addition to the lack of sufficient rice for many, consumption of rice alone is insufficient to meet dietary needs. For much of the population, rice accounts for over 70 percent of calorie intake and represents about 40 percent of food expenditure, but fish, fruits and vegetables, fish paste (*prahok*), and oils and fats are also needed (MAFF/FAO/UNDP 2000, pp.21-22). In Prey Veng, Kompong Speu, and Kandal provinces, rice constitutes over 80 percent of the calorie intake (MOP 1999c). The non-poor gain more of their calorie intake from the more expensive, non-rice foods.

The predominance of rice in the local diet is a major maternal and child health issue. Rice lacks important nutrients such as iron, thiamin and Vitamin A. Women and young children are particularly susceptible to diseases like anemia and beriberi. The prevalence of anemia in children under the age of 5 is 74 percent, compared to the regional average of 65 percent. For pregnant women the rate is 77 percent compared to the regional average of 80 percent, and for non-pregnant women it is 61 percent compared to the regional average of 60 percent. Under-nutrition in children 6-59 months in 2000 is indicated by estimates that 13 percent of children are wasting, 44 percent are underweight but not wasted, and 48 percent are stunted.

This suggests that not enough food rich in Vitamin A (fish, pumpkin, potatoes, ivy gourd, kang kong and eggs) is consumed by the very poor. The links between poverty and inadequate food are clear.

Non-food necessities — defined to include housing and utilities, education, health, transport and clothing but not ceremonial expenditure — account for 38.9 percent of average monthly per capita consumption on a national basis. In Phnom Penh the percentage is the highest at 60.4 percent, followed by 42.2 percent in the Plains region, 41.2 percent in other urban areas, 35 percent in the Uplands region, 34 percent in the Tonle Sap region, and 33.4 percent in the Coastal region (MOP 1999c, p.126). Nationally, the poorest decile spent 23.8 percent on non-food necessities and the richest decile 59.7 percent. In Phnom Penh the poorest decile spends 37.4 percent, the richest decile 75.4 percent. In other urban areas the percentages are 24.4 percent and 63 percent respectively, and in the rural areas 23.1 percent and 42 percent, respectively (MOP 1999c, pp.128-130).

Land is a critical asset for rural Cambodians; and although there is idle arable land, ownership is unequally distributed, there is population pressure on effectively available land in many areas, and tenure is often insecure. The richest 10 percent of households in surveyed communities owned 40 percent of the land, whereas the poorest 40 percent of households owned just 12 percent of the land (World Bank 2000a, p.5). Much usable agricultural land remains contaminated by mines and other unexploded ordnance. 1997 data suggest that only 0.33 hectares of land is available on a per capita basis; and that 14.4 per cent of rural households are landless, with the proportion varying from 8.6 per cent in the Coastal region to 17.3 per cent in the Tonle Sap region (MOP 1997c). Between 1990 and 1999, the cultivated land area per capita in rural Cambodia declined from 0.29 ha/capita to 0.21 ha/capita, a decline of nearly 30 percent. This growing population pressure on land has resulted in three undesirable consequences: (i) a reduction in farm size and an increase in fragmentation; (ii) migration of labor to urban areas; and (iii) an increase in landless people, with about 13 percent of farmers not owning any land (Oxfam 2000). Some of the poorest villages may appear to have relatively high per-capita availability of agricultural land, but this is because it is often less fertile and less irrigated. Generally, securing land rights is difficult, and there are frequently violent disputes over land ownership and use, including in urban areas where rising land and housing costs prevent access to adequate shelter for the poor.

Access to land continues to be a particular problem for returnee refugees. Land reserved for returnee refugees in most provinces was generally low-quality land, affected by mines or lack of security. In some cases the land was already occupied. One survey of returnees found that only 15 per cent of returnees but 79 per cent of local villagers had access to cultivable land and that the land holdings of returnees were on average one-third smaller (MOP1999e, p.18).

Physical infrastructure serving the poor is inadequately developed and maintained. The secondary road network is so rundown as to virtually isolate many rural areas, while most tertiary roads are impassable during the wet season. Illegal road taxation compounds the problem of poor, high-cost transportation. According to the 1998 Census (MOP 1999b), only 24 percent of rural households have access to safe drinking water, compared with 60 percent of urban households. For the poorest 20 percent of the rural population, the percentage with access to safe water falls to 4 percent. Access to sanitation facilities is similarly low at 8.6 percent in rural areas, compared with 49 percent in urban. Over 94 percent of rural households rely on firewood as the main fuel for cooking, while 86 percent relies on kerosene as a source of light. Less than one percent of rural households have access to publicly provided electric lighting. Access to a telephone service is similarly low in rural areas

Approximately half of rural villages have access to primary schools offering all grades; only 5 percent to a lower secondary school; and less than 2 per cent to an upper secondary school

(MOP 1999a). This means that about 50 per cent of children have to commute outside their village, even to attend a primary school. The average distance to the nearest primary school is 1.2 kms; to the nearest lower secondary school 5.6 km; and to the nearest upper secondary school 10.8 kms. Distances are longer for children from the poorest 20 percent of households, reaching 6.9 km to the nearest lower secondary school and 11.9 km to the nearest upper secondary school. The poor road network worsens the problem of access, which is so severe as to effectively prevent rural children from being day students at the secondary level. In addition, the schooling of poor rural children is of inferior quality in terms of pupil-teacher ratios, the training level of teachers, and availability of classroom materials including textbooks.

The population's use of health services is low by regional and developing country standards. Average annual contacts per person per year are 1.19, compared with 3.2 for Vietnam and around 2 for most developing countries. The figure in rural areas (1.17) is slightly below the national average, while it is surprisingly low in Phnom Penh (1.02) and 1.49 in other urban areas. For the poorest 20 percent of households, the figure drops to 0.73, as against 1.60 for the richest 20 percent. Private providers account for 46 percent of annual contacts; self-medication via drug vendors for 21 percent; and public sector providers for 32 percent. The poorest 20 percent of the population exhibits relatively high rates of nontreatment (almost 39 percent) and reliance on self-medication (27 percent). They also rely more than the rich on public providers who deliver relatively poor health care services (MOP 1999a). Access to health services by the poor is constrained by high costs and physical distance. Households finance 82 percent of total health spending, with some poor households spending over a third of household income to meet health care needs that are increased by the lack of clean water and sanitation facilities. For the poorest villages, the nearest public clinic is an average 4 kms away, compared with 1.4 kms for the richest villages. The respective figures for the nearest drug vendor are 9.4 kms and 2.3 kms; and for provincial hospitals 32.6 kms and 8.6 kms (MOP 1999e, pp.36-37).

The formal banking and financial system is largely confined to Phnom Penh. Poor rural households are forced to rely mostly on informal credit markets, usually moneylenders, in order to borrow funds for essential expenditure. The cost of credit in these markets is high, with interest rates of 10-30 percent per month. NGO and donor-financed programs had provided a total of US$23.8 million to about 470,000 clients at the end of 1998. However, the microfinance component of this lending was just $228,000, or barely one percent, so that the poorest of the poor were not being reached (MOP 1999a, p.71).

Thus it is clear that the poor are disadvantaged by lack of adequate access to physical assets and essential services, and that this severely constrains their ability to increase their income and social welfare. Other interrelated dimensions of poverty include social exclusion and a sense of powerlessness, vulnerability, and inadequate coping mechanisms.

There are three aspects of social exclusion in Cambodia: (i) illiteracy; (ii) access to decision making; and (iii) corruption and poor governance (MOEF 2000). As reported in section 2.1.5, a survey conducted by the Ministry of Education, Youth and Sport found that only 37.1 per cent of the adult population were functionally literate (So and Supote 2000, p.2). The survey also confirmed the connection between illiteracy and poverty demonstrated by 1997 socioeconomic survey data: the incidence of poverty among households whose heads were reportedly illiterate was 42 percent, compared with 34 percent for those whose heads were reportedly literate (though differences were greater between those households whose heads were primary school leavers and those whose heads were secondary school leavers). Farmers, fisher-folk, housewives, laborers and highland minorities are groups with high levels of illiteracy. Gender imbalances are also severe: 47.6 percent of men are literate, while only about 22 percent of women can read and write. People aged 25 to 40 have a higher illiteracy

rate than other age groups because they were deprived of education during the decades of civil war and political instability. Illiteracy is the basis of long-term social exclusion in the wider society.

The lack of access to decision-making has prevented the poor from actively participating in the formulation of policies, plans, programs, and projects, which in turn has inhibited efficient and effective implementation, and exacerbated tensions between local authorities and local populations. Many existing laws and regulations were adopted without consultation with local communities. New problems are emerging, such as land disputes and HIV/AIDS, in which the interests of the poor need to be protected. The poor -particularly the most disadvantaged groups such as internally-displaced people and refugee returnees, war widows, orphans, street children, squatters, and people with disabilities - have little or no influence.

Corruption is a major problem that adversely affects the poor, both by its negative effect on sustainable economic growth and government revenue, and by the direct costs imposed on households. In the latter regard, rent-seeking in the form of illegal fees for education and health services is especially burdensome. The poor are also victims of illegal logging that destroys forests as a community resource, arbitrary reallocation of fishing resources to private commercial interests, and land grabbing by influential officials and business interests. Feelings of powerlessness are an inevitable result of this social exclusion. The quality of public administration is low, especially at the provincial level, and makes for poor delivery of basic services. Again, the poor find themselves in a powerless position. Governance reforms and decentralization efforts are intended to address these problems.

A key aspect of the lives of the poor is vulnerability to natural shocks (some of disastrous proportions). Large proportions of the population are dependent on rain-fed agriculture and live alongside rivers prone to seasonal flooding. Some 444,000 hectares of agricultural land, in over half of all provinces, were affected by the 2000 floods. Of this, 71.8 percent was used for the cultivation of the traditional wet season rice crop. Damage occurred to other crops (maize, vegetables, peanuts, sesame, sugarcane, and mung bean), to rural infrastructure in three provinces, and housing in four provinces. Other natural disasters including drought, crop failure, and fire also have differential impacts on the provinces.

The 1997 socioeconomic survey shows that in villages inhabited by the poor, flood, drought, and crop failure are more frequent than in villages inhabited by the rich. In the 12 months preceding the survey, 81.9 percent of the poorest villages experienced some form of natural disaster compared to only 25.8 percent of the richest villages (MOP 1999e, pp.22-23). Drought affected 24.2 percent of the poorest villages compared to 14.5 percent of the richest villages; flood affected 62.1 percent of the poorest villages but only 18.0 percent of the richest villages; and crop failure affected 12.6 percent of the poorest villages and just 3.1 percent of the richest villages. Not only are poorer villages more likely to experience natural disasters than better-off villages, but also they are less able to cope because of their lower wealth and extremely limited disaster management capabilities. Disasters can force borrowing and asset sales that undermine the prospects of climbing out, and staying out, of poverty.

Bad health and illness can generate major crises for the poor, also. The most common complaints in rural areas are malaria, dengue fever, tuberculosis, diarrhoea, hepatitis, typhoid, cholera, and birth complications. Health shocks induced by these complaints often lead to indebtedness and asset liquidation. There is also the opportunity cost from labor days lost by both the ill and their caregivers. A village level study undertaken in 1996-97 found that days lost per household ranged from 7.6 days in Prey Veng to 18.7 days in Kandal (Murshid 1998, pp.53-54). Once people living with HIV/AIDS reach the terminal stages, health care expenditures and labor days lost are likely to be even greater.

Animal mortality and disease is systemically linked to other crises that impact upon rural Cambodians (Murshid 1998, p.54). Raising livestock is important for most rural households. While they are unlikely to own draught animals, the poor - especially women - try to raise pigs and poultry, livestock acting as a savings mechanism for times of need. The loss of livestock due to illness or theft means that many rural households have no way to meet the expenditure necessary for crises associated with natural disasters, and the illness or death of household members.

In general, the ability of a household to respond to adverse forces, irrespective of their origin, depends on its ability to command resources. For the poorest households, this is a severe constraint, which forces a choice between a narrow set of usually undesirable alternatives. In the absence of savings or other resources, reliance is placed mainly on labor assets (including migration). Work in garment factories has been an option for young females as has work in the services sector - including the hospitality industry (with its attendant risks of becoming paid sex workers and being exposed to a range of afflictions, including STDs, HIV/AIDs, drug abuse, and physical violence). Crossing the border to work in Thailand is another option. Other actions have included increasing hunting and gathering, distress sale of capital assets (if any), and borrowing for consumption purposes. Frequently, labor, credit and grain markets can become interlocked, forcing the poor to under-sell their labor, especially female labor in order, for example, to repay consumption loans. Village level studies show the importance of access to common property resources: all but five of 240 surveyed households considered this to be a moderately or very important issue (Murshid1998, p.56). Sustained access to these resources has become a key issue since 1993.

One village level study has documented how households think they will adjust, or have adjusted, to crises that have or might impact upon them. The findings are reported in Table 2.6, and show the heavy reliance on borrowing, migration, and land sales as coping strategies.

2.2.3 THE GEOGRAPHY OF POVERTY

Poverty mapping undertaken by the United Nations World Food Program (WFP) provides a geographically disaggregated assessment of the incidence of poverty. It identifies the poorest areas in Cambodia by using a combination of different in-depth quantitative poverty analyses carried out during the period 1997-2000. This analysis has generated sub-Province information on the distribution of poverty that can assist the Government in targeting resources.

Table 2.6 Adjustments to Crises (percentage of households noting if response important)

Response	Very Poor	Poor	Marginal (negative)	Marginal (positive)	Well-off	Rich
Reduce Consumption	50.0	29.4	5.4	18.0	3.8	5.3
Take out high-interest credit	21.0	47.0	46.0	36.0	28.0	5.3
Reduce Savings	50.0	35.0	49.0	54.0	46.0	74.0
Sell gold or Jewellery	29.0	24.0	41.0	34.0	27.0	47.0
Sell land	42.9	23.5	8.1	13.1	8.1	-
Sell animals	14.0	29.0	35.0	39.0	32.0	58.0
Migrate	35.7	13.1	11.8	8.1	14.7	-
Seek support from relatives	64.0	53.0	51.0	72.0	74.0	53.0

Source: Murshid 1998, Table 8.6, p.57.

Two data sets have been used in the new WFP analysis. One is the 1999 in-depth socio-economic survey of 6,000 households, and the other is the Census of 1998, both undertaken by the Ministry of Planning. These have been combined to generate a clear spatial estimate of poor areas that can in turn be validated against earlier poverty analyses The analysis theoretically permits estimation down to the household level, but statistical errors currently prevent use below the commune level.

One of the important indicators collected in the Cambodia Socio-Economic Surveys is "consumption expenditures" of people. These are calculated by adding both self-production consumption expenditures and bought-consumption expenditures. The Government-accepted poverty and food poverty lines are consumption expenditure levels below which a household is considered poor. The Socio-Economic Surveys only permit national poverty estimates to be made, whereas the WFP methodology allows for extrapolation to the commune level. This methodology involves running a multiple regression of the following form:

Using the four sources of information, three sets of poor communes were identified on the basis of criteria shown in Table 2.7, in order to identify those that should be targeted for food aid. The total number of communes classified as poor in this stage of analysis was 358 communes, representing about 2,431,000 people, or 20 percent of the population.

Table 2.7 Selection Criteria for Identification of Poor Communes

Information Sources	Set I	Set II	Set III
Poverty Maps (2000)	> 40%	> 40%	> 50%
1999 5-Indicator Poverty Index	25% poorest		
1998 High Priority Districts Index	25% poorest	25% poorest	
1997 Poverty Index of 550 Communes	25% poorest	25% poorest	
Total Number of Communes Selected	70	198	90
Projected (2001) population in identified communes	505,000	1,502,000	424,000

The poverty indexes for 1997, 1998, and 1999, and field staff information, were used as independent data sets to permit better targeting of the poorest communes. The poverty mapping exercise will be used by WFP to target food aid to numerous communes in 2001. However, the analysis was performed using a fairly limited census data set, and it can be improved with the use of more information from the census and technical refinements, bearing in mind that the headcount index has its limitations, as noted earlier in this annex. During SEDPII, WFP will coordinate closely with UNDP, WB, ADB and others in its continuing efforts to improve poverty analysis and thereby better target interventions to help the poorest people.

2.2.4 LISTENING TO THE POOR

Quantitative data gathering and analysis, while essential to an understanding of poverty, cannot capture how the poor themselves perceive their life situations and what interventions they consider relevant to improving their welfare. Participatory Poverty Assessments (PPAs) are intended to fill this gap in understanding, and have been supported by the World Bank in the preparation of its poverty reduction strategy for the first decade of the new millennium, and by the Asian Development Bank (ADB).

Between late October and mid-December 2000, 154 villages in 70 communes in all 24 provinces and municipalities of Cambodia and 15 non-rural socioeconomic groups (orphans and street children, sex workers, garment workers, and seasonal migrant labor in Phnom Penh) participated by way of Focus Group Discussions (FGDs) in the first Cambodian PPA. Of the 169 FGDs, 47 percent were held in the Mekong Plain Region, 29 percent in the Tonle Sap Region, 12 percent in the North-Eastern Mountain Region, and 12 percent in the Coastal Region. More than 50 percent of participants were female, and 13 percent were from ethnic minorities. In addition to the FGDs, selected semi-structured interviews with key informants were undertaken to clarify some of the issues raised in the FGDs, or to obtain a more extensive historical background to poverty in villages.

According to FGD participants, there are five broad socioeconomic strata in villages:

- Poorest households (*toal, kror bamphot, kror menten, kror dek kraom doeum toal, kror niyeay leng chenh, ...*)
- Poor households (*kror, kror thoamda, ...*)
- Lower-medium (*kror lmom, kandal, ...*)
- Middle-income households (*mathyum, lmom, krubkroan, kandal, ...*)
- Upper-income households (*thouthear, neak leu, kroan beu, ...*).

The poorest households typically have between 5 and 12 children, and possess no assets in the form of pigs, poultry, draft animals, farm implements, or boats. They have no land or very little (between two and three hundred square meters, or 2-3 ares); and if they have a home-lot, it is usually small with dilapidated huts the size of chicken cages. Cooking ware is limited to a pot, and household members work from hand to mouth, facing a shortage of food for 8 months or more in the year. When starving, these people seek food from relatives and neighbours, attempt to sell their labor, and try to borrow to buy food; but their options in these areas are severely limited. They collect crabs, snails, water lily, and water convolvulus from rice fields; and bamboo shoots, roots, tubers, and vegetables from the forest.

The poor households possess some land (between 0.2 and 0.4 hectares), although it may be of poor quality (on steep hillslopes for example). They also have some poultry, one or two pigs, one or two draft animals (which may be in poor health), and some farm implements (plow or harrow); but they are unlikely to have a boat. Poor householders live in palmed/thatched huts with earthen or, occasionally, bamboo walls, floor mats, and some cooking pots. They face a food shortage for between 3 and 6 months in the year.

The lower-medium households possess between 0.5 and 1 hectare of land, a draft animal, and one or two pigs. They have wooden or bamboo houses with palmed or thatched roofs. Food shortage is a problem for 3 or 4 months of the year. With the poorest and the poor households, these households make up the poor population of villages.

The middle-income households generally have adequate food, but can face shortages for 1-3 months if they must meet ceremonial obligations such as a wedding or cope with ill health. They have land (up to 0.6 hectares), between 2 and 4 draft animals, farm implements, an old motorbike or boat, and some cash holdings. They also often run small businesses, and live in wooden/bamboo houses. The upper-income households possess larger tracts of land (over one hectare), a pair of draft animals, and farm equipment (plow, harrow, and oxcart). They produce sufficient food for household consumption year round, have a small food surplus for exchange, and can lend cash. Their houses are made of wood and roofed with tiles or corrugated iron.

Overall, being hungry is the primary concern of the poor (see Box 2.1). The PPA found that significant numbers of poor people, particularly women and children, have to spend an inordinate amount of time year round foraging for food. As a consequence they have no time to participate in village level activities. However, most FGD participants stated clearly that if they had enough food they would be able to participate in village activities, including the construction or rehabilitation of existing physical infrastructure.

Another important finding is that in rural Cambodia, the poorest people have few, if any, assets (land, draft animals, and housing). It is clear that when the poor face a major life crisis, usually arising from natural disaster, illness or death of a family member, it is necessary to dispose of what few assets they may have (Box 2.1).

Land issues are very important to the poor. These include limited land per household, low productivity of land, the presence of land mines, and landlessness (especially for demobilized soldiers). The way in which land mines can cause a descent into poverty is illustrated in the following quotation:

> *My family had about 20 ha of land, three tractors, a sedan, a motorbike, and other materials. ... One day my workers drove on land mines and the tractors were blown up. The drivers died. I had to sell my assets to compensate their lives and organise their funerals. ... My husband fell ill, as he was so depressed. I fell into poverty by then.* (A widow in Kamrieng district, Battambang).

Educational opportunities are non-existent or limited for the poor. Nearly 20 per cent of all FGD participants stated their children could not attend school because of a lack of physical accessibility, especially in the Northeastern Mountainous Region where minorities reside. Another constraint is imposed by the cost of transport, clothing, learning materials, and unofficial fees imposed by underpaid teachers. Lack of teachers, absenteeism, and poor teacher quality are also identified as problems. Girls are more likely than boys to be kept out of school for a range of domestic and non-domestic activities than young males. The consequences of limited access are summarized starkly in two of the FGDs:

> *We want to send our children to school, but there is no school and teacher. This means that we are illiterate and they are also illiterate. All our generations continue to be illiterate and poor* ... (FGD in Phnom Sruoch district, Kampong Speu).
> *Kror luy heuy kror teang kumnit tiet (we are poor, as we have neither money nor creativity). It is so because we have very little education. As such we cannot think of anything. We are ignorant and narrow-minded…* (FGD in Prey Nup district, Sihanoukville).

Inadequate water resources, whether it be for drinking purposes or agricultural purposes, are highlighted. The lack of potable drinking water affects the poor no matter where they live:

> *In the wet season, as we do not have water jars to collect rainwater, we all use standing water in the ruts and traces of vehicles and tractors. In the dry season we use water in Stoeng Koy, but it is very far and not clean. ... Thus, we usually get sick.* (FGD in Kamrieng district, Battambang).

> *In the dry season there is no water, thus we have to get up very early in the morning to compete with each other for water, which is not clean. Some of our children get diarrhoea.* (FGD in Kandieng district, Pursat).

Lack of affordable micro-credit is another key issue concerning the poor. Credit is needed for purchase of draft animals, farming implements, and other agricultural inputs (particularly seed and fertilizer); meeting health care costs; establishment of small-scale businesses including

livestock production and sale; support of technical/vocational training; and purchases of food (mainly rice). The consequences of having to rely on current, high-cost sources of credit are illustrated in Box 2.2.

Inadequate physical infrastructure is also a major cause of poverty according to FGD participants. Poor or non-existent roads and bridges not only limit access to social infrastructural facilities (health centers and schools) but also inflate the cost of goods and services transported into and out of villages. These problems are compounded by the high cost of fuel. Less than 30 per cent of the villages in this PPA could be reached by vehicular traffic during the wet season. Box 2.3 illustrates the impact of poor physical infrastructure on income-earning opportunities.

Box 2.1: The Poor Speak About Food Poverty

Before we had enough to raise the family. ... My family has fallen into poverty because we have had 8 children. ... We did not have enough to eat, thus, we sold our cattle and finally draft animals for food, treatment of illnesses, clothing, and our children's weddings … (A 61-year-old man in a village in Mukh Kampoul district, Kandal).

Before I was not poor. I had land for farming. My husband did some fishing and sometimes collected cogon grasses and wove them for sale. But we were forced off our land. My husband died five years ago. He left behind with me two children. I am now very poor. My son now falls seriously ill. He gets swollen due to lack of food. I feel very much for my son. When he cries for food I have nothing for him. Why do I suffer this dukha and karma? Nowadays, I sell my labor in farm works. I earn 1,500 to 2000 riels/day. When I am not hired I collected wild tubers, roots, and leaves from the jungle for food. Look at my hut! It is roofed with the sky and walled with wind. I cannot earn enough for the living. (A 30-year-old widow with two children in a village in Punhear Krek district, Kampong Cham).

Seven years ago my family was not poor. I had 7 children. I had 1.5 ha of rice land from which I could get 100 thang. In addition to growing rice, I bought and sold cattle and cows. My family never ran into any debt. Four years later there was not enough rain, my rice crop yielded badly. And, I was robbed of 5 cattle. I had nothing left by that time. Now, I have three children and I am infected with tuberculosis. As we cannot produce enough rice we have to borrow. This is why we are in heavy debt. Yi un kor dak areak kor thveu. (A villager in Angkor Chum district, Siem Reap).

A major concern for the poor is decreasing access to community natural resources (forests and fishing grounds). Numerous examples of corruption or irregular practices by government officials could be cited in the fields of the management of fishing lots (relevant in the lowland areas of Cambodia), forest concessions (particularly the NE region of Cambodia), emergency food aid (everywhere in Cambodia but particularly in the NW) and physical infrastructure projects (everywhere in Cambodia). Box 2.4 presents some views of the poor on these issues.

Box 2.2: The Poor Speak About Credit and Indebtedness

Till 1997 my family was not as poor as you see now. We had a pair of draft animals, a pumping machine and four hectares of rice land. We grew two pigs and some chickens. We could harvest 30 bags of rice a year. With that produce we had enough food and a limited amount left was sold for other purposes.

In 1999, as we did not have adequate capital, we borrowed 400,000 riels from a private moneylender. At harvest we had to repay two tons of rice. During that year we faced a long dry spell. Therefore, we lost our rice crop. In order to pay the debt, we had to sell both of our draft animals in 2000. After paying this debt, we borrowed again for the second rice crop. Our rice crop could not withstand the flood that rose very fast everyday. It was finally flooded out. To pay this second debt, we had to sell our pumping machine and two hectares of our rice land.
Now, we do fishing with hooks, collect water lily and lotus leaves. We bring all these produce to srok yuon (Vietnam) for sale. Both of us can earn only 2,000 riels a day from this job. (A 39-year-old woman with four children in Borey Chulsar district, Takeo).

I used to farm rice and sell my labor to earn a living. ... My rice farming was not profitable because, even I have land, I had to borrow money from private sources for land preparation, purchase of fertilisers, ... Upon harvest, the lenders came to collect their loan. After repayment, I had a little of rice left that could support me for 1-2 months. ... To grow rice I had to borrow again and again, then my debt get accumulated. ... To settle my debt I had to sell my land little by little. ... Now I have no land left. I totally become dependent on sale of labor. (A 32-year-old man in Kamchay Mear district, Prey Veng.)

Many FGDs described local authorities as ineffectual, although during emergencies they are considered essential as a means of relaying information to the Government. Of the 154 villages in this PPA only ten had been reached by NGOs. Not surprisingly therefore, most had not heard of NGOs. However, where there is a NGO presence, there can be discernible impacts on poverty, as Box 2.5 shows.

The poor were concerned that they could not afford to construct pagodas or mosques. This prevented the practice of their religious beliefs and weakened the social fabric of the village because there was no community meeting place.

Young girls and women suffer disproportionately from poverty. They work harder in the village; are forced to migrate to urban areas to work in garment factories, as domestic helpers, beer girls and sex workers; are sold to outside agents; and are subject to domestic violence.

Box 2.3: The Poor Speak About Access to Markets

When we have good crops there is no market and access road. Our produce is very cheap. All inputs, seeds of corn, and beans, fertilizers, and pesticides we used were very costly. ... But, if we do not sell our produce we do not have anything to buy rice. ... In the wet season the road is muddy. The mud goes up to the heap. The accessibility by road is extremely difficult. Then the traders do not come, and when they come they give very low price. If we do not sell it we cannot protect if from weevils. It is useless, once we grow it and leave it for weevils. (FGDs in Kamprieng district, Battambang).

We grow some vegetables, but we could not sell the produce because there is no access to the market and road. When we take the produce to the market, the transport is very high. (FGD in Phnom Sruoch, Kampong Speu).

If we want to go anywhere, we need to spend 5-6 hours, because we can only travel by footpath. It takes us 6 hours to reach the district market. If we have vegetables for sale, our vegetables will rot already before they reach the market. ... We do not have proper road and transport. (FGD in Srae Ambil district, Koh Kong).

Box 2.4: The Poor Speak About Access to Natural Resources

I was a former Khmer Rouge soldier defecting to the government in 1990. As the livelihood survival within the soldiers' rank was difficult, I then decided to self-demobilise and self-reintegrate into the community I used to belong to. I have no farmland. I get a small plot of land, where stands my house, from my mother. The space of the house is less than enough for my family with two children. Now, my wife gets pregnant. After demobilisation, my family relied on hired labor and cutting of fuel wood for sale. But, now the government does not allow us to cut any wood anymore. Thus, we do not have enough income to support the family. This is why we are poor. I request that the government should do a thorough assessment before demobilising soldiers, and give them enough money and skills. (A 29 year-old former KR soldier in Samraong district, Oddar Meanchey).

What can we do now? We do not have job anymore. The middle-income fishers discharge us because there are some rich investors (neaytun) buying monopoly rights. (FGD in Srae Ambil district, Kok Kong).

We will die of starvation. When we go cutting the wood illegally we can have something to eat, if we are lucky and not arrested. If we were unlucky we would be arrested. Let it be. Do it we die, if we do not do it we die. We have no choice. (FGD in Stung Treng).

In summary, the PPA found that: (i) the poor lack food security; (ii) life crises render poor people even poorer; (iii) there is a lack of access to natural resources, physical and social infrastructure, and other basic services; (iv) the poor are disempowered, feel hopeless about their lives and those of their children, and are experiencing an erosion of family and community relationships; (v) women suffer from low socioeconomic status; and (vi) there is a lack of confidence in local and provincial administration (which in part is likely to be a reflection of administrative capacity constraints caused by inadequate human and financial resources).

Box 2.5: Rising out of Extreme Poverty

When I was poor ... my husband was a government soldier. His salary was very low, 45,000 riels/month, and our draft animals were stolen. ... My husband died of landmine in Anses in January 1996. .... My five children were too young. They could not help me. I left my 600 sq. m land idle. ....

I am not poor anymore now because my children grow up. Three got married and live on their own. .... An NGO working in this village has provided me food for works. With that I constructed a pond for fish growing. I was given seeds of vegetables such as beans, cucumber, water convolvulus, savoy, salad, tomato, gourd, pumpkin, etc., hoe, rake, and bucket. After harvest, I always sell the produce to people in this and neighbouring villages. The income from this activity was used to buy pigs. The pig laid 10 piglets. I sold 8 and kept two.

... My 13-year old child also works as hired labor, getting 3,000 riels/day. Together with this income I could save more. ... As I get out of poverty, I now assist other poor in my village by lending them my 600-square-meter rice land.

I am now greeted and respected by everybody in the village. No one mistreats me like before. (A 46-year old Kuoy widow in Tbeng Meanchey district, Preah Vihear.)

2.3 SPECIFIC VULNERABLE GROUPS

Policies and strategies to address issues related to specific vulnerable groups are in the process of development. The Government recognizes that these groups need to be explicitly targeted if they are not to be left out of the mainstream of development, but also acknowledges that the welfare system is constrained by a lack of human and financial resources.

2.3.1 SITUATION ANALYSIS

Responsibility for managing, coordinating and administering all fields of social welfare (children, people with a disability, the frail elderly and other vulnerable groups), for paying and administering pensions for civil servants, and for vocational training lies with the Ministry of Social Affairs, Labor, Vocational Training and Youth Rehabilitation (MOSALVY).

The combination of widespread poverty, political insecurity, and the disruption and weakening of family and community has been particularly harsh on people isolated from the traditional networks of social protection. Major vulnerable groups include working children, orphaned and abandoned children, street people, sexually exploited women and children, people affected by armed conflict, the disabled, and the resource-less elderly. These groups vary widely in size (Table 2.8), and not all of them fall under the sole or joint responsibility of MOSALVY. In addition, there are emergent vulnerable groups, most notably HIV/AIDS sufferers, including children born with AIDS.

Children are of particular concern from a human rights point of view and because they are needed as productive adults in the future. It is clear that poverty is related to children's labor, lack of education, sale, exploitation, sexual abuse and abandonment. Child labor, for example, inhibits the realization of human potential and prevents children from going to school, thereby depriving them of a chance to improve their earnings in the future and rise out of poverty. Child labor condemns children to a lifetime of want and poverty. As well, many types of child labor are hazardous and/ or expose vulnerable children to exploitative employers.

Table 2.8 Estimated Numbers in Various Vulnerable Groups

Group	Number (1999)
Child workers	672,083
Disabled people	169,000
Commercial sex workers	Unknown
Child commercial sex workers Phnom Penh	5,000
Children 5-13 working 25+ hours/week and not at school	65,000
Child soldiers	5,000
Children without carers	2,500
Street children Phnom Penh	1,000
Children in conflict with the law	178
Drug addicts	80

Source: MOP 2000a.

According to the 1997 Labor Code, the minimum age for employment in Cambodia is 15. Light work is permitted for the age group 12 to 15, provided that the work is not hazardous and does not affect school attendance. However, the precarious economic status of many households often leads children to take up work to help increase household income: more than three out of four **childworkers** work to supplement family incomes. The 1999 socioeconomic survey estimated that 314,000 children aged between 5 and 14 had contributed labor for the production of goods and services within and outside the household. When the entire age group of 5-17 years old is considered, the number more than doubles to

672,000 (Table 2.8). This number represents 16.5 percent of all children, a proportion virtually unchanged since 1997.

Participation rates are highest in rural areas, with the Plains and Tonle Sap areas accounting for 81 percent of all childworkers. The vast majority of childworkers are unpaid family workers or work to support themselves: 86 per cent of the 14-17 group and 92 per cent of the 10-13 group work in agriculture, forestry or fishing. In Phnom Penh, nearly 17 per cent of boys and 29 per cent of girls aged 14-17 work.

There are striking gender differences among those aged 14-17 years. One half of all girls work, compared with one third of all boys. When quality secondary schools are not available or are unaffordable, it becomes easy for parents to put secondary school aged children, especially girls, to work. Since girls' labor participation rate, especially at ages 14-17, is higher than boys, the contribution of girls to the household is greater, especially among the poorest 20 per cent of households, in which girls contribute 6.9 per cent and boys 5.3 per cent of household wage earnings.

Child domestic workers are an under-enumerated group, with an estimated 6,500 child domestic workers (who are overwhelmingly female) aged 14-17 in Phnom Penh alone. Some are as young as 8 or 9 years (MOP 2000a).

Not all child labor is detrimental and family-based work is preferable to wage employment. Nonetheless, approximately 5,000 children aged 5-13 years work more than 25 hours per week for wages and do not attend school. This group is in the most urgent need of policy efforts to combat child labor. Another 42,000 child workers aged 14-17 work more than 25 hours per week and do not attend school. A third vulnerable group is the roughly 60,000 children aged 5-13 who work more than 25 hours a week as own-account or unpaid family workers and do not attend school (MOP 2000a, p.xvii).

Many children suffer illnesses or injuries resulting from their work, especially those who work in brick factories, gem mines, stone breaking and scavenging. Overall, the proportion of child workers reporting any work related illnesses amounts to 1.2 percent. This percentage is higher among children aged 15-17. The most common work-related illnesses reported are fever, skin problems, and neck and back problems. General exhaustion affects 10 percent of the working children aged 5-9 years and 17 percent of those aged 15-17.

With nearly 2 percent of its population disabled, Cambodia has one of the highest rates of **disability** in the world (1,512 per 100,000 population in 1999). There are 169,000 disabled persons, 80 percent of them in rural areas. Forty percent are amputees or are unable to use one or more limbs. Twelve percent are blind. Amputees are the most visible victims of years of war and civil strife, but fully one third of disabilities were caused by illness or disease, and about one fifth by congenital factors. Land mine explosions were the cause of disability for more than one out of ten of the disabled population. War or conflict was reported as a cause of disability in an equal proportion. Over the last few years the decline in land mine accidents and the progress made toward polio eradication have improved the situation. Disabilities related to traffic and industrial accidents are becoming more frequent, however. Causes of disability show no significant difference by sex or between urban and rural areas

Disabled children make up one fifth of the disabled population. Poliomyelitis, hearing impairment, and blindness are thought to account for over half of all children's disabilities. Mental health problems are also often identified as a prevalent type of child disability, but their definition is not clear.
Drastic as it is for the individual, disability also affects families and households. In poor households, where the male head is disabled or absent, every able member has to work.

Children are more likely to work in female-headed households and in households where there is a disabled head. There is no gender difference in the incidence of child labor in such families, as the boys work to replace the lost income of the disabled father.

The large number of persons with disabilities will require physical, social and economic rehabilitation for many years to come. People with disabilities often cite access to educational and employment opportunities as their major concern. In particular, the education of disabled children requires teachers skilled in special education. Cambodia is a signatory to the ESCAP Proclamation on the Full Participation and Equality of People with Disabilities in the Asia-Pacific Region.

Sexually exploited women and children constitute a third vulnerable group. Commercial sexual exploitation, which has long been common in Cambodian society, became more widespread with the opening of the economy and the large presence of UNTAC personnel in the late 1980s and early 1990s. Between 1990 and 1994, the estimated number of Commercial Sex Workers (CSWs) in Phnom Penh alone increased more than tenfold, from 1,500 to 17,000. More recently, the rise of the AIDS epidemic has swelled the demand for virgin girls. The extent of the trade is unknown due to its largely hidden nature. The alarmingly rapid growth of this industry has been facilitated by grinding poverty, social upheaval, underdeveloped legislation, and weak law enforcement. Government measures such as the banning of brothels in Phnom Penh have had little impact. Cross-border trafficking seems to be growing.

About one-third of female CSWs in brothels are estimated to be under the age of 18. Some are as young as 10. Some CSWs have voluntarily chosen their occupation to help their families economically. But surveys indicate that the majority was deceived into the trade, most of them sold by parents, relatives, neighbors, or trusted friends. Most often, the reasons were to pay debts or for family survival. Efficient sophisticated networks for abduction, sale and trafficking are operating both domestically and internationally. Attempts to escape are usually repressed by physical abuse. Over half of the CSWs in the 14 to 22 age group are infected with HIV/AIDS. Boy CSWs are largely recruited among the ranks of street children. The NGO Mit Samlanh estimates that about 80 percent of the male street children have prostituted themselves to men. In the under-12 age group this proportion is around 15 percent.

In 1996, Cambodia adopted a Law on the Suppression of the Kidnapping, Trafficking and Exploitation of Human Beings. But the weaknesses of law enforcement mean that the law has rarely been applied. MOSALVY has established a Young Women's Crisis Center in Phnom Penh. A Five Year Plan of Action Against Sexual Exploitation of Children, which covers prevention, protection, recovery and reintegration of child victims, will be implemented during SEDPII.

An unusually high number of Cambodian children continue to be orphaned and abandoned, and constitute a vulnerable group of children without care givers. Because the vast majority of them live outside institutions, it is difficult to estimate their numbers. According to the National Health Survey of 1998, approximately 2 percent of all families were caring for one or more orphaned children. The number of orphans as a percentage of all children is thought to be less than one percent. These numbers, which have been decreasing since 1979, will likely continue to decrease as a result of improvements in health and security conditions.

Traditionally, the extended family cared for most orphaned and abandoned children. Today Government and NGO orphanages throughout the country care for some 2,500 orphans, abandoned babies, and disabled children. Three types of institutional care currently exist: 20 government children's centers; around 20 NGOs registered with the Ministry; and an unknown number of privately-run children's centers, some of them registered with the Ministry. These

institutions receive orphans and abandoned children; child victims of abuse, neglect, and exploitation; and children at risk in general, including children of very poor families.

Adoptions by foreigners have been on the increase, but the legal framework is incomplete and open to corruption, profit and abuse. In 1996, MOSALVY established an Adoption Bureau, which established clear guidelines and procedures. A law on inter-country adoption has been drafted that complies with the principles outlined in the Convention on the Rights of Children (CRC).

The presence of **street people** in urban areas is a relatively recent development linked to the acceleration of rural-urban migration. Accurate estimates of the numbers of street people are not available, as they constitute a very fluid population that frequently moves from one urban area to another. Mid-1990s estimates of the number of street children in Phnom Penh ranged from 5,000 to 10,000; but a more recent estimate puts the number at around 1,000. About half of these children live on the streets with their families. Those living on their own are mostly boys. The number of street children is thought to be on the increase in Phnom Penh and in the major urban areas of Battambang, Poipet, Sisophon, Sihanoukville and Siem Reap.

Life on the streets exposes children to several dangers. In addition to the lack of access to medical and education services, street children are likely to be abused and exploited and are at high risk of contracting HIV/AIDS. They are usually organized in gangs headed by older children and sometimes well-off youth within a protection-exploitation relationship. Many work in situations that put them at high risk of disease and injury. Substance abuse (glue sniffing) has started to appear among these children, who also find themselves increasingly in conflict with the law, especially in Phnom Penh: Ministry of Interior data show 95 minors were in prison in April 2000.

In the early and mid-1990s, numerous rural women flocked to towns and cities seasonally in order to earn a living by begging. They came during the dry season and returned to their villages for the rice-planting season. While in town, they lived on the streets in very poor hygienic conditions. Judging from anecdotal evidence, the practice seems to continue, but no statistics are available about this vulnerable group.

2.3.2 A STRATEGY FOR VULNERABLE GROUPS

A sustainable strategy for improving the welfare of vulnerable groups needs to address the processes by which people become vulnerable, identify those who are most at risk, and provide support when their coping ability is undermined. Causes of vulnerability are fairly well known at the local level and it is mostly at that level that services need to be provided.

Four major priorities have been identified for SEDPII:

- The preparation and implementation of legislation for the development of the Ministry, more specifically the definition of the roles and mandates of the four general departments.

- The determination of strategies for vulnerable groups (such as street people, beggars) to be based on statistical data.

- The containment of the sexual trade, particularly of children, provision of services for AIDS sufferers, and provision of education on HIV/AIDS.

- The implementation of the labor law through the Consultative Committee formed in September 1999.

MOSALVY intends to continue its work on social welfare, child welfare, labor rehabilitation, and youth rehabilitation. Specific objectives in the area of social welfare include strengthening of social services; support to vulnerable people, including street people, beggars, and the disabled; the implementation of the rules on the repression of kidnapping and trafficking; support to victims through the education of brothel owners and CSWs, strengthening of regulations and vocational training; and AIDS prevention.

The Ministry will increase the focus on child welfare, strengthening the activities of the CNCC, and preventing child prostitution and child labor. Four priority areas have been defined: (a) child welfare services for alternative care; (b) rescue, recovery and integration of child victims of sexual or other forms of exploitation, trafficking, abuse or neglect, of children on the streets, and of children in conflict with the law; (c) family tracing and assessment and follow up of these children after reintegration; and (d) identification, referral and school integration of children with disabilities.

In the area of labor rehabilitation, the Ministry will promote work rehabilitation to mitigate the hardships of the disabled and their families. It will strengthen existing rehabilitation centers and expand the existing ones in some regions to better match up the disabled with prostheses.

In the area of youth rehabilitation, the Ministry will prepare a five-year plan for youth rehabilitation work; open six regional rehabilitation centers; assist in legislative reform on young delinquents; develop a special education program for young delinquents; and develop human resources. The relative share of the budget for the youth rehabilitation sector is to be increased.

The Government has given recognition to the issue of child soldiers in the 1999-2000 work plan of the CVAP. MOSALVY will collaborate with International Organizations in the reintegration of this special group. A survey of child soldiers in 2001 will be the basis of the formulation of projects to assist child soldiers.

In order to strengthen the human resource capacity of MOSALVY, 12 Central level staff, 48 provincial/municipal level staff, and 183 district-level staff will complete the UNICEF basic training module.

The projects to be implemented by MOSALVY under the PIP for 2001-2003 are shown in Table 2.9. The total estimated cost of $23.7 million represents 1.4 percent of the total PIP allocation, and is mostly accounted for by an employment promotion project, a regional vocational training centers projects, and construction of SOS children's villages.

For the purposes of monitoring, reporting on, and evaluating strategy implementation, a number of performance indicators have been identified. An input indicator is the adoption and CRC compliance of the legal framework addressing the issues of family and alternative care, juvenile justice, child abuse and exploitation, and birth registration. Output indicators include:

- Number of diplomas awarded in social work
- Number of MOSALVY staff trained (by levels and topics)
- Number of children's services accredited.

Table 2.9 MOSALVY Projects in Public Investment Program
($ million)

PIP No.	Project	2001	2002	2003	Total	RGC	External	Unfund-ed
On-going								
594	SOS Children's Villages	1.5	1.25	0.25	3.0	0	3.0	0
Comm-itted								
335	Employment Promotion Project	2.0	2.5	3.0	7.5	1.2	6.3	0
337	Capacity Building for Employment Promotion	1.04	0	0	1.04	0.04	1.0	0
High Priority								
125	Vocational Training	0.14	0.94	0.77	0.31	0	0	0.31
597	Construction of Polyclinic & Laboratory	0.32	0.80	0	0.40	0	0	0.40
124	Operation of Social Security Fund	0.14	0.11	0.03	0.28	0	0	0.28
121	Labor Market System	0.12	0.09	0.03	0.24	0	0	0.24
435	Reg. Voc. Training Centers	0	3.00	1.91	4.91	0	0	4.91
126	Renovate Inspectorates	0.44	0.31	0	0.75	0	0	0.75
119	Retraining Former Sex Workers	0.15	0.26	0.10	0.50	0	0	0.50
122	Reg. Voc. Training Centers	0.80	0.83	0.50	2.14	0	0	2.14
123	Orphanage-Voc. Training Transfer	0.65	0.71	0.78	2.14	0	0	2.14
595	Voc. Training for Youth Deliniquents	0.23	0.15	0.12	0.50	0	0	0.50
TOTAL		7.52	9.38	6.79	23.70	1.24	10.3	12.16

Source: MOP, *Public Investment Program, 2001-2003*.

Impact indicators include:

- Number of children in alternatives to institutions
- Number of children rescued from sexual exploitation
- Number of child victims of sexual exploitation heard in court and adequately defended
- Number of children in conflict with the law brought to court and adequately represented
- Number of children rescued; in recovery programs; reintegrated; reintegration success rate.

The data collection and analysis is a joint responsibility of the Government and NGOs at national, provincial, and district levels.

2.4 GENDER AND DEVELOPMENT

2.4.1 AN OVERVIEW OF WOMEN IN CAMBODIA

Two decades of war and civil strife have placed extraordinary strains on the status of women in the country. Women constitute 51.5 percent of the population, 52.3 percent of the economically active population, and head 25.7 percent of households. Cambodia has one of the highest female labor force participation rates in the region at 73.5 percent of women over

the age of 15. Women comprise 54 percent of the skilled agriculture and fishery workers and also make substantial contributions in non-agricultural sectors of the economy. They contribute 75 percent of the primary labor force in wholesale and retail trade, and two thirds of the labor force in manufacturing. A great deal of this employment is, however, in the informal sector. Women are often in low-paid, unskilled positions and vulnerable to many forms of exploitation in the work place. They tend to be primarily responsible for home-based businesses that allow them to balance their responsibilities for childcare and housekeeping with their economic activities.

Sections 2.1.4 and 2.1.6 demonstrated considerable gender disparities in adult literacy and access to education. Only 12 percent of women over the age of 25 have more than a primary school level of education. This gender gap is perpetuated by a low retention rate of girls in formal education, with 50 percent higher male enrollment in schools by age 15. The total fertility and maternal mortality rates are the highest in the region and are high even by the standards of countries with similar levels of income. The nutritional situation, especially for children and women, is the worst in Southeast Asia – 41 percent of pregnant women are underweight which, accompanied by high levels of anemia, is contributing to high maternal and child mortality rates.

Moreover, the high rate of growth of HIV/AIDS prevalence is a major national concern. As of 1998, 2.4 percent of pregnant women, 42.6 percent of commercial sex workers, and 19.1 percent of indirect commercial sex workers were infected with HIV. Women also bear primary responsibility for caring for family members with HIV/AIDS.

Cambodia has become a sending, receiving and transit country for trafficking of women and children. There are an estimated 88,000 Cambodian women in Thailand and an estimated 40-60 percent of sex workers (14,000) in Cambodia say they were forced or tricked into the business. Other young girls turn to the sex industry as they have few viable alternatives. Poverty, social upheaval, underdeveloped legal infrastructure, and weak law enforcement are all contributing to the rapid growth of the sex industry.

Domestic violence continues to represent a threat for Cambodian women. Research in 1996 showed that violence against women in the family was a serious problem experienced by a significant number of women. While it is difficult to determine the actual incidence of domestic violence, some indicators suggest that the number of cases is increasing. Unequal access to wealth and goods, frustration due to economic competition, pressure to earn higher income, and work-induced migration are contributing factors to domestic violence. Poverty, limited availability of jobs, and rises in the price of basic goods and services, act as additional challenges for the already challenged familial and social structures. The involvement of women as primary earners and their increased participation in the labor force, although not necessarily changing their social status, alters the perception of gender roles and increases frustration in male partners.

Tradition plays a significant role in perpetuating gender disparity. Old traditions, customs and life styles have long set a pattern of discriminatory attitudes against women. The Khmer saying, “men are gold, women are cloth” clearly reflects these biases. Many Cambodian families believe that promoting girls’ education would not be of benefit to the family since daughters would carry out housework even if they have completed higher education. Traditions have taught women to obey their husbands even if women are the main breadwinners in the family. Moreover, many Cambodian families consider daughters as essential in performing work at home. Thus, work outside such as involvement in politics, social action and culture are highly discouraged. These traditions and beliefs remain strong.

2.4.2 MINISTRY OF WOMEN'S AND VETERANS' AFFAIRS

The Government is committed to improving the status of women, veterans and their families (mostly headed by women). The Ministry of Women's and Veterans' Affairs (MWVA) aims to ensure that the interests of women, veterans and their families are integrated into the planning and implementation process.

In 1998, MWVA was given a fresh mandate as the national machinery to promote the role and status of women:

- To be a *catalyst* and *advocate* for the integration of gender concerns into the mandate, policies and programs of line ministries, local government units and public institutions
- To ensure that the *women's agenda* and *gender issues* are incorporate in decision making processes
- To guide and coordinate external assistance and facilitate government-NGO collaboration on women and gender concerns.

In 1999, the ministry developed a five-year strategy, *Neary Rattanak*, "Women are Precious Gems", which emphasizes building the capacity of women as well as changing attitudes and behaviors within society that discriminate against women. This strategy focuses on four priority areas: health, education, legal protection and economic empowerment based on the Beijing Declaration and Platform of Action of the Fourth World Conference on Women. Achieving gender equality and gender equity is the key to social justice and improvement of quality of life for all.

The **Vision** guiding MWVA is that the Cambodian people, both men and women, are united and moving forward to build a prosperous and peaceful nation, upholding law and order, through a just and transparent system of good governance which leads to social, economic and political stability. The commitment is to give women, veterans and vulnerable members of society equitable access to services and control of resources at all levels, and opportunities to take part in decision-making with full protection against all forms of discrimination.

The MWVA **Mission** is then to ensure the effective enforcement of the platform of the Royal Government of Cambodia by playing a key role in promoting and protecting the welfare and rights of women, veterans and their families in collaboration with government institutions, the private sector, civil society and the international community. MWVA's main roles are advocacy and outreach. As the national machinery to advance the role and status of women in Cambodia, MWVA has a mandate to advocate policies and programs that are responsive to the specific needs and concerns of women. Through its extensive networks of women's associations, it has the capacity to reach out to communities in addressing gender concerns.

2.4.3 STRATEGIES AND PRIORITIES FOR 2001-2005

The strategies laid out in *Neary Rattanak* and the "Partnership for Building Together" program were further elaborated into a five-year plan for 2001-2005. This plan places increased emphasis on the role of MWVA as a catalyst and facilitator in responding to gender concerns in priority sectors. It also provides a framework for further discussion and negotiation with the relevant ministries towards the formulation of a national plan for the advancement of the role and status of women in Cambodia, and for responding to the needs and concerns of veterans and their families.

MWVA's plan for 2001-2005 has six main components:

1. Gender mainstreaming
2. Health
3. Education
4. Legal protection
5. Economic empowerment
6. Strategic management and capacity building.

(i) Gender Mainstreaming

The overall goal of the ministry's mainstreaming strategy is to build up the capacity of Government to mainstream gender in poverty alleviation and governance and increase public awareness of gender concerns. Priorities are:

- Building commitment and capacity
- Influencing policies to be gender sensitive and responsive
- Increasing the participation of women in national and local development planning and governance
- Enhancing capacity for gender planning, monitoring and evaluation
- Increasing public awareness and support.

The corresponding principal strategies are:

Building commitment and capacity: (a) advocate support for gender mainstreaming with national decision makers; (b) establish national mainstreaming mechanisms (Cambodian National Council for Women, Gender Focal Points); (c) establish gender mainstreaming mechanisms in local development; (d) strengthen the capacity of government institutions to mainstream gender (line ministries, local development structure); (e) strengthen the capacity of MWVA in gender advocacy and training (central, provincial).

Influencing policies to be gender sensitive and responsive: (a) review laws and regulations in priority areas for gender-responsiveness and monitor law enforcement; (b) draft new laws and amendments to address gender issues. (e.g., domestic violence law, family law, counter-trafficking law, penal code, property law, etc.); (c) support policies of the MWVA through workshops and forums on priority issues in key sector; (d) strengthen national women's forums (National Forum, Provincial Networks).

Increasing the participation of women in national and local development planning and governance: (a) workshops on transforming leadership; (b) training of women candidates for elected positions; (c) development and dissemination of information and advocacy materials for women's participation in decision-making.

Enhancing capacity for gender planning, monitoring and evaluation: (a) expand the information base for effective planning through consultations with women, gender resource and information centers, and research; (b) gender monitoring and evaluation (key indicators, gender audits); (c) CNCW annual review of progress.

Increasing public awareness and support: (a) foster gender-friendly media practitioners. (e.g., mass media, journalist associations, media-related organizations); (b) information dissemination through media, MWVA publications, community outreach activities; (c) strengthening the capacity of MWVA staff in enhancing public awareness (central, provinces).

(ii) Health

The goal is to ensure the rights and the empowerment of women, the girl child, veterans and their families, to access primary health care services, especially reproductive health, throughout their life cycle, based on equality and equity.

The priorities are:

- Increasing awareness of rights to primary health care services, particularly related to reproductive health and HIV/AIDS prevention and care.
- Increasing support for the integration of gender concerns into health policies and programs.
- Fostering support for activities addressing the reproductive health needs of youth.
- Advocating for the expansion and strengthening of mental health services.

The principal strategies are:

Advocacy

- Advocacy for increased budgetary allocations for health services.
- Monitor the formulation and implementation of policies and laws relevant to population and reproductive health.
- Collaborate with MOH in identifying strategies for increasing access to health services for low-income families and veterans.
- Promote expansion of mid-wife training.
- Encourage relevant institutions to address the need for specialized mental health care for particularly vulnerable groups (e.g., victims of domestic violence, demobilized soldiers).
- Advocate the use of traditional medicine in primary health care, especially reproductive health.

Research

- Promote and participate in research directed at increasing understanding of adolescent reproductive health attitudes and behavior.
- Collaborate with MOH and NIS on ensuring the availability of appropriate gender-disaggregated statistics related to health.

Information Dissemination

- Increase understanding of reproductive health and population issues through media and dissemination of IEC materials.
- Increase awareness of adolescent reproductive health rights and concerns.

Strategic Action

- Disseminate health information and facilitate access to health services through female and male community volunteers, and community-based distribution of contraceptives.
- Coordinate with relevant organizations in developing appropriate physical and mental health services for particularly vulnerable groups (e.g., victims of domestic violence and trafficking).

(iii) Education

The goal is to ensure that women, girls and veterans receive full rights in education and skills training at all levels in order for them to become active human resources in promoting equality in society.

The priorities are:

- Increasing equity in enrollment of girl's at all levels of the school system from primary school to university.
- Expanding and improving early childhood education programs.
- Expanding and improving opportunities for non-formal education.
- Promoting gender equity in curricula and education personnel throughout the school system.

Principal strategies include:

Advocacy

- Advocacy for increased budgetary allocations for education.
- Collaborate with MOEYS in developing policies and programs to enable girls to continue their education (e.g., toilets, scholarships, boarding houses, support to families).
- Advocate increased gender equity in hiring of teachers and appointment of school administrators.
- Advocate elimination of gender biases in educational curriculum and textbooks.

Research

- Promote and participate in research on gender concerns related to education inside and outside formal education systems.
- Study alternative mechanisms for reducing obstacles to girls education.

Information Dissemination

- Increase awareness of the importance of girls' education and equitable sharing of responsibilities between boys and girls in the family and community through media and dissemination of IEC materials.

Strategic Action

- Mobilize community participation in planning interventions to enable girls to continue their education.
- Increase access to literacy classes.
- Support the expansion of early childhood education/child care services in urban and rural areas.
- Foster linkages between literacy classes, vocational training, access to credit, and life skills training.

(iv) Legal Protection

The goal is to ensure that women, girls and veterans receive full legal protection with equity according to governmental laws and the principle that women's rights are human rights.

Priorities are :

- Ensuring equal rights of women and men under the law.
- Developing policies to protect the rights of women, particularly freedom from violence, including legislation related to trafficking and domestic violence.
- Increasing legal literacy at national, provincial and community levels.

Principal strategies are:

Advocacy

- Monitor the enforcement of laws and regulations related to women's rights.
- Provide training on gender and women's legal rights to judges, prosecutors, court clerks, police officers, local authorities.
- Advocate the appointment of women judges, prosecutors, court clerks and police officers.

Research

- Collect and disseminate information on trafficking, migration and domestic violence.

Information Dissemination

- Increasing public awareness and support for respecting the legal rights of women through the media and dissemination of IEC material.

Strategic Action

- Facilitate the establishment of legal resource centers and shelters in municipalities and provinces.
- Provide legal literacy training to communities.

(v) Economic Empowerment

The goal is to ensure the equal rights of women and veterans to access economic resources and opportunities to participate equitably in national development and poverty reduction.

Priorities are:

- Ensuring equitable access to and control over economic resources.
- Enhancing the capacity of women entrepreneurs.
- Strengthening the bargaining power of women through the formation of associations.
- Fostering an enabling environment for the development of viable livelihood opportunities for women.

Principal strategies are:

Advocacy

- Ensure that Cambodia's legal framework provides equal rights and equitable protection to women and veterans in the economy (e.g., property law, investment law, family law, labor law).

- Collaborate with relevant line ministries (e.g., Agriculture, Industry, Commerce and Rural Development) in developing policies and programs that are responsive to the specific needs and concerns of women and veterans.

- Encourage an increase in the number of women and veterans engaged in economic development support services (e.g., agriculture extension agents, business development advisors).

- Foster support from the formal business sector in responding to the specific needs and concerns of women and veterans.

Research

- Study the current situation and needs of women in the economy, particularly as related to the role of women in the informal sector.

- Arrange sub-sector studies to identify viable business and employment opportunities for women and veterans.

- Research existing market networks and opportunities for improving access to networks or developing new marketing mechanisms to support village-based micro and small enterprise.

Information Dissemination

- Increase awareness of rights, opportunities and risks associated with potential employment/ livelihood activities.

- Identify and promote role models of women in non-traditional roles (e.g., management, professions).

Strategic Action

- Support the development of appropriate support services for micro and small enterprise development by (1) building on local resources and culture in supporting the development of product excellence according to the principles of local yet global, independence and creativity and human resource development; (2) identifying local business opportunities, with an emphasis on diversified agriculture, non-timber forest products, food processing and handicrafts, community-based activities in which women are actively involved; (3) integrating skills training, literacy classes, confidence building, access to capital, marketing support and development of business management skills

- Increase the effectiveness of micro and small enterprise through formation of groups and associations in order to (1) increase bargaining power in accessing raw materials, training, credit and markets; (2) promote the development of group-based savings, credit and other financial services which are responsive to the needs of vulnerable groups.

(vi) Institutional Capacity Building and Strategic Management

The goal is to ensure sustainability, transparency, efficiency and effectiveness in institutional management; planning monitoring and evaluation; human resource management and financial management.

Priorities are:

- Ensuring effective coordination of activities at central level, between central level and provincial departments, and between projects.

- Strengthening planning, monitoring and evaluation processes.
- Strengthening financial management systems and capacities.
- Strengthening mechanisms for internal communications.
- Strengthening staff skills in project development and management.
- Ensuring effective staff supervision and management.

MWVA has established a matrix of key performance indicators encompassing the gender dimensions of health, education, legal protection, economic empowerment, women in decision-making, and allocation of government expenditure. The *Public Investment Program, 2001-2003* allocates $15.1 million for women in development and veterans' development programs, or 0.9 percent of the total PIP allocation.

2.5 CONCLUSION: STRATEGIES AND PERFORMANCE INDICATORS

At the beginning of the SEDP-II period, approximately 36 per cent of Cambodia's population, or 4.6 million people, are living below the poverty line. It is projected that by the end of 2005 the population will have increased to around 14.4 million. If the incidence of poverty were unchanged during 2001 to 2005, this would mean approximately 5.2 million people — including specific vulnerable groups — would be living in poverty. If, however, SEDP-II poverty reduction target of 31 per cent is achieved, the number of people living in poverty will drop to below 4.5 million. If the headcount index fell to 20 percent, the number would be less than 2.9 million.

What are the strategic implications of the foregoing analysis of population, poverty, vulnerable groups, and gender issues? In regard to population, as argued in section 2.1, the most important characteristic is the relatively high rate of population growth of 2.5 percent per year. A high population growth rate indicates the need for wider birth spacing in poor families, allowing for better health for mothers and their children, and reduced maternal and child mortality. This in turn would increase the likelihood of parents investing more in the health and education of their children (especially females), and thus providing them with the human assets they need to improve their welfare, as well as enabling them to space their families and participate fully in a developing society. Women's education is a crucial factor in determining birth spacing and reproductive health, and in determining the educational level and employment of their daughters. As the high incidence of poverty is related to high population growth, high fertility, high mortality and high morbidity, an effective population policy is essential for achieving development objectives. The strategic response during the SEDPII period is to improve health and education levels, especially of women, and to increase economic opportunities, so that over the long term high mortality and high fertility rates drop.

In regard to poverty, the key message from the quantitative analysis was that, although the incidence of poverty is high at 36 percent, on average the poor are living close to the poverty line, so that there is considerable potential for poverty reduction through growth with equity. Income-earning opportunities need to be provided in both rural and urban areas, and the capacity of the poor to take these opportunities needs to be increased through better education and health, greater access to physical assets (especially land), improved physical infrastructure, and better access to markets and credit. The results of the PPA serve to confirm the relevance of such strategic interventions. Accelerating growth in rural areas would result in

the biggest reduction in poverty because its incidence is highest there and inequalities are lowest.

It is also necessary to provide safety nets for the poor and vulnerable who are unable to participate effectively in the socioeconomic development process. NGOs and other aid agencies, notably the WFP, will continue to be active in these areas, but the Government intends to become more engaged. Targeted assistance through effective food-for-work programs will not only improve food security but also contribute to an improvement in rural infrastructure at the village level and provide work experience for hitherto marginalized peoples. For those unable to work, food based interventions, such as food distribution and feeding programs, will be implemented to provide basic food items.

An efficient poverty monitoring and analysis system is needed to assess the effectiveness of poverty reduction strategies, and thereby to provide feedback into the policy formulation process. Such a system will be developed in detail early in the SEDPII period with capacity-building assistance from UNDP. Poverty monitoring will involve:

- Tracking changes in poverty outcomes over time and across groups and areas
- Collecting information to study the determinants of such outcomes
- Providing feedback on the effectiveness of poverty reduction efforts.

The major activities of the poverty monitoring and analysis system will be:

- Data collection
- Data collation
- Data analysis
- Dissemination of results (to policy formulation agencies and civil society).

In accordance with the multidimensional nature of poverty, the poverty monitoring and analysis system must address the various aspects of deprivation: low income and consumption; a lack of physical necessities and assets; a lack of access to basic services; isolation; vulnerability to shocks and a lack of means to cope with shock-induced losses; and powerlessness. This involves the tracking of changes in a number of key areas:

- Living standards, using data on household income/consumption, assets and housing, etc.
- Health and nutrition, using data on mortality rates and underweight children under 5, etc.
- Education, using data on female primary school completions and enrolments at different levels, etc.
- Physical infrastructure and utilities, using data on roads, water and sanitation and energy, etc.
- Other services, using data on access to micro-finance and social welfare.

Multiple indicators can be used to measure changes in these key areas, and will be considered during the development of the full-fledged poverty monitoring and analysis system, bearing in mind (1) the need for disaggregation by gender; (2) the need for context-specific indicators (geographic, social, intra-household); and (3) the costs of data production and dissemination. Within this context, the focus will be on a basic set of core outcome indicators for which data are readily available. These are presented in Table 4.10.

Table 2.10 Poverty Indicators

Key Area	Indicator	Latest Value	Targeted Value, 2005	Frequency & Source of Data
Income	Headcount index	36% (1999)	31%	Socioeconomic survey every 2 years
Health & nutrition	Infant mortality rate	89 per 1,000 live births (1998)	65	Socioeconomic survey every 2 years
Health & nutrition	Maternal mortality rate	473 per 100,000 live births (1998)	200	Socioeconomic survey every 2 years
Education	% of 12 year olds completing Grade 6	33% (1998)	90%	Annual Ministry of Education
Physical infrastructure & utilities	% of rural households with access to safe drinking water	29% (2000)	40%	Socioeconomic survey every 2 years
Physical infrastructure & utilities	% of rural households with access to sanitation facilities	8% (2000)	20%	Socioeconomic survey every 2 years

Ministry of Women's and Veterans' Affairs, Key Indicators

Indicator	Definition/Unit	Source		1996	1997	1998	1999	2000
Health								
Access to health services	% of population that can reach appropriate local health services by local means of transport in no more than one hour	No data available						
Contraceptive prevalence rate	% of married women aged 15-49 who are using, or whose partner is using modern form of contraception	NHS				16.1		
	% of married women aged 15-49 who are using, or whose partners are using modern or traditional form of contraception	NHS				21.8		
Fertility rate	Average number of children born alive to a women from 15 to 49 years of age	97 NHS 98 Census			5.2	5.3		
Adolescent fertility rate	% of teenagers (15-19) who are mothers or pregnant with their first child	NHS				9.4		
Birth attended by skilled health personnel	% of births attended by a skilled health worker (i.e., doctor or trained midwife who can handle normal deliveries and dianose and manage obstetric complications)	96 SESC 98 NHS		30.0		34.0 (avg for 93-98)		
Maternal mortality rate	Annual number of deaths of women from pregnancy-related causes per 100,000 live births	NHS			473.0			
Infant mortality rate	Probability of dying between birth and the first birthday (exact age 1 year) expressed per thousand live births	NHS	Total			89.4		
			Female			75.2		
			Male			84.5		
Under five mortality rate	Probability of dying between birth and the fifth birthday (exact age 5 years) expressed per thousand live births	NHS (avg. 93-98)	Total			114.9		
			Female			97.5		
			Male			116.1		
Life expectancy at birth	Number of years a newborn infant would live if prevailing patterns of mortality at the time of its birth were to stay the same throughout the child's life	CHDR			54.4			

Estimated HIV adult prevalence rate	% of people aged 15 to 49 estimated to be infected by HIV/AIDS	HIV/AIDS/ STD Country Profile		2.3	3.0	3.8		
HIV/AIDS prevalence among sentinel groups	Married women	NCHADS/ MoH				2.4		
	Direct commercial sex workers					42.6		
	Indirect commercial sex workers					19.1		
Access to mental health services	% of population that can reach appropriate mental health services by local means of transport	No data available						
Education								
Net primary school enrollment ratio	% of children of primary school age who are enrolled in primary education	EFA 2000	Total		84.7	77.8	78.3	
			Female		78.4	72.4	74.1	
			Male		90.7	83.0	82.4	
Children reaching grade 5	Proportion of school children entering first grade of primary school who eventually reach grade 5	EFA 2000	Total		50.7	45.2		
			Female		47.6	42.6		
			Male		53.5	47.7		
Ratio of girls to boys in primary education	Ratio of % of girls of school age who are enrolled in primary education to % of boys of primary school age who are enrolled in primary education	EFA 2000			0.86	0.87	0.89	
Ratio of female to male teachers in primary schools	Ratio of female to male teachers in primary schools	No data available						
Pupil/teacher ratio in primary school	Average number of registered children per teacher in public schools	EFA 2000			44.4	46.5	48.1	
Net secondary school enrollment ratio	% of children of secondary school age who are enrolled in secondary education	CSES 97	Total		13.5			
			Female		9.2			
			Male		13.5			
Ratio of girls to boys in secondary education	Ratio of girls to boys in secondary education	CSES 97			0.68			
Ratio of girls to boys in tertiary education	Ratio of girls to boys in tertiary education	No data available						
Literacy rate of 15-24 year olds	% of population aged 15 to 24 who are able, with understanding, to read and write a short simple statement	EFA 2000 Census 98 CSES 99	Total	71.5	75.0	76.3	81.7	
			Female	60.5	67.2	71.1	76.6	

			Male	82.6	83.8	81.8	87.1
Adult literacy rate	% of population over 15 years of age who are able, with understanding, to read and write a short simple statement	EFA 2000 CSES 99	Total	65.9		68.0	71.2
			Female	55.3		57.8	61.1
			Male	77.2		79.0	82.9
Ratio of literate women to men (>14 years of age)	Ratio of female adult (>14 years) literacy rate to male adult literacy rate	Census 98				0.75	
Enrollment in early childhood programs	Gross enrollment ratio in early childhood development programs/proportion of children aged 3-5 enrolled in early childhood development programs	EFA 2000	Total		5.4	5.4	5.8
			Female		5.4	5.4	5.8
			Male		5.4	5.3	5.7
Legal Protection							
Laws adopted to strengthen protection of women's rights	Number of new laws adopted which address gender concerns	No data available					
Laws amended to strengthen protection of women's rights	Number of laws amended to better address gender concerns	No data available					
Access to legal counseling services	% of population that can reach appropriate legal counseling services by local transport	No data available					
Ratio of women to men in judicary system	Judges	No data available					
	Prosecutors						
	Police						
Economic Empowerment							
Poverty ratio	Proportion of people who live below the poverty line (based on the estimated cost of basic human needs, food and non-food	Poverty Profile of Cambodia 97			36.1		
Female-headed households	Proportion of households headed by a woman	CSES 97 Census 98 CSES 99			23.5	25.7	19.6
Employment ratio	Employment to population of working age ratio (number of persons economically active aged 10 years and older on total population that age)	CSES 97 CSES 99	Total		65.8		66.1
			Female		65.4		65.9
			Male		66.2		66.3

Women's participation in paid employment	Female share (%) of paid employment in non-agricultural activities	No data available						
Women in Decision-making								
Women's representation in Government	% of women ministers					0.1		
	% of women sec of states/under secretaries							
	% of seats held by women in National Assembly					9.8		
	% of seats held by women in Senate					12.9		
	% of women governors							
	% of seats held by women in Commune Councils							
Percent of women in management and professional occupations	Legislators, Senior Officials, Managers	CSES 99					8.7	
	Professionals						28.3	
	Technicians & associate professionals						21.3	
Gender-empowerment measure (GEM)	Measure of relative empowerment of women and men in political and economic spheres of activities	UNDP Human Dev Report						
Allocation of Government Expenditures in Priority Sectors								
Health expenditures by government	% of total expenditures	CPER 99		5.1	5.9			
Education expenditures by government	% of total expenditures	idem		9.6	9.3			
Agriculture & rural development expenditure by government	% of total expenditures	idem		2.8	3.0			

Source: MWVA.+

ANNEX 3: THE GOVERNANCE ENVIRONMENT

Good governance is "an essential prerequisite to sustainable socio-economic development and social justice" (RGC 2001, p.1). This Annex focuses on the policy changes and reforms that the Government intends to make in order to improve the governance environment. The reforms are ambitious in scope and timeframe, and will be further prioritized early in the SEDPII period in order to ensure effective implementation.

3.1 BACKGROUND

Studies have identified and analyzed governance problems in depth, and pointed to key areas in need of reform for improvement in all four elements of the governance environment — accountability, transparency, predictability, and participation.

Surveys of public officials and the household and business sectors establish that: (1) the quality of public service delivery is seen to have deteriorated and is regarded as poor (especially in respect of the courts, customs and tax authorities, road services, and the police); (2) that the payment of bribes does not improve the quality of service delivery; and (3) that in general public corruption is perceived as a leading problem (World Bank 2000b).

An ADB-sponsored study by the Cambodia Development Resource Institute identifies a number of key issues in the public sector, civil society and the media (Kato et.al. 2000). In regard to the public sector, the study concludes that the National Assembly and Senate have played a limited role in drafting and reviewing legislation, and are restricted by inadequate human and financial resources, including external technical assistance. Although key reforms in public finance and public administration have been implemented, the public sector is still characterized by corruption and inefficiency, which largely reflect the below-subsistence wages in the civil service. As the number of regular staff in the service has increased from 143,855 in 1995 to 165,539 in 2000, so has the average nominal wage per month fallen from $27 to around $20:

The low salary scale is perhaps the most fundamental structural problem in Cambodia's public sector...If the low salary issue is not addressed properly in the overall reform process, there is a high risk that this will remain a major obstacle to all governance reforms (Kato et.al. 2000, p.35).

Rationalization of the civil service and an increase in average monthly salaries of public officials are therefore necessary conditions for improving governance. Related issues include a weak revenue-raising capacity and inefficient public expenditure management. Also, current organizational structures (including a high degree of centralization) and institutional rules are seen as hindrances to efficient and effective public service delivery. A downsizing and restructuring of military and defence forces constitute another urgent, additional requirement of government reform.

The CDRI study draws attention to the lack of independent accountability institutions and weaknesses in the Judiciary (that is, the Constitutional Council, the Supreme Council of Magistracy, the courts, and the prosecutors). The existing Ministry of Parliamentary Relations and Inspection, and the inspection departments within ministries, are regarded as insufficiently independent from the Executive. However, the Audit Law of 2000 provides the legal framework for the establishment of a National Audit Authority which, if properly staffed and resourced, would fulfil a crucial external audit function. The Judiciary falls short of acceptable standards

of independence, integrity, and capability and thus does not provide a sound foundation for the rule of law and the development of a market economy. Only one-third of Cambodia's 171 judges and prosecutors have received any formal legal education, and they are poorly paid. There is interference in the operations of the judicial system from the Executive and Legislative branches of the governance structure. Procedures for review of draft legislation are often not followed; and the legal framework governing the functioning of the Judiciary remains undeveloped.

In respect of civil society, the CDRI study notes that laws establishing important elements of a regulatory framework for private sector development have been passed since 1993, but that the private sector raises concerns over corruption and arbitrary decisions by public sector authorities. Land disputes are identified as having a "devastating impact" on investment and the poor, and requiring resolution through the creation and effective enforcement of a clear legal framework. NGOs have played a critical role in increasing government awareness of this policy issue, and in formulating a policy response through the drafting of a Land Law. A clear, enforced legal framework is needed in other areas, including property rights in general, resolution of commercial disputes, and regulation of anti-competitive conduct. Limited access to copies of existing laws and regulations, and limited participation in the preparation of legislation, are also highlighted by the private sector as key governance issues.

The legal framework for the media is generally regarded as providing a relatively high degree of freedom for the press, although some concerns have been raised about a lack of definition of some terms in the *Law on Press Regime*. There is no legal framework for regulation of the broadcast media, while most journalists are neither professionally trained nor bound by a code of ethics.

In addition to these governance issues and concerns, there are governance issues in the area of natural resource management. First, land reform is recognized as a crucial determinant of the prospects for economic growth and poverty reduction. At present, only 10 percent of rural families hold legal land titles. The consequent insecurity of tenure discourages investment, particularly in the irrigation infrastructure needed to improve productivity in rice cultivation. There are also issues of landlessness (13 percent of rural, and over 20 percent of single female-headed households own no cultivable land); land grabbing; loss of land-based government revenue; encroachment on forest land and fisheries habitat; and uncontrolled growth of informal settlements. A land law (the Immoveable Property Bill, 2000) has been drafted, but is yet to be finalized, considered by the National Assembly, and promulgated. The Government has established a National Land Dispute Settlement Commission, and is committed to the formulation of a comprehensive land policy framework within which priority actions in land management and administration and land distribution can be identified (see Table 3.9).

The need for improved governance in the forest sector is well-established; and toward the end of the SEDPI period, substantial progress was made in eliminating illegal logging and improving forest resource management. However, these gains must be consolidated and further reforms implemented. A National Forest Policy and a New Forest Law are under formulation for submission to the National Assembly in 2001. New forest concession management plans are required by late 2001 from the 17 companies holding valid concessions over 4.3 million hectares. A sub-decree on Forest Concession Management makes provision for consultation with local communities affected by concessions; and, with external assistance, the Government is promoting community forest management (see Table 3.10).

Finally, there is growing recognition of the need for improved governance in the fisheries sector, which generates around 70 percent of the animal protein intake for the population, but

which has been the scene of considerable conflict over resource access. Current fishery legislation is widely regarded as inadequate and unenforceable. Fisheries policies are in need of clarification. In addition to conflicts between commercial fishing lot operators and local communities, access problems arise in regard to local communities' long-standing use of forest and agricultural lands within the fishery domain (which is defined to include the floodplains). Currently, use of this land is officially considered to be illegal. A draft fishery law is under consideration, and a process of fishing lot reform has begun, albeit without the benefit of a clear policy framework (see Table 3.11).

3.2 THE GOVERNANCE ACTION PLAN

Against this analytical background, the Government's *Governance Action Plan* (RGC 2001) identifies two categories of governance reform that are critical to development prospects. The first category includes five cross-cutting areas:

- Judicial and legal reform aimed at establishing basic rules of fairness and predictability
- Civil service reform (including decentralization), which aims at improving the effectiveness of public service delivery
- Public financial management reform encompassing the planning and budgetary process, tax policy and administration, public expenditure management, audit, and aid coordination and management
- Anti-corruption, which aims at establishing rules and standards governing behavior in economic, political and social life
- Gender equity.

As observed in the *Governance Action Plan* (GAP): "without credible action in these areas, the basic virtues of good governance will not take hold in Cambodia" (RGC 2001, p.1).

The second category of governance reform covers two specific policy issues:

- Demobilization of the armed forces in the context of redefining the role and size of the military, in order to (1) ensure sustainable public safety and peace and (2) release public resources for crucial development expenditures
- Natural resource management, including land, forestry and fisheries management and encompassing the issue of access to resources by the poor.

The GAP presents a preliminary, timebound action plan aimed at improving the governance environment as defined by the above seven issues. The actions are summarized in a Performance Matrix that is presented in tables below (see Tables 3.1-3.11).

During the first year of the SEDPII period, the Government will give priority to seven actions:

1. The establishment of "priority groups" of civil servants, who will be selected in a transparent manner and held to stringent performance standards corresponding to their financial remuneration. The aim is to demonstrate the benefits of new rules and more efficient organizational practices, especially the enhancement of service delivery.
2. The further democratization of Cambodia through decentralization/deconcentration of government and public service delivery. The communal elections planned for early 2002 are central to this process.
3. Acceleration and better coordination of State reform, especially in areas affecting government revenue and expenditure flows.

4. Acceleration of legal and judicial reform programs through donor-assisted and participatory articulation of a National Program for Judiciary Reform.
5. Consolidation and improvement of the conservation and sustainable management of natural resources and the environment.
6. Promotion of social development (especially poverty alleviation and gender equity).
7. Establishment of partnership arrangements with all stakeholders aimed at ensuring effective implementation of the Governance Action Plan.

Other short- and medium-term actions to be taken during SEDPII are shown in Tables 3.1-3.11, which include benchmarks for monitoring purposes. The Council for Administrative Reform (CAR) is responsible for finalization of the GAP, including the further development in consultation with stakeholders of a monitoring and evaluation framework with performance indicators. CAR is also responsible for monitoring implementation of the GAP and preparing semi-annual progress reports that will be made public. Actual implementation of governance reform, including the mobilization of human and financial resources, is the responsibility of the various reform councils (listed below) and the ministries under their jurisdiction.

The Supreme Council for State Reform chaired by the Prime Minister will continue to have responsibility for overall management of the reform process, and will be supported by eight agencies. These include CAR; the Council for Economic and Public Finance Reform; the Council for Judiciary and Legal Reform; the Council for the Demobilization of the Armed Forces; the Council for Military Reform; the Council for Land Policy; the Council for Social Development; and the Ministry of Interior (as the agency to spearhead further democratization).

Table 3.1 Legal and Judicial System: Legal Reform

Governance Issues	Govt. Agency	Actions ST = short term (within 1 year) MT = medium term (in 2-3 years)	Benchmarks for Monitoring
(1) Improving the legislative process	COM, MOJ	Conduct public consultation on the draft civil code, the draft code of civil procedure, the draft penal code, & the draft code of penal procedure (ST)	Extent of public consultation
	COM, MOJ	Prepare an action plan to improve the legislative process, including (a) the legislative capacity of ministries; (b) general methodology for drafting legislation that will apply to all legislation & encompass the role of the executive & Parliament & the necessity for consultations with the general public & private sector; and (c) improvement in public awareness of, and respect for, laws, in full consultation with stakeholders (MT)	Practical & costed action plan Extent of public consultation
	MOJ	Initiate the streamlining & strengthening of the process to develop laws within the Executive (MT)	Progress in implementation
(2) Wide dissemination of laws and regulations	COM, MOJ	Accelerate publication of existing legislation by the legal coordination unit, and publish regularly all new legislation in an official gazette (ST, MT)	Extent of circulation Proportion of legislation published
(3) Completing gaps in legislation and developing a legal framework for the private sector	MOC, MEF, MIME	Send draft civil code, draft codes of civil & penal procedure, & laws instituting a legal framework for the private sector, to the National Assembly (MT)	Extent of consultations

	COM, MOJ	Prepare a comprehensive assessment of gaps & inconsistencies in legislation (ST)	Prioritization of the assessment
	MOC, MEF	Promote private sector participation in the legislative process, especially for laws establishing a legal framework for the private sector (ST, MT)	Extent of consultations
	CJR	Prepare a comprehensive framework & program of actions for judicial reform & better coordinate efforts	Extent of consultations Practical plan

Source: RGC 2001.

Table 3.2 Legal and Judicial System: Strengthening the Judiciary

Governance Issues	Govt. Agency	Actions ST = short term (within 1 year) MT = medium term (in 2-3 years)	Benchmarks for Monitoring
(1) Developing human resources and infrastructure for the Judiciary	CJR, MOJ	Prepare a human resources needs assessment and a costed action plan for the Judiciary (ST)	Practical & costed action plan
		Building on infrastructure needs assessment, undertake a realistic program to rehabilitate the infrastructure of court houses (MT)	Coordination & consultation with MEF
		Gradually increase the budget of the Judiciary, after a realistic assessment of resources available (MEF), & of the effect of the increase on fiscal balance (MT)	Adequacy of resources
(2) Enhancing the integrity of the Judiciary	COM, CJR, MOJ	Strengthen the capacity of the Council of Judicial Reform (ST)	Empowerment of the CJR
		Reform and strengthen the Supreme Council of Magistracy (ST)	Extent of consultation
		Under the aegis of the Council, prepare, adopt, and begin implementation of an action plan to enhance the integrity of the Judiciary and independence of prosecution (ST, MT)	Consultation with stakeholders on the action plan Progress of implementation of the action plan
	MOJ, SCM	Conduct public consultation on a draft law on magistrates (ST) and submit to the National Assembly for adoption (MT)	Extent of consultation
		Separate the budget of the Judiciary from that of MOJ (ST)	Creation of the budget line
	MOJ, CJR	Develop & implement detailed court procedures & management systems (MT)	Extent of implementation
	MOJ, CJR	Review desirability of establishing a Juvenile Court & a Labor Tribunal (MT)	Extent of public consultation
(3) Meeting the private sector's needs for the arbitration of commercial disputes	MOC, MOJ, CJR	Examine the relevance of establishing specialized commercial & administrative courts, in full consultation with stakeholders (ST)	Extent of public consultation
(4) Improving law enforcement	MOI, MOJ	Prepare an action plan to reform public security institutions such as the National Police, Gendarmerie, municipal police, and other security units, in full consultation with	Practical & costed action plan

(5) Improving representation of the accused	MOJ, CJR	stakeholders (MT) Prepare a study on the representation of the accused, focusing on provincial courts.	MEF. 2001-03. Feasibility of actions proposed

Source: RGC 2001.

Table 3.3 Civil Administration and De-concentration

Governance Issues	Govt. Agency	Actions ST = short term (within 1 year) MT = medium term (in 2-3 years)	Benchmarks for Monitoring
(1) Rationalization of employment structure, review of remuneration, and establishment of management systems	CAR	Complete initiatives underway (census; initial steps of functional analysis; establishment of a computerized personnel & payroll system; and pay, employment and fiscal balance simulation) (ST)	Progress made
(2) Enhancing productivity and motivation (3) Making realistic assessments of available resources and timeframe of activities (4) Enhancing transparency and participation in the reform process		Develop a Strategy to Reform the Public Service detailing the sequencing & responsibilities for: (a) rationalizing pay and employment structure; (b) priority groups; (c) personnel management based on meritocracy; (d) smooth information flows within & between agencies involved in managing the civil service; (e) timely payment of living wages; (f) donor-paid supplementation; (g) deconcentration. The detailed plan should also ensure that donor activities in this area are consistent & coordinated (ST).	Extent of consultation within the gov't & with donors & civil society
(5) Improving coordination between administrative reform initiatives and other reform programs		Develop a strategy & implementation plan for establishment of priority groups that takes account of risk factors & implications for the civil service as other measures take hold (ST)	Progress
		Develop a strategy to deconcentrate administrative functions to enhance the capacity of provincial & district administrations to improve service delivery & to support elected commune councils	Progress
		Promote the participation of line ministries (ST)	
		Undertake information sessions with stakeholders about the objectives & activities of administrative reform (ST, MT)	Extent
		Continue to build the capacity of the CAR Secretariat (MT)	Coverage
		Complete the functional analysis of public administration (MT)	
		Implement the redeployment & rationalization phase of the reform (MT)	

Source: RGC 2001.

Table 3.4 Decentralization and Local Governance

Governance Issues	Govt. Agency	Actions ST = short term (within 1 year) MT = medium term (in 2-3 years)	Benchmarks for Monitoring
(1) Establishing a legal framework	MOI	Complete studies & promote debates on this topic, & prepare a policy framework, in full consultation with stakeholders (ST)	Adoption of a policy framework
(2) Ensuring a close link between administrative and financial decentralization	MOI	Draft legislation on provincial, municipal, and district administration in full consultation with stakeholders, and submit to the National Assembly for review and adoption (ST)	Extent of consultation
(3) Developing managerial and human resources at the sub-national level	MOI	Re-examine existing draft laws related to commune councils, taking into consideration the policy framework and a law on provincial, municipal & district administration, in full consultation with stakeholders (MT)	Extent of consultation
	MOI	Submit draft laws on commune councils to National Assembly for review and adoption (MT)	Laws submitted
	MOI	Assess needs of commune councils to become effective (ST)	Study completed Extent of consultations
	MOI	Implement adopted laws	Progress
	MOI	Develop managerial & human resources in support of elected commune councils (MT)	Progress

Source: RGC 2001.

Table 3.5 Public Finance

Governance Issues	Govt. Agency	Actions ST = short term (within 1 year) MT = medium term (in 2-3 years)	Benchmarks for Monitoring
a. Customs administration			
(1) Upgrading legislation	Customs Dept.	Submit a new customs code to the National Assembly for adoption (ST)	Adoption of the code & enforcement
(2) Streamlining customs control	Customs Dept., MOC, MOI	Propose and implement a plan to streamline customs control (ST)	Completion & implementation of the plan
(3) Combating smuggling	Customs Dept., MOI	Form an anti-smuggling task force & fight smuggling (ST)	Increase in customs revenues
	Customs Dept.	Enforce pre-shipment inspections (PSI) (ST)	
(4) Developing infrastructure for trade statistics and information reporting	Customs Dept.	Upgrade computer software & hardware, and telephone lines to a level suitable for modern customs operations and controls (ST)	Availability & quality of trade statistics
(5) Developing a modern customs administration	Customs Dept.	Prepare a comprehensive plan to develop a modern customs administration, including human resources development & training, material & infrastructure development, organizational restructuring & strengthening (MT)	Adoption & implementation of the plan
	Customs Dept.	Begin to phase out the PSI contract (MT)	Progress
b. Tax administration			
(1) Eliminating discretionary grants of tax exemptions	Tax Dept.	Continue the policy disallowing exemptions to the VAT other than those specified in the Law on Taxation (ST)	Number of VAT exemptions
(2) Minimizing delays in VAT refunds	Tax Dept.	Reduce the backlog of refunds of the VAT following the approval of refund request (ST)	Number of backlog cases
(3) Developing a regulatory framework for tax on profits	Tax Dept., MEF	Finalize and adopt draft prakas for the tax on profits after full consultation with the private sector (ST)	Adoption
(4) Promoting information exchange among tax-related agencies	Tax Dept., CDC, Customs Dept.	Strengthen the information exchange system to better monitor activities of firms approved under the Law on Investment (LOI) (ST)	Increase in revenues
(5) Eliminating arbitrary determination of the length of tax holidays under the Law on Investment	CDC	Submit an amendment of Article 14 of LOI to the National Assembly (ST)	Amendment of Article 14
(6) Undertaking a	CDC, MEF	Review the current tax framework and	Progress towards the

comprehensive review of investment incentives		introduce a new, modern tax framework and transparent procedures, including natural resources management (MT)	adoption of a new tax framework
c. Budget management			
(1) Ensuring the integrity of the budgetary process	MEF	Ensure that the monthly spending plans to each line ministry & its provincial departments are provided on a timely basis (ST)	Timeliness of the circulation of spending plans
	MEF	Publish both budget allocations & actual disbursements of central & provincial governments on a monthly basis in a govt. publication such as the Economic and Financial Bulletin (ST)	Monthly publication of planned & actual budget
	MEF, MOH	Make the report reviewing the ADD at the Ministry of Health available to the public (ST)	Circulation of the report
	MEF	Ensure a Budgetary Strategy & Execution Center is well funded & maintain adequate mandate, staffing, & procedures beyond the 2000 budget law (MT)	Effectiveness of the Center Availability of resources
(2) Improving the performance of spending units	COM	Appoint Auditor General of the National Audit Authority (NAA), using an open, transparent nomination & selection process (ST)	Extent of openness of the selection procedure
	MEF, COM	Ensure that the NAA will have an independent budget line & adequate levels of budgets, human resources, and infrastructure to carry out its mandate (MT)	Availability of resources
	MEF	Establish a training center for finance officers at core budgetary institutions (MT)	Establishment of the center
(3) Strengthening the public investment management program	MEF, MOP, MOH	Initiate a Medium Term Expenditure Framework and a SWAP in the Ministry of Health as a pilot project (MT)	Adoption of the framework

Source: RGC 2001.

Table 3.6 Anti-Corruption

Governance Issues	Govt. Agency	Actions ST = short term (within 1 year) MT = medium term (in 2-3 years)	Benchmarks for Monitoring
(1) Setting ethical standards	MOJ, SCM	Prepare and adopt codes of ethics for judges, in full consultation with donors, NGOs, and civil society (ST)	Adoption of the codes; extent of public consultation
	COM, MNASRI	Prepare and adopt codes of conduct for public officials (other than judges) and elected officials, in full consultation with donors, NGOs, and civil society (ST)	Extent of public consultation
	COM, MNASRI	Prepare and submit to the National Assembly specific anti-corruption legislation, that reflects a broad base consensus about its scope and modalities (MT)	Extent of public consultation Progress
	COM	Develop and implement a public and media awareness program on corruption and its consequences (MT)	Scope of public awareness raising
	COM	Investigate ways and means to generalize publication of fees for basic public services, and educate the public about penalties for corrupt activities (MT)	Publication of fees for basic services
	COM	Examine feasibility of electoral campaign reform (MT)	Progress
(2) Strengthening enforcement and scrutiny	MEF	Review arrangements for enforcing the decree on public procurement, and prepare measures to improve the situation & start implementation (ST); and reevaluate the legal framework (MT)	Amount of procurement under Public Bidding Office
	MEF	Re-evaluate the legal framework governing public procurement, and introduce legislation to promote efficiency, transparency & accountability (MT)	Progress Extent of public consultation
	COM, Min. of Inform.	Prepare & submit to the National Assembly legislation reaffirming the right of freedom of the press and of information (MT)	Submission of legislation
	CAR	Examine feasibility of asset declaration for high level public and elected officials and their close relatives (MT)	Report
	COM, MEF	Operationalize the NAA (ST)	Operationalization

Source: RGC 2001.

Table 3.7 Gender Equity

Governance Issues	Govt. Agency	Actions ST = short term (within 1 year) MT = medium term (in 2-3 years)	Benchmarks for Monitoring
(1) Capacity building (2) Advocacy (3) Recognition (4) Leadership	MWVA	Promulgate application decrees to facilitate the enforcement of the law to suppress human trafficking and exploitation (ST)	Extent of consultation Decrees promulgated
		Conduct advocacy campaigns to improve sensitivity to gender-related issues (ST)	Extent of campaign
		Strengthen the inter-ministerial network of gender equity advocates (ST, MT)	Extent of strengthening
		Initiate a program to build MWVA capacity (ST)	Program initiation
		Establish and operationalize the National Council for Women as a locus to promote and protect women's rights (MT)	Operationalization of the Council
		Create & train a country-wide network of volunteers to disseminate information about women's & children's rights (MT)	Establishment of network
		Carry out a literacy program in all provinces with a particular focus on rural areas (MT)	Design and completion of program
		In full consultation with stakeholders, prepare a law against domestic violence (MT)	Preparation of law
		Develop a program to reduce discrimination against HIV positive individuals (MT)	Design of program

Source: RGC 2001.

Table 3.8 Armed Forces

Governance Issues	Govt. Agency	Actions ST = short term (within 1 year) MT = medium term (in 2-3 years)	Benchmarks for Monitoring
(1) Ensuring a flexible timeframe and program design	CVAP	Complete the pilot phase of the demobilization and reintegration program, and conduct a review of progress in full consultation with stakeholders (ST)	Extent of participation in the pilot program
(2) Building consensus through participation	CVAP	Develop a nationwide demobilization and reintegration program, based on the review, in full consultation with stakeholders (ST)	Soundness of the program Extent of participation
	CVAP	Implement and complete a nationwide demobilization program (MT)	Progress of the program
(3) Getting the right sequence of activities in military reform	MOD	Complete the first White Paper on national defense, and make it available to the National Assembly, the Senate, and the public (ST)	Extent of availability of the White Paper
	MOD	Articulate the appropriate nature, size and cost of the military in light of the White Paper; and complete the demobilization program accordingly (MT)	Soundness of the assessment

Source: RGC 2001.

Table 3.9 Natural Resources Management — Land Management

Governance Issues	Govt. Agency	Actions ST = short term (within 1 year) MT = medium term (in 2-3 years)	Benchmarks for Monitoring
(1) Enacting necessary laws, regulations and implementing guidelines	COM, MLMUC	Submit new draft land law to the National Assembly (ST)	Law is submitted
	MLMUC	Initiate and complete six additional pilots using methodology to address cadastral mapping and land registration (ST, MT)	Progress of land titling activities (areas covered, number of covered communities)
(2) Promoting broad participation in the development of land management	MLMUC	Draft implementing regulations for the new land law, including accelerating land registration and building a land administration system to enhance land tenure security, in full consultation with donors, NGOs and civil society (ST)	Adoption of the implementing regulations Extent of consultation
(3) Enhancing the capacity of implementing agencies	MLMUC	Prepare and implement an action plan for capacity development of implementing agencies (MT)	Adoption and implementation of the action plan

Source: RGC 2001.

Table 3.10 Natural Resources Management — Forestry Management

Governance Issues	Govt. Agency	Actions ST = short term (within 1 year) MT = medium term (in 2-3 years)	Benchmarks for Monitoring
(1) Bringing logging activities under control at a sustainable level	Forestry Dept.	Publish quarterly the full report on forest crime monitoring (ST, MT)	Scope of illegal logging
		Take actions based on the concession contract review (ST)	Revenues from timber royalties
(2) Developing a comprehensive legal framework for forestry development		Implement a sub-decree on forest concession management, & a sub-decree on community forestry (ST)	Protection of people's livelihood from NTFPs collection
		Draft and submit a new forestry law to the NA, after full consultation with stakeholders (ST)	Adoption of the law
		Establish consultation and participation mechanisms for donors and civil society (ST)	Extent of implementation
		Build the capacity of the Forestry Dept. (MT)	Progress
(3) Enhancing human resources capacity and financial and material means for forestry management		Consider establishing a single line of authority for forest management at the national level (MT)	Study completed
		Provide training for officials at local offices of the Forestry Dept. on newly-adopted sub-decrees to ensure their proper implementation (MT)	Extent of implementation

Source: RGC 2001.

Table 3.11 Natural Resources Management — Fisheries Management

Governance Issues	Govt. Agency	Actions ST = short term (within 1 year) MT = medium term (in 2-3 years)	Benchmarks for Monitoring
(1) Developing a comprehensive legal framework	Fisheries Dept.	Finalize the preparation of the new fisheries law and forward to the COM by early 2001 (ST)	Law is approved
		Hold public consultations with stakeholders before submitting to the Legislature (ST)	Extent of public consultations The law is forwarded
(2) Capacity building		Develop a restructuring and capacity building program (ST)	The plan is approved Level of effort
		Human resource development (MT)	The plan is approved
(3) Curbing excessive exploitation of the resource		Develop the Fisheries Master Plan (ST)	Extent of consultations
		Implement the Fisheries Master Plan, including establishment of the Inland Fisheries Institute (MT)	Extent of implementation
		Prepare a long-term strategy to further develop the fisheries sector (MT)	Strategy approved Extent of consultation

Source: RGC 2001.

ANNEX 4: THE MACROECONOMIC FRAMEWORK

This chapter presents the macroeconomic framework of the plan. The framework presents targets for macroeconomic aggregates that are consistent with the major development objectives of sustained economic growth with equity and social development. The priority sectors for resource allocation through the PIP and the Annual Budget are agriculture, rural development, health, and education.

4.1 THE MACROECONOMIC FRAMEWORK

In the medium term, the Government aims to create the conditions for an acceleration of real GDP growth to just over 6 percent, while maintaining macroeconomic stability. It is projected that the inflation rate will stabilize in the range 3.5-4 percent; that the external current account deficit (exclusive of official transfers) will be brought down to around 10 percent of GDP; that gross official reserves will rise towards 4 months of import cover; and that the exchange rate will depreciate slightly in nominal terms (Table 4.1). The growth acceleration is based on a rise in the national savings and domestic investment ratios that is assumed to follow the Government's vigorous implementation of the reform program within a stable political climate. It is also assumed that there are no external economic shocks or natural disasters that derail the growth process. In regard to the reforms, as detailed in annex 3, the Government must:

- Generate additional revenue to support implementation of public expenditure priorities as identified in the Public Investment Program and the Annual Budget
- Increase public expenditure on social development and reduce defence spending
- Enhance public resource management and governance
- Ensure macroeconomic stability
- Improve the enabling environment for the private sector through infrastructure provision, financial sector reform, and establishment of an effective legal and regulatory framework
- Promote the integration of Cambodia into the regional and global economies
- Implement civil service reform as a necessary condition for improving the governance environment.

If an aggregate growth rate of 6 percent can be sustained, then per capita real income will increase at an annual rate of about 3.5 percent (given a population growth rate of approximately 2.5 percent per annum). At this rate, average real income in 2005 will be almost 19 percent above the 2000 level.

4.1.1 SOURCES OF GROWTH

The growth acceleration that is projected for the medium term is driven by growth in all sectors, but heavy reliance is placed on service sector growth led by tourism and public administration. The agriculture sector is projected to grow at 3.5 percent per annum despite continued decline in the forestry sub-sector. Paddy and other crops are expected to be the leading sub-sectors, with livestock and fisheries growing at about the population growth rate (Table 4.2).

Table 4.1 Macroeconomic Framework
(In percent of GDP, unless otherwise indicated)

	2001	2002	2003	2004	2005
	Projections				
Real sector					
Real GDP (percent change	5.5	5.0	6.0	6.5	7.0
CPI Inflation (end period; percent change)	3.0	3.7	3.7	3.7	3.7
GDP deflator (percent change)	5.0	3.7	3.5	3.5	2.0
Per capita GDP (in US dollars)	276	295	317	341	359
National saving	14.1	14.9	15.6	16.3	17.0
of which: Government saving	1.3	1.4	1.5	1.4	1.6
Domestic investment	16.5	18.0	17.5	18.0	18.5
Fiscal sector					
Revenue	12.2	13.0	13.5	13.5	13.5
Of which Tax revenue	8.7	9.7	10.2	10.3	10.3
Of which: Non-tax revenue	3.3	3.2	3.1	3.1	3.1
Expenditure (cash basis)	18.3	18.3	18.2	18.1	17.8
Current	10.8	11.5	11.9	11.9	11.9
Capital	7.6	6.8	6.3	6.2	5.9
Current balance	1.3	1.4	1.5	1.4	1.6
Overall balance	-6.1	-5.3	-4.7	-4.6	-4.3
Domestic Financing	0.0	-0.1	-0.1	-0.1	-0.1
Monetary sector					
Broad money (percent change)	23.7	18.0	18.0	18.0	16.0
Velocity (GDP/M2)	6.7	6.1	5.6	5.2	4.9
External sector					
Domestic exports (percent change)	8.7	5.5	5.4	7.1	10.2
Retained imports (percent change)	5.9	5.7	5.9	5.8	6.7
Current account balance (excl. transfers)	-10.4	-9.8	-9.2	-8.5	-8.0
Current account balance (incl. transfers)	-2.4	-2.1	-1.9	-1.7	-1.5
Overall balance	0.1	0.3	0.3	0.0	0.1
Financing gap (in millions of US dollars)	0	17	12	51	47
Gross official reserves					
(in millions of US dollars)	531	602	661	740	820
(in months of imports)	2.8	3.0	3.1	3.3	3.5
External debt 1/	36	34	31	28	25
External debt (NPV) 1/	21	20	18	16	15
Debt service ratio 2/	4.2	4.0	3.9	4.5	5.0

1/ Figures include bilateral debt with former CMEA countries and the United States. The scenario reflects the impact of completing rescheduling agreements for this debt in 2001.
2/ The decline in 2000 reflects the end of the large part of the scheduled payments to the Russian Federation.
Sources: Data provided by Cambodian authorities and IMF staff projections in *Third Review Under the Poverty Reduction and Growth Facility* Staff Report July 3, 2001.

The industry sector is projected to grow at 7 percent per annum as a result of sustained growth in all sub-sectors. The services sector is projected to accelerate to an annual growth rate of 8 percent. Within this sector, major contributions to growth are projected to come from transport and communication, wholesale and retail trade, and hotels and restaurants, as tourism growth stimulates demand; and also from the public administration sub-sector as revenue growth permits increased government spending (including on a smaller, higher-paid civil service).

Substantial economic and social infrastructure development is needed to promote economic growth in all three sectors of the economy. The repair and maintenance of the national road system, the creation of an efficient power sector (including rural electrification), improved water supply and sanitation, and improved health and education services are basic requirements. An

improvement in the efficiency and effectiveness of the public sector is needed if these requirements are to be met.

On the aggregate demand side, the macroeconomic framework projects a shift in the expenditure composition of GDP away from final consumption expenditure (though this grows at around 4 percent per annum in real terms), towards investment and net export expenditure.

4.1.2 PUBLIC FINANCES

The generation of additional revenue is essential if increased funding is to be provided for economic and social infrastructure development. It is projected that revenue will rise as a percentage of GDP from 11.8 in 2000 to 13.7 in 2005, largely through a rise in taxation revenue from 8.6 percent of GDP to 10.5 percent. The latter involves a rise in VAT proceeds, and a substitution of excise taxes for customs duties (as tariff reform continues), and will demand further improvements in tax and customs administration. The 2001 budget accordingly makes provision for strengthening revenue administration, as well as introducing additional revenue-raising measures. These include an extension of the VAT base by another 150 companies (following the 2000 expansion by 500 companies); a 10 percent excise tax on entertainment services and adjustments in other excise taxes; new license fees on casinos; and a new stamp system for tobacco products. The minimum profit tax of one percent is to be eliminated, but the tax incentive system under the Law on Investment will be reviewed with the intention of simultaneously increasing simplicity, transparency and revenue (by removing unnecessary distortions).

It is projected that total expenditure will rise to 18.4 percent of GDP by 2003 and then remain above 18 percent for the rest of the Plan period. Current expenditure is projected to rise from 9.9 percent of GDP in 2000 to 12.3 percent in 2005 as defense and security spending falls substantially, health and education spending rises, and civil service reform leads to a better-paid, more motivated, and smaller public administration workforce. In addition to civil service reform, a crucial requirement for improving efficiency and service delivery is a reallocation of expenditure toward operations and maintenance. This requirement applies to the routine operations of line ministries, ongoing projects, and future projects and programs prioritized under the Public Investment Program; and it should be complemented by competitive and transparent procurement procedures. The 2001 budget makes provision for a fall in defense and security spending equivalent to 0.5 percent of GDP, which will free resources of the same amount for expenditure in the agriculture, rural development, health and education sectors. There is also provision for a 10 percent wage rise for a reduced number of civil servants, so that the wage bill is stable as a percentage of GDP.

Table 4.2 Projected Sectoral Growth

Sector	2000 (Value in Billion Riels, 1993 prices)	2005 (Value in Billion Riels, 1993 prices)	Average Annual Growth Rate (%)
Agriculture, Forestry & Fisheries	3,105.5	3,688.3	3.5
Paddy	820.2	1,029.4	4.6
Other Crops	586.0	802.9	6.5
Livestock	564.9	639.1	2.5
Fisheries	842.2	939.0	2.2
Forestry	292.2	277.9	-1.0
Industry	1,788.1	2,507.9	7.0
Mining	13.8	18.9	6.5
Manufacturing	1,363.0	1,789.8	5.6
- Food, beverages & tobacco	269.1	327.4	5.0
- Textiles & garments	824.2	1,129.2	6.5
- Wood, paper & publishing	69.7	94.7	6.4
- Rubber	39.0	44.5	2.7
- Other manufacturing	161.0	194.0	3.8
Electricity & water	43.9	84.5	14.0
Construction	367.5	614.7	10.8
Services	3,010.6	4,431.4	8.0
Transport & communication	451.0	743.0	10.5
Trade	924.7	1,383.8	8.4
Hotels & restaurants	363.4	564.3	9.2
Finance	73.8	92.9	4.7
Public administration	271.5	441.2	10.2
Real estate & business	571.3	746.7	5.5
Other services	354.9	459.5	5.3
TOTAL GDP (at factor cost)	**7,904.2**	**10,627.6**	**6.1**

Source: MEF and MOP staff estimates.

The current budget surplus is projected to fall slightly from 1.8 percent of GDP in 2000 to 1.2 percent by 2003-2005, thus permitting some continued domestic financing of development projects. Capital expenditure is projected to fall from 7.4 percent to 5.9 percent of GDP, so that the overall budget deficit drops from 5.4 percent in 2000 to 4.6 percent by 2005. The deficit will be externally financed on concessional terms.

4.1.3 MONEY, PRICES AND THE EXCHANGE RATE

The growth acceleration projected for 2001-2005 will be accompanied by an increase in inflation from the slightly negative level of 2000 to a rate approaching 4 percent per annum. Broad money supply is projected to grow by 24 percent in 2001 before stabilizing at around 20

percent per annum. This is consistent with the economy's increasing degree of monetization and an average annual fall in the velocity of money of close to 10 percent (Table 4.1). The maintenance of a current budget surplus and donor support for the Public Investment Program will permit a further decline in net credit extended to the Government. This in turn will allow strong growth in credit to the private sector that does not put pressure on the balance of payments.

The outlook is for a slight depreciation in the nominal Riel /US dollar exchange rate during 2001 and stability thereafter (Table 4.1). The official exchange rate will continue to be set within a one percent range of the market rate. The substantial dollarization of the economy impairs the ability of the National Bank of Cambodia to conduct an independent monetary policy, and limits the relevance of the Riel/USD exchange rate as a variable affecting international competitiveness. The policy intention is to promote the de-dollarization of the economy through financial sector reform aimed at creating Riel-denominated assets.

4.1.4 FOREIGN TRADE AND EXTERNAL BALANCE

In accordance with the requirements of AFTA membership, the Royal Government has begun the process of tariff simplification and reduction, with the 2001 budget commitment to reduce the maximum tariff rate to 35 percent and the number of tariff bands from 12 to 4. This process will be reinforced by Cambodian membership of the World Trade Organization, which is expected in 2002. Tariff reform will have positive effects on trade expansion, with the economy being restructured according to its comparative advantage in a globalized economic environment. Although logs and sawn timber exports will decline in line with improved resource management and a consequent drop in illegal log exports, domestic exports are projected to grow at approximately 7 percent annually during 2001-2005. Garment exports are expected to continue to lead the way; and investment-related imports for the garment sector will therefore be a major source of growth in retained imports. Petroleum imports will also contribute to an overall rate of growth in retained imports of about 6 percent per annum.

Tourism growth, combined with the projected outcome on trade account, will contribute to a projected reduction in the current account deficit exclusive of transfers of 12.5 percent of GDP in 2000 to 9.9 percent in 2005. The respective figures for the current account deficit inclusive of transfers are 5.7 and 4.3 percent. The capital account surplus is projected to increase as a result of project loan disbursement and foreign direct investment. Overall, gross official reserves are projected to rise to US$819 million by the end of 2005, which would be equivalent to almost four months of imports of goods and services (Table 4.1). External debt will fall to 35 percent of GDP, assuming rescheduling of the pre-1993 debt to the United States and the Russian Federation is completed in 2001, and a continuation of the policy prohibiting any new commercial borrowing.

4.2 INVESTMENT

Real investment is projected to grow at approximately 6.5 percent per annum during the Plan period, with the domestic investment/GDP ratio rising from 17.5 percent in 2000 and 2001 to 18.7 percent in 2005 (Table 4.1). This rise reflects modest growth in public investment financed by foreign grants, concessionary loans, and continued government savings; and strong growth in private sector investment. In 2001, it is planned to finalize a draft law on commercial standards approved by the National Assembly in 2000, and to submit laws on trademarks and commercial enterprises, commercial contracts and arbitration, corporate insolvency, and secured transactions. The task then is to ensure effective implementation.

The projections for public and private investment in nominal US dollar terms are shown in Table 4.3. The data are derived with reference to the macroeconomic framework presented above, and in the case of public investment do not include foreign funding of technical assistance, technical assistance related to capital project implementation, off-budget capital expenditure, or activities funded by NGOs. Total investment is projected to grow from 2001 to 2005 at an average annual rate of 10.6 percent. Private sector investment is the driving force, growing at 15.4 percent as domestic and foreign investors respond to improvements in the private sector enabling environment. Public investment grows more slowly. National savings increase at the rate of 13.9 percent, with the government savings component rising more slowly at 4.6 percent. Foreign savings rises slower still at 2.3 percent.

Table 4.3 Projected Public and Private Investment, 2001-2005
($ million)

	2001	2005	Average Annual Growth (%)
Private Investment	360	639	15.4
Public Investment	264	295	2.8
Total Investment	624	934	10.6
National Savings	428	719	13.9
- of which Government	50	60	4.6
Foreign Savings	196	215	2.3

Source: Table 4.1.

The draft *Public Investment Program, 2001-2003* presents the programmed allocations of investment and technical assistance by sector and by ministries. A total of 337 "on-going, committed, and high priority" projects are included. Of these, 196 are investment projects with a capital cost of $1,297.3 million and 141 are technical assistance projects with a cost of $442.7 million. Approximately half of the grand total of programmed investment of $1,740 million is identified at the start of the Plan period as having funding available, of which 83 percent is expected to come from donors. The other half, covering almost three-quarters of the programmed projects, will require additional commitments from donors.

Table 4.4 presents the PIP by sector. It can be seen that the largest allocation is 25.7 percent to transport, with close to three-quarters going on (entirely donor-funded) road projects. Health is allocated almost 18.7 percent of programmed investment: a project for strengthening of health services accounts for almost 40 percent of this figure. Agriculture's allocation is 12.1 percent, with de-mining, fisheries, and research and extension absorbing 75 percent of the funds. Education will receive nearly 11.3 percent, with over half allocated to basic education. Water resources is allocated 10.4 percent, with the largest planned projects being for flood protection and drainage improvement, and community irrigation rehabilitation. The 5.4 percent share to administration is largely for technical assistance in running the 2002 commune elections, reform of judicial administration, restoration of the provincial tax and customs services, and preparation of census administration maps. Communications' allocation of 4 percent is mostly for fiber optic links and broadcasting for the development of rural areas. Environment and conservation receives an allocation split roughly equally between investment projects (notably construction of a new sanitary landfill for Phnom Penh and sustainable development of coastal wetlands) and technical assistance projects for capacity building in environmental management. The energy sector's allocation is virtually entirely for investment projects: expansion of the power system; power rehabilitation in provincial towns; rural electrification and solar power development; power system upgrading for Siem Reap; and hydropower at Mondulkiri. Social and community services is allocated just under 3 percent for women in development projects, construction of children's villages, regional vocational training centers, family food production projects, rural livelihood restoration, and the like. The allocation

for special programs is for administration reform and the veterans' development program, although funding sources are not yet specified.

The Government recognizes that there is still a need to improve the connections between policy-making, planning, investment programming, and budgeting. The extension of the SWAP/PAP initiative to the four priority sectors of agriculture, rural development, health and education is a response to this need. The Government is also committed to taking a broader medium-term view of resource mobilization and allocation by moving towards the development of a multi-year budget framework during the SEDPII period.

In addition, there is a need to improve the monitoring of, and reporting on, PIP implementation. The Council of Ministers on 23 August 1999 formally adopted a joint inter-ministerial circular on the *Monitoring of the Implementation of Public Investment Projects in the Framework of International Aid and Loans.* This circular was co-signed by the MEF, MOP and the CDC/CDRB for the actions to be taken in establishing project monitoring and evaluation working groups in the planning departments of line ministries and the preparation of regular reports to the MEF, MOP, and CDC/CDRB. These working groups need to be revitalized in order to measure project implementation against agreed time schedules, work plans, and available resources. The purpose is to provide continuous feedback on implementation, and to identify problems as early as possible so that project work plans can be quickly adjusted. Assessment of a projects' performance against programmed objectives is also needed in order to evaluate their impacts and provide feedback into the policy, planning and budgetary processes. Such feedback is essential if public resource allocation is to be efficient. The Government reaffirms its commitment to the establishment of a durable and comprehensive monitoring and evaluation system, but recognizes that this must occur within the context of general administrative reform and on the basis of medium- to long-term improvements in accounting and reporting systems at the line ministry level.

Table 4.4 Public Investment Program, 2001-2003, Sector Allocations ($ million)

Sector/sub-sector	2001	%	2002	%	2003	%	Total 2001-2003	%
Agriculture	**64,332**	**10.6**	**69,960**	**11.81**	**75,918**	**14.1**	**210,210**	**12.1**
- crop production	10,275	16.0	6,528	9.3	5,816	7.7	22,619	10.8
- de-mining	22,000	34.2	22,000	31.4	22,175	29.2	66,175	31.5
- fisheries	13,429	20.9	22,561	32.2	23,050	30.4	59,040	28.1
- forestry	4,011	6.2	3,541	5.1	2,566	3.4	10,119	4.8
- irrigation	4,600	7.2	4,000	5.7	4,000	5.3	12,600	6.0
- livestock	2,719	4.2	2,493	3.6	1,155	1.5	6,367	3.0
- research & extension	7,298	11.3	8,836	12.6	17,156	22.6	33,290	15.8
Transport	**136,186**	**22.3**	**163,558**	**27.6**	**146,611**	**27.3**	**446,355**	**25.7**
- aviation	10,167	7.5	12,825	7.8	4,122	2.8	27,114	6.1
- ports & waterways	19,780	14.5	23,882	14.6	15,768	10.8	59,430	13.3
- rail	1,350	1.0	2,850	1.7	6,300	4.3	10,500	2.4
- roads	104,889	77	124,001	75.8	120,421	82.1	349,311	78.3
Communications	**24,363**	**4.0**	**18,545**	**3.1**	**27,265**	**5.1**	**70,173**	**4.0**
- information	8,551	35.1	8,945	48.2	8,145	29.9	25,641	36.5
- telecommunications	15,812	64.9	9,600	51.8	19,120	70.1	44,532	63.5
Energy	**27,810**	**4.6**	**17,117**	**2.9**	**11,273**	**2.1**	**56,200**	**3.2**
- electricity	27,810	100	17,117	100	11,273	100	56,200	100
Trade and Industry	**8,734**	**1.4**	**7,918**	**1.3**	**5,378**	**1.0**	**22,030**	**1.3**
- industries support services	7,984	91.4	7,168	90.5	5,378	100	20,530	93.2
- mining	0,750	8.6	0,750	9.5		0.0	1,500	6.8
Education	**73,395**	**12.0**	**67,477**	**11.4**	**56,149**	**10.5**	**197,021**	**11.3**
- basic education	36,670	50.0	37,349	55.4	31,462	56.0	105,481	53.5
- higher education	8,385	11.4	8,194	12.1	5,180	9.2	21,759	11.0
- technical & vocational	19,855	27.1	15,371	22.8	15,310	27.3	50,536	25.7
- upper secondary education	6,125	8.3	6,563	9.7	4,197	7.5	16,885	8.6
- youth & sports	2,360	3.2		0.0		0.0	2,360	1.2
Religion and Culture	**3,851**	**0.6**	**3,886**	**0.7**	**3,884**	**0.7**	**11,621**	**0.7**
- culture & fine arts	2,951	76.6	2,710	69.7	2,984	76.8	8,645	74.4
- religious affairs	0,900	23.4	1,176	30.3	0,900	23.2	2,976	25.6
Administration	**54,718**	**9.0**	**21,906**	**3.7**	**16,757**	**3.1**	**93,381**	**5.4**
- development administration	49,775	91.0	16,923	77.3	13,362	79.7	80,060	85.7
- land management & urbanization	4,943	9.0	4,983	22.7	3,395	20.3	13,321	14.3
Water Resources, Water Supply and Sanitation	**62,960**	**10.3**	**68,130**	**11.5**	**50,216**	**9.4**	**181,306**	**10.4**
Health	108,026	17.7	107,969	18.2	10,287	20.4	325,282	18.7
Environment and Conservation	25,426	4.2	22,386	3.8	11,982	2.2	59,794	3.4
Social and Community Services	14,735	2.4	17,605	3.0	15,348	2.9	47,689	2.7
Tourism	0,850	0.1	0,910	0.2	0,578	0.1	2,338	0.1
Special Programs	**4,000**	**0.7**	**6,300**	**1.1**	**6,300**	**1.2**	**16,600**	**1.0**
GRAND TOTAL	**609,386**	**100**	**593,668**	**100**	**536,949**	**100**	**1,740**	**100**

Source: MOP, *Public Investment Program, 2001-2003.*

ANNEX 5: AGRICULTURE AND RURAL DEVELOPMENT

Poverty in Cambodia is primarily a rural phenomenon. The overwhelming majority of the poor get their livelihood from agriculture, and the incidence of poverty is also much higher among farmers than among other occupation groups. Approximately 84 percent of the population, and 90 percent of the poor, live in rural areas, and agricultural activities are their main source of income. At the same time, agriculture provides over 40 percent of the GDP. Therefore, the Government's strategies for developing the economy and for poverty reduction demand a much stronger focus on agricultural development, which is the most effective way to create more employment. But more crop, livestock, fisheries and forestry production will only lift people out of poverty if specific measures are taken to protect and assist the poor and if the country's natural resources are managed sustainably. This annex presents the Government's strategies and programs for sustainable poverty reduction in the rural areas.

PART I: DEVELOPING AGRICULTURE, THE KEY TO POVERTY REDUCTION AND IMPROVED FOOD SECURITY

5.1 AGRICULTURE, FORESTRY AND FISHERIES

5.1.1 Opportunity for Expansion

Agriculture's contribution to GDP has declined from an estimated 52 percent in 1990 to 42 percent in 1999, as agricultural growth has lagged behind that of the industrial sector. However, agriculture is still by far the most important sector in Cambodia's economy, and will remain so throughout the SEDPII period and beyond. Within the agriculture sector, crops and livestock account for about 70 percent of the total value-added; fisheries for about 20 percent; and forestry for about 10 percent.

Agriculture is highly dependent on annual crops grown in low-lying areas. These areas are subjected to frequent flooding which results annually in huge crop and livestock losses. The total cultivated area devoted to tree crops grown in non-flood prone areas represents less than 5 percent of the total cultivated area.

The total land area of Cambodia is approximately 18.1 million hectares, of which about one-third, or 6.4 million hectares, is considered suitable for agriculture. Currently, the land effectively utilized for all agricultural purposes is only about 2.7 million hectares, which implies that there is an additional 3.7 million hectares of land that could be brought into cultivation, consisting of 1.2 million hectares of agricultural land currently lying idle and about 2.5 million hectares of scrubland, much of which may be considered only medium or poor quality for agriculture (Table 5.1).[17] Nevertheless, under strong demographic and market pressures, the demand for rights to occupy this land and convert it to agricultural uses will strengthen, and the Government will have to take steps to respond in an efficient and equitable manner.

[17] More data is needed to support this assessment; MAFF plans to carry out the necessary surveys and analysis with assistance from FAO and other organizations.

Table 5.1 Land Use (mn ha)

Land Use	1992/93	1996/97	Change, %
Forest	10.86	10.64	-0.22
Agriculture	3.69	3.90	0.21
Grassland	0.48	0.49	0.01
Scrub Land	2.20	2.52	0.32
Urban	0.03	0.03	0.00
Wetland	0.54	0.55	0.01
Other	0.36	0.02	-0.34
Total	**18.15**	**18.15**	**0.00**

Source: Ministry of Agriculture, Forestry and Fisheries.

Paddy rice is by far the dominant agricultural crop, accounting for 43 percent of value-added in the sub-sector in 1999. Other crops contributed 29 percent of value-added, followed closely by livestock with 28 percent.

Less than 13 percent of the cropland is cultivated during the dry season. On average, about 12 percent of harvested paddy land benefits from dry season irrigation (Table 5.2). This consists mainly of irrigated lowland (fully irrigated) and flood recession rice (partially irrigated). In the rainy season, about 11 percent of the paddy area is served with supplementary irrigation water —10 percent by traditional gravity irrigation and 1 percent by pump irrigation. Other annual crops planted during the dry season are mainly grown under rainfed conditions.

Table 5.2 Rice Cultivation by Irrigation Status

Season	Ecosystem	Irrigation Status	Cultivated Area		Type of Irrigation	
			'000 ha	%	Type	%
Wet	Low and Upland	Rainfed Rice	1,518.4	77	Gravity	10
		Supplemental Irrigation	224.2	11	Pumping Station	1
Dry	Lowland	Full Irrigation	25.0	1	Gravity	11
		Recession Rice	223.7	11	Pumping Station	1
	Total		**1,991.3**	**100**		**23**

Source: Ministry of Agriculture, Forestry and Fisheries.

The farming system is focused mainly on growing rice under rainfed conditions with only limited areas receiving some irrigation. This invariably leads to low average yields since the crop is highly dependent on the irregular rainfall pattern. The returns per hectare from growing rice under rainfed conditions are lower than those for some other annual crops. Additional investment in rainfed rice production may not raise farm income substantially. However, the base for crop diversification is small since less than 5 percent of the land is presently cultivated with other annual crops, for expansion of which there are domestic market as well as production constraints.

Even farmers with two hectares of land typically only obtain a gross margin of 1-2 million Riel (about $250-500) per year, where gross margin is gross income minus cost of cash inputs, assuming all labor is unpaid family labor. This represents only 30 to 60 percent of the income required to meet a family's basic needs. The only exception is vegetable production, which can

generate a gross margin of about 4 million Riel per year, for a very high labor input (vegetable farmers normally practice double or triple cropping).

Low farmgate prices are considered a major reason for some farmers' hesitation to adopt technology that requires higher amounts of purchased inputs, such as improved seeds, fertilizer and chemicals. These low prices are in turn the result of high transport costs, lack of competition among buyers, and a general lack of agro-processing facilities (although this is changing). Efficient agro-processing facilities can add value to farm output and thus permit buyers to offer better prices for farm produce. High post-harvest losses are due primarily to poor storage and delays in moving farm produce to markets. Inaccessibility because of impassable roads, and a general lack of market information, tends to limit the number of buyers able to buy farm output produced in a particular region and thus keep prices down. The most effective solution is to improve transport and communications, and farmers' familiarity with the market.

5.2 OPPORTUNITIES FOR AGRICULTURAL GROWTH

Relatively rich in natural resources compared with some other countries in the region, Cambodia has good opportunities for sustained agricultural growth. Such opportunities can be harnessed by revitalizing smallholder agriculture through the effective and sustained implementation of an appropriate agricultural policy and development program. An analysis of opportunities and constraints is presented below, followed by a general framework for such a development program. Many of the details would need to be studied much further in the context of specific projects.

5.2.1 RICE PRODUCTION

There are good short- and medium-term potentials for increasing rice yield levels, cropping intensity and unit area productivity in the different rice ecosystems. Maximum productivity potentials can be achieved by developing appropriate irrigation facilities for double cropping in lowland areas, injecting good quality seeds on a timely basis into farming communities, and developing markets for rice exports. Irrigation through shallow tube wells (STWs) and low-lift pumps (LLPs) can increase both yield and cropping intensity, especially in areas with medium to high soil productivity where an average annual unit area rice productivity of 5.4 mt/ha—more than double the present level—is feasible.

It is estimated that for every 100,000 ha increase in irrigated (lowland rice) areas with medium to high soil productivity, rice production can rise by as much as 300,000 mt. Even in areas where soil has low productivity, output levels can be expanded by about 250,000 mt. These increases amount to 8.7 percent and 7.2 percent, respectively, of 1996-97 rice production. With the potential for a substantial surplus, the possibility of exporting significant quantities of rice (and other crops, given farm diversification) is no longer remote.

5.2.2 OTHER FIELD CROPS

At present, Cambodia seems to have some competitive advantage over neighboring ASEAN countries in the production of corn, soybean and mung bean. With irrigation and introduction of improved production technologies, it can be competitive in the production of other crops as well (e.g., peanut, cassava, sweet potato and vegetables). Its major advantages are its favorable person-to-land ratio and low agricultural wage rates.

Although the country exports some of the basic ingredients of feeds for hog, poultry and fish production (e.g., fishmeal, rice bran, corn and broken rice) to Thailand and Vietnam, it has been importing formulated feed concentrates and meat products. There is considerable scope not only for reversing this sort of trade but also for exporting these goods to other ASEAN

countries by improving production efficiency with increased investments in commercial-scale livestock production by local and foreign investors.

5.2.3 RUBBER, FRUIT TREES AND OTHER PERENNIAL CROPS

In the past rubber has been Cambodia's leading export crop. It is still one of the few crops in which the country appears to have comparative advantage in terms of production. But there is much room for improvement in terms of harvesting techniques and in the quality of processed products. Output can be raised in the medium and long term by expanding the area under cultivation, increasing tree density (up to 350 per ha), and improving the productivity of individual trees.

Meanwhile, there is also a good opportunity to expand areas planted to fruit trees to meet domestic market requirements and for better nutrition. Some abandoned uplands, grasslands and scrublands can be used for this purpose. Accurate data regarding the production of and size of land presently devoted to fruit production are not available, but the low recorded per capita consumption levels of fruits indicate a limited production for the market, with corresponding opportunities for expansion.

There are similar possibilities of increasing the production of cashew and coconuts for export and coffee as an import substitute. The country used to export coffee in the 1960s, but produces practically nothing today. Agro-climatic conditions are particularly suitable for the cultivation of coconuts, which are currently produced primarily for fresh nut consumption.

5.2.4 LIVESTOCK

There are also clear opportunities to be found in increasing the efficiency of backyard livestock production with emphasis on animal health services and nutrition. In the long term, the prospects for the contract growing of pigs and poultry with food conglomerates and agribusiness corporations as investors are particularly bright given the entry of the country into AFTA. ASEAN entrepreneurs and multinational corporations can provide the capital, technology and management inputs as well as the potential export market, while their rural partners can provide land and labor.

There are likewise compelling reasons to increase large animal production not only for meat and dairy products, but also to meet draft power requirements of a growing crop agriculture sector. A relatively inexpensive way to achieve this goal of promoting livestock such as cattle and buffalo is to use vast shrub-lands and open areas as feeding grounds, but taking precautions to limit the environmental impact.

In the context of increased agricultural output, there is a large potential for the development of a vertically integrated agribusiness system based on local crops, livestock and fishery products. The integration progresses from small- to medium-scale feed crop productions systems; to animal feed and fishmeal processing plants; to swine, poultry and fishery production using locally formulated feed concentrates; and all the way up to fish and meat processing. The country can have a competitive edge over other ASEAN countries in such ventures since it is a low cost producer of raw materials for fish and animal feeds processing.

5.2.5 FISHERIES

Both inland and marine captures have stagnated since 1992. The decline in inland capture has been blamed on the high level of exploitation, conversion of inundation forests into flood recession rice areas, poor management, and continuing environmental degradation, among other factors.

The only chance for significant growth in inland fishery production in the future is through the expansion and improvement of rice-fish farming in lowland rice areas and via aquaculture. Better management and steps to protect aquatic resources from overexploitation and arrest the dwindling fish stock in inland water bodies will, however, accompany these productivity-enhancing activities.
Under present circumstances, improving the lot of small farmers and fisher-folk, who are the target groups in fishery development, can best be accomplished by developing rice-fish farming and aquaculture technologies. This is because commercial fishing lots now dominate a large part of inland coastal areas (with about 80 percent of the Tonle Sap lake shoreline under fishing concessions prior to the recent Government commitment to remove and reduce them in favor of family fishing).

Based on official statistics, fish production in lowland rice areas contributes very little to total inland fish capture. The bulk of available information, however, indicates annual production levels of at least 25 kg per ha for capture fisheries within or near rainfed lowland rice regions. With the use of trap ponds to gather fish that escape capture within the rice paddies, a common technique in a number of Southeast Asian countries, the harvest can be doubled. There is, therefore, potential for annual fish production in the order of 50,000 mt in lowland rice fields.

Rice-fish culture with trap ponds requires little investment (digging of the pond and canals, purchase of fingerlings, and some feed supplementation); and income from fish and other aquatic animals can exceed that from rice cultivation. Annual fish production is usually in the order of 200 to 400 kg per ha or four to eight times higher than that of capture fisheries. Output is often higher in irrigated areas and when farmers have greater control over their irrigation water. This further highlights the prospects of small-scale systems.

Aquaculture, especially inland pond culture is relatively new to Cambodia. In 1975, aquaculture production totaled 5,000 mt (or less than 5 percent of total fish production). This activity was interrupted during the Khmer Rouge regime, but was reintroduced in 1984 in the areas surrounding Phnom Penh City, Tonle Sap Lake and the Mekong regions. From 1,600 mt in 1984, aquaculture output steadily increased to 15,000 mt in 1999. With such capacity for progress, there are obviously good chances of rapid expansion in the industry.

5.2.6 FORESTRY

Cambodia has valuable forestry resources. A rough estimate of the sustainable wood product yield of forests is in the order of 1 million cubic meters (M CM) per year. In addition, the country has valuable non-wood forest resources (e.g., rattan, bamboo, wildlife, and food crops). It has been estimated that with a sound forest policy framework, effective control of forest resources extraction activities, and proper management and conservation practices, the industry can generate sustainable government revenues of $25-50 million annually.

The present rate of wood extraction from concession areas is placed at about 1.5 M CM. It has been estimated that illegal loggers outside of concession areas extract as much timber each year. Together with the volume taken for firewood and charcoal, the current rate of extraction is approximately seven times the sustainable level and can decimate much of the remaining commercial stand within the next 10 years. There are, however, opportunities to reverse this trend through the establishment of forest plantations with both fast growing species and traditional hardwood varieties. These will not only supplement the country's forest resources but will also provide gainful rural employment opportunities and increase rural incomes.

The forest policy framework recognizes that long-term benefits from the country's forest resources can only be optimized through proper conservation and management, which have

beneficial hydrologic and environmental impacts (i.e., reduction in the frequency and severity of floods, soil erosion, siltation of waterways, and degradation of inland fishery resources). Sound forest management will also serve the people living in or near forested areas who depend partly on forests for food, fuel wood, and other non-wood products such as rattan and bamboo.

The forest policy framework will take into account food security and poverty alleviation considerations. In addition to sustainable wood production, it must have the following goals: optimization of benefits to rural communities through community based forestry, agro-forestry and agroforestry-livestock farming systems, and sustainable production of fuel wood; and preservation of positive impacts of forests on stream flows, surface water quality, and aquatic resources.

5.3 CONSTRAINTS TO AGRICULTURAL GROWTH

5.3.1 ABSENCE OF A CLEAR POLICY FRAMEWORK

Typical of a nation still in the process of building the basic structures for development, there is at the moment a lack of a clear policy framework for agriculture and rural development. Investment strategies for the development of resource- and technology-based production systems including agro-industries have not been developed. There is also a need for a more solid legal framework and clearer regulatory guidelines governing the allocation, protection and management of resources, particularly with regard to institutional control and responsibility.

5.3.2 UNDEVELOPED MARKET FOR RICE AND OTHER FOOD CROPS

The biggest obstacle to an expansion of areas under crop agriculture and intensification of cropping systems in irrigated areas is a lack of a market for rice and other food crops. Considering the level of cereal consumption, there is not much scope for greater domestic absorption of incremental production. Unless export possibilities are enhanced, the potentially negative effect of increased production on output prices (i.e., lower prices leading to reduced profitability) will continue to serve as a disincentive to greater investment for and efforts towards improvements in farm productivity.

5.3.3 BARRIERS TO EXPORT GROWTH

The exportation of most agricultural products is carried out illegally. There are no taxes, records, or control mechanisms in these transactions. Legal exportation of rice is a problem, as purchasers in importing countries reportedly do not honor certificates issued by Camcontrol. Many rice millers and wholesalers in the northwest complain about the difficulty and high cost of obtaining an export license. Moreover, there are still many regulations that make legal exportation unattractive.

A major hindrance to export promotion is the failure of a number of agricultural products to meet international standards in overseas markets. The Sub-Decree of 1998 on standards and management of agricultural materials can be expanded in scope to include exportable product quality.

When it comes to the formulation of policies and intervention measures, scarcity of records relating to imports and exports is a problem. This signals a clear need to establish a network that can collect needed information.

Infrastructure, facilities and institutional mechanisms for the handling, processing and export of food grains are still undeveloped. Essential market support infrastructure and services such as farm-to-market roads, transport facilities, power supply systems and quality control facilities and services are grossly inadequate. Marketing and transactions costs remain high due to bad road conditions, poor security, high transport costs owing to a collection of *ad hoc* road fees, and shabby conditions of city and local markets.

Facilities for minimizing post-harvest losses and for the secondary and tertiary processing of agricultural products and by-products that are needed to achieve efficiency as well as to diversify and improve outputs are inadequate. This is true even for rice, which is the country's major food crop. Rice harvest and post-harvest losses of about 30 percent have been reported. Cheap, small-scale but appropriate feed and food processing equipment are unavailable in many areas. There is, in addition, a lack of drying, bulk handling and storage facilities for product quality management.

The institutional capacity for regulating and supporting the private sector as it carries out its marketing functions is weak. The newly established Agricultural Marketing Office within the Department of Planning, Statistics and International Cooperation of the MAFF still lacks capable and experienced staff. The same problem is encountered in the Ministry of Commerce, where assistance is also needed to build the institutional capacities of a newly opened unit for export promotion as well as the existing Camcontrol.

At present, there is no national marketing institution. Only the Market Information Service under the MAFF, which is receiving assistance from the FAO, is undertaking marketing development from with the Ministry. However, essential services and functions such as the assessment of overseas market signals, the establishment of internationally accepted norms and product standards, and the introduction of modern storage and packaging materials and techniques need attention.

5.3.4 LOW CROP PRODUCTIVITY

Current yield levels and cropping intensities in rice ecosystems are very low compared with those under similar ecosystems in many Southeast Asian countries. In addition, production of other field and cash crops has been weak, hindering the development of agriculture-based processing industries. Clearly, export potentials of the agriculture sector can only be fully tapped if surpluses are consistently achieved and product variety (and quality) attained. Mediocre performance in terms of productivity is attributed to several factors.

Poor soil fertility is a major production constraint in most lowland areas that has to be addressed by suitable soil and fertilizer management technologies. Nearly half of the soil types found in rice growing areas can be classified as being of low productivity—mainly, deep sandy soils, shallow-sand-over-clay and soils of the depressions. This is compounded by weather uncertainty and recurrence of devastating floods and droughts.

The low level of irrigation development in the country coupled with the poor performance of existing irrigation facilities discourage diversification of the local farming systems. Without good water management and control, farming remains a highly risky activity. Farmers are hence unable to take full advantage of modern farming technologies (e.g., seeds, seedlings, soil, fertilizer and pest management).

Focus on large-scale gravity irrigation systems, which do not give individual farmers control over the management of irrigation water, has resulted in irrigation systems that favor rice monoculture. Because of this, the production of other field crops such as corn, peanuts and vegetables, which require more stringent drainage and on-farm water management, are currently not feasible. In addition, many of these facilities, the popularity of which had started in 1950s, are beyond the capabilities of the concerned public and private organizations to properly operate and maintain and are hence unsustainable.

There is currently a paucity of knowledge of new farming technologies appropriate to the local farm setting. Limitations in both the availability of technology and the capability to identify, test and adopt promising technology also exist. These are mainly rooted in a lack of funding for research and development (R&D) activities.

The Government does not have the means to plan, finance and manage a comprehensive agricultural research program. Whatever limited R&D activities there are have been fragmented, carried out by independent organizations without the benefit of coherent planning and coordination, and rarely reflect actual farming conditions. Intended end users have very little input in R&D and extension delivery systems. Research and extension linkages are very weak and technology demonstration activities often commodity-oriented and seldom geared towards a diversification of farming systems.

5.3.5 DEMOGRAPHIC AND GENDER ISSUES

Measures to ensure food security through poverty alleviation must integrate rural women. Cambodia has one of the highest proportions of households headed by women in the world. This demographic situation is one among the factors contributing to poverty. The economically active population consists of 48 percent men and 52 percent women. In the age group of 20 to 54 years in the rural sector, the female participation rate is very high, with over 80 percent of women in this age group participating in economic activity. In rural areas economic participation of women from female-headed households is almost 90 percent; 65 percent of the farming population is female and 80 percent of these women work in the agricultural sector.

Women took over traditional roles of men in the farming system such as plowing during the war years and this has continued to the present time. In addition, women are responsible for marketing agricultural produce in local markets. Traditionally, the first stages of rice cultivation are male-designated and the latter stages female-designated. However, such task divisions have changed due to lack of male labor. Women are thus increasingly involved in traditionally male tasks, such as land preparation, irrigation and thrashing. Women are often producers of vegetables in the home gardens that can add variety to the family diet and may also provide an opening for generating cash income. Rural families also augment their income from fuel wood and charcoal trade, dependent on a use of forest resources that can raise environmental concerns. Livestock constitute an important source of family income. The gender division of labor in livestock management is rigid. Men care for and utilize draft animals like oxen, cows and buffaloes. Women care for and manage and sell small livestock like pigs, chickens and ducks. Though women are not involved in fishing activities as men are, fishing for family food needs can be women's activity. Women also are the processors of fish, vegetable and fruits for long term storage, to even the supply over the seasons as well as for small scale selling.

Knowledge of food production, processing and marketing skills is vested among rural women. Women through diverse family economic strategies raise animals, provide food and obtain cash income that determines food security. But their level of knowledge and access to

technology are limited, and they need special assistance. In particular, agricultural extension needs to be made more easily accessible to females.

5.3.6 INSTITUTIONAL AND FINANCIAL CONSTRAINTS

There are serious gaps and overlaps in the mandates of institutions in support of agriculture, fishery and forestry. For example, the mandates of the MAFF, Ministry of Rural Development and Ministry of Water Resources and Hydrology on irrigation activities are not very well defined. At all levels, there is a shortage of skilled technical manpower in the government organizations supporting agriculture. Public institutions also confront financial constraints: without external assistance, they can only pay employees' salaries and provide for about 10 percent of the rest of their budgetary requirements.

These institutional weaknesses have resulted, among other things, in a lack of a systematic assessment of the developmental potentials of the country's resource base (e.g., water resources) and of baseline information for planning, programming and implementing agricultural development projects. They have also hampered the construction of sorely needed infrastructure. The results are cumulative neglect of the repair, operation and maintenance of infrastructure such as roads and irrigation facilities; limited interactions among farmers and extension agents; and weak dissemination of new technologies.

5.3.7 INADEQUATE EXTENSION SERVICES

The institutional arrangements and mechanisms for the effective delivery of agricultural support services such as extension programs are either not in place or are inadequate. Agricultural extension services are very weak and a fully functioning system for extending support services—and more importantly, of spreading technology—to the rural population has yet to be established.

Technical information is mainly conveyed through informal channels that include neighboring farmers, NGOs, agricultural technicians and distributors of farm inputs. Farmers have very limited access to improved technologies with existing agricultural extension services unsupported by R&D. State institutions are unable to focus and effectively deliver on a timely basis essential services and functions in support of highly productive, intensive and diversified farming systems.

The 1999 Extension Strategy/Guidelines emphasizes farming systems development as the centrepiece of the new extension system and intends to extend the geographical coverage to more provinces with extension agents based at the district level—rather than at provincial level as at present. Considering that the ratio of extension worker to farmers will remain low, the extension strategy is to work through farmer groups/associations/cooperatives.

5.3.8 LIMITED ACCESS OF FARMERS TO PRODUCTION RESOURCES

Although there have been improvements in legislation regarding land rights over the last decade, land laws remain ambiguous in some aspects. For instance, while the 1992 State of Cambodia Land law presented a broader framework for the ownership, transfer and registration of lands, it did not preserve or abrogate earlier decrees (i.e., those passed in 1989 when land ownership was reintroduced) thus becoming a source of confusion and legal conflicts. Under present legislation, access to land of certain groups (e.g., returnees and

people displaced by fighting and land mines, female-headed households, and elderly people) has been extremely difficult. Land disputes have multiplied as speculative transactions occur in certain areas.

An issue critical to poverty alleviation and food security is securing (equitable) access to common property resources such as forestlands and inland water bodies. Marginalized rural dwellers, for example, are unable to secure tenure over both forestlands and trees as access to these can only be acquired through timber concessions and fishing permits.

Most farmers and fisher folk have very limited access to formal credit or quality agricultural inputs such as certified seeds. Although the Government accords top priority to increasing farmers' access to rural credit, the expansion of such services is constrained by the lack of rural banking facilities in the countryside and lack of personnel with experience in rural finance.

The micro-finance operations of NGOs are virtually the sole financial service providers in rural areas, but despite the significance of their operations, access to credit is limited to an estimated 10 percent of rural households. There is a need to support the expansion of rural credit and saving services by encouraging the entry of private licensed micro-finance institutions and commercial banks, and by strengthening the Rural Development Bank (RDB). In its role as a wholesaler, RDB will provide stable and long term funding needed to encourage retail institutions to expand and to make longer-term loans necessary for increased capital investment.

5.4 AGRICULTURAL DEVELOPMENT PROGRAM

Given the nature of agriculture (i.e. small farm holdings, low level of technology, and lack of security of tenure), the end view of any socioeconomic and agricultural development plan should be the promotion of a farm sector that is dynamic, productive, and competitive—one that takes advantage of technological innovations, stretches its development potentials, and is environmentally friendly, guided by sound principles of management technology for sustainable growth. The emphasis of such a plan should be the entitlement of small farmers and fisher folk over production resources and the availability of opportunities to choose from a range of farming options. The previous section pointed out the problems or constraints behind the unstable output and poor productivity rates in the agriculture sector. Addressing these problems is essential to an effective strategy for sustainable agricultural development.

5.4.1 PROGRAM FRAMEWORK

An assessment of the situation in Cambodia points to a two-pronged strategic framework that embraces rapid, sustained, and equitable agricultural growth as well as empowerment of the poor. The main thrust of the growth-mediated approach is to invigorate the agriculture sector, generate employment, enhance household incomes, and improve access of the less privileged to food. Among others, this calls for the maintenance of a consistent macroeconomic and agriculture policy framework that promotes an environment conducive to increased private sector participation in agricultural development and encourages public and private sector investment in essential infrastructure, provision of public goods, and human resource development.

Such a strategy seeks to promote rapid and sustainable increases in production through the adoption of technologies that boost productivity and reduce costs, and through the establishment of small-scale private irrigation systems and similar infrastructure appropriate to small farms, which are the norm. To maximize household income and improve nutrition of the

poor, the strategy emphasizes intensification and diversification of farm enterprises, greater control of farmers over their production environment, provision of effective agricultural support services, enhancement and protection of environmental resources, and strengthening of downstream linkages with agro-processing industries and the agribusiness sector.

Due to differences in resource endowments, agro-climatological conditions, and institutional settings, it is unlikely that all communities and individuals will benefit equally from accelerated agricultural growth. In this context, the second thrust of the two-pronged framework highlights the need for an entitlement-mediated approach to enhance the ability of the rural poor and vulnerable groups to participate in the growth process. The focus of this strategy is to improve these groups' access to land, water, and other production resources and freedom to choose what technology to apply, which commodity to produce, and when and to whom to sell their output. The underlying goal is to expand income and employment opportunities and improve health and living standards.

Even in areas where prospects are good, trickle-down benefits from the growth process may not be adequate—or rapid enough—to ensure food security in less privileged communities. Hence, intervention measures or programs specifically targeted to underprivileged communities and individuals are needed. These measures should also seek to address the issue of transitory or short-run food shortages (such as food deficits in a lean season or in a year of crop failure) as even temporary shortfalls can push those near the poverty threshold into the poverty trap.

The success of the strategies described above hinges on the Government's continued drive for economic liberalization, human resource development, good governance, judicious utilization of public resources, and an efficient provision of public goods. It depends as well on the adoption of a more participatory and people-oriented approach to growth.

Based on the above strategic vision, the proposed agricultural development plan focuses on the following key components:

a) Maintenance of an appropriate macroeconomic framework and a favorable agricultural policy and institutional environment.

b) Accelerated and sustainable irrigation development including a greater degree of water control (and drainage) by farmers.

c) Development of highly productive and diversified farming systems through, among others, soil, pest and seed management and appropriate farm mechanization and post-harvest technologies.

d) Under its program for land administration and policy reform, the Government plans to:
   - establish policies, programs and measures to reduce and alleviate land conflicts and unregulated land encroachments;
   - launch an accelerated program of rural land titling; and
   - introduce new land planning and development for residential communities including farms for landless people, especially along the borders and in forested areas.

e) Development of an export market for rice and other agricultural products along with product quality and processing facilities.

f) Strengthening essential agricultural support services including marketing, input distribution, extension programs, research and development (R&D) and credit.

g) Expansion of livestock production with emphasis on animal health services, nutrition and range management; and a focus on small-scale poultry and swine production, large animal husbandry and establishment of feed processing plants.

h) Improved management of appropriate technologies for rice-fish farming and aquaculture.

i) Promotion of community-based forestry, agroforestry and agroforestry-livestock farming systems; sustainable production of fuel wood; and protection and management of critical watersheds.

j) Clear delineation of the mandates of the principal public institutions engaged in agricultural and rural development (i.e. MAFF, Ministry of Water Resources, Ministry of Environment, and Ministry of Rural Development).

k) Strengthening institutional capacity of the MAFF and related agencies by intensive training, staff upgrading and redeployment at different levels.

5.4.2 PROPOSED NEW PROGRAMS

Irrigation offers the best opportunities for agricultural growth. There are bright prospects for substantial increases in unit area productivity (increases in yield and cropping intensity) through improvements in irrigation systems and management of irrigation water.

Extensive and good shallow aquifers, totaling an estimated 4.8 million hectares, underlie most of the arable areas. Studies have shown that even if estimates of shallow well areas are cut by half, most of the areas presently planted with rainfed lowland rice, flood recession rice, and annual upland food crops can still be irrigated.

STW irrigation, a system suitable to most regions where crops are grown and appropriate to small-scale agricultural production (i.e., land holdings of 0.4 ha to 8 ha), can serve as a good engine of growth. Manually operated tube-wells (MOT), on the other hand, can be ideal for watering home gardens and livestock and as source of potable water supply, particularly in areas with shallow flooding. There are areas, however, where small, LLPs might be appropriate. Their advantage is that they are portable, cost-effective, simple to install and operate and capable of drawing water from diverse sources including rivers, streams, "colmatage" canals, lakes, farm ponds and small bunded reservoirs. LLPs can also be used to control water regimes (i.e., useful for both irrigation and drainage) in flood recession rice areas.

When used together with "colmatage" canals, LLPs help intensify and diversify cropping systems. The prime movers or engines of these devices can also be used to power boats, hand tractors and other farm machines. There are sufficient surface water resources to irrigate an area of at least 1.0 million ha by LLP, small run-of-the river, and "colmatage" canal irrigation systems during the dry months.

In contrast, there is very little hope for the development of large run-of-the-river irrigation systems, pumping stations and storage dams in the short to medium term. Gravity systems have wider service areas but are more expensive and difficult to operate and maintain. The associated costs of such systems are very high; it is extremely difficult to develop adequate institutional capability at all levels to efficiently plan, maintain and manage such systems.

The primary means for achieving rapid and sustained agriculture growth in the short-term are to "jump-start" the development of cost-effective irrigation technologies and boost the performance of existing irrigation facilities. This can be done through minor repair, proper

operation and maintenance, better water management, and improved delivery of essential support services.

Medium and long-term objectives for irrigation include the following:

a) construction of small-scale, private sector-led, irrigation systems;
b) progressive improvement and expansion of areas covered by medium-size and large-scale irrigation;
c) optimization of benefits from existing irrigation development; and
d) creation of a comprehensive water development plan.

A necessary starting point in any attempt to rehabilitate existing or develop new water management schemes is an adequate and reliable database. The Government (MWRM) will establish a reliable and sustainable hydrological management information system of all surface and groundwater sources (river basins and aquifers). This system will provide information to support strategic planning and sustainable and environment-friendly development of water resources for various objectives including irrigation, potable water supply, hydropower, transportation, fishery, flood control, and protection of environmental resources.

In this regard, the Government plans to:

(i) prepare a detailed water sector profile and national water resource strategy, with technical assistance from the ADB and World Bank;
(ii) formulate suitable water investment strategies;
(iii) establish and maintain an institutional framework for sustainable operation and maintenance of irrigation systems;
(iv) prepare an action plan for the National Water Resource Development Policy; and
(v) strengthen project planning and implementing capacity at all levels.

Preparation of these plans is included in the program of the MWRM. The ongoing activities (e.g., agricultural hydraulics component of the Agriculture Productivity Improvement Project) will be fully coordinated, reformulated and expanded in scope in order for the Government to be able to establish a truly comprehensive water resources policy and program framework.

There are excellent opportunities for improving existing **farming systems**. The MAFF will develop policy instruments and projects to enable farmers and fisher folk to take advantage of these opportunities in the following three areas.

(i) Crop intensification and diversification

Crop intensification and diversification (and increased value-added through secondary and tertiary processing) will not only increase farm incomes but also bring underprivileged groups into the mainstream of agricultural development. In the case of rice/based cropping systems, the high-impact intervention areas include the following: improved water regime control; quality inputs including seeds and farm chemicals; generation, field testing and demonstrations of appropriate technologies (e.g., new crop techniques, farm mechanization, balanced fertilization, integrated pest management, and improved land preparation techniques); and effective support services for intensive and diversified farming systems.

As previously mentioned, Cambodia may have a competitive advantage over some neighboring ASEAN countries in the production of corn, soybean, and mung bean. With irrigation and effective intervention in the high impact areas mentioned above, it can be competitive in the production of other field crops as well. During SEDPII, the MAFF will

vigorously pursue a program of intervention to promote the crop intensification and diversification in the rice based cropping systems.

To harness opportunities for expanding crop agriculture, the cultivation of industrial and commercial crops on idle and scrub lands will be promoted. Rubber is a crop where the country has a comparative advantage. The rubber industry has a tradition of high output and export levels, and processing capacity of rubber factories far exceeds the supply of raw materials.

The MAFF estimates only about 36,000 ha are currently being utilized for banana, mango, citrus fruits, pineapple, cashew, longan, rambutan, and durian production nationwide. This implies low per capita consumption of fruits. There is room to expand areas under cultivation to meet domestic requirements for balanced nutrition.

The Government will also promote the production of cashew and coconuts for export, and coffee as an import substitute. The country used to export coffee in the 1960s, but production today is very small, although it is of good quality and sold for processing in Vietnam. Agro-climatic conditions are very suitable for the cultivation of coconuts, which are a profitable crop, sold primarily for fresh nut consumption.

The MAFF will consolidate and coordinate activities aimed at cropping systems intensification and diversification in rice based cropping systems in expanding horticultural and industrial crop production into the uplands and scrublands. It will also coordinate the aid or financial assistance by the donor community to insure optimum use of resources.

The development of an export market for rice and other food crops will go hand in hand with the promotion of crop diversification in rice-based cropping systems. The reintroduction and expansion in the areas under of horticultural crops such as rubber, coffee and coconut will offer farmers and agribusiness concerns a wider range of technology options in the development of idle lands and scrub lands. The public and private sectors will work together in promoting the intensification and diversification of farming systems to produce the following desirable results:

- *A wider range of technology options.* Farmers are given a broad range of options in terms of technology, farming systems, crop mixes (including rubber, coffee, fruit trees and cash crops such as soybean, corn, peanut and cassava), and cropping patterns, allowing them to take advantage of a favourable production environment and better farmgate prices.

- *Economical use of water.* Water used for one purpose can be re-used for another (e.g., for inland fishery and irrigation) in such technologies as rice-fish farming widely practised in Southeast Asia.

- *Improved nutrition.* In addition to improving fish production, diversification of farming systems can also encourage the production of nutritionally valuable crops such as field legumes, vegetables, coconuts and fruit trees.

- *Stable food supply.* Production of certain food and feed crops can be spread out within a crop year. Not only will this smooth out seasonal fluctuations in food supply and farm gate prices but it will also increase the level of utilization of post-harvest facilities rendering investment in such facilities economically attractive.

- *Higher yields and potential for export and import substitution.* Field trials have shown high yields of vegetable, corn, and soybean with use of HYV seeds and improved technology.

Potential for import substitution is particularly high for farm products such as coffee, vegetables, feed grains, and feed concentrates. The country still has competitive edge in the production of rubber.

- *Enhanced ecological stability and soil productivity.* The threat from pests and diseases associated with rice monocultures are minimized by diversified cropping systems. Certain crops and crop cultural practices will also be integrated into the farming systems to minimize the danger of depletion of major and minor soil elements.

- *Farm product variety, higher value-added, more jobs.* Crop diversification offers excellent opportunities for diversification of farm products and their by-products and opens up opportunities in the secondary and tertiary processing industries creating higher value-added in this sector apart from generating more jobs. It can, for instance, spur the production of fish, corn, soybean, cow peas, sweet potato, and other feed crops, which can encourage the processing of animal feeds and fishmeal, which in turn can be used by the community in raising fish, hogs and poultry.

- *Vertical integration and sustainability of agriculture.* Development of associated industries will eventually lead to a production system orientation that will, in turn, lead to vertical integration of agricultural production activities (i.e., from irrigation, to appropriate farm mechanization, to primary post-harvest operations, to secondary and tertiary processing of farm products, to utilization of farm products and their by-products by related agro-industries). This will allow the agricultural system to become self-sustaining.

The MAFF will, within the year 2001, formulate projects aimed at achieving the desirable results listed above and more fully harnessing agricultural development opportunities. Such projects will include development of external markets for rice and other crops, utilization of idle lands for the production of coffee and horticultural crops, diversifying rice-based cropping systems, and encouraging secondary and tertiary processing of farm products and by-products. The MAFF will also put emphasis on providing better technical information on agriculture for the public and private sectors; and, in line with the general policy of the Government, in devolving any remaining quasi-commercial functions it still retains to the private sector. In the preparation of specific project proposals, the MAFF will seek the assistance of qualified development partners.

(ii) Expansion and improvement in livestock production

Livestock production will be expanded and improved primarily to benefit the majority of the rural poor. Emphasis will hence be on backyard production of poultry and swine. To a certain extent, large animal production will also be encouraged to meet the growing need for suitable draft animals and meat and dairy products.
The thrust in the poultry and swine industry will be to increase production efficiency through improved animal health services and nutrition. Among others, this requires improved veterinary services at the village level—mainly vaccination and disease control.

The strategy for large animal production, meanwhile, will combine raising of draft animals in backyards and draft and dairy animals in ranges and pastures. The possibility of utilizing shrub lands and open areas for cattle and buffalo production will be explored, but possible adverse impacts such as soil erosion will also be carefully studied.

The feed industry will be developed, and opportunities harnessed to set up integrated animal and fish feed processing plants. These will concentrate on small- to medium-scale feed crops production (e.g., corn, mung bean, soybean, and root crop production where the country has a competitive advantage), feed and fish meal processing, and swine, poultry, and fish production

using locally formulated feed concentrates. Small-scale feed plants require equipment like dryers, mills, and mixers. If such machinery can be designed and produced locally, the country will have a competitive edge over other ASEAN countries.

Contract growing of pigs and poultry will be encouraged where agribusiness corporations provide the capital, technology, and managerial know-how and small farmers and rural folks provide land and labor. There is currently no large-scale investment in the raising of pigs, cattle, and poultry though. The Government will encourage such inflows, possibly from ASEAN entrepreneurs and multinational agribusiness corporations. Large agribusiness conglomerates can open doors to export markets given there is surplus production.

The MAFF will formulate an action program for the expansion and improvement of livestock production during the first year of SEDPII implementation. It will then mobilize resources for the implementation of the program.

(iii) Improved management and appropriate technologies for rice-fish farming and aquaculture schemes

Rice fish farming practices that are already well established in many Asian countries will be introduced through technology demonstrations and allowed to take root with the training of recognized leaders in farming and fishing communities. In most of these practices, fingerlings are introduced into the rice fields, their natural food supplemented with feed concentrates, and trap ponds built within or near the rice paddies to serve as refuge for the fish if the fields start to dry up.

LLP and STW irrigation systems and chemical-free pest management methods, the lack of which presents major constraints to productive and sustainable rice-fish farming, will be developed. Adoption of these two methods allows for better water quality management.

Given the potential for rapid growth, aquaculture (e.g., inland pond, pen, and cage fish culture) will be introduced throughout the country. The long-term goal will be the expansion of commercial aquaculture enterprises.

Current exploitation of inland fisheries appears to be unsustainable. The Department of Fisheries is currently reviewing draft fisheries legislation to address the most efficient and cost effective strategy for fisheries management. The primary focus of inland fishery management will be the fishing lot system. This system will be reviewed to promote secure and equitable access to fisheries regimes.

In SEDPII, a program to promote rice fish farming and aquaculture will be formulated and implemented. It will go hand in hand with the program to manage the fishery resources in a sustainable manner. These programs will include sub-programs on conservation and management, enforcement of regulations, rehabilitation of freshwater fisheries, expansion of aquaculture and rice fish production systems, and the strengthening of marine fisheries.

5.4.3 COMMUNITY FORESTRY AND AGRO-FORESTRY

An effective policy on forest resource utilization will have two broad goals: optimization of benefits to rural communities through community-based forestry, agro-forestry and agro-forestry-livestock farming systems, and sustainable production of fuel wood; and preservation of positive impacts of forests on stream flows, surface water quality, and aquatic resources through proper management of critical watersheds.

Rational and sustainable use of forest resources by rural communities, in most cases, can best be achieved through the establishment of long-term leases or land ownership. Without the security that such arrangements provide, users are unlikely to initiate improvements in forest areas or even strive to protect these resources. Hence, the first step to promoting a truly community-based agro-forestry will be to transfer control of forest areas from the state to communities or individuals.

The development of agro-forestry will be planned in harmony with the development of crop agriculture. It is imperative that community-based forestry, agro-forestation, and agro-forestry-livestock farming systems be planned in such a way as to strike a balance between preserving the beneficial hydrologic role of forest ecosystems and increasing food production. The emphasis on watershed management protection will be on erosion control, watershed protection, reforestation, and water resource enhancement.

Clearly, long-term benefits from the country's forest resources can only be optimized through better conservation and management. The Government recognizes the need to develop a coherent set of policies to address problems surrounding forestry management and conservation, and to strengthen its political resolve to effectively implement these policies.

Recently, the Government has prepared the policy and legal framework for sustainable management of forest resources, and addressed the more immediate concern of illegal forest exploitation. The Government is currently considering the draft of the National Forest Policy. The main objectives of this policy are:

- Delineation of a permanent forest estate for conservation, community use and industrial production
- Enhanced contribution of forestry to public welfare
- Greater participation of local communities and the private sector in forest protection, management and improvement.

Clearly these objectives are supportive of agro-forestry and community based forestry.

The Department of Forest and Wildlife (DFW) has prepared a draft Forest Law, which is now under review. This law provides the legal framework for:

- Establishing the role and power of Government agencies in forest administration and enforcement
- Forest classification including the establishment of a permanent forest estate
- Establishing the rights and obligations of all parties involved in forest exploitation
- Forest revenue collection
- Private and community forestry
- Conservation and protection of forest and wildlife
- Forestry crimes and penalties.

The development of forest laws and policies will lay the groundwork for a rationalized and well-managed forest sector. Upon approval by the National Assembly, these will pave the way to sound programs for forest resources conservation and management, agro-forestry and community based forestry.

5.4.4 Agricultural Land Conservation and Development

Land tenure and land titling are becoming increasingly urgent issues, both in light of the need to strengthen the legal basis for market-driven agricultural development and also to resolve a growing number of land disputes. Evidently, quick steps must be taken to correct the situation.

To this end, existing land and natural resource laws will be rationalized. A thorough review of these will be undertaken (and the necessary clarifications and amendments made) as relevant provisions in legislation concerning these resources are often complex and unclear.

At the same time, relevant public institutions will be strengthened at all levels. The present judicial system—from municipal and provincial courts to appellate courts—is ill equipped to deal with land disputes. As pointed out by the World Bank,[18] bolstering the ability of the judicial system to handle land disputes through reorganization and retraining will be a priority goal in institutional development. The technical and administrative capability of the Department of Land Titling, the state agency charged with processing land titles, similarly needs to be enhanced.

A land use code will also be drafted with assistance from the World Bank and other organizations. This ideally embodies sound planning, allocation, and regulation of property. Such a code will serve as a blueprint for zoning in the country, where zones are determined according to the economic and environmental uses of available land (e.g., agricultural, industrial, and municipal uses based on appropriate socioeconomic and environmental criteria). Military landholdings, which include potentially productive agricultural lands, will not be exempted from the zoning process.

Allocation of additional land to farmers who missed out during the initial phase of the land distribution process or whose land holdings are very small will be considered. Special measures, meanwhile, might need to be implemented to secure land tenure for vulnerable groups (e.g., new settlements and ethnic groups subsisting on forestlands). These will consist of long-term leases or permits from national and regional government units, the support of local authorities, and their collaboration with military chiefs in such areas.

Ethnic communities, which subsist on what they gather or hunt from common property resources such as forest and fresh water resources (e.g., flood recession rice cultivators and cash crop growers along the Tonle Sap Lake flood plain), will be given security of tenure over the use of these resources. These areas are now slowly being taken over by commercial enterprises, but the rights of these traditional users have been left unprotected amid the development. The most acceptable means to safeguard the rights of traditional users is to give them long-term stewardship contracts with concerned government agencies. Such contracts can eventually be transformed into private ownership depending on the quality of stewardship exhibited over these resources.

5.4.5 AGRICULTURAL SUPPORT SERVICES

There will be renewed efforts to provide timely and effective agricultural support services in the form of marketing assistance, input distribution, extension programs, skills training, technology demonstrations, credit support, product standardization and testing, and quality control and monitoring. The capacity of the private sector to eventually perform most of these essential functions will be enhanced. This requires clear-cut policies and guidelines, a clear legal framework defining the role of the private sector vis-à-vis the state, institutional reforms, and closer collaboration among the public and private sectors, farmers, and fisherfolk.

Marketing is one the major constraints to agricultural growth and diversification. Some of the important issues that will be addressed immediately are the poor state of roads and bridges, collection of ad hoc road fees, poor physical condition of markets, inadequate market information, weak linkages with export markets, and institutional incapacity to regulate and

[18] Cambodia, Agricultural Sector Memorandum, An Agenda for Development, World Bank, May 1996

promote market development. The following projects, activities and/or measures will be carried out in order to improve agricultural marketing:

- *The Government will continue to mobilize donor support to rehabilitate road infrastructure.* At the same time, it is imperative that the country mobilizes its internal resources to enhance national capacity to plan and implement provincial and local roads rehabilitation projects. The Government will identify important roads for priority consideration.

- *The Government will intensify its efforts to curb illegal road taxation*. The road fee was formally removed after July 1997 but is still illegally practiced in some areas.

- *Existing wholesale and retail markets in the cities, as well as district and town level facilities and services for trading, will be improved.* Upgrading will include cleanliness and drainage to improve efficiency of movement and reduce losses and the risks to the consumer from poor hygiene. The provision of storage and post-harvest facilities at farm and market levels will also cut down on post-harvest losses.

- *The capacity of public institutions to improve essential agricultural marketing services and functions will be enhanced.* The MAFF and the MOC will strengthen their collaboration and provide leadership in the development of agricultural marketing. These institutions will develop strong partnerships with private trade associations and NGOs in devising a national program for market development. The program will be based on a clear consensus on the roles and responsibilities of government, the private sector, and other stakeholders; and the norms and standards that must be followed to ensure regular supply of safe agricultural products to consumers and agro-industries at a fair price.

- *A viable export promotion scheme will be developed and export procedures rationalized to promote legal export.* As Cambodia increases rice production, there will be a need for a more organized approach to rice export promotion if the country is to compete effectively with other major rice exporters. Such initiative should come initially from the MOC, perhaps in collaboration with the Phnom Penh Chamber of Commerce and rice exporters. The plan will include a detailed assessment of the international rice market, provide Cambodian traders and producers alike an understanding of quality and variety potentials, bulking requirements for optimal consignment, and appropriate international trading practices. The Government will act quickly to reduce or remove all internal regulatory constraints as well as to establish a network that can pool essential trade information.

- *Credit facilities for all participants in the marketing chain will be established.* Marketing development requires financial services for traders, wholesalers, and retailers to move the produce through the marketing channel. With the expected increase in marketable surplus, credit assumes an increasingly important role in market development. The Government's financial sector development strategy will aim at facilitating access to credit by traders and processors in urban and rural areas, and for the establishment by the private sector of much needed post-harvest, storage, and processing facilities.

- *The Government will support the Market Information Service (MIS) to ensure that its operation is maintained even after completion of external aid.* The MIS, which is currently receiving assistance from the FAO, tracks prices as well as supply and demand conditions and has thus fulfilled an important and necessary function that has been used to good advantage by producers, traders, consumers, and relevant government institutions.

The Government will target its limited financial and technical resources into research that will enable the country to harness its agricultural development potential. This implies formulating a research program that focuses on location-specific problems and opportunities, and places a premium on coordination, collaboration, and concerted effort.

There is also a need to depart from the traditional commodity-specific outlook and move towards an integrated production systems or resource-based orientation which can support vertical integration of agricultural production activities (i.e., from irrigation to farm mechanization, to primary post-harvest operations, up to tertiary processing of farm products and their by-products).

For accelerated and sustained growth of agriculture, a comprehensive R & D program for developing effective and efficient irrigation systems will be formulated and implemented. The packaging and implementation of parallel R & D programs along key components of the proposed agricultural development strategy will likewise be accorded top priority. This implies greater investment in the training of R & D personnel and improvement of facilities that support the agenda. Greater participation of intended end users is also implied if R & D activities are to be attuned to the needs of diverse farming communities.

In 1995 a Department of Agricultural Technique, Economics, and Extension (DATEE) was established in MAFF for the purpose of strengthening institutional arrangements for the delivery of agricultural extension advice to farmers.[19] The Extension Strategy/Guidelines developed in 1997 with assistance from the Cambodia-Australia Agricultural Extension Project (CAAEP) and adopted in 1999 provide the national extension policy framework.

The policy framework emphasizes farming systems development as the centre-piece of the new extension system and intends to extend the geographical coverage to more provinces with extension agents based at the district level—rather than at provincial level as at present. District level extension agents are given responsibility for developing and managing extension programs for their district while subject matter specialists from the MAFF technical departments are to provide technical support to these agents. It is imperative that the district extension agents are regularly fed with the quality research outputs and other information for dissemination to farmers and for planning extension programs. Considering that the ratio of extension worker to farmers will necessarily remain very low, the extension strategy is to work through farmer groups and associations and, in the medium term, agricultural cooperatives.

At the national level, DATEE is entrusted the responsibilities for policy and program development, monitoring and evaluation of program implementation and provision of technical support to provinces through training and media production. The provincial Office of DATEE is envisaged to provide local level support for the district extension officer. The framework also emphasizes development of a strong information system that can help identify opportunities and problems for attention by the extension officer and serve as a basis for the formulation of provincial extension program packages taking into account the farming systems.

The proposed delivery system, however, may not be appropriate in the face of financial, technical, and institutional constraints. In the short and medium term, it would be more appropriate to disseminate information through existing channels or media. The institutional mechanisms or arrangements for the shared responsibilities of the DATEE and the MAFF technical departments, meanwhile, will be made explicit, with an eye to strengthening these very weak linkages.

[19] Renamed Department of Agricultural Extension (DAE) in Sub_Decree on Organization and Functioning of MAFF, April 2000

The processes connecting research and extension will also be strengthened. Since it is not feasible to supply the extension system with location-specific research in the short and medium term, the initial focus of research and extension services will be on the identification, testing, and adaptive modification of promising technologies developed outside of the country. This is especially true in the case of agro-industrial extension services (e.g., assistance on the design and specifications of post-harvest and processing facilities). Such services have been sorely neglected, which partly explains the current shortage of small- and medium-scale processing facilities for farm products and their by-products.

MAFF will consolidate the extension activities and package a program aimed addressing the above-mentioned constraints to effective delivery of extension services. The program will put emphasis on capacity building, strengthening the coordination mechanisms among the different agencies engaged in extension and research and technology identification, field trial and pilot demonstration of technologies.
A national seed program with greater private sector participation and giving access to improved seeds by most farmers will be developed. This program will be similar in feature to the seed component of the Agriculture Productivity Improvement Project (APIP) supported by the World Bank. As the APIP seed component is making headway toward achieving its vision for the seed industry, it will be expanded and adopted as the national seed program.

The relatively poor distribution of seeds and other inputs in many areas will be improved through a rehabilitation of the local road system. With its Sub-Decree on Standards and Management of Agricultural Materials, the MAFF will now exert greater effort in the monitoring of both quality and quantity of inputs.

The critical issues facing the financial sector touch on the need to strengthen human resource and institutional capacity and formulate an appropriate regulatory and legal framework; the provision of loan capital; and the assessment of the feasibility of the newly established Rural Development Bank (RDB). Projects or programs to support the sector will be focused on the following:

- *Training for National Bank of Cambodia (NBC) officials, other government policy makers, and credit operators.* For NBC officials and policy makers, the training will include exposure visits to other Southeast Asian countries where they can study the policy and regulatory environment for microfinance. For credit operators, training is essential in diverse fields such as best practices and methodologies, record keeping, sustainability planning, savings mobilization, and financial intermediation.

- *Technical assistance to develop and refine credit policies and legislation and create an appropriate regulatory framework for microfinance institutions.* Technical assistance is needed in the feasibility study of the RDB, research that should include identification of the demand for the bank's services and an assessment of its operating plans. For most credit operators, technical assistance will be focused on mentoring nascent rural credit programs of local NGOs. The more mature operators will require assistance in the area of transforming these credit schemes into formal microfinance institutions.

- *Mobilization of loan capital for the expansion of the sector.* Greater emphasis will be placed on mobilizing domestic savings rather than depending on external grants or loans.

Other activities in support of the development of the microfinance sector include the establishment of a Credit Operators Association that could be used as a vehicle for capacity building, coordination, and self-regulation; and the formation of Technical Working Groups among credit operators to communicate with the NBC on specific technical issues such as performance and reporting standards as well as licensing procedures.

Low wages, small farm sizes, and lack of credit and available technical knowledge (e.g., to repair and maintain farm machinery) do not generally favor mechanization. However, recommended intensification and diversification strategies for farming systems and the existing paucity of draft animals indicate the need for **selective mechanization** in areas with acute farm labour shortages.
At present, approximately 12 percent of the rice-growing area is plowed using four-wheel tractors. Mechanical rice threshers, mostly of Vietnamese design, have become the fashion in most provinces. Recently, the use of irrigation pumps has similarly gained popularity in many areas.

For Cambodian conditions, a combination of four-wheel and hand tractors could appropriately supplement the traditional methods of using animal-drawn plows and carts for field preparation and farm transport. As a matter of principle, mechanization should not be pushed, but should be demand-driven based on the realities of labour demand and supply conditions in relation to the cropping cycle. The MAFF and other public institutions can facilitate appropriate mechanization through surveys and analysis of needs, and technical advice to farmers on their choice of machinery.

For the long-term, a national strategy for agricultural mechanization will be formulated. Such a plan will be based on in-depth analysis of the mechanization needs of a modernizing agriculture, the capability of local machinery manufacturers, the availability of raw materials for fabrication, the feasibility of machinery pooling, and the need to strengthen after-sales service of farm machinery. Analysis of mechanization needs will be oriented towards farming or production systems to fully exploit the multiple use of machines or their components.

For instance, the multiple use of engines, which usually account for 50 to 65 percent of the cost of farm machines (e.g., STWs or LLPs, hand tractors, farm trailers, crop threshers, dryers, fishing boats and village rice mills), can render the mechanization of many aspects of crop production economically attractive. The popularity of hand tractors in many Asian countries like the Philippines, for example, is explained partly by the proliferation of STWs and LLPs. The engines (e.g., 6 to 8 Hp single cylinder) of these small-scale irrigation schemes are also used to power hand tractors, rice threshers, corn shellers, farm trailers, and reapers.

The thrust in **post-harvest handling and processing** will be towards minimizing post-harvest losses and diversifying and improving the quality of farm products and their by-products through use of suitable harvest and post-harvest technologies and facilities. Upgrading existing rice mills can save about 6 to 8 percent of rice output.

Better drying, bulk handling and storage facilities, and product quality management will be established. There will be testing and evaluation of performance of post-harvest facilities and quality of farm products and their by-products. This improvement in quality is essential to boosting agricultural exports.

The lack of inexpensive small-scale feed and food processing equipment and technologies will be addressed through relevant R&D activity. A good starting point in solving this problem is to introduce (for testing and adaptive modifications) promising technologies and equipment developed abroad.

5.4.6 PUBLIC INVESTMENT PRIORITIES

Public investment allocated to agriculture under the PIP for 2001-2003 amounts to $210 million, or 12.7 percent of the total allocation (Table 6.4). Given the critical importance of agricultural development for achieving SEDPII objectives, it is proposed that public investment in agriculture be increased to around $500 million over the five-year Plan period, as shown in

Table 5.3. These projects require proper feasibility study and costing before formal incorporation into the public investment program. A major effort is needed to identify, prepare and negotiate finance for suitable projects, and to carry out the policy and institutional reform measures needed for such investments to be implemented successfully and in line with the national economic policy.

Table 5.3 Proposed Investment in Agriculture, Forestry and Fisheries 2001-2005 ($ million)

	MAFF lead Depts.	(%)	Total ($ mn)
Proposed 5-year allocations			
Crop development (incl. on-farm irrigation)	DAALI, DGPH, DAE,DAI, AIC	25	125
Livestock	DAPH	10	50
Fisheries	DOF	14	70
Forestry	DFW	9	45
Land rehabilitation and conservation	DAALI, others	7	35
Research-development; and agricultural education	CARDI, IRCC, others	10	50
Farmer extension and technical services	DAE, others	12	60
Farmer organization, input supply and marketing sces.	DAE, DPSIC	3	15
Farm mechanization	DAM	2	10
Agro-industrial and other post-harvest processing	DAI	4	20
Statistics, planning, monitoring and evaluation	DPS	2	10
HRD, legal affairs and administrative reform	D/G,DOA, DOL, DPHRD	2	10
TOTAL		**(100)**	**500**

Source: Ministry of Agriculture, Forestry and Fisheries.

The public investment priorities suggested in Table 5.3 reflect the strategic objectives for agricultural growth, poverty reduction, and sustainable resource management described above. The largest investments would be for crop development, including on-farm irrigation (25 percent), livestock and fisheries (24 percent), agricultural research, education and extension services (22 percent), forestry management (9 percent), agricultural land rehabilitation, development and conservation (7 percent), other services to farmers (9 percent) and support for improving the capacity and efficiency of MAFF (4 percent). Such projects should be designed to support achievement of other policy objectives of SEDPII concerning trade, environment and gender.

5.5 MONITORING AND EVALUATION

The Government recognizes the critical importance of having a system for monitoring implementation of SEDPII and of evaluating its impact, particularly on poverty reduction. An extensive and recent, but qualitatively uneven, set of baseline data on poverty exists. As noted in annex 4, work on designing a comprehensive Poverty Monitoring and Analysis system to properly use this data began in 2000, with technical assistance by the UNDP, and a working system is expected to be established in early to mid-2002.

Conscious of the determinant role that agricultural development and sustainable management of natural resources will play in the success or failure of its poverty reduction strategy, the Government (MAFF and MOP) is giving priority to improving the quality of its agricultural production and household consumption statistics collected through periodic sample surveys, and to coordinating the collection and analysis of these data with those collected by other

organizations concerned with food aid distribution (e.g. WFP), maternal and child health and nutrition (e.g. UNICEF), demographic statistics (e.g. UNFPA) and with the supply, prices and flows of agricultural products (e.g. FAO). To assist the Government in this task the FAO will be requested to coordinate with the other organizations concerned with a view to identifying a suitable set of indicators, using as far as possible reliable existing data sets, and to organizing their collection and analysis within the larger PMA system being coordinated with TA provided by the UNDP.

5.6 CONCLUSION

The main causes of persistent high levels of poverty relate to a lack of success to date in creating conditions for growth in agricultural production. The overwhelming majority of the rapidly increasing labor force is, for lack of an alternative, absorbed in a struggle to survive based on a largely subsistence-oriented agriculture, which assumes the role of occupation of last resort and, for a very large number of households, barely provides a living. This is undoubtedly connected with and contributes to the disastrous health status of much of the rural population. In the absence of irrigation, most of the cultivated land produces only one harvest per year, and even this seems subject to a high and perhaps increasing frequency of natural calamities. Low levels of education, poor physical infrastructure, uncompetitive and extortionate marketing channels, insecure land and property rights, inadequate public investment and services, and largely undeveloped rural finance systems, together constitute major obstacles to an intensification of agriculture and to a more healthy and dynamic rural society.

As 90 percent of the poor live in rural areas and depend primarily on agriculture for their living, a major effort at starting a dynamic development of market-oriented agriculture, focusing primarily on intensification and increasing returns to land, is by far the most important pre-condition for poverty reduction. Six factors are of key importance in the plan for overcoming the formidable obstacles that stand in the way of this development:

- Achieving more secure and widespread access to water
- Opening access to markets for farm produce and farm inputs
- Securing land ownership and enforcement of the relevant laws
- Improving farmers' literacy, numeracy and technical knowledge
- Development of rural credit and savings
- Development of non-farm rural employment.

PART II: PROMOTING COMMUNITY DEVELOPMENT AND CONSERVATION OF NATURAL RESOURCES, THE KEY TO SUSTAINABILITY

5.7 RURAL DEVELOPMENT STRATEGY

The Ministry of Rural Development's strategy is to:

- Adopt an *integrated, multi-sectoral development approach*, responsive to local needs;
- Initiate, coordinate and monitor the implementation of *targeted poverty reduction programs* in rural areas;
- Put *people* at the center of rural development efforts, helping them to take greater responsibility for their own lives and their children's future;
- Encourage *community participation* in planning and development, using a decentralized rural development structure; and
- Strengthen its capacity for *monitoring of outcomes* in rural poverty reduction programs and using the results for national policy formulation.

The coordination and planning of a rural development programs and structure rests with the Ministry of Rural Development (MRD). For SEDPII, the theme for MRD activities is "Returning to the Village." The program and projects will be aimed at improving rural socioeconomic conditions and strengthening local village organization to achieve sustainable development and self-reliance. MRD will ensure that (i) all national and international agencies' and organizations' activities in rural development are coordinated and complementary, and (ii) these activities are people-oriented. The approach adopted is integrated and participatory, with community involvement in the identification and prioritization of needs.

The Integrated Rural Development Structure established by MRD consists of rural development committees at the provincial, commune and village levels, with the aim of promoting a participatory approach to development planning, financing and implementation. About 7,500 Village Development Committees (VDCs) covering 69 percent of all villages were to be functional by the end of SEDPI.[20] Provincial Rural Development Committees (PRDC) have been created in all 24 provinces, chaired by provincial governors and comprising ex-officio heads of provincial departments, as well as NGO observers in some cases. The commune rural development committees (CDC) include officials appointed to work through the local authorities as well as delegates from the VDCs. The latter are democratically elected by all the villagers and are the foundation of a participatory rural development structure aimed at achieving and sustaining the development process. The activity of VDCs permits the direct involvement of rural households in identifying village needs, in project preparation, in contributing labor or materials for project, and in operation and maintenance (O&M) of projects after their construction. With affirmative action on gender, VDCs provide opportunity for a greater voice for women in community decision-making and resource management than was traditionally permitted in Khmer society.

Key inter-ministerial bodies for rural development include the Council for Agricultural and Rural Development (CARD), chaired by the Prime Minister, which provides a forum for problem solving and priority setting and facilitates project implementation. Responsibility for

[20] This target was not fully met but the MRD estimates that by 2000 VDCs were established and functioning in more than 50% of Cambodian villages (about 6,000).

coordination at national level of the Government's SEILA decentralized program for governance, capacity building and rural investment[21] is carried out by the SEILA Task Force (STF), chaired by the Senior Minister/Minister of Finance.[22] SEILA will enter a new, enlarged phase of operations starting in July 2001, continuing to focus on capacity building of local institutions particularly at the province and commune levels and thus strengthening linkages between government and civil society. Currently, about 80 percent of SEILA's budget is used to finance investments in multi-sectoral development activities at local levels, which are planned and implemented through an interactive process involving provincial, district and commune officials, elected representatives of the participating communities, and the private sector which bids for contracts to carry out civil works. The commune council elections to be held throughout Cambodia in February 2002 will extend the process of administrative decentralization and political democratization.

The Government's policy objectives are to accelerate and guide rural development by ensuring that all national and international agencies involved in rural development work together and promote a more people-oriented and integrated approach. The main thrust of this strategy is oriented towards alleviating poverty and security problems in all areas. However, resource constraints necessitate that targeted areas selected by the Provincial Rural Development Committee (PRDC) are given first priority. The main rural development activities are:

- Human resource development and institutional strengthening (especially, formation of and continuing support to VDCs)
- Determining basic minimum needs (BMN) by utilizing Integrated Rural Accessibility Planning (IRAP)
- Rural infrastructure development (especially village water and sanitation, and rural roads)
- Agricultural development within communities (i.e. promotion of small agricultural income-generating activities, with technical advice from MAFF workers)
- Advice concerning access to rural credit (provided by specialized institutions) and use of community savings
- Small enterprise promotion (in conjunction with specialized institutions), and
- Natural resources preservation and environmental awareness (in conjunction with MOE workers).

5.8 RURAL FINANCE

The Government will establish an effective and efficient financial sector supporting rural development. Minimizing unemployment is crucial to reducing the incidence of poverty. In this regard, the planned establishment of an efficient, effective and sustainable rural credit system will be of critical importance in facilitating the start-up of income generating activities. Major issues facing the financial sector are:

- Meeting the need for secure and remunerative placement of rural savings;
- Shortage of qualified human resource and institutional capacity for rural credit operations;
- Formulation and implementation of appropriate regulatory framework for the MFI and rural banking industries;
- Provision of loan capital for phased expansion of MFI and rural credit operations; and
- Financial viability of the newly-established Rural Development Bank (RDB).

[21] Primarily through a Local Development Fund (LDF), operating from 2001 in 12 provinces.

[22] Co-vicechairs of STF are the Minister of Water Resources and Secretary of State for Rural Development; membership currently includes representatives of the MAFF, MoE, MWVA, MoP and MoI, and may soon be expanded.

In addition to the activities of the RDB and NGOs, the Social Fund (SFKC) created by the Government (with financing from the World Bank) is another important source of (grant) finance for rural investments. SFKC focuses on rebuilding social sector rural infrastructure in a situation with weak local implementation capacities. It supports the restoration of essential rural infrastructure through quick, small-scale rehabilitation and reconstruction efforts identified and implemented by the communities themselves, with the aim of generating rural employment. The Social Fund has mainly been use for the construction of primary/lower secondary schools and rural health centres. Under its new phase the scope of SFKC has been widened and planned allocations now cover investments in roads, water supply, education, health, environment, infrastructure, rural credit and capacity building. Much of this activity will be implemented by MOU with specialised institutions.

5.9 TARGETING THE RURAL POOR

In a spatial sense, the poor are all over the country. However, they tend to be concentrated in agricultural households and in villages with a low level of infrastructure development. Since some type of area targeting will serve to maximize impact, the approach adopted by the WFP in selecting target communes is reasonable, at least in terms of excluding better-off areas.

Direct entitlement-enhancing programs such as the WFP's food-for-work projects and emergency food targeting should be maintained. Given current trends, such programs do not need to be expanded although some flexibility is desirable to tackle emergencies when they arise. Targeting efficiency has been greatly improved in this respect, and will improve even further. This system of targeting and delivery is already in place and hence will be retained and strengthened.

Cereal banks will be established in villages suffering from very high yield fluctuations and the institutional capability to create and operate cereal banks will be strengthened. This scheme has already exhibited some degree of success in stabilizing household consumption in villages subject to very high yield fluctuations.

Special safety nets that enhance the competitiveness of small farmers and fisherfolk, especially those who produce commodities included in the county's sensitive list under the AFTA scheme, will also be provided. Special programs and projects will be formulated and implemented to make the commodities on the sensitive list (e.g., some vegetables, legumes, fish, and livestock) more competitive with those of the other ASEAN member countries within the 13-year grace period during which tariff rates are left untouched. Tariffs collected during this grace period can be earmarked for the funding of safety nets.

Meanwhile, remote provinces such as Mondulkiri, Ratanakiri, Kratie, and Stung Treng, which are thinly populated and very poor, pose serious logistics problems and are best tackled through programmers designed to improve skills and technology; ameliorate water, sanitation, and health conditions; and strengthen infrastructure. The delivery vehicle for development inputs still has to be created, but a start could be through cooperation with NGOs already operating in these areas.

While direct intervention measures can help tide the poor over in periods of distress, the only way that they can truly be partners in progress is to allow them access to production resources. These would be in the form of land ownership or claims over the use of common property resources. Another way to empower the poor is to guard their health and nutrition, labor being the most basic asset. Provision of public goods such as safe water and health services and the availability of credit can perform this function and in the process widen the

participation of vulnerable groups in the growth process. The steps to be taken so that the fruits of development will be distributed more equitably include the following:

- *Land titling and distribution.* Only 10 percent of the households that received land distributed in the late eighties have been given titles. There are still significant pockets of landlessness among refugees and displaced persons who missed out of the initial land distribution program: this situation will be remedied. Of greater concern is the fact of sharply growing inequality in land and asset ownership. Measures will be applied to halt or slow this process. In addition, the Government will carefully examine the need to grant more land to poor households in the rural provinces.
- *Access to common property resources.* Intensified pressure applied on common property or open access resources has been noted. This alarming process is exacerbated as communities are increasingly denied access to these resources (especially fishery and forestry resources). These developments can be disastrous for the poor, who are critically dependent on these resources. It is imperative to rationalize communal access to ensure sustainable use, and property rights reforms will be undertaken.

- *Health and nutrition.* The high incidence of malnutrition and disease interacts in a complex manner to further reduce food entitlements, increase indebtedness, and diminish productivity. Steps will be taken to address these problems through provision of public goods such as safe water and access to basic health services. In addition, a well-targeted credit program will be introduced to lower the high informal rates currently charged, to improve the coping ability of the poor, and to encourage adoption of modern agricultural practices and other farm and non-farm income-generating activities.

- *Food procurement schemes.* At present, safety net programs like the food-for-work and emergency distribution programs are being conducted by donor agencies from donor funds. As long as this arrangement is in place, a separate strategic reserve does not appear justified. Holding of significant reserves is expensive, management-intensive, and must be tied to an efficient distribution system. Since aggregate food availability (at the national level) is no longer a pressing problem, the usefulness of holding strategic food reserves is not evident. A better approach will be to designate financial facilities for emergency rice procurements when needed. With the membership of Cambodia in the ASEAN, the country will also be able to draw on the organization's food security reserve, which for a small country may be quite adequate.

Efforts to improve food security will be through means such as: improving access to a more diversified and nutritious food basket particularly among the rural population; smoothing of seasonal food deficits; and widening options for a more diversified food production for household consumption. Additionally, these efforts will target rural women as producers and marketers in the food sector as well as decision-makers in the farm and household economy.

5.10 MINE REMOVAL

Mine removal remains a priority. Since its establishment in 1992, the Cambodia Mine Action Center (CMAC) has cleared 45 km^2 of mine fields, and removed and destroyed 74,552 anti-personel mines, 727 anti-tank mines and 409,536 unexploded ordnance. As 15 percent of arable land is still inaccessible due to land mines, the Government will give continued priority for mine clearance. In September 2000, the Cambodian Mine Action Authority (CMAA) was created to act on behalf of the Government as a regulator and coordinator of CMAC operations. Working in particular with the Ministry of Land Management, Urbanization and Construction and Provincial Rural Development Committees, the CMAA will ensure that mine action activities are integrated into national development strategies, and that cleared lands will

be used for the benefit of destitute populations. The de-mining effort is essential in supporting rural development projects, in assisting environmental conservation, and in cooperating with demobilization efforts to provide cleared farmlands for families and employment and training opportunities for demobilized soldiers.

5.11 PUBLIC INVESTMENT PRIORITIES

Table 5.4 shows the annual allocations for which MRD and CMAC are the executing agencies. Public investment allocated to MRD for the 2001-2003 period amounts to $86.7 million, or 5.3 percent of the total Plan allocation. The public investment priorities identified specifically for rural development expenditures are designed to complement and support the policy actions for this sector. Priority investments planned include the completion with external assistance of capacity building projects covering crop production, research and extension, rural roads, BMN determination, rural development and resettlement projects, information, electricity, basic education, technical and vocational education, water resources, health, environment and conservation, and social and community services. The allocation to CMAC totals $66.2 million, or 4.0 percent of the total Plan allocation.

5.12 ENVIRONMENTAL MANAGEMENT AND CONSERVATION

In recent decades Cambodia's environment has deteriorated as a result of conflict, neglect and uncontrolled resource exploitation. Past policy has ignored environmental planning and the need for rehabilitation and protection. This has led to both the depletion of natural resources and the degradation of environmental quality manifested in atmospheric contamination, surface water pollution, soil erosion and loss of forest cover. The sustainable use of renewable resources has been exceeded in some localized areas.

The Government recognizes the need for effective environmental protection and natural resources management, and in 1993 set up the Ministry of Environment (MOE), giving it a broad mandate to protect natural resources and to prevent environmental degradation. The Government is committed to ensuring that the natural resources that provide the basis for growth are managed in a sustainable manner.

Table 5.4 Public Investment Allocations for Rural Development and CMAC ($ '000)

	2001	2002	2003
Ministry of Rural Development			
Crop Production	564	612	709
Research & Extension	54	54	54
Roads	9,958	6,031	5,200
Basic Minimum Needs	735	576	497
Rural Dev. and Resettlement Projects	900	836	709
Information	120	120	120
Electricity	1,450	2,827	2,273
Basic Education	425	120	0
Technical & Vocational	147	147	148
Water Resources	4,194	5,738	7,025
Health	962	1,611	2,292
Environment and Conservation	294	294	294
Social & Community Services	5,526	5,286	5,184
MRD Subtotal	29,929	28,252	28,505
Cambodian Mine Action Center	22,000	22,000	22,175

Source: MOP, *Public Investment Program, 2001-2003.*

The National Environmental Action Plan (NEAP) prepared by MOE with external assistance aims to integrate environmental concerns into economic activity and ensure the future maintenance of the absorptive and regenerative capacities of Cambodia's ecosystems. The emphasis of the NEAP is on cost-effective prevention of environmental problems rather than on more expensive belated attempts at environmental rehabilitation. The most urgent concerns addressed by the NEAP include coastal zone management, protected areas management, industrial pollution control, environmental data collection, evaluation and impact assessment, institutional development and environmental education. A high priority is the management of the Tonle Sap ecosystem for which a multi-sectoral advisory and management body is to be established. Limited institutional capacity in the sector makes it imperative that interventions to address environmental issues are carefully prioritized and sequenced.

5.12.1 CURRENT SITUATION

Land and water resources and their associated biota are the focus of major environmental concerns. Agriculture and commercial forestry affect the country's surface water system, and with upstream transboundary factors working through the regional surface water network affect the primary resources of the Tonle Sap. Urban and industrial and mining pollution, and the use of obsolete fertilizer and pesticides, contribute to water quality degradation and affect the productivity of the inland fishery, which is also increasingly influenced by intensified commercial and artisanal fishing practices. Liquid and solid waste are affecting the urban environment. Management of the coastal zone ecosystem on which increasing environmental impacts are expected from aquaculture development, tourism, and offshore oil and gas production is a priority.

5.12.2 POLICY FRAMEWORK

The Government's goal is to manage, conserve and protect Cambodia's environment and natural resources in an ecologically sustainable manner to assist in alleviating poverty throughout the nation.

The medium term objectives are to:

- Develop coastal zone management
- Reduce urban and industrial pollution
- Strengthen protected areas management
- Enhance forest concession management
- Improve management of the Tonle Sap ecosystem
- Build the environmental planning capacity of core institutions.

The Government's environmental protection and natural resources management efforts are guided by four principles. The *first principle* is the recognition of the link between poverty alleviation and the environment. To safeguard the environment, the Government will increase economic opportunities to the rural poor. Natural resource degradation is in part due to exploitation by the rural poor, who are seeking to satisfy their basic needs. Reducing rural poverty is therefore essential to achieving sustainable management of the environment.

The *second principle* is the recognition of the importance of communities. Structured interventions to provide local communities with the skills to manage the natural resources base on which their livelihoods depend is the most effective way of achieving sustainable management of these resources.

The *third principle* is the recognition of the need for institutional capacity building. The MOE and other Government agencies involved in environmental management at present lack the technical skills to effectively protect preserve and manage the environment.

The *fourth principle* is the recognition of the importance of an integrated approach to environmental planning. Environmental issues are cross-sectoral and different institutions have responsibilities and undertake activities that involve the environment. The MOE promotes an integrated and multi-disciplinary approach to environmental management.

These principles serve as the framework for addressing environmental priorities identified by MOE. The key policy elements and timing of actions to address these core issues are summarized in Table 5.5.

Given that effective environmental protection and natural resources management is a cross-sectoral concern, many of the Government's actions to protect the environment and manage environmental impacts are integrated with investment and policy priorities in other sectors. The Government will over the medium term prepare and implement routine monitoring of the implementation of all public investment projects in order to ensure that their implementation is environmentally sound and with a view to strengthening the link between development planning and environmental protection. Environmental impact assessment (EIA) and compliance procedures will be incorporated into new projects screening procedures being introduced with the assistance of the ADB and UNDP.

The capacity of the Government's institutions to formulate and implement appropriate environmental planning is critical to the success of environmental management. Over the medium term the Government will support structured interventions that support the capacity of institutions involved in environmental management. A high priority will be to strengthen the capacity of MOE to plan and implement policies and projects, and monitor enforce compliance according to existing environmental legislation of pollution-generating entities. The Government will also identify ways in which public environmental awareness can be increased so that people will be able to make informed decisions and participate in the decision-making process concerning the environment.

The Government intends to increase environmental awareness and education with a view to building durable constituencies for the conservation, protection and sustainable management of natural resources. With external assistance the Government will manage solid and liquid wastes according to existing legislation. Natural discharge standards will be set and compliance and monitoring systems developed and established. A key element of the strategy will be to promote environmental awareness of the potential harm caused by poorly managed treatment pollutants.

Table 5.5 Environment and Conservation Policy Framework Matrix 2001-2005

Goal: To manage, conserve and protect Cambodia's environment and natural resources in an ecologically sustainable manner in order to assist in alleviating poverty throughout the nation.		
Medium Term Objectives.	**Policy Elements & Actions.**	**Timing & Responsibilities.**
Enhance forest concession management.	Multi-purpose Forest Management Plan. Adopt and implement new forest concession management based on recommendations of UNDP/FAO/WB forest study report. Create mechanism and monitoring process on illegal logging business.	 MOE, MAFF, MEF. MOI, MOD, ongoing. MOE, MAFF, MEF. MOI, MOD, ongoing.
Reduce urban and industrial pollution.	Pollution Legal Framework. Prepare and adopt legislation on national discharge standards and develop monitoring mechanisms to ensure compliance by pollution producing entities.	 MOE & external assistance, ongoing.
Improve Coastal Zone Management.	Natural Resource Management Planning. Prepare coastal management planning. Prepare environmental management planning of Kong Kang forest.	 MOE, external assistance 1999-2003. MOE, external assistance 1999-2002.
Improve management of Tonle Sap ecosystem.	Stakeholder Participation. Establish multi-sectoral group to prepare management plan and co-ordinate ecosystem enhancing interventions.	 MOE 1999-2001.
Strengthen protected areas management.	Preserve Ecological Integrity. Prepare legislation, norms, and implement natural protected areas management plans. Improve management capacity for Kirirum, Bokor, Ream, Virakchey, and Phnom Kouleng National Park.	 MOE, external assistance 1999-2001. MOE, external assistance 1999-2001.
Enhance the environmental planning capacity of core institutions.	Capacity Building Priorities Strengthen the capacity of MOE to prepare and implement policies, draft legislation, monitor regulations, design and implement projects. Prepare sub-decree on Environmental Impact Assessment and implementing regulations.	 MOE, external assistance 1999-2001. MOE, external assistance, ongoing.
Environmental Awareness	Environmental Education and Awareness Integrate environmental education into schools and higher education curricula. Plan and implement public environmental awareness campaigns.	 MOE, MOEYS, external assistance, ongoing. MOE & external assistance, ongoing.
Protected areas communities	Stake holder participation - Strategies plan for protect areas management. - Establish multi-sectoral group to prepare management plan and co-ordinate ecosystem enhancing interventions.	MOE, MAFF MRD, NGOs, Loc. Authority 2002-2005

The Government is also concerned to foster a conservation-oriented philosophy among forest multiple users in order to support sustainable timber production and watershed management. The conclusions and recommendations of the World Bank/UNDP/FAO forest study report will provide the basis for Government policies in this area as detailed above. Forests will be protected and core environmental and social functions of forests enhanced with the introduction of better concession management for commercial logging.

Coastal area issues include depletion of the fish stock, coral reef exploitation, and depletion of mangrove habitats. In addition, the potential for rapid tourism development in coastal areas and the prospect of oil and gas exploration necessitates establishment of comprehensive multiple use plans for effective coastal management. The aim is prevention of further coastal environment degradation rather than belated rehabilitation, which will be achieved by integrating environmental concerns with economic opportunities. The Government will commission with external assistance the development of a comprehensive mangrove habitat management plan that will provide for mangrove restoration and preservation. This will provide the basis for subsequent zoning of all coastal activities and their development in line with economic and environmental priorities.

Waste management infrastructure and institutional capacity has not kept pace with rapid economic growth and urban expansion. The Government will introduce legislation to manage solid and liquid wastes. National discharge standards will be set and compliance and monitoring systems developed and established. A key element of the strategy will be to promote environmental awareness of the harm caused by unmanaged discharge of pollutants.

With external assistance the Government will accelerate efforts to protect the Tonle Sap ecosystem. A strategic natural resource management plan will be developed with the participation of all stakeholders in order to ensure its comprehensiveness, effectiveness and to facilitate its implementation. The Plan and the establishment of a multi-sector advisory and management body will also contribute to better co-ordination of interventions designed to protect the Tonle Sap ecosystem.

Illegal logging, wildlife poaching and high poverty levels pose serious threats to the ecological integrity of protected areas. The Government will develop its capacity to better manage those areas designated as protected for bio-diversity conservation. Management plans will be prepared and implemented aimed at enabling MOE to fulfil its role as the responsible agency for managing protected areas.

5.12.3 PUBLIC INVESTMENT PRIORITIES

Public investment projects to be implemented by MOE in the 2001-2003 period amount to $40.5 million or 2.5 percent of the total Plan allocation, as shown in Table 5.6. The public investment priorities identified are designed to complement and support the policy actions for the sector and include the completion with external assistance of capacity building projects covering environmental impact assessment, mangrove management, coastal zoning and management of the Tonle Sap ecosystem.

Projects that will be funded include: (i) coastal zone environmental management; (ii) participatory management of mangrove resources; (iii) protection and management of critical wetland, forest monitoring and reporting; (iv) management of protected areas; (v) national bio-diversity strategy and action plan; (vi) strengthening capacity for EIA studies; (vii) liquid and solid waste management; and (viii) Tonle Sap bio-diversity conservation. The largest planned expenditure is for the Coastal Wetland Sustainable Development Project.

Table 5.6 Public Investment Allocation for the Ministry of Environment ($'000)

Ministry of Environment	2001	2002	2003
Forestry	124	93	0
Industrial Support Services	329	329	329
Environment and Conservation	16,822	15,130	7,309
Total	**17,275**	**15,552**	**7,638**

Source: MOP, *Public Investment Program, 2001-2003.*

ANNEX 6: NATURE-BASED AND CULTURAL TOURISM

Realization of Cambodia's broad potential for sustainable tourism development is an important means of achieving economic growth with equity and the reduction of poverty. This annex examines the cultural and natural heritage assets that constitute the foundation of tourism development potential; briefly reviews tourism development and policy during the SEDPI period; and discusses major tourism planning and development issues, and the strategic responses to be adopted during the SEDPII period.

6.1 TOURISM POTENTIAL

Cambodia's tourism development potential is based on both cultural and natural assets. The premier attraction is the Angkor ruins near Siem Reap, which is now served by direct international flights via Bangkok and Singapore. This built cultural heritage resource has the UNESCO status of a World Heritage site, and its controlled development will facilitate tourism expansion without site degradation. Supplementing this attraction, the capital, Phnom Penh, has architectural, cultural and scenic assets attractive to tourists, and is also served by an international airport that is being upgraded to permit increasing visitor numbers. The southern coast near Sihanoukville was a popular recreational and tourist destination during the 1960s and early 1970s, and rehabilitation and development of facilities there would facilitate increased visitation. In the longer term, the northern and north-eastern provinces offer opportunities for nature-based tourism and cultural tourism development; and there is the possibility of developing river-based tourism on the lower and upper Mekong and the Tonle Sap. Interest in nature-based tourism is increasing, as Cambodia has a number of species that are endangered and whose numbers have declined in other parts of Asia, and possesses areas of natural beauty that could also become accessible through the development of national parks and marine reserves. Visits to hot springs, waterfalls, lakes, rivers, forest reserves, fishing villages, marine areas, and wildlife reserves would appeal to a substantial number of travelers.

There are eight areas with recognized tourism development potential:

1. Siem Reap and Angkor Archaeological Park, which will remain one of the world's major archaeological sites and tourist attractions and, for the foreseeable future, it is the main tourism asset. It is recognized as a symbol of Cambodia.

2. The North/North East, which can offer cultural tourism including village-based accommodation (including with hill tribes); nature-based tourism; adventure tourism (trekking, game watching, safari-style camps); and river-based tourism.

3. The North, which offers archaeological and religious interest in built cultural heritage sites, especially at Preah Vihear; nature-based tourism; adventure tourism; and village-based accommodation.

4. The Middle Plain, which offers nature and river-based tourism on Tonle Sap and the Mekong; rural exploration; wildlife; fishing; floating villages; and temples and archaeological sites.

5. The Middle Mekong Delta, which offers river-based tourism; rural exploration; and wildlife (mainly birds).

6. The Western Coastal Area, which offers mountaineering and trekking; wildlife viewing; adventure tourism, including white water rafting; coastal areas of scenic beauty; and unspoilt forested areas.

7. The Eastern Coastal Area, which includes Sihanoukville, Kampot, and Kep and surrounding areas, has potential for beach holiday resort development; island cruises; and nature-based tourism, especially in Bokor National Park.

8. Phnom Penh and Surrounds, offers major tourist attractions in the form of the Royal Palace and Silver Pagoda, the National Museum, the French-influenced built environment, the scenic attractions of the Mekong and Tonle Sap rivers, and the Tuol Sleng museum.

Cambodia is in a favorable position to take advantage of its location in a highly developed regional market that has shown strong tourism growth. The country has a significant and internationally recognized cultural heritage. This can be developed as an integral part of the tourist experience, which increasingly encompasses cultural heritage and entertainment, including museums and art galleries, and traditional theater and dance. Restoration and preservation of cultural and religious sites and traditions, plus support for contemporary cultural and artistic activities, can be a source of continued spiritual and cultural vitality, and the foundation of cultural tourism.

For tourism development to be sustainable, maintenance of the integrity of cultural and religious traditions must be matched by sound management of the natural and built environments. Temples and archaeological sites need to be restored and protected; forests, lakes, reserves and national parks (including their wildlife) must be conserved; urban landscapes need to be managed; and pollution and other potentially adverse environmental impacts need to be addressed.

In addition to the preservation and management of tourist attractions, sustainable tourism development requires supportive improvements in infrastructure and utilities, an effective regulatory framework, and marketing — all of which in turn must rest on a sound information database. Both the public and the private sectors have major roles to play in these areas, and thereby ensuring that tourism potential is realized.

6.2 TOURISM ISSUES AND STRATEGIC RESPONSES

At the beginning of the SEDP-II period, the Ministry of Tourism is engaged in a participative process of developing a tourism sector policy and a National Tourism Development Plan. The overriding tourism policy objective is to maximize and distribute equitably the benefits from a rate of tourism growth that is consistent with the protection of the nation's natural, built, social, and cultural environments. The Tourism Plan is to address in a comprehensive and strategic manner a range of issues affecting the prospects for successful and sustainable tourism development.

A first step in the planning process is to identify and discuss the major issues with all stakeholders. The point of departure for this exercise was a private sector working group's paper, "Points of Discussion for the Development of Tourism in Cambodia, January 2001". Thirteen issues emerged from the discussion, and are summarized below.

Overall Tourism Development Approach:

- There has to be information gathering and analysis not only of quantitative data, but also of qualitative data on the socio-economic impacts of tourism; and a special focus is needed on how the poor can benefit from tourism
- Attention must be paid to how tourism can promote a sense of national identity and pride
- There is a general need to think comprehensively about destinations and their management, particularly how they are presented to visitors.

Infrastructure

- There is insufficient public and private sector infrastructure.

Stakeholder Participation

- There is poor coordination between important stakeholders.

Resource Protection

- Natural and cultural heritage resources need protection and interpretation.

Impacts/Carrying Capacities

- There is a need to use well-developed techniques to measure the social, economic and environmental impacts of tourism, and to develop mitigating measures that minimize or eliminate negative impacts
- There is an immediate need to develop an accounting system that will permit members of the tourism sector to measure its economic impact
- The question of who is monitoring the tourism development process and identifying problems and achievements needs to be addressed, with responsibility resting with both public and private sectors
- There is a need to develop appropriate tools to determine and enforce carrying capacity limits
- The open sky policy needs to be assessed in respect of its impact on the national airline and on the economy.

Product Development and Management

- The nature of the visitor experience that is expected in Cambodia as a whole and for various destinations needs to be defined
- There is a need to diversify the tourism product away from Siem Reap
- There is a need to develop a classification system for hotels
- Enhancement of present festivals needs to be investigated as a means of ensuring a more comprehensive tourism product
- More businesslike attitudes in management of tourist attractions are needed (for example, in respect of consistent opening hours and a higher level of interpretation).

Training

- The many capacity gaps in tourism planning and development need to be identified specifically and filled.

Economic Development

- There is a need to seek ways of increasing income retention from tourism (that is, increasing the multiplier effect through such means as sourcing more inputs locally)
- Means of obtaining finance from multilateral organizations for private sector projects need to be investigated
- There is a need to develop the local handicrafts industry as a means of ensuring rural people benefit from tourism.

Safety and Security

- There is a negative perception of public safety that adversely affects tourism
- There is also a concern over the safety of domestic travel, especially by boat.

Customer Satisfaction/Visitor Experience

- There needs to be a comprehensive program of assessing levels of visitor satisfaction, in order that service delivery can be improved
- There is a need to reduce the amount of paperwork required when entering the country
- Phnom Penh's taxi and public transportation systems are seen to be inadequate
- There is concern over the number of beggars on the streets, which impacts negatively on the visitor experience (although it is acknowledged that begging reflects a severe poverty problem).

Nature Based Tourism

- Nature-based tourism and the specialized segment referred to as eco-tourism need to be approached cautiously on the basis of assessments of carrying capacity and infrastructure, and of the economic, social and environmental impacts. Policies must be in place to ensure that local communities share in the benefits and that tourism revenue supports the protection of natural environments.
- There is a need to develop strategies for the promotion and development of nature-based tourism.

Tourism Information Systems

- There is an urgent need to provide the visitor with easily accessible and reliable information upon arrival in the country
- There is a need to collect reliable information on present and potential tourist attractions in order to better inform tourism planning and development activities
- There is a need to provide tourism professionals with reliable information to boost incoming tourism.

Marketing and Promotion

- There is an urgent need to portray a positive image of the country in the press, in guidebooks, and on the Internet
- There is an urgent need to present the tourism product in a detailed and professional way.

Against this background, the intention is to develop an overall vision and strategy for tourism development; to identify a series of strategic actions to be taken in the short- medium- and long-term; to define performance indicators; and to implement specific recommendations for target areas. The proposed Tourism Plan will focus on the following geographic areas:

- Siem Reap and the Angkor complex
- Phnom Penh and surrounding areas
- Sihanoukville and Koh Kong (coastal zone areas)
- Ratanakiri and Mondulkiri (Stung Treng and Kratie)
- Mekong and Tonle Sap rivers.

An immediate task is the establishment of a tourism attractions information database. This will fulfill four basic functions. First, it will define the Cambodian tourism product in terms of the type of attraction (built cultural heritage resource, living cultural heritage, events and festivals,

natural heritage site, recreation, entertainment, rural/farm, adventure). Second, it will classify major national attractions by location, type, ownership and legal status, visitation pattern, and accessibility. Third, it will describe provincial, regional and municipal destinations in terms of the planning/regulatory framework, tourism infrastructure, facilities, services, and economic impact, and general physical infrastructure and utilities. Fourth, the database will describe the various types of local attractions in terms of their planning and management capacities, attributes of the attraction, and facilities and services available.

The next task will be the forging of a vision that will guide the formulation of tourism strategies. Five areas have been identified as priorities for action:

1. Resumption of the policy of open travel across borders (see section 6.2.1)
2. Security and safety (see section 6.2.2).
3. Human resource development (see section 6.2.3)
4. Tourism management and administration (see section 6.2.4)
5. Marketing and promotion (see section 6.2.5).

6.2.1 INFRASTRUCTURE

Development of tourism markets depends largely on improved access to, and movement within, Cambodia. Direct flights from existing sources will be increased and direct flights from other sources (regional and long-haul) will be expanded where possible. Airport construction projects at Pochentong and Siem Reap will be completed in late 2001. Building of another international airport is planned for Kampong Chhnang province in 2002. Domestic flights will be diversified to provide tourist access to a wider range of tourism destinations, including Sihanoukville with construction of a regional airport in 2002. Major provincial airports such as those in Rattanakiri and Mondulkiri provinces will be upgraded. Regular flights to Battambang and Koh Kong are needed to provide reliable access for visitors to those provinces. The opening of frontiers with neighboring countries enables direct access for visitors. It is proposed that land and water routes should be opened between Kampot province and Krieng Yang province in Vietnam, and Keb municipality and Krieng Yang.

Tourism development will be supported by rehabilitation and construction of roads providing international access and better national access, including to tourist destinations. The following road rehabilitation and construction projects have been identified:

- **International Roads**

National Road One (Asean road) : Phnom Penh - Bavet (Vietnamese Border)
National Road Five : Phnom Penh – Battambang – Poipet (Thai Border)
National Road Six: Sisophon - Siem Reap
National Road Thirteen: Snuol – Kratie – Stoeung Treng (Lao Border)

- **National Roads**

National Road Two: Phnom Penh – Takeo – Phnom Den
National Road Three: Veal Renh – Kampot provincial border
National Road Six: Kampong Thom – Siem Reap
National Road Seven: Kampong Cham – Memot – Snuol
National Road Sixty-four: Kampong Thom – Preah Vihear

- **Roads to Major Tourist Destinations**

From the provincial town of Preah Vihar to the Preah Vihar temple

From Krom Phnom to the provincial town of Siem Reap
Road to Banteay Srei temple
Climbing road to Phnom Kulen
Road to the Sambor Prei Kuk region
Road to Kirirom region
Road to Bokor mountain
Enlarge road to Tek Chhouu falls.

Planned improvements to water access are also proposed. These include the (re)construction of tourist ports in Phnom Penh, Phnom Krom and Sihanoukville, and the opening of three new water routes: the Vietnamese Border (along the Mekong Krom and Basac) through Phnom Penh straight to Phnom Krom (to Siem Reap); Vietnamese Border through Phnom Penh to Kampong Cham to Kratie to Stung Treng province; and the sea route from the Thai coast to Koh Kong and Sihanoukville.

In the area of information technology, there is an urgent need to upgrade the capacity of the international link to the Internet Backbone (that is, the major Internet routes). This upgrading would cost approximately $0.5 million.

Infrastructure development will attract more tourists and private sector investment.

6.2.2 PRODUCT DEVELOPMENT

In addition to providing a cultural, nature-based or leisure experience, the success of tourism depends on accommodation at internationally acceptable standards; a quality of service that meets the expectations of visitors; and a sense of value for money spent. The successful tourist product is a package, involving knowledge and skills across a number of sectors, that meets the needs of different tourist markets.

Increasing emphasis will be placed on diversifying the tourist base to reduce dependence on a narrow range of products and markets. The market segment will need to be widened to include medium-to-high spending categories of tourist. In addition to marketing the country's unique natural, cultural and historical heritage, new product development will aim primarily at nature-based tourism. The private sector will be encouraged to develop some potential sites, and the Government will assist in the provision of infrastructure and basic amenities.

To tap the meetings, seminars, conventions and exhibition markets there is a need to improve the country's capabilities in hosting international meetings, conventions and exhibitions. Leading hotels in the country will be encouraged to upgrade their facilities and amenities, including the state of the art technology for hosting conventions and exhibitions. An increasing domestic demand requires developing and maintaining recreational opportunities for local people.

The economic benefits from tourism will be increased if a number of structural changes and upgrades are made in the distributive trade sector. These include:

- Accelerating the modernization and rationalization of distributive trading mainly through improved management systems
- Enhancing the marketing capability of traders to supply value-added products through improved packaging and presentation as well as greater product differentiation
- Promoting specialized retail concepts including franchised chains
- Encouraging linkages between distributive trade establishments and farmers as well as manufacturers in the supply of local fresh produce and manufactured goods.

Security, social order and safety have been identified as basic requirements for a successful tourism product. While tourists are now able to travel into many areas that were unsafe just a few years ago, the safety of tourists remains an issue. Tourist fears need to be allayed, rather than stimulated by large numbers of army personnel, military police, and police at airports, tourist areas and international border-crossing points.

6.2.3 HUMAN RESOURCE DEVELOPMENT

Tourism, being service-oriented, must ensure that its workforce has the necessary skills to meet the varied demands and expectations of the sector. There is a need to implement appropriate training programs to increase labor productivity and efficiency. There is also a need to develop relevant training programs to meet specific skill needs of the hotel and travel sector. The need for trained staff is increasing rapidly.

In collaboration with the Ministry of Education, Youth and Sports (MOEYS), the Ministry of Tourism (MOT) will:

- Encourage privatisation of vocational training, including quality control
- Enhance the capability and skills of trainees and employees, especially Cambodian citizens, to increase their success in seeking employment
- Undertake research on improving human resources in tourism
- Monitor educational and administrative training at private schools which conduct vocational training in tourism
- Establish a national tourism curriculum
- Establish national schools for vocational training in tourism.

6.2.4 TOURISM REGULATION, MANAGEMENT AND ADMINISTRATION

In order to coordinate and manage all tourism development, standards and regulations will be formulated:

- A general Law on Tourism and Entertainment will be formulated that applies to supervision of hotels and guesthouses; travel agents and travel companies; restaurants, dance bars, Karaoke bars and massage parlours; and tourist attractions/ resorts
- A standard will be set up for classification of accommodation
- A casino law will be formulated
- With the Ministry of Finance and tourism associations, a pricing policy for tourism services will be prepared and implemented
- Sanitation and other waste services will be regulated to ensure the improvement and maintenance of a clean environment in Phnom Penh and other tourist attractions
- Guidelines on health and hygiene services for major attractions, hotels, restaurants and beverage/liquor stores will be prepared in collaboration with relevant ministries
- Improved administration of public transport and tourist transport will be undertaken in cooperation with the Ministry of Public Works and Transport
- Improved administration of labor services in the tourism sector will be undertaken in cooperation with the Ministry of Social Affairs, Vocational Training and Youth Rehabilitation, particularly with respect to sexual exploitation in advertising and massage and Karaoke bars
- The service quality of hotels, guesthouses, restaurants and Angkor Pass will be inspected frequently.
- The elimination of airport tax for domestic flights is planned
- Convention Centres will be built at prioritized tourist areas

- Tourist packages at reasonable prices will be developed
- All tourist attractions/ resorts in prioritized areas (such as Mount Kulen, Kbal Chhay, Tek Chhouu waterfall, Bokor National Park and Bou Sraa waterfalls) will be required to produce a master-plan in order to attract direct investment without a deposit.
- Other tax incentives under the Law on Investment will attract tourism investment.

The ease with which travelers can reach their tourist destination is important and will be improved. The following actions in relation to procedural administration are proposed:

- To reduce administrative complexity, procedures will be simplified in issuing of visas (for example, photographs will not be required at border crossings)
- The time taken for controlling/checking at border crossings will be reduced by tightening the discipline of customs and immigration officers
- Visas will be issued at land and water international border-crossings
- Armed forces will be reduced at airports and other tourist destinations
- A Tourism Board will be established
- Specialist tourism representatives will be appointed to particularly important countries, relieving diplomatic corps members of tourism duties.

Greater emphasis will be placed on minimizing the negative socio-cultural and environmental impact of tourism when developing the requisite tourism-related infrastructure and facilities. Cambodia's heritage and art resources will be preserved through necessary regulations. More specific criteria and guidelines will be implemented to ensure that the development of infrastructure for tourism does not adversely affect environmental sensitive tourist sites. The carrying capacities of the sites will be established to ensure that tourism is a sustainable industry. Environmental audits will be undertaken on a regular basis. In addition, the development of Angkor, for example, must benefit all of Cambodia's population, not just small groups. Expansion of cultural tourism requires greater management of the sites, shifting the emphasis from conservation to enforcing the laws on administration and prevention of looting.

6.2.5 MARKETING AND PROMOTION

Innovative marketing efforts will be undertaken to promote Cambodia as a major tourism destination. Effective product promotion depends on knowledge of major markets and appropriate targeting of marketing materials. On-going research on tourist markets and the goals and expectations of tourists will be carried out. Promotional activities such as publication of information booklets in several foreign languages will be undertaken to cater to the various needs of tourists. Strategic alliances will be formed with major foreign airlines and tourist organizations to jointly exploit tourist opportunities. The growing impact of information technology in the distribution and marketing of tourist products and services will be exploited by opening up suitable web sites to cater to the major tourist markets. The Internet will also be used for computer reservation systems, marketing, and tourism promotion, provided that the capacity of the international link to the Internet is upgraded.

Intensified and concerted tourism promotional activities undertaken at the international and regional level have enhanced Cambodia's image as an attractive tourist destination in the region. Promotional activities will be intensified in the primary markets consisting of ASEAN countries, Australia, Canada, China, European Union, Hong Kong, Japan and USA. Analysis of visitor increases from the USA indicates that strong promotion will lead to further growth in the American market.

New tourism products such as eco- and agro-tourism and sport related activities will be further developed. Measures will be taken to improve and facilitate access into and within the country. This includes increasing the number of flights arriving in the country and in-country flights. The

frequencies of boat cruises and number of tourism buses and other tourist vehicles will be increased.

6.3 CONCLUSION

In summary, the tourism development strategy during SEDP II will focus on:

- Diversifying into new products and services to cater for the varying demands and interests of international and domestic tourists
- Ensuring more effective promotion and marketing for both the foreign and local markets
- Encouraging private sector investment and participation in innovative tourism products as well as special projects and events
- Increasing the involvement of the local population, especially small entrepreneurs, in the development of district and localized tourism products and services
- Improving and facilitating access into and within the country
- Providing the requisite infrastructure and amenities at designated tourist sites
- Focusing on formal as well as on-the-job skills training in order to meet the rising demand for skilled human resources
- Ensuring that tourism growth is regulated and managed so that it does not undermine the natural, built and cultural assets that attract tourists.

The Public Investment Program, 2001-2003 allocates a total of $11.0 million for capital projects and technical assistance in the Ministries of Culture and Fine Arts and Tourism, which is equivalent to 0.7 percent of the total PIP allocation. Almost 80 percent of the allocation to these ministries is for conservation and rehabilitation work. If additional funding were available, it could be used to support tourist promotion, training, infrastructure development, environmental damage mitigation, and sites restoration.

Table 6.1 Culture and Tourism Public Investment Program, 2001-2003
($ '000)

	2001	2002	2003
Ministry of Culture and Fine Arts			
Repair Ancient Temple	385	110	305
Royal University of Fine Arts	166	600	679
National Library	200	0	0
National Museum	200	0	0
Conservation sites at Temples	2,000	2,000	2,000
Sub-total	2,951	2,710	2,984
Ministry of Tourism			
Establish Tourism Offices	150	150	150
Strengthening tourism planning	150	0	0
Development of tourist sites	350	360	428
Capacity building	200	400	0
Sub-total	850	910	578
Total	**3,801**	**3,620**	**3,562**

Source: MOP, Draft *Public Investment Program, 2001-2003*.

ANNEX 7: MANUFACTURING AND MINING

Employment generation is crucial to poverty reduction. In 1998, open unemployment rates in urban areas were 12.2 percent for women and 6.7 percent for men. The respective figures for rural areas were 5.0 and 4.3 percent. Underemployment rates — defined by the proportion of employed persons working under 35 hours per week — were higher: in 1999, they were 8.6 per cent for males and 14.7 cent for females in urban areas; and 13.9 percent for males and 18.1 percent for females in rural areas (MOP 2000a, p.9). In addition, an average of approximately 228,000 new entrants to the workforce are expected each year of the SEDP-II period and their numbers will be augmented by 30,000 soldiers demobilized in 2001-2003, and by a number of retrenched civil servants. Agriculture, which accounted for 76.5 percent of the employed population over 10 years of age in 1999, will absorb the bulk of the increased numbers. However, the Government recognizes that labor-intensive manufacturing development is an essential means of creating productive employment and reducing the pressure on agriculture's absorptive capacity. This annex presents the Government's industrial and minerals development strategies.

7.1 GROWTH PERFORMANCE, 1996-2000

During the period of the First Plan, the industry sector's growth rate of 13.5 percent per annum was well in excess of the target rate of 9.8 percent (Table 7.1). This reflected the exceptional performance of manufacturing, which was led by textile production for export to the United States. Manufacturing output grew at an average annual rate of 19.1 percent, while textile production grew at 64.3 percent (from a small base). The key ingredients in the textile-led manufacturing expansion were cheap domestic labor and foreign investment. Electricity and water grew at 8 percent per annum, and construction grew rather erratically at an average annual 3.1 percent. Mining sector value added grew at 2.8 percent per annum. In aggregate, industry's share of GDP (at factor cost) rose to 22.6 percent in 2000 (Table 7.2).

As a result of its rapid growth during the late 1990s, industry's share of the employed population rose from 4.5 percent of 3.8 million in 1993-1994 to 6.4 percent of 5.5 million in 1999 (RGC 1997; MOP 1999d). Manufacturing employed 4.7 percent in the latter year, and was relatively female-labor intensive: nationwide, 6.0 percent of employed females worked in this sector compared with 3.3 percent of males, while in Phnom Penh 24.5 percent of employed females were in manufacturing compared with 10.7 percent of males. Average monthly wages in manufacturing in 1999 were 228,413 Riels ($60) for males and 160,535 Riels ($42) for females, suggesting (though not formally proving) discrimination in the labor market. The wage rate for females in manufacturing was the highest amongst all the major sectors, and third highest for males (after trade and utilities). Thus, notwithstanding the fact that many young women are forced by poverty to migrate from rural to urban areas and work in stressful circumstances, employment in manufacturing represents a real opportunity for economic betterment. The 1999 female wage rate of $42 was approximately double the average civil servant wage.

Towards the end of the SEDPI period, the manufacturing sector accounted for the majority of business enterprises as defined by the Ministry of Industry, Mines and Energy. There were 25,791 companies in manufacturing. Of these, 6,257 were enterprises, 19,277 were small and medium business enterprises (SMEs) and 257 were big business enterprises. Food processing dominated the SME sector, with three-quarters of the total. Metal production, wood processing, and textile and sewn products manufacturing followed.

The number and value of investment projects approved by the Cambodian Investment Board in 1996, 1999 and 2000 are shown in Table 7.1. In the last two years, industrial projects accounted for 38 percent of the total approved value of $717.1 million. Garment and textile projects dominated, accounting for 77.5 percent of approvals granted for the industry sector. In 1999, 56 percent of the projects approved involved domestic investors, while the bulk of foreign investment was from Taiwan, China, and ASEAN countries. In 2000, the domestic investor share of a lower level of approved investment fell to 22 percent, with a corresponding rise in the share of investors from other Asian economies.

7.2 GROWTH PROSPECTS AND PROJECTIONS, 2001-2005

The Cambodian economy has a demonstrated comparative advantage in the production of labor-intensive manufactures for export, and the potential exists for further growth in this sector. The pool of relatively cheap, unskilled labor will continue to grow rapidly, underpinning the country's wage cost advantage. In the case of the textile and garments industry, there are opportunities to diversify into non-quota markets, and for the promotion of upstream activities such as primary textile production. Other labor-intensive activities such as toy and footwear production, and assembly of consumer and industrial electrical and electronic products, are potential growth areas. In the field of agro-processing, there are opportunities for developing rubber products and furniture manufacture. There may also be opportunities for import-substitution, although experience shows that caution must be exercised in order to avoid the development of chronically inefficient, and therefore costly, production. The construction sector accounts for over 4 percent of GDP and has the potential to respond to the growing demand for physical infrastructure development. It must be remembered, however, that human resource bottlenecks in this sector can be problematic. This constraint may be eased in the short and medium term by skills importation, and in the long term by human resource development.

While there is potential for growth in manufacturing, its realization requires more than just a plentiful supply of cheap labor. Private companies offering investment packages that include technology and entrepeneurial and management skills must be attracted. Labor-intensive manufacturing for export is highly competitive. Other producers, notably China, offer cheap labor. Many producers in the Asian region have increased their international competitiveness through currency depreciations; and they offer more developed physical infrastructure, and cheaper water, power, financial, information and communications services. Also, the competitors' legal and regulatory frameworks are relatively well developed and enforced, their tax and customs administrations are characterized by less corruption and red tape, and physical security is usually assured. Implementation of the comprehensive economic and structural reform program is aimed at easing these constraints; but the Government also remains committed to specific interventions to encourage industrial development. These are detailed in the next section.

Table 7.1 Investment Projects Approved by Sector
(Fixed Assets, $ million)

Sector	1996	1999	2000
AGRICULTURE	**120.4**	**63.8**	**9.8**
Agriculture	24.6	22.1	3.8
Agro-industry	28.6	21.6	5.9
Plantation	67.2	20.2	0
INDUSTRIES	**522.1**	**161.5**	**109.4**
- of which			
Garments	46.6	66.6	81.5
Textiles	8.7	57.8	4.1
Shoes	8.7	11.4	2.1
TOURISM	**115.0**	**171.8**	**79.8**
SERVICES	**111.0**	**50.8**	**70.3**
TOTAL	**842.4**	**447.9**	**269.2**

Source: Cambodian Investment Board.

In regard to minerals development potential, geological studies in the 1950s and 1960s indicated the existence of deposits of gold; gemstones (rubies, sapphires, and zircon); phosphates; limestone; bauxite, clay and sand; and gravel and granite. Gold and gemstones were regarded as commercially promising, but further exploration activity and mining development have been hampered by the absence of effective mining laws and regulations.

The outlook is for a sustained expansion of the industry sector, which is projected to grow at 7 percent per annum in the SEDP-II period (Table 7.2). Textiles and garments production is expected to continue to play a key role, growing at 6.5 percent per annum, and supported by solid 5 percent annual growth in food, beverages and tobacco production and 6.4 percent growth in wood, paper and publishing output. Output growth in the construction sector is expected to accelerate to 10.8 percent per annum as physical infrastructure, including tourism, projects come on stream. Electricity and water is also projected to expand at the rapid rate of 14.0 percent per annum as rural electrification proceeds. Mining output growth is projected to accelerate to 6.5 percent per annum, in large part reflecting the impact of construction sector growth on demand for quarry output.

The major threats to the projected outcome are the departure of essentially footless firms in the garment sub-sector, and loss of export markets as a result of a slowdown in the US economy and/or competition from lower-cost producers. In the latter regard, there are particular concerns about the possible damaging impact of more intensive regional competition arising from China's accession to the WTO, the US-Vietnam bilateral trade agreement granting Vietnam MFN access to the huge North American market, and the end of the Multi-Fibre Agreement. These risks must be addressed through market diversification and productivity improvements, and a search for new export goods and services.

7.3 INDUSTRIAL DEVELOPMENT STRATEGY

The Industrial Development Action Plan, 1998-2003 has two goals. First priority is given to the development of export-oriented industry, and second to the development of import-substituting production of selected consumer goods. Seven subsidiary objectives are identified:

- Promotion of labor-intensive industry

- Promotion of natural resource-based industry
- Promotion of small-scale industry and handicrafts
- Promotion of agro-industry
- Promotion of technology transfer and upgrading the quality of industrial products
- Promotion of the establishment of industrial zones
- Promotion of import-substitution of selected consumer goods industries.

The reasons for giving first priority to an outward-oriented industrial development strategy are that the small size of the domestic market in terms of population and purchasing power constrains opportunities for efficient production. Second, Cambodia does not have sufficient financial resources or managerial expertise to utilize its natural resource base optimally. Third, access to the technological innovation that underpins increasing efficiency and widening consumer choice can only come from integration with regional and global economies. Fourth, no country has a comparative advantage in producing everything and all countries can therefore benefit from co-operating and trading with others.

The promotion of labor-intensive manufacturing will continue to focus on the textile and garments sub-sector, where the ready supply of mostly female labor underpins cost competitiveness. However, the Government recognizes that retaining and increasing market share in an increasingly competitive international environment requires the upgrading of product quality, as well as greater productivity through improvements in technology and management. The development of better industrial relations within the established legal framework is needed; and ways of increasing the multiplier effect of garment manufacturing need to be investigated. Currently, most of the garment sector operates on cut, manufacture and tailor basis, with fabric and accessories (zippers, buttons, thread) being imported, and the purchase of local inputs limited to transportation and freight clearing services, utility-type services to run factories, and construction to build factories.

In order to diversify the manufacturing export base, the Government will encourage toy production, whether it be under license or through foreign direct investment. Such manufacturing is considered to be well-suited to the country's relatively large endowment of low skilled labor. A second area that will be promoted is assembly of electronic products, where all parts and components are initially fully imported.

The promotion of natural resource-based industry will focus on identifying and exploiting opportunities in processing of natural resources, including non-metallic mineral resources, timber, and fisheries. The development of animal and fish breeding may permit their supply as a raw material for reprocessing factories. However, the main prospects in this area are in the use of non-metallic resources for manufacture of construction materials. Specific local raw materials sites include:

- Limestone in Kampot Province
- Bauxite in Kandal and Kampong Speu Provinces
- Clay in Sihanoukville, Kompong Chhang, Kampong Cham, Koh Kong, Kompot, Kandal Province
- Kaolin in Kampong Cham, Kampong Chhang, Prey Veing, Sihanoukville, and Kratie Province.

On these resource bases, factory production of cement, ceramic floor tiles, brick roof tiles, and so on could be developed. Product quality, cost competitiveness, and other aspects of efficient operations would require imported technology and managerial expertise.

In regard to small-scale industry and handicraft production, the Government intends to give priority to the promotion of traditional art and crafts for the tourist market in both rural and urban areas. Again, it will be important to ensure sustained product quality. In addition, micro-finance is needed for small-scale businesses with little, if any, access to credit other than high-cost moneylenders.

The core strategy for agro-industry development is to grant concessional land plots to both domestic and foreign companies on a long-term basis, and to encourage contract growing by smallholders, who supply raw materials to a processing factory constructed on site. The main opportunities identified include:

- Textile factories created for the purpose of dying traditional cloth/silk (to increase the above-mentioned multiplier effect of garment production)
- Jute factories based on jute growing near the Tonle Sap river
- Sugar factories based on two to three sugar cane harvests annually in Battambang and Kampong Speu; and also use of waste products of sugar milling for power generation, fertilizer production, molasses and alcohol production
- Palm oil refineries
- Cashew nut processing factories drawing supplies from concessional and other land
- Rubber processing factories (involving corporatization and privatization of state-owned rubber farms and processing factories)
- Other factories producing tapioca starch, flour, and fruit products (juice, canned fruit, dried fruit).
- It is also considered possible to encourage expansion of small-scale tobacco producers and to thereby increase the supply of raw materials to the larger manufacturers.

These agro-industry initiatives require close co-ordination between the ministries of Industry, Mines and Energy, Agriculture, Fisheries and Forestry, and local authorities, as well as technical assistance in the full assessment of development potential. Strengthening the economic linkage between agriculture and industry within the context of sound environmental management is seen as essential to the creation of income and employment.

The promotion of technology transfer and the upgrading of products will require the Ministry of Industry to design and implement a quality control system for export products that sets internationally-accepted standards and includes laboratory control. In addition, the transfer of technology must be encouraged by establishing an appropriate legal and regulatory framework covering copyright, trademarks, and so on.

The creation of industrial zones is aimed at facilitating export development and creating employment by providing the high-quality infrastructure and utilities needed to encourage investment. Zones in suburban Phnom Penh and Sihanoukville would provide transport and communications, power and water, waste management, education and health facilities, and shopping complexes, along with minimal customs formalities and duty-free importation of business inputs. The spatial concentration of export-oriented enterprises would provide a business incubator environment in which ideas and experiences could be exchanged; and would also permit better control of environmental impacts of specific business activities. Other possible regions for industrial/export processing zones include Koh Kong and Poipet (both near the Thai border), Siem Reap (near Angkor Wat), Battambang, and Kompong Cham (the most populous province). The Government, with external assistance, will conduct feasibility studies during SEDPII and, where feasibility is established, proceed to full project formulation and implementation.

The promotion of import-substitution of selected consumer goods must be undertaken on the basis of careful feasibility studies, which establish whether or not there is a genuine prospect of a proposed industry becoming internationally competitive. Areas proposed for such investigation include:

- Development of the paper industry through the use of specific domestic raw materials (bamboo in Kratie; paper mulberry in the northeast and northwest; old rubber trees in Kampong Cham; hay; and waste from sugar mills)
- Development of a chemical industry producing fertilizer, caustic soda, sulphuric acid, acetic acid, and aluminium sulphate
- Production of a range of consumer goods including soap products, toothpaste, paints, plasticware, electrical accessories
- Development of metal processing starting with assembly line production of vehicles, water pumps, motor aggregates, and agricultural equipment; and moving to SME production of spare parts for bicycles, motor cycles, boats, ferries, tractors.

In general, the Government will support broad-based industrial development by:

- Encouraging expansion of the SME sector, especially through provision of micro-finance
- Improving the performance of State-Owned Enterprises through corporatization and privatization
- Stemming the flow of illegally imported products
- Reducing barriers to export such as export taxes and inefficient provision of trade facilitation services (e.g. licensing)
- Reducing barriers to importation of business inputs
- Providing infant-industry protection in carefully selected instances
- Establishing a National Institute of Standards that will ensure product quality matches regional and international standards
- Establishing a National Laboratory with the technical capacity to undertake physical, chemical, microbiological, and mechanical analyses of products that establish the quality and other specifications of these products
- Establishing an industrial property rights bureau that would protect new products, designs and technologies from illegal copy
- Promoting vocational training domestically and overseas
- Upgrading the legal framework in the areas of factory law, industrial zone law, patent and industrial design law, weights and measures, industrial safety.

Private sector organizations play a key role in identifying industrial development opportunities and constraints, participating in the policy formulation and monitoring processes, and promoting domestic and foreign private investment. The Phnom Penh Chamber of Commerce fulfils the following functions:

- Promoting Cambodia as an investment destination through provision of information and advice
- Provision of information to members on export markets, international laws and regulations, and products and technologies
- Working with Government to establish a good legal and regulatory framework for the private sector, and good business practices, standards, and grading systems
- Representing the interests of members in respect of laws, regulations and taxes
- Arbitrating in any inter-business disputes.

7.4 MINERALS DEVELOPMENT

The potential for minerals development discussed briefly in section 7.2 is neither fully understood nor realized. The geological studies of the 1950s and 1960s indicated the existence of deposits of gold, gemstones (rubies, sapphires, and zircon), phosphates, limestone, bauxite, clay and sand, and gravel and granite; and some of these deposits may form the basis of processing industries. Oil and gas exploration in the 1990s held promise but delivered nothing definitive. As Table 7.1 shows, approved mining projects fell from $5 million in 1996 to zero in 1999. Thus the first task of the SEDP-II period is to undertake a re-evaluation of mineral deposits (see Table 7.2). A second major task is to draft, proclaim and implement effective mining laws and regulations that simultaneously protect private investors and the environment.

In order to encourage petroleum sector development, the Cambodian National Petroleum Authority (CNPA), formed in January 1999, intends to establish the necessary regulatory and physical infrastructure. The Authority's objectives include:

- Providing a comprehensive legislative framework and a fair petroleum policy for the exploration and exploitation of oil and gas, comparable with international standards
- Putting in place the necessary incentives to promote and accelerate the exploration and exploitation of oil and gas by the private sector
- Establishing a National Petroleum Training Center to ensure that sufficient local personnel are trained and skilled in relation to petroleum and minerals potential and production
- Establishing a Petroleum Laboratory to provide physical and chemical data in support of the supervisory, research, exploration and evaluation activities of the CNPA
- Supervising and regulating activities relating to the exploration, production, refinement and sale of crude oil, natural gas and other derivative products.

THE PUBLIC INVESTMENT PROGRAM, 2001-2003

The level of investment programmed for the trade and industry sector in 2001-2003 is US$22.0 million, which represents 1.3 percent of the total allocation (Table 7.3). Table 9.2 presents the project breakdown of this amount. Programmed activities center on improving the provision of trade promotion and facilitation services. In the case of the mining sector, the focus is on making a better assessment of the development potential of mineral resources.

Table 7.2 Public Investment Program, 2001-2003 – Allocation to Trade and Industry ($'000)

Project	2001	2002	2003	Total
Industries Support Service				
Establishment of Productivity Center of Cambodia	350	750	0	1,100
Building Construction	329	329	329	987
Export/local Industry Trade Promotion Center	1,208	0	0	1,208
Import/Export Inspection & Fraud Repression	3,709	879	462	5,050
Establishment of 5 Regional Surveillance Centers	925	1,850	925	3,700
Food Safety & Quality Control System (ongoing)	165	0	0	0
Establishment of Industry Standards Bureau	1,298	3,360	3,662	8,320

Mining				
Evaluation of Mineral Deposits	750	750	0	1,500
TOTAL	8,734	7,918	5,378	22,030

Source: MOP, *Public Investment Program, 2001-2003*.

ANNEX 8: TRADE POLICY AND FINANCIAL SECTOR DEVELOPMENT

In order to facilitate the private sector-led development that is essential to the realization of development potential, the Government must fulfill a number of core functions effectively. These include ensuring good public security; formulating macroeconomic policies and maintaining macroeconomic stability; providing a well defined and well enforced legal framework (especially laws relating to property rights, businesses, commercial transactions, and labor); promoting technology (including information technology); providing adequate and efficiently managed transport and communications infrastructure and power and water supplies (whether by public or private agencies); promoting human resource development through investment in health and education and training; ensuring access to, and sustainable use and management of, natural resources; formulating and implementing taxation, trade, and investment policies in the context of integration with the global economy, membership of ASEAN and WTO, and sub-regional cooperation (greater Mekong region); and supporting financial sector development (including microfinance). This annex elaborates on Government's policies in respect of trade policy and financial sector development, and briefly presents actions proposed in the area of public enterprise reform.

8.1 TRADE POLICY [23]

The economic rationale for greater regional and global co-operation and integration has four dimensions. First, the local market is too small to generate a level of domestic activity that could eradicate poverty. Second, Cambodia does not have sufficient financial resources or managerial expertise to utilize its natural resource base optimally. Third, Cambodia needs access to the technological innovation that underpins increasing efficiency and widening consumer choice. Fourth, no country has a comparative advantage in producing everything and all countries can therefore benefit from co-operating and trading with others. Cambodia is active in sub-regional co-operation in the Greater Mekong sub-region. It has joined ASEAN and is preparing to join the World Trade Organization.

Since the mid-1990s, there has been a rapid revival in Cambodia's trade sector. Export growth has been an engine of economic growth and employment creation. However, trade must be made to contribute more fully to poverty reduction. In order for this to happen, the Government is committed to the formulation and implementation of a pro-poor trade sector strategy. The strategy is based on three key concepts: (1) shifting the balance of policy emphasis from issues of market access and macro-reforms for trade to micro-level issues of supply capacity; (2) focusing strongly on the delivery of capacity-building support at the export-enterprise and export sector levels (private sector development for trade); and (3) stressing the regionalization and geographical decentralization of export business within Cambodia.

Effective design and implementation of a pro-poor trade sector strategy requires the development of a new partnership framework among government, business, the donor community and civil society, which is aimed at driving the process of strategy formulation and implementation. It also requires explicit attention to making trade sector strategy deliberately supportive of the national strategy for poverty reduction.

[23] The Ministry of Planning is indebted to the Ministry of Commerce and its adviser, Thierry Noyelle of the International Trade Center, for input into this section.

The following subsection discusses the Integrated Framework that is currently serving as the mechanism for partnership between the Government and several of its development partners in the formulation of a pro-poor trade sector strategy. The following subsections discuss the current and potential contribution of the trade sector to poverty reduction; current bottlenecks and limitations to the more rapid and effective development of a pro-poor trade sector strategy; and the three concepts that serve as the foundation for formulating a pro-poor trade sector strategy. A concluding subsection presents an action plan.

8.1.1 THE INTEGRATED FRAMEWORK FOR TRADE

The Integrated Framework (IF) is the outcome of a commitment made by six multilateral agencies (IMF, ITC, UNCTAD, UNDP, World Bank, and WTO) to coordinate their assistance in the area of trade and investment integration into the global economy among themselves and with other multilateral and bilateral donors. The Integrated Framework came about as a result of the High Level Meeting (HLM) for LDCs organized by the WTO in October 1997 in Geneva. In turn, the HLM sought to fulfill a commitment made earlier by the developed countries to assist developing countries to make better use of the opportunities for development opened up by globalization.

The IF was reviewed by the six agencies and developing country partners in 2000. The review led to a renewed commitment by both parties to ensure that the initiative be successfully implemented. To ensure success, a new understanding also has emerged: whatever trade sector strategy is being formulated and implemented in each developing country under the IF, that strategy must be fully mainstreamed in the country's national strategy for poverty reduction. That is, the country's trade sector strategy must be fully supportive of and coherent with national objectives of poverty reduction.

Government recognizes that at the end of the SEDPI period there were elements of a trade sector strategy, but not a full-fledged strategy mainstreamed into the national poverty reduction strategy. Consequently, early in the SEDPII period, the Government intends to work within the IF and with Cambodian stakeholders to develop such a pro-poor trade sector strategy. In the donor community based in Cambodia, UNDP has taken the lead to ensure effective implementation of the IF and coordination among local donors. UNDP-Phnom Penh and the International Trade Center (Geneva) are cooperating and working directly with the Government and others to support work in this area.

8.1.2 THE CONTRIBUTION OF TRADE TO POVERTY REDUCTION

Economic growth during the SEDP-I period was characterized by slow growth in agriculture, rapid growth in industry (especially manufacturing), and erratic growth in the services sector, so that agriculture's share of GDP declined while that of industry rose markedly. Growth in domestic exports was particularly striking at 34 percent per annum between 1996 and 1999, largely reflecting the expansion of garment exports. As a result, domestic exports rose from 6.3 percent of GDP in 1995 to 23.4 percent in 1999. However, agriculture still contributes over 40 percent of GDP and, more importantly, still employs over three-quarters of the labor force. In contrast, manufacturing and services, which contribute 58 percent of GDP, employ only about one-quarter of the labor force; while the export sector perhaps employs no more than 6 to 7 percent of the labor force. Manufacturing, services, and exports, as discussed below, are overwhelmingly urban sectors. Thus, an overwhelming share of Cambodia's labor force remains concentrated in the slowest growing sector of the economy.

Cambodia needs to create around 240,000 new jobs each year over the next five years in order to absorb young people entering the labor market and re-deploy demobilized soldiers. The economy, in recent years, has not been able to produce jobs at such a high rate and the

results have been a tripling of official unemployment rates (1.9 percent in 1994 to 7.1 percent in 2000) and, more significantly, a considerable increase in rural underemployment. Simply put, more and more rural workers are working to produce a slow-growing agricultural output, with a consequent decline in output per head.

The solution to this problem lies in a combination of two developments. First, more rapid growth in agricultural output through increases in productivity and the development of new markets is required. Second, more rapid employment growth in the manufacturing, service, and export sectors is needed, while ensuring that output and productivity increases are sustained in those sectors. The export sector has a major role to play in breaking the vicious circle of rapid population growth, growing underemployment, stagnating income, and poverty.

Cambodia's current export base remains extremely narrow (Table 8.1). Exports of garments dominate the sector (nearly $600 million in 1999) followed by logs and sawn timber, tourism, and remittances of expatriate Cambodian workers – with annual exports ranging between $100 and $200 million each.[24] Other exports are small, though a few are promising. Exports are also concentrated in a few markets. Such narrowness and concentration is to be expected, given that the export base has only recently been rebuilt; but it points to the challenges of developing new export sectors and new destinations, while consolidating the current base.

Findings presented in Table 8.2 are revealing. The table compares estimates of value added created by workers in the garment sector, the tourism sector, and expatriate Cambodian workers with an estimate of value added created by all Cambodian workers for all sectors combined. Workers employed in the export sector create between 70 percent and 250 percent more value-added per worker than does the average worker. Clearly in national income terms alone, exports make a major, positive contribution to the economy.

However, there is room for improvement in the export sector's contribution. The multiplier effect of exports remains low. Most of the garment sector operates on a CMT (cut, manufacture and tailor) basis, with fabric and accessories (zippers, buttons, thread) being imported and the purchase of local inputs limited to transportation and freight clearing services, utility-type services to run factories, and construction to build factories. There is very little processing of exported wood or rubber. Expatriate workers have no direct impact on other sectors of the economy, except for some banking services to transfer back remittances. Of all current exports, tourism is likely to be the one with the greatest multiplier impact. Typically, hotels and restaurants must purchase local food and other inputs, including electricity and telecommunication. In addition, tourism generates demand for construction services. These demands for domestic goods and services by the tourism sector are probably at the low end of the scale at present; but this is common to an emerging tourism sector. The experience of other countries shows that, over time, the multiplier effect increases as domestic suppliers emerge to meet the demands from the sector. The lesson is that Cambodia, in the years ahead, needs to focus on how best to increase the domestic multiplier effect of existing export sectors and/or develop new export sectors with higher value-added content and greater potential for domestic multiplier effects.

[24] Repatriated income of overseas Cambodian workers is used to estimate their contribution to national value added. An estimate of such income flow was developed using Ministry of Labor estimates of the number of overseas Cambodian workers (legal and illegal) and several estimates of annual repatriated income per overseas worker. In international trade terms, remittances of overseas workers are counted as an export since they represent the sale of a service by a Cambodian (i.e. resident) to a non-Cambodian (i.e. non-resident) be it an employer in Malaysia, Thailand or anywhere else. Likewise, according to the same accounting principle, tourism is counted as an export since it represents the sale of a service by a Cambodian resident or entity (a hotel, a restaurant, a local taxi, etc.) to a non-resident.

Table 8.1 Leading Export Sectors ($ million)

Sector	1995	1998	1999	Main Destinations
Garments	28	420	580	70%US, 25%EU
Logs & Sawn Timber incl. illegal exports	185	178	n.a.	Malaysia, Thailand
Tourism	100	130	150	Japan, France, US, PRC
Labor Services	n.a.	n.a.	100	Thailand, Malaysia
Rubber	41	25	n.a.	
Shoes		9	n.a.	
Rice		6	n.a.	Thailand, Vietnam
Fish	2	4	n.a.	US, Australia, Singapore, Taiwan, Hong Kong

Source: Ministry of Commerce estimates.

Currently, the export sector is overwhelmingly located in Phnom Penh, Siem Reap, and Sihanoukville, which inevitably increases the income gap between these areas and the rest of the country, while contributing positively to national income. In order to prevent a worsening of this gap, there is a need for a regionalization and decentralization of the export production base in an efficient manner. In addition, export development must incorporate sustainable management practices in order to avoid environmental degradation that ultimately undermines the natural resource base (for example, logging and fish farming).

Table 8.2 National Income Per Worker, 1998/1999

Item	Income ($)
GDP per Cambodian Worker (all sectors)	570
Value-added per Garment Worker	1,333
Repatriated Income per Expatriate Cambodian Worker	1,000
Value-added per Tourism Worker	2,000

Source: Ministry of Commerce estimates.

8.1.3 CONSTRAINTS ON EXPORT DEVELOPMENT

In Cambodia, as elsewhere, constraints on fuller participation in the global economy arise in two areas: (1) conditions of market access and macro-policy reforms; and (2) supply capacity of domestic firms.

In regard to the first area, as part of its process of accession into ASEAN/AFTA, Cambodia has rationalized its import tariff structure into four major bands: 50 percent for a range of consumer goods; 35 percent for industries viewed as “infant industries”; 15 percent for capital goods; and 7 percent for inputs into domestic production. In addition, virtually all imports are charged a 4 percent consumption tax. It is estimated that almost 80 percent of imports are subject to tariffs 15 percent or less. Only 7 percent are subject to the highest tariff of 50 percent. As part of AFTA, and within the framework of the Common Effective Preferential Tariff Agreement (CEPT), Cambodia is set to reduce gradually the import tariffs it applies to its ASEAN trading partners. Nearly all tariffs should be eliminated by 2008 (2003 for most AFTA members). Cambodia’s accession to the WTO, under negotiation in 2001, should also

contribute to the wide-ranging reduction in import tariffs. Some export taxes are maintained to encourage exports of finished products over exports of raw materials. These range between 5 percent and 10 percent and are applied to such exports as raw wood, unprocessed fish, natural rubber and like commodities. Also, some import and export licensing exists, including import licenses for security-related goods, precious metals, and pharmaceuticals, export licenses and quotas for wood, and export licenses for rice for food security purposes.

ASEAN/AFTA provides for immediate Most Favored Nation (MFN) status among its members. In addition, Cambodia has secured MFN with the United States, the European Union, and some twenty other trading partners through a series of bilateral agreements. The major piece of unfinished business in this area is accession to the WTO, which will provide Cambodia with secure MFN access to the entire WTO community. Cambodia completed its Memorandum of Foreign Trade Regime for the WTO in mid-1999 and filed its official reply to the 200 or so questions raised by WTO members in late 2000. The next step will include the tabling of a draft offer of bound tariffs and service commitments, followed by bilateral negotiations with individual WTO trading partners. The Government expects these negotiations to start around April 2001. WTO members are likely to demand from Cambodia a number of legal and regulatory reforms in line with the WTO Agreements before it can accede, and a commitment to a tight schedule of further reforms to be carried out immediately following accession. The consensus is that there is a large amount of work ahead as Cambodia's legal and regulatory framework in the areas covered by the WTO Agreements is rather rudimentary. At present, Cambodia does not have anti-dumping, countervailing duty, or a safeguard regime as allowed under these agreements. It is at the early stage of putting in place a regulatory infrastructure for Sanitary and Phytosanitary (SPS) controls and technical standards. A framework law has been introduced, but a body of regulations and technical standards is still missing. Camcontrol, a government agency under the authority of the Ministry of Commerce, is responsible for SPS. With the assistance of FAO, Camcontrol has set up a testing facility for chemical analysis and is planning to set up one for microbiology testing. Under the WTO, Cambodia will need to set up Inquiry Points for SPS and technical barriers to trade (TBT).

Customs valuation is based on a reference price method implemented by SGS, the Swiss pre-shipment inspection firm. In effect, all goods with an f.o.b. value above US$4,000 must be pre-inspected (nearly 80 percent of all shipments) and customs value is estimated by SGS using reference prices for similar shipments. GATT customs valuation is based on invoice value (instead of reference value), but requires fairly extensive human resources and data capabilities at the customs of the importing country to eliminate fraud on both the importer and the customs side. Implementation of GATT valuation will require a significant investment in training and systems in Cambodia's customs. Also, Cambodia is still in the process of implementing the ASEAN Harmonized Tariff Nomenclature (AHTN) which is fully consistent with the WTO classification. At present, customs is receiving some assistance from an IMF expert and from Malaysia on various aspects of customs reform and upgrading.

With the exception of natural monopolies (railways, electricity distribution, and public water supply) that are operated by the Government, the private sector dominates the service sector and competition tends to be the rule. This should facilitate Cambodia's accession into the WTO. Still, on the regulatory side, the legal framework for most service sectors remains rudimentary.

The current investment law is under revision. In general, the law is fairly liberal with respect to attracting foreign investment and attracting investments in the export sector. Nevertheless, the view is that the current investment regime can be improved, clarified and simplified.

Other macro-measures conducive to the development of the trade sector include a relatively stable macroeconomic environment (low inflation rate, stable exchange rate due to extensive dollarization). Mobilization of fiscal revenues remains low, however.

It is in regard to the second area of supply capacity of domestic firms that there is most room for easing the constraints on export development. As noted above, there is a need to diversify the current export base by developing new sectors and new products, and by diversifying destinations for existing exports. There is also a need to increase the value-added content of exports by increasing the domestic multiplier effect of current exports – wherever feasible – or by moving up the value-added ladder through targeting new export products and services characterized by higher value-added content. These steps must be taken in conjunction with the consolidation of the current export base. This is especially true of the garment sector where there are concerns about the possible damaging impact of more intensive regional competition on Cambodian producers arising from China's accession to the WTO, the US-Vietnam bilateral trade agreement granting Vietnam MFN access to the huge North American market, and the end of the Multi-Fiber Agreement. However supportive the macro-environment might be, experience of other developing countries shows that much can and must be done by the Government and the business community to focus institutional and human resources on the identification and development of new export products and markets. Private sector development must be a central component of export development; and other locations must be brought into the export nexus, especially rural areas where the needs for job creation, income growth, and poverty reduction are the greatest.

The competitiveness of Cambodian enterprises and products in world markets is a function of the cost structure of their production, their productivity, and exchange rates. The cost structure is influenced in part by the cost of infrastructure services (telecom, utilities, industrial estates, etc.), by the cost of trade facilitation services (transportation, freight clearing and forwarding), and by direct or indirect export taxes. Some of those costs are high in comparison to those of competitor countries. Wages and labor productivity are other elements of competitiveness. Compared to competitor countries, productivity of labor in Cambodia tends to be low as a result of a number of factors, including the relatively low skill level of the labor force and the incentive structure for productivity increases. There is a serious need to develop conditions to promote more rapid productivity growth in the export sector.

Developing new export products and markets requires putting in place a range of trade support services (trade information, trade promotion, trade financing, and others) to assist exporting enterprises as well as fostering a range of export skills within those enterprises. The current institutional and human capacity in Cambodia in this broad area is inadequate. Developing new export products and markets also requires entrepreneurial capacity that is very limited. Even if domestic savings are mobilized for investment in the trade sector, there is a shortage of "soft" capital – that is the know-how that entrepreneurs need if they are to succeed. How to promote the transfer or development of this know-how into Cambodia is a concern of the Government and the business community.

For the most part, issues relating to supply capacity have received little attention from policy-makers and donors. This is to be rectified during the SEDPII period through the development of a pro-poor trade strategy aimed at identifying a range of interventions that are supportive of business sector development for export.

8.1.4 THREE CONCEPTS FOR A PRO-POOR TRADE STRATEGY

The diagnosis in the preceding subsections points to the formulation of a pro-poor trade sector strategy on the basis of three concepts:

1. Shifting the balance of policy emphasis from issues of market access and macro-reforms for trade to issues of supply capacity
2. Focusing strongly on the delivery of capacity-building support at the export enterprise and export sector levels
3. Stressing the regionalization and geographical decentralization of export business within Cambodia.

A focus on market access issues and the macro-environment for trade stresses building up a country's comparative advantage. While comparative advantage is a necessary condition for successful integration into the global economy, it is not sufficient. The development record in many countries shows that turning export potential into true export businesses does not happen automatically. This is due to an absence of supply capacity that may be the result of a variety of microeconomic factors affecting the formation or expansion of competitive businesses and export products. There is therefore a need to shift from a focus on comparative advantage to one on enterprise competitiveness.

A specific example of the need for a shift in focus relates to the environment for labor relations at the enterprise and sector level. Cambodia has put in place an initial legal and regulatory environment for labor relations in export industries. This framework now is linked closely to the country's bilateral trade agreement with the United States through a labor clause, which places Cambodia at the vanguard of a trend that is sure to develop more broadly in years to come. Consumers from developed countries (the US and European Union in particular) are putting growing pressure on their governments and on multinationals to focus trade and investment on countries that offer a protective environment for labor. Cambodia should be able to use its early positive record in this area to attract more export business.

However, the legal framework and culture for labor relations at the enterprise level remain relatively undeveloped. Mechanisms for collective bargaining and labor-management dialogue are only slowly evolving, so that strikes remain widely used in enterprises, even to address the most minor grievances. This is unduly costly and disruptive of business. Also, the existing labor relations framework and culture does not yet promote a wage structure incorporating direct linkages between wage increases and productivity increases. Consequently, there is no strong mechanism encouraging productivity growth. This is a particular problem for export sectors (including garments) where competition is intense and where there is a need for productivity to rise if Cambodian exporters are to remain cost competitive.

Another example is in the area of access to know-how and technology, especially for agriculture and agro-processing. Thailand and Malaysia have risen to the top of global markets in various agro-processing exports, yet little of that experience has trickled down to Cambodia. How best to develop mechanisms, such as joint-ventures or others, that promote this kind of know-how transfer into Cambodia is an area requiring close attention.

Cambodian export enterprises suffer from high trade facilitation costs (transport, customs, inspections, financing, etc.) that undermine their competitiveness in global markets. This also needs to be addressed.

Diversifying the destination of export products and developing new export products require identification of market and product potential and sectoral trade action plans to support business development. It also requires the availability of a variety of support services to enterprises. These may include strong producer associations, trade information and intelligence services, promotion services, export financing services, services to help enterprises meet technical standards and packaging requirements of export markets, and others. Cambodia's existing base of such trade support services remains extremely

rudimentary. Other micro-level issues may emerge from further investigations undertaken as part of the formulation of the pro-poor trade policy.

The shift in emphasis toward supply capacity constraints does not mean that all macro-level issues have been resolved. As already noted, there is a substantial amount of work to be done to secure Cambodia's accession to the WTO. Also, the Government is at an early stage of negotiating a series of bilateral agreements to expand its trading opportunities. Much remains to be done to increase the number of such agreements and to deepen their coverage (for example in such areas as investment protection, double taxation, conditions for labor exports).

That said, supply capacity needs to be increased at the enterprise and sectoral level, in order to strengthen and diversify the export base. Special attention must be given to increasing domestic value added content of individual exports through increasing the domestic value-added content of existing exports (such as wood processing, tourism), and through developing new export sectors characterized by a higher value-added content than existing ones. Tree crops, specialty crops, agro-processing, fish farming and processing, skilled labor services (e.g. software development services) provide opportunities along these lines. Much work remains to be done during the SEDPII period to identify a reasonable basket of feasible new export products and markets, and to ensure conditions are there to permit their successful development. In addition, requirements for consolidating current exports must also be looked at closely in order to ensure they continue to be durable sources of income generation. This is especially the case for the garment sector, as noted above.

In addition to increasing the value-added content of exports, Cambodia needs to regionalize and decentralize its export sector if the benefits of globalization are to be distributed more widely within the country. One way of achieving this is by supporting export development in the areas of agriculture, agro-processing, fish-farming, and tourism (especially new tourism products in regions others than those already targeted). Another way is through the development of special economic zones or export processing zones to attract industrial and agro-processing exports to new regions (for example near the Thai or Vietnamese borders, or in new coastal regions). The Government, with assistance from the Government of Japan, has done some preliminary work on the latter approach. During SEDPII, feasibility studies will be conducted on both avenues for pro-poor export development and, where feasibility is established, initiatives will be implemented.

8.1.5 Capacity Building for Formulation of a Complete Pro-Poor Trade Strategy

The Government's intention during the first year of SEDP-II is to build on existing activities and to launch a series of new activities aimed at the following outcomes:

- Establishing ownership of a pro-poor trade strategy that is founded on a partnership between Government, donors, the business community, and civil society
- Identification of clear, achievable policy objectives around which to organize a pro-poor trade strategy
- Formulation of a realistic action plan for tabling, with the trade strategy, at key international meetings.

There are five sets of activities aimed at developing ownership and partnership. First, a steering committee will be established to oversee the formulation, implementation, and monitoring of a pro-poor trade sector strategy. This steering committee is to be chaired by the Ministry of Commerce and will include representatives from other ministries, business, civil society, and the donor community. Second, the existing inter-ministerial mechanism for trade

policy formulation and implementation, including the work required for WTO accession, will be strengthened. Third, a consultation process with the Business Forum will be initiated in order to identify how best to integrate potential inputs of Forum working groups into the export strategy formulation process. Fourth, effective use of the donor consultation process will be made in order to develop a consensus around priorities for trade and development in Cambodia, and to launch a process of resource mobilization to support capacity building efforts that will be required to implement the pro-poor export strategy. This process will encompass the proposed steering committee, local individual consultations, the LDC-III meeting in Brussels in May 2001, the Tokyo CG meeting in June 2001, and the Conference on Financing of Development in the second quarter of 2002. Finally, the trade sector strategy will be mainstreamed into national policy and planning processes.

A number of activities are planned that will constitute the basis for setting trade development priorities and formulating an action plan. These activities include:

- Identification of potential new export products and markets
- Identification of the institutional and human resource requirements for the successful development of the new export products and markets and the strengthening of existing ones; and formulation of a series of sectoral export action plans
- In support of the first two activities, preparation of a series of sectoral issues papers
- Completion of an initial assessment of trade support services gaps and needs, and identification of institutional and human resource requirements in this area
- Evaluation of trade facilitation issues and identification of institutional and human resource requirements to address gaps in this area
- Examination of requirements and possible supportive measures for improving productivity of export enterprises
- Examination of possible institutional mechanisms to develop, promote, strengthen or transfer business know-how in target export sectors
- Reviewing the feasibility of decentralized special economic zones or export processing zones
- Coordination with the Foreign Investment Advisory Service/CDC team in charge of the ongoing review of Cambodia's investment legal and promotion framework
- Mapping out legislative and regulatory gaps that are likely to require reform in order to ensure WTO accession
- Mapping out ongoing and recent technical assistance in areas related to trade and development.

All the foregoing activities will be implemented in partnership with all stakeholders, especially those in the business community. Business involvement is especially important to completion of the first three sets of activities. The donor community will also be invited to participate, in order to understand better the nature of the needs and gaps and to share experience from other countries. In addition, the concern for poverty reduction will be central to each of the proposed diagnoses.

8.2 FINANCIAL SECTOR DEVELOPMENT

Following implementation of the National Bank of Cambodia's bank re-licensing program in 2000, the financial sector consists of 20 commercial banks, between 60 and 100 micro-finance institutions, currency exchange bureaus, and five insurance companies including the Government-owned Cambodian National Insurance Company (CAMINCO). There is no formal capital market.

The legal and regulatory framework consists of three core elements. The Central Banking Law (1996) assigns NBC the power to license, de-license, regulate and supervise banks, financial institutions, auditors and liquidators. The Banking Law (1999) establishes the legal framework for the organization of banks and other financial institutions, as well as strengthening NBC's supervisory powers. The third elements are the Prakas Relating to the Implementation of Law on Banking and Financial Institutions. However, there are gaps and deficiencies in the laws concerning accounting, insurance, negotiable instruments, secured transactions, commercial enterprises, bankruptcy, contracts and commercial credit. These adversely affect the efficiency and effectiveness of the financial sector. In particular, there is no specialized commercial court with clear jurisdiction and prescribed procedures; and there is no formal, contract-based credit culture.

The financial sector is a crucial element of the enabling environment of the private sector. If it functions well, the financial sector mobilizes savings and efficiently allocates them to both short-run and long-term investment projects. A well-developed financial sector infrastructure and institutions also facilitates the attraction of long-term foreign direct investment, and can contribute to the achievement of macroeconomic stability. In these ways, the financial sector promotes private sector-led economic growth, which increases productive employment, wages, and government revenue, and thus reduces poverty directly and indirectly (through higher public spending on services and infrastructure for the poor).

There has been significant growth in financial sector activity in 1999-2000, but there is still enormous scope for future financial sector development. At the beginning of the SEDPII period, Cambodia has a relatively low rate of banking intermediation, with bank loans and deposits equivalent to only 8 and 10 percent of GDP, respectively. The percentage of cash to total bank assets is relatively high at 19 percent, so that just 66 percent of total assets are earning a return. In addition, the volume of non-performing loans is high and rising; and lending spreads are high, with interest rates on loans in excess of 20 percent. Further, a considerable amount of currency is held outside the banking sector because it is concentrated in Phnom Penh. The human resource level of the NBC is low: just 21 percent have tertiary level qualifications, and there is a general lack of basic skills in banking, accounting, statistical analysis, and management.

The two major elements of financial sector development are:

- Financial sector infrastructure development and capacity building aimed at strengthening legal, accounting, regulatory, supervisory standards and frameworks, and financial institutions
- Financial sector liberalization aimed at improving market structure and competition by removing distortions imposed by government.

The second element is relatively advanced in Cambodia, where the market structure is reasonably competitive (except in the case of insurance). The policy emphasis is therefore on developing financial sector infrastructure and associated capacity building, within the context of ongoing macroeconomic stability. In particular, development of the banking system requires the establishment of a body of laws covering a range of legal and financial issues, including contracts, bankruptcy, collateral, and loan recovery. These laws need support from an ethical and professional body of lawyers and judges, and an efficient court system that makes enforceable decisions. Financial reporting must be based on international accounting and audit standards, so that investors and supervisors are able to evaluate the financial condition of banks, and so that banks themselves are able to monitor the financial condition of entities to which they lend. In addition, market discipline based on financial transparency and good corporate governance is needed. Government policies and decisions that influence the flow of funds in the financial system should be clear.

Merely stating the requirements for financial sector development in the last paragraph demonstrates the magnitude of the development challenge in this area. During 2001, the NBC, in partnership with stakeholders, will formulate a Financial Sector Development Plan based on a framework that specifies a logical sequence for financial sector reforms. The process of formulation will involve a series of workshops and meetings between NBC staff, Government officials, and representatives of the private sector, which will culminate in a Tripartite Meeting aimed at obtaining the commitment of top policy makers to the proposed reforms. It is expected that implementation of an agreed Financial Sector Development Plan would be supported by program loans from the Asian Development Bank.

The areas and activities to be considered for inclusion in a final Financial Sector Development Plan are as follows:

8.2.1 BANKING SECTOR

Improved bank intermediation requires a sound financial information system, commercial law to support creditors' property claims, and greater public confidence in banks — all of which must be complemented by human resource and organizational capacity building. Key actions under consideration include:

- Establishment of a secured transaction law that permits banks to take enforceable security interests in collateral
- Establishment of a reliable public registry for collateral
- Establishment of a centralized credit information reporting agency that provides reliable credit histories
- The recognition by NBC of the Association of Bankers of Cambodia (ABC), and independent operation of a strengthened ABC
- The longer-term development of laws and regulations enabling lease financing.

8.2.2 FOREIGN TRADE BANK

Following the legal separation of the Foreign Trade Bank (FTB) from the NBC in July 2000, a process of commercialization and ultimate privatization is underway, with assistance from Price Waterhouse Coopers and the International Finance Corporation.

Key actions for the short- to medium-term are:

- Implementation of the operational restructuring plan that is under preparation in early 2001
- Implementation of a comprehensive training program for FTB staff in accounting, asset liability management, credit risk management, and information systems
- Completion of a thorough analysis and reclassification of the FTB loan portfolio and establishment of adequate provisions
- Establishment of an accounting system capable of generating financial statement according to International Accounting Standards.

8.2.3 BANK SUPERVISION AND REGULATION

Although the legal framework for independent bank supervision is in place, and the IMF and other donor agencies have assisted in improving bank surveillance and regulation, there is considerable room for improvement.

Key actions include:

- Completion of bank liquidation and restructuring, including mechanisms for monitoring bank progress towards compliance with memoranda of understanding specifying recapitalization requirements and for timely corrective action
- Reconciliation of old Prakas with new Prakas, and the issuing of clarifying guidance to commercial banks
- Full implementation of new Prakas that establish binding ratios, limits and principles for managing risk, operations, and organizational structure
- Development of procedural manuals for on- and off-site bank examinations
- Undertaking a feasibility study for establishing a public safety net such as a lender of last resort facility and a formal deposit insurance arrangement
- On the basis of a diagnostic study, formulate a plan to develop NBC's supervisory capabilities so that they comply with the Bank for International Settlement's (BIS's) Core Principles of Bank Supervision
- Expansion of NBC's public relations efforts, including consultation with the commercial banks over legal, regulatory, procedural and policy changes affecting the banking sector
- Re-examination of the minimum capital and capital ratio requirements to determine all effects on the banking system and to prepare for compliance with the revised BIS Capital Accord
- Establishment of an anti-money laundering regulation that incorporates compulsory reporting of large or dubious cash transactions; and in line with this regulation reconcile and revise the bank secrecy regulations
- Establishment of legal protection for supervisors against lawsuits for actions taken in fulfillment of their duties.

8.2.4 CONFIDENCE, PAYMENT SYSTEM, SAFETY NET

Despite the necessary and well-designed bank re-licensing and capitalization program, there is still a lack of public confidence in the banking system, and a specific concern over the implications of bank closures for the safety of deposits. Building confidence requires the development of a reliable payment system and a banking safety net.

Key actions to be considered include:

- Adoption of a payment law that sets a minimum legal basis for the payment system and formalizes current regulations
- A feasibility study of the issuance of short-term Government bills
- Promulgation of a comprehensive negotiable instruments law
- A review and amendment of existing laws to impose criminal charges for check fraud
- Establishment of an intra-day reporting system to enable members to check net settlement during the working day, and of a mechanism for reporting dishonored checks
- A feasibility study to analyze the legal and institutional requirements for trading money market instruments and establishing an inter-bank funding market
- Establishment of a plan to phase in a requirement for commercial banks to publish audited financial results quarterly in widely-circulated newspapers
- A feasibility study of establishing a lender of last resort role for the NBC by creating a bank rediscount window facility
- A feasibility study of alternative plans for a deposit guarantee system including funding possibilities.

8.2.5 MICRO-FINANCE INSTITUTIONS

At the end of 1999, between 60 and 1000 micro-finance institutions lent to around 334,000 borrowers and accounted for just over 7 percent of outstanding loans. Seven institutions have dominated the micro-finance sector, which since 1998 has included a Rural Development Bank (RDB) that promotes provision of finance to the agriculture and rural sectors. The sector is supervised by a Micro Finance Supervision Unit (MFSU) within NBC, and draws support from various donors. The activities of RDB and MFSU will be supported during SEDPII by a $20 million ADB loan with a technical assistance component. This project will encompass the following activities:

- Provision of credit lines to finance income-generating activities of the poor
- Support for rural credit and savings schemes of licensed micro-finance institutions
- Provision of project management support for the RDB
- Credit training for RDB
- Capacity building for MFSU in NBC
- Training for micro-finance institutions
- Technical assistance for improving accounting and reporting systems in micro-finance institutions.

8.2.6 LEGAL INFRASTRUCTURE

As noted above, financial sector development requires a body of laws covering a range of legal and financial issues, including contracts, bankruptcy, collateral, and loan recovery, as well as professional lawyers and judges and an efficient and effective court system. The drafting of a Civil Procedures Law and Civil Code will be completed within the first two years of the SEDPII period, with assistance from the Japan International Cooperation Agency. This will establish the legal framework ensuring certainty in contracts and property rights. Other key actions include:

- Adoption of a Companies Law (expected in 2001)
- Submission of a draft Commercial Contract Law that is consistent with the incipient Civil Code
- Submission of a draft Commercial Arbitration Law
- Establishment of a Special Commercial Court to handle commercial disputes and enforce any new commercial laws
- Adoption of a Secured Transaction Law in order to facilitate the use of collateral in connection with commercial lending operations, and establishment of a supportive public registration system
- Adoption of a Bankruptcy Law by late 2001
- Drafting and Adoption of an Insolvency Law
- Adoption of a Negotiable Instrument Law to provide the legal basis for the development of an inter-bank market and payment system
- Submission of an Accounting and Audit Law implementing full IAS and International Standards on Auditing (ISA) for financial reporting purposes.

8.2.7 ACCOUNTING AND AUDIT

Provision of reliable accounting and audit information is essential for the proper functioning of the financial sector. International accounting firms employing expatriate accountants are the dominant suppliers of this information at present, and there is a need to develop domestic sources that are professionally organized and competitive. This will involve the promotion of accounting and auditing associations; tertiary-level business schools; financial institutions,

insurance, and capital market regulators; tax authorities; a National Audit Authority; and business courts. An enabling legal infrastructure must be established.

Key proposed actions include:

- Revision of the Banking Law to consolidate responsibility for regulation of the accounting and auditing profession in the MEF, with a view to future delegation to a national accounting association
- Creation of tax accounting standards based, where feasible, on IAS
- Adoption of IAS and ISA in full with compliance phased in a scheduled fashion base on company type, with a requirement that commercial banks adopt IAS and ISA and an appropriate chart of accounts in 2001 or 2002
- Begin translation of IAS, ISA, and Code of Ethics into Khmer under the supervision of the accounting profession and with permission of the International Federation of Accountants (IFAC) and the International Accounting Standards Committee
- Issuance of guidance on the preparation of consolidated financial statements for banks
- Establishment of an association of accountants and auditors, including committees on education and ethics, that would lead the standardization of education on IAS and ISA
- Consolidation of responsibility for establishing accounting standards for financial reporting in the MEF or in an independent accounting standards board
- Seek entry into the Confederation of Asian and Pacific Accountants and the IFAC
- Adoption of a code of ethics that preferably complies with requirements of IFAC and the Confederation of Asian and Pacific Accountants
- Enhancement of the capability of the tax department to conduct tax compliance audits
- Establishment of governmental audit capacity through comprehensive training, staff secondment to other countries, and/or the use of technical assistance.

8.2.8 CAPITAL MARKETS

In July 2000 a Securities Exchange Regulatory Working Group was established under the Office of the Council of Ministers to establish the foundations of a securities regulatory body and a securities exchange. A Capital Market Law is being drafted to create a securities exchange commission that ultimately would establish a fully operating capital market. The proposed new law will be crafted in conformity with the Investment Law and the Banking Law. It is recognized that a long-term process is required in which the preconditions of an accounting, legal, and financial infrastructure and organized legal and accounting professions have to be met.

Key actions include:

- Completion of preparation of new laws and amendment of existing ones including contract law, company law, bankruptcy law, and investment law
- A feasibility study of registered companies to determine their interest in, probable timing for, and qualifications for public issuances of securities and the listing of such securities on a future securities exchange
- Production of a sequenced introduction of legislation to create a capital market and associated regulatory mechanism, once the above-mentioned legal infrastructure is in place.

8.2.9 INSURANCE

Under the new Insurance Law passed in June 2000, the Government-owned CAMINCO has a monopoly on insurance underwriting in Cambodia, with four companies serving as its agents.

A restructuring and corporatization program will be completed during SEDPII that is expected to split CAMINCO into an insurance company and an insurance regulator. Establishment of an adequate regulatory framework and capacity building in specialized areas of accounting and auditing will be necessary.

Key actions include:

- Establishment of an insurance regulator within MEF and development of the regulator's capacity for inspection, possible rate regulation, and prudential requirements
- Establishment of regulations for the operations of private insurance companies
- Amendment of current legislation to enable a competitive insurance market
- Designing a plan to incorporate CAMINCO either as an insurance company or as a reinsurance company, whether alone or in a joint venture with a foreign company
- Development of financial reporting rules for insurance companies
- Planning guidelines on the provision of mandatory insurance in a competitive market

8.2.10 CAPACITY BUILDING MECHANISMS

Human resource development is essential for the development of the financial sector, but it must be acknowledged that the capacity of the capacity-building institutions themselves is limited. It is therefore imperative that the efforts of the universities and business schools, the commercial banks, the ABC, the Center for Banking Studies in NBC, and MEF are coordinated.

Key actions under consideration include:

- Establishment of a mechanism for coordinating donor assistance to educational institutions
- A feasibility study for providing technical assistance to ABC for the creation of a professional training program for bankers
- Possible conversion of the Center for Banking Studies into an independent, commercially-oriented training institute for bankers
- Establishment of a merit-based system for hiring, promoting, and retaining qualified staff within NBC
- Establishment of a compulsory professional training program in NBC for entry-level staff
- Establishment of a comprehensive program of capacity building and training for staff of NBC's Bank Supervision Department
- Improvement of the general education content of the business curricula in universities and business schools
- Development of faculty councils, advisory councils, and trustees at tertiary educational organizations
- Creation of professional development programs for faculty staff at tertiary educational organizations, so that they keep abreast of developments in their respective fields
- Development of research capacity at tertiary educational organizations through partnership with universities of established research standing
- Encouragement of the production of scholarly research papers for publication and presentation at national, regional, and international forums.

8.3 PUBLIC ENTERPRISE REFORM

In the mid-1990s, there were over 100 State-Owned Enterprises (SOEs) in Cambodia, the most notable being the Rubber Plantations (KAMPEXIM), the Cambodian Petroleum Company, Electricite de Cambodge, 'La Regie des Eaux (potable water supply), the Cambodian Railway Company, the Port Authority at Sihanoukville, the Kampuchea Shipping Agency, and SOKJUTE (rice bag production). These SOEs were a collective drain on the government budget, and in 1995 a Privatization Law was adopted and a committee established to begin a process of privatization. The process has been slow and non-transparent, however, and needs to be revitalized during the SEDPII period. Appropriately handled, transfer of ownership and management to the private sector will reduce the drain on public resources, increase productivity and thus savings, and lead to the provision of lower-price, higher-quality services in a more competitive environment. The creation of an adequate regulatory framework is essential in cases where the SOE to be privatized is a monopoly.

As noted in section 8.2.2, the Foreign Trade Bank is undergoing a process of restructuring and corporatization with a view to possible privatization by the end of 2001. In addition, the Government has announced its intention to corporatize eleven utilities and infrastructure SOEs that will remain in the public sector, and to implement restructuring plans for seven rubber plantations, one of which is to be privatized by the end of 2001.

ANNEX 9: INFRASTRUCTURE AND UTILITIES

Development of the transport and communications systems and improved delivery of water and power supplies is essential to the achievement of economic growth with equity and social development. The private sector identifies the poor condition of the road network and the high cost of power as major constraints to growth. Farmers observe that access to markets is severely restricted, and that farm-gate and input prices are lowered and increased, respectively, by the high cost of transport. Access of rural communities to basic services is limited or even prevented outright: the 1993-1994 Transport Rehabilitation Study concluded that large parts of the country were effectively isolated, including four provinces that could not be accessed at all. Rehabilitation and reconstruction efforts have been made in subsequent years; but full rehabilitation/reconstruction of the national road network was expected to take two decades, given resource constraints and disruptions caused by annual flooding. The unusually severe floods of 2000 caused much damage to infrastructure. This annex presents the Government's strategies and programs for the transport, communications, electricity, and water supply sectors.

9.1 OVERVIEW OF THE TRANSPORT SECTOR

The current transportation system consists of the road network, railways, inland waterways and ports, and air transport. The Ministry of Public Works and Transport (MPWT) has responsibility for land and water transport, while air transport is a joint responsibility of MPWT (airstrip construction), the Ministry of Land Management, Urbanization and Construction (terminal buildings), and the State Secretariat of Civil Aviation (air transportation). For domestic traffic, the road network is dominant, as data presented in Table 9.1 show. Almost 65 percent of passenger kilometers per year and 69 percent of the freight are carried by road. Boats carry about 15 and 20 percent of the passengers and cargo, respectively; and rail carries the remaining 20 percent of passengers and 10 percent of cargo. International seaports at Sihanoukville and Phnom Penh are the key gateways linking the country to regional and international markets, handling an estimated 1.6 million tons of cargo in 1999. International airports in Phnom Penh and Siem Reap are also important gateways for a growing passenger traffic.

The Government's overall development goal for the transport sector is to establish an efficient (that is, low cost and competitive) transport network that maximizes the contribution of transport services to economic growth and regional cooperation. The subsidiary objectives are:

- To rehabilitate, maintain, and expand transport infrastructure to facilitate the integration of markets and maximization of trade, giving priority to rural development, domestic and international trade routes, and tourism facilities
- To improve the efficiency of use of existing infrastructure and institutional performance
- To increase revenues from the transport sector to cover an increasing share of maintenance and development costs
- To strengthen institutional capacity in sector planning and management
- To promote increased private sector participation in financing transport infrastructure development.

The strategies for the sub-sectors and for organizational and regulatory reform are presented in the following subsections.

Table 9.1 Transport Volume by Mode of Transport (Annual Average, 1995-1999)

Transport Mode	Passenger Km Per Year (million)	Ton Kilometers Per Year (million)
Road	146.75	274.00
Rail	45.00	41.00
River	35.00	80.00

Source: MPWT

9.2 ROAD TRANSPORT

The road network consists of 4,165 km of national roads; 3,615 km of provincial roads; and 31,000 km of rural and strategic roads. The main national roads connect most provincial centers and the major border crossings with Phnom Penh. National roads 1 and 5 are designated as part of Asian Highway A1 (or ASEAN Highway AH1) linking Thailand, Cambodia, and Vietnam; while national roads 4, 7 and part of 6 are considered parts of Asian Highway A6-AH6 linking Cambodia with Laos. National road 48 is designated as part of ASEAN Highway AH11 linking Bangkok port with Sihanoukville port.

National Road 4 (NR4) linking Phnom Penh and Sihanoukville was built with American assistance in the 1960s; but most roads were constructed for light vehicular traffic in the 1920s and 1930s, with about 2,400 km paved with asphalt or bituminous material. Over the years, much of the pavement has disappeared as a result of neglect, civil war, flooding and increasingly heavy traffic. Data in MPWT show that during the period 1994-1999 the cargo volume transported by road grew at an average annual rate of 18 percent, and passenger traffic more than tripled. It is estimated that over half the primary road network is in urgent need of rehabilitation. During the wet season, many roads are impassable and many areas of the country are isolated.

The policy objective of rehabilitating and maintaining transport infrastructure is to be achieved by giving first priority to road rehabilitation and an associated improvement in operations and maintenance capability. The Five Year Road Master Plan has three main aims:

1. To rehabilitate and reconstruct the main national roads, thereby improving land transport throughout the nation
2. To build road links to neighbouring countries, thereby opening up some of the more remote areas of the country to international trade and tourism
3. To develop a sustainable road maintenance program, thereby assuring that investment in road rehabilitation and reconstruction generates sustainable benefits.

Supportive and additional aims are:

- To provide all provincial capitals, tourist areas, and major growth poles with all-weather road access
- To ease traffic congestion in and around Phnom Penh by undertaking a study of options for ring roads and bypasses, with a view to formulating and implementing appropriate projects
- To undertake emergency rehabilitation of provincial roads in order to better link provincial towns with district capitals and urban areas
- To make supplementary investments in bridges and ferry sites

- To ensure as far as possible that the maintenance of designated national and provincial roads, bridges and ferries, and the control and regulation of vehicles, be self-financing from vehicle registration charges, tolls, international transit charges, fuel levies, or other related taxes and duties
- To ensure that, except in special circumstances, all provincial, urban and rural roads are maintained from locally generated funds.

During the SEDP-I period a number of road projects were completed with external assistance. These included the reconstruction of NR4 from Phnom Penh to Sihanoukville; the reconstruction of NR6 from Phnom Penh to the junction with NR7 at Skun; the reconstruction of NR7 between Skun and Kompong Cham; the construction and rehabilitation of a number of bridges, mostly along NR6; and the rehabilitation of several ferries, provision of new ferries, and improvements to ferry sites at Neak Lang (NR1), Prek Kdam (NR6A), and Tunlebit (Kompong Cham). In total, only 350 km of road were reconstructed to international standards between 1992 and 2000. Construction of a bridge across the Mekong at Kompong Cham was begun in August 1998, with assistance from the Japanese Government, and is scheduled for completion in 2002.

During SEDP-II, it is proposed to accelerate the rate at which the road network is rehabilitated and made serviceable by adopting a policy of staged construction, by simplifying contracting procedures, and by employing short-life (three-year) rehabilitation techniques. Early in 2001, external assistance for the rehabilitation of 1,400 km was secured. The Plan target is to rehabilitate a further 4,700 km, staged and costed as shown in Table 9.2. First priority will be given to the 2,800 km of the National Road system that connects Phnom Penh to the provinces. Second priority will be given to an additional 1,900 km of the National Road system that more directly links adjacent provinces and connects small communities with towns and cities. This road rehabilitation will strengthen the linkage between the three broad economic zones or triangles into which the country is divided for transport planning purposes. These are:

1. Tourism Zone, within the triangle formed by Siem Reap, Preah Vihear, and Kompong Thom
2. Industrial Zone, defined by the coastal region of the country
3. Agriculture Zone, covering the eastern region of the Mekong river, including Rattanak Kiri and Mondul Kiri.

Essentially, the prioritized road rehabilitation program aims at completing the remaining links in the following key transport corridors:

- Corridor 1 (East-West): NR1 and NR5 connecting Bangkok, Thailand with Ho Chi Minh City, Vietnam via Poipet, Sisophon, Battambang, Phnom Penh, and Bavet;
- Corridor 2 (North-South): NR 4 and NR7 connecting the southern port to southern Laos via Phnom Penh, Kratie, Stung Treng, and Voeum Kham;
- Corridor 3 (East-West): NR48 connecting NR4 with Thailand's eastern seaboard via Koh Kong;
- Corridor 4 (Northern East-West): various national roads connecting Bangkok to port of Quinhon, Vietnam via Poipet, Siem Reap, Stung Treng, and O Yadav.

Table 9.2 Road Rehabilitation Program, 2001-2005

Year	Length Rehabilitated (km)	Estimated Cost ($m)
2001	992.7	49.635
2002	963.0	48.185
2003	947.6	47.380
2004	896.6	44.800
2005	933.0	46.650
Total	4,732.9	236.650

Source: MPWT

The individual projects to be undertaken in the first three years of the Road Rehabilitation Program are presented in Table 11.3. Ongoing projects will cost a total of $236.6 million, of which 71 percent will be financed by donors and 19 percent by the Government, leaving 10 percent unfunded at the start of SEDPII. None of the high priority capital projects costed at a total $290.7 million had identified funding sources early in 2001.

The Government recognizes the importance of a road maintenance program that will sustain the condition of the road network through effective integration into the annual budgetary process; and has estimated the costs of such a program. These estimates are presented in Table 11.4. In the medium to long term, technical assistance will be sought to assist in addressing the issues of effective planning of road maintenance; the financing of maintenance through road user charges and establishment of a road fund; the development of a financial and physical monitoring system; and the enforcement of vehicle weight regulations.

9.3 RAILWAY TRANSPORT

The rail system consists of a 386 km Northern line constructed between 1929 and 1942, which runs from Phnom Penh to Poipet in the north west; and a 246km Southern line built in the late 1960s, which runs from Phnom Penh to the deep sea port at Sihanoukville. A 1997 study of Royal Cambodia Railways (RCR) established that the condition of the Northern line was very poor, and that the link between Sisophon and Poipet near the Thai border was so damaged as to make it unusable at any speed. The Southern track was in reasonable condition, but the formation was poor and 70 percent of sleepers needed replacing. Rolling stock was old and inadequately maintained, with only 13 diesel locomotives, 7 diesel shunting locomotives, and one rail car in service. RCR was effectively running as a (subsidized) government department and lacked any long-term planning. Rail traffic nonetheless showed signs of increasing as peace and security were established. Table 11.5 shows the growth in freight tonnage in the late 1990s, and the decline in passenger traffic.

The RCR Strategic Plan lists five policy objectives:

- Continued rehabilitation of physical infrastructure
- Increased income generation in order to support rail operations
- Promotion of competition with other transport modes in the context of a market economy
- Promotion of the establishment of other rail services and increase the connections with major customers such as dry ports (see below), in order to promote the transport of containers and petroleum
- Construction of a 255 km link between Phnom Penh and Lock Ninh (Vietnam) that would integrate Cambodian rail into the regional railway system (Singapore-Kunnming rail link).

For the short- to medium-term, four key activities are identified:

- Rehabilitate the Phnom Penh - Sihanoukville line
- Reconstruct the Sisophon-Poi Pet line (48 km)
- Repair and rehabilitate rolling stock, stations, signal facilities and communication systems, modernizing equipment where appropriate
- Rehabilitate the Phnom Penh – Battambang – Sisophon line.

If these can be undertaken successfully, growth rates in the transport of goods and services are envisaged of 11 and 13 percent, respectively.

Long-term development programs include the construction of the 255 km line from Phnom Penh to Lock Ninh in Vietnam, a 105 km line from Sisophon to Siem Reap, installation of modern repair and maintenance equipment, and human resource development.

In 1997, it was estimated that a total investment of $7-10 million would be needed to allow safe operations and increased capacity of 7-8 trains per day on the Southern line. This range consisted of $3.5 million for repair and restoration of the formation, track, and bridges; $3-6.2 million for rolling stock, depending on whether old Northern line or new stock was purchased; and $400,000 for equipment to maintain tracks and rolling stock. The estimated tonnage that could be carried annually was 730,000, assuming not only that physical capacity would be increased (through reducing stops and thus increasing speed), but also that improved management of RCR would make rail competitive with road transport (particularly for containers, fuel and cement). No future was seen for a viable passenger service. The Public Investment Program, 2001-2003 makes provision for $53.4 million, following a feasibility study undertaken with assistance from Japan.

The Northern line runs through rich agricultural areas that are poorly served by the road network, and potentially connects with the Thai railway system, becoming part of the proposed Trans Asian Railway linking the ASEAN sub-region with China. The PIP makes provision for a $29.1 million reconstruction of the Sisophon-Poi Pet section. An additional $26.0 million is included for rehabilitation of the rest of the line, but a feasibility study is required prior to any investment.

Table 9.3 Programmed Level of Road Investment ($ million)

PIP No.	Project	2001	2002	2003	Total	RGC	External	Unfund-ed
On-going								
16	RN1, Asian Highway	13.7	5.0	0.3	19.0	4.7	14.3	0
211	Rural Infrastructure Improvement	6.0	1.3	0	7.3	1.8	5.5	0
254	Mekong Bridge-Kampong Cham	11.1	0.1	0	11.2	0	0	11.2
278	Road Rehab.	6.7	11.0	11.5	29.2	2.9	26.3	0
284	Primary Road Restoration	31.8	29.7	25.3	86.8	21.7	65.1	0
327	Provincial Town Improvement	0.8	1.4	1.4	3.6	0	3.6	0
660	National Transport Network	16.8	15.0	15.0	46.8	11.7	35.1	0
662	Rural Infrastructure	4.6	4.0	4.0	12.6	3.1	9.4	0
459	NR6	3.0	5.0	0	8.0	0	0	8.0
460	Bridge 26	2.0	2.5	0	4.5	0	0	4.5
246	NR48	4.0	3.6	0	7.6	0	7.6	0
Sub-total		100.5	78.6	57.5	236.6	45.9	166.9	23.7
High Priority								
35	Maintenance Capability	0.5	0.8	1.0	2.4	0	0	2.4
297	Rural Rehab.	2.0	2.0	2.0	6.0	0	0	6.0
430	Rural Maint.	1.0	1.5	2.0	4.5	0	0	4.5
458	NR7	3.0	6.0	5.0	14.0	0	0	14.0
463	Bridge NR5	3.0	4.0	3.0	10.0	0	0	10.0
467	NR5	0	0	0.7	0.7	0	0	0.7
472	NR11	0	0	0.6	0.6	0	0	0.6
473	Emergency	5.0	8.0	7.0	20.0	0	0	20.0

	repair							
474	Rural Rehab.	1.0	1.2	1.2	3.4	0	0	3.4
645	Small Repairs	15.0	15.0	15.0	45.0	0	0	45.0
647	Maintenance Capability	3.7	0	0	3.7	0	0	3.7
465	Chong Khneas River Port	3.2	6.0	0	9.2	0	0	9.2
New	Prov./rural	1.0	1.5	20.0	22.5	0	0	22.5
New	National Rehab.	49.6	48.2	47.4	145.2	0	0	145.2
New	National Maint.	0.5	1.0	2.0	3.5	0	0	3.5
Sub-total TA		88.5	94.2	106.9	290.7	0	0	290.7
New	Phnom Penh Master Plan	1.0	1.3	0.4	2.4	0	1.4	1.0
New	Feasibility study NR5, NR6	1.0	0	0	1.0	0	0	1.0
New	Transport Planning	1.6	2.4	2.8	6.8	0	0	6.8
Sub-total		3.6	3.7	3.2	10.2	0	1.4	8.8
TOTAL		**192.6**	**176.5**	**167.6**	**536.7**	**45.9**	**168.3**	**323.2**

Source: MOP, *Public Investment Program, 2001-2003*; MPWT

Table 9.4 Maintenance Costs of Rehabilitated Road Network

Year	Length of Road (km)	Estimated Cost ($'000)
2001	350	525.0
2002	1,342	1,021.0
2003	2,305	1,998.5
2004	4,107	3,887.0
2005	5,004	5,707.8
Total		13,139.3

Source: MPWT

Table 9.5 Traffic Volume on Rail Transport

	1993	1994	1995	1996	1997	1998	1999
Goods ('000 tons)	129.8	60.8	48.8	75.9	169.8	294.2	268.4
Passengers ('000)	881.0	484.0	523.6	568.9	530.3	437.6	429.1

Source: MPWT.

Table 9.6 Programmed Level of Rail Investment ($ million)

PIP No.	Project	2001	2002	2003	Total	RGC	External	Unfund-ed
High Priority								
232	Thai Rail Link Restoration	9.1	10.0	10.0	29.1	0	0	29.1
256	Rehab. Of Southern Line	11.3	24.9	17.1	53.4	0	0	53.4
636	Rehab. Of Northern Line	0	8.0	18.0	26.0	0	0	26.0
Total		20.4	42.9	45.1	108.5	0	0	108.5

Source: MPWT

9.4 PORTS AND INLAND WATERWAYS

Sihanoukville port is the only deep sea port in the country, and handles almost 70 percent of imports, which are dominated by building materials. Gross throughput of the port grew from 741,000 tons in 1996 to 1,262,000 in 2000 — an average annual increase of 14 percent. Originally built in 1954, its facilities include a 290 meter long jetty that can accommodate vessels with a 7.5-8.5 meter draft, and which was rehabilitated with an ADB loan in 1996; a 350 meter quay built in 1965 that can accommodate vessels with a 10 meter maximum draft; and warehouses, a container yard, and an open space area for storage. Current capacity is 11,000 GRT break-bulk and 1 million tons of cargo annually.

With assistance from Japan, a study for urgent rehabilitation of the port has been undertaken that proposes an investment package of $42.6 million, with $40.8 million allocated to the first three years of SEDPII (Table 9.7). The package includes construction of a new 400 meter quay for general cargo and enlargement of 11 berths in 2001; preparation of 50 hectares of land for a free trade zone in accordance with manufacturing development strategy (annex 7); dredging the basin to a depth of 8.5-9 meters; 508,000 cubic meters of land reclamation; development of a container yard and cranes; development of the road, power, and lighting networks in port administration; construction of a container terminal with three 450 meter berths; and construction of a bulk cargo terminal with two 300 meter berths.

Table 9.7 Programmed Level of Ports and Waterways Investment ($ million)

PIP No.	Project	2001	2002	2003	Total	RGC	External	Unfund-ed
On-going								
293	Sihanoukville Urgent Rehab.	15.7	16.9	8.2	40.8	0	40.8	0
High Priority								
469	Dredging Mekong Channel	1.0	2.0	1.5	4.5	0	0	4.5
466	GIS Database Regional Mekong	2.5	4.6	0	7.0	0	0	7.0
470	Improvement Tonle Sap	0.1	10.1	1.6	11.8	0	0	11.8
638	New Cargo Wharf	0.3	1.0	1.0	2.3	0	0	2.3
Total		**19.6**	**34.6**	**12.3**	**66.4**	**0**	**40.8**	**25.6**

Source: MPWT

The oil terminal 15 km to the north of the Sihanoukville port was state-owned until its sale to a joint venture, Sokimex Jetty Co., in 1996. Construction of a new 1 km jetty to handle vessels up to 46,000 tons and of a pipeline to on-shore storage facilities was completed in early 2001.

The throughput of Phnom Penh port declined from 603,000 tons in 1994 to 459,000 tons in 1999 after peaking at 658,000 tons in 1997. About three-quarters of the tonnage is imported fuel, which is still the cause of some concern over possible environmental damage from accidental oil spillage. The port also plays an important role as a hub for inland water transport and the export of rubber and timber products. Following rehabilitation of the two port sites in 1996, with World Bank and Japanese assistance, there are no investment projects planned for SEDPII.

A third port at Koh Kong near the Thai border is now handling about 150,000 tons of cargo per year, and may increase in importance, depending on growth of international trade and the effects of rehabilitation of roads NR5 and NR48. This will be monitored during the Plan period.

In addition to the sea ports, there are three “dry ports” or Inland Container Terminals. One is a joint venture between the Port of Singapore and the Sihanoukville Port Authority that has been in operation in Phnom Penh since late 1998. The others are a private joint venture and a local operation, both in Phnom Penh.

Although there has been a shift from river to road transport, the four main navigable waterways converging in Phnom Penh remain important means of moving cargo and people. The lower reach of the Mekong can accommodate vessels of up to 2,000 dead weight tons all year round, provided dredging is undertaken. The upper reach of the Mekong between Phnom Penh and Kratie and onward to Stung Treng can only accommodate much smaller vessels because of a lack of dredging. The Tonle Sap also takes smaller vessels, with a particular concern over siltation of the entrance to the Great Lake. The Bassac river is usable by vessels under 100 tons and services trade with the delta area in Vietnam. The Public Investment Program for 2001-2003 includes provision for feasibility studies leading to projects that involve dredging of the Mekong Channel, development of a Mekong GIS database, and improvement of the entrance to the Tonle Sap’s Great Lake (Table 11.7).

9.5 INSTITUTIONAL AND REGULATORY REFORM

MPWT is mandated to fulfill five major functions, which are:

1. To prepare laws and issue regulations, directives and standards necessary for improving the performance of the transport sector, in order to improve the living standards of the people
2. To prepare medium and long term plans for public works and transport in order to facilitate economic development
3. To lead, manage and control the planning and execution of public works by provincial departments, including cities and parastatal organizations, and covering road, river, sea and rail transport
4. To provide skills training to MPWT personnel, and to keep abreast of new technology in public works
5. To maintain technical co-operation with foreign countries, international organizations, and NGOs in order to promote development of the transport sector.

MPWT is constrained in its efforts to fulfill these functions, however, by a lack of a policy framework that clearly defines objectives and organizational responsibilities; by a lack of technical and managerial skills; and by overstaffing at junior levels. The general civil service reform to be undertaken during SEDPII will address these issues through the undertaking of the functional analysis and rightsizing in order to increase wages and salaries.

The current legal and regulatory framework for the transport sector is limited to sub-decrees on the maximum gross weight of vehicles and a traffic code. The Government acknowledges the need to develop the framework in respect of multi-sectoral transportation administration, so that a comprehensive transport policy and plan may be formulated that establish priorities for the use of limited funds. There is also a need to develop the framework in respect of specific sub-sectors.

Cambodia has acceded to only one of the 11 international conventions on land transport facilitation in ESCAP resolution 48/11. As a member of ASEAN, it has acceded to several agreements on mutual recognition of driving licenses and inspection certificates, on facilitation of goods in transit, and protocols for road vehicles. It has also acceded to the Greater Mekong Sub-regional Agreement to facilitate cross-border traffic between Cambodia, Thailand, Lao PDR, and Vietnam. Bilateral agreements to similarly facilitate cross-border traffic have been entered into with the governments of Lao PDR and Vietnam.

9.6 CIVIL AVIATION

As is the case for other transport sub-sectors, civil aviation has suffered from civil conflict and past neglect due to lack of financial and manpower resources. For civil aviation to grow, the basic infrastructure requirements, comprising airlines, airports, air navigation and regulations have to be met. These requirements can be met only when there is a Government policy framework, Civil Aviation Law, a capable organization, competent manpower, appropriate management practices, equipment and appropriate facilities. Rehabilitation of civil aviation is especially important because it will permit access to rural and remote areas poorly served by other transport infrastructure.

Civil aviation is the responsibility of the State Secretariat of Civil Aviation (SSCA). The Secretariat oversees international and domestic air services and the international and domestic airports. This encompasses responsibility for airport maintenance, operation and development; the provision of air navigation including telecommunication; the safety of air navigation of aircraft including airworthiness; the control and management of air traffic; the registration of aircraft; the certification of airport and aircraft operation; licensing of aircrews; providing civil aviation security services at the international and domestic airports; and the general regulation and control of civil aviation in the country. The SSCA is the only designated agency of the Government for international civil aviation affairs, and is the counterpart for the International Civil Aviation Organization (ICAO). In this capacity, SSCA has signed 13 bilateral Air Services Agreements and Memorandums of Understanding, and six ICAO Conventions, and will be the key agency involved in negotiating air linkage agreements in the Greater Mekong Sub-Region. The Secretariat reports to the Council of Ministers.

There has been considerable growth in civil aviation. Royal Air Cambodge was established in December 1995 by the RGC in equity partnership with Malaysian Helicopter service. In the year 2000, five private air carriers — Kampuchea Airlines, President Airlines, Royal Phnom Penh Airways, Royal Khmer Airlines and Siem Reap Angkor Airways — were registered. International airlines operating included Thai Airways, Bangkok Airways, Vietnam Airlines, Laos Air, Silk Air, Malaysian Airlines, Dragon Air, China Southern Air, Mandarin Airlines, and Shanghai Airlines. As of December 2000, these airlines operated 189 international scheduled flights a week and 155 domestic scheduled flights a week to and from Phnom Penh International airport, and 182 international and domestic scheduled flights a week to and from Siem Reap international airport. The number of passengers carried by international airlines to and from Cambodia was 742,704 in 2000, showing an 18 percent increase over the previous year. The total volume of international air cargo was 10,203 tons — an increase of 2.7 percent over the previous year. On domestic routes, passenger traffic rose 23 percent in 2000 to 212,162. The volume of domestic air cargo carried in 1999 fell 18 percent to 10,203 tons. The number of aircraft over-flying Cambodia's FIR in 2000 was 10,034, a 4 percent increase over the previous year.

International aviation in the Southeast Asian region is expected to show healthy growth, especially out of Bangkok as the city asserts itself as a commercial center and as an

alternative regional hub to Singapore and Kuala Lumpur. In general, future tourism growth can be expected to generate a growing demand for international and domestic air services.

9.6.1 AIRPORTS

Timely development of airports, especially of international and domestic hub airports, is essential if infrastructure bottlenecks to socio-economic development are to be avoided. At present, seven domestic airports are operated, managed, and maintained by SSCA (Rattanakiri, Mondulkiri, Stung Treng, Battambang, Koh Kong, Previhear and Kratie). BOT/BOO/BOOT arrangements are being sought for upgrading five of these — Koh Kong, Stung Treng, Rattanakiri, Previhear, and Mondulkiri.

Pochentong International Airport in Phnom Penh is contracted out for operation, management and development on a build-operate-transfer (BOT) basis to a French-Malaysian consortium. In April 2000, the Government entered into an agreement that provides for a concessionaire (SCA) to operate Siem Reap Airport and share revenue with the Government. In the long-term, it is expected that a new international airport will be constructed at Siem Reap to meet the demands of growing air traffic and for development into a profitable and self-financing operation. In conjunction with the development of leisure resorts and a free trade zone in Sihanoukville, there is the promise of development of Kang Keng airport as a regional and international airport. For Kompong Chhang airport, global international freight services are planned as part of further developments under an ongoing BOT/BOO agreement

9.6.2 REGULATORY FRAMEWORK

Civil Aviation Law is a prerequisite for civil aviation operations. It empowers the organization to honor its international obligations and facilitates its internal management. The essential components of such a law are organizational structure and authority and provisions regarding flight safety, airport certification, airworthiness, licensing of air crew and technicians, air navigation services, air transportation, and security. This law has not been enacted so far. Governing regulations to ensure flight safety, airworthiness, and bilateral air service agreements and security mechanisms have been prepared for temporary use; but as the Civil Aviation Law has not been enacted, these regulations have not been officially promulgated.

Flight safety is an integral national and international requirement for civil aviation operations. Cambodia is a signatory to the Chicago Convention on International Civil Aviation (1945) and is obliged to comply with flight safety requirements. These include legislation/regulations relevant to flight safety, certification of operators through appropriate personnel licensing procedures, airworthiness of aircraft and licensing of technical personnel, accident and incident investigation systems, and implementing aviation security mechanisms. Adequate instruments do not exist at present to ensure desired level of flight safety and security in civil aviation in Cambodia.

Airport certification and aviation security are of critical importance. These include technical standards of airport construction and installation of equipment and security of air passengers, cargo, vital installations and buildings at airports, and aircraft, both on ground and in the air. Though substantial support and training have been provided and literature made available to the SSCA by the ICAO, the implementation is inadequate. Security and technical standards need strengthening and personnel need to be trained in multi-disciplinary areas on the highest priority.

Air transport policy governs air transportation. Economic regulations, inherent in this policy, are essential for financially viable commercial aviation operations, both international and domestic. The immediate purpose of such a policy is to formulate Bilateral Air Services

Agreements, without which international air operations are not totally credible. SSCA has followed standardized bilateral air services agreements. A model has been provided by ICAO for use by SSCA in formalizing the agreements with the air carriers currently operating in the country, and for executing these with operators. However, the model has not been implemented so far.

9.6.3 AIR NAVIGATION SYSTEM

On the basis of the ICAO Regional Air Navigation Plan, Cambodia has assumed responsibility for, and exercises control over, Cambodia's Fly Information Region (FIR). The air traffic in Cambodia is divided into a dual route system. These are international Air Traffic Services (ATS) and domestic ATS route systems. International route in Cambodia is above altitude 19,500 ft and domestic below this height. There are seven designated control zones in Cambodia (Pochentong, Battambang, Stung Treng, Kampong Chhang, Siem reap, Kong Keng and Koh Kong), including several locations designated as restricted air space where Notice To Airmen (NOTAM) and temporary danger areas have been established. Air space at different levels has been classified, and formally promulgated through aeronautical information Publications. The existing traffic, except at Pochentong and Siem Reap, does not justify provision of a control service or control zones.

In the medium term it will not be practicable to provide a centralized flight information service in Cambodia. It will be sufficient if primary air traffic services like prevention of collision between aircraft and between aircraft and ground obstructions, orderly flow of traffic, and information for safe and efficient conduct of flight and notification for search and rescue are provided. Flight information services above 19,500 ft are provided by area control center, Bangkok (Thailand) and Ho Chi Minh (Vietnam), and for below this level by six control towers in Cambodia. There is no Automatic Terminal Information Service (ATIS). There are procedures currently available for traffic information broadcast by aircraft and for aircraft operating outside the control area. The procedures for flight planning and flight following of aircraft are available and are adequate. All elements of Aerodrome Control Service in Siem Reap and Pochentong are adequate. The only airports that require dedicated ATC services are Pochentong and Siem Reap. The Government has declared an objective of setting up an Area Control Center, which will require advance action by the SSCA. Air traffic controllers are presently adequate and reasonably efficient. The Aeronautical Information Service (AIS), that is, the means to acquire, store, update, and promulgate aeronautical information, is inadequate. Relevant statistics regarding most activities are not available.

In December 2000, the Government and SAMART Corporation entered into an agreement whereby SAMART established a company under Cambodian law to develop and operate the civil air traffic control and air navigation system in the country, on a Build, Cooperate and Transfer basis. The agreement provided for a 70:30 split of profits between SAMART and the Government, respectively.

9.6.4 HUMAN RESOURCES AND ORGANIZATIONAL DEVELOPMENT

In addition to the external constraints on SSCA operations imposed by the absence of legal authority, governing regulations, delegation of administrative authority, and financial independence, SSCA confronts some internal human resource constraints. Human resource management is central to organizational efficiency and effectiveness, and in civil aviation involves relatively sophisticated skills. Considerable in-house and overseas training of the 502 SSCA personnel has occurred in technical fields, management information systems, disaster management, civil aviation management, financial accounting, and English language; but skills available still fall short of demand. In addition, there is a need for organizational development: presently, there are organizational objectives, but little in the way of policies and procedures,

job descriptions, and coordination mechanisms. There is also a need for an improved financial management information system that encompasses capital and current operations. Within these constraints, progress has been made however, with substantial external assistance. The provision of air navigation and security services at Pochentong and Siem Reap airports, and the management of the seven domestic airports, have been satisfactory.

9.6.5 POLICY FRAMEWORK FOR CIVIL AVIATION DEVELOPMENT

The medium-term goal of civil aviation policy is to provide safe, high-quality, and cost-effective civil aviation services in a competitive environment, so as to maximize the contribution of civil aviation services to economic growth and international and regional cooperation.

The Government ‘s supporting objectives are:

- To establish a legal and regulatory framework
- To develop commercially-oriented airports
- To develop and where appropriate privatize air navigation services
- To introduce a new Community Navigation Surveillance/Air Traffic Management (CNS/ATM) system
- To develop human resources to cater to the specialized economic, technical, and operational requirements of civil aviation
- To transform SSCA from a single centrally-controlled Government agency into separate autonomous civil aviation entities
- To develop information technology

The development of the civil aviation sub-sector therefore is seen to hinge on further improvement and upgrading of civil aviation infrastructure, development of the regulatory and legal framework of civil aviation, and efficient use of resources in the airports and air navigation services. The civil aviation infrastructure requirements have been identified in the 10-year Civil Aviation Development Framework, which was adopted by the Government in 1998. Strengthening of the legal and regulatory framework will encourage additional public/private partnership and alternate financing, management and technology strategies. Increased efficiency is a priority and a prerequisite for additional major capital investment in this sub-sector. Enhanced cost recovery from civil aviation users and institutional capacity building to improve safety, security and management are also critical.
Actions to be taken in 2001-2002 include:

- Enactment of a Civil Aviation Code (Law) and preparation of empowering rules and regulations for technical, operational and economic standards
- Preparation and enactment of an Airport Development Law that covers the establishment, management and sharing of airport costs and contributes to promotion of civil aviation development
- Preparation and enactment of an Airport Development Special Account Law that provides for the establishment and administration of a Special Account for developing civil aviation infrastructure
- Updating the Civil Aviation Development Framework to incorporate the latest developments in civil aviation with particular emphasis on:
- New CNS/ATM Systems
- Flight Safety Oversight capability development
- Human Resource Development to meet SSCA’s multifaceted needs
- Provision of a Civil Aviation Management Information System
- Review of Strategy Plan, Business Plan and Financial Packages for Donors

Capacity building and human resource development, to cater to the specialized technical requirements of civil aviation through:

- On the job training by technical advisers
- Long-term appointment of an International Civil Aviation Adviser for SSCA
- Establishing an in-house training center and staffing it appropriately
- Providing fellowship training to junior and senior officials overseas
- Education/training of young entrants in local schools/institute

Transformation of SSCA from a single centrally-controlled integrated Government function into separate autonomous civil aviation entities as follows:

- Regulatory and Safety authority responsible for setting, monitoring, inspecting and enforcing safety, security and economy standards throughout the civil aviation sector (airlines, airports and air navigation services provider)
- An autonomous ANS state-owned corporation that would provide commercial, customer focused services throughout the whole Phnom Penh FIR.
- Autonomous Airport Corporation(s) responsible for airport operations throughout Cambodia on a commercial basis.

Mobilization of resources for:

- Provision of navigation, communication and meteorological equipment, new Area Control Center including the preparation of a new CNS/ATM system
- Upgrading and privatization of the selected airports: Koh Kong, Preah Vihear, Stung Treng, Rattanakiri, and Mondulkiri.
- Introduction, provision and development of information technology
- Establishing a training center in Cambodia and overseas fellowships for skills development.

Actions for the medium term include:

- Privatizing and strengthening air navigation services and installing the desired navigation and communication equipment
- Improving the enacted Civil Aviation Code and updating of rules and regulations for technical, operational and economic standards
- Upgrading designated airports and giving them a commercial orientation
- Introduction of a new CNS/ATM system.
- Continuing development of information technology
- Continuing overseas training and broadening of the in-house training facilities and equipment.

Substantial domestic and external financial and technical resources will be needed to satisfy civil aviation infrastructure needs. It is expected that external funding agency support and public-private partnerships will be forthcoming. Table 9.8 shows the indicative public investment program for 2001-2003. Aviation is allocated $27.1 million, or 7.6 percent of the total PIP allocation. A high priority is the completion of the on-going upgrading of Siem Reap, followed by rehabilitation of Koh Kong, Rattanakiri, Preahvihea, and Stung Treng airports. Consideration will be given to construction of a new international airport at Siem Reap to meet the demand of growing air traffic. Funding for the strengthening and further development of the air traffic control system is another priority.

Table 9.8 Programmed Level of Aviation Investment ($ million)

PIP No.	Project	2001	2002	2003	Total	RGC	External	Unfunded
On-going								
5	Siem Reap Airport Rehab.	5.4	5.1	0	10.5	2.6	7.8	0
12	CAA Inst. Strengthening	0.05	0	0	0.05	0	0	0.05
High Priority								
1	Civil Aviation System	1.6	1.6	2.1	5.4	0	0	5.4
546	Airports Feasibility Study, Koh Kong, Preahy Vihear, Battambang, Ratanakiri	0.5	1.0	0	1.5	0	0	1.5
420	Mondolkiri Airport	0.3	0.6	0.5	1.4	0	0	1.4
2	Air Traffic Control System	2.3	4.5	1.5	8.3	0	0	8.3
Total		**10.2**	**12.8**	**4.1**	**27.1**	**2.6**	**7.8**	**16.7**

Source: MOP, *Public Investment Program, 2001-2003*; MPWT; SSCA.

9.7 COMMUNICATIONS

The Ministry of Post and Telecommunications (MPTC) is responsible for the regulation and management of the public postal service and telephone network, and retains a commitment to development objectives enunciated in SEDPI. For the postal services, these are:

- To provide public postal services at an affordable price
- To increase the number and efficiency of post offices in the provinces and districts
- To reduce the transit time of the post to a maximum three days for all areas of the country
- To promote usage of the postal service and develop new income-generating services.

Some progress was made toward achieving these objectives during the SEDPI period. There was a fourfold increase in the number of letters and packages sent and received, although 90 percent were international and concentrated in Phnom Penh. Postal services to rural areas remained constrained by the poor road network and limited domestic air services. Provincial and district post offices continued to suffer from lack of equipment and maintenance. During SEDPII, there will be a renewed emphasis on improving equipment, strengthening of organizational structure and institutional capacity, and establishment of a management information database to facilitate the planning of maintenance, training and staff redeployment.

In regard to the telecommunications sub-sector, key development objectives retained from SEDP-I include:

- To regulate the telecommunications industry, including the licensing of cable, wireless, and satellite-based networks operated by autonomous bodies

- To ensure the provision of adequate domestic network coverage and capacity and international linkages
- To promote the development of telecommunications in rural areas.

Between 1996 and 2000, the number of public telephone booths rose from 15,475 (92 percent of them in Phnom Penh) to 37,700 (79 percent of them in Phnom Penh). Noticeable progress was made in extension of services to provincial towns. Mobile phone usage showed remarkable growth from 23,000 in 1996 to 108,000 in 2000, although the service remained relatively expensive and restricted in coverage. At the beginning of 2001, a second mostly privately-owned international telephone service was introduced alongside the Government-owned and run Gateway 1, which had recently been transferred from the Australia-based Telstra. Incoming international calls had increased from 15 million minutes in 1994 to 31 million minutes in 2000. Correspondingly, two email services were available.

A major initiative in the pipeline is the establishment of a public enterprise, Cambodia Telecom, to manage telecommunications operations. The programmed investments for the first three years of SEDPII are shown in Table 9.9. There is a focus on providing full network coverage to Phnom Penh, Sihanoukville, and Siem Reap; on extending the telecommunications network to the provinces and rural areas; and on establishing and improving major optical fiber links. There is also an intention to strengthen the MPTC Training Institute as a core element of human resource development in the sector.

Table 9.9 Programmed Level of Communications Investment ($ million)

PIP No.	Project	2001	2002	2003	Total	RGC	External	Unfund-ed
High Priority								
294	Telecomm. Network, Central Provinces	1.8	1.8	1.0	4.6	0	0	4.6
418	Upgrade SDH/STM-1 to SDH/STM-4	0.7	0	0	0.7	0	0	0.7
366	Enhancement MPTC Training Institute	2.4	1.8	1.2	5.4	0	0	5.4
400	Fiber Optic Cable PP-Lao Border	1.0	2.0	7.0	10.0	0	0	10.0
295	Optical Fiber Links	1.4	2.0	4.7	8.1	0	0	8.1
401	Fiber Optic Cable PP-Sihanoukville	2.8	2.0	5.2	10.0	0	0	10.0
447	New main switch & transit	3.2	0	0	3.2	0	0	3.2
419	Rural Telecomm. Network Development	2.5	0	0	2.5	0	0	2.5
Total		**15.8**	**9.6**	**19.1**	**44.5**	**0**	**0**	**44.5**

Source: MOP, *Public Investment Program, 2001-2003*

9.8 ELECTRICITY

The power sector was severely damaged by war and neglect in the period from 1975 until 1995, and is in a process of recovery that is supported by multilateral and bilateral agencies. The energy sector development policy adopted in 1994 has the following objectives (MIME 1999):

- To provide an adequate supply of energy throughout Cambodia at a reasonable and affordable price
- To ensure a reliable, secure electricity supply at prices that facilitate investment in Cambodia and development of the national economy
- To encourage exploration and environmentally and socially acceptable development of energy resources needed for supply to all sectors of the economy
- To encourage efficient use of energy and to minimize detrimental environmental effects resulting from energy supply and use.

The specific aims in regard to the power sector are:

- To re-establish and adequate supply of electricity nationwide through direct support of donors and private participation in generation
- To strengthen sector managerial and implementation capability
- To create the environment required for sustained and efficient development of the power sector, open to competition and private participation
- To extend power sector objectives to rural areas.

Considerable rehabilitation occurred during SEDPI, with power supply in Phnom Penh, Sihanoukville, and Siem Reap improving substantially. Electricite du Cambodge (EDC) was established as a state-owned limited liability company in 1996 to generate, transmit and distribute electricity throughout the country; and an Electricity Law was drafted as a key element of an improved legal and regulatory framework. Retail energy sales rose from a total of 120,592MWh in 1995 to 311,550MWh in 1999, which represented an average annual growth rate of almost 27 percent.

Notwithstanding the progress made in the late 1990s, the Government recognizes that the high cost, unreliability, and limited geographic availability of electricity constitutes a major hindrance to private sector and rural development. Only 7 percent of the population has access to a reliable electricity supply. The cost of producing electricity is approximately 11 cents per kilowatt hour, compared with 7 cents in Vietnam. The rate charged to commercial and industrial users is 21 cents per kilowatt hour, who cross-subsidise consumers (who are charged about 9 cents), or establish their own generation plants. The vast majority of consumers are in Phnom Penh and provincial towns. According to the *Cambodia Socio-Economic Survey 1999*, almost 60 percent of Phnom Penh households use publicly provided electricity for lighting, and a further 25 percent use privately provided electricity; whereas for rural households, the figures are 2 and 5 percent, respectively. High cost and limited availability of electricity supply means consumption remains very low at about 35 kilowatt hours per head of population.

The high cost of electricity reflects the almost total dependence on imported oil based fuel as the primary energy source, and the lack of a high voltage transmission system. There are 24 separate power systems centered on Phnom Penh and provincial towns, with only one large system (in the capital) run by EDC. EDC has 50MW of diesel plants in Phnom Penh and buys power from a 35MW Independent Power Producer (IPP), Cambodia Utilities. EDC is also progressively assuming responsibility for power supply in the provinces, controlling systems in

Siem Reap, Sihanoukville, Kompong Cham, Takeo and Battambang. In the remaining 17 provinces, power is supplied by a mix of public and private operators. In small towns and villages, reliance is placed on private generators, informal networks, and automotive batteries. Total installed capacity is still low at about 120 MW, of which approximately three-quarters is in Phnom Penh. Except for a mini hydro scheme in Rattanakiri and the use of lower cost heavy fuel oil by the Phnom Penh IPP, all towns and cities have diesel power stations using high cost light diesel oil as fuel.

Hydropower may be a potential clean means of supplying electricity, and also of increasing the irrigated rice area. It has been estimated that there is an exploitable hydropower capability of upwards of 10,000MW, distributed among 35-40 sites; but this assumes substantial damming of the Mekong, notably at Sambor (3,300MW); and feasibility studies that encompass the ecological and social implications are needed before a proper assessment can be made. One hydropower plant at Kirirom (12MW) in Kompong Speu province was operative until 1970 (see below); and another near Kirirom (Prek Thnot, 18MW) was under construction when military conflict prevented further work in 1973.

An Electricity Act was passed in early 2001 that provides for the establishment of a national regulatory body and is aimed at encouraging private sector involvement in the power sector. The Electricity Authority of Cambodia will issue licenses to power suppliers and distributors, leaving EDC as a government supplier and MIME as the policy-making agency.

The primary strategic requirement in the power sector during SEDPII is to identify and develop alternative, lower-cost sources of energy. EDC will undertake the following initiatives:

- Conversion where feasible of the Phnom Penh diesel plants to heavy fuel oil
- Rehabilitation of the 12 MW hydropower plant in Kompong Speu province and of the 115KV transmission line to supply Kompong Speu and Phnom Penh
- Implementation of the agreement to establish the HV 220KV interconnection with Vietnam to supply Phnom Penh
- Investigation of lower voltage cross-border transmission lines to supply towns close to the Thai and Vietnam borders
- Investigation of a 115KV transmission line from Thailand to supply Serey Sophon in Banteay Meanchey province, with possible later extension to Siem Reap and Battambang.

The investment program for the period 2001-2003 is presented in Table 9.10. The total estimated cost of the Rural Electrification Project is $70 million, to be implemented over the long term with World Bank assistance and in the context of a comprehensive rural electrification strategy being developed early in the SEDPII period. Power rehabilitation in provincial towns will cost an estimated $25 million and will be supported by a $18.6 million ADB concessional loan. The rehabilitation of Kirirom hydro plant, not shown in Table 9.10, is to be undertaken at a cost of $26 million by the China Electric Power Technology Import and Export Corporation. The Government has guaranteed to cover any losses from operation of the refurbished plant over the 30 years before scheduled transfer to the public sector.

Table 9.10 Programmed Level of Power Investment ($ million)

PIP No.	Project	2001	2002	2003	Total	RGC	External	Unfund-ed
On-going								
44	Expansion of Power System	18.0	3.0	0	21.0	0	0	21.0
Committed								
347	Power Rehab. in Provincial Towns	0.75	9.650	9.850	20.25	3.0	17.25	0
High Priority								
196	Rural Solar Support	0	1.1	2.3	3.4	0	0	3.4
274	Hydro. Mondulkiri	1.4	1.7	0	3.1	0	0	3.1
348	Hydro. Dev. Plan Stung Battam & Stung Mongkol	0.4	0.3	0	0.7	0	0	0.7
556	Rural Electrif.	1.0	3.0	3.0	7.0	0	0	7.0
649	Design & Implementation of Siem Reap	1.0	2.0	2.0	5.0	0	0	5.0
Total		**27.8**	**17.1**	**11.3**	**56.2**	**0**	**16.0**	**40.2**

Source: MOP, *Public Investment Program, 2001-2003*

9.9 WATER SUPPLY

Cambodia has abundant water resources. Yet access to potable water and sanitation facilities is very limited, causing ill health and low labor productivity in both rural and urban areas. During SEDP-I, the percentage of the rural population with access to safe water rose from 26 to just 29 (compared with a target of 65 percent), while the percentage with environmental sanitation facilities rose from 6 to 8.6 (compared with a target of 22 percent; see MRD 2000). In addition, a lack of water for irrigation causes low productivity of agricultural land and thus low rural incomes (annex 5).

The Royal Government is committed to achieving the long-term goal of providing access to clean drinking water and environmental sanitation for the entire population, and to increasing rural incomes through agricultural development. This will require effective and ongoing coordination and cooperation between the various Government agencies responsible in various ways for policy formulation, management and administration of water resources, water supply, and sanitation — MAFF, MIME, MPWT, MRD, and the Ministry of Water Resources and Meteorology (MWRM), as well as the Municipality of Phnom Penh. Such coordination will need to occur within the context of legal, regulatory, and policy frameworks to be developed during SEDPII as one of MWRM's four key strategies.

MRWM's stated policy objectives are:

- To increase the irrigated area of rice production, in order to increase job opportunities and incomes in rural areas

- To take a leading role with regard to drainage, water conservation, and water resources development
- To study surface and groundwater supplies to ensure water quantity and quality are managed in an integrated manner and to establish the balance between supply and demand
- To improve weather and hydrological forecasts and ensure timely warnings of impending natural disasters are provided

Supporting strategies include:

- Improvement of data collection on surface water, groundwater, and meteorology for publication, and of data analysis
- Preparation of drafts of laws, sub-decrees, a water resources policy, and strategies for water resources and meteorology development
- Improvement of the water resources and meteorology sector through (1) preparation of a public investment program for rehabilitation/reconstruction of irrigation schemes and dams for hydro power, in close consultation with the donor community; (2) introduction of a coordination mechanism with participation of concerned ministries; and (3) increased participation of the private sector in investment
- Education and training to upgrade the skills of MWRM staff, and to inform the public of the role of water and water resources management in socioeconomic development.

The PIP to be implemented by MWRM in 2001-2003 is shown in Table 9.11, which lists 32 ongoing, committed, and high priority projects with a total programmed value of $113 million. In addition, the Ministry is responsible for the implementation of the emergency rehabilitation projects arising from the serious 2000 floods. World Bank and ADB assistance for these projects totals $50 million over the three years.

As noted above, MWRM is not the only agency involved in water resource development. MRD in particular will implement a rural water supply development plan that aims at providing clean water to an estimated 3.8 million rural people by the end of 2005, or 40 percent of the rural population (MRD 2000). This will require an estimated 44,700 new wells at a total cost of $30.6 million. MRD also plans to repair 6,800 hand pump wells at a projected cost of $1.7 million; to dig 415 new ponds for irrigation at a cost of $3.7 million; and to clean 650 existing ponds at a cost of $1.3 million. Paralleling this programmed activity is a development plan to improve environmental sanitation, which has a target of increasing the coverage of rural sanitation to a minimum 20 percent of the rural population by the end of 2005. Achieving the target will require the construction of 124,000 latrines at a cost of $7 million. The cost will be shared by local communities, who will also receive education in hygiene and sanitation. In total, improved provision of clean water and sanitation will require an investment budget of $43.9 million.

The MRD public investment program is shown in Table 9.12, which also shows the programs of the other (non-MWRM) agencies. MIME is responsible through its Department of Provincial Water Supply for water provision in urban areas outside of Phnom Penh. MPWT is responsible through its provincial offices for sanitation and drainage in provincial towns. The Municipality of Phnom Penh is responsible for sanitation and drainage in the capital, while water supply is the responsibility of the Phnom Penh Water Supply Authority. There is a need for agency coordination and cooperation in respect of urban water supply and sanitation development and management, just as there is for water resources, water supply, and sanitation in general. Almost half of the $80 million in programmed investment shown in Table 9.12 is for Phnom Penh water supply and drainage, and flood protection. This investment is aimed at addressing the long-standing sanitation and drainage problems arising from the fact that the capital is a

hydrological island with its center below the high water levels of surrounding natural water courses.

The major SEDPII targets for safe water supply and improved sanitation are presented in Table 9.13.

Table 9.11 Programmed Level of Water Resources and Supply Investment – Ministry of Water Resources & Meteorology ($ million)

PIP No.	Project	2001	2002	2003	Total	RGC	External	Unfund-ed
On-going								
314	Emergency Rehab.	3.5	3.0	3.0	9.5	0	0	9.5
661	Flood Control & Irrigation	4.6	4.0	4.0	12.6	0	12.6	0
Committed								
146	Prey Nop Levee	0.7	4.0	0	4.7	0	0.3	4.4
289	Stung Chinit Water Resources	2.0	3.0	4.0	9.0	0	9.0	0
High Priority								
398	Meteor. Services	0.7	1.2	1.4	3.3	0	0	3.3
393	Kandal Stung Irr.	1.0	1.0	1.5	3.5	0	0	3.5
310	Mekong Flood Land Study	1.6	1.1	0	2.6	0	0	2.6
145	Rehab. Canal 3	1.7	2.1	0	3.7	0	0	3.7
306	Ponhea Leu Dev.	0.6	0	0	0.6	0	0	0.6
311	Dreding 12 canals	0.8	0.8	0	1.5	0	0	1.5
325	Topo./Geological Study 15 sites	0.4	0	0	0.4	0	0	0.4
307	Water Pumps	6.1	0	0	6.1	0	0	6.1
309	Canal Rehab.	2.0	2.0	0	4.0	0	0	4.0
397	Kompong Piy Rehab.	1.2	1.0	1.0	3.2	0	0	3.2
305	Rolang Chrey Rehab.	0.2	0	0	0.2	0	0	0.2
396	Community Irr. Rehab.	4.6	5.0	5.0	14.6	0	0	14.6
326	Irr. Repair & Const. 41 sites	0.7	1.0	1.0	2.7	0	0	2.7
496	Hydro Study Stung Prek Thnot & Battambang	1.4	1.3	0	2.7	0	0	2.7
492	Topo./Geological Study	0.2	0	0	0.2	0	0	0.2
478	Irr. Study Kompong Trabek	0.02	300	0	0.3	0	0	0.3
489	Groundwater Investigation II	0.1	0.1	0.2	0.5	0	0	0.5
479	Forest System & Meteorology Improvement	0.2	0.2	0.2	0.6	0	0	0.6
490	River System Assessment	0.2	0.1	0.1	0.5	0	0	0.5
483	Study on Irr. Rehab. 2 provinces	0.5	0.5	0	1.0	0	0	1.0
482	Integrated Agric. Dev. NR1 Study	0.5	0.5	0	1.0	0	0	1.0
493	Rehab. of 30 Hydrology Stations	0.1	0.1	0.1	0.4	0	0	0.4
488	Soil Erosion & Sedimentation Studies	0.2	0.2	0	0.4	0	0	0.4
486	Mekong Delta Flood Control Planning	0.3	0.2	0	0.5	0	0	0.5
495	Study/Design of 12 Hydro Power	1.5	2.0	3.0	6.5	0	0	6.5
543	Emergency Rehab. Irr. Equipment	2.0	3.0	3.0	8.0	0	0	8.0
498	Rehab. of 27 Reservoirs	1.2	3.0	4.0	8.2	0	0	8.2
TOTAL		40.9	40.8	31.6	113.3	0	21.9	91.1

Source: MOP, *Public Investment Program, 2001-2003*.

Table 9.12 Programmed Level of Water Resources and Supply Investment – MAFF, MIME, MPWT, MRD, Municipality of Phnom Penh ($ million)

PIP No.	Project	2001	2002	2003	Total	RGC	External	Unfund-ed
On-going								
14	Phnom Penh Water Rehab.	4.9	3.2	0	8.1	1.7	6.5	0
273	Phnom Penh Water Supply & Drainage	4.3	1.9	0	6.1	0.6	5.5	0
194	Rural Water Supply	0.8	0	0	0.8	0	0.8	0
356	Sihanoukville Sewerage	2.8	1.3	0	4.1	0	4.1	0
367	Rehab. of Water Supply	0.5	0.2	0	0.6	0.3	0.2	0.1
656	Provincial Town Improvement	1.7	2.6	1.0	5.3	5.3	0	0
368	Water Sector Policy Framework	0.04	0.04	0	0.08	0.03	0.05	0
High Priority								
28	Rehab. of Rural Water Supply	0.4	0.9	1.0	2.3	0	0	2.3
654	Siem Reap Water Supply	1.0	1.4	1.9	4.3	0	0	4.3
655	Water Supply, Takmao	0.9	2.1	0	3.0	0	0	3.0
316	New Machinery & Equipment	1.7	0	0	1.7	0	0	1.7
502	Construction of Flood Protection Dyke	0.09	0.3	0	0.4	0	0	0.4
627	Rainfed Rice Quality Improvement	0	1.1	0.9	2.0	0	0	2.0
363	113 Wells Drilling	0.03	0	0	0.03	0	0	0.03
362	Irrigation System Rehab. & Const.	0.5	0.6	0.6	1.7	0	0	1.7
364	Topography of Irrigation	0.08	0	0	0.08	0	0	0.08
361	Construction of Irrigation System	1.2	1.7	2.3	5.2	0	0	5.2
192	Small Irrigation System	0	2.5	3.5	6.0	0	0	6.0
301	Topography & Maintenance of Irrigation System	0.6	0	0	0.6	0	0	0.6
360	Topography of Irrigation	0.3	0.3	0	0.6	0	0	0.6
432	Repair & Maintenance of Hand Pumps	0.6	0.7	0.7	2.0	0	0	2.0
425	Phnom Penh Flood Protection & Drainage	4.1	10.5	10.7	25.3	0	0	25.3
TOTAL		26.5	31.3	22.6	80.3	7.9	17.1	55.3

Source: MOP, *Public Investment Program, 2001-2003*.

Table 9.13 Targets for Safe Water and Sanitation

	2000 Estimate	End-2005 Target
Safe Water Supply	29% of rural population;	40% of rural population;
	48% of urban population	87% of urban population
Improved Sanitation	8% of rural population;	20% of rural population;
	56% of urban population	90% of urban population

Source: MRD 2000.

ANNEX 10: EDUCATION

The Royal Government recognizes that education is a fundamental human right that enables children and adults to access many other rights throughout their lives. Ratification of the Convention on the Rights of Children in 1992, and the provision in the Constitution guaranteeing basic education for all Cambodian children, requires a strong commitment to ensuring access and quality. Education is also the key to human asset accumulation and greater equality, and investment in education and training is critical for economic growth.

Although significant progress has been made in recovering from previous conflicts and disturbances, considerable efforts are needed to raise education and training levels, as demonstrated by the regional comparisons in Table 10.1. Even these figures understate the magnitude of the problem: a 1999 study by UNESCO and the Ministry of Education, Youth, and Sport (MOEYS) concluded that the functional literacy rate was only 37 percent, with a substantially higher proportion of women than men being completely illiterate.

This annex examines the dimensions of the challenge, and presents the strategies and programs to be implemented during the SEDPII period. As observed in annex 4, education reform is also a key element of population policy: improved female participation in schooling, especially in secondary education, correlates strongly with better family health and family planning practices, which are needed to reduce infant and maternal mortality rates and the population growth rate. A broad policy priority is therefore to expand educational opportunities for women at all levels.

10.1 HISTORICAL PERSPECTIVES

The 1980s and early 1990s are best characterized as a lengthy phase of emergency relief to an education sector that was almost completely destroyed by the 1970s decade of conflict and civil war. Key features included the reopening of many primary schools, community-led rehabilitation of facilities, gradual curriculum reform, and emergency deployment and training of the teaching service. An additional year of primary education from 4 to 5 years of schooling was another key step in the 1980s; and by 1985 almost one quarter of the total population was attending an educational institution. Although the primary school system grew rapidly, it was prevented from building on its recovery by severe population pressures.

From the mid-1990s, there was a transition from emergency relief to reconstruction and development. The *First Socioeconomic Development Plan, 1996-2000* (SEDPI) set out broad education development policies, strategies and targets. Also, in 1994, the Ministry of Education, Youth and Sport formulated an *Education Investment Framework 1995-2000*, which detailed priority strategies, programs and investment requirements totalling $221 million during 1996-2000, with 69 percent targeted at basic education. The capability to lead, plan and manage these programs was enhanced and supported by substantial levels of international advisory support. This support was narrowly focussed on technical inputs at a project level, and appropriately minimized demands on limited planning and implementation capacities in public administration. However, the technical, project focus made it difficult to secure Government leadership and ownership, undermined policy coherence, and inevitably drew attention away from broader and sectoral institutional and financial issues.

Table 10.1 Regional Comparisons of Education Profiles

Country	Adult Literacy Rate (% age 15 and above) 1998	Female Adult Literacy Rate (% age 15 and above) 1998	Youth Literacy Rate (% age 15 – 24) 1998	Children reaching Grade 5 (%) 1995 - 97
Thailand	95.0	93.2	98.8	n/a
Philippines	94.8	94.6	98.4	n/a
Viet Nam	92.9	90.6	96.7	n/a
Indonesia	85.7	80.5	97.3	88.0
Cambodia	**67.3 (37)**	**58.0**	**56.9**	**49.0**
Laos	46.1	30.2	67.5	55.0

Source: UNDP 2000; UNICEF.
Note: The adult literacy figure for Cambodia given in brackets is for functional literacy as reported in a 1999 MOEYS/UNESCO study.

10.2 ADDRESSING THE EDUCATION POVERTY TRAP

Education reform is a key means of reducing the poverty and rural-urban inequalities. It must be designed and implemented with reference to the demographic and labor market outlooks, barriers to access, and social and gender dimensions.

Age-specific projections are available by five-year age groups for the period 1 January 2001 to 1 January 2006, two points in time that correspond exactly to the boundaries of the period covered by SEDPII. These age-specific projections can be broken down further by urban and rural residence to help estimate the growth in the potential demand for formal education in the medium term and thus help assess the feasibility of any time-bound targets set (Table 10.2).

The population aged 5 to 19 is projected to grow from a total of 5.15 million in 2001 to 5.5 million in 2006, an absolute increase of almost 350,000 and a relative increase of almost 7 percent. This represents a markedly slower increase than during the previous five-year plan period, but still implies that additional inputs will be necessary just to stay even, a situation that needs to be taken into account in target-setting. Due to the widespread phenomenon of over-age enrollment, the five-year cohorts used by the NIS projections do not correspond exactly to the expected age brackets for primary, lower secondary and upper secondary education. However, it is clear that the fastest increase will take place in the 15 to 19-year old population, producing a relatively higher potential demand for upper secondary education. The breakdown of population projections by rural and urban residence shows a very marginal decrease in the share of the rural population aged 5 to 19 from 85.2 percent in 2001 to 85.0 percent in 2006.

The increased pressures on existing primary education services and the demand for expanded secondary education provision mean that the critical challenge during SEDPII, and beyond, will be to achieve an effective balance between accommodating growing education service demand and improving quality and effectiveness. Government is encouraged by evidence that better coverage of primary education in recent years has contributed to improved use of plant. Primary school sizes have risen from 350 to around 400 in recent years. Secondary school sizes are around 700. For primary and secondary levels, pupil-teacher ratios are around 45

and 16 respectively (compared to 28 and 15 in Lao PDR). A rationalization and efficiency gain for secondary education staffing deployment policy is a pressing issue. The recruitment and retention of trained teachers for schools in remote areas also remains a critical problem. A Government priority will be to formulate and implement new and more efficient staff deployment guidelines, including targeted incentives for teaching staff in remote areas, and to redeploy non-teaching staff back to the classroom.

Table 10.2 Projected Trends in School-Age Population, 2001-2006

Age Group	January 2001 (proj.)	January 2006 (proj.)	Absolute Increase	Rate of Increase (%)
Cambodia				
5 – 9	1,847,801	1,946,863	99,062	5.4
10 – 14	1,755,112	1,822,699	67,587	3.9
15 – 19	1,550,869	1,733,156	182,287	11.8
5 – 19	5,153,782	5,502,718	348,936	6.8
Rural				
5 – 9	1,594,817	1,654,552	59,735	3.7
10 – 14	1,502,138	1,559,597	57,459	3.8
15 – 19	1,296,512	1,464,491	167,979	13.0
5 – 19	4,393,467	4,678,640	285,173	6.5
Urban				
5 – 9	252,984	292,311	39,327	15.5
10 – 14	252,975	263,102	10,127	4.0
15 – 19	254,357	268,664	14,307	5.6
5 – 19	760,316	824,077	63,761	8.4

Source: NIS.

Note: The 0 to 4 cohort is not shown in the table because of its questionable validity. This is most probably due to under-reporting of infants and young children in the Census and/or exaggeration of their ages (it is common for censuses in developing countries to under-enumerate infants and young children). It is nonetheless relevant, as its older elements will reach school-starting age before the end of the SEDPII period.

There will be around 230,000 new entrants to the labor market each year of the SEDPII period. This combined with uncertain and changing demand for skills, means that mechanisms must be put in place that increase the responsiveness of the education and training system. Already there are strong signs of demand for specific training in urban areas (e.g. management, computing, accounting, foreign languages). Private sector and NGO-run programs constitute more than 90 percent of current technical education and skills training provision, and will continue to be an important source of market-sensitive supply. Specific skills training needs to be short duration, highly focused, and tailored to changing work force needs. Recent efforts to reposition vocational training institutions, with greater autonomy and employer participation, are intended to stimulate demand-driven skills training. This will also allow for greater responsiveness to the needs of the informal and self-employment sectors. In the rural areas, better quality primary education and literacy programs are pivotal to better farming productivity.

The role of Government will be to selectively provide programs where public sector

involvement is clearly justifiable (e.g. very specialized technology and technician programs). A second role of Government will be to strengthen regulatory and quality assurance for a growing public/private partnership. A third role for Government will be to stimulate and build capacity of both public and private training providers. The demand-driven National Training Fund, linked to selective micro-credit, is an example of well-planned Government intervention.

Government recognizes that the overall financing of the education system is still heavily reliant on households' private contributions to education costs. Socioeconomic surveys report that on average, unofficial yearly school fees at primary level are 3,500 Riels per pupil, 8,000 Riels at lower secondary, and 10,200 Riels at upper secondary level. At post-secondary level, the private contributions are significantly higher, especially in urban areas. Nor do unofficial school fees constitute the only contribution from households to the costs of schooling: other educational expenses include books, uniforms, and school improvement fees.

This largely unregulated private financing of education has resulted in a potential education/poverty trap. As noted above, the representation of the poor is much greater in the primary student population than in the secondary or tertiary student population: 20 percent of primary students but only 2 percent of upper secondary students are drawn from the poorest 20 percent of the population; whereas 61 percent of the upper secondary students in the country come from the richest 20 percent of the population. The representation of the poor in tertiary education is zero, while the richest 20 percent of the population accounts for 57 percent of enrolments. Government acknowledges that: (1) there is a strong argument for devoting a large share of public resources for primary education where the poorest are most represented; and (2) the level of formal and informal payments to schools and teachers needs to be contained to affordable levels and better regulated, in order to reduce cost barriers to primary and secondary education.

Another factor in the potential education/poverty trap is the need for school age children, often girls, to contribute to household chores and household income generation. In 1999, approximately 25 percent of the 1.6 million school age children not attending school full time stated household income/work responsibilities as the primary reason (MOP 1999d). In contrast, only 8 percent of the sample identified lack of suitable, accessible education provision as the primary barrier. Education planning and programming also needs to take account of other social dimensions, especially child health and nutrition and the potential impact of HIV AIDS. Child malnutrition has risen from 38 percent to 40 percent in the past decade, with almost one-fifth of children suffering from severe malnutrition. In addition, roughly 70 percent of the population has no access to safe water and 85 percent have inadequate sanitation. Government will use the primary school network to support integrated health planning that addresses these issues. The national health clinic network is only one-third of the size of the primary school network. Health clinic staffing levels are around 17 per 100,000 people compared to over 80 per 100,000 people for primary schools. The current pilot primary school feeding program is an example of such an integrated approach.

There are significant inequities in the representation of females in the education system, as shown in the preceding section. There is a significant drop in the proportion of enrolled girls in the later grades of the primary school system, from 47 percent in Grade 1 to 32 percent in Grade 6. Girls represent about one-third of total enrolment in secondary schools, and are also significantly under-represented in technical and higher education. MOEYS is formulating a range of potential strategies to assure equitable access for females in schools. One strategy is an awareness campaign and possible regulations to ensure girls enroll at the official entry age. A second strategy could be a targeted incentive program for girls from poor families linked to school performance and attendance measures. An associated strategy could be linking the proposed incentive scheme with a targeted school-feeding program. Such approaches are currently being piloted in selected provinces with external assistance.

Gender disparities are also evident in the education service. Male teachers represent 63 percent and 73 percent of the primary and secondary teaching force, respectively. In the managerial and administrative cadres, men represent 73 percent of total. In the provincial and district education offices, males represent around 80 percent of total staffing. In many instances, the females are concentrated in lower level secretarial and support staff duties. The main factor is the low proportion of women with the required academic and professional qualifications for high level and teaching positions. MOEYS is examining a potential long-term strategy to gradually assure equitable access to secondary and post secondary education, possibly linked to short-term affirmative action in promoting qualified female education personnel.

10.3 THE INSTITUTIONAL ENVIRONMENT

Education sector development during the SEDPII period will occur within the context of broad fiscal, public administration, and judicial/legal reforms. The education sector therefore needs to be redefined to incorporate links with these reforms, in order to ensure that sound economic management and institutional and governance reforms are put in place alongside the more conventional technical considerations. This process must be led and owned by the sector ministry. A first prerequisite will be to build up the trust and confidence of other stakeholders, including central ministries and civil society. A second requirement will be to sustain and demonstrate MOEYS leadership and ownership of both processes and policy reforms. A third requirement will be to begin to institutionalize inter-ministerial planning processes and build up MOEYS capacity to manage both intra- and inter-ministerial policy/planning dialogue.

10.3.1 OPTIMISING DEVELOPMENT IMPACT

In order to respond effectively to the current policy environment, sector planning and management approaches need to be carefully designed. In late 1999, as part of the start up of a new phase of policy development, MOEYS examined three broad options: (a) to continue a narrow, technically focused *project* approach; (b) to selectively incorporate sub-sector links through a set of sub-sectoral *programs*; and (c) to initiate a broader, policy focused *comprehensive sector wide approach.* In broad terms, MOEYS has adopted the third option (c), after consultation with other stakeholders. Significant progress has been made in putting processes and technical capacity in place to manage this potentially more complex approach.

A key ingredient for the management and implementation of the Government's education sector planning processes will be the ability to adapt to changing circumstances, taking account of MOEYS, other ministries' and donors' capacities. A particular challenge will be to effectively manage any transition from the current project-driven approach towards more flexible and adaptive sector support modalities. The key issue will be to ensure that the most effective support modality is used to implement particular policy objectives. In some instances, the best approach may be to retain the more traditional project model (e.g. school building, selected capacity building). In other cases, recurrent budget support may be a better option (e.g. salaries reform, decentralized service management).

10.3.2 STRENGTHENED RESOURCE PLANNING AND MANAGEMENT SYSTEMS

The introduction of the Priority Action Programs (PAP) in 2000 is providing an opportunity to rationalize organizational structures and responsibilities within Government/MOEYS. Financial channeling and management of PAP funds is directed from the central Government treasury to district accounts held in the provincial treasury. This has had a positive effect on organizational efficiency and effectiveness in MOEYS. The central headquarters is gradually

assuming its proper role of policy making, strategic planning and monitoring. Provincial offices are beginning to assume a progress monitoring and oversight role, while districts and schools are responsible for day-to-day management of PAP funds.

Government acknowledges that a key challenge will be to promote the shift of MOEYS head office from a control to impact and progress monitoring function. Similarly, the MOEYS leadership will need to secure support within provincial education offices that have a tradition of controlling rather than supporting districts and schools. A top priority will therefore be to build up the capacity of central headquarters and the provinces in planning and monitoring. Simultaneously, capacity building in management and implementation planning at district and school levels will be critical. In addition, a key reform component will be to put in place organizational structures and responsibilities that provide effective impact and progress monitoring of education system and programs performance.

An associated challenge will be to put in place effective student performance monitoring and assessment systems at various levels. Currently, student performance monitoring is limited to a provincially managed Grade 9 achievement test (largely used to allocate Grade 10 places), a Grade 12 examination, and various university faculty admission tests administered by individual institutions. There is currently no achievement testing within primary grades 1 – 6 (apart from some project-driven pilot studies), due in part to the absence of clear defined minimum learning standards for various grades.

A key component of improved resource management is effective deployment of the education service, especially primary and secondary school teachers. Currently, there are 45,000 primary school teachers and around 17,500 secondary school teachers. In addition, there are around 10,000 non-teaching staff in schools. These are supplemented by about 3,100 education staff in provincial and district education offices. A pressing issue is therefore to undertake a thorough review of MOEYS guidelines for staff deployment, possibly introducing pupil/teacher ratio based staffing norms.

A central component of Government's education reform program will be improvement in the living conditions of the education service staff, especially the teaching service. It has been well documented that the comparatively low salaries contribute to poor teacher attendance and considerable time spent on other income generating activities. This includes pressure on parents and students in the form of informal payments for private lunchtime tuition and other unofficial activities.

As part of this process, MOEYS in conjunction with the National Program for Administrative Reform (NPAR) undertook a review of personnel management issues over the period late 1999/early 2000. A number of key recommendations were agreed as a basis for a new action plan for personnel management reform, and will be followed during SEDPII, beginning with action on a number of staff deployment issues. The PAP for 2001 incorporates proposals for targeted incentives for head teachers, deployment of staff that involves efficiency gains (e.g. multi grade teachers), and special incentives to enable staff deployment to remote schools. In summary, the key strategy is to continue to promote substantial teacher salary rises as a means of offsetting informal payments to teachers from poor families. The second requirement is preparation of an immediate salaries reform action plan, which links improved incentives and rewards to quality/efficiency gains.

By regional standards, the education sector has been under-resourced. Public spending on education has remained roughly constant at between 0.9 and 1.0 percent of GDP since 1994 (compared with 2.4 percent in Lao PDR, 2.3 percent in Bangladesh 2.3, and 2.9 percent in Nepal); and has been particularly low at primary level where it is estimated that per student spending was around 30,000 Riels ($ 7.50) in 1997 (World Bank 1998). These patterns are mirrored by recurrent spending on education, which remained roughly constant at between 9 –

10 percent of discretionary spending between 1994 and 1998. Government recurrent spending on the sector grew from 61 billion Riels in 1994 to 102 billion Riels in 1998, which barely kept pace with enrolment growth. The situation improved somewhat in 1999 with an increase to 150 billion Riel (almost 14 percent of discretionary spending).

Government is cognizant of the fact that under-resourcing in the 1990s increased reliance on parental and donor contributions, to the point where 46 percent of education expenditure was provided by donors and NGOs and 27 percent by private households, compared to 27 percent by the Government. The positive aspect of this development is that the significant public/private partnership in education is a solid basis for developing stakeholder participation and mutual accountability.

Government acknowledges that the uncertainty over available resources for the sector is reinforced by the absence of clear regulatory, accounting and management mechanisms for the substantial private contributions. Most of the transactions between parents, schools and teachers are made in the form of informal payments (in addition to unofficial school fees). As a consequence, these resources are not effectively captured or managed as part of financing the operations of the education system. A key component of predictability is effective channeling and disbursement of funds from the Government treasury to MOEYS head office and the provinces. Budget outturn figures for education have been encouraging in recent years: it is estimated that the budget outturn was 95 percent of planned expenditure in 1997 and 93 percent in 1998. However, it is acknowledged that the figures are difficult to verify due to limited financial tracking and audit systems. Furthermore, these good outturns might have been explained by the fact that the education recurrent budgets largely consisted of salaries. The challenge will be to maintain high rates of disbursement and budget realization for growing non-salary budgets in the future.

Government is determined to address the fact that the current public spending patterns are not equitable. For example, in 1996-97 it was estimated that only about 40 percent of recurrent spending was devoted to primary education, compared to 15 percent for secondary and 30 percent for post secondary (World Bank 1998). Much of this distortion was due to substantial donor support for higher education and TVET. The situation has improved subsequently, with public spending on primary and secondary education averaging around 80 – 85 percent in 1998-99. Simultaneously, donor support has shifted significantly towards a greater share of support for primary/basic education.

Government recognizes that public spending per student also appears to be inequitable. For example, it is estimated that in 1997 spending per primary student was around 63,000 Riels of which public spending was 30,000 Riels (47 percent). In contrast, per student spending on technical vocational education was an estimated 560,000 Riels with public spending amounting to 446,000 Riels (80 percent). The public share for higher education was an estimated 67 percent. Clearly, these patterns are not equitable or pro-poor, given the under-representation of students from poorer families at later stages of the education system. Proposed education financing reforms are specifically designed to address these inequities.

10.3.3 STRENGTHENING EDUCATION GOVERNANCE AND CAPACITY BUILDING

Government recognizes that good governance is a key lever in translating education spending into effective sector outcomes and impact. Government/MOEYS policy reforms therefore are increasingly focusing on governance issues, and effective interfacing with the Governance Action Plan will be an essential part of policy development processes.

Strategies for the implementation of the Government's pro-poor and decentralization policies are being developed and detailed programs drawn up by MOEYS. The success of these strategies and programs will depend heavily on successful, well-understood and well-supported regulations, both technical and financial. During the first two to three years of the SEDPII period, MOEYS will develop appropriate education legislation and regulation with donor assistance.

A key constraint on planning, management and implementation of governance reforms is the absence of strong institutions at the various levels. There is only limited capacity for formulating appropriate legislation/regulations within the designated Directorate General for Administration and Finance of MOEYS. At the school level, the school/parents committees have responsibilities but no real authority, mainly being restricted to fundraising. In the TVET and higher education institutions, there are no boards of management with broad-based representation, with governance and management responsibilities being combined under the responsibilities of institutions' directors who are MOEYS employees. Governance reforms are therefore central to education plans for the next decade.

Another priority is to build up MOEYS strategic and implementation planning capabilities. An initial institutional assessment of policy development and strategic planning in late 1999 pointed to limited capacity. The current policy review and development process has gone some way to redress these limitations. The challenge will be to reinforce institutionalization of these processes in the long term, linked to the Education Strategic Plan and Education Sector Support Program (to be issued in mid-2001) as part of a phased rolling program of education reform.

10.4 SUB-SECTORAL ANALYSIS

10.4.1 PRE AND PRIMARY SCHOOLING

Government has promoted pre-school education provision as a growing public/private partnership. Public provision is provided in 874 Government pre-schools for 50,000 students, alongside around 10,000 in 364 community and private pre-schools. The community schools constitute around 70 percent non-public provision. Attendance at community schools is generally free compared to the urban-based private pre-schools, which levy a small charge. Demand for pre-school education appeared to be growing slowly in the late nineties, in part due to two-parent families working in urban areas, requiring daytime child minding.

However, Government recognizes that overall participation in pre-schooling remains low. The estimated gross enrolment for the 3 – 5 year age group is only around 5 percent. Girls represent roughly half of the enrolment. There are significant rural/urban disparities in availability of pre-schooling. There are higher levels of gross enrolment in provincial urban districts (for example, Kompong Cham, Kompong Speu, Sihanoukville); but 48 districts have no provision and another 67 have very limited access. Urban areas account for around 25 percent of pre-school enrolment compared to being only 15 percent of the pre-school age population. Public school enrolment rates in Phnom Penh are lower due to the greater availability of private/community schools. The current arrangements and financing need to be made pro-poor, and MOEYS is preparing an action plan for the period 2001-2006 to redress these imbalances.

The Government has achieved significant expansion of primary education opportunities in the past decade, with enrolment growing from 1.3 million in 1992 to around 2.2 million in 1999. This represents an enrolment growth of around 70 percent over the period. At the same time, the number of schools has grown from around 4,500 in 1992 to 5,274 in 1999. This

demonstrates the sustained demand for primary education in Cambodia. Differing data sources result in some variation in estimated overall gross and net enrolment rates. Official MOEYS figures show a gross enrolment rate (GER) of 90 percent and a net enrolment rate (NER) at around 78 percent. Census data suggest more encouraging figures of 100 percent for GER and around 86 percent for NER. Using more recent census demographic data (1998), it would appear that primary education system performance has improved.

Despite this overall growth, Government recognizes that there are significant geographical inequities in access to primary education. Using Education for All Assessment data (2000), the overall GER of 90 percent hides wide provincial variations. For example, in Takeo and Svay Rieng, GER is 100 percent compared to between 45 percent and 60 percent in more remote provinces (Ratanakiri, Koh Kong, and Pailin). There are also significant urban, rural and remote area variations with GERs at 99.5 percent, 93.9 percent and 50.6 percent, respectively. The net enrolment figures mirror these patterns.

Government is determined to address significant gender disparities in access, directly linked to urban/rural location. The overall GER for girls is 84 percent (overall 90 percent), and the NER is 74 percent for girls (overall 78 percent). There are significant disparities between urban areas (girls GER 94 percent), rural areas (girls GER 88 percent), and remote areas (girls GER 46 percent). There are also significant variations between gross and net enrolments for girls due to a number of factors, including late age of entry, high repetition rates, and early dropout. In particular, a noticeable trend is the decline in girls' enrolment across primary grades 1 – 6, where the girls share falls from 47 percent to 33 percent.

A number of factors that contribute to disappointing overall enrolment and access inequities will be addressed during SEDPII. A key constraint is the high level of repetition, particularly in the earlier grades 1 and 2. For example, in 1998 the overall repetition rates were 41 percent and 25 percent in the first two grades, falling to 4–8 percent in grades 5 – 6. Particularly for girls, the late entry into primary school is a severe constraint on continued participation: in 1999, the net intake rate was only 62 percent, meaning that roughly 38 children out of every 100 are not enrolling at the official school age of six. In the remote areas, the net intake falls as low as 34 percent. This has a significant impact on girls, who traditionally leave school at the age of puberty.

Another constraint on continued progression and retention in primary school is the large number of primary schools (2,471 or 47 percent) that do not offer a full range of primary grades 1 – 6. Most of these schools are located in rural or remote areas. In addition, analysis shows that the promotion rates in these incomplete schools is significantly lower than the schools that offer the full grade range. Assuring both greater participation and more equitable access will require addressing the problem of incomplete schools.

Government is also determined to address the substantial number of over-crowded schools and temporary buildings used for primary education. Nationally, a third of 49,000 schoolrooms have wooden construction and around a quarter have reported building defects. Approximately 3,300 schools (65 percent of the total) operate on a double shift; 430 schools have a class per classroom ratio of more than 2 (7 percent of total); 230 schools have an average pupil per classroom ratio of more than 60; and 108 schools operate a triple shift. This pattern represents a significant barrier to access and a disincentive to attend regularly and receive adequate hours of instructions.

Government/MOEYS has yet to set minimum learning standards for primary education and nationally set grade-referenced achievement tests are not in place. It is therefore difficult to reliably assess the quality and effectiveness of primary education. However a proxy indicator

is the progression rate from grade 4, based on teacher-made and marked tests (EFA Assessment, 2000): 70 percent passed these tests in 1996-1997 and 72 percent in 1997.

Significant effort and investment has gone into upgrading the quality of the primary teaching service. In 1996, the entry qualifications to the teaching service were increased to 12 years of schooling and 2 years of teacher training (for cities and towns) and 9 + 2 for remote areas. By 1999, over 90 percent of teachers had the required academic qualifications. However for the remote areas, the figure was only 71 percent. A vicious circle remains in place whereby poor quality primary education and limited access to secondary education means that few teachers from remote areas are qualified for teachers college entry. Posting and retaining better qualified teachers from urban areas remains problematic due to ineffective incentives. A positive feature is the growing share of female teachers, especially in the remote areas. MOEYS is currently preparing an action plan for improved teacher supply, demand planning, and more efficient staff deployment.

10.4.2 SECONDARY EDUCATION

A fundamental concern for the Government is that secondary education opportunities are low. MOEYS official estimates are that the gross enrolment rates in lower secondary grades 7 – 9 and upper secondary grades 10 – 12 are 23.0 percent and 8.7 percent respectively (1998 figures). The latest data for 1999-2000 suggest a gross enrolment rate of 22.9 percent (lower secondary) and a rise to around 11.6 percent (upper secondary). Net enrolments for lower and upper secondary are low at an estimated 14.4 percent and 8.0 percent, respectively, in 1998-99.

The significant gender and geographical inequities in enrolment also must be addressed. Females represent only one-third of both lower and upper secondary enrolment. There are also significant provincial and district variations. There are 32 districts out of 183 without a lower secondary school, and 285 commune level clusters out of 705 without a lower secondary school. These patterns of under-served districts/clusters are mirrored by a mapping of district level, lower and upper secondary enrolment rates. MOEYS is preparing a facilities development plan to address these inequities.

Government recognizes that another access constraint, especially in districts with scattered secondary age population is the cost of or shortage of school transportation, lodging facilities, or purpose-built dormitories. Traveling distances of more than 5 kms to lower or upper secondary schools become a significant access barrier and other access improvement strategies may need to be considered. In the case of transportation there may be scope for private sector provision.

Government/MOEYS is currently addressing a number of key issues related to the quality and effectiveness of lower secondary and upper secondary education. A number of principles need to be addressed, which will have implications for policy decisions on the rate of expansion of lower and upper secondary education, the nature of the programs offered in schools, and the resource implications (e.g. books, teacher training). Currently the objective of the secondary education system is largely academic and quality/effectiveness is defined as primarily preparing students for further studies, especially higher education.

Government also recognizes the need to improve performance monitoring systems. Student performance is currently assessed through provincially set and managed grade 9 examinations, followed by a national grade 12 examination, organized through the Examinations Office. Selection for higher education is on the basis of subsequent admissions tests set by individual university institutions. In the absence of agreed minimum standards of

performance, it is difficult to assess the validity and reliability of these quality measures, especially in grade 9 where national level moderation is under-developed.

Textbooks availability and access to qualified teachers are key determinants of quality. With donor assistance, the Government has made efforts to improve textbook availability. Since 1996-97 textbooks for grades 7 – 9 have been provided on a 1 book per student per subject basis. This is in contrast to the mid-nineties, when estimates of availability ranged between 1 book per 5 – 10 students. In the longer-term, this should enhance quality, subject to efforts to ensure that students and teachers use these additional resources effectively (e.g. through teacher orientation programs).

A Government priority has been to secure the expansion of secondary teacher training provision leading to an improved academic qualifications profile of the education teaching force. The number of graduates teaching grades 10 – 12 constitute 70 percent of teachers deployed at this level. In grades 7 – 9 classes, the figure drops to around 5 percent. For the small number of teachers who teach across grades 7 – 12 (roughly 10 percent of total), the proportion of graduates is around 45 percent. MOEYS is preparing an action plan to secure greater flexibility in deploying better qualified staff across grades 7 – 12 as an early measure for potential quality improvement.

Government is encouraged by the fact that the internal efficiency of secondary education is comparatively much better than for primary schooling. The transition rate from primary to secondary is roughly 40 percent for both males and females. The transition rate from grade 9 to grade 10 is roughly 70 percent, depending on new places created in the previous year. Dropout rates across grades 7 – 12 are in the range 10-15 percent; and repetition rates are usually under 10 percent. In other words, once students have made the crucial transition from primary to secondary, the chances of retention and completion are high. Accordingly, an immediate Government priority is to increase access to lower secondary education as a first step in broadening secondary education opportunities.

Another Government priority is to improve the deployment of secondary teaching and non-teaching staff. The average pupil/teacher ratio is 16.4 for lower secondary schools and 23.1 for upper secondary schools. The pupil per staff ratios (including non-teaching staff) are 13.4 and 15.8 respectively, highlighting the large proportion of non-teaching staff in secondary schools. In contrast, the pupil per class ratios were 38 and 44 for lower and upper secondary schools respectively, once again highlighting the low teaching hours of secondary school staff and inefficient teacher/non-teacher deployment. MOEYS is currently preparing an action plan for secondary teaching and non-teaching staff deployment, with revised guidelines.

10.4.3 HIGHER, TECHNICAL VOCATIONAL EDUCATION AND TRAINING (TVET), AND TEACHER EDUCATION

The Government is concerned that participation in higher education is low at 204 per 100,000 people, and that there are significant urban/rural and gender disparities in current enrollment patterns. Its policy is to promote a growing public/private partnership in higher education.

In 1999, total enrolment was around 22,000, with roughly two-thirds fee-paying students in public institutions or private universities. The growth of private provision is a recent trend, stimulated by the establishment of a private university in 1997. Forty five percent of students in public institutions and almost all students in private institutions come from Phnom Penh, and a further 40 percent come from the more urban provinces (e.g., Kandal, Kompong Cham). There are virtually no students from the poorer, more rural and remote provinces. Against population patterns, Phnom Penh students are four times over-represented. Approximately 40 percent of students have parents who are government officials, followed by land-owning

farmers' children (34 percent). Agriculture laborers constitute 75 percent of the population compared to only 8 percent representation in higher education (MOEYS survey 1999). Virtually all the private students come from Phnom Penh, which emphasizes the very heavy urban-bias of current participation.

Government acknowledges that quality monitoring mechanisms need strengthening. Repetition rates in public institutions vary from 1.3 percent in the Royal University of Phnom Penh (RUPP) to 9.0 percent in the Faculty of Law and Economic Science. Dropout rates are higher, reaching as high as 19 percent in RUPP in 1999. Overall dropout rates for public-funded students are around 8 percent per annum. It is reported that dropout is rarely due to student performance considerations, but more related to social and financial factors. Reliable data on the repetition and dropout for private students is not available. MOEYS is preparing an action plan to address these constraints.

Government recognizes that the institutional status of higher education institutions requires improved definition. Although public institutions have gradually assumed a higher degree of operational autonomy (largely on the back of institution-based donor support), there is no current legal or regulatory framework to underpin this increased autonomy. The MOEYS role in regulating private institutions and fee-paying students in public ones has yet to be fully defined. MOEYS is currently preparing an action plan for regulatory and legislative reform.

Financial planning, management and reporting systems require strengthening for both public and private institutions. Public institutions are frequently not informed about their annual allocations and have little delegated authority for spending. For both public and private institutions, there is currently a limited requirement to produce annual development and financing plans and to account for the spending of either public or private funding.

There also appears to be significant scope for improved efficiency in use of plant and staff. The overall pupil/teacher ratio in public institutions is estimated at 12.4, compared to 17.1 in private institutions. There is also a significant proportion of administrative staff, amounting to roughly 22 percent of total staffing in public institutions. MOEYS is preparing a program for efficiency improvement.

A priority is to plan and implement strategies that will allow Government to effectively plan, regulate, monitor and provide quality assurance for the public/private partnership in higher education. The actions will include: (a) putting in place enabling legislation that defines the status of higher education, including governance arrangements; (b) design and implementation of regulations for both technical and financial management, monitoring and accounting, including for both public/private contributions; (c) redefinition of the relative roles of the Department of Higher Education and institutional governors/managers, with the department adopting a greater planning and monitoring role.

Teacher education expansion will be critical to meet EFA targets. Current provision consists of 18 primary teacher-training colleges (PTTCs); 6 regional teacher-training colleges (RTTCs), which train grade 7 – 9 teachers; and a post-graduate program at the Faculty of Pedagogy, which provides upper secondary school teachers. Current enrolment is around 5,900 at PTTCs, 2,250 at RTTCs, and 400 at the Faculty of Pedagogy. PTTCs and RTTCs offer two-year programs, with an annual graduate output of around 2,950 and 1,000 students respectively. The Faculty offers a one-year program with an output of around 400 students per annum. The Government priority is to strengthen teacher supply/demand planning, in consultation with central and provincial personnel departments. In the short term, some breathing space for additional trained teacher output can be achieved by massive redeployment of non-teaching staff back to the classroom. MOEYS is preparing an action plan for meeting these teacher development demands, including: (a) a well-planned program to get

the teacher qualified, non-teaching staff back to the classroom, possibly linked to very short refresher courses; (b) increasing the capacity of the system to generate additional trained secondary school teachers; and (c) reform of the current teachers' college programs to produce multi-skilled teachers that will help optimize flexible staff deployment within schools, especially across grades 7 – 12.

Another strategic priority is to increase the planning and operational autonomy of teachers' colleges and the Faculty of Pedagogy, taking account of the varying teacher requirements across the provinces. Key measures could include: (a) an annual planning exercise between headquarters, provincial education offices and training colleges to set targets and budget requirements; (b) the delegated management of operational budgets to training colleges, linked to appropriate guidelines; (c) capacity building for headquarters, provinces and institutional managers in technical and financial planning/management; and (d) granting authority to training colleges to raise additional revenues through in-service programs (e.g. refresher courses, multi-grade courses, training multi-subject teachers), possibly on a competitive basis between institutions.

Strengthening institutional arrangements for teacher supply/demand planning is also critical. Key measures will include: (a) establishing an annual planning exercise, led by the Director General of Planning/Finance/Administration; (b) setting annual trained teacher output targets for each of the teacher training institutions; (c) undertaking a thorough annual cost analysis of the teacher supply/demand plan, including the on-costs for the teaching service; and (d) establishing an annual performance monitoring mechanism for the teacher development system.

Technical vocational education and training (TVET) provision is best characterized as a growing private/public partnership consistent with Government policy. In 1999, total enrolment in TVET is estimated at 93,000. Enrolment in public institutions is around 5,700, in private institutions around 68,000, and NGO supported operations around 10,000. In addition, 9,300 students are enrolled in National Training Fund programs, which are open to both public and private providers. Private providers, including NGOs, provide over 80 percent of current TVET services.

MOEYS has prepared a TVET strategic plan that identifies priorities. A pressing priority is to formulate an appropriate mix of TVET financing mechanisms, especially defining criteria for programs for which Government support should be given. The combination of financing options will include: (a) extension of user charges for selected programs in Government institutions; (b) introduction of an employer's training levy; (c) employer contributions to programs where their employees are direct beneficiaries; and (d) expansion of workplace-based training where employers meet the direct costs of training, provision of plant, and training supervision.

A related priority is to establish strategies and guidelines for increasing the operational autonomy of public TVET institutions, learning lessons from the growing number of private providers. These measures will include: (a) setting out appropriate enabling legislation and regulation of both public and private institutions; (b) putting in place appropriate financial management and accounting capability for both private and public institutions; and (c) putting in place appropriate institutional arrangements for a mix of self-regulation and external quality control/monitoring, including well-defined roles for the National Training Board and the Department of TVET.

The overarching strategic priority is to use the private sector as the major engine for any planned improvements in the expansion and equity of TVET provision. Although it is premature to evaluate the impact of the NTF, the initial signs are that the NTF approach has

significant potential in broadening access and coverage to the less well off. The key measures to achieve this could include: (a) extensive capacity building of private institutions, NGOs, employers and community groups in the identification, planning, delivery and management of short course training; (b) an increased emphasis on responding to demand through the NTF linked to effective funding eligibility criteria that are pro-poor.

10.4.4 NON FORMAL EDUCATION AND LITERACY PROGRAMS

Government remains concerned about the high levels of illiteracy amongst adults. Based on 1998 census data and previous demographic surveys, overall adult literacy levels have increased from 58 percent in 1990 (40 percent for females) to 68 percent in 1998 (58 percent for females). Despite these improvements, adult literacy rates are well below many ASEAN neighbours, which have rates of around 95 percent in many cases. Moreover, the 1999 MOEYS/UNESCO literacy survey suggests that only 37 percent of the population is literate in terms of being able to actually use their literacy skills for everyday life and income generation.

The over-arching priority is to expand adult literacy classes, especially for disadvantaged groups and in currently under-served areas. MOEYS is currently developing a five-year strategic plan, aimed at increasing functional literacy from the estimated 36 percent to an indicative 56 percent over the five-year period. This would mean providing effective literacy programs to around 2 million adults in the next 5 years.

Government recognizes that the long-term financing of literacy programs is a pressing issue. Direct user charges do not appear feasible since a large proportion of the target groups is from the poorest communities. Strategic options include: (a) recurrent budget support for program delivery from donors/NGOs; (b) increased recurrent funding from Government; and (c) incorporation of literacy program costs into existing or new micro-credit loan programs to the rural poor. Government acknowledges that the last option has significant merit since it could also provide incentives for the rural poor to attend literacy programs with successful completion used as collateral for accessing micro-credit lending opportunities. The action plan will address possible financing reforms.

10.5 POLICY AND PROGRAM PRIORITIES, 2001-2005

10.5.1 POLICY AND STRATEGIC PRIORITIES

During 1999 and 2000, Government and MOEYS formulated substantive education policy and strategic frameworks, including overall sector development priorities, sub-sectoral targets, and a medium term education expenditure framework for the period 2001-2005. Government/MOEYS has formulated an Education Strategic Plan (ESP) early in the SEDPII period for review and appraisal by other stakeholders. The subsequent step will be to present a more detailed Education Sector Support Program (ESSP) in late May 2001.

As set out in the Government's Interim Poverty Reduction Strategy Paper (RGC 2000), the policy priority for education is to ensure equitable access and quality improvement for 9 years of basic education by around 2010. For post-basic education, Government's priority is to enable more equitable access (including gender equity) for the poorest, alongside a growing public/private partnership in financing and management. A cross-cutting priority is to strengthen legislative and regulatory frameworks for quality assurance and sector performance monitoring across all sub sectors. It is recognized that total public expenditure has been below what is necessary to achieve these policy objectives.

The Government's intention is to more than double the education recurrent budget over 2001-2003 as an initial step in securing policy implementation. Increased public spending on education will adopt clearly defined pro-poor policies and strategies. The key strategic priority is to reduce direct and indirect costs to parents (the major access barrier) through a significant increase in performance based teacher salaries, thereby eliminating the need for informal parental payments to teachers. An associated strategic priority will be to significantly increase school operating budgets, increasingly managed at provincial/district and school levels. These strategies will help to secure teacher and pupil attendance which, with better availability of instructional materials, will assure quality improvement. These measures will be linked to stronger legislative and regulatory and quality assurance mechanisms. The first phase of the PAP 2000 initiative for primary education was designed to address these issues, through remedial teaching and provision of school operating budgets. The PAP proposals for 2001, although only partly funded due to budget constraints, are designed to move policy implementation forward.

In specific terms, the policy target is increased public spending volumes and shares (both wages and non wages) for basic education, and targeting selective scholarships for the poorest in post basic education, while encouraging private sector involvement in upper secondary and tertiary education. The PAP proposal for higher education in 2001 is consistent with these policies and strategic directions.

The broad principles adopted by Government/MOEYS policy makers are to ensure that education spending reforms guarantee:

Education development that is emphatically pro-poor
Early achievement of Education for All policies and targets
Improvement in the quality of education services and quality assurance and regulation
A more balanced and equitable role for Government in education provision, especially appropriate post-basic education financing and management.

The primary policy objective and target is to implement EFA by 2010. A medium-term policy target is to ensure a substantial enrolment rise, especially at lower secondary level (enrollment target 850,000 by 2005). The medium-term expenditure framework (MTEF) for education proposes a reallocation of resources that will allow this to happen (see next section). In addition, MOEYS has formulated the key measures required to ensure that children stay at school and progress rapidly across grades.

Another key feature of the education MTEF is to significantly increase public spending volumes for upper secondary and post secondary education. This is in recognition of inevitable growth in public demand for such opportunities. In the medium term, Government acknowledges a necessary trade-off between quantitative growth and quality improvement. Simultaneously, Government will play a growing enabling role in stimulating public/private partnerships through better quality assurance, financial management and tighter regulation.

The proposed education-financing framework is designed to ensure effective implementation of a number of priority policy and strategy objectives, notably:

- Expansion of access to Grade 1 to 9 to all school age children by 2010 through provision of additional classrooms and equipment

- Significant improvement in the teaching and learning process through Government provision of textbooks, increased school operating budgets, and additional resources for professional development

- Substantial efficiency gains in the use of classrooms through formalized double-shifting and multi-grade teaching

- Substantial increases in efficient staff deployment through rigorous monitoring of staffing norms and use of these norms in forward budget preparation.

The MOEYS action plan sets out the performance indicators for these access, quality and efficiency improvements. These indicators, both technical and financial, will be used as the basis for annual performance monitoring.

The education policy and strategic framework recognizes the fundamental importance of improved living conditions for teachers. Within the overall resource allocations, there is provision for a doubling of teacher salaries in 2001-2005. Government is determined to ensure that teacher pay rises are linked to performance improvements (e.g. regulation of attendance) and efficiency gains. Consistent with NPAR proposals, the strategy will be a graduated across-the-board increase for all staff, alongside larger pay rises for core groups, who will make the greatest impact on policy implementation (head-teachers, teachers in remote areas). In particular, the proposals emphasize the importance of the classroom teacher, alongside more efficient and scaled down administrative support.

The Government/MOEYS policy and strategic plan proposes fundamental reforms to salary and non-salary shares. The financing framework projects: (a) substantial increases in non-salary operational budgets; (b) large proportions delegated to provincial authorities for effective managerial and quality assurance activities (e.g. through sub-sectoral PAPs); (c) dramatic reductions of the cost burden on parents, especially at primary level, through abolition of private tuition fees and reducing parents contribution to school operations.

The fundamental thrust of education financing reform will be to remove the cost barriers for access to basic education for the poorest families through shifting this responsibility to Government. At the same time, parents will be held accountable, through rigorous monitoring of pupil attendance rates. These financing reforms will be underpinned by early action to establish mechanisms that provide strict quality assurance and information and stronger legislative and regulatory instruments.

10.5.2 IMPLEMENTING PRO-POOR EDUCATION FINANCING POLICIES

The ESP is underpinned by a detailed analysis of current and projected recurrent operational and capital costs, designed to optimize the use of public and non-public education resources. The fundamental thrust of the ESP financing policy is to reduce parental contributions for basic education. The policy target is to increase public spending from around 40,000 Riels per student (1997 level) to 116,000 Riels per student in 2005, with a reduction of the average parental contribution from 40,000 Riels (1997 level) to 26,000 Riels. This implies a reduction in the average parental contribution from 50 percent to 18 percent of the total unit cost. The financing plan also projects a reduction in parental/non-public spending shares at upper secondary from 62 percent to 46 percent.

The financing plan is designed to implement performance-based pay reform policies. The priority will be to increase classroom teacher salaries, which are projected to double by 2005, including substantial upfront increases over 2001-2003. For non-teaching staff, the projected salary increase is around 75 percent by 2005, with a progressive 15 percent increase. Special incentives and increased differentiation in salary scales will be used, depending on performance of revised tasks and responsibilities (e.g. for head teachers and remote school postings).

A key feature is to secure efficiency gains in the use of staff and facilities, through a number of measures. These include increased pupil/teacher ratios for secondary education up to PTR 25 by 2005 and increased use of double shifts in primary and secondary schools. The financing plan also incorporates increased public spending on quality improvement, including for textbooks. The plan projects a doubling of the schools' operating budgets support per student through public funds, alongside allocations for continuous, nationwide training of all teachers and head teachers.

Another key feature of the ESP financing plan is to increase both the volume and share of non-wage recurrent spending, in order to secure sustainable quality improvement. It is projected that salary costs will roughly double from around 126 billion Riels in 2000 to around 282 billion Riels by 2005. In contrast, non-wage operational spending is projected to treble from around 84 billion Riels in 2001 to 259 billion Riels by 2005. The non-wage share is therefore projected to increase from 34 percent to 48 percent over the period 2001–2005.

The overall implications for these reforms are a significant increase in public spending on basic education, which is projected to rise from around 180 billion Riels in 2001 to 377 billion Riels in 2005. The spending share on basic education is designed to remain consistently between 70 and 75 percent of total public spending, consistent with ESP priorities. Public spending on upper secondary is projected to grow from 14 billion Riels to 65 billion Riels by 2005, in order to secure the participation of growing numbers of students from poorer families as the system expands. These sub-sectoral financing plans are summarized in Table 10.3.

Table 10.3 Financing Reform Scenario - Sub-sector Recurrent Budget Implications (Riels Billion)

	2001	2002	2003	2004	2005
Recurrent	**244**	**344**	**430**	**483**	**541**
Administration	34	42	51	61	74
Pre-primary	4	4	5	6	7
Basic Education	180	267	328	356	377
Upper Secondary	14	17	32	44	65
Post Secondary	12	13	15	16	18

Source: MOEYS.

MOEYS recognizes that effective implementation of the ESP policies and strategies will require predictability of available resources. MOEYS, MEF, and other key stakeholders in national and sub-national planning and budgeting processes will ensure that systems are strengthened in order to enable the Ministry to undertake effective medium-term planning, budgeting, and priority program implementation. This will include the establishment of an Education medium-term expenditure framework (MTEF), which will be integrated within MEF medium-term financing projections. The initial Education MTEF showing overall resource requirements and projected Government spending on education is shown in Table 10.4.

Every effort will be made to secure the recurrent budget requirements, but a recurrent budget shortfall of around Riels 133 billion is projected over the ESP period, heavily weighted towards 2001-2003. The Ministry will seek policy-based recurrent budget support from the donor community to cover this shortfall.

Table 10.4 Education Strategic Plan 2001-2005 - Projected Resource Requirements (Riels Billion)

	2001	2002	2003	2004	2005
Overall Recurrent Requirements	244	344	430	483	541
Projected PEP resources	221	293	400	(463)	(531)
Projected recurrent budget shortfall	**23**	**50**	**31**	**20**	**9**
Overall Capital Requirements	137	91	85	125	134
Projected locally-financed	14	29	37	(48)	(63)
Projected capital budget shortfall	**123**	**62**	**48**	**77**	**71**

Source: MOEYS.
Note: Projected available resources for 2004-05 based on MOEYS assumption that education's share of GDP rises from 1.5 percent in 2001 to 2.4 percent in 2005.

Overall capital budget requirements, covering facilities development and capacity building programs, are projected to cost around 570 billion Riels over the period (roughly 110 billion Riels per annum). Once again, the Ministry will seek assistance from the donor community to support this extensive capital investment program.

The financial planning, management, reporting and accounting systems for ESP implementation will be based, wherever possible, on the use of existing or planned Government systems. In broad terms, the Ministry proposes that the following recurrent financial planning and management mechanisms are used for the various priority programs, including:

- Education service pay reform programs and performance incentive schemes, through Chapters 10 and 13 of the Government's budget, respectively
- Provincial and district operations, including monitoring through revised guidelines for provincial education budget Chapter 11
- Central MOEYS department and post secondary institution operational budgets be managed through specific and delegated budget allocations under Chapter 11
- Majority of priority action programs (apart from the subsidies/scholarships for the poor), through Chapter 13 of the sub-sectoral and provincial budget allocations
- Subsidy / scholarship programs for the poor, through Chapter 31 of sub-sectoral and provincial budget allocations.

It is proposed that for the programs under budget Chapter 13 and 31, the technical and financial program management and reporting be delegated to designated district-based budget management centers. However, decisions on program management arrangements will be made on a case-by-case basis, taking account of capacity assessments and capacity building requirements.

Similar use will be made of Government financial management systems for capital investment programs, including capacity building. MOEYS will explore the scope for using provincial and rural banking systems for the disbursement of funds to provincial/district education authorities and communities for facilities development. The Ministry will provide further guidance after consultation with MEF and assessment of provincial/rural banking capacity.

Financial management of capacity building programs will be designed on a case-by-case basis, depending on the scale and complexity of the programs. Once again, the Ministry's

guiding principle will be to use Government financial planning and management systems, including increased use of dedicated accounts in the Government Treasury, MOEYS Finance Department and in some instances, individual MOEYS departments.

10.5.3 INDICATIVE PROGRAM PRIORITIES

A number of priority programs for targeting and disbursement of the wage and non-wage education budget have been identified. These programs are only indicative and will be subject to further design and appraisal. The particular budget mechanism to be used will be determined during the annual Government budget discussions and negotiation with potential donors. These programs will be detailed as part of the Education Sector Support Program (ESSP) plan to be presented in May 2001. A preliminary program summary, which is subject to amendment, is provided in Table 10.5.

Table 10.5 Preliminary Summary of Priority Programs (Recurrent, Riels Billion)

Programs/Years	2001	2002	2003	2004	2005	Total
1. Education/Teaching Service Efficiency	24.0	24.0	24.0	31.5	31.5	135.0
2. Basic Education Quality and Efficiency	16.0	36.0	44.0	50.0	58.0	204.0
3. Improved Primary Education Progression	9.0	10.0	10.0	12.0	10.0	51.0
4. Upper Secondary Quality and Efficiency	2.5	2.0	5.0	7.0	9.0	25.5
5. Higher Ed and TVET Quality and Efficiency	4.0	4.0	4.0	4.0	4.0	20.0
6. Continuous Staff Professional Development	5.3	12.5	26.2	29.0	28.0	101.0
7. School Instructional Materials	12.8	12.2	18.3	19.5	22.1	84.9
8. Non-Formal Education Expansion	1.0	3.0	4.0	5.0	5.0	18.0
9. Youth Aids Awareness	1.0	1.0	1.0	1.0	1.0	5.0
10. Equitable Access/Scholarships for Poor	7.8	9.0	26.0	34.0	46.0	122.8
Total	**83.4**	**113.7**	**162.5**	**193.0**	**214.6**	**767.2**

Source: MOEYS.

The general education teaching service efficiency program outcome is to ensure equitable access to education services through reduced informal payments to teachers by poorer families. Another outcome will be the improved performance of the teaching service, linked to improved efficiency in staff deployment. The main activity includes performance based incentives to the teaching service linked to special incentives for core groups, including head teachers, working in remote and difficult circumstances and teachers providing specific efficiency gains (e.g. multi grade teachers). MOEYS will be designing specific guidelines for targeting and allocation of these allowances. The program will be managed through 180 district BMCs, with monitoring by HQ Personnel Department based on agreed staffing regulations. The indicative cost of this program is around 135 billion Riels.

The basic education quality and efficiency improvement program outcome will be to reduce the direct costs on poorer families through increased Government support for operational costs at both primary and lower secondary levels. The first component and main activity will be to expand the PAP for primary schools nation wide to over 180 district Budget Management Centers (BMCs), including school operating budgets. The HQ Department of Primary Education will manage the monitoring of the program. The second component will be to introduce direct support for school operating budgets into grades 7 to 9, linked to management of these funds by the district BMCs. The HQ Department of Secondary Education will manage the monitoring of the program. The indicative cost of the school operating budget program is around 200 billion Riels over 5 years.

The *improved primary progression/retention program outcome* will be to regulate age of entry and increase the student progression rate across Grades 1 – 6 and transition from Grade 6 –

7. The main activity will be vacation time remedial teaching programs across all 6 grades, building on the proposed program for year 2001. In addition, a nationwide one-month vacation reception class for new Grade 1 entrants will be organized from August 2001. The program will be managed by 180 district BMCs. The HQ Department of Primary Education will manage the monitoring of the program. The cost of the program is estimated at 51 billion Riels over 5 years.

The upper secondary quality and efficiency improvement program primary objective/outcome will be to reduce the direct and indirect costs on poorer families through increased Government support for operational costs in upper secondary grades 10 to 12. A second outcome will be to improve internal staff deployment and pupil teacher ratios, through redeployment of administrative staff back to the classroom. Meeting new MOEYS guidelines will be a condition of receiving operational budget support. The first component and main activity will be to introduce the PAP for grades 10 to 12 in schools nation wide to over 150 district BMCs, including school operating budgets. A second component will be to provide allowances for the redeployment of secondary school staff at the district level. The HQ Department of Secondary Education will manage the monitoring of the program. The estimated cost of this program is 25.5 billion Riels over 5 years.

The higher education and TVET quality and efficiency improvement program outcome will be to improve the quality and efficiency of higher education and TVET institutions. A second outcome will be to improve the financial regulation, management and accountability of higher and TVET institutions, through new MoEYS guidelines for public/ private partnerships in financing these sub sectors. The main component and activity will be to implement the Prime Minister's recent guideline to ensure adequate operational budget support for higher education and TVET institutions. The main activity will be to provide performance-based budgets for institutions. The TVET component is to provide operational budgets to provincial TVET institutions and the National Training Fund. A key objective will be to secure quality improvement and financial sustainability post donor support. The Department of TVET will be the BMC. The indicative cost of this program is 20 billion Riels over the 5-year period.

The staff continuous professional development program will expand operations at the RTTCs and PTTCs through provision of operating budgets for these institutions. The objectives will focus on the expansion of pre-service and in-service programs, including for full time and part time multi-grade and multi-subject teaching and continuation of teacher orientation program especially for introduction of grade 10 to 12 textbooks. This will allow for more efficient deployment of teaching staff, linked to the incentives under program 1. The Department of Teacher Training will be the BMC. The indicative cost of this program is 101 billion Riels for the 5-year period.

The instruction materials program outcome will be to secure improved quality and education standards in primary, lower secondary and upper secondary schools. The main activity will be to provide core textbooks and additional selected complementary and supplementary materials/workbooks at all levels against agreed targets of provision. The program will be linked to the gradual commercialization of the publishing and distribution house, MOEYS. Budget management center arrangements have yet to be finalized, although the publishing house will be designated to monitor the program. The indicative cost is around 85 billion Riels for the 5-year period.

The non-formal education expansion program outcome will be to provide cost efficient and targeted complementary schooling and literacy programs in under-served areas. Activities will include literacy classes, expansion of re-entry programs for school dropouts into Grades 4 and 7 and improved management. Budget management center arrangements have yet to be

finalized. The Department of Non Formal Education will be responsible for program monitoring. The estimated cost of the program is 17 billion Riels over the 5-year period.

The youth AIDs awareness program outcome is to increase the awareness of in school and out of school youth to Aids awareness and prevention mechanisms. The target group is estimated population of 2 million between the ages of 11 and 20 years. The main activity will be to launch a nation wide Aids information and prevention campaign, delivered through primary and secondary schools and community centers. The teaching service will be mobilized as major disseminators of Aids messages. The Department of Youth and Sport will be the BMC. The total cost is an estimated 5 billion Riels over the 5-year period.

The equitable access and retention program would guarantee students from poor families would have the opportunity of continuing their education to the highest levels that their abilities allow. This initiative would also begin to offset the low levels of participation of the poor at the later stages of education. For example, at present there are no students from the poorest 20% of families in higher education, meaning the human potential of poor families remains untapped. The scholarships scheme will operate at four levels including primary, lower secondary, upper secondary and higher education. Management and monitoring arrangements have yet to be finalized. The estimated cost is 122.8 billion Riels over the 5-year period.

Table 10.6 Preliminary Summary of Priority Capital Programs

Description	Riels Billion	$ Million
1. Expansion and Consolidation of Primary Education Access	66.5	16.7
2. Expansion of Secondary Education Access	42.4	10.5
3. Demand Expansion of Existing Secondary Schools	79.2	19.8
4. Multi Purpose Practical Rooms for Lower Secondary	39.4	9.8
5. Computer Laboratories for Post Basic Education	31.9	7.9
6. Rehabilitation of Existing Schools	119.9	30.0
7. Teacher Accommodation in Rural and Remote Areas	24.7	6.2
8. Teacher Training Facilities	20.5	5.1
9. Higher Education and TVET Facility Development	50.0	12.5
10. Strengthening Monitoring and Evaluation Systems	15.0	3.8
11. Other Program Planning and Management Capacity Building	85.0	21.0
Total	**574.5**	**143.3**

Source: MOEYS.

A preliminary summary of the capital program priorities is presented in Table 10.6. *The education facilities development program* outcome will be to secure equitable access to high quality primary and secondary education in underserved and overcrowded areas and schools. The main activities will be to construct or rehabilitate school buildings and provide furniture. The priorities will be incomplete and overcrowded primary schools, lower secondary schools in districts/clusters with no current provision and selective additional provision for upper secondary schooling in underserved areas. In addition, housing will be provided in schools in difficult circumstances in order to help retain staff. At the upper secondary and post secondary level, additional specialist facilities will be provided in schools with Grades 10 – 12 and in higher education, TVET and teacher training institutions. Program and financial arrangements will be determined on a case-by-case basis for each program component. The program will be monitored by the Department of State Assets, MOEYS. The indicative costs will be 468 billion Riels (roughly 95 billion Riels per year) over the 5-year period.

The *strengthening monitoring and evaluation systems* program outcome will be to strengthen MOEYS capability at HQ and provincial levels to monitor and evaluate the progress and impact of education reforms, especially the performance of the PAP initiative. The main

activities will be to improve the processes, training and other capacities of HQ and provincial level staff in monitoring and evaluation techniques. The PAP will include provision of operational costs and staff performance incentives for monitoring/evaluation. The monitoring programs will be managed through a number of departmental BMCs for various programs. The estimated cost is around 15 billion Riels over the 5-year period.

The other *program planning and management capacity building* programs outcome will be to strengthen planning, management and monitoring systems for the various priority programs. Capacity building will include organizational development, equipment, other logistical support, advisory services and training programs for MOEYS departments, provincial and district authorities and schools. A priority will be to build up the capacity of the Department of State Assets, private contractors and communities to implement, manage and monitor the comprehensive facilities development program. The budget management center for the capacity building programs will be the National Committees for the Development of General Education and Higher Education/TVET within the respective directorates. The cost of the program is an estimated 85 billion Riels over the 5-year period.

10.6 PROGRAM APPRAISAL AND MONITORING PROCESSES

In late 2000, Government and donors endorsed the need for an in-country joint appraisal of Government/MOEYS ESP and ESSP proposals for the medium-term, tentatively scheduled for June 2001. The broad goal of the appraisal exercise will be to reach a joint Government/donor/NGO negotiated settlement on a realistic and achievable education reform plan for the 5-year period, taking account of available Government and donor resources. A second overarching consideration will be an assessment of the capacity of Government and other stakeholders to implement reforms effectively and on time. The ESSP document will consist of 2 components, focusing on sector management plans and more detailed program plans.

The *sector management component* of the ESSP document will incorporate the following elements: (a) a status report and indicators on current progress of reform implementation; (b) the proposed priorities and sequencing of reforms over 2001-5; (c) a sequenced policy/strategy matrix and anticipated outputs/outcomes and targets; (d) a medium-term financing framework reflecting implementation priorities and targets; (e) an action plan for effective financial and technical planning/management/monitoring system development; (f) an action plan for effective financial and technical progress and impact monitoring system development; and (g) an action plan for securing effective joint Government/donor/NGO review mechanisms.

The first joint annual appraisal/review process provides an opportunity to forge new education partnership processes for implementing reforms during 2001-2005 and beyond. If the ESSP implementation process is to proceed effectively, Government/MOEYS, donors, NGOs and civil society will need to jointly endorse the way forward. The strategic priorities should include: (a) a jointly agreed education policy/strategy reform action plan and targets, appropriately prioritized and sequenced; (b) a jointly agreed medium-term ESSP financing framework and budget plan, indicating levels of contribution from Government, donor agencies and private/community sources; (c) an agreed ESSP institutional reform and development plan, including sequencing of capacity building requirements; (d) an agreed structure and process for ESSP progress monitoring and evaluation; and (e) an agreed ESSP forward work plan, including the responsibilities of Government/donor/NGO and other stakeholders, incorporating how forward work planning will be managed and monitored.

In the medium-term, the Government and MOEYS recognize that a number of other key measures will need to be taken that ensure the effectiveness of partnership processes,

including: (a) building an annual sector performance review process into the annual Government budget planning process and calendar; (b) strengthening the capacity of Government/MOEYS to service the proposed annual performance review process, especially prior sector performance information collection and analysis; and (c) ensuring that Government/MOEYS, donors, NGOs and civil society undertake the necessary capacity building and resourcing required to be effective partners.

ANNEX 11: HEALTH

Cambodia's health status is among the poorest in the region, as Table 11.1 shows. The public health system has suffered from war and chronic under funding and is having serious difficulties in meeting the health needs of the population. A heavy burden of communicable diseases results in high mortality rates among children and adults. Progress has been made in seeking to revitalize the health system and to break the vicious cycle of ill health, debt, and poverty that economically cripples Cambodian families and retards the country's development. However, considerable further effort is needed to improve access to health services of improved quality. To this end, the Ministry of Health (MOH) is formulating a sector master plan linking health sector reform with the broader fiscal and administrative reforms presented in Annex 3.

Table 11.1 Health Indicators for Asian Countries, 1997

Country	Average Life Expectancy	Under 5 Mortality Rate	% of children with low birth weight	% children under 5 with moderate stunting	TB Prevalence (per 100,000)	HIV / AIDS Prevalence (% of adult pop.)	Total Health Expen. Per Head ($)
Lao P.D.R.	53	122	18.0	47.0	167.0	0.04	n/a
Cambodia	**54**	**115**	**18.0**	**56.0**	**539.0**	**2.40**	**18**
Indonesia	65	60	11.0	42.0	285.0	0.05	17
Vietnam	68	40	17.0	44.0	189.0	0.22	9
Philippines	68	41	11.0	30.0	310.0	0.06	n/a
China	70	47	9.0	16.0	33.7	0.06	19

Source: UNDP 1999.

11.1 BACKGROUND TO HEALTH SECTOR DEVELOPMENT

Medical infrastructure and trained personnel were decimated by the Khmer Rouge: of the 1,000 doctors trained prior to 1975, less than 50 survived the regime. In 1979, the restoration of a functioning health care system became one of the highest priorities of the new government of the People's Republic of Kampuchea. The period 1980 to 1989 was one of reconstruction and rehabilitation, with many health workers being trained through accelerated training courses of varying quality. The health service delivery system was designed as a publicly financed, staffed and managed service, based on a socialist model of health service delivery. But the quality of the services provided was poor. At that time, only UNICEF and a few international NGOs were active in Cambodia.

The period 1989 to 1995 was a time of strengthening and development, with substantial government and donor investment. In 1993, authority and responsibility for program development and budgetary control for local health units were transferred from the local governors to the Ministry of Health (MOH). Also starting in 1993, preparation started on the basic legislation on key organizations in the sector and regulations for the management of pharmaceuticals. These various provisions were passed into law between 1995 and 1998. Also during the 1990s, medical staff needing to complement their government pay of $10-20 began opening private practices.

11.2 FINANCIAL RESOURCES AND FISCAL REFORM

Overall health sector expenditure was equivalent to about 12 percent of GDP in 1996-97. Out-of-pocket household expenditures accounted for 82 percent of this expenditure; the Government for 4 percent; and official donor assistance and direct funding by NGOs for 14 percent. Approximately 90 international and national NGOs are currently working in the health sector, some funded by aid donors and some financing their own activities.

In 1999, the Government allocated 6.6 percent of its total expenditure to public health services, or just 0.63 percent of GDP. This represents half of the Southeast Asia and Pacific regional country average of 1.3 percent. Although MOH expenditure has risen in recent years, its contribution per capita remains low at $1.70 per person, slightly lower than the $1.80 per capita expended in the mid-1990s. In addition, there are wide inter-provincial variations in government budget access, and budget releases remain irregular, undermining the new planning and management structures put in place by the reforms. The cost for a provider to deliver services from an already established health facility, estimated at $2.40 per capita per year, is 30 percent higher than what the MOH is currently allocating. Increasing health expenditures is imperative.

The burden of health costs weighs heavily on the population, especially the poorest. A 1996 breakdown of funding sources of health expenditures shows that households are by far the greatest contributors to health expenditures, with 82 percent of the total. At $33 per capita, the level of annual individual health expenditures is almost 20 times more than that provided by the public health budget. It is also considerably higher than in other parts of the world, including the Southeast Asian Pacific Region. In relative terms, the poorest strata of society spend the largest proportion of their income on health expenditures (28 percent), making health care expenditure a major source of debt, landlessness and further poverty. On average, a single inpatient visit to a public hospital was estimated to cost 109 percent of non-food expenditures in 1997. Much of this expenditure is unofficial, unpredictable for the patients, and is not used for improving the quality of care. According to the 1999 CSES, medical costs constitute the third largest item of the households' budgets after food and housing/utilities. The rapid uncontrolled growth of the private sector over the last ten years has frequently diverted patients from public facilities to the staffs' own private practices. The public sector is currently utilized in less than one-fourth of all illness or injury cases.

11.3 ACCESS AND UTILIZATION OF HEALTH SERVICES

Since the 1996 Health Coverage Plan (HCP) the health system has been divided into three levels: central, provincial and operational district. The health infrastructure is still being developed and the reach of the public health system remains limited. In 2000, 55 percent of the population had geographic access to primary-level public health facilities, that is, about half the population lived within a 10 kilometer radius or a two-hour walk of a health center. Approximately three-quarters of the primary level facilities receive the drugs necessary to provide a Minimal Package of Activities (MPA). Referral services are still in a stage of development and while 92 percent of the provincial Referral Hospitals (RH) receive the special package of drugs necessary for performing major surgical procedures, only around 30 percent can provide surgical care. The number of hospital beds per thousand inhabitants (0.96) remains low in comparison to neighboring countries, and their distribution nationwide is uneven.

Utilization of public health services on a national scale is very low as most people first seek care in the private sector when ill. According to the *Cambodia Socio-Economic Survey 1999*, the percentage of persons with illnesses who had sought treatment from public health institutions was 24 percent nationally, down from 31 percent in 1997. The increase in private health providers during the inter-survey period presumably contributed to the reported decline. In 1998, about 14 percent of all illnesses or injuries received no treatment, with the rate of non-treatment twice as high among rural inhabitants. The poorest segment of the population is more than four times more likely than the most affluent to forgo treatment altogether. Curative care utilization rates also vary widely among provinces. However, an encouraging trend may be seen in the facilities developed in line with the HCP, which show higher utilization of reproductive health care and immunization activities than other types of primary level public facilities.

Immunization coverage of children under the age of one was 50 percent in 1998, with children in urban areas and whose mother has had secondary or higher education more likely to have completed the vaccination schedule than other children. Also, a higher percentage of male children are completely vaccinated than female children. Service coverage for pregnant women was found to be low, with 23 percent of pregnant women receiving two Antenatal consultations. Again, wide geographic variations are found in both immunization and reproductive health coverage. The 1998 National Health Survey documented that larger variations still exist between socio-economic groups (see below). Although birth spacing services are available from both public and private health sectors, the contraceptive prevalence rate remains very low (16 percent) compared with other countries in the region.

11.4 HUMAN RESOURCES

The development of human resources within the health sector is an integral part of the reform process. As of October 1998, there were 23,434 health workers employed by the MOH at all levels. The population-to-physician ratio is higher in Cambodia than in neighboring countries (twice as high as in Thailand or Laos), but the nurse to physician ratio is lower and, overall, there is a lack of midwives, especially at Health Center level. Health personnel are poorly distributed to meet the health requirements of the population. Fully 63 percent of all the doctors and medical assistants are found in Phnom Penh and provincial towns, leaving remote areas critically under-served. The ratio of population to government doctor, which is 1,280 in Phnom Penh, varies from 2,545 to 4,777 in the other urban areas, and from 5,405 to 72,089 in the provinces. This imbalance is in large part due to inadequate salaries, which make Government staff favor urban placements where private practices can be established to supplement a public worker's income. Hardship and supplementary allowances have failed to mitigate this urban bias.

A substantial proportion of the current health staff was trained during the 1980s, when the urgent need to bridge the gap in human resources led to the organization of poor quality crash-course training with a focus on curative care. As a result, the public health services still suffer from inadequate technical and managerial capacity to respond to the recently reformed health care delivery system. In addition, public health workers salaries are totally inadequate to meet the basic cost of living, which causes poor staff motivation, supervision difficulties, and unofficial patient charges. This undermines the overall efficiency and equity of the system and slows down progress toward implementation of health sector reform as a whole.

The first Health Workforce Development Plan provided a framework for the training and employment of health personnel over the period 1996-2005. Current staff numbers are currently deemed sufficient for the implementation of the HCP, with the exception of midwives.

The most urgent training program priority is the upgrading of the essential skills of currently employed health workers through in-service training.

11.5 THE HEALTH STATUS OF CAMBODIANS

Although the health status of Cambodia's population remains among the lowest in the Western Pacific Region, some recent improvements in morbidity rates have been occurring. The 1997 CSES estimated the percentage of persons who had any illness, injury or other health care needs during the 4 weeks before the survey at 15 percent of the total population. Government policies aim at improving health and the MOH has developed a system of outcome indicators of health status that can be used to monitor changes in health and well being over time. The delivery of health services is of course one way to achieve better health and well-being.

11.5.1 MOTHER AND CHILD HEALTH

Early childhood mortality was very high during the period of the Khmer Rouge rule, dropped considerably during the following decade, then continued to decrease more slowly. Retrospective analyses of the 2000 Cambodia Demographic and Health Survey (DHS) data suggest that it reached a low in the late 1980s but has been slowly going up since the early 1990s. The Infant Mortality Rate (IMR), a clear indicator of the quality of life for children, was estimated at 89 per 1000 live births by the 1998 NHS. This is somewhat higher than the value reported in the 1998 Population Census (80 per 1000), but lower than that estimated by the 2000 DHS for the 0-4 year period before the survey (95 per 1000). By way of comparison, the average IMR for the Western Pacific Region is 38 per 1000. Likewise, under-five mortality seems to be slowly increasing, from 115 per 1000 in 1998 to 125 in 2000. The average for Low Human Development countries is 106.

The nutritional status of children is not satisfactory. The World Food Program has judged that the country's nutritional status remains one of the worst in Asia after Afghanistan and the Democratic Republic of Korea. In 1996, 49 percent of the children aged 0 to 59 months were found to be moderately or severely underweight. A targeted survey found that over half the children under the age of five are chronically malnourished. Girls are better nourished than boys, but the rural poor experience twice as much child malnutrition and mortality as the urban rich. The prevalence of anemia, both among children and pregnant women, is considerably higher than in other countries of the region.

Maternal mortality is high, with 473 deaths per 100,000 live births, reflecting the under-development of the health system and the poor access of pregnant women to essential obstetric services. High fertility also contributes to high mortality.

11.5.2 INFECTIOUS DISEASES

The main health problems of health center outpatient consultations were acute respiratory infections (ARI) and fever. However, among inpatients at public health facilities, major health problems included Tuberculosis (16 percent of all cases), malaria (14 percent) and ARI (10 percent). Road accidents came in fourth position, affecting 5 percent of inpatients. Diarrhea disease and ARI are the main causes of mortality in children under five years.

- *Malaria* is a major cause of morbidity and mortality in all age groups, especially among forest dwellers and forest migrant workers. Nearly 150,000 new cases were diagnosed and treated at public health facilities in 1998. The case fatality rate of malaria was 0.43 percent in 1998.

- *Tuberculosis* remains a major health problem, with some 15,000 new cases diagnosed and treated at public health services each year. Cambodia has been identified by the WHO as one of the 22 high-TB burden countries in the world. Around 100,000 persons are estimated to be suffering from TB, half of them contagious pulmonary positive. However, Cambodia also has the highest detection rate for the contagious pulmonary forms of the disease in the region. The cure rate has increased from 64 percent in 1995 to 85 percent in 2000. The greatest concern comes from the growing incidence of tuberculosis associated with HIV/AIDS. Hepatitis B is endemic, but leprosy no longer poses a significant health problem.
- *Vaccine preventable diseases* such as polio, measles, and tetanus are significant public health issues.
- *Accidents*, which have long been a major health problem, have been decreasing significantly, with the number of cases reported by public health services down by almost one half between 1997 and 1998. Cambodia still has the highest amputation prevalence rate in the world (one per 236 persons). On the other hand, the number of road traffic accidents has been increasing steadily by about 15 percent per year. In 1998, 376 mine accidents and over 10,000 road accidents were reported.

11.6 HEALTH POLICIES DURING SEDPII

11.6.1 THE MINISTRY OF HEALTH'S PLANNING AGENDA

Government health services face the dual challenge of improving both their efficiency and their equity. The MOH has laid out a broad agenda of activities and designed a sequence of steps to be carried out over the next 18 months in order to provide a blueprint for the shape and role of Cambodia's health services in the future. It has laid out the structure of the consultative process that will result in the intended outputs: a National Health Sector Strategy and a National Health Master Plan for 2001-2005:

- The *National Health Sector Strategy*, to be developed in 2001, will set out the sector's main objectives and the means by which they will be achieved, specifying the respective roles to be played by the MOH and by public and private sector providers. It will articulate the key policies and strategies that will be jointly tabled by the MOH and its partners in order to ensure planned health outcomes. It will also outline the choices made among priorities and the ways in which the sector resources will be allocated.
- The *National Health Master Plan for 2001-2005* will be developed during the second half of 2001. It will indicate activities for implementation within the agreed upon time frame of July 2002-June 2006.
- The National Health Policy and Strategies and the National Health Master Plan will be informed by *Health Sector Expenditure Projections* (or medium-term expenditure framework), which will assess the financial resources both needed and available for funding priority health services. It will provide indicative budget ceilings for operations. The overall operational framework constituted by the Master Plan and the Expenditure Review will guide the development of annual plans by budget managers. Maximum flexibility for budget revision on an annual roll-over basis will be built into the process, so as to accommodate changes as they are introduced.

The overall process involving the three steps described above is planned to be an iterative agenda, with ongoing reviews and analyses feeding into the different stages of development and refinement throughout 2000-2002.

11.6.2 HEALTH POLICIES

The goal of MOH is to promote the health of the people, so as to enable them to participate in the socio-economic development of the country and to reduce poverty. The supporting objectives are to improve equity and accessibility of basic health services; to ensure improved efficiency, affordable costs, and high quality services; to ensure the sustainability of MOH functions; and to protect the poor. The policies of the Government for the health sector hinge upon the following 9 priorities:

- To provide basic health services, including family planning and reproductive health services, to all people with community participation
- To decentralize financial and administrative functions
- To develop human resources
- To foster competition among public and private sector based on technology and professional ethics
- To promote people's awareness of a healthy lifestyle and of the qualifications of health care providers
- To promote health legislation
- To pay special attention to women's and children's health and nutrition and to the control and prevention of communicable diseases
- To take into account specific priority groups such as the elderly and the disabled and specific health issues such as mental health, eye care and oral health
- To strengthen the Health Information System.

11.6.3 HEALTH STRATEGIES

In order to achieve the objectives listed above, MOH has defined specific health strategies. These aim to:

- Promote women's and children's health through basic care service delivery for all women, including antenatal care, delivery and postnatal services, reproductive health services such as birth spacing, good nutrition, safe delivery, and personal and family hygiene practice; and through immunization and curative care coverage for children.
- Reduce the incidence of communicable disease such as malaria, dengue fever, tuberculosis, diarrhea disease, acute respiratory infection, and sexually transmitted disease, particularly HIV/AIDS.
- Improve coverage of public health service with good quality and efficiency for people through the provision of MPA at health centers and CPA at referral hospitals.
- Upgrade the professional capacity of government health staff to ensure the effectiveness and efficiency of the health system, through planning, revision of basic training, and expansion of continuing training to health staff on clinical techniques and management.
- Ensure appropriate supply of drugs, equipment and materials to the public sector, in conformity with actual needs of the system. Ensure effectiveness of the provision of health care service through drug distribution system reform and improvement of management and utilization of drugs and materials.
- Upgrade capacity of technology and management of referral hospitals in the whole country, including improvement of the referral system.

- Reinforce the full participation of the private sector in the delivery of health services to people by motivating and controlling the private sector to become a true partner of the Ministry of Health.
- Promote awareness of the population about good infant and young child feeding and hygienic practices.
- Improve the ability of laws relating to health sector to be effective by re-enforcing the collaboration with other relevant institutions in implementing these laws, and by legislating new regulations according to the actual needs of the health system development. Develop and strengthen laws and standards of medical services, food safety, cigarettes-drug business etc.
- Upgrade health management through health system reform with a clear defined role at each level, appropriate decentralization, various standardized trials of health financing schemes, aid coordination, planning, monitoring and evaluation.
- Upgrade policy development, survey studies and extension of the health information system.

An issue that needs to be urgently addressed, and which is related to issues of sustainability, is the anticipated cost of making services accessible to the poor, particularly at referral hospitals. There are currently no MOH health reform pilots designed to improve the workings of the exemption system for tertiary care. It will be necessary to devise a better system for granting exemptions for the poor by comparing the current ad hoc facilities-based means testing with alternatives such as community-based means testing and geographic targeting. More successful systems, which have been tested in other Asian countries, include:

- Participation of village- level committees to identify the poor, who are then issued special exemption cards (Thailand, Indonesia)
- Subsidized health insurance (Vietnam)
- Demand-side financing methods, such as coupons or vouchers (some Indonesian pilots).

Equity funds, which would finance the cost of providing care to poor persons receiving exemptions, have been suggested as an appropriate solution to the problem of low incentives to provide good-quality services for the poor. Health insurance for catastrophic medical costs, on the other hand, has been judged as having more potential for poverty prevention than for poverty alleviation. The MOH is currently preparing a ”boosting” proposal to enable it to deliver high quality services at a reasonable cost while ensuring access and utilization by the poor. Realistic targets corresponding to critical health objectives will be set, and interventions specifically designed to achieve the targets.

11.6.4 MOH PUBLIC INVESTMENT PROGRAM

The PIP for the health sector totals $325.6 million for the period 2001-2003, representing 19.7 percent of the total PIP allocation. Of this amount, $319.6 million will be administered by MOH. The projects and estimated costs are shown in Table 11.2. The largest allocations are for the strengthening of the health services (40 percent of the Ministry total) and the rehabilitation of the national hospitals (almost 20 percent).

Table 13.2 Public Investment Allocation for Ministry of Health, 2001-2003 ($ million)

PIP No.	Project	2001	2002	2003	Total	RGC	Ext.	Un-funded
Ongoing								
427	Prevention of Blindness	3.3	0.03	0.03	3.3	0.8	2.5	0
87	Rehabilitation of National Hospitals (MOH / NAH. 10)	20.7	20.9	21.0	62.6	20.2	38.0	4.4
79	Women and Child Health (MC.2)	8.5	9.2	9.3	27.0	3.4	10.3	13.3
80	Strengthen Health Management and Planning	8.7	8.1	8.1	25.0	19.0	1.9	4.1
81	Human Resource Development	1.6	1.2	1.1	3.9	2.2	1.7	0
82	Tuberculosis Control	1.9	2.3	2.5	6.7	4.3	2.4	0
83	Malaria and Dengue Control	4.9	5.5	6.1	16.5	8.4	7.8	0.3
78	Strengthen Health Services (BH 1)	41.2	44.3	43.4	128.9	44.1	35.4	49.4
86	AIDS/STD Program (AI.9)	9.3	8.9	9.3	27.5	3.1	0.7	23.7
666	Health (EFRP)	0.5	0.5	0.5	1.5	0	1.5	0
92	ENT/Mental Development (NO 15)	0.3	0.3	0.4	1.0	1.0	0	0
93	Public Health Institute-NPH16	0.8	0.9	0.9	2.7	1.3	1.4	0
94	Education Hygiene and Primary Health Care	1.8	1.9	2.0	5.7	1.7	0.07	3.9
95	Blood Transfusion Program	1.0	1.0	1.1	3.1	3.1	0	0
426	Controlling Food and Drugs Administration	1.4	0.6	0.5	2.4	1.4	0.4	0.6
84	Pharmaceutical Reform (MOH / ED7)	0.6	0.6	0.6	1.8	1.6	0	0.2
	Total	**106.5**	**106.2**	**106.9**	**319.6**	**115.0**	**104.9**	**99.7**

Source: MOP, *Public Investment Program, 2001-2003.*

ANNEX 12: HIV/AIDS

Cambodia's HIV prevalence rate is the highest in Southeast Asia, and rising at the highest rate (Table 12.1). HIV/AIDS does not simply kill. It affects all social classes, leads to long periods of incapacity, often strikes people in their most productive years, and demands enormous resources from carers. Moreover, HIV increases the likelihood of those infected with TB developing the disease. Given the prevalence of TB (Table 12.1), the HIV/AIDS epidemic will dramatically increase the TB burden. Avoidance of a disastrous epidemic requires swift preventative action.

Table 12.1 People Living With HIV/AIDS in Selected Asian Countries, 1997

Country	Number aged 0-49	Adult Rate (% aged 15-49)	AIDs Cases per 100,000
Cambodia	130,000	2.40	n/a
Laos	1,100	0.04	1.3
Vietnam	88,000	0.22	1.3
China	400,000	0.06	n/a
Thailand	780,000	2.23	101.1
Philippines	24,000	0.06	n/a
Malaysia	68,000	0.62	21.5
Indonesia	52,000	0.05	n/a

Sources: UNDP, *Human Development Reports 1999,2000*.

12.1 SITUATION ANALYSIS

The HIV virus was first detected in Cambodia in 1991 and the first cases of AIDS were diagnosed in late 1993-early 1994. During the 1990s the number of reported cases of HIV infections increased rapidly, from 3 in 1991 to 7,726 in 1999 (Table 12.2). The biggest jump occurred between 1994 and 1995 when the number of new cases was multiplied by 4. The biggest increase in reported AIDS deaths was between 1997 and 1998 with a trebling of the numbers. But the exact number of deaths remains unknown. AIDS deaths are not routinely reported to the Ministry of Health. For 1999, estimated cumulative numbers for HIV infections and AIDS cases respectively were 240,963 (162,900 according to HIV Sentinel Serological Surveillance) and 21,619. For the year 2000, it was projected that there would be 49,228 new HIV infections and a total of a quarter million infections. The estimated prevalence rate amongst the adult population is now estimated at 3.75 percent.

When specific sub-groups of the population are considered separately, the highest infection rate (33 percent in 1999) is found among female direct sex workers (Table 12.3). There are an estimated 7,000 to 10,000 brothel based sex workers in the country. In addition, there are possibly as many as 50,000 to 100,000 indirect sex workers (such as beer promoters, dancing bar women or karaoke lounge attendants). Among beer promoters, the prevalence rate reached an average of 20 percent in 1999, while the other freelance sex-workers registered average prevalence levels of 17 percent. Combined with high levels of brothel and commercial sex use among men, this large pool of infections has induced an explosive spread of the HIV virus in the early stages of the epidemic.

Table 12.2 HIV/AIDS Infections and Deaths

Year	HIV Infection	AIDS Deaths
1991	3	0
1992	91	0
1993	204	0
1994	640	9
1995	2,520	15
1996	4,241	72
1997	4,102	69
1998	6,152	229
1999	7,726	314

Source: NCHADS.

Among male high-risk groups, prevalence rates reached 7 percent among the military in 1997, the last year before this high-risk group was taken off the groups covered by the sero sentinel surveillance surveys. Testing of blood collected from the military academy in late 1998 showed 15 of the 50 donors to be HIV positive. Prevalence rates were also relatively high among the police (6 percent in 1997) but were down slightly to a little below 5 percent in 1999.

Another high-risk sub-group consists of mobile workers. Many men and some women leave their homes for better work prospects and income to support their families. Particularly, during the dry season (November - March) many rural men migrate to construction projects in urban settings, to the coast for fishing activities, and to tourist attractions. Migration within the region is one of the critical factors that fuel the regional epidemic.

The predominant mode of transmission is heterosexual contact and there is now evidence that the virus is increasingly spreading into the general population, as male brothel users in turn infect their wives. Among the general population, prevalence levels are about 50 percent higher in men than in women. The infection rate among pregnant women tested in ante-natal care clinics was 2.6 percent in 1998. Significant perinatal, or mother to child transmission (MTCT), is already reported and higher levels of infection are suspected. On the whole, infection rates are also much higher in urban than in rural areas.

Recent HIV-surveillance data are encouraging, however, in that they suggest a slight decline in the rate of transmission. This decline may be a result of the behavioral changes that have occurred due to educational interventions, greater availability of condoms, better treatment of Sexually Transmitted Diseases (STDs), and greater visibility of the epidemic.

12.1.1 AWARENESS AND BEHAVIOUR CHANGES

Behaviour Surveillance Surveys have shown that urban men have slightly more partners and more partners at high risk than rural men; that urban men use condoms more frequently than rural men; and that more single men use condoms with Female Sex Workers (FSW) than married men. In 1999, after a STD baseline assessment of the knowledge, attitudes, and practices of the urban poor, MOH developed priority strategies for STD prevention and control, and a national policy on condom use. A pilot “100% Condom use” project was launched in the port city of Sihanoukville, and education programs were conducted nationwide in order to

increase regular and consistent condom use by Cambodians and to decrease their risk of exposure via unsafe sex. It was acknowledged that although the burden of illness and care weighs more heavily on women than men, AIDS campaigns had tended to be male-centric. The demand for commercial sex declined, condom use in commercial sex rose, and STD cases plummeted.

Condom use reportedly has been increasing markedly in all of the high-risk groups (Table 12.3). Among women, higher rates of condom use are reported by FSWs during commercial sex, even with their regular clients. The percentage of FSWs reported always using condoms has climbed from 16 percent in 1996 to 90 percent in 1999 (although the actual numbers are subject to the caveat that there may be substantial over-reporting of condom use by FSWs, especially in cities with intensive behavior change programs). Rates of condom use, however, are significantly lower among beer promoters, perhaps because these casual sex workers do not perceive themselves as sex workers.

Among men, high-risk behavior is reported with the highest frequency among the military and the police. These two groups have therefore been targeted for direct interventions, with behavior-change programs designed to educate them about the risks of HIV/AIDS and to increase their use of condoms with FSWs. The success of these interventions is attested for by the steady increase in reported condom use from 33 and 45 percent respectively in 1996 to 67 and 78 percent respectively in 1999. Additionally, there appears to have been a marked decrease in the proportion of the military reporting visits to FSWs from 65 percent in 1997 to 33 percent in 1999 (Table 12.4). This decline also applies to the police, though to a lesser extent (from 52 to 33 percent during the same two-year period). This self-reported decrease in commercial sex use, however, seems to be counteracted by a rise in casual sex among the general population, especially among urban youth.

Motorcycle taxi drivers, another male high-risk group, have not been targeted for direct interventions. Still, they too report a steady increase in condom use, suggesting that behavior change is happening across socio-economic groups and filtering throughout the cities, beyond the groups participating in behavior change programs. Nonetheless, the rate of increase in reported condom use has been lower in the non-intervention groups than in the intervention groups.

Table 12.3 Trends in Condom Use Among Selected Groups (%)

Group	**1996**	**1997**	**1998**	**1999**
Female Sex Workers	15.7	62.2	79.1	91.1
Beer Promoters	n/a	9.6	29.7	38.2
Military (past 3 months)	32.6	53.7	64.6	67.0
Police (past 3 months)	45.2	63.3	62.4	78.1
Motodrivers (past 3 months)	n/a	62.1	55.1	67.0

Source: Behavioral Surveillance Surveys.

Table 12.4 Men's Past Month Commercial Sex Use

Group	1997	1998	1999
Military	64.7	40.8	32.6
Police	51.8	32.8	33.3
Motodrivers	42.1	33.9	31.1

Source: Behavioral Surveillance Surveys.

Finally, it is quite likely that changes in the frequency of high-risk behaviors are also linked to the increased likelihood of personal knowledge and exposure to people with HIV/AIDS. The proportion of individuals in each surveyed group who reported knowing someone sick with AIDS has increased as the HIV epidemic matures and more individuals become sick throughout the population. As interaction with AIDS patients becomes more common, it brings the reality of the disease closer to individuals in many different social, economic and professional groups. This kind of personal experience, which makes the risk of AIDS a reality, may well affect behavior change most deeply.

12.1.2 IMPACT

The impact of HIV/AIDS on society and economy is detrimental to poverty reduction and development efforts. The victims of the epidemic are relatively young people at the beginning of their productive lives. Their already poor working and living conditions will deteriorate further, compounded by illness and death.

A 1999 study tried to assess the direct and indirect economic costs of the AIDS epidemic. Direct costs include the public and private costs of treatment and care, the cost of caring for AIDS orphans, the cost of funerals, the public and private costs of prevention, and the cost of preparing the health care system to deal with the growing epidemic. The most important indirect costs of AIDS are the private losses to households and extended families and communities due to the premature death of young adults of prime working age. According to the most optimistic scenario (i.e. assuming an early peak of the epidemic in 1998) the estimated cost of 5,336 people living with AIDS (PLWAs), both inpatients and outpatients, in 1999 was $1,552,776. The estimated cost per PLWA was therefore $291, or approximately ten times per capita expenditure on health. According to the same scenario, indirect costs over the period 1999-2008 would be $429.9 million (nominal value). With the assumption of the epidemic peaking in 2002, this figure goes up to $484.1 million, and for a 2006 peak to $555.5 million.

Using prime-age death as a targeting criterion is likely to be more appropriate than estimating the current and future losses per AIDS death. Prime-age death targetting has several advantages, including facilitating the acceptability of safety net programs targeting the surviving household members. In Cambodia, individuals and family members have traditionally been supported by extended family systems. However, due to the disruptions caused by years of civil war and consequent estrangement, and the incidence of poverty, many families can no longer rely on these networks. Essential supportive elements previously seen in the community are now often absent, and people affected by HIV/AIDS become increasingly vulnerable.

The impact of adult illness on children starts when a parent is diagnosed or falls ill with HIV/AIDS. Prior research demonstrates that children orphaned by AIDS suffer physical, educational, and emotional setbacks. They also have more household responsibilities,

including caring for younger siblings and sick adults. When asked to explain the link between parental illness and educational setbacks, older children cite not only their household responsibilities, but also their own psychosocial distress and their families' declining ability to afford school fees. The loss of the male head of the household due to AIDS will disrupt the normal decision-making process and this may lead women to head households. Women, children and less productive older adults will take over tasks for the household and the farming. Property selling becomes widespread and undermines further the livelihood of households already weakened by the loss of adult breadwinners. The likely impact of the AIDS epidemic in slowing down poverty reduction efforts needs to be reckoned with.

With elderly relatives and others in poor health comprising the "safety net," it is likely that many affected children will experience not one or two but a series of caregivers, households, and deaths. Families short of funding to ensure care and support, may not be able to afford assisting fellow members of their community or may abandon HIV positive family members including children and infants to hospitals. A far greater burden will have to be taken care of by government services. In addition, HIV affected children may be denied education, childcare and even friendship and social interaction. The number of HIV infected children left at orphanages increases steadily. This represents another huge challenge to the national Government.

In 1998, the NHS estimated that almost 8 percent of children below 15 have lost one or both parents. This approximates 380,000 children. Of those, around 40,000 have lost both parents. By the year 2003, it is projected that an additional 48,000 orphans will have been created as a result of the AIDS epidemic alone. In addition, increased rates of mother-to-child transmission mean that by 2003, an estimated 16,700 children will have died from AIDS. Children are affected in other ways too, even if they do not themselves become sick or orphaned. The catastrophic health costs incurred by a family caring for an AIDS patient considerably increases malnutrition of children and school dropouts of daughters and sons.

The impact of the disease on the health system must not be underestimated. Currently, it is estimated that some 12,000 persons, most of them unable to afford hospital care, seek care and support annually. Within the next 5 to 10 years, up to 200,000 AIDS cases will seek care and treatment within the health system. The problem is made more intractable still by the high TB prevalence, including multi-drug resistant strains. A challenge facing policy makers is how to insure that the health system is prepared for this abrupt increase.

Macroeconomic impacts of HIV/AIDS have not yet been explored fully, but undoubtedly labor productivity will be adversely affected and scare public and private resources diverted.

12.2 THE STRATEGIC RESPONSE

12.2.1 BACKGROUND

As soon as the first HIV cases had been detected in the population, a National AIDS program was established by the MOH, and a two-year plan on AIDS prevention and control developed to cover the period 1992-93. Also, in 1992 a National AIDS Council (NAC) and a National AIDS Secretariat (NAS) were established. Shortly afterwards, Provincial AIDS Councils (PACs) and Provincial AIDS Secretariats (PAS) were established. A National AIDS Plan covering the period 1993-98 was developed. The first review of the National AIDS response took place in 1997, after which a National Strategic Plan (1998-2000) was completed.

The Ministry of Health and the National Center for HIV/AIDS, Dermatology, and STDs (NCHADS) have developed a strategic plan for HIV/AIDS/STI Prevention and Care 2001-

2005. It provides a framework within which annual, operational workplans for implementation can be prepared. It is the result of careful epidemiological and program analysis, and a lot of work within NCHADS , NGOs and UN agencies. In addition, the Ministry of Women's and Veterans' Affairs produced a national policy for Women, The Girl Child and HIV/AIDS to promote and strengthen prevention of HIV/AIDS; and the Ministry of Education, Youth and Sport set up an inter-departmental working group to ensure the implementation of the strategic plan in response to the HIV/AIDS epidemic. Other ministries and working groups are in the process of developing strategic plans and policies.

12.2.2 CURRENT ORGANIZATIONAL STRUCTURE

In the late 1990s several important organizational changes took place at the level of the MOH and at the national level. Within the MOH, the National AIDS Program and the National STD Center were merged in March 1998 to become NCHADS. The new center was established to oversee the response of the MOH as well as to provide technical support to other Government agencies and national partners. The strategies of the NCHADS are laid out in the National Strategic Plan.

The second important organizational change was the Royal Decree to establish the National Aids Authority (NAA) to oversee the national response. The NAA replaced the former NAC and NAS and incorporated their functions, roles and responsibilities. These included:

- To make recommendations on matters of national policy
- To report on the status of the HIV epidemic
- To ensure minimization of the impact of the epidemic
- To define a national strategy of prevention and control
- To ensure coordination and facilitation among line ministries.

The main contribution of the multi-sectoral approach at the national level has been to raise the profile of the AIDS problem across society, to engage new participants in the policy dialogue (including NGOs and civil society), and to set up national priorities, with MOH retaining a leading role.

At the provincial level, the PACs and PASs continue to coordinate and facilitate the response to the epidemic through the design, implementation and review of Provincial Strategic Plans on HIV prevention and control. For implementation of activities at the provincial level, the decentralization of the response is a key priority. However, uneven capacity to undertake AIDS prevention and care activities at the provincial level remains a challenge.

The HIV/AIDS response has been and continues to be highly dependent on foreign donors (see Table 12.5). NGO involvement started quite early and is continuing to play a very important role, with significant allocations of funds. They have been providing mostly support services and a voice for PLWAs. Key roles include the provision of a wide range of services, such as education and social support. But there is a need to improve on coordination and information sharing.

12.2.3 MAJOR INTERVENTIONS AND ACTIVITIES

As in other countries, activities undertaken to monitor the epidemic and the impact of the response have largely taken the form of national survey **data collection and analysis**. Starting in 1994, HIV/AIDS Sentinel Surveillance Surveys (HSS) have been carried out annually. Financially supported by international donors, the HSS monitors the spread and trend of HIV infection over time by target group and place. To increase efficiency and better

assess national average prevalence rates, the HSS coverage was expanded to 18 provinces in 1996.

As a result of reviews by both national experts and external consultants, the MOH has modified the design of the survey every year to take account of the methodological recommendations made. In general, there is a need to ensure stability in the choice of HSS groups so as to allow comparison of the results from year to year. Also, a variety of statistical methods have been used to estimate overall prevalence levels over successive years, adding to problems of comparability.

A Behavioral Sentinel Surveillance system (BSS) was established in 1997 to monitor and track high-risk sexual behavior in selected target groups. The BSS is conducted in five major urban centers and includes five high-risk groups as surveillance groups.

Table 12.5 HIV/AIDS Funds Channels- Percentage of Annual Total

Year	Nat'l Budget	GoC loans	UN System	NGOs	Bi/Multi to GoC	Bi/multi to NGOs
1996	2	0	25	15	47	11
1997	0	1	32	10	39	17
1998	0	6	29	33	19	13
1999	0	9	27	34	19	10
2000	9	21	14	15	31	10
1996-2000	3	9	26	23	29	11

Source: NCHADS.

Among the major interventions designed to monitor the spread of the epidemic has been the **provision of condoms** and mass education. The Government program has limited provision for condoms, but a social marketing approach has been introduced with considerable success by Population Services International (PSI), which is currently selling over a million condoms a month. In 1999 an estimated 12.8 million Number One condoms (the PSI brand) were sold. The potential condom market is estimated at 25 million a year. PSI provided 3.5 million condoms to the Ministry of Defense in the year 2000. In view of the need to ensure adequate supplies of condoms in all areas of the country, the social marketing approach needs to be maintained.

A mass campaign of **social communication** for HIV/AIDS education and prevention has been undertaken through the media and to some extent in the schools. In the schools, the MOEYS has been the lead agency in the initial efforts to integrate life skills approaches into school AIDS education. Buddhist monks have also been mobilized and involved in community health education, distributing education, information, and communication materials and being trained to provide care for PLWAs. Some 112 educational packages were produced during the period 1997-98, although no materials have been distributed on a scale that would make them available to the entire population. Also, some of the materials were found to be not necessarily relevant to the target audience. The PATH review recommended utilizing a combination of inter-personal and mass communication strategies.

Finally, **HIV tests** have become more available in cities. Private testing centers as well as public facilities provide such tests at low cost and try to ensure reasonable privacy for their clients. Personal HIV tests have been authorized for sale in private pharmacies, without quality control, counseling or reporting of results. In this area there is clearly a need for regulatory and training activities. To promote access to HIV/AIDS counseling and testing, new strategies are needed to maintain quality insurance.

The main challenge for the coming years will be how to care for PLWAs. It is likely that demand for home care will grow as the epidemic matures.

12.3 POLICY DEVELOPMENT

With the exception of a National Policy adopted in 1995, there was limited policy development until 1999. In August 1999, a national policy on 100 percent condom use in the sex industry was drafted based on the lessons learned in the Sihanoukville pilot project. The expansion mechanism of this policy still needs to be developed.

A comprehensive National AIDS Policy for prevention and control was established in 1997 by the MOH to reduce HIV transmission and reduce the associated morbidity and mortality. The policy focus is on the implementation of interventions that:

- Have the highest impact on the spread of the virus
- Target vulnerable populations
- Promote community participation and involve PLWAs.

12.3.1 NATIONAL POLICY AND PRIORITY STRATEGIES

The NAA has established the National Policy and Main Strategies for 5 years, from 1999 to 2004. The objectives are to ensure that:

- HIV transmission into the general population is prevented by creating a social environment that is conducive to the prevention and control of HIV/AIDS and supportive to activities aimed at systematic relief of the problem
- The potential of the individual, the family and the community, as well as the country's economic system for managing and reducing the scope of the problem, is strengthened.

Policy 1 HIV/AID Response Structure

The NAA considers that the HIV/AIDS problem is a relevant issue for many fields of society. Program management to deal with the problems of HIV/AIDS must therefore be organized and implemented in a multi-sectoral structure at each level, to deal with the situation and evolution of the epidemic.

Main strategies

- HIV/AIDS Prevention is the most urgent priority to be fully supported by the Government with regard to policy, and by various technical institutions with regard to technical issues of implementation.
- Preventive services to control the spread of HIV/AIDS require cooperation between governmental institutions, international and non-governmental organization, religious institutions, private organizations and the community.
- The management structure to fight against HIV/AIDS must have a multi-sectoral and decentralized character.
- The NAA must play a key role in elaborating National Plans and Main Strategies for Prevention and Alleviation of HIV/AIDS; and as lead coordinator of public and private, national and international institutions that implement HIV/AIDS programs.
- Resource mobilization for HIV/AIDS activities throughout the country by motivating and encouraging support and active cooperation from national and international communities.
- Improving the understanding of all government personnel working in the HIV/AIDS area, in order to increase their capacity to implement the national policy.
- Allocating adequate financial support by the Government for HIV/AIDS activities throughout the whole country.

- Increase the potential of provincial and district authorities for initiating their own efforts to find financial support to deal with HIV/AIDS.
- Promote collaboration and synergy of concerned organizations and agencies, i.e, associations, NGOs, reproductive health programs, community organizations and persons living with HIV/AIDS, in managing HIV/AIDS problems.

Policy 2 Health Information and Education

The NAA cooperates with the relevant national and international institutions to promote knowledge and understanding of HIV/AIDS for the general population, focusing on vulnerable populations.

Main strategies

- Produce documents for advocacy and awareness on HIV/AIDS to be included in the other education programs of concerned ministries, in the curriculum of schools at all level.
- Produce educational materials to promote education on HIV/AIDS through the media for:
  - A good understanding of HIV/AIDS.
  - A good understanding of the links between HIV and STDs.
  - A good understanding about sexual behavior and reproductive health.
  - Safe sexual practices.
- Establish an education program on HIV/AIDS prevention to be broadcast by public or private authorities, in particular in educational establishments.
- Establish direct education for groups in vulnerable situation, such as youth, women, sex workers, migrant workers, refugees, displaced persons, drug users, gays and their sexual partners.
- Establish the policy of 100% condom use throughout the whole country, focusing on situations of high risk of transmission of HIV, and create conditions so that condom supply is sufficient, easily found and very cheap.
- Promote mobilization of public and private authorities to assure that their personnel have access to information and education related to HIV/AIDS.
- Encourage media in the public and private sectors to cooperate in diffusing information or documentation related to HIV/AIDS.

Policy 3 HIV/AIDS Prevention and Care Services

The NAA seeks ways to:

- Ensure the population has access to efficient and effective prevention services.
- Ensure that persons living with HIV/AIDS have access to cure and care services in an atmosphere of tolerance and respect for human rights.

Main strategies

- Ensure equitable access to health care for all individuals without consideration of gender, location, socio-economic of legal situation, or HIV status.
- Institute a tolerant atmosphere, and avoid discrimination and isolation of people living with HIV/AIDS.
- Establish directives that HIV antibody testing must occur only with free and informed consent, and with pre-and post-test counseling.

- Ensure that complete guidelines for the case management of persons living with HIV/AIDS are established. These should operate within the continuum of care, including home care, community care and care in health establishments. This case management must be complete and include clinical care management, nursing care and counseling.
- Distribute technical directives about prevention and case management of people living with HIV/AIDS.
- Establish appropriate strategies for prevention, and care of people living with HIV/AIDS, such as blood safety, prevention of mother-to-child transmission, and prevention and cure of opportunistic diseases, with particular attention to Tuberculosis.

Policy 4 HIV/AIDS Research

The NAA will make every effort to increase and strengthen the national capacity for undertaking epidemiological, clinical and socio-economic research to collect information:

- On the situation and trends of the HIV/AIDS epidemic in Cambodia.
- To be used as a data-base to define appropriate approaches in HIV/AIDS prevention and alleviation.

Main strategies

- Strengthen health information systems for HIV/AIDS, including routine reporting of HIV/AIDS.
- Promote and set up program of research.
- To evaluate the number and of the persons living with HIV/AIDS in the population according to sex, age and area, and rate of spread of infection.
- To determine the type of HIV in Cambodia.
- To study the clinical form of HIV/AIDS in Cambodia and appropriate therapeutic, responses.
- To study the sexual behavior of the Cambodia population.
- To study the socio-economic impact of the HIV/AIDS epidemic.

12.3.2 MEDIUM-TERM EXPENDITURE FRAMEWORK

The medium term expenditure framework for the AIDS/STD program of the MOH presents projects with an estimated total cost of $76.2 million for the period 1996-2003. This represents 9.2 percent of the MOH's total budget for this period. Of this amount, $63.3 million is still required. For the three-year period 2001-03, the programmed level of investment is $27.5 million. The budget allocation for 2001 gives financial priority to STI services and program bureau management, followed by care/support of PLWAs (Table 126).

Table 12.6 HIV/AIDS Budget for 2001 ($)

PLAN AREAS	EST. COST	NAT'L BUDGET	WORLD BANK	UNICEF	UNFPA	UNAIDS	FAC	EU	USAID
IEC	640,000	50,000	390,000	200,000					
Outreach	390,000		300,000						
100% CU	1,145,000		100,000						
STIs	2,430,000	1,000,000	142,000		500,000			500,000	60,000
Blood safety	370,000		370,000						
PMTCT	275,000			120,000			26,000		
Institu'l Care	985,000		60,000				60,000		
Home-based care	530,000		30,000						
Counsell- ing & Testing	870,000			200,000			50,000		50,000
Universal precautions	170,000		70,000						
Surveillance	525,000		350,000						
Research	380,000		150,000				60,000	150,000	60,000
Planning, coordination Manage-ment	695,000	100,000	170,000			80,000	10,000		10,000
Total	9,405,000		2,132,000						
Expected	5,283,000								
Shortfall	4,122,000								

Source: MOH Strategic Plan for HIV.

ANNEX 13: MINE ACTION IN CONTRIBUTION TO THE POLICY FOR POVERTY REDUCTION OF THE ROYAL GOVERNMENT

In reference to the report made by UNTAC in 1991 combining all figures informed by all the four Cambodian rival parties, revealed that land-mines left by various conflicts of more than two decades in Cambodian has about 8 to 10 million mines. But according to the official report released by the Cambodian Mine Action Center in 1997 based on the result from minefield survey showed that Cambodia has about 4 to 6 million land mines. The accuracy of these figures is currently in question. Meanwhile, some other non-governmental organizations that did a research in the Kingdom of Cambodia reported that the number of land mines in has only about one million.

Consideration is made on the figures of casualties provided by the Cambodian Red Cross caused by land mines/UXOs from 1979 to 2000 as follow:

Year	1979	1980	1981	1982	1983	1984	1985	1986	1987	1988	1989
Casualties	4170	1001	693	1343	2013	2172	2593	2181	2566	2158	2409

Year	1990	1991	1992	1993	1994	1995	1996	1997	1998	1999	2000
Casualties	2229	1718	1624	1675	2087	2053	2743	1417	2026	1107	836

In total the number of casualties from 1979 to 2000 is 42,814.

The above-mentioned figures of casualties caused by mines and UXOs over the period from 1979 to end 2000, Cambodia still suffers one of the highest rates of civilian casualties globally. The figure of mine/UXO casualties reflects that the question regarding the accurate figures of land mines is no longer so important. The right question need to be answered is that how to get the Cambodian people away from being maimed by land mines and UXOs. UN Secretary General H.E. Mr. Cofi Anan addressed to the Diplomatic Conference on Land-Mines in Oslo, discussing the draft of Ottawa convention, 03 September 1997 that "*…each mine cleared may mean a life saved…The presence -- or even the fear of the presence – of just one land-mine can prevent the cultivation of an entire field, robbing a family or perhaps an entire village of its livelihood…*"

The mine action sector within Cambodia is currently operating with a workforce of some 4000 that include: CMAC, MAG, HALOTrust and Engineer Force Command of the Royal Cambodian Armed Forces and a total annual budget of millions US$ supported by donor countries and the Royal Government of Cambodia.

Institutions presently involved in mine action within Cambodia:

1. CMAA: developing procedures as legal documents to oversee, coordinate, quality control of all operators and to manage database.
2. Cambodian Mine Action Center and Engineer Force Command of the Royal Cambodian Armed Forces: providing mine/UXO clearance services.
3. Ministry of Education Youth and Sports, Ministry of Social Affairs, Labour, Vocational Training and Youth Rehabilitation, Ministry of Women's and Veteran's Affairs, Ministry of Land Management, Urbanization and Construction: providing mine/UXO risk

education, mine/UXO victim supports services and coordinating mine/UXO victim assistance and cleared land.

4. Ministry of Rural Development and Provincial Rural Development Committee: providing clearance requests, local rehabilitation/development plans.
5. General Department of National Police of the Ministry of Interior: Assisting mainly with the receipt of local EOD (bomb disposal) requests, evacuation/control of the civilian population during EOD operations and provision of escorts for vehicles carrying unexploded ordnance to central disposal sites.
6. Ministry of Foreign Affairs and International Cooperation, Ministry of Economy and Finance and Cambodia Development Council: Assisting in coordination, lobbying and providing Government Counterpart fund for mine action sector.
7. Cambodian Red Cross: gathering information under the project called Cambodian Mine/UXO victim information system and providing mine/UXO risk education service.
8. Donors and Other UN agencies (UNDP, CARERE/SEILA and UNICEF): coordinating with other donor countries provides financial assistance for the development and improvement of communities and develops strategy for mine/UXO risk education. Among the donor countries include: Australia, Belgium, Canada, Denmark, EU, Finland, Germany, Japan, Korea, Norway, Netherlands, New Zealand, Sweden, UK and USA.
9. Non-Governmental Organizations Major International Operators include MAG, HALO Trust and World Visions: providing mine/UXO clearance and mine/UXO risk education services. Norwegian People's Aid and Handicap International: providing technical assistant to CMAC, mine/UXO risk education and other services. Disability Action Council: providing coordination services for all mine victim assistance organizations.

Table presenting the achievement of mine action operation for 1993 to 2001

Institutions	Anti-personnel land-mine (mines)	Anti-tank land-minea	Unexploded ordnance (UXOs)	Cleared land (ha)
CMAC	129,960	2,505	609,351	8,529
RCAF	128,868	7,373	22,079	4,286
MAG	7,526		11,438	538
HALO Trust	26,366	183	17,509	1,399
Total	292,720	10,061	660,377	14,752

Vision

Based on the current problem the Cambodia face with landmines and UXOs, clearance rates, mine awareness programs, minefield surveys, and other mine action services achieved to date and together with contribution from the Royal Government of Cambodia, national and international institutions, UN agencies, particularly the donor countries around the world, it is anticipated that within 15 to 20 years, land will be cleared from mine/UXO enough to meet the need for development especially according to the prioritization of the operators.

Alternatively, consideration also needs to be made regarding the population growth of Cambodia that will increase up to 30 million people in the next twenty years, and therefore about 20 million new born will need lands that considered as low prioritized areas. When the time comes, the objectives of mine clearance operation will need to be changed accordingly. By that time, according to the technical evaluation some landmines will be rod and no longer effects then step by step prioritization will be focus more on UXOs.

National Five-Year Strategy

1. Reducing the impact of mines/UXO as quickly as possible by accelerating/increasing outputs coupled with improved targeting of most affected/highest impact areas.
2. Mine action operation will remain largely humanitarian and increase emphasis on mine action activities to support broader development and commercial activities.
3. Develop national mine action programs prioritize the need to reduce mine/UXO including mine/UXO clearance. It is to be recognized balancing “preventive” mine action activities with “curative” activities.
4. Develop national programs focusing on the integration of all mine action activities in the policy for reconstructing and developing Cambodia and emphasizes need to be made on ownership and sustainability of the operations.

The spread of landmines and UXOs across the country, a large areas of land to be negligible and not being used is another threat on the shortage of land for agriculture and other sectors contributing to the reorganization of communities especially in the previous combating places. The legacy of these landmines and all kinds of UXO proved that Cambodia need to overcome this serious difficulty in order to develop and reconstruct the country.

A way ahead: Partnership and Development Cooperation

Mine/UXO clearance, victim assistance and reduction of mine/UXO accident are a big issue. But cleared land is another important issue to be addressed for maintaining the existence of community. Mine clearance operation is not only to clear the land from UXO and mine but also to establish the community and to ensure normal living condition of the people.

Task need to be fulfilled in the future is huge that demining operation need to be accelerated quickly to get more land for handing over to landless people and for the construction of national infrastructure.

Mine action plans will be designed so as to maximize the use of existing capacities developed, and to ensure the efficient use of scarce resources. Providing that this objective be met, within 5 to 10 years we will be able to control the situation of landmine/UXO.

Marking contaminated areas and educating the public at large and raising awareness to dangers of land mines and UXOs also need be done in parallel. If good strategy has been developed then within 10 to 15 years in the future the areas contaminated mostly by mine will be cleared. It is expected that for the development purpose the government will be able to develop good work plan and operators will operating mine action effectively.

To achieve the above-mentioned goal all mine action operators including: Cambodian Mine Action Center, Engineer Force Command of RCAF, MAG and HALO trust and other mine action companies will not allow to do their operation in isolation. They have to work in the same goal toward the development as partnership and in accordance with the direction defined by the Royal Government.

In response to the need in cooperation and partnership, on September 04, 2000, the Royal Government established the Cambodian Mine Action and Victim Assistance Authority call “CMAA”.

1. RESPONSIBILITIES OF THE NEW ESTABLISH CMAA

The establishment of the Cambodian Mine Action and Victims Assistance Authority (CMAA or the Authority) has been an important step forward for mine action in Cambodia. The CMAA will have the responsible to ensure good coordination of all mine action the establishment of policies and procedures national mine action strategic plan to enable for the integration of this mine action sector into the Socio-Economic Development Plan contributed to the people poverty-reduction strategy of the Royal Government.

The formation of this important authority also reflects the ongoing development and maturity of mine action and acknowledges the changes that have occurred in mine action over the past t en years, both domestically and internationally. Over the course of 2002, the CMAA will put in place procedures and processes designed to ensure that mine action activities conducted in the /Kingdom of Cambodia are safe, coordinated, well planned and conducted in accordance with national and international standards.

One of the most important issues to be addressed during the year 2002 is the development of a national mine action strategy. This strategy will define the long-term goals and objectives that must be achieved to enable Cambodia to become free from the constraints imposed by mines and UXO. It will draw heavily upon information gained during the Level 1 Survey currently underway completing more than 70%. Based on this achievement the priorities can be put in place to ensure for clearance are consistent with national development priorities. The CMAA will coordinate this through existing provincial planning mechanisms.

Coordination of all mine action activities will continue to be one of the most important roles of the CMAA. The Authority will coordinate with Government Ministries and Departments, the international donor community, and relevant national and international organizations to ensure that the most effective and efficient use is made of resources, and that land allocation and land use issues are addressed.

Meanwhile, based upon the International Mine Action Standards already developed by the United Nations, the CMAA will develop National Mine Action Standards to ensure that consistency remain paramount in all mine action operations. An accreditation and licensing process will be developed which, together with a quality assurance and quality control process, will help to maintain the requisite standard. Guidelines will be developed to address issues relating to the implementation and testing of new technologies for mine action to ensure efficiency and improvement.

One other important task, the CMAA will also assist the Government in addressing its responsibilities vis-à-vis the various national and international instruments pertaining to mine action, such as the Anti-personnel Mine Ban Convention and the Convention on Certain Conventional Weapons and its Protocols. The CMAA will continue to advocate for a global ban on anti-personnel landmines and will engage with victim support agencies and organizations to ensure that the needs of mine victims continue to be addressed and will work together with its partners to help empower communities, individuals and institutions to manage the mine/UXO awareness.

Addressing in its work plan 2002, the CMAA will establish a National Mine Action Database in order to process, manage and disseminate information. This database will ensure that accurate mine action information is available and accessible to all domestically and internationally. The CMAA will continue to work closely with all operators, national and international organizations, government ministries and institutions.

2. POLICY DEVELOPMENT AND STRATEGIC PLANNING

Objectives

1. To develop a National Strategic Plan for Mine Action.
2. To develop National Mine Action Standards.
3. To coordinate resource mobilization and mine action activities.
4. To solve and address prioritization of cleared land.
5. To ensure that all substantive and reporting obligations under national and international laws, treaties and conventions relating to mine action are met.

3. QUALITY MANAGEMENT AND TECHNOLOGY

Objectives

1. To develop accreditation and licensing procedures for mine action organization.
2. To develop procedures for the monitoring of mine action organizations operating in Cambodia.
3. To develop procedures for post-clearance inspection and the handover of cleared land
4. To develop guidelines for the implementation and testing of new technologies for mine action.

4. INFORMATION MANAGEMENT

Objectives

1. To establish and improve National Mine Action Database as Cambodia's central mine action information repository using the Information Management System for Mine Action (IMSMA).
2. To develop streamlined reporting procedures for mine action operators to ensure that the National Database is populated with accurate and up to date information.
3. To develop a Cambodian Mine Action Website.
4. To develop and implement a Public Information Plan.

5. MINE AWARENESS EDUCATION AND VICTIM SUPPORT

Objectives

1. To coordinate mine awareness education activities in Cambodia.
2. To develop mine awareness education standards for inclusion in the National Mine Action Standards.
3. To support and promote the inclusion of mine victims in development projects and activities.
4. To promote the development of effective and appropriate rehabilitation programs.
5. To develop information networking on victim assistance through the Ministry of Social Affares, Labour, Vocational Training and Youth Rehabilitation and the Disability Action Council (DAC).

6. MONITORING OF COMPLIANCE WITH LEGISLATION AND INTERNATIONAL CONVENTIONS

Will be put in place the regular monitoring and reporting process in operation regarding compliance with national legislation and international conventions (Ottawa, CCW Amended Protocol II) on anti-personnel land-mines.

7. MINE ACTION OPERATION BY ORGANIZATIONS AND RELEVANT NATIONAL INSTITUTIONS

Objectives

1. Cambodian Mine Action Center and Engineer Force Command of RCAF will provide mine/UXO clearance and plan to continue demining the areas affected by mine/UXO of 100 Km^2 liberating land contaminated by mine/UXO of 144 Km^2 and will provide mine/UXO awareness to 185 districts to completely reduce mine accident by the year 2005.
2. Cambodian Mine Action Center and Engineer Force Command of RCAF will increase their workforces of up to 100 platoons. Improving sustainable national mine action organizations for clearance and marking areas highly contaminated by mine/UXO in order to reduce as lower as possible the accident and to support for the development.
3. Increase and further improve the capacity minefield technical survey of up to 24 teams and operate minefield technical survey at highest level to support for mine clearance and minefield marking to ensure that by 2005 the reduction of areas contaminated by mine/UXO of 144 Km^2 be met.
4. By the end of 2002, of up to 25 EOD teams will be established and deployed in each province of Eastern Mekong river.
5. Continue increase and improve Mine Detection Dog to accelerate mine clearance and integrate into the minefield technical survey.
6. Ministry of Education, Youth and Sport; Ministry of Social Affairs, Labour, Vocational Training and Youth Rehabilitation; Ministry of Women's and Veteran's affairs, Ministry of Land Management, Urban Planning and Construction; Cambodian Red Cross; Disability Action Council: continue providing the mine/UXO awareness education, gathering mine victim information, coordinating mine/UXO victim assistance services and manage cleared land.
7. Ministry of Rural Development and Provincial Rural Development Committee: continue leading in clearance requests, local rehabilitation/development plans.
8. General Department of National Police of the Ministry of Interior: continue assisting with the receipt of local EOD (bomb disposal) requests, evacuation/control of the civilian population during EOD operations and provision of escorts for vehicles carrying unexploded ordnance to central disposal sites.
9. International, non-governmental organizations: continue providing mine/UXO clearance services and mine/UXO awareness education.

Budget needed

According to the budget plan submitted through the Royal Government of Cambodia to Donors Consultative Group Conference (CG) on 11-13 June 2001 in Tokyo, for the period from 2001 to 2003. As for the year from 2004 to 2005 the figures are remain the same as preceding years.

(Amount in US$)

Institution	2001	2002	2003	2004	2005
CMAA	400,000	700,000	700,000	700,000	700,000
CMAC	13,500,000	13,500,000	13,500,000	13,500,000	13,500,000
Total	13,900,000	14,200,000	14,200,000	14,200,000	14,200,000

The budget needed in the above table not includes other organizations/institutions contributing mine action operation in the Kingdom of Cambodia. The CMAA will try its best to find out the expenses of all mine action operators by end of 2002.

CONCLUSION

The 5-year strategies we are formulating and the program activities we are going to implement, will indeed address the needs of Cambodia and our Cambodian people.

The task of freeing Cambodia from the scourge of land mines and UXO and rebuilding the communities and restoring the fabric of life requires resources and strong partnerships ownerships and strong participation from all Cambodian people themselves.

ANNEX 14: DISASTER MANAGEMENT

Disaster management is the prevention and reduction damaging risk and preparation for responding to emergency relief need as well as rehabilitation of social and economic operation to help people life get back to normal. Disaster not only destroys human life, public and personal property, and creates health problems and social orders but it also has serious negative impacts on national development. In sum, any type of disasters always creates bad conditions for people living and the RG efforts to strengthening economy and social welfare. Therefore, setting out strategic policies, a comprehensive legal framework, and building a strong disaster management institution are crucially important and immediately need.
The priority action of the RG in disaster management for the short and medium term which focusing on:

First: Developing national regulations and policies for efficiency disaster management;

Second: Developing plan and implementation frameworks for disaster management and coordination among national\, provincial, district, and community level;

Third: Strengthening human resources development and improving sources of institutional resources for efficiency of disaster management;

Fourth: Developing public awareness program and promote community participation in the disaster management; and

Fifth: Developing and strengthening collection and analysis mechanism and dissemination of disaster management to increase awareness and better forecasting.
For strengthening disaster management become to crucial implementation, in face the implementation preparation on these working as following:

First: Focusing on strengthening capacity of the NCDM and improving leadership and coordination among ministries and all related institutions of the RG as well as international institutions and civil society in order to reduce at maximum of the negative impacts on people living and economy.

Second: Improving the preparation for prevention to avoid unpredictable disaster through constructing dams, improving reservoir and drainage systems, building school at higher areas, building mobile home and safety areas, building clean water system, and preparing for health care and sanitation program during the disaster time etc.

Currently the world climate -- in Cambodia as well as in developed nations -- have brought about serious flooding phenomena. In order to resolve an issue that one should not underestimate its importance, the state of being prepared in advance must be put in place. This act of preparing is based on the fact of the existing mechanism and not necessarily the expansion and/or recruitment of further forces. In fact, what remained to be done are the efforts to coordinate activities. The taking attention on safety mound, mobile homes and other that help prevent the people from disasters. The preparing mobile homes are the safety mound for the people. If can't save people all of ages, at least can save the elderly people, women with pregnancy, small children and children by offering them to stay in the mobile homes in certain safety mounds. Mobile homes resolve not only problems caused flood disaster but can also assist immediately the victims from the fire. As far as water for

consumption is concerned, should think of using medicines that would prevent water from being contaminated.
Speaking about students to get enrolled in either late September or early October, students along the river areas--which are heavily inundated--could not start school according to pre-dated schedule. Therefore their curriculum has to be shortened. To provide a solution to these points there is a need for collaboration between education program and disaster management program to give consideration to such school building.
In some places have to prepare safety mound but should not isolate it from other facilities. If the place needs to have a school, the National Committee for the Disaster Management should incorporate the solution with the education programs so that schools will be built on high in accordance with the local need and conditions.
According to the experiences of areas prone to flooding (the victims) normally rallied at the Buddhist temples. The people normally escaped from flood to pagodas, which, to the most, were built on hilly areas. In this case one should think of cooperation with the local Buddhist monks so as to serve the objective of creating a safety system in the area.
As for places without Buddhist temple or schools, there remains a need for a safety mound. The safety mound has to be a projected area by the local authority. The local authority—the commune, Srok and Khet—has to be aware of such a facility. The safety7 mound must be a place that is searched and cleared of mines and unexploded ordnance.
The diversion of waterfront is a problem, which has been incorporated into a master plan projected by the Minister of Water Resource and Meteorology. The project has been proposed for financing to Japan and the Asian Development Bank. For study on waterfront diversion, the Cambodia National Mekong Committee and all related institutions of the RG should collaborate with Vietnam for the latter has built dikes downstream that culminated in a reverse of water current back to upstream. Therefore should collaborate with Vietnam in the lower stream to find ways to divert water to the sea the quickest possible.

Third: Improving capability for emergency action to respond immediately and efficiently to any disaster through improving efficiency of mobilization and management of financial resource, creating emergency relief task force, and mechanism to coordinate with arm forces, local authorities, and all related institutions.

Forth: Improving capability for rehabilitation and re-stabilization of the economic operation as well as the people living through impacts assessment mechanism and rehabilitation plan and collecting financial resources for effective an deficient implementation of the rehabilitation programs.

Fifth: Developing an early warning system and exchange information network with neighbor countries and local network through radio, phone-fax, and internet for quick exchange information among national, provincial, district, and community with cooperation from the ministry of water resources and meteorology and other related ministries. As well as the high priority to human resource training for both central and provincial level of the NCDM focusing on learning from experience, using new technology relief such as pre-assessment on frequently flood areas to incorporate in the infrastructure development plan.
Sixth, Promote public awareness and prevention among Cambodia citizen on the impact of unpredictable disaster created by nature or human such as flood prevention, disease prevention, flammable prevention, and preparation of community task force to safe life and property of its people in the community.

ANNEX 15: IMPLEMENTATION OF THE PLAN AND MEASURING PROGRESS

The foregoing annexes have presented the various policies, strategies and investment programs that Government intends to implement during 2001-2005 in order to reduce poverty by promoting growth with equity, social development, and sound environmental management. Development potential has been assessed. Numerous policy actions to improve the governance environment have been identified, including the necessary condition of reforming the civil service. Ways of improving the enabling environment for the private sector have also been identified, including better provision of physical infrastructure, improving the legal framework of economic activity (especially in relation to land tenure and commercial transactions), financial sector development, and adoption of liberal trade and investment policies. Sector-specific strategies have been described, with emphasis on the priority sectors of agriculture, rural development, health, and education.

The task ahead is the more difficult one of Plan implementation. Policies, strategies, and investment programs need to be put into effect, modified according to changing circumstances and new information, and evaluated for their effectiveness. Reasons for poor or slow implementation need to be established, and recommendations made for improving or accelerating it. Targets also may require adjustment as time passes and more or less than was predicted becomes appropriate. Monitoring, evaluating, and reporting arrangements are needed to ensure implementation, and must themselves be planned and adequately resourced if they are to be effective. This planning should allow for the involvement of the private sector and the public, and for the sensible application of external technical and financial assistance, given the limitations of current administrative capacity, the long-term nature of administrative reform, and the inherent desirability of involving the private sector, the donor community, NGOs, and the public in Plan formulation and implementation. The monitoring, evaluation, and reporting system then becomes a judicious mixture between the extremes of an entirely intra-Government exercise conducted under the supervision of the planning agency, and an outsourced review by an independent agency.

15.1 THE SEDPII OUTCOME MATRIX

The primary development goal of SEDPII is poverty reduction. The target is to reduce the poverty headcount index from 36 to around 31 percent. This target is set in recognition of three facts. First, the headcount index could be lowered further towards 20 percent if the rate of growth in the agriculture sector exceeded expectations and rose to 5-6 percent. Second, the index does not measure the depth and severity of poverty and must be supplemented by poverty gap and severity indexes. Third, development outcomes depend not only on effective Plan implementation, but also on a positive response from the private sector, ongoing political stability, and the absence of adverse natural and external economic shocks. This last factor means that, in assessing Plan implementation and outcomes, an emphasis on policy variables that the Government *can* control is appropriate (see section 15.2).

The development objectives that support the primary goal are sustained growth with equity, social and cultural development, and sustainable management and use of natural resources and the environment. The quantitative targets set for each objective are presented in Table 15.1, which also identifies the information source.

Table 15.1 SEDPII Outcomes Matrix

Goal/Objective	Target	Source of Information
Poverty **Reduction**	31% headcount index (plus falling poverty gap and poverty severity indexes)	National multi-purpose household surveys & other appropriate instruments identified in the poverty monitoring system currently being developed - National Institute of Statistics.
Sustained Economic Growth with Equity	Real GDP (factor cost) average annual growth rate of 6.1%. Agriculture sector growth rate of 3.5%. Industry sector growth rate of 7.0%. Services sector growth rate of 8.0%. Gini coefficient falls from 1997 level of 0.42.	National multi-purpose household surveys; national accounts – National Institute of Statistics.
Social Development	1. Infant mortality rate falls to 65 per 1,000 live births 2. Maternal mortality rate falls to 200 per 100,000 live births 3. Reduction in the <5 stunting rate by at least 1.5% per year 4. Percentage of rural population with access to safe water rises from 29% to 40%. 5. Percentage of urban population with access to safe water rises from 69.5% to 87%. 6. Percentage of rural population with access to improved sanitation facilities rises from 8.6% to 20%; and from 49% to 90% for the urban population. 7. 90% of 12 year olds completing Grade 6 and functionally literate and numerate. 8. Enrollments of 2.4m. in primary, 0.8m. in lower secondary, 0.3m. in upper secondary.	National multi-purpose household surveys; national accounts – National Institute of Statistics. Line ministry records.
Sustainable management and use of natural resources and the environment	See Table 15.2	

15.2 SEDPII POLICY ACTIONS

Improving the governance environment is regarded by the Government as essential to the achievement of the three key development objectives. Implementation of the Governance Action Plan (GAP) therefore is a lynchpin of overall Plan implementation. GAP encompasses the areas of judicial and legal reform, public finance, civil service reform, decentralization, anti-corruption, gender equity, natural resource management, and demobilization of the armed forces. It is presented in full in a matrix format in chapter 3, with the matrix identifying timelines and responsible agencies, and need not be reproduced here. However, for monitoring and reporting purposes it is desirable to select a relative handful of key, meaningful indicators from the full matrix, in order to permit an efficient informed assessment of progress. These are presented in Table 15.2, which also shows the key cross-cutting policy actions aimed at improving the enabling environment for the private sector.

Early in the SEDPII period, the Council for Administrative Reform (CAR) will finalize the GAP, including the further development in consultation with stakeholders of a monitoring and evaluation framework with performance indicators. Thus the indicators shown in Table 15.2 should be seen as preliminary and permissive of a rapid appraisal of progress. The CAR is responsible for monitoring implementation of the GAP in full and preparing semi-annual progress reports that will be made public. The timely production and dissemination of these reports can be used as one simple and initial indicator of overall progress in implementing governance reform. Actual implementation of this reform, including the mobilization of human and financial resources, is the responsibility of the eight reform councils/agencies and the ministries under their jurisdiction. Therefore, there is an expectation that subsidiary and more detailed reports will be prepared that feed into the CAR reports.

Table 15.2 SEDPII Policy Actions Monitoring Matrix

Governance Issues	Govt. Agency	Key Actions ST = short term (within 1 year) MT = medium term (in 2-3 years)	Monitoring Indicators
Legal Reform	COM, MOJ	Conduct public consultation on the draft civil and penal codes & procedures, and on the legal framework for the private sector (ST/MT)	Extent of public consultation as perceived by NGOs, civil society & private sector organizations
		Send these draft codes & laws to the National Assembly (MT)	Debated in the National Assembly
Strengthening the Judiciary	CJR, MOJ, MEF	Prepare a human resources needs assessment and a costed action plan for the Judiciary (ST); separate the budget of the Judiciary from that of MOJ (ST); and gradually increase the budget of the Judiciary (MT)	Action plan available; budget line created; increase in budget shown in Government Finance Statistics
Civil Administration and De-concentration	CAR	Develop a Strategy to Reform the Public Service detailing the sequencing & responsibilities for: (a) rationalizing pay and employment structure; (b) priority groups; (c) personnel management based on meritocracy; (d) smooth information flows within & between agencies involved in managing the civil service; (e) timely payment of living wages; (f) donor-paid supplementation; (g) deconcentration. The detailed plan should also ensure that donor activities in this area are consistent & coordinated (ST).	Availability of Strategy CAR progress reports
		Implement the redeployment & rationalization phase of the reform (MT)	Laws submitted, adopted and implemented
Decentralization and Local Governance	MOI	Submit draft laws on commune councils to National Assembly for review and adoption (MT)	Formulation and implementation of the plan
Public Finance	Customs Dept.	Prepare a comprehensive plan to develop a modern customs administration, including human resources development & training, material & infrastructure development, organizational restructuring & strengthening (MT)	Submission of amendment
	CDC	Submit an amendment of Article 14 of LOI to the National Assembly (ST)	Appointment made; external audits carried out
		Appoint an Auditor General of the National Audit	

	COM	Authority (NAA), using an open, transparent nomination & selection process (ST); and ensure that the NAA will have an independent budget line & adequate levels of budgets, human resources, and infrastructure to carry out its mandate (MT)	Preparation and submission; extent of public consultation
Anti-Corruption	COM, MNASRI	Prepare and submit to the National Assembly specific anti-corruption legislation, that reflects a broad base consensus about its scope and modalities (MT)	Legislation introduced
	MEF	Re-evaluate the legal framework governing public procurement, and introduce legislation to promote efficiency, transparency & accountability (MT)	Law prepared
Gender Equity	MWVA	In full consultation with stakeholders, prepare a law against domestic violence (MT)	Reports of Council for Demobilization of Armed Forces
Armed Forces	CVAP	Implement and complete a nationwide demobilization program (MT)	
Land Management	MLMUC	Draft implementing regulations for the new land law, including accelerating land registration and building a land administration system to enhance land tenure security, in full consultation with donors, NGOs and civil society (ST)	Adoption of implementing regulations; extent of public consultation
		Draft and submit a new forestry law to the NA, after full consultation with stakeholders (ST)	Law adopted
Forestry Management Fisheries Management	Forestry Dept. Fisheries Dept.	Implement the Fisheries Master Plan, including establishment of the Inland Fisheries Institute (MT)	Institute established; extent of implementation

Source: Tables 3.1-3.11.

15.3 PUBLIC INVESTMENT PROGRAM IMPLEMENTATION AND MONITORING

The *Public Investment Program, 2001-2003* and the subsequent PIPs for 2002-2004 and 2003-2005 are the companion volumes to SEDPII, since they spell out the projects that constitute the whole program, and provide costings and yearly schedules. These project details in principle are the result of prior and time-consuming assessment of project proposals in terms of their feasibility, cost, benefits, and degree of priority. Once in the PIP and the Plan, their implementation depends in the first instance on authorization of expenditure from the annual capital budget. Formal responsibility for preparation of the capital budget lies with the Ministry of Planning in order to ensure that the Plan is not circumvented by the inclusion in the annual budget of projects of low priority. Preparation of an annual capital budget in the context of a three-year rolling PIP also allows for modification of the Plan in light of changing circumstances.

The Government recognizes that there is a need during the SEDPII period to improve the connections between policy-making, planning, investment programming, and budgeting. In particular, it is acknowledged that the recurrent cost implications of all capital expenditure need to be assessed and the links between the annual capital budget and the recurrent budget strengthened, since in the public sector the limiting factor is revenue for recurrent expenditure, rather than capital funding. This requires more effective co-ordination between the Ministry of

Planning, the Ministry of Economy and Finance, and the Council for the Development of Cambodia, as well as strengthening line ministries' capacity to generate fully-costed programs. The extension of the SWAP/PAP initiative to the four priority sectors of agriculture, rural development, health and education is one key response to this need. But in order to avoid the development of donor-driven "enclave budgeting" that protects special sectors, the Government is also committed to taking a broader medium-term view of resource mobilization and allocation by moving towards the development of a multi-year budget framework.

As these reforms in public expenditure management proceed, implementation of investment projects will occur according to the varying existing capacities of the responsible line ministries and agencies to spend allocated funds and manage projects. Feedback on implementation with reference to financial and physical targets is needed to permit early identification of problems and appropriate adjustment of project work plans. Assessment of projects' performance against programmed objectives is also needed in order to evaluate their impacts and provide feedback into the policy, planning and budgetary processes. Such feedback is essential if public resource allocation is to be efficient.

For these reasons, the Council of Ministers on 23 August 1999 adopted a joint inter-ministerial circular on the *Monitoring of the Implementation of Public Investment Projects in the Framework of International Aid and Loans.* This circular was co-signed by the MEF, MOP and the CDC/CDRB for the actions to be taken in establishing project monitoring and evaluation working groups in the planning departments of line ministries and the preparation of regular reports to the MEF, MOP, and CDC/CDRB. These working groups need to be established/revitalized in order to measure project implementation against agreed time schedules, work plans, and available resources. However, it must be acknowledged that this will be difficult until administrative reform allows for the payment of living wages to civil servants, and until accounting, reporting and management systems at the line ministry level are strengthened. It must also be acknowledged that there is a need for clarification of the respective monitoring responsibilities of MOP, MEF and CDC. At present, there is some duplication of effort, with CDC issuing project monitoring forms for aid-financed projects that seek to monitor financial and physical progress; while MOP collects such information as part of the PIP preparation process. Coordination is needed to avoid such waste.

15.4 MONITORING AND REPORTING ON SECTORAL AND NATIONAL DEVELOPMENT

In addition to PIP implementation, a complete monitoring and reporting exercise must cover private sector and national development, and the implementation of new sectoral and cross-cutting policies/strategies. The details of these policies/strategies, many of which are in their formative stages, have been presented in chapters 3 and 5-12. Reporting on their progress and impact is the responsibility of the CAR in the case of governance reform and the MOP in other cases. The latter responsibility will be fulfilled by the General Planning Department of MOP, working in conjunction with the Public Investment Program Unit. The Department will draw upon the services of civil servants from the relevant line ministries and also concerned members of the private sector, NGOs, the donor community and the general public; and will receive monitoring and evaluation reports from Provincial Planning Departments. Progress reports will be submitted via the Director General of Planning to the Minister every six months. The Minister in turn will report to the Council of Ministers on progress in implementing SEDPII.

In order to fulfill its monitoring function effectively, the General Planning Department of MOP must be well-serviced and adequately resourced. The PIP for MOP shown in Table 15.3 consequently consists of projects aimed at easing administrative capacity constraints and improving relevant information databases. In addition to these projects, the Government will

give consideration to seeking donor assistance to undertake mid-term and final reviews of SEDPII, both of which would be in the nature of independent and external audits.

15.5 PLANNING IN THE FUTURE

The Government recognizes that the preparation of a comprehensive development plan is a process in which the public and private sectors, the donor community, NGOs, and civil society should participate. Such participation is warranted by a commitment to democratic governance, and also by a desire to enhance the quality of the Plan and the prospects of its effective implementation. The planning agency (MOP) cannot itself encompass all the expertise needed to design a Plan; and a Plan has a better chance of working if it is acceptable to those involved in carrying it out.

The Government also recognizes that it takes between two and three years to prepare a thorough Plan. Investment projects in all sectors of the economy have to be identified, designed, and appraised at the line ministry level within the context of the relevant policy framework, and possibly with external technical assistance or co-opted local input. Hundreds of project proposals arise from this exercise, and are submitted to the planning agency for assessment and possible inclusion in the Plan's investment program. This last task requires the planning agency to match project proposals against available resources and to ensure that the sectoral distribution of resources is in line with strategic priorities. On these matters, guidance must be provided by the Council of Ministers, which decides on the size of the Plan and its sectoral distribution. (A planning sub-committee may be established for this purpose). Ideally, a first draft of the Plan is prepared for examination by agencies involved in project planning and for re-assessment in terms of sectoral balance. A revised draft can then be prepared for consideration by the Council of Ministers and submission to the National Assembly.

The formulation process of a third five year plan therefore is planned to begin in 2003.

Table 15.3 PIP Allocation for the Ministry of Planning ($ million)

PIP No.	Project	2001	2002	2003	Total	RGC	External	Unfund-ed
On-going								
504	SEDPII Prep.	0.16	0	0	0.16	0.04	0.12	0
667	Support to PMCU	0.30	0.20	0.20	0.70	0	0.70	0
513	Human Dev. Report	0.21	0.21	0	0.42	0	0	0.42
High Priority								
537	Fishery Stock Survey	0.16	0.43	0	0.59	0	0	0.59
538	Socioeconomic Survey	0.19	0.19	0.19	0.58	0	0	0.58
534	Agric. Census	0.52	0.85	0.95	2.3	0	0	2.3
503	Building Capacity in Development Planning	0	0.23	0.57	0.8	0	0	0.8
539	Improvement of Statistical Databases	0.50	0.40	0.40	1.3	0	0	1.3
8	Strengthening Planning Inst.	0.50	0.50	0.50	1.5	0	0	1.5

532	Capacity Building in SubRegional Coop.	0.15	0	0	0.15	0	0	0.15
535	Statistical Databank	0.19	0.19	0.51	0.89	0	0	0.89
536	EIS	0.32	0.14	0.14	0.59	0	0	0.59
540	Census on local infra. & public services	0.76	0	0	0.76	0	0	0.76
533	Coordination (NCN)	0.65	0.65	0.65	1.95	0	0	1.95
TOTAL		4.6	4.0	4.1	12.7	0.04	0.8	11.9

Source: MOP, *Public Investment Program, 2001-2003.*

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TECHNICAL NOTES

Gini Coefficient

The Gini coefficient measures the extent to which the distribution of income or consumption expenditure among households deviates from a perfectly equal distribution. A Lorenz curve plots the cumulative percentages of total household income or expenditure against the cumulative percentage of households, starting with the poorest. The Gini coefficient measures the area between the Lorenz curve and a hypothetical (45 degree) line of absolute equality, expressed as a percentage of the total area under the line. A coefficient of zero represents perfect equality, and a coefficient of 1.0 represents perfect inequality.

The formula for computing the Gini with N elements sorted from the poorest to the richest:

Gini Coefficient = $\sum 2(X_i - Y_i)\Delta X_i$ summed from i = 1 to N,

and where $X_i = 1/N$, Y_i = the cumulative percentage of income by household, and $\Delta X_i = X_i - \Delta X_1$.

An example of a low Gini coefficient value is Japan in 1994 with 0.25. An example of a high Gini coefficient is Brazil in 1996, with 0.60. The coefficients for Australia, France, and the United States are 0.35 (1994), 0.33 (1996), and 0.41 (1997), respectively.

The Human Development Index (HDI)

The HDI is based on three indicators: longevity as measured by life expectancy at birth; educational attainment as measured by a combination of adult literacy (two-thirds weight) and combined primary, secondary, and tertiary enrolment ratios (one-third weight); and standard of living as measured by real GDP per capita (in purchasing power parity US dollars). Each indicator is calculated according to the formula:

Index = (Actual x_i value – minimum x_i value)/(Maximum x_i – minimum x_i value).[25]

The minimum and maximum values for each indicator are: life expectancy at birth, 25 years and 85 years, respectively; adult literacy, 0 percent and 100 percent; combined gross enrollment ratio, 0 percent and 100 percent; and real GDP per capita (PPP$), $100 and $40,000.

The HDI is a simple average of the three indexes.

The Gender-Related Development Index (GDI)

The GDI is based on the same variables as the HDI, but adjusts the average achievement of each country according to the disparity in achievement between men and women; and also adjusts the maximum and minimum values for life expectancy to account for the greater longevity of women. A full explanation of the GDI methodology is provided in UNDP, *Human Development Report 1995*.

The Gender Empowerment Measure (GEM)

The GEM is calculated using variables that measure the relative empowerment of women and men in political and economic activity. These variables are: (1) women's and men's percentage shares of

[25] Calculation of the income index is more complex. Incomes above a threshold level are discounted according to a formula for the utility of income and compared with the value of the maximum income discounted according to a second formula for the utility of income.

administrative and managerial positions; (2) women's and men's percentage shares of professional and technical jobs; (3) women's and men's percentage shares of parliamentary seats; and (4) women's and men's shares of earned income. An explanation of the GDI methodology and an example of its calculation are provided in UNDP, *Human Development Report 1997*.

Human Poverty Index (HPI)

The HPI focuses on the same variables as the HDI: longevity, education, and material standard of living. Vulnerability to death at a relatively early age is measured by the percentage of people not expected to survive to the age of 40 (P_1). Exclusion from education is measured by the percentage of adults who are illiterate (P_2). Deprivation in terms of a decent living standard is a composite variable (P_3) made up of the percentage of people without access to safe water (P_{31}); the percentage of people without access to health services (P_{32}); and the percentage of moderately and severely underweight children under five years of age (P_{33}). P_3 is a simple average of these last three variables.

HPI is then calculated according to the formula:

$$HPI = [(P_1^3 + P_2^3 + P_3^3)/3]^{1/3}.$$