

**ASIAN DEVELOPMENT BANK**

**COUNTRY ASSISTANCE PLAN  
(2001-2003)**

**CAMBODIA**

**December 2000**

## FOREWORD

The Country Assistance Plan describes the planned program of assistance by the Asian Development Bank (ADB) for [Cambodia](#) covering the three-year period 2001-2003. It includes loan and technical assistance projects, as well as possible cofinancing from other donors. The CAP was prepared by the ADB between April and June 2000, in close consultation with the Government of [Cambodia](#), and other stakeholders, including non-government organizations. The CAP was discussed with the Board of Directors in October 2000. The assistance plan described in the CAP is only indicative and may be revised to reflect more recent developments.

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## CURRENCY EQUIVALENTS

(As of 30 November 2000)

Currency	-	Riel (KR)
Riel	=	\$0.0002571
\$1.00	=	KR3,815

## ABBREVIATIONS

ADB	-	Asian Development Bank
ADF	-	Asian Development Fund
AIDS	-	Acquired immune deficiency syndrome
CARM	-	Cambodia Resident Mission
CG	-	Consultative Group
CHDR	-	Cambodia Human Development Report
DMC	-	Developing member country
EdC	-	Electricité du Cambodge
GDP	-	gross domestic product
GMS	-	Greater Mekong Subregion
HIV	-	Human immunodeficiency virus
IMF	-	International Monetary Fund
Lao PDR	-	Lao People's Democratic Republic
MEF	-	Ministry of Economy and Finance
MOEYS	-	Ministry of Education, Youth and Sports
NGO	-	Nongovernment organization
PPTA	-	project preparatory technical assistance
SEDP	-	Socioeconomic Development Plan
SME	-	Small and medium-sized enterprise
TA	-	Technical assistance
UN	-	United Nations
US	-	United States
VAT	-	Value-added tax

## NOTES

- (i) In this report, "\$" refers to US dollars.

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# CAMBODIA

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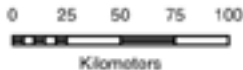
11°00'N

Gulf of Thailand

South China Sea



-  National Capital
-  Provincial Capital
-  City/Town
-  National Road
-  Other Road
-  Railway
-  River
-  Provincial Boundary
-  International Boundary



Boundaries are not necessarily authoritative.

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## CAMBODIA

### I. Country Performance Assessment

#### A. Economic Performance Assessment

1. With the formation of a coalition Government in late 1998, headed by Prime Minister Samdech Hun Sen, a new promise of peace, stability, and unity emerged. The new administration made poverty-reducing economic development its first priority and launched a comprehensive reform program, with emphasis placed on strengthening fiscal revenue collection, civil service reform, demobilization of soldiers, and improving forest resource management. Progress in moving this large agenda forward was indicated by the October 1999 International Monetary Fund (IMF) approval of a three-year \$81.6 million Enhanced Structural Adjustment Facility (now called the Poverty Reduction and Growth Facility [PRGF]) which stresses fiscal reform, particularly revenue mobilization.

2. Improvements in both political conditions and weather conditions contributed to stronger 1999 economic performance as tourism rebounded and a good 1999-2000 wet season rice crop was harvested. Real gross domestic product (GDP) growth accelerated to 5.0 percent in 1999 as compared to 1.8 percent in 1998 (Appendix 1). Investment increased in 1999, but investment approvals declined, in part because of revisions to the Investment Law to require larger deposits with applications for investment incentive benefits and in part because of the imposition of United States (US) textile quotas. The fiscal deficit narrowed from 5.9 percent in 1998 to 4.0 percent in 1999 because of improved revenue mobilization. Inflation fell to 4.0 percent in 1999 from 14.8 percent in 1998 and the value of the riel against the dollar remained relatively stable at about KR3815 per US dollar in 1999 after two consecutive years of depreciation. With the current account deficit widening only slightly and stronger foreign inflows, gross official reserves improved marginally from 3.7 months of imports to 3.8 months.

3. Industry was the main engine of real GDP growth in 1999, increasing its share of GDP by 1.1 percent to 19.5 percent, as the textile industry continued to expand and construction experienced a strong rebound after two years of contraction. The textile industry is now a major source of employment (there were about 180 factories employing over 100,000 workers in 1999) and foreign exchange earnings (garment export earnings increased by 60.0 percent to \$606 million in 1999). Real value added in services, which accounted for 36.0 percent of GDP in 1999, also rebounded after two consecutive years of contraction as both tourism and domestic consumption strengthened. In agriculture, at 40.1 percent of GDP, strong performance in crops and fisheries was somewhat offset by a sharp contraction in real value added in forestry as illegal logging was curtailed.

4. Fiscal performance improved markedly in 1999. The introduction of a value-added tax (VAT) in 1999 contributed to a substantial boost in revenues from 8.9 percent of GDP in 1998 to 11.5 percent in 1999. Nontax revenues climbed from 2.1 percent of GDP to 3.1 percent, in part because of high one-time revenues from the first year of garment quota auctions. Reliance on trade taxes was reduced from 40.0 percent of revenues in 1998 to 33.0 percent in 1999. Yet, direct taxes account for less than 7.0 percent of revenues, which are still dominated by trade and indirect taxes collected at the borders.

5. Expenditures increased from 14.8 percent of GDP in 1998 to 15.5 percent in 1999 primarily because of an increase in externally financed capital expenditures as aid programs

gradually returned to normal after the 1997 disruptions. Current expenditures remained roughly constant at 9.6 percent of GDP but with a shift in composition. Current spending on defense fell from 33.4 percent of total current spending in 1998 to 30.6 percent in 1999. At the same time, current spending on social administration increased from 21.8 percent of total current spending in 1998 to 27.4 percent in 1999. With current expenditures contained and stronger revenues, public savings increased from -0.3 percent of GDP in 1998 to 1.8 percent in 1999. The fiscal deficit was entirely financed by foreign funds and there was a reduction in the National Bank of Cambodia's net claims on the Government.

6. The drop in the average annual inflation rate from 14.8 percent in 1998 to 4.0 percent in 1999 was reflected in a slowing of the rate of inflation across all categories of consumer goods and can be traced in part to a generally stable exchange rate. The Cambodian riel depreciated only by about 1.0 percent against the US dollar in 1999 (using the average of the midpoint value of the buying and selling rates of the official exchange rate) as compared to about a 21.0 percent depreciation in 1998. The food, beverage, and tobacco group, which has a 50.0 percent weight in the consumer basket (the Consumer Price Index is measured in Phnom Penh only), experienced average annual inflation of 7.6 percent, down from 14.1 percent inflation in 1998 as a result of improved weather conditions.

7. Dollarization of the Cambodian economy and a related lack of monetary instruments limit the influence of monetary policy on economic activity. Excessive monetary expansion rapidly translates into inflation and exchange rate depreciation. The Government is thus committed to a conservative monetary policy, containing broad money (M2) growth below 18.0 percent in each of the last three years. The Government is maintaining a flexible exchange rate system, keeping the spread between the official exchange rate and the parallel exchange rate below 1.0 percent throughout 1999. The National Bank of Cambodia is focussing on improving regulation and supervision of the banking sector. Currently, all banks are being evaluated for re-licensing under the 1999 Law on Banking and Financial Institutions.

8. As economic recovery took hold in 1999, import growth outstripped strong export growth (primarily in garments) to widen the trade deficit from 5.7 percent of GDP to 6.6 percent of GDP. With the recovery in tourism, the deficit on the balance of services narrowed from 2.4 percent of GDP in 1998 to 1.7 percent in 1999. Overall, the current account deficit (excluding official transfers) rose from 7.0 percent of GDP in 1998 to 7.3 percent in 1999. With modest improvements in official development assistance and foreign direct investment, and a reduction in the size of errors and omissions, the overall balance of payments surplus increased from 0.6 percent of GDP in 1998 to 1.8 percent in 1999. As a result, gross official reserves increased to \$422 million or 3.8 months of imports.

9. The year 1999 was a transition year of economic reform and recovery. However, the road ahead is daunting. Growing at 2.5 percent annually, the Cambodian population will reach about 13.5 million by the end of 2005, adding about 165,000 workers to the labor force each year. To reduce poverty, Cambodia must simultaneously absorb these additional workers while increasing labor productivity, particularly in agriculture. The former will require continued growth in nonagricultural enterprises such as light manufacturing—despite recent quotas imposed on garment exports to the US—and tourism. The latter will require substantial—primarily aid financed—public investment in the rural economy. If Cambodia can maintain the momentum of economic reforms initiated in 1999, public investment funds should continue to be available in sufficient supply while private investment should slowly increase. Thus, economic growth in the target range of 6.0-7.0 percent annually should be achievable over the medium term.

## B. Poverty Assessment

10. Once relatively prosperous, Cambodia endured a period of prolonged civil conflict — including four years under the Khmer Rouge regime, which dismantled much of the existing social, political, and economic institutions. During these lost decades, in which many other Southeast Asian countries were taking great strides in poverty reduction, Cambodia was isolated and socioeconomic conditions deteriorated. Now rejoining the international community, the country suffers pervasive poverty. Using a consumption-based poverty line defined as adequate income to buy a daily 2,100-calorie food basket plus an allowance for non-food expenditure, about 36.0 percent of the 1997 population, about 4 million people, were classified as poor. However, a large proportion of the population is clustered around the poverty line indicating a potential for significant changes in the incidence of poverty over the next decade.

11. There are several geographic characteristics of interest concerning poverty in Cambodia. First, urban areas are relatively better off. The incidence of poverty is 11.0 percent in Phnom Penh, 30.0 percent in other urban areas and 40.0 percent in rural areas. About 90.0 percent of the poor live in rural areas. Second, most of the poor are concentrated in two areas of the country. The Tonle Sap Region has the highest incidence of poverty (38.0 percent), the second highest average population density (52 persons per square kilometer [p/km<sup>2</sup>]), and 31.0 percent of the population. The Plains Region has the second highest incidence of poverty (29.0 percent), the highest average population density (235 p/km<sup>2</sup>), and 52.0 percent of the population.<sup>1</sup>

12. Third, the Cambodia Human Development Report (CHDR) 1999 provides survey evidence that the incidence of poverty varies considerably across villages.<sup>2</sup> In the poorest quintile of surveyed villages, stratified by consumption expenditure, 70.0 percent of the population was poor while in the richest quintile only 4.0 percent of the population was below the poverty line. Thus, to maximize developmental impact, rural areas of the Tonle Sap and Plains Regions should be targeted generally for poverty interventions. However, for particular interventions, careful targeting of the poorer villages in these areas will be required.

13. Specific elements of effective poverty interventions depend on the specific characteristics of poverty in Cambodia. As would be expected, CHDR 1999 survey results indicate that the Cambodian poor generally tend to have less access to productive resources and to lack basic economic and social services. Poorer villages tend to be located where there is less productive land in areas more vulnerable to flood and drought. In some areas, investments in water resource management will substantially improve agricultural productivity and reduce poverty. In other areas, the scope for improvement is limited and diversification into non-agriculture activities will be an important element of a poverty alleviation program.

14. Weak property rights compound the problem of inadequate productive resources for the poor. Landlessness is not currently considered pervasive in Cambodia, except for groups in special circumstances such as returning refugees. The average farm family has access to about 1.0 hectare of land. But few of these families hold land titles, which limits access to credit and leaves them vulnerable to eviction by powerful interests involved in land speculation and timber extraction. Since land is the most critical factor of production in this predominantly agrarian

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<sup>1</sup> The Tonle Sap region includes the provinces of Kampong Thom, Siem Reap, Battambang, Pursat, Kampong Chhnang, Banteay Meanchey, Oddar Meanchey, and Krong Pailin. The Plains Regions includes the provinces of Phnom Penh, Kandal, Kompong Cham, Svay Rieng, Prey Veng, and Takeo.

<sup>2</sup> CHDR 1999, using data from a 1997 survey of 474 villages deemed statistically representative of the whole country, provides a socioeconomic profile of Cambodian villages.

society, secure land rights are a vital element of protection for the poor. The draft land law, developed with Asian Development Bank (ADB) assistance and through extensive stakeholder dialogue, is expected to facilitate land titling and registration.<sup>3</sup>

15. Pervasive poverty in Cambodia is clearly indicated by the paucity of basic economic and social infrastructure. CHDR 1999 survey results indicate that only 14.0 percent of villages have a market, 43.0 percent have access to electricity (at least in some households), 11.0 percent have a bank or credit organization, and 4.0 percent have an agricultural extension worker. Only 23.0 percent of villages have access to piped water, 46.0 percent have primary schools, 5.4 percent have lower secondary schools, and 16.2 percent have a clinic.

16. Not surprisingly, because of greater proximity to health and education services, higher educational achievement and health care utilization rates characterize well-off villages. Poorer villages have higher rates of illiteracy and higher levels of gender disparity in literacy. Richer villages pay higher school fees and have lower student/teacher ratios. In the poorest villages, 92.0 percent of women deliver children at home while in the richest villages, only 26.0 percent deliver at home. The poor tend to have larger families living under one roof, with younger children and higher dependency ratios (ratios of non-working to working household members).

17. As a result of inadequate access to resources and services, poorer villages tend to depend more on subsistence agriculture activities whereas richer villages are more diversified with trading as the most important economic activity. About 90.0 percent of the poor belong to households that rely upon subsistence agriculture as the primary source of income. These people often suffer from basic food insecurity, manifested as seasonal hunger in the months prior to the major harvest sometimes leading to a cycle of indebtedness that can end in loss of farm assets such as land.

18. The Government's (first) Socioeconomic Development Plan 1996-2000 (SEDPI) described a poverty reduction strategy emphasizing faster economic growth in rural areas, in part by reducing the barriers to participation in economic growth by the poor at the village level.<sup>4</sup> A three-pronged strategy included decentralization to increase efficiency and equity of development activities, increased agricultural productivity to enhance incomes, and improved access to social services to ensure broad-based economic development. SEDPI also stressed the importance of developing a labor-absorbing industrial base through improvement of the conditions for private sector investment.

19. There was mixed success in reducing poverty in the 1990s, in part because of internal security problems that discouraged investment in rural areas and the political crisis in 1997-1998 that sharply reduced economic growth and investment. Dependent on emergency assistance to ensure an adequate food supply in the early part of the decade, Cambodia now produces sufficient amounts of food to avoid widespread famine. However, the pace of agricultural growth was inadequate in the last several years. High population growth rates coincided with low rates of investment in agriculture and inadequate labor absorption in industry and services. As a result, there was a 16.0 percent reduction in agricultural labor productivity between 1994 and 1996. In addition, there was a lack of progress prior to 1999 in increasing

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<sup>3</sup> Assistance for the land law was provided under TA 2591: *Agriculture Policy Reform Support*, approved on 20 June 1996 for \$1.5 million. This law is one of the conditions for the release of the second tranche of Loan No. 1445: *Agriculture Sector Program*, approved on 20 June 1996 for \$30 million.

<sup>4</sup> SEDPI was prepared with ADB assistance under TA No. 1694-CAM: *Strengthening Macroeconomic Management*, approved in March 1992 for \$2.42 million.

Government's contribution to social expenditures because of low revenue collections and high security expenditures.

20. If recent improvements in internal security are maintained and reform momentum is sustained, the enhanced ability of government and aid agencies to increase service delivery and economic development in rural areas offers the potential for significant poverty reduction in the next decade. With ADB assistance, the Government is currently preparing the (second) Socioeconomic Development Plan 2001-2005 (SEDPII), which will stress poverty reduction as the primary goal of the Government's development program.

## **C. Assessment of Socio-Environmental Performance**

### **1. Gender Issues**

21. In the past, traditional Khmer culture and religion influenced the extent to which Cambodian women could contribute to and benefit from economic development in Cambodia. By tradition, after a marriage arranged by her parents, a wife shared in the responsibilities for day-to-day household operations and managed the household finances, but deferred to her husband on major decisions. However, three decades of conflict have disrupted the traditional balance of power, leaving women with little political power at the same time that protection from domestic and social violence was eroded.

22. Constitutionally, the level of protection from discrimination afforded women is consistent with the United Nations (UN) Charter on Human Rights. Women can vote and stand for office. They have the rights to maternity leave, equal pay, property inheritance, divorce, and equal treatment before the law. In practice, these rights do not always materialize. There are currently only 2 female Ministers out of 25, 10 female representatives out of 122 in the National Assembly, no female Governors, and only a few female judges.

23. Women suffer from wage and non-wage discrimination in the formal sector, and enjoy lower educational attainment. Women have higher rates of labor force participation than men between the ages of 10 and 19 as a consequence of the family's need for supplementary financial support and lesser importance placed on female education. However, men have higher rates of labor force participation after age 20 and they earn, on average, 50.0 percent more than women. Girls represent 45.0 percent of primary school attendees but only 35.0 percent of secondary school students and perhaps less than 20.0 percent of those in tertiary education.

24. Poverty, low female educational attainment, and discrimination are reflected in poor reproductive health indicators and high fertility and population growth rates in Cambodia. A lack of knowledge about family planning combined with the prevalence of home birth, stunting, and general poor health give rise to high infant mortality and maternal mortality rates (IMR and MMR). Cambodia's IMR, at 89.4 per 1000 live births, and MMR, at 473 per 100,000 live births, are among the highest in the region. In addition, prostitution and domestic violence are serious social problems. HIV/AIDS is reaching epidemic proportions, with unusually high incidences among commercial sex workers (42.0 percent) and women of childbearing age (2.6 percent).<sup>5</sup>

25. The elevation of the Secretariat of State for Women's Affairs, created in 1993, to the Ministry of Women's Affairs (now Women's and Veteran's Affairs) in 1996 signaled the increased attention being paid to gender issues in Cambodia. A primary mission of the Ministry

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<sup>5</sup> HIV/AIDS stands for human immunodeficiency virus/acquired immune deficiency syndrome.

is to act as a catalyst for mainstreaming gender issues into the policies and programs of public and private institutions. The Ministry is still young with limited capacity and is almost entirely dependent on foreign aid. Moreover, acid attacks on women reported in the local press indicate the formidable task before the Ministry in educating the public about the rights of women.

## **2. Human Development**

26. Closely linked to pervasive poverty in Cambodia is low human development. In the UN Human Development Report 1999, using 1997 data, Cambodia ranks 137<sup>th</sup> out of 174 countries, making it one of the least developed developing member countries (DMCs). Moreover, Cambodia's 1997 Human Development Index (HDI) score of 0.514 is below what one might expect for a country with real per capita GDP of PPP\$1,290 (expressed in US dollars using a purchasing power parity exchange rate).<sup>6</sup> This is not surprising. The Khmer Rouge abolished most social services, particularly education, and routinely executed members of the professional classes.

27. In part because of the decimation of the Khmer Rouge years and the baby boom that followed, the population of Cambodia, about 11.7 million in 1999, is very young and growing rapidly. In 1998, 43.0 percent of the population was under 15 years of age. Thus a high dependency ratio is common, particularly in poorer households. Total fertility was 4.1 children per woman in 1998, and the population was estimated to be growing at about 2.5 percent annually as compared to 1.4 percent for all DMCs. With added pressure from returned refugees and the plans for demobilization of soldiers and downsizing of the civil service, indications are that the demand for jobs and social services will increase rapidly over the next several years.

28. Yet, social service provision is already woefully inadequate, as indicated by the statistics cited in paragraph 15. The poor quality of human resources, because of low educational attainment and poor health, is a principal constraint on economic development in Cambodia. With a 1997 adult literacy rate of 66.0 percent, Cambodia ranks below all Southeast Asian countries except the Lao People's Democratic Republic (PDR). About 40.0 percent of the Cambodian population never attended school, and less than 1.0 percent has had any training beyond high school. Thus, Cambodia lacks even the skilled personnel to effectively improve its administrative, legal, educational, and medical institutions.

29. The quality of the labor force and the quality of life are further affected by high rates of morbidity and mortality and by a relatively high proportion of the population with physical disabilities. Among DMCs, only Lao PDR has a life expectancy as low as Cambodia's 53.4 years. Inadequate health care and limited nutrition is debilitating the population. Stunting is common among children. Adults frequently lose days of work because of illnesses that are expensive to treat. Leading causes of death include malaria, acute respiratory infections, tuberculosis, road accidents, and land mines. An impending crisis is the HIV/AIDS epidemic, the worst in Asia and the worst outside Africa. Furthermore, in 1998, only an estimated 37.0 percent of the urban population and 5.0 percent of the rural population had access to clean water.

30. Because of inadequate fiscal revenues and large security expenditures, public social service expenditures in Cambodia are very low, resulting in the widespread practice of informal user fees in actual social service delivery. Public expenditures on education in 1999 (of which about 4.0 percent was for domestically financed capital expenditure) were about 8.4 percent of

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<sup>6</sup> Based on observations for 21 Asian countries in 1997, a country's HDI score can be represented as a positive function of real per capita GDP.

total expenditure or 1.4 percent of GDP. Public expenditures on health in 1999 (of which 40.0 percent was for domestically financed capital expenditure) were 6.8 percent of total expenditures or about 1.1 percent of GDP. These low levels of public funding combine with inefficient public expenditure management to produce a very low quality of social services.

31. Recognizing that human development is both the ultimate goal of and a key factor in achieving sustained economic development, the Government is taking steps to improve social service provision, particularly to the poor. To achieve sustainable service delivery for the poor will mean increasing the percentage of villages with schools and clinics, improving the delivery of operating funds at the district level, and acquiring and retaining qualified staff in rural areas. With improved security, international aid agencies are increasing social infrastructure investments in rural areas. The Government, having committed to increasing social spending as a percentage of the budget, is also initiating several budget reforms to strengthen budget execution, including decentralization of budget operations. Qualified staff placement and retention in rural areas will require substantive civil service reform, including increased compensation. An alternative is private sector service provision such as is being tried in health care.

### **3. Environment**

32. One legacy of the post-conflict period has been accelerated environmental degradation, particularly deforestation. Declining Khmer Rouge influence resulted in increased security in previously contested areas and illegal logging accelerated in 1994. About 70,000 hectares per year (ha/y) were deforested in 1973-1993, increasing to 180,000 ha/y in 1994-1997. As the area under concession expanded, government revenues from commercial forestry declined, triggering an intense international review of forestry concession management that revealed massive corruption and the involvement of the military. The Government began to take action in early 1999 to address abuses associated with commercial forestry. It has since cancelled 15 concessions, curbed illegal logging, seized equipment and illegally harvested logs, and closed illegal sawmills.

33. However, much remains to be done. A review of commercial forest concession management, conducted with ADB technical assistance (TA) and completed in August 2000, concluded that all concessions were violating their contracts with the Government.<sup>7</sup> The 31 March 2000 draft TA report, *Cambodian Forest Concession Review Report*, recommended a series of actions to improve commercial forestry concession management. Community pressures on forests, in the form of fuelwood collection, shifting agriculture, and permanent land conversion, are also an important cause of deforestation and forest degradation. Thus, the report also recommends a series of actions to protect the rights of forest dependent communities and to help them develop plans for sustainable management of community forest resources. There is substantial international attention focused on the Cambodian forestry sector. The concession review was preceded by a series of World Bank-sponsored studies and is being followed by a World Bank project to improve forest management planning.

34. If deforestation is not slowed, the resulting reduction in crop yields because of soil erosion and increased flooding may contribute to poverty in a rural population that is heavily dependent on agriculture. A related problem is that fisheries, a vital source of protein in the diet, are threatened by the combined effects of habitat loss in the inundation zone of the Tonle Sap, overexploitation, destructive fishing practices, inadequate sanitation, and agrochemical

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<sup>7</sup> TA 3152-CAM: *Sustainable Forest Management*, for \$980,000, approved 31 December 1998.

pollution. Improved natural resource management is a critical litmus test of the Government's resolve to reform and improve the lives of average citizens.

#### **D. Governance: Sound Development Management**

35. Whether Cambodia can achieve sustainable development is, in a sense, a question of governance, of the country's ability to mobilize and efficiently use public and private resources for economic and social development. Public investment, which declined from 7.6 percent of GDP in 1996 to 5.9 percent in 1999, is financed primarily by foreign assistance—68.0 percent in 1999. Thus, improved revenue mobilization is critical to generate the public savings necessary for increased investment in economic and social development. The Government's 1999 revenues were 11.5 percent of GDP, up from 4.8 percent in 1993 but still among the lowest of all reporting DMCs.

36. The intended focus of efforts to increase revenues in 2000 to about 11.8 percent of GDP is on broadening the revenue base and increasing the efficiency, transparency, and equitable application of revenue collection procedures. Specific revenue-enhancing measures for 2000 include efforts to improve customs administration (particularly the resumption of pre-shipment inspections), improved VAT administration through faster refunds of excess VAT payments, collection of arrears on nontax revenues, and stronger efforts to collect tourism-based revenues.

37. The 1999 increase in the timber royalty from \$14 to \$54 per cubic meter was expected to increase forestry revenue collections. However, a combination of factors, including low world prices and the need to pay facilitation fees, make extraction of some species uneconomical at the new royalty rate according to the concessionaires. Hence, extraction and expected revenues have reportedly declined. One recommendation of the *Cambodian Forest Concession Review Report* is to review and revise royalty rates to base them on quality and species of timber, market prices, extraction costs, and investment risk.

38. To ensure the efficient use of revenues and foreign assistance, improved public expenditure management is essential. Expanding expenditures on economic and social development, as well as ensuring their efficient use, is a large task, involving several major reform efforts, including reducing the proportion of expenditures devoted to the security forces, increasing the efficiency of the civil service, and improving the management of public finances.

39. The Government plans to demobilize 31,500 soldiers over the 2000-2002 period, leaving military strength at about 100,000. The program involves disarmament and pre-discharge counseling, a severance payment of \$240, and the provision of a basic basket of household goods plus an enhanced package of social services. During a 1999 registration process, the Government eliminated 15,551 'ghost' soldiers and 163,346 'ghost' dependents from the payroll. A pilot exercise to demobilize 1,500 soldiers, at a cost of \$2.25 million, was undertaken in four provinces in 2000. According to a World Bank document, the total cost of demobilizing the remaining 30,000 soldiers is estimated at \$45 million.<sup>8</sup> The plan calls for the severance payment to be financed by the Government while aid agencies are asked to fund the remaining costs of administering the program and providing the package of goods and services. Once completed, demobilization should reduce defense expenditures from 2.9 percent of GDP in 1998 to 2.0 percent in 2002.

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<sup>8</sup> World Bank, *Military Demobilization Program: Current Status and Key Issues*, presented at the 2000 Consultative Group meeting in Paris.

40. With resources being freed up from defense for economic and social development, the Government must improve its ability to efficiently administer these development programs. To do so, the Government has embarked on a comprehensive program of public administration reform. Two key elements of that program are efforts to reform the civil service and to strengthen local governance. Efforts by aid agencies to build the capacity of Government to manage development are hampered by low civil service salaries. Many aid agencies pay salary supplements to counterpart staff.<sup>9</sup> As a prelude to comprehensive civil service reform, the Government is considering forming a Priority Missions Group that will be managed and paid differently from the rest of the civil service and will be responsible for spearheading reforms.

41. In addition to civil service reform, the Government is committed to a decentralization program designed to achieve greater local involvement in and benefit from the development process. Elections will be held, tentatively in 2001, for a commune government that will be responsible for preparing, adopting, and implementing a commune development plan. These communes will be empowered to raise revenues and be eligible to receive funds from the national Government. The program's success hinges on a few key issues. First, greater legal clarity is needed regarding the status and scope of authority of provinces, municipalities, districts, and commune councils. Second, rather than create new entities, existing institutions and mechanisms at the local level should be used to the extent possible.<sup>10</sup> Last, building the capacity of local officials for financial management will be critical to ensuring the financial integrity of commune councils.

42. To cope with the greater complexities of decentralization, the Government must improve public finance management. Of critical importance are improvements in the transparency and accountability of fiscal operations to ensure budget execution is in accordance with budget allocation. The Government intends to take several steps in this direction this year. The Government is establishing a unit within the Ministry of Economy and Finance (MEF) to monitor budget implementation in the priority areas of health, education, and rural development. The Government will also provide line ministries with monthly spending plans in a more timely manner, and publish monthly budget allocations and disbursements. Finally, the Government intends to appoint an independent National Auditor General to head the newly formed National Audit Authority.<sup>11</sup>

43. Overall, the Government has demonstrated sufficient resolve in fiscal reform to gain the confidence and support of international aid agencies. Aid agency efforts are now being mobilized to provide technical assistance so that the Government can continue to improve fiscal performance. However, mobilizing private investment in support of sustainable economic development is perhaps a more comprehensive and difficult task. Lackluster investment performance is, in part, a result of inadequate public infrastructure and institutions of governance to support private sector activities. With aid agency support, public investment funds are being marshaled to improve public services in transportation, energy, and communications. Moreover, the Government is committed to continue trade liberalization as an

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<sup>9</sup> A recent study found that a sample of 38 counterparts received an average government salary of \$18 per month, and average donor supplements of \$194. Godfrey, M. et al, 2000. *Technical Assistance and Capacity Development in an Aid-Dependent Economy: the Experience of Cambodia*, first draft. Phnom Penh: Cambodia Development Resource Institute.

<sup>10</sup> For example, the Seila (Khmer for foundation stone) program, initiated under the UN Development Programme *Cambodia Area Rehabilitation and Regeneration Project* and adopted by the Government, has thus far decentralized development budgeting in four provinces.

<sup>11</sup> The National Audit Authority was formed with ADB assistance under TA-CAM: *Developing Capacity in Audit and Inspection Function*, for \$600,000, approved on 8 May 1996.

Association of Southeast Asian Nations (ASEAN) member and applicant to the World Trade Organization.

44. It is in the area of the rule of law that the most difficult and comprehensive reforms are required to enhance private sector development. To improve its ability to attract foreign investors, Cambodia must reduce corruption. A recent study recommended the Government (i) improve civil salaries, (ii) establish an effective personnel management system, (iii) improve public oversight of government functions, and (iv) routinely and publicly disclose the assets of public officials.<sup>12</sup> The Government's draft governance action plan includes the following as short term anti-corruption actions:

- Prepare and adopt codes of ethics for judges and public officials.
- Prepare and submit anti-corruption legislation to the National Assembly.
- Prepare an action plan to correct institutional arrangements, particularly in public procurement, prone to corruption.

45. Additional planned short term actions to improve the rule of law include (i) publication of all legislation, (ii) participation of civil society and the private sector in the legislative process, (iii) a strengthened Council for Judicial Reform, and (v) separation of the budget of the Judiciary from that of the Ministry of Justice. Although the draft governance action plan was generally well received by the international aid community at the 2000 Consultative Group (CG) Meeting in Paris, the level of private investment the country can attract will be an important test of the credibility of these measures.

## **E. Implementation Assessment**

### **1. The Portfolio**

46. ADB resumed operations in Cambodia in 1992, approving 65 TA grants amounting to \$48.7 million and 12 concessional loans to Cambodia for a total of \$374 million between 1992 and 1999. The portfolio is still young with only one loan closed. As of the end of 1999, of the portfolio of 11 active loans, only \$83 million of total available funds of \$293.4 million were disbursed (Appendix 2, Tables 1 and 2). Of the \$293.4 net loan amount, 41.0 percent is for loans in transport and communications, 32.0 percent for social infrastructure, 18.0 percent for agriculture, and 9.0 percent for energy. Of the 65 TAs implemented by ADB since 1992, 51 were for advisory and operational purposes, mainly in macroeconomic management, project implementation, and sector strategic planning.

47. Considering the relative youth of the program, overall performance on ADB's portfolio in Cambodia has been generally satisfactory. Of the eleven ongoing projects, implementation progress is considered highly satisfactory for two, partially satisfactory for one, and satisfactory for the remainder. However, in 1999 performance in both contract award and disbursement ratios deteriorated. The contract award ratio (with program loan) fell from 28.8 percent to 9.6 percent from 1998 to 1999. The disbursement ratio (with program loan) fell from 21.5 percent to 17.2 percent over the same time period. A \$23 million contract for the *GMS: Phnom Penh to Ho Chi Minh City Road Project* and a \$26 million contract for the *Primary Roads Restoration Project* were both affected by delays in submitting resettlement action plans for ADB approval. A delay

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<sup>12</sup> World Bank, 2000. "Strengthening Governance in Cambodia: Confronting the Challenges of Corruption and Weak Public Service Delivery", draft report.

in the release of the second tranche of the \$30 million *Agricultural Sector Program Loan* arose because of the lengthy process of public consultations on the draft land law.

## **2. Issues in Project Implementation**

48. Improved portfolio management is essential. Cambodia's aid portfolio is expected to expand rapidly during the coming years. Furthermore, the aid environment is changing rapidly with increased emphasis being put on government ownership of the development process. Aid assistance is increasingly being based on the effectiveness of macroeconomic management, including efficient use of external funding, especially portfolio performance. Because of extraordinary capacity constraints in Cambodia, ADB has extensively supported Government efforts to improve portfolio performance through over \$14 million in grant TA for training in external aid management, ADB policies and procedures, and project implementation.

49. ADB is working to improve portfolio performance by, for example, putting additional headquarters and local staff resources in the Cambodia Resident Mission (CARM). Based on lessons learned concerning project implementation, it was recommended during the December 1999 Country Portfolio Review Mission that ADB and the Government work together to:

- (i) Avoid unnecessary delays in project implementation by (ADB) reducing the response time from ADB Headquarters to line Ministries by (the Government) delegating further approval authority to line Ministries.
- (ii) Promote effective transfer of knowledge from international consultants to counterpart staff by assigning qualified counterpart staff with appropriate incentives that will work fulltime with the consultants, who in turn must emphasize training aspects of a TA.
- (iii) Work together to develop portfolio performance indicators and introduce portfolio performance targets.
- (iv) Improve information on ADB business procedures available to executing agencies by conducting additional seminars as necessary and by expediting on-line access to Loan and Financial Information System (LFIS) and Project Performance Ratings (PPRs) for line ministries and ADB Division at MEF. CARM could initially provide monthly updates.

## **II. Poverty Reduction and Country Operational Strategy**

50. To implement ADB's Poverty Reduction Strategy, ADB is assisting the Government in the formulation of the second Socioeconomic Development Plan 2001-2005 (SEDPII), which will develop the Government's strategy for poverty reduction. In Phase I of SEDPII preparation, a national workshop chaired by the Prime Minister was held to initiate discussions of lessons learned from implementation of SEDPI and proposed elements of SEDPII.<sup>13</sup> Major lessons from the SEDPI assessment are to (i) develop the plan in a participatory manner to achieve wide stakeholder ownership of development goals, (ii) set targets that are realistic within a macroeconomic framework, and (iii) monitor SEDPII implementation to ensure that allocation of actual public investment is in accordance with SEDPII targets.

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<sup>13</sup> Phase I was supported under TA 2976-CAM: *Capacity Building in Development Planning, Phase II*, for \$905,000, approved on 31 December 1997. Phase II is being supported under TA 1694-CAM: *Strengthening Macroeconomic Management*, for \$2,420,000, approved on 21 April 1992.

51. Phase II of SEDPII preparation will build upon the 1999 *Cambodia Poverty Assessment* by (i) conducting a participatory poverty assessment, (ii) formulating a development plan based on a sound poverty reduction strategy with achievable targets and supporting sector strategies, and (iii) developing mechanisms to monitor and evaluate implementation of SEDPII.<sup>14</sup> The formulation of the plan will include several workshops to ensure extensive discussions with all stakeholders and will culminate in a partnership agreement. SEDPII, to be completed in 2001, is expected to form the basis of the Government's efforts to produce a Poverty Reduction and Strategy Paper (PRSP) in compliance with new requirements of the IMF and World Bank. A draft interim PRSP was prepared with ADB assistance under Phase I of SEDPII preparation.

52. The *Cambodia Poverty Assessment* recommends three elements for a poverty reduction strategy — (i) promoting rapid economic growth, especially in rural areas where most of the poor live, (ii) expanding access of the poor to health and education services, and (iii) addressing the needs of vulnerable groups through provision of a social safety net. The 2000 *Cambodia Country Operational Strategy: Enabling A Socioeconomic Renaissance* (COS) complements the developmental goals of the Government, and is consistent with the recommendations of both the *Cambodia Poverty Assessment* and ADB's new Poverty Reduction Policy, which recommends a focus on economic growth, social development, and governance.

53. ADB will support the Government's efforts to reduce poverty in three priority areas. The first priority is to support broad-based labor-intensive economic development in populous rural areas where most of the poor live. This will be accomplished through interventions in water resource management, rural development, agriculture sector development, and natural resource management. The second priority is to assist human and social development to enhance equitable access to the benefits of economic growth. This will be done through investments in education, health, and water supply and sanitation. The third priority is to promote private sector participation in development, particularly for labor-intensive non-agricultural activities, by addressing key institutional and infrastructure weaknesses. This will involve interventions in transportation, finance, and energy.

54. This focus of interventions is tailored to fit the country's needs, support the Government's development goals, complement the activities of other aid agencies, exploit cross-sector synergies in the program, and take advantage of ADB's strategic position in Cambodia as a regional multilateral financial institution. At Government request (and based on assessment of country needs, ADB strengths, and the activities of other aid agencies), ADB has made a long-term commitment, contingent on Government commitment to necessary reforms, to support development in the critical areas of water resource management, education, and transportation. This will involve coordinating efforts among aid agencies in facilitating government ownership of sector development, capacity building, and priority investments. To ensure maximum development impact and poverty reduction, location-specific interventions will be concentrated, to the extent possible, in the populous rural areas of the Plains and Tonle Sap Regions where most of the poor reside.

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<sup>14</sup> Ministry of Planning. December 1999. *Cambodia Poverty Assessment*. Phnom Penh. This *Assessment* was funded by UNDP and SIDA, and executed by the World Bank.

### III. Sector Strategies

#### A. Agriculture

##### 1. Agriculture and Rural Development

55. Agriculture, the main activity of the majority of the rural poor, suffers from low productivity. To enhance agricultural productivity the Government is targeting structural reforms to improve social stability in rural areas, enhance farmers' access to markets and market information, increase farmers' access to inputs, technical advice and management expertise, and expand rural financial services. ADB provided support for structural reform through the *Agriculture Sector Program*. Under this program, the Government took actions for (i) wider dissemination of agricultural marketing and technological information, (ii) liberalization of fertilizer pricing and marketing, (iii) formulation of a rural credit policy and strategy, (iv) divestment of the rubber subsector, (v) establishment of local rural development committees, and (vi) improvement of property rights through preparation of a new land law.

56. An agriculture sector intervention is proposed in 2003, with a project preparatory TA (PPTA) in 2001, to sustain and continue progress in agriculture reform. The sector development loan would provide both project funding and budget support for specific structural reforms. It is expected that the intervention will continue to support market reforms, providing continuity in the program by following up on previous policy support. Although secure land rights, clear land usage regulations, and extension services are potential areas of assistance, the 2001 PPTA will further clarify priority unmet needs consistent with the overall strategy, ongoing program of assistance, and activities of other aid agencies.

57. Most of the poor live in rural areas with poor infrastructure and limited access to social, economic, government, and financial services. Government and aid agencies emphasize a decentralized process to improve targeting of development projects towards the needs of poor communities. The implicit strategy in most rural development programs of reaching the poorest through support for the whole community can be successful if these programs are of sufficient size to have a significant impact on the village economy. A number of important rural development programs are currently being implemented in Cambodia. The best known is the UNDP *Cambodia Area Rehabilitation and Regeneration Project*, begun in 1996, which built on a program started in 1992. This program, supporting the national Seila program and primarily concentrated in Northwestern Cambodia, uses village development committees for decentralized, participatory planning of investments in rural infrastructure, extension services, health and education.

58. Ongoing ADB assistance complements the efforts of these programs by supporting small-scale investments in market centers, drainage structures, wells, irrigation canals, social services facilities, and particularly in rural roads. Rehabilitation of these roads can provide the rural population with better access to income-generating employment and marketing opportunities.<sup>15</sup> This offers tremendous potential for effective poverty-alleviating income generation through the type of public works program that has had success in other countries. ADB assistance to strengthen the national institutional mechanisms to support rural financial services is another important element of the efforts to sustain the activities of rural development

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<sup>15</sup> ADB's *Rural Infrastructure Improvement Project* (Loan No. 1385-CAM, approved in September 1995 for \$22.7 million), operating in six provinces in the Plains Region, generated about 1,200,000 person-days of employment. One third of these person-days of employment went to women.

programs. The Government established the Rural Development Bank as a wholesaler to channel funds for rural credit. Complementing these efforts, ADB's *Rural Credit and Savings Project* and accompanying TA will promote effective rural financial services through provision of funds and institutional development.<sup>16</sup>

59. Building on the foundations established under these two interventions, ADB will move towards support for participatory rural development starting with a planned intervention in 2001. This intervention will focus on areas in the Tonle Sap region in which significant numbers of soldiers are demobilized in support of the reintegration phase of the national demobilization program. It is expected that ADB's assistance in this area will continue to support employment generating rural infrastructure provision as well as providing more targeted poverty-alleviating community support. A PPTA is programmed in 2003 in anticipation of a follow-up rural development project in 2005. Important policy considerations in agriculture and rural development include effective implementation of the draft land law, budget support for rural road maintenance, and the institutionalization of the role of the Rural Development Bank as credit wholesaler.

## **2. Natural Resource Management**

60. Apart from an irrigation component under Loan No. 1199-CAM: *Special Rehabilitation Assistance Loan*, for \$67.7 million, approved on 26 November 1992, ADB has not yet provided loan assistance for natural resource management. Future ADB assistance in this area will focus on management of water resources and the critical wetlands of the Tonle Sap Lake. Management of water resources has received relatively little attention from the international community as compared to forestry. Yet this is a high priority for the Government with great potential impact on the poor. Moreover, relatively little effort has been devoted to improve management of fisheries resources, particularly commercial fisheries concessions.

61. The Government is at a crossroads with respect to the development of water resources. There is a large amount of uncoordinated donor assistance planned for the near future, a lack of strategies, policies and laws to guide development of water resources, and competition between government agencies for control of various subsectors. The Government's primary objective of poverty alleviation through growth of the rural economy together with the high proportion of farming households among the rural poor, lend urgency to the task of rationalizing the development of water resources particularly for improving agricultural productivity.

62. ADB will play a major role in water resource management, facilitating Government ownership of sector development. This will include donor coordination in the water sector to promote a consistent approach in areas such as farmer organizations for operation and maintenance of irrigation infrastructure, water policies and laws, and sector responsibilities across government agencies. ADB's first stand-alone water resource management project is the proposed 2000 *Stung Chinit Water Resources Development Project*, for \$16 million. This project, located in the Tonle Sap Region, will rehabilitate an irrigation scheme, invest in rural infrastructure, facilitate land titling, and coordinate agricultural extension in the project area.

63. ADB's efforts to build capacity include an ongoing TA to (i) provide a detailed water sector profile, (ii) formulate investment strategies, (iii) establish an institutional framework for sustainable operations and maintenance of irrigation systems, (iv) identify an action agenda for

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<sup>16</sup> Loan No. 1741-CAM: *Rural Credit and Savings*, for \$20 million, approved on 27 April 2000. TA 3270 - CAM: *Capacity Building for Rural Financial Services*, for \$1,450,000, approved on 5 October 1999.

the draft National Water Sector Policy, and (v) strengthen project planning and implementation capacity.<sup>17</sup> A TA planned for the latter half of 2001, *Capacity Building in Water Resources and Irrigation*, will assist the Government in implementing the National Water Policy action agenda. This will include the development of policies and plans for urban and rural water supply, integrated water resource management using a river basin approach, flood control, and irrigation. In 2001 ADB will also provide a PPTA to develop an investment project for small-scale and medium-scale water resource development, targeting the rural poor, to commence in 2003. The proposed project will likely take a sector approach to maximize the geographic distribution of benefits in terms of increased agricultural productivity.

64. A second area of ADB involvement in natural resource management, complementary to ADB activities in water resource management, is critical wetland management in the Tonle Sap area. This involves a host of issues including management of fisheries, agro-chemical and pesticide use, and community forestry. The *GMS: Integrated Natural Resource Management Project*, scheduled for 2002 may use the sector development approach, include elements of rural development, and will involve strategic policy dialogue in agro-chemical use, forestry and fisheries management. A PPTA is planned in 2003 in anticipation of a follow-up intervention in 2005. It is important, in the area of natural resource management, that ADB support efforts to develop and implement a comprehensive policy for water resource management and to improve management of the resources, particularly fisheries, of the Tonle Sap.

## **B. Infrastructure**

### **1. Transportation**

65. The transportation system in Cambodia is in very poor condition. Travel by road is exceedingly slow and jarring. Of the 7,700 km of the existing primary road network, Route 4 (214 km), a section of Route 6 (74 km), and a section of Route 7 (31 km) have been reconstructed to international standards. About 560 km has undergone limited rehabilitation, financed under the \$32.6 million transportation component of the *Special Rehabilitation Assistance Project*. There are no secondary roads to speak of so that tertiary roads often feed directly into the primary network. The rail system is in need of major rehabilitation and water transportation is handicapped by the need to dredge canals and upgrade ports at Sihanoukville and Phnom Penh. There is one international airport, at Phnom Penh although the Siem Reap airport is also being used for some direct international flights.<sup>18</sup>

66. Improving the transportation system is vital to the development of Cambodia in general and specifically to the promotion of private sector involvement in development. There is broad agreement between the Government and aid agencies that restoration of the primary road network is the first priority. Without this network in place, the country will remain fragmented and rural roads will, at best, lead to small provincial towns, isolating the poor population and limiting the benefits of trade available to them. Without improvements in the transportation system, the private sector will continue to find the delivery of goods to rural areas an expensive and uncertain endeavor.

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<sup>17</sup> TA 3292-CAM: *Capacity Building in the Ministry of Water Resources and Meteorology*, for \$796,000, approved 10 November 1999.

<sup>18</sup> This airport is being upgraded under Loan No. 1503-CAM: *Siem Reap Airport Project*, for \$15 million, approved on 12 December 1996.

67. ADB is providing assistance for road restoration through the *GMS: Phnom Penh to Ho Chi Minh City Highway Project* and the *Primary Road Restoration Project*. The next road project is scheduled for 2002, with a PPTA in 2001. In addition to these investments, ADB has agreed to facilitate government leadership of the development of the road network. To support this effort, ADB will provide TA in 2000 to build capacity for the Government to undertake private-public partnerships and to prepare a transportation sector strategy. Additional capacity building TA is included in the 2002 pipeline. ADB will also hold an initial donor coordination meeting in 2000 for which a transportation sector issues paper is being prepared. Policy dialogue in transportation should emphasize effective development and implementation of resettlement action plans and adequate funding of road maintenance.

## **2. Finance and Industry**

68. An important element of the poverty reduction strategy is to absorb excess labor into non-agriculture activities. One way is through the promotion of small and medium enterprises (SMEs). A principal constraint on the formation and expansion of SMEs is the lack of access to financial services, particularly credit. In addition to providing assistance to the Government in support of the expansion of rural credit, ADB is preparing a program of assistance for the long-term development of the financial sector. This is necessary both to ensure integration of the urban and rural financial systems and to strengthen the urban banking sector's ability to serve urban SMEs.

69. In response to a request for assistance for financial sector development from the Government during the 1999 Country Programming Mission, ADB fielded a team in 1999 to prepare a road map to guide ADB interventions in the financial sector. The analysis in the road map concluded that the financial sector is at a very early stage of development with severe human resource and institutional constraints. The financial system in Cambodia is characterized by an excessive number of small, weak, and inefficient banks combined with weak supervisory and regulatory capacity at the central bank. This results in inadequate delivery of basic banking functions such as checking and savings deposits and credit extension.

70. The road map takes a long view of the development of the sector with a goal of developing a viable, inclusive, and effective financial system to facilitate enhanced resource mobilization in support of sustainable economic growth and development. To achieve this outcome, ADB will develop a cluster program approach with phase 1 in 2001, with PPTA in 2000, and phase 2 in 2004, with PPTA in 2002. Capacity building TA is provided in 2001. Because of the importance of good governance in the banking sector, and the relative lack of ADB experience in this sector in Cambodia, it is essential that the Government demonstrate the willingness to undertake key reforms. A trigger for further financial sector involvement, therefore, will be a satisfactory midterm review of the *Rural Credit and Savings Project*.

## **3. Energy**

71. About 15.0 percent of the population has access to electricity and this is only in Phnom Penh and the provincial towns. Generation is small-scale and inefficient. The cost of electricity in Cambodia is the highest in the region and Cambodia has the lowest consumption in the region. There is no national power grid, and rural consumers as well as industries frequently use costly generators to ensure an uninterrupted supply. An autonomous State-owned enterprise, Electricité du Cambodge (EdC), operates the electricity system in Phnom Penh, Krong Preah Sihanouk, Siem Reap, and Kompong Cham. There is a growing but still small private sector (domestic and foreign) presence in power generation. The Government's immediate goals in

this sector are (i) development of a generation and transmission grid, (ii) provincial towns' electrification plan to rehabilitate supplies, and (iii) development and implementation of a rural electrification plan.

72. The Ministry of Industry, Mines and Energy (MIME) is responsible for policy in the energy sector. Several noteworthy reforms have been made in the past few years, including formation of EdC as a limited liability company owned by MIME and MEF, and commercialization of EdC's operations including preparation of audited financial statements. Considerable progress has also been made on an Electricity Law creating a sector regulator, which is scheduled for presentation to the National Assembly in 2000.

73. However, EdC's financial position is a serious potential impediment to long-term development of the electricity supply and ADB's continued participation. A 2000 EdC operating loss of KR27 billion (\$7 million), largely because of the recent increase in fuel prices, is expected. The high level of arrears by government departments aggravates the situation. Cumulative arrears, to date, stand at KR26 billion (\$6.7 million) and represent 10 months of total sales to Government. By contrast, arrears of nongovernment consumers stand at less than one month of billings.

74. The World Bank is expected to play a major role in facilitating government leadership of sector development in the area of public utilities and is developing plans to initiate a rural electrification scheme. Japan, France, Australia, and Sweden are also active in this sector. ADB's assistance to the energy sector has thus far included rehabilitation of power transmission.<sup>19</sup> The proposed \$25 million 2000 *Provincial Power Supply Project* will upgrade power supply in several provincial towns. A PPTA is programmed in 2002 for a loan in 2003. An ADB draft power sector strategy recommends continued support for improvement of provincial town power provision.<sup>20</sup>

## **C. Social Infrastructure and Environment**

### **1. Education**

75. In the past decade, there was significant progress in improving educational service delivery in Cambodia. Achievements include enrollment growth at all levels of education, provision of instructional materials nationwide, construction and rehabilitation of several thousand classrooms, teacher development programs, reorganization of the Ministry of Education, Youth, and Sports (MOEYS), and initial capacity building at the central, provincial and district levels. Education management information systems have been strengthened significantly. External assistance, mainly through traditional project support, has averaged around \$35 million per annum over the past five years.<sup>21</sup>

76. Despite significant gains, a recent MOEYS evaluation of the 1995-2000 Education Investment Plan indicates that the policy outcomes and impact of significant levels of support have been somewhat disappointing. The main conclusion is that the transition from emergency

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<sup>19</sup> Through an energy component of the *Special Rehabilitation Assistance Project* and through Loan No. 1345-CAM: *Power Rehabilitation*, for \$28.2 million, approved 15 December 1994.

<sup>20</sup> The study was prepared under TA 3298-CAM: *Developing the Strategy for ADB's Involvement in Cambodia's Power Sector*, for \$150,000, approved 16 November 1999.

<sup>21</sup> Including Loan No. 1368-CAM: *Basic Skills Project*, for \$20 million, approved on 29 August 1995, and Loan No. 1446-CAM: *Basic Education Textbook Project*, for \$20 million, approved 20 June 1996.

relief to reconstruction and development has been uneven, with insufficient emphasis being given to design of policy-based assistance programs and sector performance monitoring.

77. ADB will support investments that increase human capital and improve the quality of lives and the productivity of the poor, mainly through support to basic education. ADB's poverty reduction strategy for education will help put in place pro-poor education policies, strategies, and resource allocation mechanisms to contribute to the achievement of governments' poverty reduction objectives and targets. ADB's priority will be to promote and facilitate a comprehensive approach to education development, led and owned by the Government, and with a long-term perspective. As requested by the Government, ADB will facilitate this process, especially through efforts at donor coordination. Within an overall education sector development plan, ADB will continue to support improved efficiency, quality, and equitable access to basic education, especially for the rural poor and girls.

78. ADB is assisting MOEYS in developing the master plan for the sector development program that envisions universal education through grade 9 by 2010.<sup>22</sup> In coordination with other aid agencies, ADB will support policy implementation in selected areas of equitable access, quality improvement, institutional reform, management strengthening, monitoring system development, and education financing reforms, especially for basic education. ADB's contributions to the program will include both a 2001 sector development loan (with both project financing and budget support) prepared under a 2000 PPTA, and capacity-building TA in 2001. A PPTA in 2002 anticipates a follow-up intervention in 2004. ADB will also continue facilitating government-donor partnerships in the sector.

## 2. Health

79. Cambodia has some of the worst health conditions in the region. The two major problems in the health sector are heavy disease burden and a weak health care delivery system. Improvements in health services are generally perceived as an effective means of addressing poverty. Healthy people are generally more productive and capable of earning more income. There is a large donor presence in the health sector in Cambodia and a large amount of grant funds are addressing the numerous health problems in the country. The Ministry of Health is moving towards a sector-wide approach to development of the health sector with the assistance of the World Health Organization. However, much of the donor assistance targets vertical interventions such as immunization programs and the funds for core support of the sector-wide institutional and infrastructure needs for basic service delivery appear to be insufficient.

80. ADB is supporting new approaches to health care delivery in Cambodia. Loan No. 1447-CAM: *Basic Health Services Project*, for \$20 million, approved 20 June 1996, is pilot testing contracting of health services to non-governmental agencies in various ways. Operations research is currently underway that will provide data with which to evaluate the effectiveness of the alternative approaches to health system development and service delivery in Cambodia. This research, as well as evaluation of the ongoing project, will be used to design the follow-up loan project, *Basic Health Services II*, planned in 2002 with a PPTA scheduled in 2001. In addition, capacity-building TA targeting HIV/AIDS will be provided in 2000. Because maternal health care is a key element of basic health care, this project should disproportionately benefit poor women.

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<sup>22</sup> TA 3169-CAM: *Secondary Education Investment Plan*, for \$650,000, approved 8 March 1999.

81. Antiquated water supply systems, poor sanitation, and inadequate pollution control contribute to general conditions of poor health. ADB is active in efforts to improve water supply and sanitation through Loan No. 1468-CAM: *Phnom Penh Water Supply and Drainage Project*, for \$20 million, approved 26 September 1996 and Loan No. 1725-CAM: *Provincial Towns Improvement Project*, for \$20 million, approved on 17 December 1999. A third intervention is planned as a standby project in 2003 with PPTA in 2001. Capacity building TA is planned in 2002. Because the 1999 project emphasizes water supply provision in provincial towns, the next project could stress the improvement of provincial town sanitation systems. However, ADB will carefully assess the need for the additional project in light of the major facilitative role that the World Bank is playing in this sector.

### **3. Environment**

82. Not only are poverty and environmental degradation often closely linked but Cambodia's extensive renewable and natural resources, particularly its forests and fisheries, are potentially major contributors to economic development and poverty reduction. In the National Environmental Action Plan, the Government identified six critical areas— forest management, Tonle Sap ecosystem management; biodiversity conservation; coastal fisheries management; energy development; and urban environment issues. In addition to assistance for improved natural resource management outlined in section III.A.2, ADB will provide TA to strengthen the institutional capacity for environmental management. Specifically, ADB will provide technical assistance in 2002 to the Ministry of Environment for human resource development and to develop guidelines for hazardous waste management.

#### **D. Governance**

83. Good governance is an important crosscutting theme of ADB's program. To support the process of improving governance, ADB cosponsored (together with Government and Konrad Adenauer Foundation), on 14-15 March 2000, a National Symposium on Democracy, Good Governance and Transparency in the ASEAN Context. A detailed study of governance issues in Cambodia, commissioned by ADB and carried out in close cooperation with the Government, highlighted three major governance challenges faced by the country: (i) strengthening transparency, predictability and accountability, (ii) ensuring broad participation in governance, and (iii) improving local governance especially at communal levels.<sup>23</sup> The study recommends guidelines for interactions between the government and aid agencies that include:

- (i) concrete governance reforms as a precondition to assistance in given sectors or to given institutions,
- (ii) multiinstitutional participation in policymaking, rather than reliance on centralized committees or councils,
- (iii) emphasis on development of accountability institutions such as the courts, the Supreme Council of the Magistracy, legislative commissions, the Ministry of Parliamentary Affairs and Inspection, the Ministry of Justice, and the National Audit Authority,
- (iv) use of a specific set of governance performance indicators for program planning and monitoring.

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<sup>23</sup> Kato, T., Kaplan, J.A., Sophal, C. and Sopheap, R., 2000. *Cambodia: Enhancing Governance for Sustainable Development*, Working Paper No. 14. Phnom Penh: Cambodia Development Research Institute.

84. To support sound development management through increased transparency, accountability, predictability and participation in development programs, the ADB governance program will include mainstreaming good governance practices into ADB program, particularly in support of the new ADB anticorruption policy. In addition, ADB will provide key support for improved macroeconomic management, and for capacity building in law and development. A series of governance TA totaling approximately \$8.0 million in grant funds over four years will support this effort. A 2000 TA for capacity building in economic policy management will develop the capacity for independent policy analysis to assist the Prime Minister's Office in reviewing policies submitted to the Council of Ministers for approval. A 2000 TA for Law and Development will initiate a program for judicial training.

85. A second 2000 TA will support the modernization of two aspects of Cambodian public financial management: budget management and audit. To improve budget management, capacity will be strengthened at MEF and priority ministries in budget formulation and strategic expenditure analysis, design of an Medium Term Expenditure Framework, and fiscal devolution. To improve audit, the TA will strengthen the capacity of the newly established National Audit Authority, help establish a modern internal auditing function in the MEF and in the Ministry of Health (MOH), and strengthen the Finance and Banking Commission of the National Assembly so it can play its role in the accountability chain. Improvements in both fiscal management and audit will be sustainable because of the introduction of priority groups of key government officials.

86. These efforts will be followed by TA support for further capacity building in macroeconomic and public finance management in 2001, in law and development in 2002, and in statistical systems development and economic policy management in 2003.

## **E. Gender Dimensions of ADB Operations**

87. ADB's gender strategy is to:

- (i) promote the active participation of the Ministry of Women's and Veteran's Affairs on gender issues in health, education, and other relevant projects;
- (ii) enhance the employment of and business opportunities for women by strengthening credit delivery through microfinance institutions (which typically have a high percentage of women clients), and by employing significant numbers of day laborers (about 30.0 percent of whom are women) on rural infrastructure projects;
- (iii) improve access of women to social services such as health and education; and
- (iv) ensure that gender issues are considered and addressed in resettlement plans, water user associations and irrigation management schemes, and in new laws.

88. This strategy is tailored to the Government's strategy for the promotion of the status of women. An ongoing TA, Capacity Building for the Ministry of Women's and Veteran's Affairs (MWVA). ADB is assisting the Ministry in developing a framework to facilitate the integration of gender analysis and planning into Government's development policies, plans, and programs.<sup>24</sup> The TA is also strengthening staff capabilities at MWVA to implement the Ministry's five-year strategy, which focuses on improving the rights and access of women to health services, education, legal protection, and economic development opportunities. In addition, the TA is

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<sup>24</sup> TA 3327-CAM: *Capacity Building for the Ministry of Women's and Veteran's Affairs*, approved for \$400,000 on 8 December 1999.

assisting MWVA with the formulation of a Cambodian National Council for Women, which would promote the status of women in Cambodia. In planned projects in education, 2001, and health, 2002, ADB will address the need to ensure greater access to social services.

#### **F. Private Sector Development**

89. Currently, ADB's strategy for private sector development is focused on creating an environment that is conducive for private investments. This will be accomplished through efforts to improve economic governance, strengthen the financial sector, and enhance the rule of law. ADB will further assist the development of private sector operations by providing critical physical infrastructure, particularly in provincial towns. ADB assistance will emphasize the development of public-private partnerships, particularly in infrastructure provision. However, in view of the nascent nature of the market economy and the increasing need to generate income and jobs, ADB is exploring opportunities, possibly in agriculture, light industry, and tourism, to play a catalytic role directly in the private sector through the Private Sector Group (PSG). If such opportunities emerge, PSG will need to evaluate them on a case-by-case basis.

90. One prospect for direct involvement in private sector development in Cambodia is through the Mekong Project Development Facility (MPDF). MPDF is an International Finance Corporation-managed initiative to develop SMEs in the Mekong Region through facilitating access to long-term capital and providing business advisory services. These services include investment evaluation and preparation as well as capacity building activities. Current projects include promotion of rice miller associations, a tourism study, and a bank training center initiative. ADB's involvement includes a proposed regional TA that would help finance the cost of MDPF project consultants and allow ADB a seat on MPDF's Board of Directors.

#### **IV. Regional Cooperation**

91. ADB will support Government efforts to improve regional cooperation through the Greater Mekong Subregion (GMS) Economic Cooperation Program (ECP), which seeks to enhance regional development opportunities, encourage trade and investment among the GMS countries, resolve or mitigate cross-border problems, and meet common resource and policy needs. The GMS countries include Cambodia, Lao PDR, Thailand, Viet Nam, Myanmar, and Yunnan, China. ADB will provide regional TA and selected ADF-financed investments in support of the GMS ECP. There is potential for private sector funded GMS projects in transport, telecommunications, tourism, and energy. Recent accomplishments include the April 2000 signing of an agreement on commercial navigation on the Mekong River and an October 2000 Business Forum, held in Bangkok, to enhance cooperation among private sector parties active in the GMS region.

92. In transport the objective of the GMS program is to facilitate exchange and development between and among the GMS countries, reducing transport costs and increasing the efficiency of movement of goods and passengers. Projects that involve Cambodia include *the Bangkok-Phnom Penh-Ho Chi Minh City-Vung Tau Road Project*, of which a portion was financed under the *GMS: Phnom Penh-Ho Chi Minh City Highway Project*, currently under implementation. The 2002 pipeline assistance for road improvement could potentially finance an additional portion of this GMS project. The *Southern Lao PDR-Sihanoukville Project* and the *Northeast Thailand-Southern Lao PDR-Northern Cambodia-Central Viet Nam Project* are also potential future projects in Cambodia.

93. In environment, the objective is to foster regional cooperation in managing the shared and linked resources of the Mekong River System. ADB will finance the *GMS: Integrated Natural Resource Management Project* in 2002. Cambodia also benefits from the *Subregional Environmental Monitoring and Information System and Subregional Environmental Training and Institutional Strengthening System*, which are expected to increase the capacity of member countries to make informed decisions regarding sustainable development based on shared information and enhanced capacity. An additional environmental project being prepared under GMS for possible grant financing is the *Poverty Reduction and Environmental Improvement in Remote Watersheds in the Greater Mekong Subregion Project*.

## **V. Donor Activities and Aid Coordination**

94. Because of the major role of aid in Cambodia, aid coordination, both for policy consistency and for efficiency of operations, is essential. In 1992-1998, the major contributors by disbursement were Japan (\$625 million), France (\$245 million), the US (\$237 million), UN agencies (\$236 million), the European Commission (\$207 million), the World Bank (\$175 million), ADB (\$161 million), Australia (\$137 million), and Sweden (\$113 million). Non-Government Organizations (NGOs), of which there are some 400 operating in Cambodia, accounted for \$187 million. Appendix 3 provides information on average disbursements in 1996-1998 and disbursements in 1999 by major donors. Disbursements in 1999 are lower than the average for 1996-1998, in part because emergency assistance is declining and in part because of the delayed effect of disruption of aid programs in 1997.

95. Over the period 1992-1998, 41.0 percent of \$2.75 billion in external assistance was categorized as capacity building and PPTA, 31.0 percent was for investment projects, relief aid was 17.0 percent, and budgetary support was 11.0 percent. The major intention of assistance has thus been to provide TA to weak public institutions. Through this assistance and through budgetary support, the international community supports the process of rebuilding a civil society and reshaping a market economy. At the same time, through project assistance, much-needed human and physical capital investments are funded.

96. The international community is reassessing its role in assisting the development of Cambodia. With the importance of emergency assistance and rehabilitation giving way to efforts for sustainable development, policy reform and long-term capacity building are becoming more critical. In addition, the large scale of aid activities in Cambodia and the extent of poverty cry out for cooperation rather than competition among the aid agencies. This is especially true in the case of policy reforms. While a diversity of opinions on development issues may not necessarily be bad, the insistence on policy reform as a condition of aid implies that donors must make efforts to coordinate policy dialogue

97. To increase opportunities for policy dialogue and improve its coordination, the Government and the aid community agreed at the 1999 CG Meeting in Tokyo, Japan, to hold periodic meetings in Phnom Penh to discuss progress on reform programs. To support these efforts, the aid organizations, including ADB, participate in local working groups in forestry management, fiscal reform, public administration reform, demobilization, social sector efforts, legal and judicial reform.

98. To improve aid coordination, the Government and aid community are moving toward comprehensive sector approaches, particularly in health and education. The Government has asked particular agencies to facilitate government ownership of sector development in priority sectors. The specific role of the aid agency and the extent of coordination vary by sector. ADB

will, at Government request, facilitate government leadership in water resource management, education and roads. This entails ADB assisting in sector development planning, spearheading aid coordination efforts, supporting institution building, and financing priority investments.

99. At the Fourth CG Meeting on Cambodia, held in Paris, France from 24-26 May 2000, aid agencies commended the Government on progress in implementing reforms and indicated commitments of \$550 million in assistance for the year as compared to \$470 million pledged in 1999. At this meeting, partnerships and aid coordination was the theme of an informal discussion session. The Government stressed the need to strengthen local ownership of the development agenda, channel funds through the national budget, harmonize implementation procedures, and subordinate aid agency strategies to the national development strategy. Government and aid agencies agreed to gradually work towards the implementation of the sector wide approach (SWAP) mechanism, which would include aid agencies cofinancing, under harmonized procedures, a Government managed sector development plan.

100. In an effort to enhance the effectiveness of its program, ADB is making efforts to strengthen its partnerships with NGOs, who often have greater understanding of developmental issues at the local level. ADB undertook extensive dialogue with NGO groups during the preparation of the COS, in design of the *Rural Credit and Savings Project*, and in connection with efforts to revise the land law. Increasingly, ADB is using NGOs in project design and implementation. For example, an NGO is in charge of monitoring implementation of the resettlement action plan for the *Phnom Penh to Ho Chi Minh City Highway Project*.

## **VI. Cofinancing and Catalyzing External Resources**

101. Cofinancing opportunities have in the past been limited by two factors. First, ADB being the first major multilateral donor to return to Cambodia, had effectively no partners with which cofinancing could be arranged. Second, when many others donors did return to Cambodia they had very specific agendas, which again limited cofinancing opportunities. The current situation is different in that there are a greater number of donors as well as a better appreciation of the desirability of promoting complementarities among donors. Cofinancing opportunities are therefore more likely than in the past although the environment for commercial cofinancing is still difficult.

102. From 1993 to 1999, four ADB projects have been cofinanced for a total amount of about \$21 million. In 2000, France is expected to provide cofinancing for the *Stung Chinit Water Resources Development Project*. During the program period, in 2001, Sweden, and several UN agencies are interested in cofinancing the *Education Sector Development Project*, while Japan is interested in the *Financial Sector Program*. The *Rural Development Project* may also receive cofinancing from bilateral donors such as Germany, Australia, Japan and Sweden. In 2002, possibilities exist for the OPEC Fund to cofinance the *Road Network Improvement II Project*, and for Finland to cofinance the *Integrated Rural Development and Natural Resource Management Project*. Australia may be a source of cofinancing for the *Basic Health Services II Project*.

**Table 1: Lending and Technical Assistance Program, 1999-2003**

A. Public Sector Lending Program

	1999 (Actual)		2000		2001		2002		2003	
	(No.)	(\$ million)	(No.)	(\$ million)	(No.)	(\$ million)	(No.)	(\$ million)	(No.)	(\$ million)
Lending Program <sup>a</sup>	<b>2</b>	<b>88.0</b>	<b>3</b>	<b>61.0</b>	<b>3</b>	<b>80.0</b>	<b>3</b>	<b>85.0</b>	<b>2</b>	<b>85.0</b>
ADF	2	88.0	3	61.0	3	80.0	3	85.0	2	85.0
OCR	-	-	-	-	-	-	-	-	-	-
Lending Pipeline <sup>b</sup>	-	-	-	-	-	-	-	-	<b>3</b>	<b>110</b>
ADF	-	-	-	-	-	-	-	-	3	110
OCR	-	-	-	-	-	-	-	-	-	-

B. Technical Assistance Program

	1999 (Actual)		2000		2001		2002		2003	
	(No.)	(\$'000)	(No.)	(\$'000)	(No.)	(\$'000)	(No.)	(\$'000)	(No.)	(\$'000)
TA Program <sup>a</sup>	14	7,541	12	8,011	9	8,000	7	7,000	6	5,400
TA Pipeline <sup>b</sup>	-	-	-	-	-	-	-	-	-	-

<sup>a</sup> The Program comprised the firm projects.

<sup>b</sup> The Pipeline consists of both firm and standby projects.

Note: Blend loans are counted as one.

## VII. ADB's Operational Program

### A. The Proposed Program

103. The proposed lending program for Cambodia during 2001-2003 comprises eight firm projects amounting to \$250 million or an annual average of \$83 million (Table 1 and Appendix 4) and one standby project in 2003 for \$25 million. Actual lending levels and sectors of involvement will depend on country performance including the Government's ability to implement existing projects, provide adequate funds for operations and maintenance, demonstrated ability to implement policy and institutional reforms and continued improvements in the governance dimensions of ADB-funded projects.

104. During the program period, based on preliminary guidelines about project classification, approximately 36.0 percent of lending will be core poverty interventions, 36.0 percent will be poverty interventions, and 28.0 percent will be other development interventions. The planned program would allocate 50.0 percent of the loan amount to agriculture, social infrastructure would account for 22.0 percent, and the remaining 28.0 percent would be devoted to physical infrastructure.

105. The proposed TA program for 2001-2003, which has an indicative planning figure of approximately \$8 million annually, focuses on capacity building in key areas of governance as well as sectors in which ADB is involved. The emphasis will be on support for policy dialogue, project preparation, project implementation and capacity building. The TA program also reflects new guidelines that recommend the initiation of PPTA at least 18 months prior to project appraisal. Actual TA amounts will depend on the Government's demonstrated ability to use capacity building TAs effectively.

106. More than half of the proposed TA program over the 3-year planning period would be for capacity building activities across sectors while the remaining proportion would roughly be divided between policy support initiatives and investment-related activities. In terms of sector allocation, about 75.0 percent of the proposed TA program would support the three priority areas with the remaining share to be devoted to governance-related activities.

107. As a consequence of the historical context of Cambodia, there is an extraordinary lack of capacity to manage the development process, at all levels of government. These special circumstances in Cambodia justify the relatively large level of grant-funded TA (\$8 million per year). However, a dialogue has been initiated with Government on how best to address the special capacity-building needs of the country so as to ensure the maximum possible developmental impact of the grant funds made available.

108. Consistent with ADB's role as a broad-based development institution, a cohesive program of capacity building will be developed particularly in those sectors where ADB has been requested to play a facilitative role. In the short run, this means that greater care must be made in selecting appropriate consultants that can implement projects as well as provide support and training to weak counterpart staff. In the medium term, sustainable training programs should be developed, especially in sectors in which ADB is playing a facilitative role. In the long run, ADB will work closely with Government and other stakeholders to find solutions to the budgetary and personnel constraints which include a weak civil service tradition, that impede efforts to sustain capacity building efforts.

## **B. Strengthened Role of ADB's Cambodia Resident Mission**

109. As expected, CARM is increasingly becoming an integral part of the Cambodia country team. CARM is active in donor coordination, high-level policy dialogue, NGO liaison, public relations, TA administration, and project implementation. CARM joins programming missions and leads portfolio review exercises. For donor coordination, CARM participates in the annual CG meeting as well as the semi-annual local donor-Government meetings on the reform agenda (including sharing the duties of the rotating chair responsible for organizing the meeting). CARM represents ADB in policy discussions through these meetings and meetings of the donor groups on natural resource management, fiscal reform, public administration reform, social sector reform, demobilization, and legal reform. In addition, CARM engages in discussions with senior Government officials on critical policy issues, particularly governance and development planning.

110. CARM frequently engages the local and foreign media for disseminating information on ADB operations in Cambodia. Currently developing a knowledge base of ADB documents, which will be easily accessible via the Internet, CARM maintains a library, open to the public, of publications of the Government, ADB and other agencies. CARM administers several TAs focusing on governance and portfolio management. Where staff resources allow, CARM participates in critical project processing missions and provides critical ground support for other ADB project missions. Finally, CARM is expected to play a strategic supportive role in ADB's efforts to facilitate Government ownership of sector development in water resource management, roads, and education—which will be carried out in part through provision of capacity-building TA.

111. In accordance with the Resident Mission Policy, CARM's capacity is being strengthened through provision of additional staff resources and through mechanisms for closer coordination with PW3 (including more frequent consultation visits to Cambodia by the Cambodia desk). Prior to 2000, CARM staff included the Resident Representative, two national officers—one for implementation and one for administration, and one support staff. In 2000, a second headquarters staff was added to CARM to strengthen implementation management as well as another support staff to assist in gathering economic information. Plans in 2001-2003 are to add an additional national officer to further enhance project implementation capabilities.

## **VIII. Economic and Sector Work**

112. The economic and sector work (ESW) program forms the basis for ADB's support of policy reform, capacity building and institutional strengthening in Cambodia, particularly in the areas of education, transportation, water resource management, and governance, in which ADB is playing a significant role. In education, as mentioned in section III.C.1, ADB is assisting the development of a comprehensive sector development plan, which emphasizes major sector reforms. In water resource management, as mentioned in section III.A.2, ADB will assist the Government in formulating investment and capacity strategies as well as identifying policy priority actions. In transportation, a 2000 TA will assist the Government in drafting a comprehensive sector development plan for the transportation sector that addresses investment and capacity building needs as well as mechanisms for financing road maintenance, regulating traffic, and promoting private sector participation. Additional sector strategies were recently drafted in energy and finance.

113. In governance, in addition to the study discussed in section III.D, which will provide overall guidance to ADB operations, additional ESW, including analysis of macroeconomic policy and absorptive capacity, will be developed as necessary to support policy dialogue and capacity building efforts. ADB assistance for SEDPII preparation, which is intended to guide the poverty reduction and development plans of government and aid agencies, is a strategic component of the ESW program.

## **IX. Local Cost Financing**

114. While substantial progress has been made in improving fiscal revenues over the past several years, domestic resource mobilization is still very low. Cambodia remains dependent on significant external resources to achieve high rates of poverty-alleviating economic growth. The pressure on counterpart financing is heightened also by several short-term macroeconomic issues. First, the IMF PRGF program requires strict government control over spending levels. Second, while demobilization and public administration reform programs may have long-term fiscal benefits, in the short term they will require more expenditures, reducing the resources available for local cost financing. Third, weak budget mechanisms make operation and maintenance extremely difficult to fund, particularly at the local level. Finally, as both aid agencies and the Government attempt to compensate for the hiatus in new lending in the 1997-1998 period, there will be a large number of projects coming on stream at the same time. Therefore, while ADB will assist the Government in mobilizing more domestic resources, there is a clear justification for ADB to continue financing a reasonable proportion of local costs.

**CAMBODIA**  
**COUNTRY PERFORMANCE INDICATORS**

Item	1995	1996	1997 <sup>r</sup>	1998 <sup>p</sup>	1999 <sup>a</sup>
<b>TABLE A1: ECONOMIC INDICATORS</b>					
<b>A. Income and Growth</b>					
1. GDP per Capita (current prices,\$)	302	300	281	247	256
2. GDP Growth (constant 1993 prices, %)	6.7	5.5	3.7	1.8	5.0
Agriculture	7.5	2.2	5.8	2.5	1.5
Industry	20.2	11.7	20.4	8.6	11.4
Services	4.2	4.8	-3.7	-1.3	5.8
<b>B. Saving and Investment (current market prices)</b> <span style="float: right;"><b>(percent of GDP)</b></span>					
1. Gross National Saving	...	...	4.2	5.9	8.5
2. Gross Domestic Investment	12.9	13.5	13.0	12.9	15.8
<b>C. Money and Inflation</b> <span style="float: right;"><b>(annual percent change)</b></span>					
1. Consumer Prices (annual average)	-	7.2	8.0	14.8	4.0
2. Broad Money (M2)	44.3	40.4	16.6	15.7	17.3
<b>D. Government Finance</b> <span style="float: right;"><b>(percent of GDP)</b></span>					
1. Revenue	8.5	9.0	9.7	8.9	11.5
2. Expenditure (on cash basis)	16.5	16.1	13.9	14.8	15.5
3. Overall Fiscal Deficit (on cash basis)	-7.5	-7.1	-4.2	-5.9	-4.0
<b>E. Balance of Payments</b>					
1. Trade Balance (% of GDP)	-10.9	-13.6	-7.6	-5.7	-6.6
2. Current Account Deficit (% of GDP) <sup>b</sup>	-14.5	-17.3	-8.8	-7.0	-7.3
3. Export (\$) growth (annual percent change) <sup>c</sup>	2.4	10.5	81.0	13.0	13.3
4. Import (\$) growth (annual percent change) <sup>d</sup>	36.1	20.3	5.8	-0.1	15.3
<b>F. External Payments Indicators</b>					
1. Gross Official Reserves (\$ million)	181.7	233.7	262.1	390.2	422.2
- months of imports of goods and services	1.6	2.2	2.4	3.7	3.8
2. External Debt Service (% of exports of goods & services) <sup>e</sup>	3.6	5.8	2.5	2.9	2.5
3. External Debt (% of GDP) <sup>f</sup>	18.3	19.7	62.0	75.6	73.3
<b>Memorandum Items:</b>					
GDP (current prices, KR billion)	7,543	8,325	9,149	10,531	11,471
Exchange Rate (KN per \$)	2,467	2,640	2,991	3,774	3,815.0
Population (million)	10.1	10.5	10.9	11.3	11.7

<sup>r</sup> Revised Estimates, <sup>p</sup> Preliminary Estimates, <sup>a</sup> Advanced Estimates

<sup>b</sup> Excluding official transfers

<sup>c</sup> Export growth = growth of domestic exports, excluding from total exports those imported goods reexported to neighboring countries to take advantage of tariff differences.

<sup>d</sup> Import growth = growth of retained imports, excluding from total imports those imported goods reexported to neighboring countries to take advantage of tariff differences.

<sup>e</sup> As percent of domestic exports of goods and services, convertible currencies only.

<sup>f</sup> Total external debt outstanding 1995-1996 in this table excludes debt incurred to four former Council of Mutual Economic Assistance countries amounting to about \$1,346 million. This amount, included in 1997-1999, is indicative and subject to negotiations and rescheduling.

Sources: National Institute of Statistics, Ministry of Economy and Finance, National Bank of Cambodia, International Monetary Fund, staff estimates

**CAMBODIA**  
**COUNTRY PERFORMANCE INDICATORS**

	1985	1990	Latest Year
<b>POPULATION INDICATORS</b>			
Total Population (millions)	7.5	8.6	11.7 (1999)
Annual Population Growth Rate (% change)	3.18	2.72	2.5 (1998)
<b>SOCIAL INDICATORS</b>			
Total Fertility Rate (births per woman)	4.6 (1987)	4.5 (1992)	4.1 (1998)
Maternal Mortality Rate (per hundred thousand live births)	...	900	473 (1998)
Infant Mortality Rate (below 1 year; per '000 live births)	145	123 (1992)	89 (1998)
Life Expectancy at Birth (years)	46	50 (1992)	53.4 (1997)
Female	...	...	58.6 (1997)
Male	...	...	51.4 (1995)
Adult Literacy (%)	29 (1980-1985)	35	65.9 (1997)
Primary School Gross Enrollment Rate (%) <sup>a</sup>	42 (1970-1975)	...	94.5 (1997)
Female	35 (1970-1975)	...	86.4 (1997)
Secondary School Gross Enrollment Rate (%) <sup>a</sup>	10 (1970-1975)	...	29 (1989-1994)
Female	6 (1970-1975)	...	...
Child Malnutrition (% of under age 5)	20 (1980-1985)	38	49 (1998)
Population Below Poverty Line (%)	...	...	36.1 (1997)
Income Ratio of Highest 20% to Lowest 20%			
Population with Access to Safe Water (%)	...	36 (1988-1991)	30 (1990-1997)
Population with Access to Sanitation (%)	...	14 (1988-1991)	19 (1990-1997)
Government Education Expenditure (% of GDP)	...	0.70 (1991)	1.6 (1998)
Government Health Expenditure (% of GDP)	...	0.30 (1991)	1.0 (1998)
Human Development Index		0.186	0.514 (1997)
Human Development Index (Rank) <sup>b</sup>		148	137 (1997)

<sup>a</sup> Gross enrollment ratio is defined as the number enrolled in a level of education, whether or not they belong in the relevant age group for that level, expressed as a percentage of the population in the age group 6-10 years for primary school, 11-13 years for lower secondary school, and 14-16 years for upper secondary school.

<sup>b</sup> For 1990 and 1995, a total of 173 and 174 countries, respectively, were ranked from high to low human development, using the Human Development Index as basis.

Sources: National Institute of Statistics, various surveys; Ministry of Economy and Finance; Ministry of Planning; Ministry of Health; Ministry of Education, Youth and Sports; MOP.1998. Cambodia Human Development Report 1998; UNDP. Human Development Report, various issues; World Bank. World Development Report, World Development Indicators; various issues; FAO Production Yearbook, various issues; and staff estimates.

**CAMBODIA**  
**COUNTRY PERFORMANCE INDICATORS**

	1980	Latest Year
<b>ENVIRONMENTAL INDICATORS</b>		
<b>Energy Efficiency of Emissions</b>		
GDP per unit of energy use (PPP \$ per kg oil equivalent)	n.a.	n.a.
Traditional fuel use (% of total energy use)	100	89.3 (1996)
Carbon dioxide emissions (total metric tons)	0.3	0.5 (1996)
Carbon dioxide emissions (per capita metric tons)	0.0	0.0
<b>Water Pollution</b>		
Emissions of organic water pollutants (kg/day)	n.a.	12,078.0 (1997) <sup>a</sup>
Industry share of emissions of organic water pollutants		
Wood (%)	n.a.	5.8 (1997) <sup>a</sup>
Primary Metals (%)	n.a.	0.0 (1997) <sup>a</sup>
Paper and Pulp (%)	n.a.	3.4 (1997) <sup>a</sup>
Chemical (%)	n.a.	3.3 (1997) <sup>a</sup>
Food and Beverages (%)	n.a.	59.2 (1997) <sup>a</sup>
Textiles (%)	n.a.	24.7 (1997) <sup>a</sup>
<b>Land Use and Deforestation</b>		
Forest area (sq km '000)	n.a.	98 (1995)
Average annual deforestation (sq km)	n.a.	1,638 (1990-95)
Average annual deforestation (% change)	n.a.	1.6 (1990-95)
Rural population density (people per sq km of arable land)	n.a.	259 (1997)
Arable land (% of land area)	11.3	21 (1997)
Permanent cropland (% of land area)	0.4	0.6 (1997)
<b>Biodiversity and Protected Areas</b>		
Nationally protected areas (sq km '000)	n.a.	28.6 (1996)
Percent of total land area	n.a.	16.2 (1996)
Mammals (number of threatened species)	n.a.	23 (1996)
Birds (number of threatened species)	n.a.	18 (1996)
Higher plants (number of threatened species)	n.a.	5 (1996)
Reptiles (number of threatened species)	n.a.	9 (1996)
Amphibians (number of threatened species)	n.a.	0.0
<b>Urban</b>		
Urban population (millions)	0.8	1.7 (1998)
Percentage urban	12	15 (1998)
Per capita water use	n.a.	n.a.
Wastewater treated (percent)	n.a.	n.a.
Per capita solid waste generation (kg/day)	n.a.	n.a.
<b>Air Pollution</b>		
City population ('000)	n.a.	n.a.
Total Suspended particulates (micrograms per cubic meter)	n.a.	n.a.
Sulfur dioxide (micrograms per cubic meter)	n.a.	n.a.
Nitrogen dioxide (micrograms per cubic meter)	n.a.	n.a.

<sup>a</sup> Data refer to most recent year between 1993 and 1997.

Source: World Bank. 2000 World Development Indicators. (On-line). Available: <http://www.worldbank.org/wdi>

**CAMBODIA**  
**PORTFOLIO PERFORMANCE**

**Table 1 : Implementation, Disbursement Performance and Postevaluation Results**  
**Public Sector Projects only**  
(as of 31 December 1999)

A. Project Portfolio	Net Loan Amount \$ million      %		Rating (No.) <sup>a</sup>										
			Total		Implementation Progress				Development Objectives				
			No.	%	HS	S	PS	U	HS	S	PS	U	
Agriculture and Natural Resources	51.85	17.7	2	18.2	0	1	1	0	0	1	1	0	0
Energy	26.19	8.9	1	9.1	0	1	0	0	0	1	0	0	0
Finance and Industry	0.00	0.0	0	0.0	0	0	0	0	0	0	0	0	0
Social Infrastructure	93.74	31.9	5	45.5	2	3	0	0	2	3	0	0	0
Transport and Communications	121.66	41.5	3	27.3	0	3	0	0	0	3	0	0	0
Others/Multisector	0.00	0.0	0	0.0	0	0	0	0	0	0	0	0	0
<b>Total</b>	<b>293.45</b>	<b>100.0</b>	<b>11</b>	<b>100.0</b>	<b>2</b>	<b>8</b>	<b>1</b>	<b>0</b>	<b>2</b>	<b>8</b>	<b>1</b>	<b>0</b>	<b>0</b>

B. Disbursements	OCR	ADF	Total
(1) Total funds available for withdrawal (\$ mn, active loans only)	0.0	293.4	293.4
(2) Disbursed amount (\$ mn, cumulative, active loans only)	0.0	83.0	83.0
(3) Percentage disbursed [(2)/(1)] (%)	0.00	28.29	28.29
(4) Disbursements (\$mn, active loans only, latest year)	0.0	26.2	26.2
(5) Disbursement ratio (%) <sup>b</sup>	0.00	17.21	17.21

C. Net Transfer of Resources <sup>c</sup> (\$ million)	OCR	ADF	Total
Net transfer in 1995	0.0	35.6	35.6
Net transfer in 1996	0.0	31.7	31.7
Net transfer in 1997	0.0	9.7	9.7
Net transfer in 1998	0.0	28.4	28.4
Net transfer in 1999	0.0	24.9	24.9

D. Post-Evaluated Projects (By Year of Approval)	1968 - 1977		1978 - 1987		1988 - 1999		1968 - 1999	
	No.	%	No.	%	No.	%	No.	%
<b>1. Postevaluation Rating (as of 31 December 1999)</b>								
Rated Generally Successful (GS)	0	0.0	0	0.0	1	100.0	1	100.0
Rated Partly Successful (PS)	0	0.0	0	0.0	0	0.0	0	0.0
Rated Unsuccessful (US)	0	0.0	0	0.0	0	0.0	0	0.0
No Rating	0	0.0	0	0.0	0	0.0	0	0.0
<b>Total</b>	<b>0</b>	<b>0.0</b>	<b>0</b>	<b>0.0</b>	<b>1</b>	<b>100.0</b>	<b>1</b>	<b>100.0</b>
<b>2. Postevaluation Rating by Sector</b> 1968-99 (as of 31 December 1999)								
	No.	%	No.	%	No.	%	No.	%
Agriculture and Natural Resources	0	0.0	0	0.0	0	0.0	0	0.0
Energy	0	0.0	0	0.0	0	0.0	0	0.0
Finance and Industry	0	0.0	0	0.0	0	0.0	0	0.0
Social Infrastructure	0	0.0	0	0.0	0	0.0	0	0.0
Transport and Communications	0	0.0	0	0.0	0	0.0	0	0.0
Others/Multisector	1	100.0	0	0.0	0	0.0	1	100.0
<b>Total</b>	<b>1</b>	<b>100.0</b>	<b>0</b>	<b>0.0</b>	<b>0</b>	<b>0.0</b>	<b>1</b>	<b>100.0</b>

<sup>a</sup> HS: Highly satisfactory; S: Satisfactory; PS: Partially satisfactory; U: Unsatisfactory

<sup>b</sup> Ratio of disbursement during the year over the undisbursed net loan balance less cancellations at the beginning of the year. Effective loans during the year have also been added to the beginning balance of undisbursed loans.

<sup>c</sup> Includes private sector projects for countries with private sector operations.

**CAMBODIA**  
**PORTFOLIO PERFORMANCE**  
**Table 2: Status of Project Implementation**  
**Public Sector Projects Only**  
**(As of 31 December 1999)**

Sector <sup>a</sup>	Project Title	Net Loan Amount		Approval Date	Effectivity Date	Closing Date		Project Progress	Cum Contract Awards	Cumulative Disbursement	Project Performance Rating <sup>b</sup>	
		OCR	ADF			Original	Revised				Implementation Progress	Development Objective
		(\$ million)		(mm/yy)	(mm/yy)	(mm/yy)		(% complete)	(\$ million)	(\$ million)		
AGR	Rural Infrastructure Improvement Project		22.7	Sep-95	Jan-96	Jun-02	-	40	7.8	8.5	S	S
AGR	Agriculture Sector Program		29.1	Jun-96	Oct-96	Dec-99	-	51	15.0	14.9	PS	PS
ENE	Power Rehabilitation Project		26.2	Dec-94	May-95	Dec-99	Jun-00	99	24.4	24.1	S	S
SOC	Basic Skills Project		17.0	Aug-95	Nov-95	May-01	-	64	11.0	8.5	S	S
SOC	Basic Education Textbook Project		18.9	Jun-96	Oct-96	Apr-02	-	69	10.4	9.4	HS	S
SOC	Basic Health Services Project		19.0	Jun-96	Sep-96	Jun-02	-	55	14.2	7.9	HS	S
SOC	Phnom Penh Water Supply & Drainage Project		18.8	Sep-96	Sep-97	Jun-03	-	38	4.7	3.7	S	S
SOC	Provincial Towns Improvement Project		20.0	Dec-99	-	Dec-05	-	0	0.0	0.0	S	S
T&C	Siem Reap Airport Project		14.2	Dec-96	Jun-97	Jun-00	-	39	9.5	5.9	S	S
T&C	GMS:Phnom Penh-HCMC Highway Project		39.0	Dec-98	Nov-99	Jun-03	-	0	0.0	0.0	S	S
T&C	Primary Roads Restoration Project		68.5	Sep-99	-	Jan-04	-	0	0.0	0.0	S	S
<b>Total</b>		<b>0.0</b>	<b>293.4</b>						<b>97.0</b>	<b>83.0</b>		

<sup>a</sup> Sector:

AGR: Agriculture & Natural Resources

ENE: Energy

F&I: Finance and Industry

SOC: Social Infrastructure

T&C: Transport and Communications

OTH: Others/Multisector

<sup>b</sup> HS: Highly satisfactory; S: Satisfactory; PS: Partially satisfactory; U: Unsatisfactory

**CAMBODIA**  
**OVERALL EXTERNAL ASSISTANCE <sup>a</sup>**  
**(in \$ million)**

External Source	1996-1998 (annual average)	1999 <sup>b</sup>
<b>A. Multilateral Assistance</b>		
ADB	36.3	26.9
European Commission	43.5	27.9
IBRD/ World Bank	32.6	34.8
IMF	0.1	11.0
UN Agencies	38.9	53.3
Subtotal	151.5	153.9
<b>B. Bilateral Assistance <sup>c</sup></b>		
Australia	21.9	13.2
Belgium	2.3	4.8
Canada	4.0	1.6
China, People's Republic of	11.6	2.5
Denmark	10.1	2.7
France	33.0	16.6
Germany	9.8	12.5
Japan	80.7	89.0
Netherlands	6.8	6.1
New Zealand	0.4	0.8
Sweden	15.7	10.8
United Kingdom	4.1	9.5
United States	29.9	23.0
Other Bilateral Donors	3.7	6.3
Subtotal	234.0	199.3
<b>Total</b>	<b>385.5</b>	<b>353.1</b>
Memo Items:		
External Assistance as % of Capital Expenditures	209.0	199.5
External Assistance as % of Total Expenditures	83.5	75.9

<sup>a</sup> Figures represent external assistance disbursements during the period, excluding that from NGOs.

<sup>b</sup> Estimates.

<sup>c</sup> May include disbursements not channeled through the Government budget.

Source: *Development Cooperation Report for Cambodia (1998/1999)* prepared by the Cambodian Rehabilitation Development Board, Council for Development of Cambodia with the support of the UNDP

**CAMBODIA**  
**LENDING PIPELINE AND TECHNICAL ASSISTANCE PROGRAM, 2001-2003**

Sector/Project Name	Poverty Classification <sup>a*</sup>	Crosscutting Operational Priority <sup>b*</sup>	Responsible Division	Year of PPTA	PROJECT COST (in \$ million)					
					TOTAL	Bank		Gov't	Cofinancing (Others)	
						OCR	ADF			Total
<b>2001 FIRM LOANS</b>										
<b>Agriculture and Natural Resources</b>										
1 Rural Development	CPI	GG	AWAR	2000	25.0	-	20.0	20.0	5.0	tbd
<b>Subtotal</b>					25.0	-	20.0	20.0	5.0	tbd
<b>Social Infrastructure</b>										
2 Education Sector Development	PI	HD	AWEH	2000	37.5	-	30.0	30.0	7.5	tbd
<b>Subtotal</b>					37.5	-	30.0	30.0	7.5	tbd
<b>Finance and Industry</b>										
3 Financial Sector Program	ODI	PSD	IWFI	2000	30.0	-	30.0	30.0	-	tbd
<b>Subtotal</b>					30.0	-	30.0	30.0	-	tbd
<b>Total</b>					92.5	-	80.0	80.0	12.5	tbd
<b>2002 FIRM LOANS</b>										
<b>Agriculture and Natural Resources</b>										
1 Integrated Natural Resources Management	CPI	ENV	AWFN	1999	25.0	-	20.0	20.0	5.0	tbd
<b>Subtotal</b>					25.0	-	20.0	20.0	5.0	tbd
<b>Social Infrastructure</b>										
2 Basic Health Services II	PI	HD	AWEH	2001	31.3	-	25.0	25.0	6.3	tbd
<b>Subtotal</b>					31.3	-	25.0	25.0	6.3	tbd
<b>Transport and Communications</b>										
3 Road Network Improvement II	ODI	RC	IWTC	2001	50.0	-	40.0	40.0	10.0	tbd
<b>Subtotal</b>					50.0	-	40.0	40.0	10.0	tbd
<b>Total</b>					106.3	-	85.0	85.0	21.3	tbd
<b>2003 FIRM LOANS</b>										
<b>Agriculture and Natural Resources</b>										
1 Small and Medium Scale Water Resources Development	PI	HD	AWFN	2001	42.5	-	35.0	35.0	7.5	tbd
2 Agriculture Sector Development	CPI	GG	AWAR	2001	60.0	-	50.0	50.0	10.0	tbd
<b>Subtotal</b>					102.5	-	85.0	85.0	17.5	tbd
<b>Total</b>					102.5	-	85.0	85.0	17.5	tbd
<b>2003 STANDBY LOAN</b>										
<b>Social Infrastructure</b>										
1 Water Supply and Sanitation	PI	HD	AWWU	2001	31.0	-	25.0	25.0	6.0	tbd
<b>Subtotal</b>					31.0	-	25.0	25.0	6.0	tbd
<b>Total</b>					31.0	-	25.0	25.0	6.0	tbd

<sup>a</sup> CPI = Core Poverty Intervention; PI = Poverty Intervention; ODI = Other Development Interventions

<sup>b</sup> ENV = Environmental Protection; GAD = Gender and Development; GG = Good Governance; HD = Human Development; PSD = Private Sector Development and RC = Regional Cooperation

\* This classification was completed prior to the finalization of the improved and redesigned classification system in December 2000, which will be applied from January 2001.

**CAMBODIA**  
**LENDING PIPELINE AND TECHNICAL ASSISTANCE PROGRAM, 2001-2003**

Sector/Project Name	Responsible Division	Type of TA	Amount (\$ '000)		
			ADB	Others	Total
<b>2001 TECHNICAL ASSISTANCE PROGRAM</b>					
<b>Agriculture and Natural Resources</b>					
1 Small and Medium Scale Water Resources Development	AWFN	PPTA	700.0	0.0	700.0
2 Agricultural Sector Development	AWAR	PPTA	600.0	0.0	600.0
3 Capacity Building in Water Resources & Irrigation	AWFN	ADTA	800.0	0.0	800.0
<b>Subtotal</b>			<u>2,100.0</u>	<u>0.0</u>	<u>2,100.0</u>
<b>Finance and Industry</b>					
4 Capacity Building in Banking & Financial Sector Management <sup>a</sup>	IWFI	ADTA	900.0	0.0	900.0
<b>Subtotal</b>			<u>900.0</u>	<u>0.0</u>	<u>900.0</u>
<b>Social Infrastructure</b>					
5 Water Supply & Sanitation	AWWU	PPTA	700.0	0.0	700.0
6 Basic Health Services II	AWEH	PPTA	700.0	0.0	700.0
7 Capacity Building in Education <sup>a</sup>	AWEH	ADTA	1,000.0	0.0	1,000.0
<b>Subtotal</b>			<u>2,400.0</u>	<u>0.0</u>	<u>2,400.0</u>
<b>Transport and Communications</b>					
8 Road Network Improvement II	IWTC	PPTA	800.0	0.0	800.0
<b>Subtotal</b>			<u>800.0</u>	<u>0.0</u>	<u>800.0</u>
<b>Others/Multisector</b>					
9 Capacity Building in Macroeconomic and Public Finance Management II	PW3	ADTA	1,800.0	0.0	1,800.0
<b>Subtotal</b>			<u>1,800.0</u>	<u>0.0</u>	<u>1,800.0</u>
<b>Total</b>			<u>8,000.0</u>	<u>0.0</u>	<u>8,000.0</u>
<b>2002 TECHNICAL ASSISTANCE PROGRAM</b>					
<b>Agriculture and Natural Resources</b>					
1 Capacity Building in Natural Resource Management & Environmental Impact Assessment	AWFN	ADTA	1,000.0	0.0	1,000.0
<b>Subtotal</b>			<u>1,000.0</u>	<u>0.0</u>	<u>1,000.0</u>
<b>Energy</b>					
2 Power Transmission and Distribution	IWEN	PPTA	800.0	0.0	800.0
<b>Subtotal</b>			<u>800.0</u>	<u>0.0</u>	<u>800.0</u>
<b>Finance and Industry</b>					
3 Financial Sector Program II	IWFI	PPTA	800.0	0.0	800.0
<b>Subtotal</b>			<u>800.0</u>	<u>0.0</u>	<u>800.0</u>
<b>Social Infrastructure</b>					
4 Education Sector Development II	AWEH	PPTA	800.0	0.0	800.0
5 Capacity Building in Water Supply and Sanitation	AWWU	ADTA	800.0	0.0	800.0
<b>Subtotal</b>			<u>1,600.0</u>	<u>0.0</u>	<u>1,600.0</u>
<b>Transport and Communications</b>					
6 Capacity Building at the Ministry of Transport <sup>a</sup>	IWTC	ADTA	1,000.0	0.0	1,000.0
<b>Subtotal</b>			<u>1,000.0</u>	<u>0.0</u>	<u>1,000.0</u>
<b>Others/Multisector</b>					
7 Capacity Building in Law and Development	OGC	ADTA	1,800.0	0.0	1,800.0
<b>Subtotal</b>			<u>1,800.0</u>	<u>0.0</u>	<u>1,800.0</u>
<b>Total</b>			<u>7,000.0</u>	<u>0.0</u>	<u>7,000.0</u>
<b>2003 TECHNICAL ASSISTANCE PROGRAM</b>					
<b>Agriculture and Natural Resources</b>					
1 Integrated Natural Resource Management II	AWFN	PPTA	800.0	0.0	800.0
2 Rural Development II	AWAR	PPTA	800.0	0.0	800.0
3 Capacity Building in Agriculture <sup>a</sup>	AWAR	ADTA	800.0	0.0	800.0
<b>Subtotal</b>			<u>2,400.0</u>	<u>0.0</u>	<u>2,400.0</u>
<b>Transport and Communications</b>					
4 Secondary Road Improvement	IWTC	PPTA	1,000.0	0.0	1,000.0
<b>Subtotal</b>			<u>1,000.0</u>	<u>0.0</u>	<u>1,000.0</u>
<b>Others/Multisector</b>					
5 Capacity Building in Statistical Development III	EDRC	ADTA	1,000.0	0.0	1,000.0
6 Capacity Building in Economic Policy Management	PW3	ADTA	1,000.0	0.0	1,000.0
<b>Subtotal</b>			<u>2,000.0</u>	<u>0.0</u>	<u>2,000.0</u>
<b>Total</b>			<u>5,400.0</u>	<u>0.0</u>	<u>5,400.0</u>

<sup>a</sup> Piggy-backed to loans.

**CAMBODIA**  
**FIRM LENDING PROGRAM, 2001-2003**  
**BY POVERTY CLASSIFICATION, CROSSCUTTING OPERATIONAL PRIORITY AND SECTOR**

Classification	2001		2002-2003	
	No.	%	No.	%
<b>I. By Poverty Classification *</b>				
A. Core Poverty Intervention	1	33.3	2	40.0
B. Poverty Intervention (Non-core)	1	33.3	2	40.0
C. Other Development Interventions	1	33.3	1	20.0
<b>Total</b>	<b>3</b>	<b>100.0</b>	<b>5</b>	<b>100.0</b>
<b>II. By Crosscutting Operational Priority *</b>				
A. Environment	0	0.0	1	20.0
B. Gender and Development	0	0.0	0	0.0
C. Good Governance	1	33.3	1	20.0
D. Human Development	1	33.3	2	40.0
E. Private Sector Development	1	33.3	0	0.0
F. Regional Cooperation	0	0.0	1	20.0
<b>Total</b>	<b>3</b>	<b>100.0</b>	<b>5</b>	<b>100.0</b>
<b>III. By Sector</b>				
A. Agriculture and Natural Resources	1	33.3	3	60.0
B. Energy	0	0.0	0	0.0
C. Finance and Industry	1	33.3	0	0.0
D. Social Infrastructure	1	33.3	1	20.0
E. Transport and Communications	0	0.0	1	20.0
F. Others/Multisector	0	0.0	0	0.0
<b>Total</b>	<b>3</b>	<b>100.0</b>	<b>5</b>	<b>100.0</b>

\* This classification was completed prior to the finalization of the improved and redesigned classification system in December 2000, which will be applied from January 2001.

## CAMBODIA

<b>PROJECT PROFILE</b>					
1. <b>Project Name:</b> Rural Development			2. <b>Sector/Subsector:</b> Agriculture and Natural Resources/ Irrigation and Rural Development		
3. <b>Poverty Classification:</b> <sup>a *</sup> CPI			4. <b>Crosscutting Operational Priority:</b> <sup>b *</sup> GG		
5. <b>Rationale &amp; Objectives:</b> With peace restored, Cambodia is attempting to demilitarize so as to achieve stability. One aspect of this process is downsizing the military and redirect the peace dividend towards social and economic development. By developing the socioeconomic situation and securing a sustainable livelihood for rural, poor communities where ex-soldiers and families will settle, the Project will both contribute to poverty reduction and support the long-term reintegration aspect of the demobilization process.			6. <b>Beneficiary Participation/Consultation Needs:</b>  Extensive participation of beneficiaries is expected. Consultations will take place during project preparation.		
7. <b>Scope:</b>  The project will target poor, rural populations in selected rural areas where significant number of soldiers will be demobilized and will settle in host communities. Activities in support of area development would include rural infrastructure (rural roads, water supply, village-level social infrastructure), facilitating provision of social services (rural finance, skill training, microenterprise development) through existing provider programs, institutional strengthening and capacity building.					
8. <b>Estimated Cost &amp; Financing Plan:</b>				<b>Remarks:</b>	
<b>Loan Project Cost (\$m)</b>					
<b>Financing (Source)</b>		<b>FC</b>	<b>LC</b>		<b>Total</b>
ADB					20.0
Co-financing					
Borrower					5.0
Sub-borrowers					-
<b>Total</b>				<b>25.0</b>	
9. <b>Estimated Benefits and Beneficiary Groups:</b> Direct beneficiary support will be provided by the use of labor-intensive construction and maintenance techniques for rural infrastructure. Upgraded infrastructure will eliminate constraints to socioeconomic development and foster improvement in living standards of the targeted communities. Increased incomes and employment opportunities will be created for poor, rural communities, with particular focus on the poor and vulnerable groups (women, women headed household, demobilized soldiers, and disabled people).					
10. <b>Executing Agency:</b>  Ministry of Rural Development			11. <b>Project Implementation Period:</b> Start:  End:		
12. <b>Environment Category:</b>			13. <b>Processing Year:</b> <b>2001</b>		

<sup>a</sup> CPI = Core Poverty Intervention; PI = Poverty Intervention; ODI = Other Development Interventions

<sup>b</sup> ENV = Environmental Protection; GAD = Gender and Development; GG = Good Governance; HD = Human Development; PSD=Private Sector Development and RC = Regional Cooperation

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## CAMBODIA

PROJECT PROFILE				
1. <b>Project Name:</b> Education Sector Development			2. <b>Sector/Subsector:</b> Social Infrastructure/Education	
3. <b>Poverty Classification:</b> <sup>a *</sup> PI			4. <b>Crosscutting Operational Priority:</b> <sup>b *</sup> HD	
5. <b>Rationale &amp; Objectives:</b> To improve the quality, efficiency, and coverage of the education system, the sector development program will support support policy reform and an integrated, comprehensive approach to education sector development.			6. <b>Beneficiary Participation/Consultation Needs:</b>  Consultations with beneficiaries will be carried out during project preparation through workshops, focus group discussions, policy seminars and consultative meetings at the provincial, district, and village levels.	
7. <b>Scope:</b> The program will provide budget support for structural adjustments associated with education sector reform. This will include increased Government spending on education. The program will also provide financing for project components to enhance access for the poor to basic education. The program will emphasize improvements in female school enrollment.				
8. <b>Estimated Cost &amp; Financing Plan:</b>				<b>Remarks:</b>
<b>Loan Project Cost (\$m)</b>				
<b>Financing (Source)</b>	<b>FC</b>	<b>LC</b>	<b>Total</b>	
ADB			30.0	
Co-financing				
Borrower			7.5	
Sub-borrowers			-	
<b>Total</b>			<b>37.5</b>	
9. <b>Estimated Benefits and Beneficiary Groups:</b> The project will benefit the general population, particularly the poor, through greater access to higher quality education.				
10. <b>Executing Agency:</b> Ministry of Education, Youth, and Sports.			11. <b>Project Implementation Period:</b> Start: End:	
12. <b>Environment Category:</b>			13. <b>Processing Year:</b> 2001	

<sup>a</sup> CPI = Core Poverty Intervention; PI = Poverty Intervention; ODI = Other Development Interventions

<sup>b</sup> ENV = Environmental Protection; GAD = Gender and Development; GG = Good Governance; HD = Human Development; PSD=Private Sector Development and RC = Regional Cooperation

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## CAMBODIA

PROJECT PROFILE				
1. <b>Project Name:</b> Financial Sector Program			2. <b>Sector/Subsector:</b> Finance/Capital Market Development	
3. <b>Poverty Classification:</b> <sup>a*</sup> ODI			4. <b>Crosscutting Operational Priority:</b> <sup>b*</sup> PSD	
5. <b>Rationale &amp; Objectives:</b> Inadequate financial services is a major constraint to the development of job-creating small and medium enterprises in light manufacturing and services. This intervention will help to develop the policy and institutional capacity of the Government to build a viable and effective financial system.			6. <b>Beneficiary Participation/Consultation Needs:</b>  Consultations with the private sector will be carried out during project preparation	
7. <b>Scope:</b>  The project will provide assistance in executing a financial sector development road map, developed during project preparation. Emphasis will be placed on implementing a human resource development plan and on building a consensus for financial sector reform.				
8. <b>Estimated Cost &amp; Financing Plan:</b>				<b>Remarks:</b>
<b>Loan Project Cost (\$m)</b>				
<b>Financing (Source)</b>	<b>FC</b>	<b>LC</b>	<b>Total</b>	
ADB			30.0	
Co-financing				
Borrower				
Sub-borrowers			-	
<b>Total</b>			<b>30.0</b>	
9. <b>Estimated Benefits and Beneficiary Groups:</b>  The project will stimulate domestic resource mobilization. The main beneficiaries are expected to be local small and medium enterprises and their employees.				
10. <b>Executing Agency:</b>  National Bank of Cambodia			11. <b>Project Implementation Period:</b> Start:  End:	
12. <b>Environment Category:</b>			13. <b>Processing Year:</b> <b>2001</b>	

<sup>a</sup> CPI = Core Poverty Intervention; PI = Poverty Intervention; ODI = Other Development Interventions

<sup>b</sup> ENV = Environmental Protection; GAD = Gender and Development; GG = Good Governance; HD = Human Development; PSD=Private Sector Development and RC = Regional Cooperation

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