

**CAMBODIA**

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**Enabling a Socioeconomic  
Renaissance**

July 2000

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## EXECUTIVE SUMMARY

*“Cambodia would like to fully reclaim its destiny, to be a real partner in regional and global affairs and be well on its way to becoming a truly free nation—free from want and poverty above all.”*

Prime Minister Hun Sen  
Asian Wall Street Journal, 31 July 1999

At the dawn of the new millennium, Cambodians cherish a new dream of lasting peace, security, and prosperity. The impoverished nation is emerging from a long period of conflict that devastated the physical and human capital of the country as well as destroyed its political, economic, and social institutions. The Royal Government of Cambodia is now striving to implement a comprehensive reform and development program to improve security and ensure stability, to rebuild civil society, and to reduce poverty.

A major contributor to the rehabilitation effort in Cambodia since 1992, the Asian Development Bank (ADB) will support poverty reduction to the extent possible, considering the country's absorptive capacity and the Government's performance in macroeconomic management and reform. The program presented in this Country Operational Strategy (COS) will be adjusted as needed to reflect the poverty-reduction-focused socioeconomic development plan being developed by the Government with ADB assistance in 2000. This plan will feed into a high-level forum on poverty reduction that will culminate in 2001 in a partnership agreement between ADB and the Government on poverty reduction goals and collaborative actions. The plan will also provide the basis of the Poverty Reduction Strategy Paper being prepared by Government in compliance with requirements of the International Monetary Fund and the World Bank.

ADB resources will be invested in the Government's attack on poverty in three priority areas over the period of the COS (pages v-vii). The first priority is to support broad-based labor-intensive economic development in populous rural areas where most of the poor live. The second priority is to assist human and social development to enhance equitable access to the benefits of economic growth. The third priority is to promote private sector participation in development by addressing key policy, institutional, and infrastructural weaknesses.

To ensure the prudent use of investment funds, ADB will provide a broad package of technical assistance that will strengthen the institutions of governance in the executive, judicial, and legislative branches. Crosscutting support will strengthen the role of women in development, promote regional cooperation, enhance environmental protection, and address postconflict issues. This support will include capacity building technical assistance (TA), economic sector work, and appropriate design of projects to mainstream crosscutting concerns.

To the extent possible, interventions will be concentrated in the populous rural areas of the Plains and Tonle Sap regions where most of the poor reside. ADB program over the COS period can be evaluated, in part, by measured changes in the incidence of absolute poverty and the country's score on the Human Development Index, its components, and other social indicators such as infant and maternal mortality rates. The 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-sectoral synergies in the program, and take advantage of ADB's strategic position as a regional multilateral financial institution in Cambodia.

Cambodia's most pressing need is relief from pervasive poverty that is crippling the population. Social indicators that rank Cambodia among the least advanced of ADB's developing member countries include a life expectancy at birth of 53 years, a literacy rate of 66 percent, and the highest infant and maternal mortality rates in Southeast Asia. About 36 percent of approximately 12 million Cambodians live below the absolute poverty line, but many Cambodians are clustered close to the line so that economic shocks or policy changes could quickly raise or lower measured poverty. Most of the poor who live in rural areas in the populous Plains and Tonle Sap regions have limited access to resources and services, and are engaged mainly in subsistence agriculture.

The root cause of poverty in Cambodia appears to be arrested economic development caused by the prolonged period of conflict that destroyed physical infrastructure, human capital, and the institutions necessary for good governance. With new political stability, however, Cambodia is beginning to focus in earnest on economic development. To reduce poverty, the Government is emphasizing rural economic development through (i) decentralization to encourage local participation in development, (ii) enhanced agricultural productivity to boost incomes, and (iii) expanded rural access to affordable social services.

An important government goal that will ensure balanced and sustained economic growth is to achieve good governance through fiscal, administrative, legal, and judicial reforms. The Government stresses the importance of employment generation through the promotion of labor-intensive manufacturing, tourism, and small-scale enterprises. In addition, the Government is determined to reintegrate politically and economically into the region and the world.

The Government's ambitious development goals are within reach if Cambodia can improve internal security and political stability through resolution of four important postconflict issues. First, the country must be demilitarized; this involves reforming and downsizing the military and police forces to achieve the behavioral norms and size appropriate to the peacetime security concerns of the country. Second, governance must be improved; this includes reestablishing the rule of law and reducing corruption. Third, the needs of the many vulnerable groups created in part by the long conflict must be addressed. Political stability will come from development that is as inclusive as possible. Fourth, a rapidly growing labor force—a result of the postwar baby boom and planned downsizing of security forces and the civil service—must be absorbed into productive economic activity.

Labor absorption and poverty reduction were disappointingly slow over the last several years because of low investment in agriculture and the political and economic crises that stunted economic growth in 1997-1998. Still at an early stage of development, Cambodia faces several major constraints to sustained poverty-reducing economic growth. First, human resources are underdeveloped because of poor public provision of social services—the net enrollment rate for upper secondary school is 6.4 percent. Second, gross capital formation, less than 14 percent in 1998, is among the lowest in Southeast Asia, in part because of weak resource mobilization. Third, inadequate public infrastructure, low labor force productivity, dysfunctional financial markets, ill-defined property rights, and corruption hamper private sector activities. Finally, mismanagement of the country's natural resources degrades the environment and reduces potential revenues. Deforestation, degradation of the Tonle Sap, and depletion of fisheries are of particular concern.

By addressing these constraints Cambodia has the potential to achieve growth in the Government's target range of 6.0-7.0 percent per year. With the population growing at 2.5

percent, per capita income would improve by 3.5-4.5 percent per year. With a well-balanced development agenda that places a priority on rural investments, particularly in agriculture and social services, the potential for poverty reduction is also great. If governance is strengthened and political stability is maintained, the private sector investment to develop the country's potential in industry and services should also materialize. There is potential for growth in tourism, light manufacturing, and agribusiness. Targeting selected potential growth centers for development of their natural advantage can achieve even growth across the country and strengthen the linkages between urban and rural areas.

Weak revenues and low private investment make Cambodia reliant on external assistance to finance its development program. Foreign aid financed about 75 percent of the \$100 million of fiscal capital expenditures in 1998 as well as a large program of TA, budgetary support, and emergency relief. Several major aid agencies are involved in Cambodian development. ADB is a major financier in transportation, power, education, agriculture, and water supply. Japan, the largest source with projects primarily in the Plains region, mainly supports bridge, road and port construction, power, and health. The World Bank provides assistance in the Plains and Tonle Sap regions primarily in agriculture, roads, water supply and sanitation, natural resource management, social development, and health.

The United Nations agencies and the European Commission focus on activities in rural development, governance, health, and education. Sweden coordinates its activities closely with the United Nations. France sponsors projects in agricultural diversification and in development of Siem Reap. Australia's main interventions are in agricultural research and extension, mine clearance, education, and health. In addition, about 400 nongovernment organizations are working in Cambodia.

Because of the major role of aid in Cambodia, coordination for both policy consistency and efficiency of operations is essential. As conditions in the country normalize, emergency assistance and rehabilitation give way to support for sustainable development. Aid agencies increasingly call for policy and institutional reform to ensure the efficient use of aid. Coordinated policy advice and long-term capacity building to assist reform and enhance absorptive capacity are thus becoming critical. Aid agencies must also make greater efforts to ensure that, with improved security, geographic targeting of poverty is improved. At Government's request, ADB is contributing by facilitating aid coordination efforts in water resources, education, and roads.

A review of previous ADB operations in Cambodia reveals that project management capabilities are still generally inadequate due to the youth of the program and the resource limitations of the country. Because of low skill levels and salaries, counterpart staff do not always have the ability, incentives, or time to effectively manage projects—a task often left to consultants. Recognizing the severe resource limitations of the Government, ADB should take extra care to closely monitor operations, ensuring efficient and appropriate use of resources to achieve stated project goals. Complex projects with overly ambitious scope, multiple executing agencies, and tight implementation schedules should be avoided. ADB is in a unique position to strengthen the Government's absorptive capacity with TA (and possibly other tools such as long-term advisors and secondment programs) to address short-, medium-, and long-term training needs.

The COS capitalizes on ADB's position as a significant development partner to support a balanced government development program. ADB will extend policy advice across a broad spectrum of development issues supported by strategic investments to achieve priority area objectives. In each priority area, key elements of the strategy must be (i) policy dialogue to

achieve efficiency and cost recovery, (ii) sustainable capacity building, and (iii) investments that contribute to equitable long-term economic growth. To maximize the impact of ADB's limited Asian Development Fund as well as enhance aid agency coordination, efforts will be made in each sector to identify potential cofinancing sources.

The first priority area is support for pro-poor, sustainable economic growth through interventions to relieve key constraints to broad-based agricultural growth. It will involve facilitation of government leadership in improving water resource management, as well as activities to encourage agriculture sector development, rural development, and improved management of critical wetlands. Key government assurances needed to trigger planned ADB activities will include continued progress in improving land rights, the development of a water resource management policy, an adequate rural road maintenance budget, strengthening of the Rural Development Bank as credit wholesaler, and commitment to improved resource management in the Tonle Sap area (particularly measures to curb deforestation in the area, reduce agrichemical pollution, and halt overexploitation of fisheries). Important considerations for projects in this priority area are employment generation through labor-intensive investments to the extent possible, and a focus on investments that provide support for labor-intensive activities.

The second priority area is a focus on human resource development. This includes facilitating government leadership of sector development in education (particularly basic education), and investments in basic health, water supply, and sanitation. In addition, ADB will provide key capacity-building assistance to government agencies involved in ensuring that the needs of women and vulnerable groups are addressed. The guiding theme is to improve the quality and efficiency of social services and facilitate equitable access to them. Key constraints the Government must address to improve delivery of these basic social services are (i) inadequate budget support for investment and recurrent expenditures, (ii) inefficient use of allocated funds, and (iii) the poor quality of the civil service.

The third priority area for ADB concessional loan and grant assistance will be development of an enabling environment for the private sector through selected interventions in transportation, finance, and energy. In addition, although the private sector is very weak, ADB will work towards developing the institutional framework to support public-private partnerships in public infrastructure and services. ADB will consider private sector catalyst investments as appropriate opportunities arise. Because Cambodia is at a very early stage of development and because the primary goal is to support poverty reduction, ADB's interventions will emphasize support for domestic small and medium enterprises in the rural areas, especially farming and other agricultural activities. However, to achieve balanced growth and ensure linkages between the rural and urban sectors, ADB will make selected investments to address the constraints to larger-scale direct foreign investment.

Governance is the primary crosscutting theme of the strategy and the determining factor in whether Cambodia can achieve sustainable development. ADB's program of assistance in governance will involve two modalities. First, in each sector of operations, ADB will focus on promoting transparency through frequent and thorough project and program reviews, training workshops in ADB procedures, and capacity-building TA. Second, ADB intends to support the Government's efforts to improve governance through a broad package of TA in the areas of macroeconomic management and law and development.

**OVERVIEW OF ADB's  
COUNTRY OPERATIONAL STRATEGY FOR CAMBODIA**

**Objective:** Poverty reduction

**Major Crosscutting Theme:** Governance

**Performance Indicators:** Incidence of poverty, social indicators, and reform progress

**Geographic Focus:** Plains and Tonle Sap natural regions

**Priority Area I: Development of the Rural Economy**

Constraint and Recommended Response	Government Strategy	Major Aid Activity	ADB Operational Strategy	
			Institutional Focus	Investment Focus and Potential Trigger
<p><b>Low agricultural productivity</b></p> <p><i>Accelerate sector development/reform</i></p>	<ul style="list-style-type: none"> <li>Complete transformation to market-based system</li> <li>Promote agribusiness and crop diversification</li> <li>Enhance food crop productivity</li> </ul>	<ul style="list-style-type: none"> <li>Australia - Research and extension</li> <li>World Bank (WB) - Agriculture productivity improvement</li> <li>ADB - Agriculture market reform</li> </ul>	<ul style="list-style-type: none"> <li>Capacity building at key institutions</li> <li>Promote sustained agriculture market reform momentum</li> </ul>	<ul style="list-style-type: none"> <li><b>Focus:</b> Sector development</li> <li><b>Trigger:</b> Government maintains market reform momentum</li> </ul>
<p><b>Inadequate rural infrastructure and weak local institutions</b></p> <p><i>Promote rural development</i></p>	<ul style="list-style-type: none"> <li>Decentralized, participatory, integrated provision of rural infrastructure through SEILA Program</li> <li>Use of labor-intensive techniques in rural infrastructure provision</li> </ul>	<ul style="list-style-type: none"> <li>United Nations (UN)/ European Commission/Others – Decentralized rural development</li> <li>ADB/UN/others - Labor-based rural infrastructure</li> </ul>	<ul style="list-style-type: none"> <li>Capacity building at key institutions</li> <li>Ensure adequate road maintenance</li> <li>Promote labor-intensive techniques</li> <li>Support demobilization program</li> </ul>	<ul style="list-style-type: none"> <li><b>Focus:</b> Rural infrastructure</li> <li><b>Triggers:</b> Commitment to sustainability of activities and adequate, funded, road maintenance plan</li> </ul>
<p><b>Poor or nonexistent water management systems</b></p> <p><i>Improve management of water resources</i></p>	<ul style="list-style-type: none"> <li>Expansion of irrigation with consideration for cost recovery and cost-effectiveness</li> </ul>	<ul style="list-style-type: none"> <li>Mekong River Commission - Basinwide planning, water-use monitoring</li> <li>UN/Others - Small-scale irrigation</li> <li>Japan - Hydro-meteorology</li> </ul>	<ul style="list-style-type: none"> <li>Capacity building at key ministries</li> <li>Development of a national water resource management policy</li> <li>Facilitate government leadership of sector development</li> </ul>	<ul style="list-style-type: none"> <li><b>Focus:</b> Flood control and irrigation facilities</li> <li><b>Triggers:</b> Government commitment to cost recovery and agreement on policy reforms</li> </ul>
<p><b>Rapid environmental degradation</b></p> <p><i>Strengthen environmental management</i></p>	<ul style="list-style-type: none"> <li>Implement National Environmental Action Plan</li> </ul>	<ul style="list-style-type: none"> <li>WB/Japan - Forestry</li> <li>UN - Management of Tonle Sap</li> </ul>	<ul style="list-style-type: none"> <li>Build capacity to manage natural resources</li> </ul>	<ul style="list-style-type: none"> <li><b>Focus:</b> Environmentally sound development of Tonle Sap</li> <li><b>Trigger:</b> Commitment to reform management of Tonle Sap resources</li> </ul>

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## Priority Area II: Human Resource Development

Constraint and Recommended Response	Government Strategy	Major Aid Activity	ADB Operational Strategy	
			Institutional Focus	Investment Focus and Potential Trigger
<p><b>Low educational attainment</b></p> <p><i>Increase access to basic education</i></p>	<ul style="list-style-type: none"> <li>Increase budget share of education and its efficient use</li> </ul>	<ul style="list-style-type: none"> <li>ADB/UN/Bilaterals - Basic educational improvement</li> <li>UN - Assuring equitable access</li> </ul>	<ul style="list-style-type: none"> <li>Capacity building at Ministry of Education, Youth and Sports</li> <li>Sector policy framework</li> <li>Facilitate government leadership of sector development</li> </ul>	<ul style="list-style-type: none"> <li><b>Focus:</b> Improve efficiency and quality of and access to basic education</li> <li><b>Triggers:</b> Agreement on policy framework and sufficient, efficient, public expenditures at local level</li> </ul>
<p><b>Poor health conditions</b></p> <p><i>Improve health care system</i></p>	<ul style="list-style-type: none"> <li>Increase budget share of health and ensure its efficient use</li> <li>Increase access to health services and increase coverage of minimum package of activity</li> </ul>	<ul style="list-style-type: none"> <li>UN/ADB/WB/Bilaterals/ NGOs - Strengthening basic health services</li> <li>Bilaterals/NGOs - Women/Child care</li> <li>UN/Bilaterals/ NGOs - Disease control/ immunization</li> </ul>	<ul style="list-style-type: none"> <li>Capacity building at Ministry of Health</li> <li>Cost-effective delivery</li> </ul>	<ul style="list-style-type: none"> <li><b>Focus:</b> Improved access to basic health services</li> <li><b>Triggers:</b> Satisfactory performance review of prior project and sufficient, efficient, public expenditures at local level</li> </ul>
<p><b>Poor health conditions</b></p> <p><i>Increase water supply and sanitation coverage</i></p>	<ul style="list-style-type: none"> <li>Increase supply of clean water</li> <li>Improve sanitation systems</li> <li>Establish cost-recovery framework</li> </ul>	<ul style="list-style-type: none"> <li>ADB/WB/Bilaterals - Revitalization of water supply and sanitation in Phnom Penh, Krong Preah Sihanouk</li> </ul>	<ul style="list-style-type: none"> <li>Support development of cost-recovery mechanisms</li> <li>Capacity building at national and provincial levels</li> </ul>	<ul style="list-style-type: none"> <li><b>Focus:</b> Improved access in provincial towns/rural areas</li> <li><b>Trigger:</b> Government commitment to cost recovery</li> </ul>

### Priority Area III: Private Sector Development

Constraint and Recommended Response	Government Strategy	Major Aid Activity	ADB Operational Strategy	
			Institutional Focus	Investment Focus and Potential Trigger
<p><b>High transportation costs</b></p> <p><i>Rehabilitate transportation network beginning with roads</i></p>	<ul style="list-style-type: none"> <li>• Reestablish primary road network</li> <li>• Improve cost recovery and maintenance</li> <li>• Streamline transportation regulations</li> </ul>	<ul style="list-style-type: none"> <li>• ADB/WB/Japan - Restoration of national roads 1, 3, 5, 6, 7; bridge construction</li> <li>• Japan - Port rehabilitation</li> <li>• ADB - Siem Reap airport improvement</li> </ul>	<ul style="list-style-type: none"> <li>• Capacity building at Ministry of Public Works and Transport</li> <li>• Improved road maintenance</li> <li>• Facilitate government leadership of sector development</li> </ul>	<ul style="list-style-type: none"> <li>• <b>Focus:</b> Rehabilitate and expand road network</li> <li>• <b>Triggers:</b> Adequate road maintenance operations and satisfactory performance on prior projects</li> </ul>
<p><b>High energy costs, low coverage, excessive use of wood for fuel</b></p> <p><i>Rehabilitate and expand power supply</i></p>	<ul style="list-style-type: none"> <li>• Development of a national grid</li> <li>• Provincial town electrification</li> <li>• Rural electrification</li> </ul>	<ul style="list-style-type: none"> <li>• ADB/WB/Bilaterals - Power rehabilitation</li> </ul>	<ul style="list-style-type: none"> <li>• Capacity building at Ministry of Industry, Mines and Energy</li> <li>• Improved corporate governance at Electricité du Cambodge</li> <li>• Promoting private sector involvement and financial independence of sector</li> </ul>	<ul style="list-style-type: none"> <li>• <b>Focus:</b> Rehabilitation and expansion of provincial power supply</li> <li>• <b>Triggers:</b> Satisfactory performance on prior projects and collection of arrears on government accounts</li> </ul>
<p><b>Poor financial intermediation</b></p> <p><i>Improve basic financial services</i></p>	<ul style="list-style-type: none"> <li>• Banking reform</li> <li>• Financial market development</li> <li>• Dedollarization</li> <li>• Encourage expansion of rural credit through licensed microfinance institutions, using Rural Development Bank as wholesaler of funds</li> </ul>	<ul style="list-style-type: none"> <li>• International Monetary Fund - Banking reform</li> <li>• France/NGOs/Others – Rural credit</li> </ul>	<ul style="list-style-type: none"> <li>• Capacity building at key institutions</li> <li>• Assist Government to frame sector development plan</li> </ul>	<ul style="list-style-type: none"> <li>• <b>Focus:</b> Basic financial services, especially rural finance</li> <li>• <b>Trigger:</b> Satisfactory midterm review of rural credit project</li> </ul>

## I. BACKGROUND

### A. Recent Political Developments

1. In March 1999, government forces seized the last of the Khmer Rouge leaders, Ta Mok. This final demise of the Khmer Rouge symbolically ended a brutal period of horror, sorrow, and loss that began 29 years earlier in March 1970 (less than 17 years after independence from France), when armed conflict began between the Lon Nol regime and the Khmer Rouge. The new promise of peace is accompanied by renewed hope for political stability. Eighteen months of often-violent political struggle followed the July 1997 end of the unstable power-sharing arrangement brokered after the 1993 elections. This struggle finally ended in late 1998 when a negotiated settlement upheld the results of the mid-1998 elections and produced a new coalition Government headed by a single Prime Minister.

2. The new political environment reflects further progress in the movement toward democracy that began with the 1991 Paris peace accords and the 1993 general elections. The new Government, with FUNCINPEC<sup>1</sup> as a junior partner to the Cambodian People's Party (CPP) in the administration and the Sam Rainsy Party (SRP) in opposition, was well-received by the international community, as evidenced by the country's regained United Nations (UN) General Assembly seat and recent admission to the Association of Southeast Asian Nations (ASEAN). Adopting a broad platform of structural reforms to support the transition to market-driven economic development, the Government regained the support of the international aid community, which pledged \$470 million in assistance during the February 1999 Consultative Group (CG) Meeting held in Tokyo. In January 2000, Japanese Prime Minister Keizo Obuchi visited Cambodia to strengthen ties between the two countries.

### B. Recent Economic Developments

3. Foreign aid, pledged contingent upon reform progress, especially in forestry and demobilization, is critical if Cambodia is to regain the development momentum of the mid-1990s and broaden its coverage. The transition to a market economy began in the late 1980s but became a comprehensive reform agenda only after the 1993 UN-sponsored elections. The economy stabilized in 1993 through mid-1997, a substantial reduction in inflation being a noteworthy achievement. The Government introduced several structural reforms including a two-tier banking system, liberalization of all aspects of the external sector (trade, investment, and exchange rates), privatization of State-owned enterprises, and increased competition, particularly in transportation and agriculture. The rebuilding of government institutions started, particularly with assistance from the Asian Development Bank (ADB), in the area of statistics which was virtually nonexistent in 1992. Cambodian annual real gross domestic product (GDP) growth averaged 4.0 percent from 1994 through 1998.

4. Slow progress in improving governance, combined with increased political instability surrounding the mid-1997 Khmer Rouge defections and subsequent administrative reorganization, led to a marked increase in corruption and violence in

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<sup>1</sup> French acronym for National United Front for an Independent, Neutral, Peaceful, and Cooperative Cambodia.

1997 and 1998. The most visible indication was a deterioration of forestry management that triggered the suspension of the International Monetary Fund (IMF) Enhanced Structural Adjustment Facility (ESAF) program. During that time of instability, which coincided with the regional financial crisis, foreign investment dropped, timber prices plunged, tourism arrivals plummeted, private consumption fell, and new commitments of international assistance virtually stopped. During the same period, drought limited the Cambodian rice crop and increased the regional price of rice as crop failures in Indonesia and the Philippines increased import demand from those countries. The resulting slowdown of economic growth and increased cost of living reduced the real incomes of both urban and rural poor and strained the fiscal budget, which was bolstered by central bank financing in 1998 for the first time in several years.

5. With renewed stability, the economy recovered from 1.3 percent real GDP growth in 1998 to about 5 percent in 1999. Economic events in 1999 included the imposition of quotas on garment exports to the United States (US) in early 1999, and progress on reform, culminating in a new agreement with IMF. The quotas, imposed based on the US view that Cambodia should improve labor conditions in the garment factories, may affect industrial growth and foreign direct investment (FDI) in the medium term.<sup>2</sup> A major fiscal reform in 1999 was the successful introduction of a value-added tax (VAT), which contributed to an increase in fiscal revenues from 9.2 percent of GDP in 1998 to 11.6 percent in 1999. This, along with reform progress in other areas such as forestry, led to a three-year \$81.6 million ESAF (now Poverty Reduction and Growth Facility [PRGF]) in October 1999.

6. Although macroeconomic conditions in Cambodia are improving with the formation of the new Government, the population is still extremely vulnerable to economic downturns and weather conditions. To achieve sustained poverty-reducing economic growth, the Government's development program will refocus on development of the rural areas. Success will depend on the ability of the Government to maximize investment efforts by making efficient use of foreign assistance, by attracting private investment funds, and by mobilizing domestic savings. Key areas in which major government efforts are required are in agriculture and rural development, natural resource management, basic health and education provision, and physical infrastructure investment. Improved governance must accompany these efforts.

## **II. OVERVIEW OF DEVELOPMENT ISSUES**

### **A. Poverty Profile**

#### **1. International Comparison**

7. Cambodia is among the poorest of ADB's developing member countries (DMCs). In the UN Human Development Report (HDR) 1999, which uses 1997 data, Cambodia ranks 137<sup>th</sup> out of 174 countries (Table 1). It is among the lowest ranked

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<sup>2</sup> The now dominant garment sector grew rapidly after Cambodia was granted preferential access to the US market in 1997. Other factors that may slow growth in this sector are tighter labor standards, tighter customs supervision, and loss of competitiveness because many regional currencies depreciated relatively more against the dollar than did the Cambodian riel during the regional financial crisis.

countries in the medium human development category.<sup>3</sup> In Southeast Asia, only the Lao People's Democratic Republic (Lao PDR) ranks lower at 140. Among all DMCs, only Lao PDR, Pakistan (138), Nepal (144), Bhutan (145), and Bangladesh (150) rank lower than Cambodia.

**Table 1: Selected 1997 Social Indicators  
Southeast Asian DMCs**

Country (Rank)	HDI Value	Life Expectancy at Birth (years)	Adult Literacy Rate (%)	Combined Gross School Enrollment (%)	Real GDP Per Capita (PPP\$)	Infant Mortality Rate (per 1,000 live births)	Maternal Mortality Rate (per 100,000 live births) <sup>a</sup>
<b>Cambodia (137)</b>	0.514	53.4	66.0	61	1,290	106	900
<b>Indonesia (105)</b>	0.681	65.1	85.0	64	3,490	45	650
<b>Lao PDR (140)</b>	0.491	53.2	58.6	55	1,300	99	650
<b>Malaysia (56)</b>	0.768	72.0	85.7	65	8,140	10	80
<b>Myanmar (128)</b>	0.580	60.1	83.6	55	1,199	81	580
<b>Philippines (77)</b>	0.740	68.3	94.6	82	3,520	32	280
<b>Thailand (67)</b>	0.753	68.8	94.7	59	6,690	31	200
<b>Viet Nam (110)</b>	0.664	67.4	91.9	62	1,630	32	160

<sup>a</sup> 1990. DMC — developing member countries, GDP — gross domestic product, HDI — Human Development Index, Lao PDR — Lao People's Democratic Republic, PPP — purchasing power parity. Source: UN, *Human Development Report 1999*.

8. A relatively brief life characterized by illiteracy, low income, and poor health is not uncommon among the approximately 12 million citizens of Cambodia. Among DMCs of ADB, only the Lao PDR has a life expectancy as low as Cambodia's 53.4 years. With a 1997 adult literacy rate of 66 percent, Cambodia ranks below all Southeast Asian countries except the Lao PDR. While Cambodia's gross school enrollment rate is comparable with that of other Southeast Asian DMCs of ADB, its income level is below average for the region. Most striking are Cambodia's infant mortality rate (IMR) and maternal mortality rate (MMR), which are the highest in the region.<sup>4</sup> Total fertility is 4.1

<sup>3</sup> The HDR ranks countries according to a score between 0 and 1 on the Human Development Index (HDI). A country's HDI score depends on life expectancy at birth; adult literacy; combined gross primary, secondary, and tertiary school enrollment; and real per capita income in purchasing power parity dollars. An HDI score of 0.8 or higher is indicative of high human development; a score between 0.5 and 0.799, medium human development; and below 0.5, low human development. (United Nations. 1999. *Human Development Report 1999*. On-line: <http://www.undp.org/hdro/pp.htm>).

<sup>4</sup> The 1998 National Health Survey, conducted by the National Institute of Public Health and Research, Ministry of Health, estimates the IMR at 89.4. The National Center for Maternal and Child Health Care indirectly estimated the MMR at 473 in 1995 (Ministry of Health. 1999. "Consultative Group Position Paper." Phnom Penh).

children per woman, down from 5.2 in 1996, and the population is growing at about 2.5 percent annually compared with 1.4 percent for all DMCs of ADB.<sup>5</sup>

## 2. Extent of Poverty

9. A deeper understanding of the extent of poverty emerges from the Cambodia HDR (CHDR) 1998, which reports a Human Poverty Index (HPI) score of 42.5 percent for Cambodia, one of the lowest in Asia.<sup>6</sup> By comparison, UN HDR 1999 reports an average score of 25.0 percent for developing countries in Southeast Asia and the Pacific. Although poverty is relatively severe and extensive, with pronounced consumption inequality, a large percentage of the population is grouped close to the poverty line so that economic events or policy changes could significantly alter the percentage of people below the poverty line. CHDR 1997 concludes that, "if perfect targeting were possible, an *annual* income transfer of [less than \$20] per capita—or \$190 million for the country—would be required to [raise the poor above this absolute poverty line]. This constitutes approximately 40 percent of the overseas development assistance that Cambodia received in 1995."<sup>7</sup>

10. A consumption-based absolute poverty line for Cambodia can be defined as adequate income to buy a daily 2,100-calorie food basket plus a small allowance for nonfood expenditure. It was estimated that in 1997 about 36 percent of the population, over 4 million people, could not achieve this barest minimum standard of living. However, the average poor household's expenditure fell short of the poverty line by a relatively modest 8.7 percent. Moreover, Cambodian per capita daily food consumption in 1997 averaged only 2,262 calories per day, which typically amounted to about 70 percent of total consumption expenditures.<sup>8</sup> This barely exceeds the poverty line. These two facts together imply that a large proportion of the population is clustered around the poverty line. Thus, substantial increases or decreases in measured poverty are possible as a result of economic shocks or changes in economic policy.

11. Pervasive poverty is accompanied by substantial income inequality in Cambodia. CHDR 1998 and Sophal et al. (1999) report that the richest quintile in Cambodia had a 1997 HPI of 33.7 percent and per capita consumption expenditure of riel (KR) 5,852, six times higher than that of the poorest quintile with a 1997 HPI of 50.2 percent and per capita consumption expenditure of KR979. The share of food in 1997 total expenditures was 62 percent for the top 20 percent of the population and 75 percent for the bottom 20 percent. The consumption share of the richest 10 percent of the population in Cambodia was over 30 percent while that of the poorest 10 percent was 3.7 percent.

<sup>5</sup> ADB. 1998. *Key Indicators of Developing Asian and Pacific Countries 1998*, Volume XXIX. Manila: ADB, Tables 1 and 2.

<sup>6</sup> The HPI is a composite measure of the percentage of people not expected to live at least 40 years, the percentage that are illiterate, the proportion who have no access to safe water and health services, and the percentage of moderately and severely underweight children under 5 years old. A higher percentage indicates a higher level of poverty (Ministry of Planning. *Cambodia Human Development Report 1998: Women's Contribution to Development*. Phnom Penh).

<sup>7</sup> Ministry of Planning. 1998. *Cambodia Human Development Report 1997*. Phnom Penh, pp. 3-4.

<sup>8</sup> Ministry of Planning. "Report on the Cambodia Socio-Economic Survey 1997." Phnom Penh. Cited in Sophal, C., et al. 1999. *Cambodia: The Challenge of Productive Employment Creation, Working Paper 8*. Phnom Penh: Cambodia Development Research Institute (CDRI).

### 3. Geography of Poverty

12. An examination of the geographic distribution of poverty can help target development interventions so as to maximize the impact on poverty. Three facts emerge from such an exercise. First, urban areas are relatively better-off, although still harboring substantial numbers of the poor. Second, a relatively small percentage of poorest Cambodians live in remote sparsely populated areas. Strategies for targeting these two poor populations, the urban poor and the remote poor, are likely to be different from one that targets the majority of the poor living in relatively populous rural areas—the rural poor. Third, even in the populous rural areas, the incidence of poverty varies significantly between villages, depending on the extent of access to productive land, infrastructure, and social services; and on political representation.

13. There is clearly a large disparity between the urban population (15.7 percent of the total population with an HPI of 34.2 percent) and the rural population (84.3 percent of the population with an HPI of 44.9 percent). Urban per capita consumption expenditure is nearly twice the rural level and the average urban dweller can expect to live five years longer and reach a higher level of educational achievement. The overall incidence of poverty of 36 percent of the population can be broken down into incidences of 11 percent in Phnom Penh, 30 percent in other urban areas, and 40 percent in rural areas.<sup>9</sup> Using census figures, this translates roughly into 55,000 poor in Phnom Penh, 380,000 in other urban areas, and 3,700,000, or about 90 percent of the poor in rural areas.<sup>10</sup>

14. Table 2 indicates the geographic distribution of human development in Cambodia, which sharpens the geographic picture of poverty. Phnom Penh and, to a lesser extent, Krong Prean Sihanouk (Sihanoukville) stand out as populous, relatively high-density, relatively well-to-do urban centers. The rest of the country has HDI scores indicative of low human development. Six provinces have HDI scores below 0.400, indicating higher levels of poverty. Of these, however, only Siem Reap and Kompong Thom have relatively large populations of relatively moderate density. Taken together, Koh Kong, Stung Treng, Ratanak Kiri, and Mondul Kiri account for less than 3 percent of the population. These provinces and Preah Vihear (not ranked) are generally remote, of low population density, and often ethnically distinct from the populations in the more populous areas.

15. The distribution of poverty can also be viewed by natural region as well as by village. The Tonle Sap region has the highest incidence of poverty (38 percent), the second highest average population density (52 persons per square kilometer [ $p/km^2$ ]), and 31 percent of the population. The Plains region has the second highest incidence of poverty (29 percent), the highest average population density (235  $p/km^2$ ), and 52 percent of the population.<sup>11</sup> These two regions clearly have the highest proportion of poor but careful targeting of the poor should also account for the variation in the incidence of

<sup>9</sup> Knowles, James C. 1998. "An Updated Poverty Profile for Cambodia – 1997: Technical Report." Ministry of Planning, Phnom Penh.

<sup>10</sup> Ministry of Planning. 1999. *General Population Census of Cambodia 1998: Final Census Results*. Phnom Penh.

<sup>11</sup> Cambodia is divided into four natural regions—plains (Phnom Penh, Kandal, Kampong Cham, Svay Rieng, Prey Veng, and Takeo); Tonle Sap (Kampong Thom, Siem Reap, Battambang, Pursat, Kampong Chhnang, Banteay Meanchey, Oddar Meanchey, and Krong Pailin); coastal (Krong Prean Sihanouk, Kampot, Krong Kaeb, and Koh Kong); and plateau and mountain (Kampong Speu, Stung Treng, Ratanak Kiri, Mondul Kiri, Kratie, and Preah Vihear).

poverty across villages. CHDR 1999, which uses data from a 1997 survey of 474 villages deemed statistically representative of the whole country, provides a socioeconomic profile of Cambodian villages.<sup>12</sup> In the sample, stratified by consumption expenditure, 70 percent of the population in the poorest quintile of villages is below the poverty line, while in the richest quintile only 4 percent of the population is below the poverty line.

**Table 2: 1997 Population and Human Development Index, by Province**

Province	Population			HDI	
	Level	Percent	Density <sup>a</sup>	Score	Rank
Kompong Cham	1,608,914	14.1	164	0.475	5
Kandal	1,075,125	9.4	301	0.496	4
Phnom Penh	999,804	8.7	3448	0.936	1
Prey Veng	946,042	8.3	194	0.419	12
Battambang <sup>b</sup>	816,035	7.1	68 <sup>c</sup>	0.456	6
Takeo	790,168	6.9	222	0.432	10
Siem Reap <sup>d</sup>	764,443	6.7	68 <sup>e</sup>	0.325	19
Kompong Speu	598,882	5.2	85	0.456	7
Banteay Meanchey	577,772	5.1	87	0.409	13
Kompong Thom	569,060	5.0	41	0.336	18
Kampot <sup>f</sup>	557,065	4.9	108 <sup>g</sup>	0.448	9
Svay Rieng	478,252	4.2	161	0.429	11
Kompong Chhnang	417,693	3.7	76	0.453	8
Pursat	360,445	3.2	28	0.401	14
Kratie	263,175	2.3	24	0.506	3
Krong Prean Sihanouk	155,690	1.4	179	0.659	2
Koh Kong	132,106	1.2	12	0.374	16
Preah Vihear	119,261	1.0	9	—	—
Ratanak Kiri	94,243	0.8	9	0.375	15
Stung Treng	81,074	0.7	7	0.371	17
Mondul Kiri	32,407	0.3	2	0.216	20
<b>Total</b>	<b>11,437,656</b>	<b>100.0</b>	<b>64</b>	<b>0.472</b>	<b>—</b>

<sup>a</sup> Persons per square kilometer.

<sup>b</sup> Includes Krong Pailin.

<sup>c</sup> Battambang only. Krong Pailin density is 29.

<sup>d</sup> Includes Oddar Meanchey.

<sup>e</sup> Siem Reap only. Oddar Meanchey density is 11.

<sup>f</sup> includes Krong Kaeb.

<sup>g</sup> Kampot only. Krong Kaeb density is 85.

Sources: Population figures are from *General Population Census of Cambodia 1998*; Human Development Index from *Cambodia Human Development Report 1997*.

#### 4. Causes and Characteristics of Poverty

16. In Cambodia, the long period of destructive conflict and instability is probably the main root contributor to the widespread poverty that currently exists. Indeed, those who were displaced, maimed, orphaned, or widowed by the conflict face the greatest hardships. Damage to infrastructure (particularly irrigation systems), land mines, and other security threats contributed to low agricultural production. Execution of educated Cambodians during the Khmer Rouge era contributed to the low levels of human capital that hamper the effective delivery of social and government services. Discrimination

<sup>12</sup> Ministry of Planning. 1999. *Cambodia Human Development Report 1999*. "Village Economy and Development." Phnom Penh.

(ethnic or gender), however, does not appear to be a principal cause of poverty in Cambodia. CHDR 1999 reports that over 96 percent of villages are principally Khmer so that, even though villages dominated by ethnic minorities (Vietnamese, Chinese, Cham, hill tribes) tend to be poorer, they do not represent the bulk of the poor. Additionally, although there is a large percentage of female-headed households (25 percent), the incidence of poverty among female-headed households is slightly lower than among male-headed households. Thus, even though gender bias clearly exists in Cambodia, it is not, by itself, a major source of poverty.

17. The Cambodian poor, as defined by low incomes and low consumption bundles, generally tend to have less access to productive resources. For example, poorer villages tend to be located where there is less access to natural resources or where there are lower quality natural resources (e.g., less productive land in areas more vulnerable to flood and drought). Moreover, CHDR 1999 reports that the poorer villages have less access to markets (14 percent of villages have a market), infrastructure (43 percent of villages have access to electricity and 23 percent have access to piped water), economic services (11 percent of villages have a bank or credit organization and 4 percent have an agricultural extension worker), and political power (the average village is 9 km from the district town). Richer villages tend to be closer to industrial or commercial enterprises such as brick and tile manufacturing in the northwestern part of the country. Finally, poorer villages tend to have no access to basic educational services (46 percent of villages have primary schools and only 5.4 percent have lower secondary schools) or basic health services (16.2 percent of villages have a clinic).

18. As a result of inadequate access to resources and services, poorer villages tend to depend more on agriculture activities whereas richer villages are more diversified, with trading as the most important economic activity. About 90 percent of the poor belong to households that rely on 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 ends in loss of farm assets such as land. The poor tend to have larger families living under one roof, with younger children and higher dependency ratios (ratios of nonworking to working household members).

19. In part because of greater proximity to health and education services, richer villages have higher educational achievement and health care utilization rates. Poorer villages have higher rates of illiteracy and higher levels of gender disparity in literacy. Richer villages pay higher school fees and have a lower student/teacher ratio. With regard to immunization against measles of children aged 0-5, coverage is 43.4 percent in the richest quintile of villages, and only 22.5 percent in the poorest quintile. In the poorest villages, 92 percent of women deliver children at home; in the richest villages only 26 percent do so.

## **5. Government Strategy for Poverty Eradication**

20. The Government's strategic development goals are summarized in Box 1. Poverty eradication is the Government's primary goal. The central thrust of the Government's poverty eradication strategy is to promote faster economic growth in rural areas, in part by reducing the barriers to participation in economic growth by the poor at the village level. A three-pronged strategy includes 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.<sup>13</sup> To promote participatory rural development, the Government is expanding a major decentralization effort in which village development committees (VDCs) participate in the planning and management of local development programs and projects. Currently 25 percent of villages have VDCs that are often supported by nongovernment organizations (NGOs) and receive funds from the Central Government and international aid agencies. The Government's goal is to increase the villages with VDCs to 69 percent by the end of 2000.

**Box 1: Government's Development Strategy**

- ❑ Poverty eradication through participatory rural development
- ❑ Increased access to social services, particularly for women and vulnerable groups
- ❑ Improved macroeconomic management through policy development and institution building
- ❑ Administrative and judicial reform through civil service reorganization and decentralization
- ❑ Physical infrastructure investment, particularly rural roads
- ❑ Human resource development emphasizing the improvement of market economic skills
- ❑ Raising productivity, particularly by improving rice yields, enhancing animal health, and promoting diversified commercial agriculture exports
- ❑ Employment generation through labor-intensive manufacturing, small-scale enterprises, urban informal sector, and tourism
- ❑ Sustainable natural resource management
- ❑ Reintegration into the world and regional economies

Source: Socioeconomic Development Plan 1996-2000.

21. A major goal of the Government's strategy is to increase agricultural productivity so as to boost the incomes of a large portion of the rural poor. Immediate objectives include increased public investment in rural infrastructure, expansion of extension services to support crop and livestock production, legal and regulatory reform to improve security of and access to agricultural inputs such as land and materials, improved natural resource management, and increased availability of rural financial services. The final plank of the Government's poverty eradication strategy is to enhance access to social services, particularly in the rural areas and for women and vulnerable groups. The Government's policy goal is to provide, at no charge to the poor, cost-effective health services, including a minimum package of activity (MPA) and universal education for grades 1-9.

<sup>13</sup> The December 1999 *Cambodia Poverty Assessment* report (Ministry of Planning, Phnom Penh) recommends three elements of a poverty reduction strategy: (i) promoting rapid economic growth, (ii) expanding access of the poor to health and education services, and (iii) addressing the needs of vulnerable groups with a social safety net.

## **B. Postconflict Issues**

### **1. Demilitarization**

22. Effective demilitarization of Cambodian society involves both security sector reform and demobilization. It is the latter that has tended to be the focus of attention. Yet it is clear that the military and police forces have contributed to the lawlessness, insecurity, and fear of violence that pervade Cambodia. The involvement of the military in the overexploitation of the nation's forest resources is well documented.<sup>14</sup> Press reports have linked security personnel to other abuses in fisheries, national heritage sites, and demined land. Military units routinely involve themselves in internal security matters and interfere in the dispensation of justice. Human rights abuses are common. Violence and banditry are sufficiently pervasive that the international community considers some parts of the country as areas in which travel is unsafe.

23. The culture of impunity for the powerful, strong-arm justice, and violent dispute resolution must be altered if security is to improve. Thus, it is important that, together with the well-publicized plans for demobilization, the Government make efforts to reintroduce a culture of professionalism in the security forces. The Government, with assistance from the Australian military, was preparing a white paper on Cambodia's future defense needs in early 2000. This is an important first step toward the modernization of the security forces and the cessation of military and police involvement in private enterprise pursuits. A reform agenda will need to involve a clear separation of duties and ensure that each force has the trained personnel and equipment necessary to accomplish those newly defined duties.

24. The heavily discussed plan to cut about 50,000 of some 150,000 soldiers was still being finalized in early 2000. The plan involves a four-step process of (i) registration of soldiers to develop a planning and control database, (ii) disarming and discharging identified soldiers, (iii) reinsertion into civilian life through the provision of a basic basket of goods, and (iv) reintegration into civil society through an enhanced package of social services. Scheduled for pilot testing in 2000, the demobilization plan is likely to require substantial support from the international community and to involve a lengthy and complex process of implementation. The Government completed the registration process in 1999, cutting 15,551 "ghost" soldiers from the payroll, as well as 163,346 "ghost" dependents in the process. The program will transfer responsibility for 9,433 widows to the Ministry of Women's and Veteran's Affairs (MWVA) and demobilize 31,500 over the period 2000-2002, leaving military strength at just under 100,000.

### **2. Governance**

25. Poor governance and the frequent absence of the rule of law robs the ordinary Cambodian citizen of basic human rights, an equal opportunity to pursue and accumulate wealth through private enterprise, and an equitable share of the benefits of the country's endowments. Aid agencies, private investors, and government officials agree that a lack of strong institutions of governance is a fundamental constraint to sustainable economic development in Cambodia. The long period of conflict left Cambodia dominated by powerful groups that often operate outside the law with impunity. The justice system is susceptible to political influence and does not in practice

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<sup>14</sup> Global Witness. 1998. *Going Places* (on-line). Available: <http://www.oneworld.org/globalwitness/>

afford citizens equal access to the law. Elite groups often receive differential access to public services, national resources, and business opportunities. Public servants are generally poorly paid and exhibit low productivity. Public administration is inefficient. Tax evasion is prevalent and domestic revenue collection is poor. Corruption is widespread in all branches of government. Thus, despite the existence of potentially large sources of revenue such as forest product royalties, public spending on social services is a pittance compared with expenditures on security.

26. The Government is addressing these issues on many levels. Since the present government coalition was formed in late 1998, the Supreme Council of State Reform has been set up to supervise five councils charged with reforming the armed forces, public administration, economic and financial policies, and the law and justice system. There was substantial progress in 1999, but much work remains. Some "ghost" workers were cut from the civil service payroll, and plans were under way for a civil service census, computerized payroll, downsizing, and functional review of all ministries. Possibilities for setting up a core group of civil servants in essential functions were being investigated.

27. A substantial reform effort is directed at increasing domestic resource mobilization, increasing the efficiency of public spending, and increasing public spending in the social sector, as well as in nonwage recurrent expenditures. A VAT has been successfully implemented, tax and customs exemptions cut back, and a crackdown on illegal logging is under way. In the area of law and justice, however, increases in the crimes of armed robbery, kidnapping and homicide have been reported. The Ministry of Law and Justice has prepared a master plan to strengthen the capabilities and independence of the judiciary. Appendix 1 addresses issues of governance in Cambodia in more detail.

### **3. Demographic Issues**

28. Cambodian history shaped demographics to a substantial degree. Because of the decimation of the population during the Khmer Rouge years and the baby boom that came after, the population of Cambodia is very young; in 1995, 45 percent of the population was under 15. As a consequence, a high dependency ratio is common, particularly in poor households. Moreover, the population is growing rapidly at about 2.5 percent. This implies that the labor force is going to increase rapidly as the baby boomers come of age, increasing by as much as 165,000 per year over the next five years. At the same time, returned refugees, demobilized security forces, and redundant civil servants will further swell the ranks of the labor force. Because of the declining fertility rate, however, dependency ratios should begin to fall. If the economy can absorb these extra workers without sacrificing productivity, substantial reductions in poverty are possible.

### **4. Vulnerable Groups**

29. As a result of Cambodia's history of conflict and the disintegration of social order, large groups of the population are at risk of deprivation for various reasons, including a lack of access to basic social services, economic assets, political representation, as well as low social status. Together these groups represent a large portion of the Cambodian population. As already discussed in the poverty profile, nearly 40 percent of the population is afflicted with poverty. Such pervasive poverty requires a broad-based approach to poverty reduction. However, certain characteristics of poverty in Cambodia

require special attention. Moreover, extra effort may be required to ensure that certain groups have access to the opportunity to lead productive lives. The Government's 1997 First Socioeconomic Development Plan 1996-2000 (SEDPI) outlines a strategy for addressing the problems of the most vulnerable. The SEDPI emphasizes prevention of vulnerability through capacity building at the community level for identification of and assistance to those most at risk.

30. As in many countries, access or ownership rights to natural resources, including land tenure and titling, is a difficult problem in Cambodia. Because the Government freely distributed small plots of land in 1979, landlessness is not believed to be widespread. The average farm family has about 1 hectare (ha) of land, which is small relative to the optimal size of about 2 ha that is considered efficient for one-yoke draft animal use. Landlessness appears to be increasing, however, because only 10 percent of landholders have been granted temporary legal title to the land. This limits their ability to access credit. It also leaves them vulnerable to eviction by powerful interests that exploit weak governance to secure possession of valuable tracts of forest and agricultural lands. A critical aspect of the Government's program of poverty reduction (or rather poverty prevention), then, will be a transparent and equitable process of land titling.

31. In addition to those who have been evicted by powerful interests and those who have lost their land because of indebtedness, others are landless because of displacement. This group includes the refugees returning from the Khmer Rouge camps on the border with Thailand, or after long military service either in the Khmer Rouge or government armed forces. The landless are particularly at risk of economic hardship and food insecurity. Efforts to ensure allocation of mine-cleared land to these groups have had limited success as powerful interests snap up valuable land. Improved governance in the allocation of recovered lands and the vast government holdings is essential to improving the prospects of the landless.

32. Children are one of the most vulnerable groups in Cambodian society, as evidenced by the child mortality rates. Cambodia's 1997 under-five mortality rate, as reported in the 1999 UN HDR, was the highest in Asia at 167 per 1,000 live births. A major underlying factor is malnutrition. Over 50 percent of children under five are underweight and micronutrient deficiencies are common. Poor children, children from single-headed households, and orphaned and abandoned children who survive early childhood are particularly vulnerable to exploitation as child labor, to sexual exploitation, and to other forms of abuse. They are also more likely to be denied access to basic education and health care. Large numbers of children are disabled because of accidents due to land mines, polio, and cerebral palsy. There are also large numbers of street children in the cities of Phnom Penh and Battambang. Reducing the incidence of premature death is primarily a matter of reducing poverty and, to a lesser extent, to improving nutrition and basic health care. Reducing the incidence of exploitation is again primarily a matter of poverty reduction and the strengthening of institutional safeguards.

33. In 1997 it was estimated that Cambodia had a disabled population of 203,000 or 2.2 percent. Of these, 132,000 were males and 71,000 were females, with 81.5 percent living in rural areas. Illness or disease has been the principal cause of disability in both rural and urban areas. Disabilities caused by land mine explosions were reported as 6.7 percent of total disabilities in urban areas and 10.7 percent in rural areas. By type of disability, amputation of one or more limbs was the most prevalent, with blindness being

the second most prevalent form. In Phnom Penh there are higher numbers of those who have mental disabilities. Several NGOs are active in assisting the disabled, for example, through provision of prosthetics. But, judging by the prevalence of disabled beggars frequenting tourist locations, the level of services is inadequate. In a country at such a low stage of economic development, the inability to engage in physical labor is a serious handicap. Over the long term, of course, general poverty reduction and income growth should reduce the burden of the disabled population on society. Moreover, the Government and the international community have long placed an emphasis on the eradication of mines to prevent further tragedies.

34. Other vulnerable populations include the frail elderly and victims of HIV/AIDS.<sup>15</sup> In Cambodia, old age is often considered to commence at the age of 45 years. There is no universal social security system, so the frail elderly must depend on family and community networks for assistance. In 1998 it was estimated that 180,000, or 3.7 percent, of the sexually active population (15-49 years of age) were HIV-positive. Current estimates give 6,000 AIDS sufferers. The epidemic is expanding and is primarily heterosexually transmitted. These people do not have adequate access to health care and are frequently abandoned by their families and society once their HIV status is known. Eradicating poverty will enable families and communities to assist these populations more easily, while preventive measures are needed to halt the spread of HIV/AIDS.

## **5. Gender Issues in Cambodia**

35. In traditional Khmer society, a woman is generally subordinate to her husband but retains close ties with and support from her kinsmen. However, three decades of conflict have disrupted traditional family life, leaving women with less protection and support. Some of the most vulnerable groups now are households headed by women and older women who have no family and no means of support. There are significant areas of gender disparity in Cambodia, particularly in educational attainment and income. The literacy rate for women in rural areas is 55 percent compared with 80 percent for men. Girls also tend to drop out of school earlier because they start work earlier or because secondary schools are far from home.

36. Women suffer from both wage and nonwage discrimination. Men earn 33 percent more for equivalent work, and dominate the private and public corridors of power. Prostitution and domestic violence are serious social problems, with an average of 42 percent of sex workers HIV-positive in 1998. Perhaps the most serious problem for women in Cambodia is the poor quality of reproductive health. The relatively new MWVA is already taking steps to increase awareness of the need to address gender inequality in Cambodia. Appendix 2 addresses gender issues in more detail.

## **C. Economic Growth**

### **1. Overview**

37. From the discussion thus far, boosting rural labor productivity emerges as an important element of a growth strategy for poverty reduction. Almost 85 percent of the population live in rural areas where agriculture is the chief means of livelihood. The

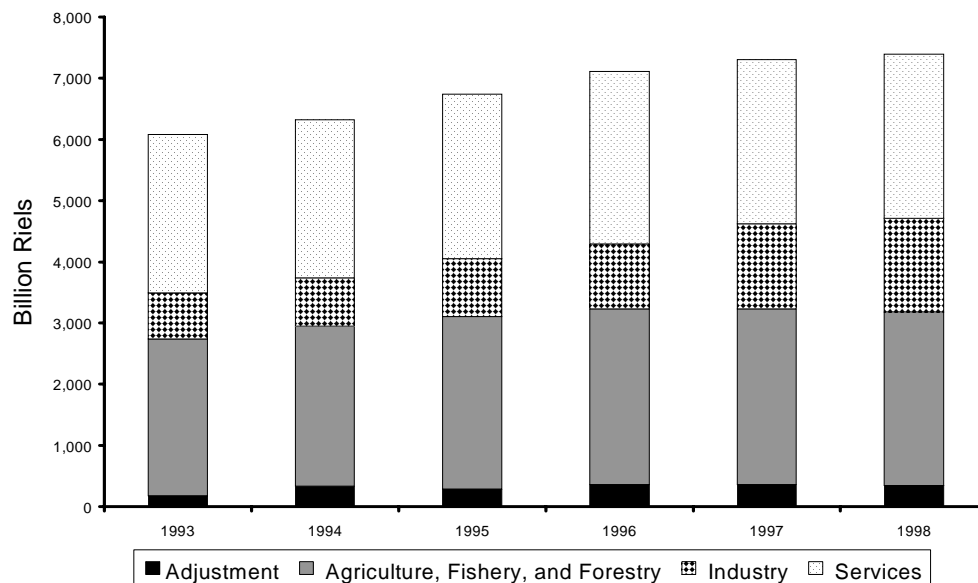
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<sup>15</sup> Human immunodeficiency virus/acquired immunodeficiency syndrome.

dominant agriculture sector is characterized by the lowest rice yield in the region, partly as a result of poor irrigation systems, frequent flooding, and drought. Industrial development is still nascent, depending primarily on aid-funded reconstruction and preferential access to western markets for textile exports. The urban service sector is also weak, with larger scale operations catering to tourists and other foreign visitors while small-scale family operated businesses serve local consumers. Weak institutions, a lack of skilled civil servants, and an almost total dependence on foreign funds for public investment plague the public sector. Private sector development is constrained by inadequate physical infrastructure and weak governance.

38. The average rate of growth of real GDP from 1994 to 1998 was 4.0 percent in Cambodia, with agriculture expanding at 2.14 percent, industry at 15.43 percent, and services at 0.79 percent.<sup>16</sup> Figure 1 shows sector shares of GDP. Agriculture, dropping from 42.0 percent of real GDP in 1993 to 38.3 percent in 1998, failed to grow as fast as the population, despite a 4 percent average increase in crops, which accounted for 18 percent of GDP in 1998. Livestock growth was an anemic 0.86 percent over the same period. The engine of industrial growth was manufacturing, particularly textiles, which grew an average of 56 percent over five years, increasing from 1.2 percent of GDP in 1993 to 6.4 percent in 1998. Most of this explosive growth occurred after the country gained preferential access to European Union and US markets. The disappointing service sector performance, despite 8.7 percent growth in hotels and restaurants, included a steady contraction of wholesale and retail trade after the United Nations Transitional Authority in Cambodia (UNTAC) period.

**Figure 1: GDP at Constant Prices, by Major Sector, 1993-1998**



Note: Adjustment to GDP includes taxes on products, subsidies, and imputed bank service charges.

Source: National Institute of Statistics.

<sup>16</sup> Ministry of Planning. 1999. *National Accounts of Cambodia 1993-1998*. Phnom Penh. Supported by TA2261-CAM: *Statistical System Development*, for \$1,200,000, approved on 22 December 1994.

39. As discussed in Chapter I, the internal and external crises of 1997-1998, combined with severe weather, adversely affected economic growth. Nevertheless, it is clear that the US garment trade agreement, which may have a much smaller impact on the economy in the future, was the main countervailing event in 1997-1998. Investment in this sector is slowing and the main source of service sector dynamism, tourism, is slow to recover from the effects of the internal and external crises. Moreover, the influence of forestry on the economy is bound to decline over the next several years as either reform or deforestation slows the pace of exploitation. Thus, it becomes even more critical to redirect investment toward the rural economy, which has been somewhat neglected as industrial growth centered on Phnom Penh.

40. That economic growth over the last several years has not been adequate is apparent when labor force productivity is analyzed. Sophal et al. 1999 (footnote 8) compared productivity in 1993-1994 and 1996 and found that (i) labor productivity declined by 5.0 percent between the two periods, and (ii) labor productivity in agriculture declined by 16.0 percent because agricultural output grew slower than the agricultural labor force. Agriculture's share of the labor force increased from 75.0 percent to 78.2 percent at the same time that its share of output was shrinking. When the effects of the 1997/98 shocks on the rural and urban poor (falling wages and rising rice prices) are incorporated, the conclusion is that the vast majority of the population did not enjoy a substantial increase in living standards in the last five years.

## **2. Constraints**

41. There are four basic constraints to sustained poverty-reducing economic growth: inadequate human resources, insufficient investment, weak institutions to provide public services to support private sector development of the economy, and mismanagement of the country's natural resources. Removing these constraints will enable accelerated growth in the long run.

### **a. Human Resource Development**

42. A principal long-term constraint on economic development in Cambodia is the poor quality of human resources. Low productivity and low wages characterize the labor force. Moreover, the military and civil service are overstaffed with low-skill, low-wage personnel that must now be integrated into the private sector labor force. The quality of the labor force is affected by high rates of morbidity and mortality. Furthermore, the proportion of the population with disabilities is high. About 40 percent of the Cambodian population have never attended school, 32 percent are illiterate, and less than 1 percent have had any training beyond high school, an alarming legacy of the Khmer Rouge years. Thus, Cambodia lacks even the skilled personnel to effectively improve its administrative, legal, educational, and medical institutions. Furthermore, public expenditures on education are very low, 10 percent of total expenditure in 1998, not quite 1 percent of GDP. The government share of total educational expenditures is as low as 25 percent, with informal private payments contributing significantly to user costs.

43. Inadequate health care and nutrition is literally debilitating the population. Stunting is common among children and adults frequently lose days of work because of illnesses for which treatment by a health provider is expensive. Leading causes of death include malaria, acute respiratory infections, tuberculosis, road accidents, and mines. An impending crisis is the HIV/AIDS epidemic, the worst in Asia and the worst outside

Africa. Public expenditures on health are also very low, leading to poor-quality health care and low access, which in turn leads to one of the lowest rates of health services utilization in the world. In 1998, only an estimated 37 percent of the urban population and 5 percent of the rural population had access to clean water.

### **b. Investment**

44. A critical constraint to economic growth in Cambodia is the low investment rate. Gross capital formation peaked at 15.2 percent in 1996 before falling to 13.4 percent in 1998. This compares with the average of about 28.5 percent for Viet Nam, 33.7 for Thailand, and 27.8 for the Lao PDR for the same period. Two sources of the low investment rate are low national savings and a relatively poor ability to attract foreign investment. Cambodian gross national savings averaged 3.1 percent in 1996-1998, compared with 10.4 percent for the Lao PDR, 21.3 percent for Viet Nam, and 34.2 percent for Thailand.

45. The low savings rate in Cambodia is partly a result of low government resource mobilization, partly a result of widespread poverty, and partly a result of a preference for informal savings because of low confidence in the banking system. The Government's 1998 revenues were 9.2 percent of GDP, up from 4.8 percent in 1993, but still the lowest of all reporting DMCs of ADB. The Government's goal is to achieve revenues of 13 percent of GDP by 2002. In the meantime, public investment declined from 7.6 percent of GDP in 1996 to an estimated 5.6 percent in 1999. Moreover, the bulk of this is financed by foreign assistance—99 percent in 1997 if budget support and project aid are taken together. In 1998 the percentage was only about 75 percent, but the Government resorted to bank financing of the gap.

46. Mobilizing private domestic savings for domestic investment is a long-term process of building confidence in the domestic banking and improving the private sector investment climate. The extent to which Cambodia can attract FDI in the interim will depend on regional economic recovery and the external assessment of the political climate and pace of reforms in the country designed to build market-friendly institutions. FDI declined from \$294 million (9.3 percent of GDP) in 1996 to \$168 million (5.5 percent of GDP) in 1997 to \$120 million (4.4 percent of GDP) in 1998. The regional crisis and the period of political instability affected FDI levels in 1997 and 1998.

### **c. Market Institutions**

47. In the 1990s, the types of private investment, domestic and foreign, that predominated in Cambodia were short-term investments that either do not depend on strong governance or perhaps even rely on weak governance. Legal noncompliance and rent seeking by government and military officials, for example, plagued the timber industry. Indications of labor law violations in the garment sector brought quotas on exports to the US. Although improvements in the labor force, financial markets, and public infrastructure (e.g., transportation, electricity) are important, it is corruption that is cited by businesses as the most important current constraint to private sector activities in Cambodia. The related lack of transparent laws and institutions to define and enforce private property rights is also a critical deterrent to the ability of the private sector to assume the lead role envisioned by the Government in poverty-reducing economic growth.

48. The long-term effort to improve urban infrastructure and labor force skills suitable for the development of labor-intensive industry and services will be ineffective without also focusing on improvements in the public institutions to support private sector development. Moreover, substantial investments in urban infrastructure are incompatible with the desire to redirect investments to rural development and social services. Thus, improved governance, including reducing corruption, increasing public administration efficiency, and improving legal and judicial institutions, is an important first step. It will foster private sector development in both urban and rural areas.

#### **d. Natural Resource Management**

49. One legacy of the 1990s transition period was accelerated environmental degradation. Declining Khmer Rouge influence resulted in increased access to previously little used forest resources even as the population steadily increased. The central Government also was unable to control logging in remote areas of the country for a variety of reasons. Recent studies indicate the severity of the situation. About 70,000 ha/year (yr) were deforested in 1973-1993, increasing to 180,000 ha/yr in 1993-1997. If harvesting is not curbed soon, commercially valuable timber will be exhausted in a few years, robbing the Government of a valuable source of revenue as well as creating problems in biodiversity and watershed control. 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.

50. The resulting reduction in crop yields because of soil erosion and increased flooding may dramatically increase poverty in a rural population that is heavily dependent on agriculture. A related problem is that fish catches, a vital source of protein in the diet, are plummeting because of the combined effects of habitat loss in the inundation zone of Tonle Sap, overexploitation, destructive fishing practices, and agrochemical pollution. An additional area of concern is the environmental impact of industrial and infrastructure investments, which has only recently come under government purview through the 1997 law on environment and natural resources. Finally, inadequate investment in aging sanitation systems combined with strong population growth presents an increasing threat to the health of both the environment and the population. The Environmental Sector Strategy Note on Cambodia elaborates the key environmental issues in more detail.<sup>17</sup> Improved natural resource management, including the cessation of quasi-legal and destructive logging by elements of the armed forces, is a critical litmus test of the Government's resolve to reform and desire to improve the lives of average citizens.

### **3. Development Potential**

51. Growing at 2.5 percent annually, the population will reach about 13.5 million by the end of 2005, increasing by about 18.0 percent. If the incidence of poverty is not improved, the number of people living below the poverty line will increase by 750,000, approaching 5 million. This will exacerbate a growing problem of land shortage and urban migration, as well as increase the demand for social services and jobs. Despite these daunting facts, the economic setbacks of the last two years, and the disappointing impact on poverty of economic growth in the last five years, Cambodia has the potential to achieve sustained economic growth in the Government's target range of 6.0-7.0

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<sup>17</sup> Programs Department (West). 2000. "Environmental Sector Strategy Note: Cambodia." ADB, Manila.

percent by 2001. This would improve per capita GDP by about 3.5-4.5 percent per year. With a well-balanced development agenda that increases rural investments, particularly in agriculture and social services, the potential for poverty reduction is great. If governance is strengthened and political stability is maintained, the private sector investment to develop the country's potential in industry and services should also materialize.

52. Harnessing the country's agricultural potential is a vital element of sustainable poverty-reducing development. Food security, the Government's first agricultural priority, is achievable with a well-rounded development plan that relies, to the extent possible, on markets to channel goods and provide distributive and productive signals to maximize efficiency. Eliminating the constraints to the efficient functioning of private sector operations should be the Government's focus. If property rights are strengthened, management of water and other natural resources is improved, the primary and rural road networks are expanded, the supply of rural credit is increased, and research/extension services are broadened, then agricultural productivity (rice yields, commercial crop production, and livestock production) should climb significantly.

53. Recorded output in fisheries and forestry together accounted for 13 percent of real GDP in 1998, down from 17 percent in 1994. It is likely that there was significant unrecorded activity, especially in forestry. Furthermore, current exploitation of these natural resources is widely regarded as unsustainable. Thus, to achieve the tremendous development potential in both forestry and fisheries, immediate action by the Government to halt overexploitation is essential. In reality, because of past abuses, the Government must race against time to avoid the collapse of those industries. It is unlikely, therefore, that in the next five years output in these two sectors will grow significantly; at worst, it could decline precipitously.

54. The SEDPI identifies a number of constraints to industrial development in Cambodia. First, Southeast Asia is a region that is highly competitive in labor-intensive manufacturing and many countries there recently went through a currency depreciation that increased competitiveness relative to Cambodia. Second, the skills-base of Cambodia's labor force, including entrepreneurial skills, is exceptionally low as indicated by educational achievement and health indicators. Third, power, communications, water supply, access to industrial land, and transportation are inferior in Cambodia. Fourth, physical and economic security is inadequate. Fifth, administrative red tape is excessive. Finally, the markets for financial and information services are underdeveloped.

55. Given these constraints, it is clear that significant expansion of the industrial base is a long-term goal. The SEDPI outlines a strategy of promoting key "growth centers" at Phnom Penh, Sihanoukville, Siem Reap, Battambang, and Kompong Cham. Phnom Penh is the center of government and located at the confluence of the Mekong and Tonle Sap rivers. Sihanoukville is a coastal town with harbor facilities and good transportation to Phnom Penh. Siem Reap is close to the northern shore of the Tonle Sap with Angkor Wat nearby (see Box 2 for a discussion of Cambodia's tourism potential). Battambang is close to significant natural resources as well as the Thai border. Kompong Cham is in the most populous province and holds a strategic location on the transportation network. Each of these areas has a natural location advantage and would be developed through infrastructure provision and industrial zoning. In general, an outward-oriented industrial policy that alleviates key constraints and relies on market forces to identify areas of comparative advantage is ideal.

## BOX 2: Tourism in Cambodia

### Tourism Arrivals by Air and Earnings, 1995-1998

Year	Arrivals (No.)	Earnings (\$million)
1995	154,686	27.4
1996	189,729	43.8
1997	164,017	36.7
1998	127,392	22.6

Source: Balance of payments statistics, National Bank of Cambodia.

Tourism is viewed as a great development opportunity for Cambodia. The Angkor-era ruins are widely regarded as among the world's most impressive historical treasures. Earnings of \$43.8 million in 1996 made tourism third in importance for export earnings, behind forest products (\$148 million) and textiles (\$101.837 million) and just ahead of rubber (\$31.9 million). It is estimated that about 75 percent of tourism earnings are retained after the costs of imports and foreign capital are deducted. These earnings represent a source of collectable tax revenue for the Government, direct employment, and indirect source of demand for agriculture (food) and manufactured products (furniture). The 1996 National Tourism Development Plan estimated that with proper market development, tourist arrivals could approach one million by 2001, implying earnings of as much as \$175 million.

Events in 1997, however, changed the tourism picture sharply. Arrivals plunged in the second half of 1997 and have been slow to recover. In the first quarter of 1999, 62,209 visitors (tourist, business, and others) arrived by air compared with 65,662 in 1996. In addition to the volatility of the tourism business, Cambodia faces other difficulties in developing the tourism market. Competition increased as neighboring countries with better-developed markets slashed prices in response to the crisis. Tourism infrastructure (roads, electricity, water, sanitation) and skilled service personnel are inadequate for a significant expansion of the market in the short term. Rapid degradation of tourism sites is a serious problem. Forests and their inhabitants are disappearing, as are the Angkor-era artifacts; pollution is rising; and sex tourism is threatening to tarnish the national image.

Although the market potential of Cambodian tourism is undeniable, it would be advisable to update the assessment of that market potential, given the change in the environment. The relative advantages of making significant predominantly urban *public* investments supported by concessional loans to upgrade infrastructure and services support for first-class tourism must be weighed carefully against the needs for rural poverty eradication and the ability of the Government to provide adequate conservation of tourism sites. However, the tourism industry offers an opportunity for the Government to encourage private sector development and demonstrate the capacity to respond to investor needs for institutional support. Investor interest in hotel construction in Siem Reap is recovering.

### **III. EXTERNAL DEVELOPMENT ASSISTANCE**

#### **A. Existing Strategy and Impact Assessment**

56. Soon after the October 1991 signing of the Paris Peace Accord, ADB resumed operations in Cambodia, developing an interim strategy to assist immediate rehabilitation needs in accordance with the efforts of UNTAC. After the May 1993 elections and the departure of UNTAC, the strategy was revised to include assistance for reconstruction and development efforts. As conditions continued to improve and the Government formulated a development strategy, ADB framed a formal Country Operational Strategy (COS) in 1995 to (i) support capacity building, (ii) promote economic growth, (iii) enhance social sector activities, and (iv) strengthen natural resource management. Implementation of that COS was affected by interruption of new technical assistance (TA) and loan project processing that accompanied the collapse of the coalition Government in July 1997. With the formation of a new coalition Government in late 1998, ADB returned to normal operations and began preparation of a strategy to reflect changes in conditions in Cambodia and the region, as summarized in Chapter I.

57. To implement the interim 1992 and formal 1995 strategies, ADB approved 65 TAs (grants) amounting to about \$49.6 million (Appendix 3, Table A3.1) and 12 concessional loans to Cambodia for a total of \$374 million (Appendix 3, Table A3.2) between 1992 and 1998. ADB's operations in Cambodia are still young (as of the end of 1999, only one of the loans had been closed), operations from 1992 through 1995 in support of the interim strategy of rehabilitation were of a unique character, and the 1995 COS implementation was interrupted in 1997. Thus, this section will not analyze the developmental impact of the two strategies separately but rather assess the lessons to be learned from the program as a whole in the areas of capacity building, economic growth, and social sector support.

#### **1. Capacity Building**

58. 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. The \$3.9 million 1992 Strengthening Macroeconomic Management (SMM) TA established key roles for ADB in assisting capacity building in the areas of economic planning, money and banking, public finance, and statistics. Subsequent TAs continued capacity building work in each area.

59. In the area of economic planning, SMM was followed by development capacity building TAs (phases I and II) amounting to almost \$1.8 million. ADB assisted the establishment and strengthening of a public investment planning unit within the Ministry of Planning (MOP), the framing of the SEDPI, and the production of four three-year rolling public investment programs (PIPs). Despite this large investment and record of accomplishments, capacity for development planning is still weak in Cambodia.

60. The effectiveness of ADB interventions in development planning was hampered by a number of factors. First, at a time when market reforms were redefining the role of MOP, the minister and other key senior staff were transferred to the National Bank of Cambodia (NBC) and there was a subsequent delay in naming a new minister. Second, coordination problems between MOP, responsible for development planning; the Council for the Development of Cambodia (CDC), responsible for aid coordination; and the

Ministry of Economy and Finance (MEF), responsible for the budget, hampered implementation of the PIPs. Third, delays in processing and implementing the phase II TA weakened the credibility of MOP and its ability to retain staff trained under the previous TAs.

61. In money and banking, two capacity-building TAs totaling \$740,000 followed SMM. Through SMM, ADB assisted in the reorganization of the central bank to meet the needs of a market economy through policy advice on the drafting of a new banking law and the creation of units within NBC to generate and analyze monetary, balance of payments, and financial assets statistics. Through the subsequent TAs, ADB supported the establishment and strengthening of the Center for Banking Studies. Overall, ADB's assistance in this area has been modest and focused primarily on training. Because Cambodia started from such a low level of human capital, the Center for Banking Studies is still inadequately prepared to meet the training needs of the banking sector.

62. In public finance, SMM provided a fiscal expert to advise and assist MEF in all aspects of fiscal management. A subsequent 1996 TA was for MEF to develop an independent internal audit capacity through establishment of a National Audit Authority, training, and assistance in developing audit standards. Another 1996 TA was for MEF to build capacity for external aid management through a functional review of the External Finance Department and the provision of equipment, technical advice, and training. Each TA made a good beginning in building capacity from a very low base.

63. In statistics, a \$1.2 million 1994 Statistical System Development TA followed SMM. ADB assisted in the rebuilding of the Cambodian statistical system through support for MOP's National Institute of Statistics (NIS). ADB built its capacity to conduct surveys and assisted in numerous surveys, including the first socioeconomic survey and the ongoing price, household, establishment, and labor force surveys. National account estimates were produced with ADB assistance. A major focus of ADB assistance in this area was long-term capacity building through on-the-job training, in-country training, and foreign scholarships. Despite these extensive capacity-building efforts, the effectiveness of ADB assistance was diminished when implementation of the 1994 TA was interrupted, delaying national account estimates for 1997 and 1998 until early in 1999. The \$1 million Statistical System Development (Phase III) TA was approved in November 1999.

64. In addition to TAs designed to improve macroeconomic management, ADB provided over \$13 million in TA support for multisectoral project implementation and other related areas such as environmental impact assessment and procurement. Moreover, a capacity-building sector TA of over \$14 million was provided. As a member of the Greater Mekong Subregion (GMS), Cambodia has benefited from TA addressing issues of common regional interest in transport, energy, tourism, environment, human resource development, trade facilitation, and investment under the GMS Economic Cooperation Program.

65. Taken together, ADB's efforts at capacity building through TAs, starting from very poor initial conditions, made substantial progress. However, institutional weaknesses remain endemic. The success with which ADB assistance can generate sustainable institutional capacity will be affected by several factors. These include, on the part of ADB, the level of commitment to long-term training and the degree of continuous and coordinated TA support to key related activities. On the part of the Government, the important factors are the amount of recurrent expenses budgeted for activities initiated

under ADB TAs, and the extent to which civil service reform creates incentives for trained personnel to remain with the agency after the completion of the TA program.

## 2. Economic Growth

66. The \$67.7 million Special Rehabilitation Assistance Loan (SRAL) (Loan 1199-CAM[SF]), approved on 26 November 1992, was the first loan approved during the current period of operations in Cambodia. With components in transport, energy, agriculture, and education, this loan was designed to assist in rapid rehabilitation efforts. In transport, repairs on 560 km of the primary road network, including 23 bridges, were undertaken. In addition, minor repairs of the rail system and Krong Prean Sihanouk Port were undertaken. The energy component focused on rehabilitation of the Phnom Penh power-generating and distribution systems. The agriculture component rehabilitated four irrigation schemes covering 9,620 ha rather than the 50,000 ha envisioned at appraisal because of lack of readily available subprojects and lack of capacity at the Ministry of Agriculture, Forestry, and Fisheries (MAFF). This component also provided 18,000 tons of fertilizer for sale to farmers.

67. This project, which was rated satisfactory and closed on 26 November 1997, produced several lessons. First, low capacity at implementing agencies means that ADB should include adequate consulting services or further capacity building assistance in planning, procurement, and project management to ensure effective project implementation. Second, ADB should encourage the strengthening of policies, procedures, and resource provision for operation and maintenance at the line ministries involved in ADB projects. Third, project scope should carefully consider sector institutional and technical capacity. Fourth, comprehensive sector plans to be developed should include policy dialogue and training to avoid ad hoc investments.<sup>18</sup>

68. SRAL was followed by the \$28.2 million Power Rehabilitation Project (Loan 1345-CAM[SF]), the first loan approved under normal operations in December 1994. The project has achieved its objectives of increasing the generating capacity in Krong Prean Sihanouk and of expanding and rehabilitating the distribution facilities in Krong Prean Sihanouk, Siem Reap, and Phnom Penh, as a result of which electricity losses have been significantly reduced. The project was completed within budget and on time, with the exception of the construction of a training center for staff of the State-owned electricity company, Electricité du Cambodge (EdC), projected in late 1999 to be six months late. EdC was given autonomy in 1997 and experienced numerous difficulties in making the transition to sustainable operations, including delays in producing satisfactory financial audits, until late 1999. EdC still had a weak financial position in late 1999, but was making modest progress toward improving the efficiency of operations.

69. The \$25.1 million Rural Infrastructure Improvement Project (Loan 1385-CAM[SF]), approved on 28 September 1995, was only about 30 percent complete in late 1999, partly because of a 15-month delay in consultant selection. Designed to improve the living conditions of about 600,000 people in six provinces in the southeast through labor-based rural infrastructure rehabilitation and improvement, the project had completed 281 km of earthworks, 136 km of laterite surfacing, and 80 wells as of late 1999. A key to the success of the finished project will be government commitment to

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<sup>18</sup> PCR: 1199 CAM(SF): *Special Rehabilitation Assistance Project*, December 1997.

maintenance since these types of roads require constant upkeep in the Cambodian climate.

70. Cambodia has received only one program loan. The \$30 million Agricultural Sector Program (Loan 1445-CAM[SF]), approved on 20 June 1996, was designed to provide institutional support to encourage agricultural reform, including land reform, improved agricultural extension activities, liberalized and increased access to input and output markets, and rural road maintenance. Slow progress in meeting tranche conditions, partly because of political events in 1997 and 1998, delayed the release of the second tranche, which was expected in the fourth quarter of 1999.

71. The \$15 million Siem Reap Airport Project (Loan 1503-CAM[SF]) was approved on 12 December 1996. The goal was to improve foreign exchange earnings by increasing the capacity of the country to cater to tourists visiting the Angkor Wat historical site. The project experienced significant procurement irregularities, which ADB has taken action to address. On 15 December 1998, ADB approved the \$40 million GMS: Phnom Penh to Ho Chi Minh City Highway Project (Loan 1659-CAM[SF]). The loan was made effective only in November 1999 because of delays in finalizing the resettlement action plan. The \$68 million Primary Roads Restoration Project (Loan 1697-CAM[SF]), designed to restore major portions of National Roads 5, 6, and 7, was approved in September 1999.

### **3. Social Sector Support**

72. The education component of SRAL was designed to focus on secondary education to complement the support for primary education being provided by the United Nations Children's Fund (UNICEF). The project component renovated 67 secondary schools, provided paper for textbook printing, and assisted rehabilitation efforts at Phnom Penh University and other institutes of higher learning. The SRAL was followed by the \$20 million Basic Skills Project (Loan 1368-CAM[SF]), approved on 30 August 1995. It was about 60 percent complete in October 1999 despite implementation delays. The project's development objectives were to (i) develop training in basic skills needed for construction, tourism, and health provision, (ii) provide income-generating skills to vulnerable groups, and (iii) improve training capacity. The \$20 million Basic Education Textbook Project (Loan 1446-CAM[SF]), approved on June 1996, is rated highly satisfactory. The project's purpose is to improve the quality of basic education by ensuring equitable access to textbooks and by enhancing the efficiency and sustainability of textbook supplies through publishing reform.

73. The \$20 million Basic Health Services Project (Loan 1447-CAM[SF]), approved on 20 June 1996, was to construct and equip 251 health centers, renovate 75 existing facilities, build capacity at district health offices, and introduce reforms designed to ensure health center sustainability. About 50 percent complete, the project experienced implementation delays and a significant reduction in scope but is proceeding more or less satisfactorily. The \$20 million Phnom Penh Water Supply and Drainage Project (Loan 1468-CAM[SF]), approved on 26 September 1996, experienced some implementation delays, but progress is satisfactory. The project was designed to benefit over 1.5 million people by 2005 by reducing the incidence of waterborne diseases, reducing the time and cost of obtaining drinking water, and improving family hygiene and health. The \$20 million Provincial Towns Improvement Project (Loan 1725-CAM[SF]),

approved in December 1999, will upgrade water supply facilities in six provincial towns as well as sanitation facilities in Krong Prean Sihanouk.

#### **4. Natural Resource Management**

74. There have been no loan projects in this area and ADB assistance has been through TA grants. Major activities include a TA for strengthening environmental impact assessment procedures and capabilities, and a TA for institutional strengthening and expanding environmental impact assessment capabilities. In addition to the project preparatory TA for sustainable forestry management, approved in December 1998, there were two ongoing regional TAs in late 1999. These were TA 5771-GMS: Poverty Reduction and Environmental Management in Remote GMS Watersheds, for \$3,800,000, approved on 31 December 1997, and TA 5822-GMS: Protection and Management of Critical Wetlands in the Lower Mekong Basin, for \$2,070,000, approved on 22 December 1998.

#### **5. Lessons Learned from Past ADB Operations**

75. Because ADB was the first multilateral financial institution to resume operations after the 1991 peace settlement, it was able to provide key emergency assistance and take a lead role in key sectors such as transport, agriculture, and education. Although it is still too early to assess the developmental impact of ADB assistance to date, some operational lessons can be gleaned from the preceding cursory analysis. In general, project management capabilities are still inadequate.

76. Constraints to improving project implementation efficiency are (i) shortage of skilled counterpart staff, (ii) lack of project preparation and implementation experience, (iii) inadequacy of financial resources, (iv) lack of knowledge on ADB's operational policies and procedures, and (v) poor governance. The Country Programming Review Mission (CPRM) of late 1998 further highlighted the need for careful consultant recruitment, effective release mechanisms for counterpart funds, and identification of full-time counterpart staff. Further, project designs need to be kept simple, project scope must be realistic, and projects need to be closely monitored. The implications for future operations are that ADB needs to devote substantial resources to build capacity in overall economic management and in sectors in which ADB will operate.

### **B. Other Assistance and Aid Coordination**

#### **1. Overview of Assistance Programs**

77. External assistance finances a substantial proportion of Cambodia's public investment program (about 75 percent of the \$100 million of fiscal capital expenditures in 1998) as well as a large program of technical assistance, budgetary support, and emergency relief. Over the period 1992-1998, 41 percent of \$2.75 billion in external assistance was categorized as capacity building and project preparatory TA, 31 percent was for investment projects, relief aid was 17 percent, and budgetary support was 11 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. Appendix 3, Table A3.3 compares past

disbursements with planned allocations over 2000-2002, highlighting trends toward increased investments in rural areas, education, and especially in health.

78. Because of the major role of aid in Cambodia, aid coordination is essential for both policy consistency and efficiency of operations. In 1992-1998, the major contributors, by disbursement, were Japan (\$625 million), France (\$245 million), US (\$237 million), UN agencies (\$236 million), European Commission ([EC] \$207 million), World Bank (\$175 million), ADB (\$161 million), Australia (\$137 million), and Sweden (\$113 million). NGOs, of which some 400 are operating in Cambodia, accounted for \$187 million. These major aid agencies recently agreed to meet with the Government on a quarterly in-country basis to assess progress on the pledged reform agenda. Aid agency working groups were also formed in key areas of reform. Appendix 3, Table A3.4 provides details of the currently programmed investment projects, funding agencies, and planned disbursements for 2000-2002, revealing the greater number of aid agencies involved in education and especially health. Appendix 3, Table A3.5, provides a sector matrix of aid agency operations.

79. Japan, the major aid agency in Cambodia, plans a program of about \$100 million per year in eight priority areas: agriculture/rural development (water resources and meteorology, animal husbandry); health (tuberculosis, mother and child health); education (primary and higher education); mine clearance (equipment and assistance for the mine-disabled); governance (support for civil law reform at the Ministry of Justice, support for the Ministry of Social Affairs, Labor, Vocational Training, Youth and Recreation; support for MWVA and for police reform at the Ministry of Interior); economic development (support for market reform and improvement of the taxation system); social infrastructure (transportation [roads, bridges, ports], electricity); and natural resource management (forestry). Activities are primarily in the Plains region.

80. France, a large player in Cambodia through Agence Française de Développement (AFD), is a cofinancing partner of ADB. AFD is primarily involved in rural development (rural credit to smallholder rubber plantations, silk production, agricultural diversification, water resource management) and in the development of the Siem Reap region (water supply, electricity, preservation of Angkor Wat). Activities are primarily in Pursat, Battambang, and Siem Reap.

81. UN agencies are primarily involved in rural development and humanitarian activities. The major United Nations Development Programme (UNDP) intervention is the Cambodia Area Rehabilitation and Regeneration (CARERE) project in the northwest and Ratanak Kiri, which focuses on decentralized integrated rural development (agriculture, education, health, water and sanitation) with the participation of provincial, communal, and village development committees. Other UNDP activities include support for macroeconomic management and governance, social sector development, and natural resource management. The Food and Agriculture Organization (FAO) is primarily involved in research, statistics development, and capacity building. The World Food Programme (WFP), through its work-for-food programs, is constructing rural roads, irrigation canals, and other small-scale, labor-intensive projects. The International Labour Organisation provides technical supervision for the labor-based rural infrastructure projects of WFP, CARERE, and Sweden. UNICEF, the World Health Organization (WHO), and the United Nations Educational, Scientific, and Cultural Organization (UNESCO) are also active in Cambodia.

82. The EC is involved in nine areas in Cambodia including rural development (domestic water supply, irrigation, agriculture extension, rural credit) in the Plains region through PRASAC, in primary education through PASEC, and in health through support of programs for sexually transmitted diseases, malaria, and reproductive health.<sup>19</sup> The Australian Agency for International Development (AusAID) is primarily involved in agriculture through the Cambodia-Australia Agricultural Extension Project (CAAEP), the Cambodia-IRRI-Australia Project, and the Agricultural Quality Improvement Project. AusAID is also involved in the health sector with a large national health center project and support for immunization and HIV/AIDS. AusAID is a principal supporter of the national mine clearance program and also supports activities in education, governance, and humanitarian relief. The United States Agency for International Development (USAID) is currently limited to a relatively small humanitarian program. Sweden plans 1999-2001 activities that are closely coordinated with UN activities in rural infrastructure, primary education, and mine clearance.

83. Past and ongoing World Bank Group assistance in Cambodia includes two social funds, economic management, road restoration, HIV/AIDS prevention, forestry management, environmental protection, rural credit provision, power rehabilitation, agricultural productivity improvement, rural development, water supply rehabilitation, and educational quality improvement. IMF approved a three-year \$81.8 million PRGF arrangement for Cambodia in October 1999 to support the Government's economic program for 1999-2002. The primary focus of the PRGF program is fiscal reform including improvements in revenue collection and increased social spending.

84. The World Bank's Country Assistance Strategy, anticipating a \$40 million per year program and covering the period 1 July 1999-30 June 2003, emphasizes facilitating roles in governance, water supply and sanitation, and public utilities. In addition to these investments and a Structural Adjustment Credit, the World Bank plans investments in education, forestry, biodiversity, microfinance, tourism, energy, cultural resource management, and rural development. The World Bank also plans capacity building in governance, accounting and auditing, demobilization, water and energy, public expenditure, poverty monitoring, private sector promotion, and environmental management.

## **2. Role of Aid Agencies in Development**

85. The international community is reassessing its role in assisting the development of Cambodia. With the importance of emergency assistance and rehabilitation giving way to thoughts of sustainable development, policy reform and long-term capacity building are becoming more critical. In assessing the impact of aid to Cambodia over 1992-1995, McAndrew (1996) draws several conclusions.<sup>20</sup> First, aid inflows during this period may have overwhelmed the country's absorptive capacity without making sufficient effort to increase it. The use of international consultants and the habit of bypassing the Government in favor of direct interventions do not build the latter's capacity to direct its own development program. Indeed, it was often said that the consultants, aid agencies, and NGOs represented a parallel government in Cambodia.

<sup>19</sup> PRASAC is Programme de Rehabilitation et d'Appui au Secteur Agricole du Cambodge. PASEC is Programme d'Appui au Secteur de l'Education Primaire au Cambodge.

<sup>20</sup> McAndrew, John P. 1996. "Aid Infusions, Aid Illusions: Bilateral and Multilateral Emergency and Development Assistance in Cambodia, 1992-1995." Working Paper 2, Cambodia Development Resource Institute, Phnom Penh.

While there is little doubt that Cambodia will need substantial TA for some time to come, the focus must now shift toward capacity building.

86. Second, the tendency of aid agencies to cluster investments in Phnom Penh and other urban areas is understandable because of security concerns. However, with the new peace settlement, it is incumbent upon both the Government and the aid agencies to redirect efforts to the rural areas where poverty is greatest, despite the increased implementation problems this might imply. Third, with the trend in developmental assistance of grants and humanitarian aid decreasing in relative importance as loans and capital investments increase, greater care must be taken to ensure that aid funds are put to effective and productive use. While the aid agencies may view these loans as concessional, they in fact represent a huge potential obligation for the Government if development plans go awry.

87. Fourth, because of the imperative for productive investments, the need for improved aid coordination and development planning is critical. The large scale of aid activities in Cambodia and the extent of poverty cry out for true cooperation rather than competition among the aid agencies. This is especially true because of the need to emphasize policy reform. While a diversity of opinions on development issues is not necessarily bad, the insistence on policy reform as a condition of aid means that donors must make great efforts not to insist on inconsistent policy reforms. In addition, planning would be easier if aid agencies could make a greater effort to plan over a longer-term horizon.

#### **IV. PRIORITY SECTORS FOR ADB'S FUTURE OPERATIONS**

##### **A. Strategic Thrust**

88. From the overview of development issues in chapter II, it is clear that Cambodia is still at an early stage of development. Pervasive poverty is debilitating the population. Poverty reduction is thus the Government's primary development goal and the principal objective of the ADB program. The strategy is to attack poverty through interventions in three priority areas. The first priority will be pro-poor sustainable economic growth through support of broad-based labor-intensive economic development in populous rural areas where most of the poor live. The second priority will be assistance for basic human or social development to enhance economic growth by boosting labor productivity while improving the distributional effectiveness of economic growth. The third priority will be to promote private sector participation in development by addressing key institutional and infrastructural weaknesses that will improve the geographic balance of economic growth and strengthen the linkages between the rural and urban areas. Appendix 3, Table A3.6, outlines the sectors and subsectors for Asian Development Fund (ADF) interventions consistent with this approach. Appendix 3, Table A3.7, shows the details of the project pipeline that supports this strategy.

89. The COS is designed to capitalize on ADB's relative strengths so as to maximize the impact on poverty of the funds invested in Cambodia. In a small country such as Cambodia, ADB is a significant development partner.<sup>21</sup> ADB has the ability to commit to

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<sup>21</sup> Planned capital assistance in the 2000-2002 public investment program is \$1,095 million. ADB pipeline assistance is \$220 million or 20 percent of the total. Planned TA is \$304 million. ADB's indicative level of \$24 million is 8 percent of the total.

a relatively large program composed of public investment projects financed by low-cost loans to ease infrastructure constraints, TA financed by grants to strengthen institutions, and selected private sector investments to encourage private commerce. This allows ADB to extend policy advice and assistance on a broad spectrum of long-term development issues so as to assist the Government to achieve a balanced, comprehensive development program. ADB's ability to attract cofinancing partners further strengthens the impact of its program. Thus the strategy will involve tightly focused interventions across several sectors in support of development goals in the three priority areas.

90. Synergies in the program offer opportunities to enhance the impact of investments and policy dialogue across priority areas. Coordinated policy dialogue across planned interventions in water resources and irrigation, critical wetlands, and water supply and sanitation gives ADB leverage to promote a national water use policy. Social sector policy dialogue will be reinforced through planned interventions in health, education, and rural development. Sector development programs in finance, education, agriculture, and possibly water resources offer ample opportunities to coordinate governance-improving activities in such areas as decentralization and land rights. There are ongoing and planned interventions to improve water supply and sanitation and power supply in key provincial towns, as well as the primary road network to relink these towns. In this way, the strategy promotes balanced regional growth that should mitigate the migration pressure on Phnom Penh as well as provide market anchors for rural economic development.

91. Finally, several ADB investments will benefit the tourism industry directly or indirectly. Ongoing ADB support to improve the international airport at Siem Reap is meant mainly to improve tourist access to the Angkor Wat complex. Current and future efforts to restore the primary road network will greatly enhance access to potential tourism sites throughout the country. In addition, interventions designed to improve banking, water supply and sewage systems, and electricity will increase the level of services that can be offered to international tourists during their stay in Cambodia.

92. This COS is distinctive compared with the previous one. It will focus on poverty reduction over a longer five-year horizon, concentrating investments in the populous rural areas of the Plains and Tonle Sap natural regions where the majority of the poor reside. The COS calls for ADB to facilitate government leadership of sector development in key areas. This entails ADB providing services such as assisting the Government in the development of a long-term strategy of policy reform and investments, initiating coordination efforts with other aid agencies, and sustaining long-term institutional support. The COS also calls for overall performance indicators as well as sector-specific triggers to ensure continued ADB investment in the sector.

## **B. Guidelines for ADB Interventions in Cambodia**

93. Over the period covered by this strategy, it is assumed that Cambodia will remain a category A (ADF lending only) country, with about three loans and an average of 8-10 TAs processed each year. To maximize ADB's developmental impact and ability to offer Cambodia broad-based policy dialogue from a regional perspective under tight resource constraints, interventions should, to the extent possible, conform to the following guidelines:

- **Sector strategy.** In areas in which ADB plans to continue or begin operations, a clear road map for its long-term involvement should be developed. These road maps should combine appropriately sequenced capacity building and physical investment interventions. Each road map should identify the Government's goals and present in detail the investment needs as well as policy and institutional reforms needed to attain those goals. Actions that the Government, ADB, and the other aid agencies will take to achieve these goals should be indicated. The expected impact of planned ADB interventions on poverty reduction and social development should be assessed.
- **Long-term involvement.** Consistent with the need for well-planned and comprehensive sector interventions, ADB should maintain a continuous presence in each subsector in which it plans long-term involvement. This will require careful programming to ensure TAs and loans are placed in the pipeline and processed at appropriate intervals. With the average loan lasting four years, this means that each sector in which ADB has made a long-term commitment will require an intervention approximately every three to four years, although this may vary by sector. Given resource constraints and the requirement for long-term involvement, the number of subsectors in which ADB makes a long-term commitment should be kept to about 10.
- **DMC ownership.** The success of a sector development program relies on government commitment to the sector strategy as evidenced by (i) willingness to undertake necessary policy reform, (ii) satisfactory progress in institutional change, and (iii) successful loan and TA implementation. During the preparation of each new intervention, ADB should reassess the commitment of the agencies involved and allocate resources only if commitment is evident.
- **Sector selection:** The criteria for selecting the major sectors of ADB involvement should include (i) the potential for poverty impact, (ii) the developmental needs of the country, (iii) ADB's areas of expertise, (iv) program balance, (v) coordination with other aid agencies, and (vi) absorptive capacity.

### **C. Priority Area One: Rural Economic Development**

94. The Government and ADB share the view that a top development priority for Cambodia is faster economic growth in the rural areas, particularly through enhanced agricultural productivity to reduce poverty and generate income. Operationally, ADB's strategy to assist the enhancement of agricultural productivity calls for investments to address critical and fundamental constraints to the broad expansion of agriculture. Specifically, the strategy includes investments in agriculture sector development, rural development, water resource management, and environmental management.

95. Key government policy support of planned ADB activities will include continued progress on improving land rights and budget support for extension services, development of a water resource management policy, development of an adequate rural road maintenance budget, strengthening of the Rural Development Bank (RDB) as a

credit wholesaler, and commitment to improved resource management in the Tonle Sap area. An important consideration for projects in this priority area is employment generation through labor-intensive investments to the extent possible, and a focus on investments that provide support for labor-intensive activities.

## **1. Agriculture Sector Development**

96. Agriculture, the main activity of the majority of the rural poor, suffers from low productivity. The Government's objectives for enhancing agricultural productivity include:

- improvement of food security through the expansion of rice and other food crops, especially through the promotion of private enterprise and competitive agriculture markets;
- added value to crop and livestock production by development of commercial agribusiness for export;
- enhanced income opportunities for farm households through crop diversification; and
- sustainable agricultural production, particularly in the important fisheries and forestry sectors, through sound resource management.

97. To accomplish these goals, 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 its Agriculture Sector Program Loan. 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.

98. Continued improvements in access to productive land under a secure title are critical for the rural poor as well as for commercial development in urban areas. Several aid agencies, especially AusAID, have supported local capacity for mine clearance, which can increase the availability of productive land. However, governance problems arising from co-optation of local mine clearance authorities by powerful interests are limiting the success of the program. Additionally, land disputes are becoming more common, characterized by reports of forceful appropriation, multiple claimants, and illegal land sales, as well as privatization of community property. Although the World Bank is proposing to assist in land titling, ADB can still play an important role by following up on its efforts to support passage of the land law. The Government is requesting assistance in land use classification and soil analysis.

99. The expansion of agricultural extension services is another important component of any plan to boost agricultural productivity. AusAID has taken the lead in this area with support for CIAP research on rice varieties in Cambodia. AusAID is also providing support for a pilot extension project, CAAEP, with eventual plans to extend it nationwide. These activities include large components of capacity and institution building, in part for MAFF. For example, CAAEP established the Department of Extension at MAFF. The World Bank is also offering support for capacity building at MAFF. Part of this assistance

is rehabilitating agricultural research stations. However, the Government is seeking further assistance to ensure nationwide coverage.

100. An agriculture sector intervention is proposed in 2003 to sustain and continue progress in agriculture reform. The intervention is expected to 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, an agriculture sector strategy for 2000 will further clarify priority unmet needs consistent with the overall strategy, ongoing program of assistance, and activities of other aid agencies.

## **2. Rural Development**

101. Most of the poor live in rural areas with poor infrastructure and limited access to social, economic, government, and financial services. The strategy of the Government and many aid agencies and financiers for improving service delivery is adoption of an approach that emphasizes a decentralized process to improve the targeting of development projects to the needs of poor communities. This approach, meant to complement traditional top-down sector development, simultaneously provides needed investments in social and physical infrastructure and stimulates local management of development. In most rural development programs, the implicit strategy 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.

102. A number of important rural development programs are currently being implemented in Cambodia. The best known is the UNDP CARERE program, which began in 1996 by building on a program started in 1992. This program, supporting the national SEILA program and primarily concentrated in northwestern Cambodia, uses VDCs for decentralized, participatory planning of investments in rural infrastructure, extension services, health, and education.<sup>22</sup> Other important programs include the EC's PRASAC in southeastern Cambodia, and that of the US-based NGO Partners for Development in northeastern Cambodia. WFP is also active in rural infrastructure improvement through its work-for-food program.

103. 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 rural roads. Rehabilitation of these roads can provide the rural population with better access to income-generating employment and marketing opportunities. The poor state of the Cambodian rural road network resulting from decades of internal conflict makes distance from those opportunities as well as social and economic services a key indicator of socioeconomic status. Furthermore, these types of interventions can provide significant employment during implementation by using labor-intensive techniques for both road construction and road maintenance.<sup>23</sup> This offers tremendous potential for effective poverty-reducing income generation through the type of public works program that has had success in other countries.

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<sup>22</sup> SEILA is a Khmer word meaning stone or foundation.

<sup>23</sup> ADB's Rural Infrastructure Improvement Project, operating in six provinces in southeastern Cambodia, generated about 1,200,000 person-days of employment, one third of which went to women.

104. 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 programs. One of the major constraints to agricultural growth and rural development in Cambodia is the lack of effective financial services in the rural areas. At present, NGOs with microfinance operations are virtually the sole financial service providers, having reached an estimated 11 percent of rural households. NGOs' microfinance operations are significant both in (i) poverty reduction in rural areas since their group lending schemes provide an alternative to the existing high-cost borrowing from informal moneylenders, and (ii) rural development through the provision of loans for agricultural production and microenterprise activities. In addition, the operations include information dissemination on business opportunities, training in drafting business plans, skills training, and health education. Major NGO credit operators are local entities with assistance from international NGOs and aid agencies.

105. UNDP, EC, and numerous bilateral sources have actively supported the development of NGO-provided rural credit. The World Bank intends to provide International Finance Corporation assistance directly to a major financial NGO, Association of Cambodian Local Economic Development Agencies (ACLEDA). However, because of the large unmet need for credit, there is a consensus among major external funding agencies in Cambodia and the Government that effective rural financial services can be best established through nurturing and upgrading the existing activities of NGOs as licensed microfinance institutions (MFIs). The Government's policy promotes the expansion of rural credit and savings services (i) by building upon private initiatives of MFIs and commercial banks, and (ii) by strengthening the capacity of the NBC to support rural finance through licensing, regulation, and supervision of MFIs. The Government established RDB as a wholesaler to channel funds for rural credit. Complementing these efforts, the proposed 2000 Rural Credit and Savings Project of ADB and the accompanying TA<sup>24</sup> will promote effective rural financial services through provision of funds and institutional development.

106. Building on the foundations established under these two interventions, ADB will move toward support for participatory rural development, starting with a planned intervention in 2001. This intervention will focus on areas in which significant numbers of soldiers are demobilizing 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 labor-intensive rural infrastructure provision, as well as provide more targeted poverty-reducing community support.

### **3. Water Resources, Irrigation, and Drainage**

107. The inability to manage water flows is likely the most serious constraint on agricultural growth in Cambodia. Typically, the rural poor are simultaneously more dependent on agricultural pursuits and more likely to have land vulnerable to frequent flooding and drought. For many of the rural poor lack of adequate water resource management lies at the heart of food insecurity. Moreover, without improved access to reliable water resources, subsistence farmers are less willing to borrow to invest in high-yield activities such as second crops.

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<sup>24</sup> TA 3270-CAM: *Capacity Building for Rural Financial Services*, for \$1,450,000, approved on 5 October 1999.

108. Despite its importance, water resource management is an area where there is no clear government strategy. There is still a substantial unmet need as well as a lack of agreement between aid agencies and the Government on appropriate technologies. The lack of food security resulting from single cropping of much of the rice area instills a sense of urgency. However, the potential for unwise investments leads to a need for a well-defined strategic policy that addresses the needs of poor farmers through sustainable irrigation schemes, flood control, and watershed management. The Government's goals in this sector are (i) to implement viable irrigation systems based on local cost recovery; (ii) to develop hydropower, focusing on multipurpose projects; and (iii) to increase the domestic technical capacity and databases needed for effective water resource management capacity.

109. Several government agencies are involved in the development of water resources. The new Ministry of Water Resources and Meteorology (MWRM), which is in the process of developing short-, medium-, and long-term goals, is responsible for irrigation, flood control and drainage, and multipurpose schemes. The Ministry of Industry, Mines and Energy is responsible for water supply and sanitation and hydropower development. The Ministry of Rural Development is responsible for small-scale water projects. MAFF is responsible for forestry management in the watershed areas, and the Ministry of Environment is responsible for environmental assessment of water resource development projects. Finally, the Cambodian National Mekong Committee coordinates with the Mekong River Commission (MRC) on water resource management issues of cross-border interest.

110. In response to a government request and a large unmet need, ADB will facilitate government leadership of sector development in water resource management. Other aid agency activity in this sector is relatively small. The Japan International Cooperation Agency (JICA) is providing a technical adviser to MWRM. The World Bank and the EC are funding schemes to rehabilitate small- and medium-scale irrigation systems. The World Bank is providing technical assistance to MWRM to draft a national water policy. France, through AFD, is rehabilitating seawalls. The key nongovernment agency with which ADB must coordinate for effective assistance is MRC. There is a natural division of labor in which MRC focuses on basinwide planning and monitoring of water use while ADB assists Cambodia in areas of primarily national interest.

111. In 2000, ADB is providing MWRM with TA in the drafting of a national water sector profile and to build operational capacity at the ministry. During the implementation of this TA, ADB will develop a road map for interventions that will identify key areas of policy dialogue, further institutional needs, and possible priority investments for ADB. The selection strategy to be developed should consider both appropriate technologies and cost recovery mechanisms. A water resource project is scheduled for 2000 and another is proposed for 2003.

#### **4. Environmental Management**

112. Natural resource management and environment sustainability are important elements of the rural growth-based poverty reduction strategy as well as key areas in which improved governance has become a litmus test of government commitment to development. 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 preparation of the National Environmental Action Plan (NEAP), the Government identified six critical areas for priority action: forest management, Tonle Sap ecosystem management, biodiversity conservation, coastal fisheries management, energy development, and urban environment issues.

113. Apart from water resource management, the Environmental Sector Strategy Note outlines three long-term core theme areas for ADB intervention. First, environmentally sound rural development will consist of improvement of resource management in the Tonle Sap area, agrochemical and pesticide use management, and support for community forestry. Together with appropriate TA, the objective will be accomplished mainly through the Integrated Natural Resource Management Project scheduled for 2002. This project will involve strategic policy dialogue on agrochemical use, and forestry and fisheries management.

114. Second, to strengthen the institutional capacity for environmental management, ADB will provide MOE with TA for human resource development and development of guidelines for hazardous waste management. The third core area recommended by the strategy note is support for protected area management through institutional support and possibly through investments in coastal zone environmental protection and ecotourism. However, ADB has limited resources. Moreover, the 2002 project described above will be the first environmental project for ADB in Cambodia. It is therefore recommended that planning of further projects wait until after ADB assesses Cambodia's willingness to effect natural resource management policy reforms under the 2002 project as well as under the IMF PRGF agreement approved in late 1999.

#### **D. Priority Area Two: Human Resource and Social Development**

115. The second priority area is human resource and social development. It will include investments in basic education, basic health, and water supply and sanitation to directly reduce poverty and empower the poor to participate in economic development. In addition, ADB will provide key capacity building assistance to government agencies involved in ensuring that the needs of women and vulnerable groups are being addressed. The guiding theme is to improve the quality and efficiency of and equitable access to these social services. Key constraints to improvement of the Government's delivery of these basic social services are the (i) inadequacy of budgetary support for investment and recurrent expenditures, (ii) inefficient use of allocated funds, and (iii) poor quality of the civil service. Key areas of reform are the functional review and reorganization of relevant ministries and the rationalization of the civil service, including salaries. An operational consideration in this area is the Social Sector Working Group established in 1999 for improved aid coordination and collaborative policy dialogue with the Government.

##### **1. Education Sector**

116. In response to a request from the Government, ADB will facilitate strengthened government-aid agency partnership mechanisms in education sector development. A significant cluster of policy, planning, and institutional TAs in recent years, including the 1999 Secondary Education Investment Plan TA,<sup>25</sup> positioned ADB to fill this role. Despite

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<sup>25</sup> TA 3169-CAM: *Secondary Educational Investment Plan*, for \$650,000, approved on 8 March 1999.

significant aid agency involvement in primary education, the net enrollment rate (NER)<sup>26</sup> for primary education remains low at less than 80 percent. Marked disparities in access to primary and secondary schooling exist by geographic region, socioeconomic status, and gender. Although primary schools exist in every district, distance remains one of the major obstacles to universal access to primary education. The high opportunity costs of sending children to school constitute another major obstacle since about 80 percent of the population reside in farm households, which depend largely on the use of their own child labor. Female labor, in particular, is highly valued in household chores. Females account for 45 percent, 40 percent, and 25 percent of the total enrollments in primary, lower secondary, and upper secondary education, respectively.

117. Basic education (primary plus lower secondary) suffers from low quality. This is a result of outdated curricula, inadequate instructional hours, lack of a quality assurance system, limited coverage and access to textbooks, the prevalence of unqualified teachers, the large number of students per teacher particularly at the primary level, and low teacher morale because of low teacher salaries. Resulting largely from the problem of low quality of education, internal efficiency as measured by students' performance is low. The extremely high repetition rates (25 percent for primary and 10 percent for lower secondary education) and high dropout rates indicate significant resource wastage. Poverty is a factor in the high dropout rates experienced in Cambodian schools. Another constraint to sustainable sector development is limited capacity within the Ministry of Education, Youth and Sports (MOEYS) for medium- and long-term planning, management, and delivery of quality education services.

118. ADB's 1994 Education Sector Strategy Study presented policy and strategic frameworks for education development especially at the basic education level.<sup>27</sup> ADB further supported the development of the Basic Education Investment Plan (1995-2000) that was endorsed by the Government and funded by external agencies.<sup>28</sup> The plan identified policy and strategy reforms needed for basic education as well as investment priorities. The top priority was to improve the efficiency and quality of basic education (reducing repetition and dropout rates, revising curriculum, increasing coverage and access to textbooks, and teacher training), followed by equitable access to primary education linked to the gradual expansion of lower secondary school enrollment.

119. ADB's strategy for the education sector in Cambodia will be to promote and facilitate a comprehensive approach to education development, led and owned by the Government. Within the overall sector policy framework, ADB will continue to focus on improving efficiency, quality, and equitable access to basic education, especially for the rural poor and girls. ADB's immediate strategy will be to consolidate and extend policy and strategy development, in coordination with other aid agencies. This approach will address policy needs in decentralization, quality improvement, and financial management and efficiency, as well as legislative and regulatory reforms. It is anticipated that a strategic and program framework, including prioritized support requirements, will be completed in early 2001. It will form the basis for an ADB-supported education development program in 2001. A follow-up project is envisioned in 2004.

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<sup>26</sup> NER in a given level of education is the ratio of enrollment of students in the target age cohort to the size of the target age cohort for that level of education.

<sup>27</sup> TA 1889-CAM: *Emergency Training for Teachers*, for \$1,300,000, approved 14 May 1993.

<sup>28</sup> TA 2331-CAM: *Basic Education Management and Coordination*, for \$500,000, approved on 10 May 1995.

## 2. Health Sector

120. Decades of war and internal strife have destroyed much of the institutional and physical infrastructure of the basic health care system in Cambodia. With a small amount of government budget allocated to health services each year (about \$2 per capita per year or 17 percent of the World Bank's recommended government spending on health services for low-income countries), the country has been left with some of the worst health conditions in Asia. There is a shortage of clinics, and few clinics outside of Phnom Penh have running water, adequate ventilation, or light. Low salaries drive most of the Government's poorly trained and supervised health care personnel to private practice and to the selling of pharmaceuticals on the side. Many charge fees for services that are supposed to be free. The Government lacks the ability to regulate the private market where fraud and misdiagnosis are common. Poor health and illness aggravate poverty.

121. The Ministry of Health's (MOH's) 1994 Health Policy and Strategy Guidelines set national health policies and strategies for improving health care. The first priority was the improvement and extension of primary health care services, especially to people living in remote villages, followed by providing special health needs to those who suffered from the conflict, including women, children, the disabled, displaced and homeless people, and returning refugees. MOH's 1999-2001 plan identifies the following areas as priorities: (i) providing a cost-effective minimum package of health activities (MPA) in rural areas; (ii) improving the health of women and children through safe motherhood and child nutrition; (iii) reducing the incidence of diseases that are the primary causes of mortality: diarrhea, acute respiratory infection (ARI), malaria, tuberculosis, and HIV/AIDS; (iv) improving the quality of hospital services in Phnom Penh and in provincial hospitals; (v) strengthening institutional capacity to underpin the reforms; (vi) ensuring adequate supplies of drugs in all community health centers; and (vii) increasing private sector providers. Included in the MPA are prenatal care, immunization, birth spacing, prevention of micronutrient malnutrition, and treatment of ARI and diarrhea.

122. A large number of international agencies provide assistance—much of it in grant funds—in the areas of basic health, disease control, and capacity building. Nearly 30 percent of planned public investment disbursements over the period 2000-2002 are in the health sector. Yet, in part because of the paucity of local funds, health indicators do not as yet appear to be improving. Indeed, there have been increased infant and child mortality rates since the early 1990s due to the high rates of diarrhea and pneumonia associated with poor immunization coverage and Vitamin A supplementation. It must be recognized, however, that substantial investments in basic health provision took place after the latest indicators were compiled.

123. Even considering the large level of planned assistance, this is potentially an area of great need and offers a wide scope for poverty reduction, as well as opportunity to address gender issues and the needs of vulnerable groups. It is therefore important for ADB to clearly identify its role in this sector prior to further investment. Contingent upon satisfactory review of the ongoing basic health project and assessment of ADB's potential strategic role in the health sector, ADB will maintain financial, institutional, and policy support in basic health with targeted technical assistance for HIV/AIDS prevention. ADB's strategy will still emphasize extending coverage of basic health services in rural areas, consistent with MOH's health sector plan. ADB's strategy would

focus on safe motherhood and child nutrition, reproductive health, preventive and curative care of major causes of mortality—particularly HIV/AIDS—and increasing use of private providers.

### **3. Water Supply and Sanitation**

124. Because of antiquated water supply systems, poor sanitation, and inadequate pollution control, poor living conditions contribute to the general conditions of poor health as well as constrain the development of provincial towns as economic growth poles to anchor rural development in the surrounding regions. In Phnom Penh, households obtain 53 percent of drinking water from protected sources; in other urban areas, the percentage is 31. Typically, sewer systems double as storm water runoff systems. There are usually no treatment facilities and the sewers are in disrepair. In Phnom Penh, 75 percent of households use inside toilets compared with 26 percent in other urban areas. Assuredly, for both water supply and sanitation, rural household access is even lower than urban access.

125. The Government's strategy includes formulation of a water supply and sanitation policy (WSSP) framework within the broader framework of a water resource management policy. The WSSP will emphasize financial autonomy of suppliers, cost recovery, private sector participation, aid agency coordination, and clear demarcation of regulatory responsibilities. The World Bank is expected to play a major facilitative role in assisting government leadership of sector development, including policy dialogue and investment.

126. Ongoing ADB assistance in this area includes the 1996 Phnom Penh Water Supply and Drainage Project and the 1999 Provincial Towns Improvement Project. The latter is an important element of ADB's efforts to support geographically balanced growth through development of infrastructure in key provincial towns. ADB involvement in this sector will also provide further support for policy dialogue in conjunction with efforts to facilitate improvement in water resource management. Because the 1999 project emphasizes provincial town water supply provision, a follow-up project that focuses more on provincial town sanitation systems is possible in 2003. However, given the World Bank's expected role, careful assessment of need will be required prior to further investment.

### **E. Priority Area Three: Private Sector Development**

127. The third priority area for ADB concessional loan and grant interventions will be development of an enabling environment for the private sector through support for improved governance, and interventions in transportation, finance, and energy. ADB will assist in the development of institutional capacity for public-private partnerships in the provision of public infrastructure and services. In addition, ADB will consider private sector catalyst investments as appropriate opportunities arise. Because Cambodia is at a very early stage of development and because the primary goal is to support poverty reduction, ADB's interventions will emphasize support for domestic small and medium-size enterprises in the rural areas, especially farming and other agricultural activities. However, to achieve balanced growth and ensure linkages between the rural and urban sectors, ADB will make selected investments to address the constraints to larger scale direct foreign investment.

128. Several factors taken together create a very poor business environment in Cambodia. The transportation network is in an almost complete state of disrepair. The banking system barely functions. Power provision is inadequate (especially outside of Phnom Penh), unreliable, and inefficient. Labor force productivity is very low because of lack of education and health care. Perhaps most critical is an environment of extremely poor governance, including weak public administration, inefficient public financial management and the serious corruption problem widely regarded by the private sector as the single largest deterrent to business activity in Cambodia. ADB's strategy to support improved governance is discussed in Chapter V. In considering interventions to support private sector development, it is essential that ADB focus on the development of both official and private cofinancing partnerships to maximize its comparative advantage in addressing sectorwide issues with limited ADF financing.

## **1. Transportation**

129. The transportation system in Cambodia is old and heavily damaged. The primary road network (about 7,700 km of national and provincial roads), constructed about 50 years ago, has endured war, floods, and heavier traffic than that for which it was designed. Only 2,700 km of this network is of all-weather construction and much of the remaining is passable only by motorcycle or four-wheel vehicles. Travel by road is exceedingly slow and jarring. Only one road has been completely restored, Route 4 by USAID in 1992. There are no secondary roads to speak of and tertiary roads often feed directly into the primary network. The road transportation industry, including road construction, maintenance, and commercial transport, was completely devastated by the long conflict.

130. The rail system is barely functioning, limiting its ability for efficient transfer of bulk commodities. The Southern Line from the main seaport at Krong Prean Sihanouk to Phnom Penh suffers from frequent service disruptions. The Northern Line from Phnom Penh to the Thai border is incomplete in the border region. With assistance from aid agencies, including ADB, Cambodia has reestablished commercial operations at airports in Phnom Penh and Siem Reap. For water transportation, there is a need to dredge the canals and upgrade ports at Krong Prean Sihanouk, Phnom Penh, and other riverfront towns.

131. There is broad agreement between ADB and the Government that, to reduce poverty, the first priority in the transportation system in Cambodia is the reestablishment of the primary road network, followed by the secondary and rural road networks. Private sector involvement, perhaps in public-private partnerships, is envisioned in ports, railways, airport operation, and in roads. Planned assistance from ADB, World Bank, and Japan over the next five years will largely succeed in restoring the primary road network. ADB's assistance, which began with road rehabilitation activities under SRAL, will continue with the planned restoration of substantial parts of Routes 5, 6, and 7 under the Primary Roads Restoration Project approved in 1999. The port at Krong Prean Sihanouk is being rehabilitated with assistance from Japan.

132. Because of the historical importance of ADB assistance in roads and at government request, ADB will facilitate government leadership of the development of the road network. In 2000, ADB will assist government efforts to update its investment plan through a transportation sector study. This study will guide the next road project, scheduled for 2002. A triggering action for that intervention however, will be

demonstrated government commitment to road maintenance. Other policy considerations include the development of a local road construction industry, an emphasis on employment generation through the use of appropriate technologies in project implementation, and the establishment of a road use regulatory framework. Although the focus is on roads for ADF investments, ADB will extend TA to strengthen the Government's capabilities in multimodal transportation planning and public-private partnerships to achieve maximum efficiency in the transportation system, particularly in the regional context.

## **2. Energy**

133. About 15 percent of the population have access to electricity but this is only in Phnom Penh and the provincial towns. Generation is small-scale and inefficient. In Cambodia, the cost of electricity is highest and consumption lowest 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, EdC, operates the electricity system in Phnom Penh, Krong Prean 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 upgrade supplies, and (iii) development and implementation of a rural electrification plan.

134. ADB's assistance to the energy sector has thus far included rehabilitation of power transmission. The Power Rehabilitation II Project, scheduled for the year 2000, will upgrade power supply in key provincial towns in support of ADB's efforts to promote geographically balanced development. ADB assistance in this area includes important policy reform dialogue and efforts to strengthen the management capacity and financial autonomy of EdC. Currently EdC is suffering from financial instability because of a large amount of arrears (about \$10 million) on government accounts.

135. 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. Australia, France, Japan, and Sweden are also active in this sector. A power sector strategy study will be initiated in 2000 to investigate ADB's future role and involvement in this sector. It will examine the capacity building and investment needs in this sector over the medium term, develop a financing plan to address the needs that include cofinancing and private capital support, recommend priority areas for ADB support, and identify reforms to be sought by ADB in its involvement. Emphasis will be on upgrading transmission and distribution networks in provincial towns and rural areas.

## **3. Financial Sector**

136. Despite progress in transforming NBC from the only state bank into a regulator and supervisor of the commercial banking sector, the formal banking sector is still very weak. The financial system comprises an excessive number of banks, many of which are small, weak, and inefficient, with weak supervisory and regulatory capacity at the central bank. These are typically large- and medium-size privately owned banks with inadequate delivery of basic banking functions such as checking and savings deposits and credit extension, especially in rural areas. Indeed, rural finance is informally

provided by NGOs and is limited. There is also pervasive use of the US dollar, which limits the scope for monetary policy.

137. Overall, the banking sector contributes very little to the economy of Cambodia. Only about 1,000 people are employed by commercial banks. Total commercial banking assets are less than 20 percent of GDP. The interbank market is virtually nonexistent. There are three types of commercial banks. The first type, typically foreign branch banks, accepts deposits but makes few loans, preferring to hold foreign assets and excess reserves. Second are the banks that take few deposits and have large holdings of fixed assets, raising questions about their source of earnings. The third type which might be considered the true intermediaries hold large portfolios of loans and deposits.<sup>29</sup>

138. Under the PRGF framework, the Government will undertake several banking reforms. First, under a new commercial banking law adopted in 1999, all banks are required to reapply for a license. NBC will take steps to close banks that do not comply with the law. NBC will withdraw from all commercial banking activities by privatizing the Foreign Trade Bank. This will leave the wholesaling RDB as the sole Government-owned bank. Finally, with assistance from the IMF (commercial banks) and ADB (microfinance institutions), supervisory capacity at NBC will be improved.

139. ADB undertook a financial sector strategy study in 1999 that produced a preliminary road map for the development of the financial sector over the next 20 years. A project preparatory TA scheduled in 2000 for a financial sector intervention in 2001 will complete the in-depth analysis of constraints to the efficient mobilization and allocation of funds by the financial sector. It is anticipated that interventions in this area will complement the rural credit and savings intervention, focus on the provision of basic financial services, and include a strong package of policy reform, institutional development, and capacity building. 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 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, scheduled for approval in 2000.

## **V. ADB STRATEGY IN OPERATION**

### **A. Issues Cutting Across Priority Area Interventions**

#### **1. Governance**

140. Governance is the primary crosscutting theme of the COS and the determining factor in whether Cambodia can achieve sustainable development or will remain dependent on aid. Appendix 1 discusses issues in governance and recommended actions to improve governance. A large number of aid agencies support capacity- and institution-building efforts in Cambodia as well as engage the Government in policy dialogue. The Government will need assistance for some time until sufficient capacity is built to sustain effective governance.

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<sup>29</sup> For further information, refer to the IMF discussion paper entitled "Cambodia: Issues in the Banking Sector", April 1999.

141. The key agencies with which ADB must coordinate activities are IMF, the World Bank, and UNDP. The World Bank is expected to facilitate government leadership of development of a governance action plan. The Government's 2000-2002 Macroeconomic Policy Framework outlines several medium-term objectives in the areas of public expenditure management (revenue enhancement, increased spending on social development, and enhanced public resource management) and private sector development (banking reform, adopting a commercial code, legal and judicial reform, public enterprise reform, and trade policy reform).

142. ADB's program of assistance in governance will involve two modalities. First, in each sector of operations, ADB will focus on promoting transparency through frequent and thorough project reviews and program reviews. This will be accompanied by ample assistance in capacity building. Ideally, a TA accompanying each major project will have components to improve governance and will involve training. ADB will also continue to hold workshops and seminars through which to improve government officials' understanding of ADB operations. Second, ADB intends to support the Government's efforts to improve governance through a package of TA in the areas of macroeconomic management (policy advice, public financial management, and public investment planning) and legal and judicial reform. In addition, ADB may play a relatively smaller role in supporting public administration reform (local governance, decentralization, civil service reform).

## **2. Regional Cooperation**

143. One key element of the enabling environment for private sector development is regional and global integration, which is a high priority of the Government. In addition to participation in the GMS Economic Cooperation Program, Cambodia recently joined ASEAN and applied for membership in the World Trade Organization. ADB intends to support continued efforts to broaden Cambodia's reintegration into the global economy by assisting its participation in the GMS Program through TAs and selected ADF investments compatible with ADB's overall program in Cambodia.

144. The first regional project under the GMS program was the 1998 Phnom Penh-Ho Chi Minh City Highway project, currently under implementation. The Primary Road Restoration Project indirectly supports the GMS regional transportation program. The road project scheduled in 2002 might also support GMS objectives. The Integrated Natural Resource Management Project scheduled in 2002 is being prepared under a GMS regional TA. In addition to these ADF-financed investments, Cambodia will continue to benefit from GMS regional TAs designed to enhance regional development opportunities, encourage trade and investment among GMS countries, resolve or mitigate cross-border problems, and meet common resource and policy needs. There is potential for private sector-funded GMS projects in telecommunications, tourism, and energy.

## **3. Women, Children, and Vulnerable Groups in Development**

145. The legacy of conflict in Cambodia is the substantial number of vulnerable groups that are in danger of being excluded from access to the opportunities and benefits of economic growth. In addition, there is significant gender inequality in educational achievements, political representation, income, and legal rights. Inadequate reproductive health and domestic violence are also serious social problems. ADB will

support these groups in two ways. First, it will provide technical support to MWVA to enhance its role as an advocate for the empowerment of women and as a technical adviser to the Government on how to enhance the role of women in development. Second, ADB will integrate gender and vulnerable group issues into its program whenever possible. For example, rural infrastructure and rural credit activities provide good income-generation opportunities for women. The basic education interventions will strive for increased enrollment for girls, and the primary health interventions will include components to address infant and maternal mortality. More details on ADB's gender strategy are in Appendix 2.

#### **4. Special Postconflict Considerations**

146. Given the unique historical crossroads at which Cambodia finds itself, there are several pressing issues that ADB may want to consider over and above normal programming. Given the critical need for Cambodia to make the transformation from conflict to cooperation, and in recognition of the impatience that the Cambodians themselves feel, close monitoring of the massive reform effort the Government is attempting will allow ADB to respond quickly with encouragement and assistance for timely needs. For this purpose, ADB may consider (i) allocating additional staff to the Cambodia Resident Mission, (ii) addressing governance issues through a series of cluster TAs that can be adjusted to respond to rapidly changing circumstances as the reform process unfolds, and (iii) incorporating a certain amount of flexibility in the scope of the program to accommodate special circumstances.

147. As a special postconflict issue, demobilization is a critical process that requires considerable aid agency technical and budgetary assistance. With the goal of reducing the influence of the military on both the budget and society, the Cambodia Veteran's Assistance Program being implemented by the Council of Ministers, with advice from the World Bank, has the potential to significantly impact the development process in Cambodia. A successful program could reward reform efforts with a peace dividend that would contribute substantial domestic resources to poverty-reducing social development. A faltering demobilization program, however, could undermine the credibility of the Government with both domestic and international observers.

148. ADB will play a role in this program by supporting the process through assistance scheduled in 2001. While the final design of the assistance will depend on the specific program needs as determined in consultation with the Government, this assistance could focus on the reintegration phase of the demobilization program. This would entail elements of a rural development project for a strategic area in which demobilizing soldiers are relocated. Other components of the project could include aspects of social integration services for program participants in the project area.

#### **B. Absorptive Capacity**

149. Because of the prolonged period of conflict and associated disintegration of institutions, the ability of the Cambodian Government to effectively absorb and channel foreign developmental assistance is limited by lack of human resources and institutional mechanisms. Moreover, many of the implementation problems experienced in current ADB projects and programs are rooted in inexperience because of the youth of the program. There are several implications for ADB operations. First, ADB, together with other aid agencies, must ensure that the magnitude of aid flows is optimal to move the

country forward without undermining the integrity of the emerging democratic institutions. Second, ADB must find innovative ways in which to maximize the use of existing government resources through, for example, fostering partnerships between ADB, the Government, and NGOs.

150. Third, ADB must make a commitment to long-term capacity building, particularly in those sectors in which it proposes to play a strong facilitative role. Fourth, while recognizing that the use of international consultants will be necessary for some time to come, it is nevertheless essential that ADB ensure that knowledge transfer is an integral component of every capacity-building TA. ADB should continue to devote TA and workshop resources to the efforts to deepen executing agency familiarity with ADB procedures. Additionally, it should take great care to protect executing agencies against the corrosive effects of weak governance in Cambodia. Finally, ADB should explore ways in which to expand the capacity of the Government in the short term through, for example, the use of long-term advisers and support for secondment programs.

151. In addition to human resource and institutional constraints, Cambodia has tremendous financial resource constraints that may affect the ability of the Government to sustain operations originally begun with foreign assistance, to provide counterpart funding, and to service debt. Thus, ADB should carefully monitor fiscal developments and assist in developing the capacity of the Government to mobilize revenues more effectively and to manage public expenditures efficiently. It will also be useful to undertake some in-depth analysis of the problems and solutions associated with limited absorptive capacity in Cambodia.

## **C. Modalities of ADB Operations**

### **1. Lending Modalities**

152. This COS recommends facilitative roles in key areas of ADB involvement in the development of Cambodia (water resource management, education, roads). Given the shift in ADB focus toward broad-based development with poverty reduction as the unifying goal, developmental impact assessment and aid agency coordination take on more importance in ADB operations. Thus, project lending alone is no longer adequate to achieve the appropriate sequencing of capacity development, policy reform, and investment. It is expected, therefore, that ADB will make greater use of sector development programs that combine components of priority project investments with reform-linked sector budget support. In addition, these facilitative roles require additional staff resources, particularly in Programs Division (West) 3, the Cambodia Resident Mission, and in the relevant projects divisions, because of the greater need for economic sector work, policy leadership, and closer coordination with the Government and other aid agencies involved.

### **2. Technical Assistance**

153. Judicious use of TA to build capacity in executing agencies (at central, provincial, and local levels) will be important for improved governance. These efforts should be concentrated in key sectors in which the ADB is playing a major facilitative role. Long-term commitment to sustainable capacity building at the key central agencies (MEF, NBC, Ministry of Planning) as well as in those involved with strengthening the rule of law (Council of Ministers, Ministry of Justice) is also an element of the strategy to strengthen

governance. In each agency for which capacity building is intended, ADB should, together with the agency, prepare an action plan that includes short-, medium-, and long-term training. Moreover, the human resource management plan to be developed should address such issues as retention of staff through appropriate job descriptions, promotion criteria, and salary incentives. Efforts should be made during TA design to incorporate mechanisms to ensure knowledge transfer from international consultants to local staff.

154. As in the case with lending operations, in the preparation stage government ownership of the TA objective should be assessed and ensured. TA proposals should assess the impact of previous TAs, if any, and include a method for assessing the success of the TA upon completion. To reduce the tendency toward ad hoc efforts, greater use of cluster TAs in key areas such as governance and in conjunction with the sector development programs should be considered. Occasional regional TAs will provide additional support for GMS activities.

### **3. Partnerships**

155. ADB and other aid agencies are developing closer partnerships with the Government and with each other. In addition to the annual Consultative Group Meeting, the Government holds quarterly meetings with local representatives of aid organizations to discuss progress on reform programs in forestry management, fiscal reform, public administration reform, demobilization, social sector efforts, and legal and judicial reform. To support these efforts, the aid organizations, including ADB, participate in local working groups on each of the reform programs. In addition, part of the effort to facilitate government leadership in the key sectors of water resource management, education, and roads will be to form partnerships with the relevant government and nongovernment groups. ADB is assisting the Government in preparing a second five-year socioeconomic development plan (SEDPII), which will focus on poverty reduction. The SEDPII, to be completed in 2000, will identify poverty indicators and targets and will culminate in a high-level forum on poverty reduction and a partnership agreement between ADB and the Government.

156. As a consequence of greater interest in coordination between aid agencies, there are more possibilities for mobilizing cofinancing of ADB loans and TAs than in the past. During 1992-1998, about \$9.7 million of a total of about \$42 million in TA was cofinancing. In addition, about \$10 million of cofinancing for the Basic Education Textbook and Primary Roads Restoration projects was from UNICEF, Organization of Petroleum Exporting Countries, and AusAID. A country profile of the activities, interests, and funds available from various aid agencies active or interested in Cambodia, prepared by the Office of Cofinancing Operations, will make it easier for ADB staff to secure cofinancing. Potential cofinancing has already been identified for water resources, power, water supply and sanitation, education, transport, and environment.

157. In an effort to tap into the vast experience with local development conditions held by some of the NGOs working in Cambodia, ADB is developing a working relationship with the NGO community. By getting more advice on ADB's program in general and by making greater use of NGOs in implementation, ADB will achieve a greater developmental impact in the program. Operationally, the working relationship will be developed through semiannual meetings with NGO representatives during the Country Programming Mission to identify areas of common interest in the program pipeline, and

during the Country Portfolio Review Mission to discuss lessons learned and ways to improve ADB operations. In addition, in the interest of information sharing and to ensure the widest possible participation in the design and implementation of ADB's program, ADB will forge closer working relationships with the business community, the legislative branch of government, the media, and other groups that represent civil society.

#### **4. Economic Sector Work**

158. The new approach to ADB operations outlined above will require additional rigor and effort in economic analysis. Studies already complete or ongoing in conjunction with the COS are the Urban Sector Strategy, the Environmental Sector Strategy Note, the governance study, the Secondary Education Investment Plan, and the financial sector strategy. In 2000, ADB will undertake the preparation of a water resource management profile and an energy sector strategy. Additional economic work will focus on the areas in which ADB is playing a key role: water resource management, education, transportation, and governance. Additional economic sector work is planned in macroeconomic policy and the capacity of the country to absorb aid.

#### **D. Risk Factors for ADB Operations**

159. Three types of risks are to be considered for ADB operations in Cambodia. The first is political risk. If political stability is not maintained, then security cannot be improved and economic progress will not be forthcoming. Although for a very long time the prospects for the future have not looked more promising than they are now, this risk is not insignificant. The next five years are critical transitional years for the nation and recent gains will need to be consolidated through a combination of prosperity-engendering economic growth and national reconciliation. By fostering a firm and frank partnership between ADB, the Government, other aid agencies, and other stakeholders in Cambodia, and by strengthening the country's regional ties, ADB may play a positive role in minimizing this risk.

160. A second related risk is that the massive reform effort will falter, adversely affecting development, the development impact of ADB operations, and the capacity of the Government to sustain operations. ADB can minimize this risk by closely monitoring the reform progress, along with other aid agencies, and supporting improved governance through capacity building, through close monitoring of project and TA implementation, and through firm guidance and the use of leverage on reform issues. Two facets of this risk are worth highlighting. One is that if environmental reforms lag, environmental degradation could have a long-term impact on growth potential. The other is that if fiscal reforms lag, the availability of counterpart funds, operation and maintenance funds, and debt service might well be in jeopardy.

161. A third risk is that ADB will underestimate the difficulty of implementing a broad-based development program under conditions now faced in Cambodia. Placing a higher emphasis on poverty reduction, undertaking wide-ranging policy dialogue, moving toward closer aid agency coordination, and tighter monitoring of program governance will require more efforts from the staff. In particular, ADB should recognize the extra time and effort that will be required of staff in Education, Health and Population Division (West), Forestry and Natural Resources Division (West), Programs Division (West) 3, and Transport and Communications Division (West), to support facilitative roles in education, roads, and water resources and a large program in governance. Closer

coordination will also generally require a larger staff at the Cambodia Resident Mission with the appropriate skill mix for policy dialogue. One way in which ADB can mitigate this risk is to make strategic partnerships with other aid agencies that have higher personnel-to-funds ratios.

#### **E. Performance Indicators for ADB Operations**

162. Consistent with the new ADB-wide performance-based allocation framework, ADF operations in Cambodia will be based on performance of country-specific indicators as well as standard indicators. The common criteria for performance evaluation will include standardized indicators in macroeconomic management, poverty reduction and environmental management, governance, and portfolio performance. The country-specific indicators used in ADF allocation could include progress in forestry management reform, demobilization, and budget support for social spending. In addition, poverty targets will be identified in the SEDPII and agreed on with the Government in the partnership agreement. These will also form the basis for country allocations. Potential triggers for investment such as a successful review of the rural credit project as a prerequisite for a second financial sector ADF intervention are identified in the overview table in the executive summary. These triggers will be further clarified during project preparation.

163. For internal assessment of the success of the COS and in keeping with the emphasis on poverty reduction, the incidence of poverty, the Human Development Index and its components, and other social indicators such as infant and maternal mortality rates, will be monitored over the next five years. The intended primary beneficiaries of ADB operations over the next five years are the rural poor in the populous Tonle Sap and Plains regions. The rural poor constitute roughly 30 percent of the population.

164. With completion or significant progress in implementation of ADB interventions in rural and primary roads, transportation costs for farm products should fall. As a result of planned interventions in banking and rural finance, the rural poor should enjoy increased access to cheaper credit. Interventions in water supply and electricity in provincial towns should enhance economic activity, thus improving market opportunities for the rural population in those areas. Together with the activities of other aid agencies and a sustained reform effort, these accomplishments should lead to an overall improvement in per capita income. Ongoing efforts by all aid agencies in basic education and health should begin to improve social indicators in the next five years. Thus, it is expected that the incidence of poverty will fall and human development will improve, particularly in the rural areas, over the next five years.

**APPENDIXES**

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## ENHANCING GOVERNANCE FOR SUSTAINABLE DEVELOPMENT IN CAMBODIA <sup>1</sup>

1. Good governance is an increasingly important development issue in Cambodia. During the transition toward liberal democracy and a market economy over the last decade, Cambodia's policy makers, aid agencies, and civil society increasingly recognized that the adjustment of the governance system has not matched the dramatic change in the role of the State. It is thus imperative to strengthen good governance if the State is to sustain socioeconomic development in Cambodia.

### A. Key Issues of Governance Structure

#### 1. Public Sector

2. The power to initiate legislation in Cambodia rests jointly with members of the Assembly, the Senate, and the Prime Minister. So far, the National Assembly and Senate have played a limited role in legislative drafting, primarily reviewing bills drafted by the Government. Draft laws are often considered without sufficient time (e.g., the annual budget law) and without adequate expertise. The Legislature rarely receives copies of regulations or decisions by the Government related to laws enacted by the Legislature. This reduces the effectiveness of the system of checks and balances envisioned by the Constitution. International aid agencies contribute to this imbalance by dealing primarily with the Government in terms of technical assistance, policy dialogue, and information sharing. The paucity of technical assistance to the Legislature relative to that extended to the executive branch limits the ability of the Legislature to play a meaningful role in governing the country.

3. The Royal Government of Cambodia, as embodied by the Council of Ministers, holds executive powers and consists of 163,000 civil servants, 21,000 special status employees (commune personnel and village chiefs), and 143,000 military personnel. Low public sector salaries are perhaps the most fundamental structural problem in Cambodia with direct implications for the extent of public sector accountability and transparency as well as the ultimate success of ongoing public sector reforms.

4. In addition to raising salaries of civil servants, civil administration needs sound organizational structures and institutional arrangements if its service delivery is to be more effective and efficient. The highly centralized administrative structure has serious deficiencies from a governance point of view. Local authorities are not given any autonomy or flexibility in expenditure disbursements to meet local needs. The system does not meet acceptable standards of fiscal accountability and transparency, as the problem of leakage of public funds in the expenditure process indicates. Local administrators and people have too few opportunities to participate in policy formulation and decision making that directly affects them.

5. The Government is taking important steps to address these issues, including a civil service census and functional analysis, efforts to deconcentrate public expenditures, and decentralization through commune elections. Additional plans include a computerized Human Resource Management System and the creation of core groups of civil servants.

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<sup>1</sup> This appendix is excerpted from a summary report of a governance study of the same title prepared by the Cambodia Development Resources Institute with support from the Asian Development Bank (ADB). The study is a forthcoming publication of ADB. This excerpt was prepared by ADB staff. Any errors or changes in meaning from the original summary report are unintentional.

6. The Government also faces a long-standing challenge of inefficient management of public expenditure. The 1999 national budget started to shift expenditures away from military and security toward social and economic development. Despite substantial increases in budget allocations, however, money has not reached local public offices such as hospitals, health centers, and rural development projects. The lack of independent accountability institutions is another serious structural issue. At present, the Government has two levels of accountability institutions for audits: (i) a newly established Ministry of Parliamentary Relations and Inspection, and (ii) inspection departments within each ministry. Despite their important functions, these institutions have no real independence from the executive branch. The National Assembly recently passed the Audit Law to establish an independent audit authority with power to carry out external audits.

7. The Constitution established the judiciary (comprising a Constitutional Council to decide constitutional matters, a Supreme Council of Magistracy to oversee judges and prosecutors, the courts, and the prosecutors) as an independent branch of Government. An independent, capable, and uncorrupted judiciary is the foundation of the Rule of Law and underpins the development of a market economy. Unfortunately, separation of powers in the public sector is incomplete with frequent intrusions by the other branches into the judiciary, impairing the vital role of the judiciary in the system of checks and balances among Government branches.

8. The Cambodian judiciary suffers from the lack of both human and financial resources. Among 171 judges and prosecutors in the whole nation, only 33 percent have received any formal legal education. The Ministry of Justice received only 0.3 percent of the total government-funded budget in 1997, out of which only a small portion was allocated for the judiciary. Judges, like all civil servants, receive a salary that falls below a living wage. It is thus not surprising that Cambodia's court system is widely perceived as being riddled with corruption.

## **2. Civil Society**

9. Elements of civil society in Cambodia include the private sector, nongovernment organizations (NGOs), and the media. The Government has vigorously promoted the transition to a market economy and the development of a private sector framework. The Council for the Development of Cambodia (CDC) is responsible for overseeing the implementation of investor incentives contained in the 1994 Law on Investment and the 1997 Law on Taxation. Although these incentives are widely regarded as favorable to investors, the Government is still working to provide a sound legal system that guarantees property rights, resolves commercial disputes, regulates anticompetitive behavior, and limits Government interference in private business.

10. Problems arise in a number of areas. First, land disputes represent one of the most pressing governance issues in Cambodia. The huge increase in land disputes has a devastating impact on the functioning of a market economy, particularly investment. Second, efforts to pass new laws and regulations tend to ignore the implementation capabilities of enforcement agencies. Developing mechanisms to coordinate legal reforms in different sectors is thus critical. Third, improvements in the transparency in which laws and regulations are introduced and enforced could greatly reduce transaction costs for business, provide a level playing field for all players including small business, and facilitate private sector development. Cambodia's private businesses encounter major difficulties in obtaining information about laws and regulations, particularly administrative orders (subdecrees, decisions, and circulars) issued by the Government.

11. Because the role of civil society remains largely misunderstood by the general public, NGOs have often taken on the task of representing the public in interacting with the Government. The NGO presence in Cambodia is significant, with over 400 organizations reporting expenditures of \$83 million to the CDC in 1998. The Government's approach to NGOs is generally liberal but there is currently no law that specifically regulates NGOs, a subject of heated debate. Cambodian NGOs have a generally weak financial position and are highly dependent on foreign sources of funding. Some appear to be under the strong influence of political parties, whereas others abuse their NGO status for profit-seeking purposes.

12. Developing mechanisms for more consistent, productive interactions between the Government and civil society is a critical Government responsibility. The participation of civil society promotes accountability and transparency in the public sector. It also gives people opportunities to voice opinions, and provides important sources of skills and knowledge for policy making. The emergence of civil society appears to be gradually influencing the dynamics of decision making in the public sector. Although more needs to be done, there are some good examples of recent positive change. One is the participatory approach taken in revising the draft Land Law.

13. In contrast to the 1980s, when the media served as propaganda conduits, the 1995 Law on Press Regime guarantees more freedom than other Southeast Asian countries do to the 200 national and foreign language newspapers, magazines, and TV and radio stations based in Cambodia. Journalists, however, raised concerns about the vagueness of Articles 12 and 13 in the Press Law. Terms such as "national security and political stability" or "humiliate the national organs" are not defined in the Law. The Legislature has not passed any broadcast laws to regulate TV and radio stations. From the perspective of good governance, the presence of a good broadcast law that sets clear rules and regulations will contribute to the promotion of free and balanced broadcast media. It will also help curb the pressure and influence of political parties on broadcast media during political events such as elections. This will instill political stability and provide an enabling environment for long-term investment.

14. Improving the quality of journalists is equally important. Many, if not most, journalists reportedly lack professional skills. Nor do they appear to follow any code of ethics set by journalists associations. Accepting bribes appears to be a common and widely tolerated practice. Some positive changes have been observed, however. Media have increasingly featured similar news coverage, regardless of their political background. News coverage has been broadened beyond exclusively political and toward more social and developmental issues.

## **B. Key Issues of Governance Reforms**

15. Following Cambodia's second national elections in 1998, a coalition Government was formed. In an effort to revive the economy and reinvigorate Cambodia's engagement with the aid community, the Government committed itself to reforms in a number of key sectors, including public finance reform, public administration reform for civil service and armed forces, decentralization, legal and judicial reforms, and regional integration.

### **1. Public Finance Reform**

16. The Government is tackling weaknesses in public finance, most notably through the 1999 introduction of a value-added tax that is generating a significant increase in revenues, allowing the Government to reduce tariffs in line with the requirements for the ASEAN Free Trade Area (AFTA), and contributing to macroeconomic stability. Significant results have been

achieved, but some issues still merit attention. First, despite serious efforts by the Ministry of Economy and Finance (MEF), measures to enhance customs and nontax revenues have not produced much improvement. To improve performance, MEF needs further collaboration and coordination with other line ministries and public institutions to collect these revenues. Political commitment at the highest level is a critical precondition. Second, for efficiency, public finance ought to shift from a pre-audit to post-audit system with more responsibilities devolving to spending units to be more effective and efficient. An important precondition for the success is the capability of human resources in the spending units and audit authorities (both internal and external) to carry out sound financial management.

## **2. Public Administration Reform**

17. The Government is committed to both civilian and military reform. It has undertaken a civil service census and has begun eliminating ghost civil servants and retiring others. However, current program developed by a small group of senior officials lacks broad support among the international community and the civil service. Because of this, the program, which has unpopular elements, risks losing political support. The program emphasizes downsizing of the civil service despite lack of evidence that it is too large, rather than the fact that it is inefficient because of lack of meritocracy, organizational problems, and unqualified staff. An additional problem is the proliferation of interministerial reform committees, which tends to concentrate power on a small group of senior officials and takes human and financial resources away from ministries that have been given authority and responsibility for reform implementation.

18. The Government is pursuing demobilization of its armed forces as part of the larger public sector reform. It has already completed a soldier registration process and is now beginning a pilot demobilization project. However, the demobilization process under the Cambodia Veterans Assistance Program (CVAP) began before any coherent vision for the military's future structure and responsibilities was developed. Without such a vision, an informed and rational discussion of troop (and budget) reductions cannot occur. A second concern is the military's role in demobilization about which the aid agencies know little. Information on the registration process, for instance, has not been made readily available the aid agencies. An additional concern is the preparedness of provincial authorities for a major role in the reintegration process.

## **3. Decentralization**

19. The Government's SEILA Program for promoting rural development represents the most ambitious and advanced decentralization initiative implemented to date, resulting in the creation of development committees in over 1,000 villages. Building on this progress, the Government plans the election of commune councils to administer local programs. However, the absence of legal clarity regarding the status and scope of authority of provinces, municipalities, and districts enables a top-down approach to planning and instructions to persist. Local-level weaknesses in human resources also raise questions about the ability to implement decentralization in the short to medium term. SEILA has also demonstrated problems that arise when planning is not sufficiently linked with financing. The usefulness of decentralized planning and local support for projects tend to diminish when financing later proves unavailable.

## **4. Judicial and Legal Reform**

20. The government has taken a number of steps to strengthen the rule of law including several new laws (Penal Code, laws on criminal and civil procedures, a land and forestry laws,

an audit law, and a commercial code), a Statute of Magistrates, and investigations into corruption in Phnom Penh courts. Significantly, the law on civil servants was recently amended to revoke the immunity of public officials from criminal prosecution. However, the law still requires notification to department heads three days prior to the arrest of public officials. While this is a positive step in reform, enforcing the laws against public officials remains to be seen.

21. The absence of transparency at critical points in the criminal process, such as the weighing of evidence by investigating judges, is another weakness in the Cambodian system of justice. The mandatory presence of a lawyer for the accused and opening the proceedings to the public could have an immediate, positive impact, as would the forbidding of the practice of trial judges reviewing evidence prior to trial. Another key issue for judicial reform is the need to improve financial and human resources. Separation of the judiciary's budget from the budget of the Ministry of Justice (MOJ) is needed to establish a genuine separation of powers.

22. Equally important is the improvement of human resources. Given the low level of education among judges and prosecutors, major long-term legal training is clearly needed to improve the performance of the judiciary. A striking weakness in human resources with regard to commercial cases may call for intensive training in commercial and business-related law for judges and prosecutors. The establishment of institutions for judicial training, such as a judicial training center, might be an important responsibility MOJ, which should be moved away from management of the judiciary. A new mandate might also include drafting laws; developing and maintaining information on the criminal system, enforcing judgments, and supervising court facilities and administrative personnel.

23. The private sector has raised three critical issues regarding the legislative process in Cambodia. First is the absence of an advance notice and comment period prior to enactment of legislation that significantly impacts business operations leaves businesses unprepared for new legal requirements. Second is the need for respect for and enforcement of laws. Improvement in the implementation and enforcement of laws is without doubt a key issue of legal reform. Lack of respect for laws and difficulties in enforcement are not simply matters of ill motivation, bad practices, or political infighting, but also of weak human resources. To the extent that new laws and regulations are legislated, the need for qualified and competent judges and lawyers increases.

24. Third is the practice of rule by subdecree. A typical newly enacted law includes only a general statement of purpose and principle, often without sufficient provision of key concepts and terms. Subdecrees issued later by the Council of Ministers elaborate such crucial details. This leaves the Government, especially ministries, too much discretion and unaccountable for their decisions. One way to address this issue is to require that all draft laws forwarded to the National Assembly for consideration must be accompanied by drafts of any implementing regulations called for in the law.

## **D. External Assistance for Governance Reforms**

### **1. Aid Agency Assistance Governance Guidelines**

25. The following guidelines are recommended to institute dynamic interactions between the Government and aid agencies in promoting good governance in Cambodia:

- To ensure that the government is driving the reform process by setting its own priorities, building political support for policies, and demonstrating political will,

concrete reforms that improve governance should be a precondition to assistance for a given sector or institution.

- Multi-institutional policy making should be promoted through technical assistance and dialogue that targets the participation of all institutions involved in reform implementation from the outset of the program, and not just of centralized, ministerial-level committees or councils.
  - A key criterion for assistance should be concrete Government actions to ensure financial autonomy for key accountability institutions such as the courts, the Supreme Council of Magistracy, legislative commissions, the Ministry of Parliamentary Affairs and Inspection, MOJ, and the National Audit Authority.
- The Government should be encouraged to comply with Article 90 of the Constitution requiring that the National Assembly approve all loans to the Government.
- To enhance aid coordination in governance, aid agencies in Cambodia could jointly develop a set of specific governance-related criteria and performance indicators for program planning and monitoring. Major multilateral institutions such as ADB and the World Bank have been developing such assessment tools, which might be shared with other aid agencies.

## **2. Recommended Government Actions**

26. Major structural reforms in governance require long-term efforts, substantial resources, and political will. There should be sensitivity with regard to the resource requirements and current availability of resources in Cambodia. This does not mean, however, that all important, high-impact reforms in governance require more money. Indeed, there is a set of specific reforms that can have tangible impact on good governance without injections of much money. A list of recommended actions summarized in Table A1.1 is not meant to be exhaustive, but to illustrate examples of low-cost, governance-promoting actions that the Government can undertake.

Table A1.1: Low Cost Reforms for Good Governance

Sector	Transparency	Accountability	Greater Participation	More Informed Policy Making	Predictability
Policy Making on Governance Public Finance	<ul style="list-style-type: none"> <li>Issue yearly list of priority reforms</li> <li>Publish list of garment companies with COs, their local address and place of business</li> <li>Public notice of commercial banks in technical solvency</li> <li>Public release of monthly prakas on budget allocations</li> <li>No sale/lease of state property or any government contract without public tender</li> </ul>	<ul style="list-style-type: none"> <li>Publish list of taxpayers in arrears for more than \$5,000</li> <li>Enact and strictly enforce the Law on Budget Discipline with prosecutions in court</li> <li>Freeze on all sale/leases of state property</li> </ul>		<ul style="list-style-type: none"> <li>Ensure annual budget laws reach Assembly for review by start of October</li> </ul>	
Decentralization	<ul style="list-style-type: none"> <li>Public release of monthly expenditures by each prov'l. gov.</li> </ul>		<ul style="list-style-type: none"> <li>Public release of draft Commune Admin. Law then send to National Assembly</li> </ul>		
Civil Admin. Reform		<ul style="list-style-type: none"> <li>Revise Law on Civil Servants; abolish Art. 51</li> </ul>			<ul style="list-style-type: none"> <li>Develop policy and projected timetable for increase in civil service salaries</li> </ul>
Military/Security Reform			<ul style="list-style-type: none"> <li>Establish forum for input from civil society on reintegration program</li> </ul>	<ul style="list-style-type: none"> <li>Issue official policy on military reform</li> <li>Issue official policy on reform of security agencies</li> </ul>	
Judiciary	<ul style="list-style-type: none"> <li>Release info on legal education, experience of all judicial appointments prior to nomination</li> <li>Require courts to provide copies of all court decisions to parties</li> </ul>	<ul style="list-style-type: none"> <li>Establish separate budget lines in nat'l. budget for Supreme Council of Magistracy (SCM) and the courts</li> <li>Revise SCM Law to remove Executive Branch officials</li> <li>Require accused to have lawyer when case is before investigating judge</li> </ul>			<ul style="list-style-type: none"> <li>Automatic dismissal of criminal cases when no charge is brought within 48 hours of arrest</li> <li>Military courts only hear cases of soldiers violating military law/regs.</li> <li>Immediate transfer of cases involving non-Royal Cambodian Armed Forces (RCAF) persons to civilian court</li> </ul>
Legal System	<ul style="list-style-type: none"> <li>Law requiring ministries to send copy of all regs to National Assembly and Senate</li> </ul>	<ul style="list-style-type: none"> <li>Enact subdecree requiring draft regulations to accompany all laws sent to National Assembly</li> <li>Allow cases by private persons/companies against ministries that violate or do not properly apply laws</li> </ul>	<ul style="list-style-type: none"> <li>Require by law 60-day advance notice and comment period for all laws, anu-kret, prakas</li> </ul>		<ul style="list-style-type: none"> <li>At start of each year, gov. issues list of priority laws and regulations to be drafted each year.</li> </ul>
Accountability Institutions	<ul style="list-style-type: none"> <li>Appoint auditor general using open nomination and selection process</li> </ul>	<ul style="list-style-type: none"> <li>Enact law on declaration of assets by public officials</li> <li>Start prosecuting officials for criminal violations</li> </ul>			
Private Sector Framework	<ul style="list-style-type: none"> <li>Require official translations into English of all laws/regulations</li> </ul>		<ul style="list-style-type: none"> <li>Establish regular forum for private sector to Royal Government of Cambodia (RGC) contacts</li> </ul>		
Regional Integration		<ul style="list-style-type: none"> <li>Abolish Internal Coordination Network (ICN) and clarify duties of ASEAN-related institutions</li> </ul>		<ul style="list-style-type: none"> <li>Establish National Committee on ASEAN Economic Cooperation</li> </ul>	

### 3. Recommendations for ADB Governance Program

27. ADB and other interested aid agencies should consider the areas and institutions outlined in Table A1.2 as possible entry points to promote good governance in Cambodia. The design of a specific program of support for each area or institution will require a more detailed evaluation of needs and current capacity. In most cases, this should await concrete actions by the Government before proceeding with a program.

**Table A1.2: Matrix of Entry Points for Assistance**

Sector	Institutional Entry Point	Recommended Prior Government Reform	Governance Element Promoted	Objective of Assistance	Activity Supported
Public Finance	Provincial Finance Officials	Enact regulations for Provincial Budget Law, public release of monthly prakas on budget allocations, monthly release of expenditures by each province	Transparency	More open expenditure process	Train provincial officials in financial management
	National Assembly and Senate Finance & Banking Commissions		Accountability, better policy making	Ensure commissions are able to more actively participate in law-making and monitoring	Train staff in financial management
Decentralization	Commune Councils	Enact Commune Administration Law that gives councils clear powers, adequate budgets, and strictly defines relationship with higher government	Accountability, greater participation	More decentralized, effective local government and development planning	Building the capacity of Commune Council
Public Admin. Reform	Council on Demobilization Ministry of Defense	Develop reintegration program for implementation by existing institutions in provinces	Greater participation	Build links between demobilization and local rural development	Support design and implementation of reintegration, including pilot demobilizations
Judiciary	Supreme Council of Magistracy (SCM)	(1) amend SCM Law to remove executive and legislative branch officials from SCM	Independence of judiciary	Promote judicial independence	Building the capacity of SCM
	Ministry of Justice (MOJ) Courts	(2) establish separate budget line for SCM/courts Publish list of all judges and prosecutors (and all judicial appointments prior to nomination) with basic info on education, legal experience	Independence of judiciary Transparency	Promote judicial independence Provide more info to public on courts and more open judicial appointment process	Training program for judges
Accountability Institutions	National Audit Authority (NAA)	Establish NAA; appoint auditor general by a transparent, open selection process among qualified, neutral candidates; adequate, independent budget.	Transparency Accountability	Ensure open process for appointment for accountability institutions	Building the capacity of NAA
Private Sector Framework	MLMUC	Enact Land Law that enables poor families and communities to gain secure title to land through transparent process	Transparency Accountability	Create land titling system that is transparent, efficient and ensure poor title to their land	Building the capacity of institutions that implement Land Law support mapping and training for mapping Support for public-private sector forums
	Council of Ministers	Establish regular forum for private sector to directly meet senior RGC officials	Greater participation	Increase participation of private sector in policy making Improve effectiveness of judiciary; increase private sector confidence	Building the capacity and infrastructure for new commercial court
	MOJ; MOC	Establish commercial court; enact commercial arbitration law	Accountability		

## **GENDER BALANCE IN THE ADB PROGRAM FOR CAMBODIA**

### **A. Gender Profile**

1. Traditional Khmer culture and religion influence the extent to which Cambodian women can contribute to and benefit from the economic development of the country. Buddhist or royalty monks are afforded the highest status in the Khmer social hierarchy. Otherwise, age and sex as well as other socioeconomic and individual factors such as wealth, position, and reputation determine status. Traditionally, the ideal woman is a protected and meek daughter who, after a marriage arranged by her parents, manages the household, including the finances. Sharing in day-to-day household decisions, an ideal wife defers to her husband on major decisions and in public. However, because young couples traditionally stay with or near the wife's kinsmen, wives have some access to protection and support.

2. Three decades of conflict disrupted this traditional family life. Most Cambodian families lost family members, many families were torn apart, and whole communities were displaced. Social cohesion and the spirit of cooperation and trust among neighbors have been eroded, reducing the traditional mechanisms of protection afforded women (and men) as well as the level of extended family assistance for household tasks such as child care. This is particularly devastating for the many older women without families and the 25 percent of households headed by women. Moreover, the legacy of violence, particularly among military or ex-military personnel, translates into much higher levels of domestic abuse than were the norm prior to 1975.

3. Constitutionally, the level of protection from discrimination afforded women is consistent with the United Nations Charter on Human Rights and compares favorably with that of many industrial democracies. Women can vote and stand for office. They have the right to maternity leave, to equal pay, to inherit and own property, to divorce, and to equal treatment before the law. In practice, however, these rights have not, for the most part, materialized. Despite the fact that women are a majority of registered voters, the Government formed in late 1998 includes only two female ministers (of Women's and Veterans Affairs and Cultural and Religious Affairs) out of 25 and 10 female members in the 122-member National Assembly. There are no female governors and only a few judges are female. Women thus have very little representation in the corridors of power and, not surprisingly, in courts, which are perceived as weak and subject to influence and tend to favor men, particularly in domestic disputes.

4. Discrimination in favor of men extends to formal labor markets as well. The 1997 Labor Law, which guarantees equality of treatment for women in employment, is poorly written and poorly enforced. Females represent 53 percent of the labor force, have higher rates of participation between 10 and 19 years of age, and have lower rates of participation after age 20. Women are underrepresented in wage labor and professional positions with 42 percent of women compared with 17 percent of men, classified as unpaid family workers in 1997. Men earn, on average, 50 percent more than women as a consequence of wage discrimination, nonwage discrimination, and unequal educational outcomes. The main nontraditional economic activities for women are in garment factories, in breweries and construction as casual workers, in informal retail and trade, in prostitution, and in low-paid service jobs.

5. The relationship between men and women in agricultural production is complex and generally more cooperative, yet evidence of inequality exists. Traditionally, male tasks such as plowing require strength as opposed to female tasks such as transplanting. Because of

variations in family composition and the war-related shortage of men, women often carry out traditional male tasks. However, when agricultural tasks are done for wages or barter, men carry out male tasks, which are valued more highly. In addition to their roles in agricultural production, women are responsible for household chores. Thus, they have less time for leisure activities, education, or participation in local politics, a male-dominated activity despite a Government mandate that there be at least two women on every village development committee.

6. Gender disparities in educational attainment both reflect and are reflected in the social and economic gender discrimination described above. Literacy rates in rural areas show the widest disparity with about 80 percent of males but only 55 percent of women classifying themselves as literate. Disparities in formal school attendance increase. Girls represent 45 percent of primary school students but only 35 percent of secondary school students and perhaps less than 20 percent in tertiary school. These disparities in educational attainment reflect the higher opportunity costs of sending girls to school and the lower perceived benefits. Additional difficulties include parents' concern about security for their daughters when distance is significant, a greater need for latrine and washing facilities for girls, underrepresentation of women in school staff, and gender bias in teacher attitudes.

7. Poor health conditions in Cambodia are linked, in part, to poor female educational attainment as well as poverty and the low quality, high cost, and limited accessibility of health care. Although men are at greater risk of injury and death due to violence or accident, women also face gender-specific health risks. Reproductive health care is particularly poor. The prevalence of home birth, stunting, and poor health give rise to a high 1998 maternal mortality rate of 500 per 100,000 live births compared with a regional average of 120. Knowledge of family planning methods is low, resulting in a relatively high total fertility rate of 5.2 births per women and a relatively high population growth rate of 2.4 percent. The prevalence of HIV<sup>1</sup> in 1998 was 2.6 percent among women of childbearing age compared with 3.9 percent for both sexes, and 42 percent among commercial sex workers.

## **B. National Strategy for the Promotion of the Status of Women**

8. The Ministry of Women's Affairs (now Women's and Veterans' Affairs) was established in January 1996, replacing the Secretariat of State for Women's Affairs, itself created in 1993. A primary mission of the ministry is to act as a catalyst for mainstreaming gender issues into the policies and programs of public and private institutions. The ministry's 1999-2003 strategic plan includes programs to develop the institutional, financial, and staff capacity in the ministry and in the Royal Government of Cambodia to promote the status of women. The main goals are to improve reproductive and sexual health, educate the public about women's rights under the law, enhance women's educational attainments, and increase the opportunities for women to participate in economic development.

## **C. ADB Gender Strategy in Cambodia**

9. The incidence of poverty in Cambodia is high—about 36 percent. Poverty reduction is thus the primary goal of the Asian Development Bank's (ADB's) strategy. In implementing this strategy, it is important to acknowledge the key role of women—as mothers and primary family caregivers—in breaking the cycle of poverty. Thus, to maximize efficiency and equity, ADB will do the following to ensure gender balance in the program of assistance:

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<sup>1</sup> Human immunodeficiency virus.

- i) Promote the active participation of MWVA and relevant Nongovernment organizations (NGOs) by
  - providing assistance to build the capacity of the MWVA to serve its intended advocacy and advisory role to the Government on gender issues;
  - routinely consulting MWVA and relevant NGOs in the course of project development to avoid gender bias in programs and ensure that cultural sensitivities are observed; and
  - considering, in some instances, the use of MWVA provincial and district office networks or relevant NGOs to implement gender aspects of an intervention.
- ii) Enhance the employment and business opportunities of women through
  - increasing the level of funds available to microfinance institutions, which tend to have a high percentage of women clients; and
  - employing significant numbers of day laborers on rural infrastructure components of rural development projects, about 30 percent of which are women.
- iii) Improve access of women to social services by
  - addressing gender and development issues in the design of education interventions so as to promote increased enrollment and educational attainment of female students; and
  - addressing the gender and development issues in the design of health interventions so as to promote the improvement of reproductive health, HIV/AIDS<sup>2</sup> prevention, and female utilization of health services.
- iv) Avoid unintended gender bias in the ADB program by
  - ensuring that the special needs of women are considered in designing resettlement plans;
  - promoting the active involvement of women in water user associations and irrigation management schemes;
  - assessing and mitigating the potential gender impact of new technologies introduced in ADB agricultural interventions; and
  - guarding against gender inequity in all new laws, policies, and regulations promoted in the ADB program.

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<sup>2</sup> Acquired immunodeficiency syndrome.

## References

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- Neary Rattanak: Women Are Precious Gifts*. 1999. Five-year Strategic Plan of the Ministry of Women's and Veteran's Affairs. Phnom Penh.

**Table A3.1: ADB Technical Assistance to Cambodia, 1992-1999**

TA No.	TA Title	Amount (\$)	Date	Sector
<b>A. Macroeconomic Management</b>				
1694	1. Strengthening Macroeconomic Management	3,855,200	21-Apr-92	Others
2261	2. Statistical System Development	1,200,000	12-Dec-94	Others
2488	3. Strengthening Capacity in Development Planning	850,000	19-Dec-95	Others
2566	4. Developing Capacity in Audit and Inspectorate Function	600,000	8-May-96	Others
2645	5. Capacity Building in External Aid Management	595,000	13-Sep-96	Others
2976	6. Capacity Building in Development Planning, Phase II	910,000	31-Dec-97	Others
3287	7. Strengthening External Aid Portfolio Management	750,000	2-Nov-99	Others
3293	8. Statistical System Development (Phase III)	1,000,000	10-Nov-99	Others
	<b>Subtotal</b>	<b>9,760,200</b>		
<b>B. Project Implementation</b>				
1794	1. Project Implementation in the Transport and Agriculture Sectors	4,200,000	26-Nov-92	Multisectoral
1802	2. Seminar on Bank's Operational Policies and Procedures in Cambodia	26,000	12-Nov-92	Others
1878	3. Project Management Coordination and Project Implementation in the Power and Education Sectors	3,200,000	23-Apr-93	Multisectoral
2078	4. Strengthening Environmental Impact Assessment Procedures and Capabilities	550,000	13-Apr-94	Others
2150	5. Establishment of a Central Procurement Office & Regulations & Procedures for Procurement of Goods & Works	600,000	14-Sep-94	Others
2370	6. Extension of Project Implementation Assistance under the Special Rehabilitation Assistance Loan	2,600,000	25-Jul-95	Multisectoral
2427	7. Institutional Strengthening of the Department of Public Procurement	520,000	17-Oct-95	Others
2600	8. Training Seminar in Bank Policies and Procedures	96,000	7-Mar-96	Others
2723	9. Institutional Strengthening and Expanding Environmental Impact Assessment Capacity	1,000,000	19-Dec-98	Others
3160	10. Improvement of Project Implementation in Cambodia	150,000	27-Jan-99	Others
3164	11. SSTA for Project Preparation and Implementation Assistance to MPWT	150,000	3-Feb-99	Others
	<b>Subtotal</b>	<b>13,092,000</b>		
<b>C. Agriculture</b>				
	<b>1. General</b>			
1971	1. Agricultural Development Options Review	515,000	27-Oct-93	Agriculture
2591	2. Agricultural Policy Reform Support	1,500,000	20-Jun-96	Agriculture
	<b>2. Rural Development</b>			
2059	3. Rural Infrastructure Improvement (PP)	98,000	9-Feb-94	Agriculture
2406	4. Strengthening of the Ministry of Rural Development	1,500,000	28-Sep-95	Agriculture
	<b>3. Water Resources</b>			
2554	5. Community Irrigation Rehabilitation (PP)	100,000	9-Apr-96	Agriculture
2592	6. Stung Chinit Water Resource Development (PP)	800,000	25-Jun-96	Agriculture
3275	7. Study for Stung Chinit Water Resources Development (PP)	150,000	13-Oct-99	Agriculture
3292	8. Capacity Building in the Ministry of Water Resources and Meteorology	796,000	10-Nov-99	Agriculture
	<b>4. Microfinance</b>			
2601	9. Rural Credit Review	100,000	4-Jul-96	Agriculture
2818	10. Rural Credit and Savings (PP)	600,000	26-Jun-97	Agriculture
3270	11. Capacity Building for Rural Financial Services	1,450,000	5-Oct-99	Agriculture
	<b>5. Forestry</b>			
3152	12. Sustainable Forest Management (PP)	980,000	31-Dec-98	Agriculture
	<b>Subtotal</b>	<b>8,589,000</b>		
<b>D. Social Infrastructure</b>				
	<b>1. Education</b>			
1889	1. Emergency Training of Teachers	1,300,000	14-May-93	Social Infrastructure

TA No.	TA Title	Amount (\$)	Date	Sector
2067	2. Skills Development (PP)	100,000	11-Mar-94	Social Infrastructure
2121	3. Basic Education (PP)	100,000	12-Jul-94	Social Infrastructure
2331	4. Basic Education Management and Coordination	500,000	10-May-95	Social Infrastructure
2516	5. Capacity Building for Technical and Vocational Education and Training	980,000	27-Dec-95	Social Infrastructure
2555	6. Textbook Publishing Planning and Management	600,000	15-Apr-96	Social Infrastructure
3169	7. Secondary Education Investment Plan	650,000	8-Mar-99	Social Infrastructure
	<b>2. Water Supply and Sanitation</b>			
2031	8. Water Supply and Sanitation Sector Needs Assessment Study	100,000	27-Dec-93	Social Infrastructure
2280	9. Urban Water Supply and Sanitation (PP)	600,000	4-Jan-95	Social Infrastructure
2281	10. Urban Development Strategy Study	500,000	4-Jan-95	Social Infrastructure
2669	11. Institutional Support to the Water Supply Subsector	500,000	24-Oct-96	Social Infrastructure
2689	12. Integrated Urban Development (PP)	800,000	24-Nov-96	Social Infrastructure
	<b>3. Women in Development</b>			
2157	13. Women in Development	546,000	20-Sep-94	Social Infrastructure
2503	14. Employment Promotion For Women(PP)	600,000	22-Dec-95	Social Infrastructure
3327	15. Capacity Building for the Ministry of Women's and Veterans' Affairs	400,000	8-Dec-99	Others
	<b>4. Health</b>			
2223	16. Basic Health Services (PP)	300,000	7-Dec-94	Social Infrastructure
2567	17. Managing Basic Health Services	500,000	8-May-96	Social Infrastructure
	<b>5. Tourism</b>			
3200	18. Strengthening Tourism Planning	150,000	4-Jun-99	Social Infrastructure
	<b>Subtotal</b>	<b>9,226,000</b>		
<b>E. Transport</b>				
1866	1. Transport Rehabilitation Study	1,319,400	31-Mar-93	Transport
2197	2. Airports Improvement (PP)	500,000	3-Nov-94	Transport
2416	3. Developing a Planning Capacity in the Ministry of Public Works and Transport	800,000	2-Oct-95	Transport
2706	4. Institutional Strengthening of the State Secretariat of Civil Aviation	550,000	12-Dec-96	Transport
2722	5. Transport Network Improvement (PP)	600,000	19-Dec-96	Transport
2722	6. Transport Network Improvement (Supplementary) (PP)	395,000	17-Mar-98	Transport
3398	7. Primary Roads Restoration	860,000	21-Sep-99	Transport
3257	8. Strengthening the Maintenance Planning and Management Capabilities	735,000	21-Sep-99	Transport
	<b>Subtotal</b>	<b>5,759,400</b>		
<b>F. Energy, Finance, and Industry</b>				
2241	1. Strengthening the Institutional & Legal Framework for the Energy and Mineral Sectors	595,000	14-Dec-94	Energy
2243	2. Power Sector Manpower Development and Training	500,000	15-Dec-94	Energy
2629	3. Power Rehabilitation II (PP)	450,000	20-Aug-96	Energy
2330	4. Institutional Strengthening of the Centre for Banking Studies and State-owned Banks' Staff Training	340,000	10-May-95	Finance
2796	5. Enhancing Banking Skills	400,000	19-May-97	Finance
2570	6. Strengthening Capacity in the Trade and Industry Sectors	600,000	14-May-96	Industry
3256	7. Update of Power Rehabilitation II Project Preparation Study (PP)	150,000	17-Sep-99	Energy
3298	8. Developing the Strategy for the ADB's Involvement in Cambodia's Power Sector	150,000	16-Nov-99	Energy
	<b>Subtotal</b>	<b>3,185,000</b>		
	<b>Total</b>	<b>49,611,600</b>		

**Table A3.2: Cumulative Lending (ADF) by Year of Approval (1992-1999)**

Ser. No.	Loan No.	Project Name	Loan	Terms (Yr)	Interest	Date	Sector	Subsector
			Amount (\$ million)	Grace Pd.		Approved		
1	1199	Special Rehabilitation Assistance	67.700	40 ( )	1	26/Nov/92	Multisector	Multisector
		<b>Subtotal</b>	<b>67.700</b>					
1	1345	Power Rehabilitation	28.200	40 (10)	1	15/Dec/94	Energy	Electric Power
		<b>Subtotal</b>	<b>28.200</b>					
1	1368	Basic Skills	20.000	40 (10)	1	29/Aug/95	Social Infrastructure	Education
2	1385	Rural Infrastructure Improvement	25.100	40 (10)	1	28/Sep/95	Agriculture/Agro-industry	Irrigation/Rural Development
		<b>Subtotal</b>	<b>45.100</b>					
1	1445	Agriculture Sector Program	30.000	40 (10)	1	20/Jun/96	Agriculture/Agro-industry	Agricultural Support Services
2	1446	Basic Education Textbook	20.000	40 (10)	1	20/Jun/96	Social Infrastructure	Education
3	1447	Basic Health Services	20.000	40 (10)	1	20/Jun/96	Social Infrastructure	Health/Population
4	1468	Phnom Penh Water Supply and Drainage	20.000	40 (10)	1	26/Sep/96	Social Infrastructure	Water Supply/Sanitation
5	1503	Siem Reap Airport	15.000	40 (10)	1	12/Dec/96	Transport/Communications	Airports/Civil Aviation
		<b>Subtotal</b>	<b>105.000</b>					
1	1659	GMS: Phnom Penh HCMC Highway	40.000	40 (10)	1	15/Dec/98	Transport/Communications	Roads
		<b>Subtotal</b>	<b>40.000</b>					
1	1697	Primary Roads Restoration	68.000	32 (8)	1.0/1.5	21/Sep/99	Transport/Communications	Roads
2	1725	Provincial Towns Improvement	20.000	32 (8)	1.0/1.5	17/Dec/99	Social Infrastructure	Urban Dev't. & Housing
		<b>Subtotal</b>	<b>88.000</b>					
		<b>Grand Total</b>	<b>374.000</b>					

ADF-Asian Development Fund, GMS-Greater Mekong Subregion

**Table A3.3: Sector Disbursements and Targets**

Sector	ODA Disbursements 1992-1998 %	Investment Allocation PIP 2000-2002 %
Economic Management and Development Administration	23.51	4.4
Humanitarian Aid, Relief Assistance, Disaster Preparation	11.05	—
Education/Human Resource Development	9.31	12.3
Agriculture, Forestry, and Fisheries Area/Rural/Social Development <sup>a</sup>	7.48 20.20	10.9 5.7
Natural Resources <sup>b</sup>	0.64	9.2
Energy	4.50	4.9
Industry and Trade	0.59	0.3
Transport	12.18	16.9
Communications	2.12	6.0
Health	8.32	29.4
<b>Total</b>	<b>100.00</b>	<b>100.0</b>

ODA-official development assistance, PIP-public investment program

<sup>a</sup> Combines Religion and Culture, Social and Community Services, Tourism, and Special Programs for PIP Allocation Targets

<sup>b</sup> Combines Environment and Conservation with Water Resources, Water Supply and Sanitation for PIP Allocation Targets.

Source: Council for the Development of Cambodia. 1999. *Development Cooperation Report*. Phnom Penh, Ministry of Planning. 1999. *Public Investment Programme 2000-2002*. Phnom Penh.

1. The Public Investment Program 2000-2002 (PIP) is the most recent three-year rolling public investment plan for Cambodia.<sup>1</sup> By compiling line ministry information on ongoing, committed, and high-priority investment projects, the PIP obtains sector allocations. These are given in Table A3.1, third column, along with actual disbursements over 1992-1998 in the second column. The PIP indicated a planned 55 percent of projects that would straddle the rural/urban divide, 30 percent rural and 15 percent urban. Although rural/urban breakdowns are not given here, the World Bank Public Expenditure Review (PER) 1999 indicates that 66 percent of 1994 Official Development Assistance (ODA) and 51 percent of 1996 ODA disbursements were in Phnom Penh. When expenditures from Government resources were factored in, 1996 total public expenditures per capita were ten times greater than in other areas. Thus, aid agencies and Government must strive to direct more funds into rural areas where security risks are higher and project implementation is more difficult.

2. Table A3.1 also reveals other areas in which adjustments to the pattern of aid will be made. First, ODA expenditures on economic management and development administration have been given a much higher share than the PIP envisions in the future. In part this is a

<sup>1</sup> TA 2976-CAM: *Capacity Building in Development Planning Phase II*, for \$910,000, approved on 31 December 1997.

consequence of the inclusion of budget support and election assistance under this category. It is also clear that technical assistance was a substantial proportion of aid over 1992-1998. Allocations to this category declined over 1997-1998. Second, relief aid expenditures were also much higher than is anticipated in the future, although the original socioeconomic development plan targeted 11 percent of investment for administration and special programs. Expenditures in this sector have declined greatly from 57 percent of total ODA in 1992 to 3 percent in 1998 as conditions have improved in Cambodia.

3. Third, the PIP envisions a significant increase in the proportions of investment allocated to education, and especially health. Fourth, the program calls for increased allocations to infrastructure (energy, transport and communications). Finally, the plan indicates a reduction in allocations to area/rural/social development while showing increased spending on agriculture. The high proportion of past spending on rural development reflects the large investments made by aid organizations in capacity building for decentralized participatory rural development, the sizable mine clearance program, and work-for-food programs.

**Table A3.4: Programmed Ongoing and Committed Investment Projects, by Sector, and Scheduled Disbursements for 2000-2002**

<b>Sector/Subsector</b>	<b>Project</b>	<b>Funding Agency<sup>a</sup></b>	<b>Amount (\$'000)</b>
<b>Agricultural Production</b>			<b>25,810</b>
Crops	Agriculture Productivity Improvement	WB/IFAD/NB	17,730
Fisheries	Construction of Marine Fishing Ports	JPN	8,080
<b>Energy</b>			<b>64,035</b>
Distribution	Power Rehabilitation	ADB/NB	12,025
	Provincial Towns Improvement	ADB/NB	17,000
	Expansion of Power System	JPN	35,010
<b>Finance<sup>b</sup></b>			
<b>Industry and Trade</b>			
<b>Transport</b>			<b>153,291</b>
Roads	GMS: Phnom-Penh – Ho Chi Minh City	ADB	45,605
	Rural Infrastructure Improvement	ADB	13,014
	Mekong Bridge – Kampong Cham	JPN	30,980
	Primary Roads Improvement	ADB	37,100
	Road Rehabilitation Project	WB	11,348
Aviation	Siem Reap Airport	ADB/NB	15,244
<b>Communications</b>			<b>14,170</b>
Telecommunications	Rural Telecommunication Network	FRA	2,500
	Enhance MPT Training Institute	JPN	2,670
Information	Broadcasting to Develop Rural Areas	NB	6,000
	Reconstruct & Set Equipment	NB	3,000
<b>Governance</b>			<b>5,823</b>
Legislation & Judiciary	Judicial Courts Reconstruction	NB	5,823
<b>Social Development</b>			<b>63,346</b>
Water Supply & Sanitation	Development of Urban Water Supply	UNDP/WB	599
	Rural Water Supply	PRC	1,560

NOTE: This list is for illustrative purposes only. It is based on information submitted by line ministries to the Public Investment Planning Unit in mid-1999. Thus, it does not include major activities not executed by line ministries such as demining, area development, and food aid. It may or may not include projects approved after mid-1999 depending on the practice of different ministries. Nor does it include program loans, support to central ministries, or technical assistance.

<sup>a</sup> NB-National Budget, WB-World Bank, IFAD-International Fund for Agricultural Development, AUS-Australia, CAN-Canada, JPN-Japan, FRA-France, GER-Germany, UKG-United Kingdom, SWI-Switzerland, THA-Thailand, UNICEF-United Nations (UN) Children's Fund, UNESCO-UN Educational, Scientific, and Cultural Organization, WHO- World Health Organization, UNFPA- UN Population Fund, NGO-nongovernment organization, PRC-People's Republic of China, USA-United States of America, EU-European Union, UNDP-UN Development Programme, NZL-New Zealand.

<sup>b</sup> The \$27 million Rural Credit and Savings Project scheduled for 2000 is not included.

Source: Public Investment Plan 2000-2002, Ministry of Planning.

	Phnom Penh Water Supply & Drainage	ADB/NZL	10,224
	Phnom Penh Water Rehabilitation	FRA/JPN/UNDP/WB	28,990
	Rehabilitation of Water Supply	WB	6,440
	Provincial Town Water Supply & Sanitation	ADB	10,000
Gender Issues	Women In Development	JPN/NB	5,533
<b>Education</b>			<b>81,083</b>
Basic Education	Assuring Equitable Access	NB/NGOs/UNESCO/UNICEF/WB	11,520
	Basic Ed. Textbook/Improvement	ADB/FRA/NB/UNICEF	15,180
	Basic Education Improvement II	EU/GER/NGOs	27,800
	First Education Project	WB	2,000
Technical & Vocation	Rural Vocational Training	FRA/WB	2,992
	Basic Skills	ADB	15,591
	Science & Mathematics Teacher Training	JPN	6,000
<b>Health</b>			<b>274,113</b>
Primary Care	Public Health Institute	GER/NB/NGOs	4,545
	Controlling Food & Drugs Admin	WHO	2,116
	Pharmaceutical Reform	AUS/WHO/GER/NB/NGOs/UNICEF	4,188
	Women & Child Health	AUS/JPN/NB/NGOs/ UNFPA/UNICEF/WHO	16,008
	Basic Health Services	ADB/FRA/GER/JPN/NGOs NB/UNDP/USA/UKG UNFPA/UNICEF/WHO/WB	190,789
Tertiary Care	ENT/Mental Development	NB/NGOs	4,883
	Rehabilitation of National Hospitals	FRA/JPN/NB/SWI/THA	14,007
Immunization & Disease Control	Expanded Immunize & Polio Eradication	AUS/CAN/JPN/NB/NGOs/WHO	4,273
	AIDS/STD Programme	AUS/NB/WB/UNICEF/UNDP/WHO	15,500
	Malaria & Dengue Control	AUS/EU/NB/NGOs/UKG/USA/WHO/ WB	8,135
	Tuberculosis Control	FRA/JPN/NB/NGOs/UKG/WHO	9,669
AIDS/STD-acquired immunodeficiency syndrome/sexually transmitted disease, EENT-Eye, Ear, Nose and Throat, MPT-Ministry of Post and Telecommunications			

**Table A3.5: Current and Planned Activities of Major Aid Agencies**

Aid Agency	Agricultural Production	Communications	Education	Energy	Finance	Governance	Health	Industry & Trade	Natural Resources	Social Development	Transport
ADB	Sector development		Basic education (primary & upper secondary)	Urban, provincial town power supply	Rural credit, basic financial services	Economic management, legal & judicial	Primary care		Water resources critical wetlands	Rural development water supply & sanitation	Roads, airports
Australia	Research & Extension					Anti-corruption	Primary care			Mine clearance	
European Commission			Primary Education				Disease prevention reproductive health	Support for ASEAN/WTO members hip		Rural development	
France		Rural Telecom							Water resources		
Japan	Animal husbandry, fisheries		Primary, tertiary	Urban power supply		Economic management, legal and judicial	Maternal and child tuberculosis		Water resources, forestry		Bridges, port
Sweden			Primary							Rural development, mine clearance	
United States										Humanitarian, mine clearance	
United Nations	Research and Extension		Primary			Public administration reform, economic management			Natural resource management	Rural development, water supply, mine clearance Humanitarian, relief	
World Bank/ International Monetary Fund	Agriculture productivity improvement		Primary	Provincial, rural power supply	Rural credit banking reform	Anti-corruption, demobilization, economic management	HIV/AIDS	Forestry, environmental protection	Social fund, rural development, water supply	Roads	

Source: Public Investment Plan 2000-2002, Ministry of Planning

**Table A3.6: Sectors of Planned ADF Investments**

<p><b>I. Agricultural Production</b></p> <ol style="list-style-type: none"> <li>1. Research, Extension, and Marketing</li> <li>2. Crops</li> <li>3. Livestock</li> <li>4. Commercial Forestry &amp; Fisheries</li> <li>5. <u>Sector Development/Reform</u></li> </ol> <p><b>II. Energy</b></p> <ol style="list-style-type: none"> <li>1. Energy Sources</li> <li>2. Hydropower Gen. &amp; Trans.</li> <li>3. <u>Conventional Gen. &amp; Trans.</u></li> </ol> <p><b>III. Finance</b></p> <ol style="list-style-type: none"> <li>1. <u>Basic Financial Services</u></li> <li>2. Capital Markets</li> <li>3. Corporate Finance and Governance</li> </ol> <p><b>IV. Industry &amp; Trade</b></p> <ol style="list-style-type: none"> <li>1. Trade Reform</li> <li>2. State-Owned Enterprise Reform</li> <li>3. Small/Medium-size Enterprise Promotion</li> <li>4. Private Sector Group Investments</li> </ol> <p><b>V. Transport</b></p> <ol style="list-style-type: none"> <li>1. <u>Roads</u></li> <li>2. Railroads</li> <li>3. Ports and Waterways</li> <li>4. Airports</li> </ol> <p><b>VI. Communications</b></p> <ol style="list-style-type: none"> <li>1. Post</li> <li>2. Telecommunications</li> <li>3. Television, Radio, and Print</li> </ol> <p><b>VII. Governance</b></p> <ol style="list-style-type: none"> <li>1. Public Finance &amp; Administration</li> <li>2. Legislation &amp; Judiciary</li> </ol>	<p><b>VIII. Social Development</b></p> <ol style="list-style-type: none"> <li>1. <u>Water Supply and Sanitation</u></li> <li>2. <u>Rural/Area Development</u></li> <li>3. Gender Issues</li> <li>4. Social Protection for the Vulnerable</li> </ol> <p><b>IX. Natural Resources &amp; Pollution Control</b></p> <p><b>A. Resource Management</b></p> <ol style="list-style-type: none"> <li>1. Forest Use &amp; Preservation</li> <li>2. Biodiversity</li> <li>3. <u>Critical Wetlands</u></li> <li>4. Coastal Zones</li> <li>5. <u>Water Resources &amp; Irrigation/Drainage Systems</u></li> </ol> <p><b>B. Pollution Control &amp; Abatement</b></p> <ol style="list-style-type: none"> <li>6. Agricultural Chemical Management</li> <li>7. Urban &amp; Industrial Waste</li> <li>8. Energy Conservation</li> </ol> <p><b>X. Education</b></p> <ol style="list-style-type: none"> <li>1. <u>Basic Education</u></li> <li>2. Upper Secondary</li> <li>3. Higher Education</li> <li>4. Technical and Vocational Training</li> <li>5. Nonformal Education</li> </ol> <p><b>XI. Health</b></p> <ol style="list-style-type: none"> <li>1. <u>Primary Care</u></li> <li>2. Immunization and Disease Control</li> <li>3. Family Planning</li> <li>4. Tertiary Care</li> </ol>
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ADF-Asian Development fund  
 No ADF investments are planned in this sector.  
 ADF Investments are planned in this subsector.

**Table A3.7: 1999 Actual, 2000-2002 Pipeline, and 2003-2004 Proposed Pipeline**

<b>Priority Area/Sector</b>	<b>1999</b>	<b>2000</b>	<b>2001</b>	<b>2002</b>	<b>2003</b>	<b>2004</b>	<b>Total</b>	<b>Percent</b>
<b>Priority Area 1: Rural Economic Development</b>								
Rural Development			20			25	45	11.3
Agriculture					30		30	7.5
Environmental Management				20			20	5.0
Water Resources		20			30		50	12.5
<b>Total</b>							<b>145</b>	<b>36.3</b>
<b>Priority Area 2: Human/Social Development</b>								
Basic Education			30			35	65	16.3
Basic Health				25			25	6.3
Water Supply & Sanitation	20				25		25	6.3
<b>Total</b>							<b>115</b>	<b>28.8</b>
<b>Priority Area 3: Private Sector Development</b>								
Transportation	68			40			40	10.0
Energy		25				25	50	12.5
Finance <sup>1</sup>		20	30				50	12.5
<b>Total</b>							<b>140</b>	<b>35.0</b>
<b>Total (\$ million)</b>		<b>65</b>	<b>80</b>	<b>85</b>	<b>85</b>	<b>85</b>	<b>400</b>	<b>100.0</b>
<b>Core Poverty Interventions</b>		20	20	20	30	25	<b>115</b>	28.8
<b>Poverty Interventions</b>		20	30	25	55	35	<b>165</b>	41.3
<b>Pro-poor Growth Interventions</b>		25	30	40	0	25	<b>120</b>	30.0

<sup>1</sup>The 2000 intervention is Rural Credit and Savings

**CURRENCY EQUIVALENTS**  
(as of 14 June 2000)

Currency Unit	—	Riel (KR)
KR1.00	—	\$0.000258
\$1.00	—	KR3,880.50

**ABBREVIATIONS**

ADB	—	Asian Development Bank
ADF	—	Asian Development Fund
AFD	—	Agence Française de Développement
AIDS	—	Acquired immune deficiency syndrome
AusAID	—	Australian Agency for International Development
CAAEP	—	Cambodia-Australia Agricultural Extension Project
CARERE	—	Cambodia Area Rehabilitation and Regeneration
CHDR	—	Cambodia Human Development Report
CIAP	—	Cambodia-IRRI-Australia Project
COS	—	Country Operational Strategy
DMC	—	developing member countries
EC	—	European Commission
EdC	—	Electricité du Cambodge
ESAF	—	Enhanced Structural Adjustment Facility
FDI	—	foreign direct investment
GDP	—	gross domestic product
GMS	—	Greater Mekong Subregion
HDI	—	Human Development Index
HDR	—	Human Development Report
HIV	—	human immunodeficiency virus
IMF	—	International Monetary Fund
MAFF	—	Ministry of Agriculture, Forestry and Fisheries
MEF	—	Ministry of Economy and Finance
MOEYS	—	Ministry of Education, Youth and Sports
MOP	—	Ministry of Planning
MPA	—	Minimum Package of Activity
MRC	—	Mekong River Commission

MWVA	—	Ministry of Women's and Veteran's Affairs
NBC	—	National Bank of Cambodia
NGO	—	Nongovernment organization
PIP	—	Public Investment Program
PRGF	—	Poverty Reduction and Growth Facility
RDB	—	Rural Development Bank
SEDP	—	Socioeconomic Development Plan
SMM	—	Strengthening Macroeconomic Management
SRAL	—	Special Rehabilitation Assistance Loan
TA	—	Technical Assistance
UN	—	United Nations
UNDP	—	United Nations Development Programme
UNTAC	—	United Nations Transitional Authority in Cambodia
US	—	United States
VDC	—	Village Development Committee

## NOTES

- (i) The fiscal year (FY) of Cambodia ends on 31 December.
- (ii) In this Report, \$ refers to US dollars.

This COS was prepared by Cindy Houser, Economist, Programs Department (West), with the assistance of Margarita M. Javier, Administrative Assistant. In addition to ADB's country team, including staff from all operations divisions and the Cambodia Resident Mission, a broad spectrum of stakeholders in Cambodia participated in COS development. Representatives from numerous Government agencies, the National Assembly, aid agencies, NGOs, and the private sector provided valuable advice that shaped the final document.

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

Item	1995	1996	1997 <sup>r</sup>	1998 <sup>p</sup>	1999 <sup>a</sup>
<b>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>					
	(percent of GDP)				
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>					
	(annual percent change)				
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>					
	(percent of GDP)				
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)
<b>ENVIRONMENTAL INDICATORS</b>			
<b>Energy Efficiency of Emissions</b>			
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>c</sup>
Industry share of emissions of organic water pollutants	...	n.a.	...
Wood (%)	...	n.a.	5.8 (1997) <sup>c</sup>
Primary Metals (%)	...	n.a.	0.0 (1997) <sup>c</sup>
Paper and Pulp (%)	...	n.a.	3.4 (1997) <sup>c</sup>
Chemical (%)	...	n.a.	3.3 (1997) <sup>c</sup>
Food and Beverages (%)	...	n.a.	59.2 (1997) <sup>c</sup>
Textiles (%)	...	n.a.	24.7 (1997) <sup>c</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)

<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.

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

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

