Cambodia

Country Analysis Paper

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SWEDISH INTERNATIONAL DEVELOPMENT
COOPERATION AGENCY

Asia Department

Table of Contents

Preface

The present report has been prepared as a background document for the process of elaborating a Swedish strategy for development cooperation with Cambodia. It is based on Cambodian Government documents like the Second Socio-economic Development Plan (SEDPII), on Sida reports such as the Country Economic report 2001:1 and special reports on poverty by Per Ronnås, on governance by Pär Sköld, on gender by Hanneke Meijers and Tonie Nooyens, on environment protection by Wayne Gum and on political developments by Kim Hourn. Extensive use has been made of reports by the Cambodia Development Resources Institute (CDRI) on governance, technical cooperation and land ownership. Valuable comments have been made by a number of consultants and Sida staff members. The report has been edited by Gösta Edgren.

Sida
Asia Department
September, 2001

Basic Data on Cambodia

Population (1999) 11.8 million
Surface area: 181,000 sq. km
Population density: 67 per sq. km
Life expectancy at birth: (1999) 53.4 yrs
Per cent of pop. under age 15: 42
Rural population (per cent): 84.3
Annual population growth: 2.49 %

GNP per capita (2000) $ 280
Arable land per capita (1997): 0.34 ha
GDP (USD 1999): 3,000 million
Infant mortality rate (1999): 90 per 1,000
Nutrition: half of children under 5 malnourished
Merchandise exports (1998): $ 320 million

Poverty: 40 per cent of rural population, 25 per cent of urban population live in poverty
Education: 85 per cent primary school enrolment, 36 per cent complete grade six
Households with access to safe drinking water (per cent): urban 60.3, rural 23.7
Households with electricity as main source of light (per cent): urban 53.6, rural 8.6
Adult literacy (age 15 and above): men 57 per cent, women 20 per cent
Human Development Index (1998): ranked 136 among 174 countries on UNDP's list
Government revenue (2000)**:** $ 360 million or 11 per cent of GDP
Expenditure on defence and security (2000): 40 per cent of current expenditure
Expenditure on education and health (1999): 21 per cent of current expenditure
Foreign aid inflows (1998): $ 404 million **Foreign investment** (2000): $ 130 million
Cambodian Riel to the US dollar (May 2001): 3,930
Sectoral shares of GDP (1999, per cent): agriculture 41.9, industry 20.4, services 37.7
Sectoral shares of employment: agriculture 77.5, industry 4.3, services 19.2
Sources: CSES, 1999; MoP, 2001; UNDP, 2001

Executive Summary

After three decades of civil war and violence, Cambodia has experienced a period of relative stability and progress in the years after forming the new government in November 1998. Tensions and rivalry between different power centres still exist, but the accommodation that was reached at that time makes it more profitable for all major factions to settle their disputes peacefully. It has made it possible for the political leaders finally to begin dealing with the unresolved issues of crimes committed during the Khmer Rouge regime. The relative stability has also enabled the government to start preparing a number of badly needed reforms in the legal field as well as in the provision of public services, and it has encouraged the inflow of foreign investment. These developments, together with Cambodia's membership of ASEAN and other international bodies has made the country look more like other states in the region, with development problems similar to those of its neighbours.

At this juncture, Cambodia faces a crucial choice of development strategy for the medium term future. One of the options is an unsustainable pattern of growth, which allows powerful people in the country to disopossess the poor, has a serious effect on the country's natural resources and invites footloose international capital to bid for temporary export quotas in the American and European markets. The opposite option would be a 'pro-poor' strategy, which would protect the access of poor people to land and other resources and would stimulate the growth of small non-farm enterprises through micro-credit and a favourable legal framework. Exports should create jobs and incomes for large numbers of farmers and workers throughout the country and not only in enclaves at the capital city. In its five year socio-economic development plan for 2001–2005 (SEDPII) the Government has committed itself to clear objectives of poverty reduction and suggested elements of a pro-poor strategy, which is very encouraging. But its implementation will require strong commitment both on the part of the Royal Government of Cambodia (RGC) itself and from its donors, without which the pro-poor emphasis has little chance of being maintained.

The development pattern of five years of Cambodia's first Socio-Economic Development Plan (SEDPI, 1996–2000) has not been pro-poor but has had strong elements of predatory behaviour. Overall production growth varied between 4 and 5 per cent per year, except during the political crisis in 1997–98 when investment and aid virtually disappeared and GDP growth stagnated. The Asian financial crisis also contributed to this hiatus. After the crisis year, growth again picked up, in spite of the 2000 floods which were the worst in living memory. But the rather positive GDP growth figures mask a structural change which was not to the advantage of the poor, a pattern which the present study calls 'low-quality growth'. Most of this growth took place in the export enclaves of the capital city, while the increase of production and incomes in the rural areas barely kept up with population growth. The pattern of social and economic development has increased the vulnerability of rural people, women in particular. The country's forests and fish stocks were severely depleted by illegal as well as by licensed exploitation. The effect of the structural change can be seen from consumption data: while the poorest 20 per cent of the population increased their per capita consumption by 1.7 per cent between 1993–94 and 1997, the corresponding increase for the richest 20 per cent was 17.9 per cent.

A similar tendency which will have long term effects can be noted from the silent struggle which is constantly being waged for Cambodia's natural resources. Reports from the courts as well as from research on land holdings bear witness of continuous dispossession of poor farmers, fisherfolk and forest dwellers, who are being evicted by strong-men from the army, the bureaucracy and the emerging business community. This struggle is very uneven, since the law is non-existent or unclear, and where it exists, the citizens are not equal before it. The court system isstill weak and corrupt and the legal framework is not protecting the poor in a sufficient way.

The role of the State in Cambodia needs strengthening, both by building a legal framework for development and human rights and by providing public services to all, not only to the urban population and the better-off. The government has acknowledged the need for continued reform of governance through a Governance Action Plan (GAP), which lays down a very ambitious time-bound programme for fighting corruption, gender equity, decentralising decision-making, improving financial management, public administration reform and demobilisation of large parts of the army. It has also recognised the need for expanding the legal framework and its enforcement through the court system. The fundamental problem of impunity for influential people is also recognised by the GAP, although it is not quite clear how the RGC will put an end to it.

Cambodian civil society is still at an early stage of development. Cambodian NGOs are a phenomenon which emerged in the country after the Paris Peace accord in 1991. Since then, both international and Cambodian NGOs have grown in numbers and are believed to exceed 600. The government takes a very liberal approach to NGOs and particularly welcomes their contributions to development. The financial contributions from NGOs have surpassed those from the UN organisations, and they play an important role in financing for instance public health. Disbursements by NGOs are estimated at $ 78.5 mill for 2001, of which $ 8.5 are disbursed by Cambodian NGOs. This represents a very substantial income in the Cambodian context. These funds flow from many different sources with widely differing agendas. They may not easily be identified with specific foreign interests, but the high rate of external funding nevertheless throws doubts on many NGOs as representing civil society. Nevertheless, the emergence of an NGO sector has brought with it articulate Cambodian individuals who can provide a counterbalance to government by contributing to the policy debate within their areas of specialisation.

Social services have expanded very rapidly during the five years of SEDPI, particularly primary school enrolment, and other services like immunisation made progress. Government expenditure on education and health rose significantly during the plan period. But progress was concentrated in urban areas and benefited mainly the middle classes, so regional differences in access to social services widened. This trend had particularly serious effects as regards the enrolment and completion rates of girls in poor regions, which declined during the plan period. In the case of health services, high user fees and low access in rural areas virtually excluded the poor from the use of government clinics. As a result, child mortality increased during the plan period and the poor access for women to essential services kept maternal mortality at a level which is among the highest in the region.

Cambodia has the highest rate of HIV infection in the region at close to 3 per cent of the adult population. At risk are young female sex workers and growing numbers of soldiers, civil servants and even housewives infected by their husbands. The government is trying to bring about behaviour changes, but the rate of new infections has been rising, and faster than in other countries of the region. Practically all budget resources committed to combating HIV/AIDS are presently contributed by foreign donors, but with the rapid spread of the pandemic it will not be long before it will begin to seriously affect the entire economy of the country, private industry as well as the public sector.

In recent years, the government has taken promising steps towards increasing domestic resource mobilisation. Government revenue has risen from 9 per cent of GDP to 11.8 per cent in 2000. This is still very low even for a low-income economy, but the introduction of a Value Added Tax (VAT) has broadened the tax base, which will compensate for falling customs duties when the Asian Free Trade Area (AFTA) abolishes intra-ASEAN tariffs. There is also a "peace dividend" to be collected from the reduction of expenditure on defence and security from 50 per cent of the total budget in 1996 to 37 per cent in 2000, a source of savings which will be further tapped according to the government's plans. These changes have shifted the current budget from deficit to a small surplus. The capital budget has grown very slowly during the plan period because of difficulties in managing foreign aid projects. The Public Investment Plan (PIP), which had targeted an outcome of 65 per cent invested in rural areas and 35 per cent in urban areas, registered an outcome which was the exact opposite: 65 per cent of public investment occurred in urban areas, with a large portion located in and around the capital city.

With such extremely low domestic resource mobilisation, Cambodia has become highly dependent on foreign aid. Concessional grants and credits from donors and International Finance Institutions (IFIs) amount to 14 per cent of GDP, or one and a half times the government budget. Most of the public investment and three quarters of recurrent expenditure in social sectors are funded by donors. The scale of these flows together with the sometimes rather heavy-handed behaviour of donors have resulted in a dependency syndrome, which makes government authorities cede their initiative to the donors. Donors have their own interests and objectives which may sometimes be difficult to reconcile with those of the government departments. All this contributes to increasing the difficulties of the RGC in piecing together and implementing a comprehensive and focused development strategy. Efforts are being made to deal with this problem through sector-wide approaches (SWAPs).

A major obstacle to any form of 'pro-poor development' in Cambodia is the absence of a clear legal framework and enforcement of the rule of law. The current culture of impunity and legal uncertainty makes it possible for influential people to dispossess the poor. This is particularly harmful to vulnerable groups like women, who are constantly being exposed to domestic violence and disinheritance. It has also led to large-scale destruction of the environment and wasting of natural resources, manifested in atmospheric contamination, surface water pollution, soil erosion and loss of forest cover. Poor communities and smallholders have lost their livelihoods through this predatory pattern of economic growth. The poor will not be able to participate fully in Cambodia's development until the old and entrenched culture of impunity is replaced with the rule of law and equality of all before the courts.

The RGC has ambitious plans to decentralise decision-making to provinces, districts and communes and to "deconcentrate" the power of central ministries. Decentralisation will encompass responsibilities for budgets and for implementing development programmes. There are plans for increasing the authority of the provinces and municipalities in raising additional revenues for development, but the government has yet to formulate a clear policy on this crucial aspect of decentralisation. An important step towards empowering local communities will be taken when the appointed chiefs of Cambodia's 1,621 communes are replaced by elected councillors. The first elections to the commune councils will take place in February 2002 and may present a challenge to Cambodia's newfound stability.

1 Economic and Political Developments

1.1 A period of relative political stability

The violent confrontations between political parties that took place in 1997 showed fundamental weaknesses in the coalition agreement which had been reached after the 1993 elections. Fighting took place in Phnom Penh between different factions of the armed forces and the First Prime Minister fled the country. Aid agencies suspended their programmes and the flow of foreign direct investment stopped. The crisis coincided with the economic recession in neighbouring economies and brought the promising economic growth of earlier years to an abrupt halt.

In compliance with the constitution, fresh elections were held in July 1998. The final disintegration of the Khmer Rouge and mass defections of their soldiers helped providing a more peaceful setting for the elections than had been possible before. Three parties won seats in the National Assembly: CPP with 44.4 per cent of the votes, FUNCINPEC with 31.7 per cent and SRP with 14 per cent. The Joint International Observer Group (JIOG) declared the election process acceptable, and after some hesitation by FUNCINPEC and SRP and negotiations under the leadership of King Sihanouk, a new coalition government between CPP and FUNCINPEC was formed in November 1998. The coalition agreement included a political and economic platform for the new government, which emphasised economic and financial reform, trade liberalisation, reform of government institutions and public administration, and reduction of defence spending. Since SRP remained outside the government, Cambodia for the first time in history got a parliamentary opposition.

The last Khmer Rouge (KR) commanders defected in December 1998, and the RGC took control over the formerly KR-controlled regions. A period of relative stability had in fact begun. In March 1999 the six-year old constitution was amended to establish a senate, a new legislative body which among other things enabled the coalition partners to solve some remaining personality problems .

The formula for cooperation between the coalition partners worked better in the present election period than in the previous one, both because it was based on a clear election result reflecting the actual power structure in the country and because of the disappearance of the Khmer Rouge as a military threat (as well as a temptation to swapping allegiances within the coalition). The Royal Government of Cambodia (RGC) could finally get down to the important business of creating a legal framework for governance and economic development.

After a long period of war and instability, Cambodia has one of the largest standing armies of the region, seen in relation to the size of the population. Demobilisation would seem logical both from a political point of view and with regard to the government budget, which is unable to carry this burden without indirect help from foreign donors. A plan has bee n drawn up to demobilise 30,000 soldiers over a two year period with some donor support for their reintegration in the economy. Problems in securing donor finance are being solved and the programme is supposed to start in the last quarter of 2001.

A question which has been particularly controversial is how the RGC and the political parties should deal with the crimes of the Khmer Rouge (KR) regime. As long as the KR commanded a certain military strength, this issue was shelved by the coalition partners with regard to the risks of renewed civil war. Even when this risk has all but disappeared, it is obvious that a trial would reopen a number of controversies which leaders had agreed to sweep under the carpet in the interest of political stability. Political deals have been made which are difficult to circumvent if the question of past conduct is to be thrown wide open. The government has proposed a model for a national trial with UN participation, and the National Assembly has approved it. Some further technicalities still have to be resolved before it becomes clear what kind of trial will take place and to what extent it will meet the requirements for justice, reconciliation and international standards for dealing with genocide.

The first major challenge to the prevailing political stability will be the upcoming communal council elections, which will be Cambodia's first attempt to build grassroots democracy and to regain confidence and trust from the people through the process of decentralization and local government. A new system of elected councils will replace the present appointed chiefs in Cambodia's 1,621 communes.

The RGC has acknowledged the need for a very thorough reform of governance, introducing the rule of law, accountability of public servants, more effective forms of financial management, decentralisation of authority and a partial demobilisation of the armed forces. The reforms were presented as a Governance Action Plan (GAP) before the May 2000 meeting of the Consultative Group for Cambodia and it has since been submitted to the National Assembly. It contains detailed and time-bound prescriptions for action on the part of various State agencies and bodies (see chapter 3 on Governance). The timelines are often cut very narrowly, which brings a risk that delays may undermine the discipline of implementation. GAP is a very clear manifestation of the Government's determination to make Cambodia a more democratic society by introducing modern principles of governance.

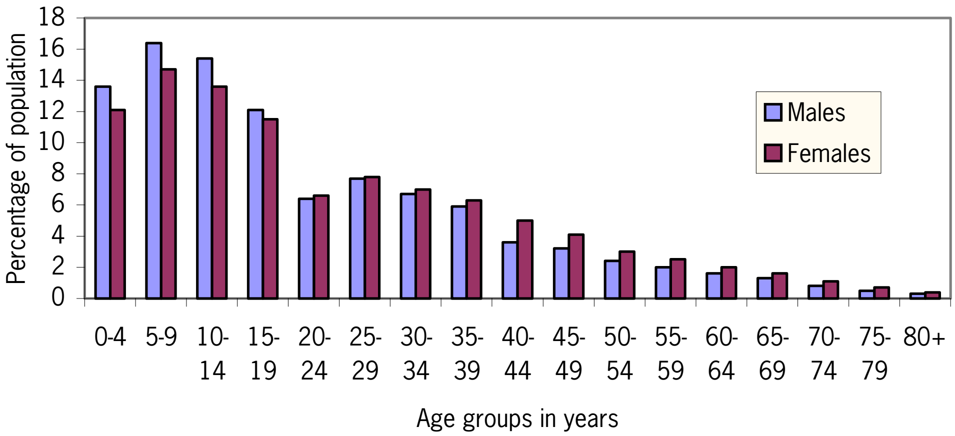
In March 2001 the RGC launched its Second Socio-Economic Development Plan (SEDPII) covering the period 2001–2005. SEDPII sets high but not unattainable targets for economic growth at 6 per cent per year, based on a rate of domestic investment of 18 per cent of GDP. The Plan sets high targets for raising the living standards of the poor, first by specific activities in agriculture, forestry and fisheries involving the poor, and second, by increasing public expenditure in education and health directed at poor families and poor and distant regions. The macroeconomic framework of the Plan is not particularly pro-poor, neither is the Public Investment Plan which will provide the infrastructure for development. The GAP, however, which has been incorporated within the SEDPII framework, is explicitly geared at supporting pro-poor reforms.

The Government has also elaborated an Interim Poverty Reduction strategy Paper (IPRSP), which outlines how the RGC intends to approach the poverty problems by promoting opportunities for work and incomes, creating security through micro-credit and safety nets, strengthening capabilities through public services and generating empowerment through better governance, decentralisation and NGO involvement. The IPRSP was favourably received by the IMF and the World Bank as a basis for their review of the second stage of releasing funds under the Poverty Reduction and Growth Facility (PRGF) in January 2001.

1.2 Population and Labour Force

The Census of 1998 provides the first aggregate numbers on the demographics of present-day Cambodia, and serves as a useful tool for a better understanding of the structure of the national labour force. The total population in 1998 according to the Census is 11.4 million, of which approximately 52 per cent are females (see diagram), and 84 per cent live in rural areas. The age distribution reveals that 55 per cent of the population is less than 20 years of age. More than three quarters of he total population engaged in agriculture, of which as many as 63 per cent live off subsistence agriculture. A third of the urban population also depends on agriculture for its livelihood. There is thus an urgent need to both increase the non-farm employment base as well as reduce the incidence of subsistence agriculture.

Figure 1.1: Age distribution of Cambodia's population by gender. 1998.



During the Khmer Rouge years population growth was negative, but today Cambodia has a relatively high population growth rate compared to other developing countries in the region. Combining the results of the 1998 Census and the 1996 Demographic Health Survey gives a growth rate estimate of 2.49 percent per annum during 1996–1998 (SEDPII, Ch. 4). Among ASEAN countries only Laos has a comparably high figure (2.90 percent per annum).

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

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

1.3 Developments in major sectors

The macro-economic performance of Cambodia has been relatively good in the period since the present government was installed. Real GDP grew at 1.0 per cent in 1998, the same rate as in 1997, and improved economic activity raised the growth rate to between five and six per cent (Appendix table 1). Although the table indicates negative growth rates in agriculture, these figures cannot be justified by the corresponding agricultural production statistics of the Ministry of Agriculture, which post significant increases in both cultivated area and yields of the dominant crops in 1999. The economic recovery of industry owes mainly to the expansion of the garment industry, which, despite quotas by the US, accounted for $598 million of the exports, and increase of construction activity, financed mainly by international bilateral and multilateral assistance. Development in the service sector is accounted for mainly by increased tourism activity, thanks to political stability and security improvement. As a result of these developments, per capita GDP increased to $280 by 1999 after a drop in 1998.

In the 2000 monsoon season, the Mekong flooded more than 600,000 hectares of rice fields, destroying 17 per cent of the total rice-growing land in Cambodia. These were the worst floods in 70 years, killing hundreds of people and depriving many poor families of their livelihood. As will be seen from Appendix Table 1, total agricultural production in Cambodia fell, and the damages were estimated by the RGC to amount to some $70 mill. But since manufacturing production increased quite rapidly, GDP is still estimated to have increased by between 5 and 6 per cent during 2000.

Inflation, which had reached double digits in 1998, as a result of the tumultuous two preceding years, slowed down to 4 per cent reflecting good rice harvests in the region in 1998/99 which put a downward pressure on food prices. During 1999, the riel also depreciated only slightly compared to the high 13 per cent depreciation in 1998, which has also contributed to monetary stability.

The government continues to operate on current and capital account deficits, although the overall deficit has reduced (Appendix table 1). Increased imports in 1999 and 2000 also led to increased trade deficits; however these could be offset by increased Foreign Direct Investment (FDI), increased garment exports, improved tourism etc. External debt has continued to increase; but Cambodia's debt-service ratio is still low and will not be a problem provided economic activity continues to grow steadily in the short run. Although Gross National Savings are still just around 14 per cent of GDP, but the trend is positive, rising from a level of 9 per cent in 1995. It is important to note that both private and public savings rates have been rising (ADB, 2000, p 9).

1.3.1 Agriculture

Agriculture occupies a very important place in the Cambodian economy. In addition to providing employment to about 77 per cent of its population, it constitutes about 35 per cent of the national GDP. Table 1.1 shows the cultivated area and production of the most important crops. Rice heads the list, with over two million hectares and a yield of close to two tons per hectare. The cultivated area and production of all crops except rice declined in 1998–99 but increased in the harvest year 1999–2000. Increased productivity can be seen in all crops in the 1999–2000 period, reflecting improved economic climate in the nation. Lack of adequate irrigation keeps agricultural production largely rain-fed, thereby causing fluctuations in supply of agricultural products. Crop productivity is very low compared to other South East Asian countries. SEDPII (Chapter 7) attributes this to three factors, namely poor soils, a low degree of irrigation and lack of knowledge of new farming technologies. Other factors could also be mentioned, like the lack of infrastructure and the risk aversion caused by high vulnerability of poor farm households (see Chapter 2).

Surpluses of rice production in 1998/99 and 1999/00 were 30,070 and 260,710 tons in milled rice respectively leaving room for increased export of rice. Rice processing facilities and good road conditions need improvement for maintaining the surplus in rice production. Existing rice mills are old and ill equipped to meet the international standards with the result that neighbouring Thai and Vietnamese traders often buy unprocessed paddy from Cambodia to process elsewhere, which means a potential revenue loss to Cambodia.

Table 1.1: Cultivated areas and production of main crops, 1995–2000[1].

	1995–96	1996–97	1997–98	1998–99	1999–2000
			Cultivated area (thousand hectares)		
Rice	2,086	2,171	2,076	2,104	2,157
Maize	52	49	52	40	58.8
Vegetables	42	46	44	38	45
Mung beans	26	28	27	25	29
Soybeans	17	29	33	31	35
Sesame	9	12	17	15	16
			Total production (thousand tons)		
Rice	3,448	3,458	3,415	3,510	4,029
Maize	55	64	67	49	69
Vegetables	193	249	250	217	214
Mung beans	20	14	15	9	14
Soybeans	17	28	34	28	33
Sesame	4	5	7	5	8

Source: Agricultural Statistics (various years). Ministry of Agriculture, Forestry and Fisheries.

Livestock and poultry production also displays the same trend as crop production. The year 1998 saw reduced production of heads of cattle, although poultry production was strong. They have all registered quite a dynamic growth in the year 1999; especially the cattle production making up for the 6.7 per cent decline of 1998. Poultry production was highest in the last five years and is attributed to increased demand from the tourism sector (restaurants etc.).

Fishery production statistics also show that marine fishing is expanding, while the catch of freshwater fish has stagnated because of overexploitation and poor management. Fishing is an important source of livelihood for many rural Cambodians. Kato's (1999) study on landlessness in the village of Kompong Reap, located in a fishing lot describes declining fish in the lots in the 1990s, attributable to the loss of flooded forest and use of illegal and destructive fishing methods such as electric shock, fine-mesh nets and off-season fishing.

Deforestation proceeded very rapidly in the 90s, and the total forest cover fell from 68 per cent of the total land area in 1991 to 58 per cent in 1997. Due to corruption and

[1] Figures based on "harvest years," e.g. June–May.

mismanagement, the government's revenue actually *fell* as one-fifth of its forests were cut down and sold across the borders. Some donors (including IMF) made management reform a condition for continued support, and RGC has subsequently cancelled concessions covering more than 2 mill hectares and engaged an international NGO as an impartial monitor for its reforms. It is difficult to quantify the impact of these changes in view of a very serious lack of data.

1.3.2 Industry

Manufacturing industry constituted about 20 per cent of the national GDP and, according to the Census employed 3 per cent of the labour force[2] in 1998. Although industrial growth slowed in 1997 due to the two crises, it has remained positive and on an upward trend since 1995. Domestic and foreign investment in industry has reportedly not recovered fully, as seen in the number of investment projects approved by the Council for the Development of Cambodia (CDC). In 1999, 95 projects worth $474 million were approved, down by 44 per cent year on year. The FDI inflow stabilized around USD 120–130 mill per year, with a slight rise in 2000.

The dominant sector in the national manufacturing scene is the garment and textile industry, established in 1993 to generate exports, mainly to the US and EU. Although the number of garment industry licenses being issued has fallen, production and exports continue to grow at a rapid rate. The quota agreement with the US allows for an annual increase, conditional on improved labour standards and freedom of association. In the first quarter of 2000, garment exports had risen by 47 per cent, reaching a new record of $195 million. Around one quarter of the sales value of the garment industry remains in Cambodia, three-fourths going to external owners and creditors. The share of wages in total sales was 13 per cent last year, while 7 per cent went to "bureaucracy costs" paid to government officials and 5 per cent to defraying other local expenditure (Chea Huot and Soch Hach, 2001).

According to the definitions used in the national accounts, Industry includes mining, manufacturing and construction. While detailed statistics are unavailable, it is reported that most manufacturing is conducted on a small-scale, informal basis. The growth of small and medium-scale enterprises (SME) in rural areas is constrained by the lack of legislative framework, facilities for micro-credit and physical infrastructure. The fortunes of manufacturing activities such as brick making and ceramics on the other hand are linked to the fortunes and performance of the construction sector. Expansion in the construction sector is reflected in the building of hundreds of new garment factories and in hotel construction.

1.3.3 Services

The service sector consisting of wholesale and retail trade, hotels and restaurants, transport and communication, financial, real estate and business and other miscellaneous intermediation activities, accounted for 45 per cent of the GDP and employed about 17 per cent of the Cambodian work force in 1998. This sector was heavily affected by the 1997 crises with the result its growth rate in 1998 was barely in the positive range, although it performed surprisingly well when we look at the decline of 10 per cent in 1997. In 1999, it grew rapidly at 8.5 per cent, being a major engine for the 4 per cent estimated growth rate of overall real GDP.

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[2] The Census definition of manufacturing industry excludes construction activity.

The tourism sector has also benefited from restoration of stability in the national environment since 1998. The number of tourists arriving at Pochentong Airport in 1998 declined by 18 per cent over the previous year but increased by the same percentage in 1999. Other infrastructure development projects are on the tables, mainly funded by external assistance. For e.g., upgrading the Sihanoukville port with Japanese assistance and provision of technical assistance to the State-run electricity company by France. The ADB has also provided a 1.45 million USD technical assistance grant to improve the regulation and operation of organizations providing micro-finance (EIU 1999).

During the first quarter of 2000, the number of passengers arriving at Pochentong Airport increased 21 per cent over the same period in 1999 but tourist arrivals declined, which is explained by the increase in the number of passengers arriving directly at Siem Reap-Angkor to visit ancient temples.[3]

1.4 Prices and Exchange Rates

The 1998 statistics on prices reflected the adverse impact of the 1997 crises. The Consumer Price Index (CPI) in 1998 rose rapidly until the election, but slowed down in the aftermath. The year-on-year inflation reached its peak at 17 per cent in June 1998 mainly due to extensive hoarding of food by the population and the depreciation of the riel, which led to higher import prices.[4] The inflation rate for the whole year came close to 15 per cent. In 1999, there was a recovery which was attributed to relative economic and political stability, a 10 per cent decrease in the currency held outside the banks and a slight appreciation of the riel.[5] The annual inflation rate for 1999 works out to be a little over 4 per cent, and forecasts for 2000 hold it under 2 per cent. These numbers are to be read with caution, for the CPI is riel-denominated which understates the impact of a dollarized economy like Cambodia. While the extensive dollarization of the economy appears to have helped moderate adverse effects on macroeconomic stability, as noted in the previous Country Study on Cambodia (Chan et al, 1998), it reduces the relevance of the standard (riel-denominated) CPI as an indicator of the cost of living of Cambodia.

The official exchange rate of the riel, set by the National Bank of Cambodia (NBC), follows a market-based exchange rate policy. The extensive dollarisation of the economy has reduced the effectiveness of the monetary policy of the NBC, which therefore has relied on interventions using dollars to smooth the exchange rates, imparting stability to the riel. Overall the riel has been stable, despite the weakening. It also owes to the improved regional economic climate.

1.5 Public Finance

Cambodia's fiscal performance, which deteriorated noticeably in 1998, has shown signs of improvement in recent years in terms of surplus/deficits and the growth of government revenue as a percentage of GDP (Appendix Table 2). The trend before 1998 has generally been one of continuous fiscal and current account deficits, high current expenditure (mainly defence), government revenue constituting 8–9.5 per cent of GDP, a high percentage of

[3] Cambodia Development Review (2000).

[4] Economic and Monetary Statistics Review (1998). No. 62 Dec. 1998.

[5] *Ibid.*

foreign financing and limited recourse to deficit financing. Fiscal adjustment mainly took the form of cuts in non-wage operating expenditures to limit recourse to bank financing. In 1998, fiscal performance worsened with overruns on budgeted defence expenditure. Bank financing of the budget deficit amounted to 125 billion riels and capital revenues dropped dramatically. All these were the lagged effects of the twin crises of 1997. However, in 1999, government revenues grew (as a result of the VAT introduction, increased revenue from import duties and licensing of garment exporters) much more than expenditure thereby creating a surplus on the current account.

When we look at the structure of revenues, except for the introduction of VAT, the relative contributions have not changed much over the last five years. International trade taxes, esp. the import duties accounted for almost 84 per cent of the tax revenue in 1999. The contribution of direct taxes is dismal, owing to the existing economic conditions of Cambodia. In addition to the poor tax base and ad hoc tax and customs exemptions, the government extended the exemption of pre-shipment inspections to garments and cigarettes after the July 1997 events, also resulting in reduced revenues. As an indication that things are improving, the fiscal performance of later years reflects improved collection performance of revenues; governmental revenues constituted 11.2 per cent of the GDP.

On the expenditure side, defence and security has fallen from over 50 per cent in 1997 to 37 in 2000 (Appendix table 2). Expenditures on social sector are increasing their share, although not at the rate foreseen in SEDPI. The adoption of the Priority Action Programme (PAP) is expected to change this state of affairs through early cash advances to provinces and programme managers for expenditure in social sectors (see Chapter 3).

1.6 External Transactions

Cambodia's balance of payments shows a continued trade deficit in 1998–2000. The volume of deficit had reduced in 1997 due to increased garment exports and retained imports, reflecting riel and dollar appreciation during that period. In 1998, the fall in forestry export revenues was higher than the expansion of garment exports with the result that the trade deficit increased slightly. In 1999 and 2000, due to higher retained imports, increased value of oil imports and falling forestry revenues, the deficit widened further (Appendix Table 3).

Coupled with the trade performance, official aid, loans and foreign direct investment (FDI) – all slumped in 1997 due to temporary suspension of foreign aid and the uncertain economic scene. Official transfers and loan disbursements fell further in 1999, although FDI picked up significantly and this caused the overall balance to improve to 24 million dollars, from 14 in 1998. Net foreign reserves have also significantly increased in 1998 and 1999.

The ASEAN countries, mainly Thailand, Singapore and Vietnam are Cambodia's largest trading partners. They accounted for 33 per cent of exports and 38 per cent of Cambodia's imports in 1998. USA is the largest export partner, mainly by way of garment exports, accounting for 37 per cent of total exports. The garment industry accounts for close to 60 per cent of the value of exports, followed closely by cigarettes and processed wood in that order.

1.7 Official Development Assistance

The Cambodian government and economy are heavily dependent on external assistance in the form of both grants (328 million USD in 1998) and loans (75 million USD in 1998).

Comprehensive details of the technical assistance to Cambodia are available only for the year 1998; hence this section will focus on that year.

The magnitude of importance of external assistance is brought out very clearly by Godfrey et al (2000) when they note thus:

> "External technical assistance is one of the Cambodian economy's biggest industries – far outstripping the government's revenue and non-defence current expenditure in recent years and a more important source of foreign exchange than any of the country's major exports."

The scale can be seen in table 1.2 – the numbers in relation to government revenue and tax revenue are extremely high.

Table 1.2: The scale and relative importance of external assistance to Cambodia. 1998.

	Total external assistance[a]	**Technical assistance**[b]
Per head of population	$36	$21
As % of		
GDP	14	8
Government revenue	167	95
Tax revenue	226	129

[a] Total external assistance includes: investment project assistance, budgetary and balance-of-payments support, food aid and emergency and relief assistance as well as technical assistance.

[b] There are two types of technical assistance: free standing (208 million USD in 1998) and investment related (23 million USD).

Source: Godfrey et al (2000), Table 2.1.

Total disbursements of external assistance by bi-lateral, multi-lateral and non-government institutions for 1998 amounted to USD 404 million, an increase of 7.6 per cent from 1997. Development assistance grants amounted to USD 328 million (a 3 per cent decline from 1997) while loans totaled USD 75 million (a 106 per cent increase from 1997). Of these, 33 per cent came from multilateral donors, 53 per cent from bilateral donors and the rest from non-government organizations (Appendix Table 4). In terms of the sectoral distribution, the largest disbursement of external assistance was to the Rural Development Sector (14%), followed by the Development Administration sector (12.4%), the transport/infrastructure sector (12%), humanitarian aid/relief sector (11%), economic management sector (11%), education/HRD sector (9.4%), health sector (8%), agriculture, forestry and fisheries sector (7%), social development (6%) and energy (5%).

External assistance to Cambodia is divided into the following types: free-standing technical cooperation and investment-related technical cooperation (together termed as technical assistance), investment project assistance, budgetary aid/balance of payments support and food aid/emergency and relief assistance. There were no disbursements on the last two types in 1998; the amounts for technical assistance and investment project assistance totalled 231 million USD (mainly grants) and 168 million USD, respectively. The Development Cooperation Report of the Government of Cambodia also notes that many bilateral donor agencies implement their programs either in part or entirely through agencies under the UN system and/or through NGOs.

Most external assistance to Cambodia is grant-based. ODA is very high, particularly in the social sectors where it covers 75 per cent of the recurrent expenditure as well as almost all the capital expenditure. It is heavily concentrated in and around the capital Phnom Penh. Its scale and mode of operation have inevitably led to patterns of dependent behaviour in the administration (Godfrey et al, 2000). Donor agencies in many cases behave as if they own the externally funded programmes, and they provide little incentive for the Cambodian side to mobilise domestic resources for taking over financial responsibility for them. The lack of coordination makes it difficult for the RGC to plan for long term and comprehensive strategies. In recent years, however, the government has made progress towards formulating sector programmes which are likely to engage a number of donors in a sector-wide approach (SWAP) to development financing. Sectors where this may become possible are rural roads, water, education and health.

2 Poverty, vulnerability and access

2.1 The Extent and Pattern of Poverty

Poverty is widespread in Cambodia. About 80 per cent of the population live on a dollar a day or less and are forced to spend most of their income on food, while more than half of the population live on less than half a dollar a day and spend 70 per cent or more of it on food (Table 2.1).

According to World Bank calculations , 36 per cent of the population lived below the poverty line in 1997, while 18 per cent lived below the food poverty line suggesting that their income did not even suffice to secure a minimum food intake. The incidence of poverty was considerably higher in rural areas (40.1%) than in Phnom Penh (11.1) or other urban areas (29.9%). The corresponding figures for 1999 have been estimated by the World Bank to be unchanged for rural residents, while poverty in Phnom Penh dropped to 9.7 per cent and in other urban areas to 25.2 per cent.

Extreme poverty is primarily a rural phenomenon. A Gini coefficient of 0.37[6] suggests that income inequality is far from extreme, but there is little doubt that the coefficient increased in the past decade. A closer look at the income distribution reveals that the majority of the population live either just above or just below the poverty line, while the number living in either complete destitution or in affluence is rather small. Cambodia's poverty profile is rather similar to those of the neighbouring countries in Indochina; Laos and Vietnam. An important conclusion from the clustering of the population around the poverty line is obviously that even rather small changes in incomes (or errors of measurement) are likely to have a substantial impact on the percentage of the population living near the poverty line. One should therefore interpret any changes in poverty, thus defined, with caution.

1. [6] The Gini coefficient measures the extent of income differences. Values close to 1 indicate an extremely uneven distribution, while values closer to zero represent very even distributions.

Poverty is primarily a rural phenomenon, partly because an overwhelming part of the population live in rural areas,[7] but also because the incidence of poverty is higher in rural than in urban areas. To this may be added that much of the urban poverty also has its roots in the rural areas, as it is made up by migrants from rural areas who have moved to cities and towns in search of a better living. All in all it may be estimated that approximately 90 per cent of those living below the poverty line are found in the rural areas, while most of the rest live in urban areas other than Phnom Penh.

Table 2.1. Per Capita Consumption in 1997

	Per capita consumption		
	Riel/day	**USD/month**	**Food share %**
By Quintiles			
First (poorest	796	8.00	75
Second	1,160	11.80	73
Third	1,543	15.70	70
Fourth	2,183	22.20	68
Fifth (richest)	5,435	55.28	62
By Area			
Phnom Penh	5,453	55.46	56
Other urban	2,859	29.08	68
Rural	1,735	17.65	72
All Cambodia	2,223	22.60	69

Sources: Chan Sophal *et.al*, 1998;Ministry of Planning, *A Poverty Profile of Cambodia in 1997,* p. 16.

Poverty is strongly correlated with the size of household. Generally speaking, the larger the size of the household the higher the incidence of poverty. The incidence of poverty increases from 11.2 per cent in two-person households, to 25.3 per cent in four-person households to 43.0 per cent in households with seven members to a staggering 58.1 per cent in households with ten members. Put differently, households with five or more members account for 60 per cent of all households, but for 82.4% of the households below the poverty line. Poverty would also seem to be comparatively more severe in the larger households.[8]

The main reason behind this pattern is clearly the fact that the dependency ratio (i.e. the number of economically inactive household members each working household member has to support) increases with the size of the household. Households with many children are more exposed to poverty because they have more mouths to feed. A conclusion that can be inferred from this pattern is that children are particularly exposed to poverty. It would also seem as though young households are more exposed to poverty than somewhat older ones. While this may partly be due to a larger than average number of children in the younger

2. [7] According to the 1998 census, some 84 per cent of the total population of 11.4 million live in rural areas. The 1997 socio-economic survey, on which most of the analysis above is based arrived at a lower figure (79%).

3. [8] One must bear in mind that these data on household consumption do not tell us how consumption is divided between different members of the household. Other studies indicate that there are significant differences in distribution based on gender, age, kinship etc.

household, another possible factor may be that young households have less access to land and other productive resources.

After years of war and out-migration Cambodia has a high number of women-headed households. In Phnom Penh 25.8 percent of households are headed by a woman, while in rural areas women head 19 percent of all households. (CSES, 1999). The incidence of poverty is somewhat higher among male headed households, 37 percent, than among female heads of households, 33 percent. One possible explanation is that the average age of female-headed households, 50.1 years, is higher than that of male heads of household, 42.3 years, and that the incidence of poverty in Cambodia declines with the age of the head of household beyond age 35–39 years (MoP, 1998). Another explanation for the lower rate of poverty among female headed households may lie in the fact that female headed households are overall smaller than male headed households and have less mouths to feed as a consequence of lower fertility due to the husband's death or absence from home.

Urban female headed households often do not have the safety net of the extended family and additional male earners to make up for the income loss (CSES, 1999). Although there is a declining access to land and other natural resources, rural households may still be able to cover some food and fuel needs from their natural environment. Nevertheless, female-headed households are often among the poorest in the villages. They often lack manpower and have to hire labour for physically heavy work. They have smaller land holdings due to their lower labour capacity, hence also lower yields which do not cover their household's rice need for the year. Small rural female headed households are also more vulnerable to exploitation and disinheritance. Technological changes in agriculture which would decrease the demand for hired labour input may deprive women of a necessary income source (Meijers, 2000).

Land ownership is critical for the rural population, but with the growing population the per capita availability of land is declining. Through inheritance farms reduce in size and get fragmented. When confronted with illnesses in the family many rural families get into debt to be able to cover the costs of treatment. When they are unable to repay the debt the only option often left is to sell their land. This contributes to the increase in landless people. Under the law both men and women have the right to land, and both are required to sign household land ownership papers. However, in many cases land ownership is registered on the men's name only, which can have negative consequences for the women in case of divorce or death of the husband.

As might be expected, the overwhelming majority of the poor derive their living from agriculture. The incidence of poverty is also considerably higher among farmers than among other groups in society. Among the households deriving most of their income from agriculture, almost 44 per cent live below the poverty line, compared to 29 per cent for those living from manufacturing and mining and 18 per cent of the households where the head is working in the government sector. The vast majority of the poor are self-employed. This follows logically from the fact that they also are farmers. However, it deserves to be noted that the incidence of poverty among wage-workers, both in the public and in the private sector, is considerably below the average.

Poverty and poor education go hand in hand. As might be expected poverty is much more widespread among those with none or little education than among those who have benefited from at least five years at school. Roughly 40 per cent of the households where the head has had little or no education (i.e. no more than four years of primary education) live below the poverty line, compared to 24 per cent of the household where the head has gone beyond primary school to lower secondary, and 12 per cent of those with a head with higher secondary education. Dropout rates are very high in Cambodia. It can be estimated that close to 40 per cent of those who commence primary education fail to complete it and in most instances do not obtain basic literacy and numeracy skills (Chan et al, 1998). One of the most important dividing lines separating the poor and the non-poor is drawn between those who have completed primary school and those who have not. The risks of poverty and unemployment are highest below this line.

2.2 The Causes of Poverty

Poverty in Cambodia is a man-made phenomenon *par excellence.* In contrast to other countries in the region such as Vietnam, Bangladesh, Nepal or much of China, Cambodia has no history of being caught in the iron grip of extreme population pressure on land. On the contrary, Cambodia is relatively well-endowed with land and other natural resources and has historically been one of the more prosperous countries in the region. Comparisons with Thailand are in this regard thought-provoking, as the culture and resource-endowment of these two countries are rather similar and as they were at roughly the same level of development after World War Two and would have seemed to share the same development potentials. Yet, fifty years down the road, the differences in development between the two countries are glaring.

Some structural causes of widespread poverty in contemporary Cambodia can be identified.

- The devastating legacies of civil war and the Khmer Rouge period.
- Demographic factors.
- The low quality of economic growth in the past two decades, resulting in inadequate employment creation.

2.2.1 The Legacies of Civil War and the Khmer Rouge

As a consequence of the involuntary involvement of Cambodia in the Indochina war in the early 1970s, the Khmer Rouge period, and the subsequent international isolation and civil war, Cambodia was bypassed by the Green Revolution in agriculture and by the dynamic overall economic development of much of East and Southeast Asia in the past decades. More importantly, the Khmer Rouge period in particular effectively destroyed the basis for future development.

- The human resource base was largely destroyed. The system of education and health care was ruined, with consequences for generations to come. Widespread physical extermination, famine and diseases resulted in a dramatic decimation of the population. The Khmer Rouge period also left deep psychological scars among the surviving population, that have yet to be overcome.

- The war and its aftermath left negative effects on the status of women, both by exposing them to violence and by producing a large demographic imbalance in age groups above 40.

- The physical infrastructure was largely destroyed, including roads and communications, electricity networks etc. Not least the destruction of the road network has hampered subsequent rural development severely.

- Institutions, both formal and informal, were destroyed. Formal institutions, such as government structures, the judiciary, financial systems etc. were completely destroyed and had to be recreated from scratch. More informal institutions, such as markets, kinship and village-based networks etc. were also largely destroyed, resulting in a fragmentation of society and greatly increased vulnerability to the individual.

The task of reconstruction after the Khmer Rouge period was truly awesome. It was made all the more difficult by the lingering civil war and the international isolation imposed on Cambodia throughout the 1980s.

2.2.2 Demographic factors

Demographic factors interacted with other predicaments to undermine living standards. As a sense of peace and security was reinstalled in Cambodia in the 80s, birth rates increased dramatically. It is estimated that Cambodia's population increased from 6.5 million in 1980 to 9.1 million a decade later. While a part of the increase resulted from the return of refugees, the bulk of the increase was clearly due to increased birth rates. The savage decimation of the population during the Khmer Rouge period, combined with very high birth rates in the 80s resulted in a very skewed age structure and an extremely young population. By 1995, it was estimated that 45 per cent of the population was under the age of 15.

The very rapid increase in the number and proportion of children in the population also implied a rapidly increasing dependency ratio. In other words, each income earner had to support an increasing number of dependants. This had a generally depressing effect on per capita incomes and under the circumstances it would have been very difficult to mitigate poverty. Very high increases in labour productivity and incomes would have been needed to off-set the impact of the increasing dependency ratio, let alone to result in higher per capita income and reduced poverty. There is convincing statistical evidence (Meijers and Nooyes, 2001) of the strong relationship between the dependency ratio and poverty at the household level. The same correlation no doubt also applies at an aggregate national level. This period of increasing dependency ratio lasted from the end of the Khmer Rouge period until the first half of the 1990s.

2.2.3 Low quality growth

As the large number of young people born in the aftermath of the Khmer Rouge period began to enter the labour force, the stage should have been set for rapid economic growth and improvements in living standard. Furthermore, the rather equal distribution of land resulting from the decollectivisation of agriculture provided a unique basis for a broad-based economic development. The failure to achieve a broad-based economic growth and to substantially alleviate poverty in the 90s must to a large extent be ascribed to the 'low quality' of economic growth in the sense of its generating insufficient income opportunities for the poor. There was also a rather limited success in redressing the legacy of the Khmer Rouge Period in terms of human resources (education and health care), physical infrastructure (particularly in rural areas) and institution-building.

A study of the years 1993/94 to 1996 suggests that while GDP increased by close to 20 per cent over the period, total labour productivity fell by 5 per cent. In agriculture, where the bulk of the labour force, is found labour productivity fell by 16 per cent (Chan Sophal et al 1998). Despite a massive concentration of investments to the non-farm sectors and very rapid growth of production in the manufacturing and services sectors, the share of the labour force in these sectors would actually appear to have declined. This apparent contradiction was (and remains) primarily the result of a very rapid increase in the labour force, but also rather low labour absorption in the main growth sectors. In other words, the economic growth has been inefficient in generating employment and, by extension, incomes.

The rapid growth of the labour force, which started in the mid-1990s as the large population cohorts born in the 1980s began to enter the labour force will continue throughout the present decade. It should be underscored that the rate of growth of the labour force is exceptionally high, from both an historic and an international perspective. Between 1993 and 1998 the labour force grew by 745,000 people from 4,235,000 to 4,980,000, that is by 3.2 per cent per year. Between 1998 and 2003 the growth labour force is expected to increase by close to a million people, to 5,970,000, that is by four per cent per year (Ramamurthy et al 2001). To put this figures in a perspective, it can be noted that the entire manufacturing sector, which has received the bulk of economic investments in the past year and which has been put forward as a main engine of growth, employed a total of 150,000 people in 1998, that is less than one year's increase in the labour force. The overwhelming majority of the new entrants into the labour force are channelled into agriculture, for lack of alternatives, at the same time as agriculture remains largely subsistence based, characterised by low returns to land and falling returns to labour.

2.2.4 Mechanisms of pauperisation

While a rapidly increasing labour force and population combined with a low-productivity subsistence-based agriculture provide the main ingredients for sustained poverty, the main mechanism of rural impoverishment can be described as follows.

In the absence of non-farm employment opportunities, the population pressure on land and the labour/land ratio are increasing rapidly. Land distribution following the decollectivisation of agriculture resulted in widespread and fairly even possession of land. However, the average holding size per household was not very large and there were large regional variations. With stagnating returns from agriculture and in the absence of non-farm income opportunities, population pressure gradually pushes the majority of the rural population into poverty and reduces the scope for production beyond subsistence needs. Intergenerational shifts result in fragmentation of already small holdings, as land is divided between several heirs. The results more often than not are farms that are too small to provide an adequate source of employment and income for the new household.

In addition to the forces which reduce the opportunities of the rural poor, there are forces which tend to marginalize some parts of the rural population, such as women, orphans and certain ethnic minorities. The case of women is particularly noteworthy, since their roles in society and households seem to be far more constrained than in neighbouring countries. Old cultural factors seem to have combined with the legacy of the war to produce these negative effects.

The 1997 socio-economic survey suggests that some 40 per cent of the rural households had no more than half a hectare of agricultural land (table 2.2).[9] Some 81 per cent of the households in this category derived their main source of income from agriculture. Assuming that most of the land is used for paddy cultivation, such a farm can be estimated to generate at most 75–100 days of work per year, a mere fraction of the 400–500 days of available

4. [9] An additional 12 per cent were landless.

labour given two able-bodies adults per household. With an average production of 1,800 kg of paddy per hectare, the amount of rice produced would be barely enough to support a household of five members (which the same survey found to be the average size of household for this category of holdings), let alone provide a surplus for sale to generate income for other expenses.[10] In the absence of markets, roads, secure property rights and credits, and severely handicapped by inadequate literacy and numeracy skills, the individual household is caught in a poverty trap from which it cannot escape and which, through demographic pressure, will only get worse.

Table 2.2 Land Distribution

	% of households	% of agricultural land	% of households deriving main source of income from agriculture
Landless	12	0	20
>0 – 0.5 ha	40	13	81
>0.5 – 1.0 ha	25	20	82
>1.0 ha	23	70	84

Source: NIS, Report on the Cambodia Socio-Economic Survey 1997.

There is convincing evidence that agricultural holdings are not only becoming increasingly fragmented, but also differentiated in terms of size. Little more than ten years after the decollectivisation, which ostensibly resulted in a fairly equitable holding pattern, it can be seen that large differences in holding size has appeared. By 1997 some 23 per cent of the rural households, holding on average more than one hectare of land each, controlled some 70 per cent of all agricultural land, while the 52 per cent of the households with least land controlled a mere 13 per cent of the land. Similar processes are at work with regard to fishing rights and the access to forests (See Chapter 4). The processes are driven by the interests of wealthy individuals who are using their influence over the administration and the courts to evict the poor from the assets from which they draw their income. Distress sale of land to finance medical bills is an even more important cause of poor peasants leaving their land.(Oxfam 2000a). A rapid process of pauperisation is obviously taking place in the countryside.

Pauperisation is facilitated by the absence of microcredit facilities for the rural poor. The 1997 socio-economic survey found that some 42 per cent of the landless and near-landless rural households[11] are indebted. Second to relatives and friends, private money-lenders are the most frequent source of loans. Some NGOs have initiated rural micro-credit schemes which are still at a fledgling stage. Most loans are taken to cover household consumption needs (that is mainly to cover a food shortage until the next harvest) or to meet emergency needs, that is primarily unforeseen medical expenditures. With interest rates charged by private money lenders often exceeding 100 per cent, and in view of the fact that most loans taken by the poor are 'distress loans' it is clear that the rural credit market in Cambodia

5. [10] With a paddy – rice conversion rate of 0.62, the rice production per capita would be 220 kg, which is slightly above consumption needs.

6. [11] Near landless defined as holding >0 – 0.5 ha of land.

today does not provide a source of capital for the poor by which they may be able to increase their productive capacity, but a source and a mechanism of impoverishment.

2.3 Vulnerability and Poverty

Although poverty and vulnerability tend to go hand in hand, there are reasons to specifically address the issue of vulnerability in Cambodia. Largely as a consequence of its turbulent past, vulnerability, and its antonym human security, would seem to attain a special significance in Cambodia. Vulnerability is arguably more of an issue in Cambodia than in many other developing countries. It follows not only from a lack of command of resources – characteristic of poverty – but also from a perceived or real lack of control over one's own situation and excessive exposure to unpredictable external forces and circumstances, over which one has no control.

Major factors behind vulnerability in Cambodia include:

- abject poverty;
- lack of education, literacy and numeracy skills; particularly in the case of women
- inadequate enforcement of the rule of law and protection of personal and property rights, violence against women, a lack of "voice" among the poorer segments of the population;
- weak government and other formal institutions;
- inadequate access to affordable basic health care;
- weak informal institutions, social networks and social cohesion;
- the trauma and psychological scars left behind by the Khmer Rouge period.

While the majority of the poor are also vulnerable, the latter also include significant groups whose incomes may not always fall below the poverty line, such as:

- Female-headed households, where the absence of a spouse increases vulnerability and raises special concerns about old age;
- Children, many of whom contribute to the family income through work which endangers their future capabilities;
- Sex workers and other categories of workers exposed to particular risks and hazards;
- Foreign migrants in Cambodia (e.g. Vietnamese) as well as Cambodian labour migrants in Thailand and other neighbouring countries, which are often extremely vulnerable due to the lack of legal rights and protection.
- Ethnic minorities, particularly those living in remote areas
- Internally displaced persons.

In the context of a poverty reduction strategy there would seem to be two fundamental reasons for also specifically addressing the issue of vulnerability. Firstly, because vulnerability is a weakness in the social fabric which must be removed in the interest of society at large. The most vulnerable groups in society deserve special attention irrespective of whether or not they fall beyond the poverty line.

Secondly, vulnerability in itself is an obstacle to economic development and poverty reduction. It tends to make people very risk adverse and also to assume an excessively short time perspective (rather a bowl of rice today than the prospect of ten tomorrow). As a consequence it is detrimental to calculated economic risk taking and entrepreneurship, which by necessity must be a key component in a broad based economic development. Hence, it may be argued that an effective poverty reduction strategy should pay special and explicit attention to the issue of vulnerability.

2.4 Access to social services

In spite of strenuous efforts by the Government and local communities during the 80s to rebuild the education system that was destroyed by the Khmer Rouge, lack of resources and a rapid growth of school age population led to a levelling-off of enrolment towards the end of the 80s. Beginning in 1993, there was a transition from emergency relief to reconstruction and development, and enrolment expanded faster than population and in 1997 the gross primary enrolment had risen to 95 per cent. The net enrolment in the 6–11 age groups was around 80 per cent, dropping sharply after age 11. During the second half of the 90s – the duration of SEDPI – educational expenditure in current Riels doubled and net primary enrolment increased to 86 per cent.

The quality of primary education is still very low, however, particularly in remote rural areas. The average number of students per teacher in the poorest areas is close to a hundred, more than twice as high as in richer areas. School enrolment is lower among children from poor families, and lower among girls than boys. Although gross primary enrolment has increased steeply, the net primary enrolment in rural areas is still around 55 per cent.

Cambodian women are significantly disadvantaged in relation to men with regard to literacy. Adult literacy rates are much higher for men, 82.9 percent, than for women, 61.1 percent. Nearly one third, 28.8 percent, of the population above 15 years of age is illiterate. More than one in three persons aged over 25 years has not attended school and of these, 73 percent are women The divide is not only by gender but also by geographic area and economic strata with the urban population and the better off having more education than the poor and people in the rural areas. Behind this difference lies old prejudice against giving education to girls because of its presumed low economic returns to the family, an attitude which makes enrolment very sensitive to both the quality of teaching and the distance of the school from home.

The proportion of girls at primary level is as high as 46 per cent in the lowest grades but drops off rapidly towards one-third in secondary grades. Behind these discrepancies are the high private costs of schooling. The cost of one child in primary school takes up a quarter of non-food spending per capita in the poorest quintile, while a child in lower secondary school takes up 57 per cent of non-food spending (World Bank, 1999). Education is simply not affordable for poor families.

The RGC set ambitious targets for its first socio-economic development plan in 1996–2000 in terms of increasing enrolment and reducing the drop-out rates. An exceptionally rapid growth of primary school age cohorts together with a lack of control over the budget process made those targets unattainable. The targets for SEDPII are also ambitious but perhaps more realistic. The plan is based on the Education Ministry's Education Strategic Plan (ESP) which is markedly pro-poor. It aims to increase the number of schools and teachers in rural areas and to reduce the private education costs to families so that primary education becomes affordable. Past experience shows that poor families are perhaps more sensitive to the quality of education than to the level of school fees. The enrolment rate for girls is particularly sensitive to the two factors of quality and distance. One of the most important dividing lines in Cambodia's income distribution goes between those who have and those who have not completed primary education, and even the poor are prepared to invest in education if it meets basic quality requirements.

In the case of public health services, the situation is even more desperate. Although improvements have been made after the Khmer Rouge period, Cambodia's health system is still among the poorest in the region. In some parts of the country there are no public health services at all. While investments have been made in extending the network of health centres, service ability is uneven and only a portion of new facilities are fully financed, staffed and equipped. Because of lack of access to public health facilities and the user charges at public clinics, 40 per cent of the poor avoid seeking treatment for illness. Those who do seek treatment are evenly distributed between self-medication, private and public clinics. Health care costs constitute more than 40 per cent of non-food consumption expenditure by poor households. In theory, government clinics are authorised to waive fees for poor patients, but in practice waivers are more common for wealthy patients than for the poor (World Bank, 1999). To pay for treatment when they are taken ill, the poor have to sell land or other property. Thus, illness is an important factor behind pauperisation in Cambodia.

Women face special health problems related to motherhood and reproductive health. The maternal mortality rate is estimated to be 473 per 100,000 live births. The UNFPA country population assessment, quoting a UNICEF report from 1999, states that this might be a underestimate. Maternal deaths are mainly caused by unsafe abortion, eclampsia and haemorrhage, compounded by malnutrition and anaemia. Factors contributing to mortality among women of reproductive age in Cambodia include complications related to pregnancy and childbirth as a consequence of frequent, closely spaced pregnancies, failure and/or inability to obtain assistance from qualified health personnel, inadequate technical capacity of health personnel, and inaccessibility or poor quality of health services. In addition it is estimated that each year more than 20,000 women in Cambodia experience obstetric complications that will result in morbidity or life-long disabilities, including infertility (UNFPA, 2000).

Infant mortality at 95 per 1000 live births is the highest in the region, as is the prevalence of TB and HIV. The nutritional status of children is the poorest in South East Asia. Despite high morbidity, more than three-quarters of the diseases in Cambodia can be prevented or controlled.

The Ministry of Health is launching a National Health Policy Strategy and a master plan for the SEDPII period, with an emphasis on improving rural health facilities and providing affordable services for the poor, in particular for women and children. The strategy will involve both the private and the public health services. More effective methods for exempting poor people from user charges will be developed (SEDPII, Chapter 12).

3 Governance and public administration

Cambodia is a constitutional monarchy where the power is supposed to be shared between the parliament, the government and the judiciary. In practice, the Prime Minister holds most of the power, while other institutions of the State havestarted to test the possibilities formally given to them by the constitution. Civil society and media are formally free to engage in debate about policy but in reality they have to avoid provoking repression. Corruption permeates all transactions, and official violence is rarely investigated and punished. Since the events of 1997, Cambodia's governance has made some noticeable progress, although the road to a state of good governance and the rule of law is still very long.

3.1 The structure of governance

Cambodia's present constitution dates back to 1993, after the UN-organised elections. Although this constitution is straightforward enough in defining the roles of all the different powers and organs of State, in practice there are still many practices, statutes and traditions which originate in the earlier incarnations of the Cambodian State. Those were the French protectorate, traces of which are still very much in evidence, the 1953–70 Kingdom of Cambodia under Prince Norodom Sihanouk, the 1970-75 Khmer republic of General Lon Nol, the 1975–79 Democratic Kampuchea of Pol Pot and the Khmer Rouge, the 1979-89 People's republic of Kampuchea backed by Vietnamese troops and civil administration and the 1989–93 State of Cambodia supported by the Transitional UN Authority (UNTAC). The recurrent changes in the legal and institutional framework have left behind them a sense of flux and instability, and some of the earlier regimes have left their imprint on present attitudes and practices. In discussing governance in Cambodia, it is necessary to examine not only laws and directives, but also how they are applied in real life.

The Constitution gives the legislative power to the *National Assembly,* to be elected through general suffrage in which all Khmer citizens have a right to establish political parties. In 1999 the Constitution was amended to establish a *Senate,* another legislative body whose members are appointed by the political parties in the National Assembly. Although the Senate was established in order to solve an acute problem of party politics, it seems that it is beginning to find its role as a constitutional watchdog. It has also taken up complaints from citizens about land grabbing (Kato et al, 2000).

The National Assembly works through a Permanent Committee and nine standing commissions. Most of the commissions correspond to ministries in the government, except the one on Protection of Human Rights and Reception of Complaints. The National Assembly and the Senate hold the primary legislative power under the constitution and have the right to initiate legislation and to amend laws. In practice, this role is performed exclusively by the Government. The two legislative bodies examine and discuss the government's proposals, but they very rarely amend them and they have not so far changed any allocation in the government's budget proposals. Their technical capacity is insufficient for in-depth scrutiny of government bills, and they have yet to test the political currency of their formal mandate.

The *King* is a constitutional monarch and is appoint for life. Future kings will be appointed by a Royal Council of the Throne, which includes major stakeholders in the body politic and the two Buddhist churches of Cambodia. King Sihanouk would command some political strength of his own but has limited his role to the not unimportant one of symbolising the unity of the State.

The *Council of Ministers* is the government of Cambodia. It is led by the prime minister, assisted by two deputy prime ministers, and 24 ministers which are head of line ministries. The executive branch (RGC) is by far the largest and most powerful among the three branches of government. It employs 163,000 regular staff of the civil service and 210,000 of the military and security forces and it controls the budget for both civilian and military expenditure without much interference from the legislative branch. It also controls ODA, which represents a value of three times the total non-defence expenditure of the government. The government also exercises a dominating influence on the judiciary, both through direct influence over the courts and by controlling their budget.

More than any other institution, the *judiciary* was seriously decimated by massacres and exodus. During the 80s, attempts were made to fill the need for judges and prosecutors with teachers, who were the only major group left with any education. Only one-third of Cambodia's present judiciary have a legal education. Centralised socialist principles were introduced which placed the Ministry of Justice in firm control of the courts, including the appointment of judges. The whole court system is permeated by corruption, and judges command very little public respect. The lack of fair legal process represents a serious impediment to development in Cambodia.

The most articulate expressions of Cambodia's *civil society* come from the private sector enterprises and the Non-Governmental Organisations (NGOs). The growth of private enterprises since 1989 represents a dramatic change, not only through its effect on markets but also through its influence on the coalition of interests from which the present government derives its power. Private interests have integrated with those of military strongmen and politicians, which has opened further opportunities for accumulation. Legislation enacted in 1994 to attract foreign direct investment (FDI) was initially very successful, but the events of 1997 in tandem with the Asian economic downturn reduced FDI to a trickle. More rapid growth of private investment is hampered by an almost total lack of legal framework for doing business in Cambodia. A number of new laws have been submitted to the National Assembly to start building such a framework.

NGOs are a phenomenon which emerged in Cambodia after the Paris Peace accord in 1991. Since then, both international and Cambodian NGOs have grown in numbers and are believed to exceed 600 (Kato et al, 2000). The government takes a very liberal approach to NGOs and particularly welcomes their contributions to development. The financial contributions from NGOs have surpassed those from the UN organisations, and they play an important role in financing for instance public health. Disbursements by NGOs are estimated at US $ 78.5 mill for 2001, of which $ 8.5 are disbursed by Cambodian NGOs. (CCC et al, 2001). Roughly 30 per cent of this would be direct grants from bilateral and multilateral donors with the remainder coming from other, mainly external, sources. This represents a very substantial income in the Cambodian context. The funds flow from many different sources with widely differing agendas and may not easily be identified with specific foreign interests, but the high rate of external funding nevertheless throws doubts on many NGOs as representatives of civil society. Nevertheless, the emergence of an NGO sector has brought to the fore a number of Cambodian individuals who can provide a counterbalance to government by contributing to the debate within their areas of specialisation.

The *media* are less restricted by laws in Cambodia than in other countries of the region, and plenty of newspapers are published, representing a variety of opinions. The ether media on the other hand are firmly under the control of the Ministry of Information. Press and broadcast media have in many cases raised issues which have provoked heated public debate. There may be a latent risk of government repression based on a legal clause protecting the State against "harm to national security or political stability", and incidents of unofficial violence have cautioned journalists against open confrontation. There are also problems with the quality of reporting (Edman, 2000). Many journalists lack training for their profession, and some accept bribes to write well about powerful people, institutions or enterprises. The cadre of trained journalists is growing, however, and the standard of reporting is improving.

3.2 Some critical issues of governance

There is wide agreement among political stakeholders in Cambodia and the donor community that Cambodia's institutions and management systems must change if they are to provide an appropriate base for economic and social development. A comprehensive study of both institutions and processes was undertaken last year by CDRI, commissioned by ADB (Kato et al, 2000). The list of necessary improvements suggested by CDRI comprises all areas and branches of governance. The study points in particular at the lack of accountability, and of institutions like audit boards and inspectorates which can maintain discipline and integrity and counteract corruption. It also warns that the low competence of the judiciary and its somewhat unclear links to the police and the Ministry of Justice make it impossible to provide a legal base for socio-economic development, let alone for justice and fairness. Civil service salaries are too low for anyone to exist on, but the competence of many civil servants is also very low. The government's inability or reluctance to raise sufficient revenue for maintaining State institutions has made it highly dependent on foreign aid even for recurrent expenditure. Its systems for managing resources and for taking policy decisions are too centralised and cumbersome to allow effective implementation of its development programmes.

These flaws and weaknesses have effects which are potentially very harmful. One such case is the growing number of disputes concerning land ownership. While in principle the State owns all land, individuals can acquire the right to use it. At present, only 10–15 percent of rural families hold legal land titles, while the majority hold land based on unofficial rights distributed after decollectivisation during the last years of the 80s. The consequent insecurity of tenure discourages investment, particularly in the irrigation infrastructure needed to improve productivity in rice cultivation. A new Land Law was passed in 2001 by the National Assembly and will hopefully provide an urgently needed legal framework.

There are also issues of landlessness (13 percent of rural, and over 20 percent of single female-headed households own no cultivable land); land grabbing; loss of land-based government revenue; encroachment on forest land and fisheries habitat; and uncontrolled growth of informal settlements. Over 75 per cent of those accused of land grabbing are either officials or the military, and the success rate of the poor is generally low. It was reported to be 20 per cent in a study of five Provincial Land Dispute Settlement Committees (Oxfam, 2000).

Similar governance problems occur in the forestry and fisheries sectors. Communities which are dependent on forest resources for their subsistence have become marginalized, and even if there is currently a moratorium on the allocation of new forest concessions, other forms of encroachment are continuing. In the fisheries sector, there is a widespread trend of violent conflict between local communities and fishing lot operators characterised by armed violence and an absence of formal mechanisms to address confrontations of this nature (Gum, 2001). The lack of governance is undermining the very fabric of society.

3.3 The Governance Action Plan (GAP)

To give credibility to its development strategy among donors and domestic stakeholders, the government launched a comprehensive governance reform programme just ahead of the Consultative Group meeting in May 2000. The *Governance Action Plan* identifies two categories of governance reform that are critical to development prospects. The first category includes five cross-cutting areas:

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

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

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

The GAP presents a preliminary, timebound action plan aimed at improving the governance environment as defined by the above seven issues. During the first few years, the Government will give priority to six actions:

- The establishment of "priority groups" of civil servants, who will be selected in a transparent manner and held to stringent performance standards corresponding to their financial remuneration. The aim is to demonstrate the benefits of new rules and more efficient organizational practices, especially the enhancement of service delivery.
- The further democratisation of Cambodia through decentralisation/deconcentration of government and public service delivery. The communal elections planned for early 2002 are central to this process.
- Acceleration and better coordination of State reform, especially in areas affecting government revenue and expenditure flows.
- Acceleration of legal and judicial reform programmes through donor-assisted and participatory articulation of a National Programme for Judiciary Reform.

- Further development and implementation of a comprehensive Governance Action Plan of prioritised initiatives, with active involvement of all stakeholders.
- Establishment of partnership arrangements with all stakeholders aimed at ensuring effective implementation of the Governance Action Plan.

What the GAP proposes is nothing less than a complete metamorphosis of the Cambodian State, and it proposes to complete this change within a period of less than five years, before the completion of the second socio-economic development plan (SEDPII). While the time table is clearly overoptimistic, the implementation matrix of the GAP is very precise in assigning responsibilities for each step that will have to be taken to reach the targets. Its implementation and follow-up have been entrusted the inter-ministerial Council for Administrative Reform (CAR). If the Council takes its job seriously and it keeps up the pressure on all the numerous agencies involved, it may be possible to move quite far in the right direction. The National Audit Authority has recently been established and will play a key role in making GAP a reality.

3.4 Public administration reform and decentralisation

The Cambodian civil service is not oversized in relation to its tasks or to the size of the population. Cambodia has 1.5 civil servant per hundred population, which is comparable to the levels in other poor countries in Asia. The wages of all the 163,000 civil servants claim less than 1.5 per cent of GDP, which is on the low side even for poor countries. The average monthly wage per civil servant in 1998 was estimated by the CDRI study to be $24, not enough to raise a family above the poverty line. The most pressing problem in the civil service is hence not quantity but quality. The decimation of wars and upheavals has left its mark on the senior ranks, and once this turbulence was over, low salaries and unattractive working conditions made it difficult to recruit better trained and motivated staff.

Almost half of all civil servants are employed by the Ministry of Education, and 12 per cent by the Ministry of Health. Agriculture and local administration each have around 6 per cent of the total. This indicates that a large number of public sector employees work in development-related lines of activity. A fairly large share of them are concentrated to the capital or to major provincial capitals, except in the case of teachers and medical staff.

Earlier efforts at civil service reform have failed, partly because of the political rivalries prior to the 1998 coalition and partly because of inertia among long-serving staff members who were brought up under other regimes. Reform programmes supported by external donors and by IFI conditionality have set unrealistic targets and have produced rather meagre results in terms of raising the effectiveness of the service. The interest of government agencies involved has focused on the aid money that could be drawn from the donors rather than on the operational targets of the reform exercise.

A positive aspect is that over time, the government's objectives have become clearer and its sense of ownership the of public administration reform concept has grown. Reform will have the overriding objective of improving effectiveness in service delivery and it will entail three major lines of action, namely

- Increase *civil service remuneration*, starting with the salaries of certain "priority groups" which will be held to more stringent standards of performance than before

- Reduce the *overall size of the civil service* by eliminating functions which are redundant or have become so through decentralisation/deconcentration

- *Decentralise and deconcentrate* decision-making from central government ministries to the local administration, as close as possible to the beneficiaries of the government services.

The government has undertaken a census of civil servants and a study of its different functions. A revision of wages, which is by far the easiest of the three steps, is under preparation. Like in so many other countries which have tried to “down-size” its civil service, it is probable that staff reductions will be small and rather cosmetic.

The plans for decentralisation have been criticised for being vague and poorly supported by administrative infrastructure in the provinces. (SAT 2001). Through “deconcentration” the RGC intends to bring decision-making closer to the people who are to be served. . Since the problem of decentralisation is not in the numbers but in the capabilities, the most difficult step will be to raise the quality of provincial and district level staff and to devolve a very entrenched centralised power to the local authorities. Since 1996, the government has piloted decentralised decision-making and local level capacity building through the SEILA programme, supported by UN agencies and bilateral donors. SEILA has so far been very successful in implementing development projects and has contributed to engaging communities and government staff in jointly improving local governance. The SEILA model will be applied at national level in pace with the government’s decentralisation efforts.

In 2001, Cambodia will be organising its first elections to establish local representative bodies in its 1,621 communes. The pressure is mounting on the local administration, both from the highest level of government and from the donors. There is a risk that implementation of decentralisation initiatives will outpace the necessary training programmes for local officials (Kato et al, 2000). A recent report from the CARERE project, a precursor of SEILA, stated quite bluntly that “nothing in the experience of a Cambodian local official prepares him for the organization and management of participatory rural development” (Charny, 1999). The RGC’s determination to make its administration more decentralised is very strong, however, and there is no reason why the initial problems should not be gradually overcome.

3.5 Reforming public finance

As mentioned above, the GAP envisages reform of public finance both regarding revenue collection and the management and public control of expenditure. Cambodia ranks as one of the lowest in terms of public revenue in relation to GNP in the region. Total public revenue remained at levels around 8–9 per cent in the late 90s, four fifths of which was contributed through customs duties. In view of tariff reductions agreed under AFTA, this is a source which will give declining revenues in coming years.

Cambodia’s tax legislation will in principle provide a legal base for collecting more revenues, but the tax administration is weak, and those who should pay the most are also those who are most capable of persuading tax collectors to leave them alone or at least grant them large exemptions. Revenues from forest concessions is another financial source which has been virtually untapped because of political interventions and corrupt practices. Line ministries have rented out or sold public assets without transferring the proceeds to the Treasury.

A Value Added Tax (VAT) at a rate of ten per cent was introduced in 1999. It has gradually increased indirect tax collection, and taxes have for the first time surpassed customs duties as the number one domestic revenue source. The Ministry of Economy and Finance has employed more tax officials and trained officials at the Audit Office. The government has also declared its intention to clamp down on customs evasion and smuggling.

On the expenditure side, the most conspicuous problem is the large part of the budget spent on defence and security. This proportion amounts to just under 40 per cent of current expenditure according to the official budget figures, and more if non-budget items are included. Cambodia's armed forces amount to 12.5 per thousand of population, which is higher than all its neighbours, including Vietnam (7.5), Laos (10.2), Thailand (4.9) and Burma (10.3) (Kato et al, 2000). Before the 1999 CG meeting ,the government declared its intention to demobilise the military and to use the savings for an increase in spending on social services, but donor support for this demobilisation has been slow to materialise. Provided this problem is resolved, it is expected that demobilisation will reduce the armed forces by 30,000 over the next two years.

The budget process in itself contains many obstacles to good financial management. The process is not transparent enough to allow government departments to know where allocations are going, let alone the general public. Even those budget resources which have been officially voted are difficult to utilise, since they are often based on reimbursement rather than advances. Most funds are channelled through provincial treasuries, which make them difficult to access for those technical ministries and provincial officials who are eventually supposed to use them. As a consequence, allocated budgets are only partly disbursed. The budget process also allows considerable ad hoc allocation and expenditure which is undertaken outside the official budget.

The government has introduced a number of measures to make the budget process more effective and predictable. In 1998 a Public Investment Management System (PIMS) was established to provide coherence and complementarity of separate capital budgeting activities among government agencies. An Accelerated District Development (ADD) system is supposed to release funds for development expenditure in the districts, and a Priority Action Programme (PAP) is supposed to protect priority sectors from resource cuts during the budget year. A lump sum resource envelope is provided at the beginning of the budget year, and a number of indicators are used to monitor the output of the programmes. To help the future Commune Councils live up to their role, RGC has also worked out systems for local resource mobilisation and financial management. All these steps have been motivated by the government's declared policy to decentralise resource management to the local levels.

4 Cross-cutting development issues

The preceding chapters on poverty and governance have presented some of the critical problems which set the stage for Cambodia's social and economic development. The cross-cutting issues of human rights, the rule of law, conflict resolution, gender equality, HIV/AIDS and environment protection have been briefly dealt with in the context of poverty and governance. They deserve more detailed discussion even outside that context, and some important aspects of those issues will be examined in the following.

4.1 Human Rights, the Rule of Law and Conflict Resolution

After decades of war and political turbulence, Cambodia has taken significant steps towards democratic governance. After the UN-administered elections, a new Constitution was promulgated in September 1993, which provided the formal framework for a multiparty democracy, a liberal market economy and the respect of human rights. Political tensions within the ruling coalition and sporadic fights with the Khmer Rouge made it difficult to fill this framework with positive action. In 1997 open fights broke out between various factions of the ruling coalition, and the prospects of democratic progress appeared dim. Political negotiations between the main parties were held and resulted in fresh elections in July 1998. .

The government which took office in November 1998 has demonstrated its willingness to continue to develop functioning institutions of democratic governance. Some of these steps were described in section 3, including the Governance Action Plan (GAP), which has laid down clear timelines for continued improvements.

As emphasised by Sköld (2001), a living democracy expresses itself not only through democratic institutions of the state and free elections but also through freedom of expression, an active civil society, upholding the rule of law and of certain economic freedoms as well. Many of the liberties and legal safeguards required to bring all these factors into play are new to the Cambodian society and lack a safe foundation in terms of administrative practice or broad-based political support. It is nevertheless a fact that after the inauguration of the new government in November 1998 the political climate has become more stable with less threats to the security of the state, the press has been given greater freedom, elections are being organized in which different competing parties may participate, the civil society is growing and getting better organized, and people in general have got a better understanding of democracy and better possibilities to exercise democracy.

There are several factors which will make it difficult for progressive forces in the government to reach the very high ambitions set out in the GAP. One is of course the lack of human resources to enforce the legal framework: the government does not have the trained and experienced staff required to guarantee enforcement of the laws. The judiciary is a particularly desperate case, where only a minority of the country's 117 judges are qualified and the whole court system is thoroughly corrupt. A similar situation can be found in the police, which has a pervasive role in the everyday lives of most Cambodians (Kato et al, 2000).

But the lack of human resources is not the only or even the main obstacle to the practice of democracy in Cambodia. Even if salaries were increased and vacancies filled with qualified staff, democracy and human rights would be unable to take root unless the culture of official impunity is eliminated. This culture, which has its somewhat unclear origins in decades of unaccountable governance, gives officials unassailable power over the lives of citizens. Acts and pronouncements by officials cannot be questioned by those affected by them, and attempts to appeal or protest those acts may lead to reprisal.

Impunity has its limits, however. Lower-level officials will not enforce the law against people who command influence in the political and economic power structure. To bring influential big-men to heel, the officials will have to secure support of other big-men in the government. This has created a system of patronage through informal networks which does not follow official hierarchies. When conflicts occur between competing networks, compromise will be sought through negotiations rather than through recourse to the law.

One particularly thorny issue concerns the process of justice against crimes committed during the rule of the Khmer Rouge. On one hand, it is evident that the wounds and grievances caused by their reign of terror are still festering and constitute a serious impediment to establishing standards of justice and fairness in society. On the other hand, the fragile political configuration on which the present leadership is balancing has been built on compromise and accommodation with politicians and warlords whose past would have to be scrutinised in such a process. This dilemma is complicated by the fact that the international community, including major aid donors, insists that this question of justice is not only a national one but it concerns the international community as a whole. A solution to this dilemma is slowly emerging, which will have the form of a national process with UN participation.

The culture of impunity is particularly harmful to the interests of those who are poor. Since most of them lack the support of big-men and political networks, their property may be taken away and they may be beaten by the police and put in jail without having a chance to voice their protest. The culture of impunity is the most serious obstacle to protecting the human rights of the poor. Every day, those rights are being violated, by army officers and civil servants evicting poor people from their land, by fishing or forestry companies using illegal concessions to chase them away from their lots and by the police who are harassing market women to extort unlawful payments. In theory, the Constitution and the laws recognise every Khmer citizen as equal before the law, but in practice very basic human rights are yet to be guaranteed to the poor by the Royal Government of Cambodia.

Even though the past decades have left a legacy of violent and authoritarian methods of settling disputes, the Cambodian society has long traditions of local level conflict management built on respect for cultural habits and human rights. The traditional Cambodian legal system is based upon ancient Asian model of community-based conciliation. In spite of the fact that the system was superimposed by the French legal system during the colonial era and was virtually destroyed during the Khmer Rouge period, the conciliation process has survived and remains part of the legal structure today. Conciliation is evidenced as well in local dispute resolution outside the formal legal process.

The traditional forms of dispute mediation fall within the framework of the patron-client system in that they are conducted by respected elders, village chiefs or monks. Issues of dispute between individuals, between communities, between individuals and larger institutions are brought before mediators who played a strong social role in moving the disputing parties toward reconciliation but providing a structure whereby the contestants are also a part of the resolution process (CCCR, 2000).

Since 1991 many international NGOS and civil society organisations have undertaken numerous programmes, the overall focus of which is to provide alternatives to solving conflicts through violence. Today there are more than forty Cambodian organisations devoted to building a "culture of peace" in Cambodia. These local groups are engaged in a variety of peace building activities at all levels of society and throughout the country focusing on issues such as: good governance, non-violent alternatives to conflict, weapons reduction; human rights watch; mediation and conflict management, and reconciliation. The partnership developed between civil society and government in the elaboration of a law governing land ownership is another promising development and model of cooperation which shows commitment to participatory decision-making and to identifying peaceful means of managing conflict.

Other human rights problems should also be mentioned in this connection. The rights of the Vietnamese minority are often violated by the authorities or by other communities. Virtual lynchings and other mob action against the political opposition are still undertaken with impunity. As will be further explained below, violence and trafficking are persistent threats to women.

4.2 Gender and society

The gender relationships in economic and social development seem in many ways to be more unbalanced than they are in neighbouring countries like Thailand and Vietnam. Very large gender gaps are noticeable in the levels of literacy, educational attainment, employment skills and income. Gender disparities are also found in decision-making power and leadership positions at central, provincial, commune and village level showing a heavy under-representation of women. Underlying these inequalities are cultural and traditional values and norms regarding the roles of men and women, norms which limit the development options of girls and women. It is also conceivable that the war and social disruption have negatively influenced the status of women, who now vastly outnumber men in the age groups above 40 (SEDPII Ch. 4).

Violence against women is common in Cambodia. An NGO national statistical survey, undertaken in collaboration with the Ministry of Women's and Veterans' Affairs, on domestic violence brought to light that one Cambodian woman in six is victim of domestic violence, and that half of all women reporting abuse sustained injury. Almost three-quarters of those surveyed were aware of at least one family with domestic violence. The survey showed that women who had finished primary education were less prone to domestic violence. Women who did not live with their families, and especially those women who had no family or lived in another village or town than their family, were most prone to abuse. This seems to indicate that education and family can provide some protection against abuse. As mentioned earlier, domestic violence is very much seen as an internal family affair, and law enforcement officers don't use the Criminal Code as a legal tool in cases of domestic violence unless the woman has been killed.

A major challenge in the area of gender based violence lies in law enforcement, which suffers from weak human and financial resources. According to the Governance Action Plan (GAP), a law against domestic violence will be prepared and an advocacy campaign be initiated during the next few years.

It is estimated that there are 80,000–100,000 *commercial sex workers* (CSW) in Cambodia of whom about 30 percent are estimated to be under 18 years of age (MoP, 2000). Not all of Cambodia's formal and informal sex workers were originally trafficked and not all of them are kept captive in brothels against their will, but the majority were. Prostitution and trafficking are so intertwined and so much part of the web of organised crime, that it is impossible to separate the two. Of those forced into prostitution, most were deceived by the promise of a high-paying job, about a third were forced by their own or their family's poverty, and others were sold by parents, relatives or friends into conditions of debt bondage. Less than one percent has been abducted.

More than three quarters of the female labour force is engaged in agriculture. When it comes to *urban employment,* twice as many men (20 per cent) as women have paid employment. Women mostly work in wholesale and retail trade. With the establishment of export-processing garment factories in the mid-90s, some 100,000 mostly younger women have become wage earners in Phnom Penh. Salaries are around $ 40 per month and the work is exacting. For the moment this gives a good earning opportunity to young unskilled women, provided that working conditions are good and women are respected. Nevertheless, there is little training in new skills and there are few promotion opportunities. Because there are little capacity and career building opportunities for low or uneducated working women, there is not much of a safety net in case incentives for foreign investment in Cambodia diminish and the textile manufacturing industry decides to move elsewhere.

Although women take the brunt in unpaid agriculture family labour, they are under-represented in professions that carry status, such as the civil service, professional positions and decision-making and management positions. Only one third of professionals are women, and more than 90 percent of the legislators, senior government officials and managers are men (CSES, 1999).

Within the civil service, women are strongly under represented. At central level there are 8,208 women among 31,130 civil servants. Gender imbalance is also apparent in other sectors and professions. Female teachers number fewer than 30 percent, and in medicine, agronomy, science, architecture, engineering, journalism and media the percentages are even lower.

The role of women in *decision-making* shows the same imbalance. In 1998, women constituted 51 percent of the electorate and 20 percent of the candidates. Of those elected for the National Assembly ten percent are women. Although there is some increase of women noticeable since the 1998 legislature, women are still heavily underrepresented at all levels of governance. They represent only 7 percent of the decision-makers at the national level and at the district and commune, the levels closer to the people, they comprise less than 2 percent.

At the lower levels of the decision making structure, women are also not very much represented. To assure that women are represented at the village level in the Village Development Committees, a rule has been set that at least 40 percent of the committee should be women. Many women say however, that they face difficulties to be an active member as the work is time consuming and it often interferes with their household and income earning responsibilities. Having the support of husband and family members makes it more feasible for women to take part in decision-making processes (Meijer and Nooyens, 2001).

The judicial system, crucial to enforce women's rights and to provide legal protection, shows the same gender imbalance. Ninety per cent of the judges are male and there are no female prosecutors among the current 55. A positive development is that for the first time a woman holds the position of Chief of the Court of Appeal.

Both the RGC and the NGO community have developed their *strategies* for dealing with the gender imbalance, through mainstreaming gender aspects in sector plans and spreading awareness among the public and policy-makers. The Ministry for Women and Veterans Affairs has developed a National Five Year Strategic Plan 1999–2003, called "Neary Rattanak", which was endorsed by the Royal Government in 1999. The plan gives priority to four main areas of the Platform for Action: Women's Health, Education, Economic Empowerment and Legal Protection. Special sections on gender equity reform are incorporated in the GAP and in SEDPII.

4.3 Working children

About 42 percent of the age group 14–17 are working. Among children aged 10–13 years, this figure is 10 percent. In the younger age group of 5–9 years, about 3 percent of the children work. There is a striking gender difference in the incidence of child labour among young people aged 14–17 years, with one half of all girls, but only one third of all boys working. The rate for school attendance and the one for child labour are practically the same for boys and girls at young ages, but the gender disparity starts to show itself after age 12 and continues to widen until age 17.

The vast majority of the child workers are either unpaid family workers or are self-employed. 80 percent of them are farm, fishery or forestry workers, while another 4–6 percent are sales workers, like hawkers and vendors. About 3–4 percent are crafts workers. Children work on average 44.2 hours per week and 35–37 weeks per year in their primary job. Children aged 14–17 years work over 47 hours a week. More than 40 percent of all children aged 10–13 years and 45 percent of the 14–1 7 years old work 40–52 weeks of the year. With this kind of workload it is almost impossible for these children to have any time to attain some education.

There was however a decline in the prevalence of child labour between 1997 and 1999 in the age group 10–13 years. Both boys and girls and rural and urban areas benefited more or less equally from the decline in the prevalence of child labour. (MoP, 2000). Improved access to schools might have contributed to this decline as the primary school enrolment rate has been increasing steadily since the early 1990s. According to a 1997 study (NIS-2, 1997) half of the working children below 14 also attended school.

4.4 The growing HIV/AIDS pandemic

The HIV/AIDS pandemic has spread more rapidly in Cambodia than in any other country in the region. The estimated prevalence is 2.8 per cent of the adult population, which is far above Thailand (2.3) and Vietnam (0.2 per cent). The prevalence rate rose particularly fast during the return of peace, but since widespread testing was only available in the mid-90s, it is difficult to tell exactly when and how it accelerated. Since 1994 it continued to grow faster than in any other country of the region. Since more than half of the population is known to be already infected with tuberculosis, a huge health crisis is on its way, a crisis which will be too heavy to bear for current public and private support systems and may affect the entire society and economy to an extent which is hard to predict.

A major reason for the rapid spread of HIV is the wide-spread practice of prostitution in Cambodia. High-risk groups are female sex workers in urban areas, military personnel, police and other men who have mobile jobs. A worrying trend is that a growing number of married women are now getting infected through their husbands. The infection rate among pregnant women tested in ante-natal care clinics was 2.6 percent in 1998. 2.3% in 2000. Significant perinatal or mother to child transmission is reported but not confirmed and higher levels of infection are suspected. On the whole, infection rates are also much higher in urban than in rural areas.

A 1999 study tried to assess the direct and indirect economic costs of the AIDS epidemic. Direct costs include the public and private costs of treatment and care, the cost of caring for AIDS orphans, the cost of funerals, the public and private costs of prevention, and the cost of preparing the health care system to deal with the growing epidemic. The most important indirect costs of AIDS are the private losses to households and extended families and communities due to the premature death of young adults of prime working age. According to the most optimistic scenario the estimated costs per patient was $291, or approximately ten times total per capita expenditure (public and private) on health. According to the same scenario, indirect costs over the period 1999–2008 would be $429.9 million (SEDPII, Chapter 13). The traditional family support systems are unable to cope with all cost increases and loss of family income, which results in liquidation of family property and withdrawal of children from school. Interviews with children who have lost their parents through AIDS bear witness also of trauma which may be as hard to bear as those of the war. The National AIDS Authority established in 1999 by Royal Decree is an interministerial body of 15 ministries tasked with expanding and strengthening the response to HIV/AIDS. It has drafted a National Strategic Plan for a Comprehensive and Multisectoral Response to HIV/AIDS 2001–2005. The ministry of Health's and the National Centre for HIV/AIDS in collaboration with UN agencies and NGOs have worked out a health sector strategic plan for HIV/AIDS/STD Prevention and Care 2001–2005. The Ministry of Women's and Veteran Affairs has also worked out a policy for women and girls to strengthen prevention, and the Ministry of Education, Youth and Sport has set up an inter-departmental group to promote awareness and knowledge.

These campaigns seem to be bearing some fruit insofar as behaviour is changing among high-risk groups. The use of condoms seems to have increased dramatically both among female sex workers and their clients among the military and the police. In 2000, social marketing of condoms led to sales of 16 million pieces. The Ministry of National Defence has also developed an extensive HIV/AIDS program with peer education activities, condom promotion and STD management within the ranks. But the government funding for these efforts are woefully inadequate, and more than 95 per cent of the resources for these programmes are coming from foreign donors and the UN system. The Government accepted a World Bank Loan for HIV/AIDS in 1995, accounting for a large proportion of resources spent in the health sector. The United States has made Cambodia a "rapid scale-up" country for HIV/AIDS, resulting in up to US $20 million being available for HIV/AIDS over the next two years. DFID is also increasing support with a US $14–18 million programme over the next 5 years.

4.5 Environment protection and sustainable development

Wars and political convulsions have led to deterioration of Cambodia's environment as a result of conflict, neglect and uncontrolled resource exploitation. The government's socio-economic development plan (SEDPII, Chapter 7) admits that past policy has ignored environmental planning and the need for rehabilitation and protection. This has led to both the depletion of natural resources and the degradation of environmental quality manifested in atmospheric contamination, pollution of surface water and wetlands, soil erosion and loss of forest cover. Agriculture and commercial forestry affect the country's surface water system, and with upstream trans-boundary factors working through the regional surface water network affect the primary resources of the Tonle Sap. Urban and industrial and mining pollution sources contribute to water quality degradation and affect the productivity of the inland fishery, which is also increasingly influenced by intensified commercial and artisanal fishing practices. Wastewater, sanitation and solid waste management is affecting the urban environment. Management of the coastal zone ecosystem will be made increasingly difficult by the environmental impact from aquaculture development, tourism, and offshore oil and gas production.

Cambodia is rich in natural resources insofar as the number of inhabitants per area of cultivable land, and in terms of freshwater resources and forest cover. The very rapid population growth is an important factor behind the present problems. Subdivision of farms and increasing landlessness have increased the pressure on natural resources. But fundamentally, the sustainability problems are more related to governance than to population pressure. It is true that poor people are forced by low productivity and incomes to over-exploit natural resources. But it is also true that the better-off segments of society enhance this process by pursuing unsustainable acquisition as well as exploitation of land, water and forests. Firm national leadership and the rule of law are needed if the present erosion of natural resources is to be brought to an end.

A well-known example is the *forest sector.* The commercial value of Cambodia's forests is well documented as are the environmental benefits in terms of water regulation ,soil conservation and biodiversity. In addition, forests in the North Eastern provinces provide an integral cultural asset for many ethnic minorities. Dependence on local forests is not confined to highland communities. Throughout Cambodia, rural people commonly harvest building materials, food, resins and medicinal plants and other products from local forests. Almost all the cooking fuel in rural areas and 85 per cent of Phnom Penh's requirements are supplied from forests.

In 1969, three quarters of Cambodia's surface was covered by forest. Coverage fell slowly in the 70s and 80s but begun to drop very fast in the 90s. From 1991 to 1997 it fell by 2 million hectares or 10 per cent of total area. Behind this deforestation were some very large commercial timber concessions and clearing for agricultural use, in some areas including shifting cultivation. It was encouraged by vested economic interests and a deficient and poorly administered regulatory framework. This attracted both those with means to speculate on land and the rural poor looking for land and work. Mismanagement of the timber concessions led not only to loss of forest cover but also to loss of government royalties from the sale of these concessions. This state of affairs caused strong reactions in the donor community and led to a suspension of IMF support in 1997 (Gum, 2001).

Since then the RGC has taken a number of steps towards sustainable forest management and has elaborated a draft National Forest Policy. The scope of concessions has been drastically reduced and concessionaries required to submit management plans. The A new Forest Law is being drafted to combat illegal activities, and the NGO Global Witness has been engaged as an independent monitor. The forest policy also intends to promote the participation of local communities and protect the rights of traditional forest users.

The problems in the *fisheries sector* are similar to the ones in forestry. Fish and fish products constitute up to three quarters of the dietary animal protein intake of the population and Cambodians are considered to be among the highest per capita consumers of fish products in the world (Gum 2001). Management of the fisheries sector is dominated by the concession of fisheries lots system. Fishing gears are classified as small scale (subsistence), middle-scale and large scale depending on size and catch potential. Family scale fishing is free of charge and permitted throughout the year while middle- and large-scale inland fishing is subject to leases for commercial exploitation (fishing lots) open during certain seasons. Marine fishing is subject to species-specific fishing seasons.

Management of fisheries has been characterised by weak and selective enforcement of fisheries legislation, an inability to control widespread illegal and destructive fishing practices, loss of critical habitat, an inability to prevent or resolve fishing conflicts and inability to collect sufficient state revenue. There is growing evidence of over-fishing and widespread use of stock damaging fishing practices by both commercial fisheries and local communities. There is a widespread trend of violent conflict between local communities and fishing lot operators characterised by armed violence and an absence of formal mechanisms to address confrontations of this nature. There also appears to be a trend of increasing denial of access for local fishers to fishing areas through illegal expropriation of these areas for sale to commercial interests. The marine fisheries suffer from the same destructive practices (Gum, 2001).

The widespread protests have led to reforms being undertaken by RGC through removal of fishing lots and a reorganisation of the fisheries administration. A new Fisheries Law is being drafted. It is too early to tell to what extent these reforms will be effective. The capacity of the Department of Fisheries is not yet sufficient to ensure implementation.

Structural problems in the *agricultural sector* also have a bearing on sustainability. There is clearly potential to increase the area of land under cultivation. It is also clear that the status of tenure and ownership affects the willingness of cultivators to ensure sustainability of production. However, at present the land administration and the legal framework are inadequate and there are few legal mechanisms under which land can be acquired by the rural poor. Land grabbing and the exclusion of local people from agricultural or forest land or from fishing lots have aggravated the situation to the detriment of sustainable resource management. The new Land Law will hopefully provide a stable legal framework for protecting property rights in agriculture.

The National Environment Action Plan (NEAP) published by the Ministry of Environment in 1998 identifies the main environmental issues associated with agriculture with regard to the Tonle Sap as clearing of inundated forest to open up agricultural land and the run-off effect of use of chemical fertilisers and pesticides. This analysis is applicable throughout Cambodia. The NEAP does not see the use of agro-chemicals as having reached dangerous levels, since the majority of rice farmers still use traditional varieties and methods. At present there is no regulatory framework for the import and use of agro-chemicals. However, as the size of land holdings decreases, there will be an increased need for agricultural intensification. This will most likely involve improved irrigation, improved crop varieties and increased use of agro-chemicals.

The growth of urban settlements and industries has not proceeded very far in Cambodia. Barely 16 per cent of the population lives in towns, and only 4 per cent of the labour force is engaged in the secondary sector. But if agriculture and rural industry do not follow a more broad-based path of growth in future, rural-urban migration may accelerate. And the infrastructure of Cambodia's towns is not dimensioned for such an influx. Housing, water and sewage systems are incapable of accommodating large numbers of migrants. With a growing frequency of flooding caused by deforestation of the watersheds, a rapid rate of urbanisation will cause great risks for pollution, epidemics and unsanitary living conditions.

5 Towards a pro-poor development strategy

The reconstruction of Cambodia under the 1993 Constitution has demonstrated the capacity of the shattered society to pull together, and the economy's ability to grow in response to increased efforts. The most important achievement in the 90s was political peace and agreement on a new constitution and a development agenda that will rebuild both human and physical capital and liberate the people from poverty and deprivation. Without a broad agreement on the political framework and on the main development objectives it would not have been possible for Cambodians to begin reconstructing their country.

The first Socio-economic Development Plan (SEDPI) which covered the period 1996–2000 set very ambitious targets for investment, economic growth, poverty reduction and the delivery of public services. In hindsight, some of the targets were too optimistic, and in particular those which were aiming directly at the poor. The outcome in terms of economic growth was respectable, in spite of a setback in 1997 caused by political conflicts and some very serious floods in 2000. The effort to raise the national savings rate was also successful, both in terms of private and public sector savings. The government's capacity for domestic resource mobilization was enhanced by the introduction of VAT, and the very high share of military expenditure in the budget was reduced. The last half of the 90s also brought a rapid rise in the primary school enrolment – even enrolment rates for girls increased. Large amounts of external resources were attracted, most of them in the form of foreign aid. Public infrastructure investment reached a higher level than ever before.

Many of these advances have contributed to improving Cambodia's capacity for fighting poverty in the new Millennium. But the experience of SEDPI reveals a weakness in the *quality* of economic growth in the sense that it has failed to generate the jobs and livelihoods which are necessary for reducing poverty. The growth pattern of the 90s has been heavily dependent on foreign direct investment in a small industrial enclave and on infrastructure investment supported by foreign aid. In both cases, investment concentrated in urban areas rather than where the majority of the poor live. Development of the primary sector did not follow a path designed to generate sustainable livelihoods for the rural population. Exploitation of forests and fishing waters in many cases followed unsustainable patterns which destroyed the natural resources and denied poor people access. Agricultural production increased over the five year period, but productivity and incomes were unsatisfactory in remote regions with poor infrastructure. The improvements in education and health benefited urban areas and their surroundings, while the rural poor were excluded, women and girls in particular. Economic growth was less pro-poor than in most other South East Asian countries[12].

A major reason for the low quality of growth is the absence of *institutions* which can protect the poor and give them access to livelihoods and services. The lack of a legal framework and the weakness and corruption of courts and administrative agencies explain a large part of the outcome. The direction of private and public *investment* is another factor, which in turn depends on government *policies.* Pro-poor policies were proposed in the first plan, but institutions were too weak to implement them, and the political will to direct the flow of external funds did not strongly enough support the poor.

The RGC has officially recognised these shortcomings and taken some very significant steps to remedy them. A major commitment regarding the institutional framework was made a year ago when the government and the National Assembly adopted the Governance Action Plan (GAP). Clear and time-bound operational objectives were laid down for reducing corruption, improving the judiciary and the civil service, for demobilisation of the armed forces and for legal protection of women's rights. The first steps towards implementation have been taken, including the establishment of a National Audit Authority. In October 2000 an Interim Poverty Reduction Strategy Paper (IPRSP) was issued for discussions with IMF and the World Bank, outlining the policy framework for achieving a pattern of growth which is more beneficial to the poor. And in the second quarter of 2001 a Second Socio-Economic Development Plan (SEDPII) was adopted, in which institutions, policies and investments are brought together in a consistent plan for bringing about pro-poor growth and improved public services for those who have hitherto been disadvantaged. SEDPII is built on sectoral plans, some of which like the Education Strategic Plan (ESP) are clearly focused on the needs of the poor.

It is fair to expect that some of these very bold plans to reduce poverty and improve governance will be delayed, distorted or left unimplemented. Some of the proposed measures try to rectify deep-going flaws which are based on the power structure or on long tradition. And a large share of the funding for institutions, policy reforms and investments is supposed to come from abroad, through foreign direct investment (FDI) or overseas development assistance (ODA). While ODA has been growing and many donors have expressed interest in supporting pro-poor development in Cambodia, FDI has fallen, and prospects for the near future are affected by the risk of a global recession. This means that ODA support will be crucial for the success of Cambodia's efforts to shift from an unsustainable growth path to one which is pro-poor.

Over the last three decades, Cambodia has experienced war, genocide, stagnation and reconstruction. It has lived through conditions which have prevented the people from benefiting from the dynamism of the South East Asian region. Its own growth pattern has excluded large numbers of rural poor from the fruits of development. On the threshold of the new Millennium, Cambodia for the first time faces a real choice between continued unsustainable accumulation and pro-poor growth, and its government has expressed a clear preference for the latter. It is important that this opportunity for a change of growth paths not be missed for lack of financial and moral support among Cambodia's donors.

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7. [12] The headcount index fell only three per cent from 1993 to 1997, while the average growth of GDP was close to 5 per cent per year. In other Asian countries, this rate of growth would have reduced the headcount index by two to three points *per year* (Warr, forthcoming).

Tabular Appendices

Table 1: Basic macro economic indicators. Cambodia.

	1995	1996	1997	1998	1999[E]	2000E
Growth rate of real GDP	7.6	7.0	1.0	1.0	6.9	5.4
Agriculture	10.5	0.8	1.4	-0.1	1.4	-1.8
Industry	6.8	17.9	2.4	6.1	10.6	16.0
Service	4.5	10.7	-10.0	0.3	5.5	6.0
GDP per capita US$	284	292	276	251	262	274
Gross national savings (% of GDP)	8.7	9.1	12.9	10.7	14.2	..
Gross domestic investment (% of GDP)	12.9	15.2	14.4	12.0	18.4	..
Growth rates of CPI (annual average)	7.8	7.1	8.1	14.7	4.0	-0.8
Growth rates of money supply (M2)	44.4	40.3	16.6	15.7	17.2	..
Exchange rates (riels/dollar parity yr. avg.)	2,462	2,641	3,000	3,800	3,820	3,835
Government operations (% of GDP)						
Expenditure	16.7	17.5	13.8	14.2	16.4	17.2
Revenue	8.9	9.1	9.7	8.6	11.2	11.8
Overall budget surplus/deficit	-7.7	-8.4	-4.2	-5.6	-5.2	-5.4
Balance of payments						
Growth rate of merchandise exports (%)	75.5	-17.5	5.7	-0.1	31.2	7.0
Growth rate of merchandise imports (%)	57.4	-2.3	-9.1	-1.3	27.6	17.8
Balance of trade ($ million)	-377	-499	-349	-335	-401	-380
Balance of current account ($ million)	-403	-487	-312	-314	-359	-387
Balance of current a/c (% of GDP)	13.8	15.6	10.3	11.0	11.6	-12.5
Foreign direct investment ($ million)	151	240	150	120	150	130
Foreign debt						
External debt outstanding ($ million)	131	222	259	308	351	..
Debt-service ratio (amortization as % of export revenues)	0.45	2.7	-	0.13	0.13	..

Source: Sok (2000), ADB (2000)

[E] Estimated by Ministry of Economy and Finance

Table 2: Summary of Budget Operations

(In Billion Riel, current prices)

	1995	1996	1997	1998	1999	2000 (est.)
REVENUE	643	749	881	943	1,330	1,423
1. Tax Revenue	446	534	597	679	963	1,040
- of which VAT	60	70	75	90	330	313
- of which Customs duties	321	344	347	376	433	390
2. Non tax Revenue	190	176	271	230	353	353
-of which forestry	53	28	37	23	36	41
3. Capital Revenue	8	39	12	33	14	29
EXPENDITURE	1,206	1,343	1,262	1,571	1,839	2,073
1. Current Expenditure	695	813	808	940	1,111	1,186
Defence & Security	426	407	419	453	468	450
-of which wages	230	223	252	294	327	304
Civil Administration	264	406	389	487	642	746
Education	74	80	83	102	147	170..
Health	26	42	45	43	75	102..
2. Capital Expenditure	511	629	452	629	728	905
- locally financed investments	57	62	110	122	224	303
- externally financed investments	454	567	342	507	504	592
BUDGET BALANCE (cash basis)						
- overall	-563	-692	-379	-626	-509	-650
- current (excluding grants)	-60	-103	59	-30	205	212
FINANCING	563	692	379	626	509	650
1. Foreign (gross)	564	680	446	505	515	695
- project aid	451	467	351	504	511	582
- budget support	109	150	96	2	4	113
- private loans	44	0	0	0	0	0
Amortization	-13	-41	-1	0	0	0
2. Domestic	-2	13	-67	123	-44	-49
- central bank	6	-17	-75	120	-70	-117
- private sector	0	12	-3	5	0	110
- other & debt amortization	-7	18	11	-2	26	-42
3. Outstanding operations[1]				-2	38	0
AS A PERCENTAGE OF GDP						
	8.5	9.0	9.6	8.9	11.5	11.8
REVENUE						
Tax	5.9	6.4	6.5	6.4	8.3	8.6
Non-tax	2.5	2.1	3.0	2.2	3.1	2.9
EXPENDITURE	16.0	16.1	13.9	14.9	16.0	17.2
Current	9.2	9.8	8.9	8.9	9.7	9.9
Capital	6.8	7.6	4.9	5.9	6.3	7.4
BUDGET BALANCE						
Current deficit	-0.8	-1.2	0.6	-0.3	1.8	1.8
Overall deficit	-7.5	-8.3	-4.2	-6.0	-4.4	-5.4
Memo items:						
Exchange rate (Riel to USD)	2575	2638	2991	3770	3800	3881
GDP in current prices	7542.7	8324.8	9149.2	10531.4	11470.5	12032.2

Source: MEF.

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

Table 3: Balance of Payments

(US$ million)

	1996	1997	1998	1999	2000 (est.)
Trade Balance	-428	-231	-173	-231	-380
Exports (fob)	644	862	890	980	1,049
of which: Domestic	295	534	604	712	939
Re-exports[1]	348	327	296	268	110
Imports	-1,072	-1,092	-1,073	-1,212	-1,428
of which: Retained[1]	-723	-765	-777	-946	-1,318
Services (net)	-53	-43	-66	-74	-29
Net income	-86	-53	-33	-25	-9
Private transfers	20	60	66	70	30
Current Account Balance	-546	-268	-207	-261	-387
Official Transfers	437	288	199	208	211
Balance Including Transfers	-110	20	-7	-52	-176
Official Loans (net)	90	41	43	44	79
Nonofficial investment (net)	170	123	101	66	130
of which: Foreign Direct Investment (net)	294	168	121	129	130
Other investment (net)	-124	-46	-20	-64	n.a.
Net Errors and Omissions	-77	-151	-117	-5	n.a.
Capital Account Balance	183	13	27	105	199
Overall Balance	72	33	19	53	23
Financing	-72	-33	-19	-53	23
Net foreign assets of NBC	-69	-34	-30	-62	n.a.
Other	-3	0	11	9	n.a.
Annual Percentage Change					
Domestic Exports	10.1	81.0	13.0	17.9	31.9
Retained Imports	22.9	5.8	1.6	21.4	39.3
Foreign Direct Investment	94.9	-42.8	-28.2	7.2	0.0
As Percent of GDP (current prices)					
Domestic Exports	9.3	17.5	21.6	23.5	30.3
Retained Imports	-22.4	-25.0	-27.8	-31.3	-42.5
Current Account Balance (excl. official transfers)	-17.3	-8.8	-7.4	-8.6	-12.5
Memorandum Items:					
Gross Official Reserves ($ million)[2]	234	262	390	422	468
(months of goods & services imports)	2.1	2.4	3.6	3.3	3.5

Source: National Bank of Cambodia.

Notes: 1. Some goods are imported and re-exported to neighbouring countries in order to exploit differences in import duties.

2. Includes US$117 million in gold holdings returned by the Bank of International Settlements in 1998.

Table 4: External assistance to Cambodia 1995–1998 by donor. Million USD.

	1995	1996	1997	1998	1999
Multilateral donors	169.6	198.0	123.1	133.4	155.9
UN agencies	31.0	50.3	42.7	49.5	54.4
World Bank	29.6	40.4	28.1	29.3	34.8
IMF	42.3	0.4	0.0	0.0	11.5
ADB	37.9	49.2	18.4	36.5	26.9
EU	28.9	57.6	36.8	49.3	28.3
Bilateral donors	328.1	284.3	202.5	214.4	286.9
Australia	27.5	20.2	27.3	18.2	18.4
China	3.1	10.9	9.5	14.3	2.5
Denmark	5.1	20.8	5.1	4.5	2.7
France	62.2	42.9	26.5	23.2	18.6
Germany	13.9	9.6	10.1	9.8	12.3
Japan	117.9	111.0	59.8	71.4	88.0
Netherlands	3.4	11.5	3.3	5.7	6.0
Sweden	25.3	16.1	17.4	13.5	10.8
UK	10.7	4.1	2.3	9.9	9.4
USA	45.1	28.8	30.5	30.4	21.0
Non-governmental organizations	21.1	35.8	49.9	56.1	55.0
Total	518.8	518.1	375.4	403.9	497.8

Source: Godfrey et al. (2000).

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