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by

THE ROYAL GOVERNMENT OF CAMBODIA

NOTE

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PREFACE

The National Programme of Action 2001-2010 has been prepared under the responsibility of the Ministry of Planning with participation from the Ministries concerned, Development Partners, International Organizations, Civil Societies and followed by the UNCTAD guideline. This paper has been viewed in conjunction with the First Socio-Economic Development Plan (1996-2000) for the first part (the review of progress in the 1990s) and the Second Socio-Economic Development Plan (2001-2005) Long Term Study of Economic Cooperation in the Greater Mekong Sub region (GMS – 2020) for the second part and in coherence with Poverty Reduction Strategy Paper as well as the Public Investment Program (PIP). And this paper has been reviewed by the high regional coordinator of UNCTAD.

May I take this opportunity to thank staff of the Ministry of Planning and all Ministries concerned for their kind contribution either physical or spiritual in the completion of the paper .

My thanks go also to the UNCTAD for invitation Cambodia delegation to attend for several meetings during the past time regarding the preparation of this paper.

I am sure this paper would be welcomed by the various Ministries and Departments of the Royal Government of Cambodia as well as donors, international agencies, NGOs and especially for the third United Nations Conference on Least Developed Countries to be held on 14-20 May 2001, Brussels.

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I. Introduction

Cambodia is one of the poor country in East Asia, with estimated annual GNP per capita in 2000 of about US \$ 300. The economy has a small industrial base and depends heavily on subsistence agriculture.

In 1985 a process of market-oriented liberalization was initiated in Cambodia, with some private sectors activities sanctioned, joint-venture allowed, and most price control lifted. The reform process was broadened and accelerated from 1989. The government launched a program that gave state enterprises greater autonomy and financial authority with strict budgetary discipline; allowed for the privatization of state enterprises and other state assets; and encouraged foreign and local private investment. Foreign trade was also liberalized.

The reforms supported macroeconomic stability, increased trade and investment flows, and a rebound in growth. Cambodia was taking an effort to address of social and economic infrastructure with appropriated results. One key objective is to achieve sustainable fiscal balance by improving revenue mobilization, strengthening tax and non-tax administration, cutting back the numerous tax exemption, and ensuring increasing accountability and transparency in economic management.

2. Performance in 1990s

The improvement of the overall economic situation continued during the 1990s to reflect tangible changes in the role of different contributing sectors. Agriculture continued to be the primary economic sector (around 43.5% average over 1994-98), followed by services (40%) and industry (14.7%). Efforts continue to encourage private initiative, provide necessary incentives, reinforce the capacity of human resources and create basic infrastructures (roads, energy, water resources, potable drinking water etc). Private investments oriented towards these sectors were essentially concentrated especially for industry and services in the urban areas. The informal sector, small enterprise trade and service activities expanded significantly. The social sectors, education and health, recorded positive progress.

2.1 Agriculture

Agriculture grew at an average rate of 2 per cent over 1991-2000. Agriculture sector contributed about 43 per cent of GDP and employs about 80 per cent of the labor force. Rice contributed of about one third of total agriculture. Livestock production, which accounted for about 13 per cent of GDP in 1994. Fishery products were the main source of protein in the Cambodian diet. This sub-sector contributes roughly 4 per cent of GDP. Forestry accounted for 3 to 4 per cent of GDP.

The Ministry of Agriculture, Fisheries and Forestry (MAFF) was reorganized in collaboration with the FAO and the World Bank under its Agricultural Productivity Improvement Project helped additional capacity building. Extensive and intensificative services were expanded largely in regard to research on rice varieties with the support of AusAid.

Under the ADB's Agriculture Sector Program the government took actions for (a) wider dissemination of agricultural marketing and technological information, (b) liberalization of fertilizer pricing and marketing, (c) divestment of rubber sub sector, (d) formulation of a rural financial strategy, (e) establishment of local rural development committees.

2.2 Industry

Agriculture is considered to be a main priority for the social and economic development of Cambodia. Additionally, the Royal Government is paying a great deal of attention to the development of industry, particularly in the areas of manufacturing and processing industries that are export oriented. Equal attention is given to supporting handicraft and small-scaled industries that produce food-related and consumer products for daily domestic consumption. In this spirit, the Ministry of Industry, Mines and Energy (MIME) has put serious efforts into promoting labor-intensive industries and those that utilize locally available resources, and those that are export oriented.

Despite great difficulties, the industrial sector in Cambodia has been making noticeable progress and increased its share in GDP from 9.5% in 1996 to 14.7% in 1999 (based on 1993 constant prices). Such progress was attributed to the increase in private investment, which was made possible by the adoption of a free-market economy, the implementation of the first 5-Year Socio-Economic Development Plan, the provision of incentives to investors as stipulated in the Law on Investment, and the opening up of international markets, especially in those countries that provide Cambodia with MFN and GSP privileges.

Because of the afore-mentioned factors, during the last decade, new factories have been established, pushing the number of MIME registered large and medium scaled enterprises in light industry from only 17 enterprises in 1994 to 340 today, of which garment factories account for 200. In terms of employment generated by the garment sector, the total number of workers increased from 7,000 workers in 1993 to 176,000 today. In year 2000, the total production of garments was valued at 1,090 million US dollars, compared to 3.4 million US dollars in 1994. The garment sector constitutes about 90% of the light industry sector and has been the leading industry making Cambodia known to the international market.

Although the garment industry has displayed a high growth, this industry is still experiencing a number of noticeable difficulties due to:

- ◆ the lack of good labor relations between the companies and unions
- ◆ the quality of exported products sometimes does not fully meet conditions of foreign orders because of the limited skills and experience of workers;
- ◆ late, insufficient or interrupted orders; and
- ◆ high production cost as a result of weak infrastructure and services.

The production of small-sized enterprises currently in operation are concerned, their production is generally based on the knowledge that has been handed down to them from generation to generation through observation and apprenticeship. However, in the past 10 years, new handicrafts and small-scaled enterprises have been established shifting the total establishments from 17,218 to 25,600, which represents a growth rate of 49%. At the same time, the following shortfalls and difficulties have been observed:

- ◆ lack of support policies and promotion of local products;
- ◆ lack of marketing information;
- ◆ lack of experience in production and business operation, and
- ◆ higher prices of locally produced goods relative to foreign products, particularly those products smuggled into the country.

2.3 Tourism

Cambodia's tourism is still very much at infancy, and great care will need to be taken to develop the industry in a properly planned and integrated manner. In this regard, the MOT, with the assistance of the UNDP/WTO/ADB, is formulating a tourism development and management strategy. There is still limited development of tourism compared with other countries in the region, and institutional planning and management of the sector has to be strengthened. The project is intended to guide the development and management of tourism in an integrated and sustainable manner, based on an integrated continuing planning process. The plan will include an overall country strategy as well as provincial strategies for Phnom Penh, Siem Reap (temple complex at Angkor), Sihanouk Ville and Rattanakiri. It will also develop an ongoing implementation and monitoring process in order to enable the MOT to evaluate the impacts, market reactions and trends which will allow future tourism strategies to be arrived at based on accumulated research and statistical evidence.

At present, and probably for the short and medium terms, it is clear that Siem Reap and the Angkor temple complex will form the major Cambodian attraction for the international tourists, while Sihanouk Ville is expected to develop as a major resort area in the longer term. Short-term strategies will focus on Sihanouk Ville as a domestic resort area, with a program for

upgrading the existing facilities, e.g. hotels, guest houses and restaurants. Phnom Penh will be developed as the country's major hub, with air distribution to other provinces. The city will also develop as a major business center.

The biggest impediments to tourism development in the short term are the deficiencies in infrastructure and human resources. With the hotel and resort investments projected, it is important that the Royal Government complement the private sector investment with the required infrastructure support facilities at the same time as the MOT launches a major human resource training program for the sector, and introduce measures to control, regulate and upgrade the existing product, particularly in small hotels and guest houses. Simultaneously, the condition of national cultural sites must be protected' preserved and, in some instances, restored.

2.4 Services

The service sector, accounting for about 40 per cent of GDP, has been heavily concentrated on trading activities (15 per cent of GDP). The service sector had shown robust growth over the last three years. The transport and communication sector contributed about 10 per cent per year. The hotel and restaurant trade had shown considerable buoyancy over the past few years.

As a result of a better availability of infrastructure in the urban areas of Phnom Penh and Sihanoukville, industry, commerce and services grew largely in those areas.

Foreign investment trends were mixed. Foreign direct investment (FDI) slowed down during of 1997-1998, but the trend reversed through new FDI projects in 1999. Main areas of investments included plantation/agro industry, garments and textiles, construction, food processing, telecommunications and tourism. More than 60 per cent of FDI has been in light industry and services. More investments in manufacturing activities are now taking advantage of special trading rights granted under the Most Favored Nations Treatment and the Generalized Systems of Preferences now extended to Cambodia by many industrialized countries. As an important element of the local economy, the informal sector continues to be active and grow, with small enterprises expanding and expected to graduate to higher level of organization, production level and size.

3. Factors that Have Facilitated or Constrained Envelopment

The second mandate of government - formed in November 1998- is now in a position to review its economic and structural reform program. With substantial support from the international community, progress was made in the first half of the 1990s in restoring financial stability and undertaking economic reconstruction. However, much remains to be done to build basic economic and social institutions and attain sustainable peace of development. As a legacy of the past, administrative and institutional capacities are weak, and Cambodia's need for external support remains considerable.

The goals of the government's reform program are poverty alleviation and the achievement of sustainable economic growth. This program is premised on strengthening the rule of law and governance as well as tackling corruption. The National Assembly endorsed the overall development agenda and strategy on November 30, 1998. The objectives of this agenda are: (i) safeguarding social stability and security; (ii) building human capacity; (iii) strengthening infrastructure and fostering an environment for private investment; (iv) fully protecting and preserving the natural environment; (v) enhancing national revenue in the context of a fully accountable and transparent fiscal policy; (vi) encouraging the private sector as the engine of growth, investment, and employment creation.

3.1 Domestic Opportunities and Constraints

3.1.1 Peace and Social Stability

War and internal turmoil for over two decades prior to 1991 devastated the country's economy, social and society. From 1991, therefore, Cambodia's economy social and society had to be rebuilt essentially starting from scratch. Such rebuilding included the traditional cultural and social values; the recreation of institutions; the reintroduction of the rule of law; and the forging of a spirit of peace and national reconciliation.

Cambodia is at peace now. Political stability has been restored and democratic institutions are being rebuilt. Cambodia has regained inter-national recognition: its seat at the United Nations in December 1998, and formal admission to ASEAN in April 1999. Relations with neighboring countries are also being strengthened. Civil society and NGOs were becoming increasingly visible and engaged in development activities. Relations between the various branches of the government, organs of democracy and civil society and NGOs were being defined.

3.1.2 Economic Infrastructure

Physical infrastructure is not only under developed, but also poorly maintained and access is limited, especially for the poorest households.

- **Transport networks**

All transports networks deteriorated during decades of conflict and political instability. Emergency spot improvements were carried out on arterial roads in 1991-1996, but many sections have deteriorated and are virtually impassable during the rainy season, particularly for heavy vehicles, because of lack of maintenance. The poor conditions of bridges that have not been rehabilitated aggravated the situation further. The secondary network is in the derelict

state, virtually blocking access to rural areas. This road category was totally neglected with all public funds channeled to primary roads. Though there has been considerable investment in tertiary roads, improvement, maintenance and coverage are major challenges. Transport networks, particularly roads, are inadequate. The total road network in Cambodia is 41,000km comprising 4,200 km of national roads, of which less than 12 percent are paved, 3,600 km of provincial roads, and about 28,500 km of local or tertiary roads. This network provides only about 0.65 km of roads for every 10 square km of land. It is clear that any attempts to reduce rural poverty must focus on improving road network to facilitate access to the poor.

Decades of war and neglect severely damaged transportation infrastructure as well as public sector management capacities. Poor operational performance and inadequate financing has resulted in deferral of regular maintenance work. Inadequate support services have created huge operational problems exacerbated by the difficulties of managing an economy in transition. Sector institutions face difficulties to keep pace with change and also to adequately diagnose sector issues and select appropriate remedial market-oriented policies. The operational, policy and institutional constraints render the present transport system inadequate to meet present and future needs. The first priority in developing the transportation network is the reestablishment of the road network. Rehabilitation and improvements have taken place, focused on rehabilitating primary road network, rural roads, bridges and ferry crossings in order to facilitate transport of freight, agricultural produce and integration of rural and urban markets.

After a slow start, the capacity of the Ministry of Public Works and Transport to manage and implement the planned projects has improved significantly. Some of the 350 kilometers of national roads have been reconstructed, while another 550 kilometers have been rehabilitated. This is still inadequate, however, with the total length of the national road network amounting to 4,165 kilometers plus some 3,615 kilometers of provincial roads. The shortage of local funds for maintaining the rehabilitated roads in order to prevent premature damage is also of serious concern. Most of the main roads arteries, including many urban, provincial and rural roads, have been improved by strengthening, resurfacing or widening, as well as by the rebuilding of bridges and culverts. Secondary and tertiary roads were improved under targeted rural development program with new roads built, particularly in the western and northwestern provinces. Emergency repairs to key rail line, railway tracks, bridges and culverts are rehabilitated, with locomotives, rolling stocks and wagon workshops repaired and renovated.

The government with external assistance from ADB, UNDP, World Bank, USAID, Japan, EU other bilateral agencies and several NGOs has been focusing development efforts on rehabilitating the national road network including bridges and ferry crossings in order to facilitate goods transport and the integration of markets. Significant projects in this category have included the reconstruction of a bridge across the Tonle Sap at Phnom Penh, the upgrading of the first section of NR 6, the reconstruction of the NR 4 to Sihanouk Ville, as well as the rehabilitation of long section of NR 1, 2, 3, 5, and 11. Several rural roads have been initiated with the purpose of promoting socio-economic development in the rural areas. Other projects within the transport sector include improvements to the international port in Phnom Penh and Sihanouk Ville. Renovations of Pochentong airport with new traffic control and passengers facilities through BOT arrangement. In the medium term the government will build on existing reforms and focus on the most pressing constraints to the rapid development of the sector. The priority will be to improve the efficiency of use of existing infrastructure and accelerate the sector capital program, while enhancing sector planning and financing mechanisms. The government has an important role to play in increasing the efficiency of the

sector by encouraging greater private participation and facilitating competitive markets for transport services. Public investment priorities will complement high priority policy actions aimed at strengthening sector institutional capacity, expanding transport services particularly roads, developing cost recovery mechanisms and in support of reforms to be taken at the macroeconomic level.

- **Civil Aviation**

Civil aviation along with the other modes of transports has a consequential role in the rehabilitation, development, and growth of Cambodia, especially in areas of tourism, rural development and poverty elations. Presently, other modes of transport are severely impaired and need heavy investment and long span of time for rebuilding and restoration. Civil aviation provides relatively quicker and less capital investment mode of transportation, especially when the basic infrastructure already exists.

RGC has identified the growth triangle that also embraces civil aviation activities, for tourism and industrial development. The Triangle is Phnom Penh, Siem Reap and Sihanoukville. The three local points have enormous potential from tourism and industrial and trade development angle and are receiving adequate attention.

Pochentong International Airport in Phnom Penh, have been substantially improved, it was contracted out for operation, management and development as a Concessional Agreement on BOT basis to a French-Malaysian consortium, and in April 2000 the Government and concessionaire (SCA) entered into a transfer agreement (together, the Siem Reap Airport agreement), which provided that SCA operates Siem Reap Airport and share with the government revenue and profit derived from its operation. A leisure resort and export-import free trade zone in Sihanoukvill have brought promise of development for Sihanoukvill (Kang Keng)airport, regional and international airport as a part of package by investor. For Kompong Chhang airport, global international freight service is planned as hub concept for further improvements under the ongoing BOT/BOO agreement. Domestic Airport, that link the country due to unreliability of road and inland water transportation, will soon see substantial improvement. In addition, BOT/BOO/BOOT arrangements are sought for upgrading four domestic airports, Koh Kong, Stung Treng, Rattanakiri, and Mondulkiri. Along term planning also includes a new international airport at Siem Reap to meet the demands of growing air traffic and for development into a profitable and self-financing operation.

The international airlines presently operation are Thai Airways, Bangkok Airways, Vietnam Airlines, Laos air, Silk Air, Malaysian Airlines, Dragon Air, China Southern Air, Mandarin Airlines, and Shanghai Airlines. On international route the aircraft operate are B717, B737, B757, B767, A320, ATR72, YAK42, F27. Royal Air Cambodge, and four private registered airlines provided the domestic air services. On domestic routes the aircraft operated are B737, ATR72, AN24, YAK40, YAK42, F27, Y12, C206.

Flight safety is an integral national and international requirement for civil aviation operations. Cambodia is a signatory to Chicago Convention on International Civil Aviation (1945). There is obliged to comply with the flight safety requirements. These include legislation/regulation relevant to relevant to flight safety, certification of operators through appropriate personnel, accident and incident investigation system and implementing Aviation Security Mechanisms. Adequate instrument do exist at present to ensure desired level of flight safety and security in civil aviation in Cambodia.

Rapid increase in air passenger demands and commercial orientation of airports warrants urgent attention to safe, secure, economic, technical standards and efficient civil aviation operations. Adequate safety, security and capacity building cannot be presently ensured due to poor condition of the airports, lack of adequate air navigation and communication equipment and of manpower capabilities.

These and more initiatives are milestones significant enough to assure the regional partners and international Civil Aviation fraternally of tangible progress recorded by Cambodia Civil Aviation. That more need to the done is indisputable. The potential and promise of Civil Aviation have not been fully explored and exploited yet.

• **Water Resource and Management**

Water resource management including irrigation, urban water supply and sanitation, is a sector where there is a need to develop a well-defined strategy. The ADB, EU, France, Japan, New Zealand, UNDP, and the World Bank are active in the development of this sector, but there is still a large need to be met. Irrigation has always been a major concern for the Cambodian people owing to its importance in agricultural production. Because of irregular water flow punctuated with dry spells during the growing season, the annual inundation and the variations in micro-relief, water management is quite difficult. A large numbers of methods have been developed so far to cope with variations in local circumstances. The inability to manage water flows is the most serious constraint on agricultural growth in Cambodia. For many of the rural poor it is the lack of adequate water resource management that lies at the heart of food insecurity. Moreover, without improved access to reliable water resources, subsistence farmers are less willing to borrow to invest in the high-yield activities such as second crop. Irrigated areas currently produce approximately 40 per cent of Cambodia's total rice production. This shows the importance of irrigation and its effects on crop yields and food security. The area under dry season irrigated rice cultivation is smaller than area under the wet season cultivation. Most existing irrigation networks are available during the wet season to provide supplementary water either at the start or end of the rainy season or during the period of drought. This supplementary irrigation is extremely important to allow timely planting of crops and to enable the plants to survive the common period of drought that occurs during the growing season.

Of the total population of 11.4 million (1998 estimate) only about 3.2 million (28.7 per cent) have accesses to clean drinking water: the coverage outside Phnom Penh is less than 20 percent. In rural areas, only 4 percent of households in the poorest quintile have access to piped water. Even in urban communities, only one third of the people have access to water from protected sources. Women bear primarily responsibility for securing supplies.. Sanitation coverage is minimal (less than 16 percent of the population). Poor sanitation particularly in rural areas, contribute to elevated levels of infant mortality and morbidity.

Moreover, farmers need improved drainage facilities in close proximity to their fields. This gives the farmers crop security while reducing the risk of using inputs, leading to greater reliability and yields. No large-scale irrigation projects have been undertaken since the Prek Thnot project was abandoned in 1973. There have been a number of unsuccessful medium-scale projects since the liberation days of 1979. Most of these involved the rehabilitation of projects originally implemented but which were not properly designed in the first place.

The current agricultural productivity is very low as compared with that of neighboring countries. The main reasons are damaged and deterioration irrigation infrastructure and lack of institutional capability of rural communities. Absence of irrigation facilities is the most serious problem to stabilize and increase crop production. At present, just 23 per cent of the paddy cultivated areas is irrigated by gravity and pumps. The total supplementary irrigated areas with difference of methods in the whole country is estimated to be 0.47 million ha. Major sectoral problems that are to be addressed in order to achieve national agricultural development target are as follows:

- 1- Present irrigation and drainage facilities have deteriorated due to insufficient maintenance works during the civil war. Inadequate and irregular water supply limits the development of cropping systems and irrigated areas. Rehabilitation of deteriorated facilities is the urgent need to boost land productivity.
- 2- Although water resources such as rainfall and river runoffs are abundant, they fluctuate seasonally and annually. Low-lying paddy fields suffer from heavy inundation in the wet season and water shortage in the dry season. Almost all agricultural lands are under the rain-fed field and cannot receive irrigation water, due to lack of water storage and control facilities. It is urgently required to accelerate water resource development to store excess water, to mitigate flooding and to provide irrigation water.
- 3- Insufficient management of irrigation facilities limits expansion of irrigated acreage through proper water management. Although farmer's groups are trying to be organized for effective agricultural activities such as operation and maintenance of irrigation facilities, some technical and financial support is needed.
- 4- Lack of financial and technical support restricts the development of irrigation project. Planning and design of the existing irrigation facilities constructed during the Khmer Rouge regime is poor and easy to be damaged. For rehabilitation of these facilities, the technical level of government staff in planning and design should be upgraded.

- **Telecommunications Networks**

The coverage of conventional **Telecommunications networks** is very limited, less than 1 per 100, and service is relatively expensive (\$2 per minute for international calls). Service has been upgraded in Phnom Penh through bilateral aids. Cellular phones are widely used in Phnom Penh and some provincial cities, but networks do not extend much beyond those cities

Reliable and efficient communications -and regular dissemination of information is essential for the working of competitive markets and to keep the nation informed to the fullest extent about domestic, regional and international events. Cambodia has a great need to maintain and expand communications and information services if it is to achieve its growth targets. Domestic postal services are inadequate because of the prolonged disruption to reliable road transport and deficient internal air services. The ongoing rehabilitation of roads and expansion of domestic flights will continue to improve the situation. Until recently telecommunications to provincial subscribers basically relied on antiquated VHF transmissions to manual telephone exchanges in poor condition. These links have been supplemented by temporary satellite links providing good quality circuits, which are being replaced in the

medium term by higher capacity terrestrial equipment. The extensive use of high cost mobile cellular phone services is a reflection of the lack of cohesive customer networks.

3.1.3 Partnership with the Private Sector

Partnership with the Private Sector. The RGC considers the private sector, both domestic and foreign, as an engine of growth. It offers know-how, trading, investment and a source of tax revenue, all of which are crucial for development and employment creation. In addition to these tangible contributions, it is an important source of openness to ideas, innovation, opportunity and empowerment. A vibrant private sector requires that crucial elements of structural policy are in place. These include tariff policy, tax policies, trade policy, competition and regulatory policy, and corporate government. Therefore, the RGC has doubled efforts to create conditions for a climate of investor confidence by establishing seven, sectoral, joint Working Groups with the private sector, both domestic and foreign, to address a wide range of issues pertaining to private sector development. A Government-private sector meeting is held once every six months to address impediments to private sector growth. The government aims to give certainty to investors about the "rules of game", with regard to taxation, transparent regulations and the protection of property rights. Private firms play an increasingly important role in job creation, thus liberating people from poverty. In addition to job creation, upgrading both jobs and skills is an important path out of poverty. However, a competitive environment is the prerequisite for a well-functioning market. Competition is the best way to avoid concentration of power, oligarchy, monopoly, corruption and other distortions that make efforts to help poor people ineffective. It is crucial for the RGC to formulate a policy for encouraging micro-enterprises and small and medium enterprises (SMEs). The vast majority of firms operating in Cambodia are micro-enterprises, very small firms of 10 or fewer employees. These informal, unregistered firms play an important development role, offering opportunities to poor and unskilled people. They are the most common steppingstone to small-scale enterprises, which typically employ up to 50 employees. SMEs act as a major engine of upward social mobility, pulling in people from lower-productivity occupations. Therefore, the RGC intends to pursue policies that favor SMEs, such as streamlining regulations to allow them to grow. Markets, however, cannot operate effectively without an adequate legal and regulatory framework. The lack, or inadequacy of laws pertaining to accounting, insurance, negotiable instruments, secured commercial transactions, bankruptcy, contracts and commercial credit, also hamper the effective functioning of the financial sector. Therefore, the RGC has given top priority to developing these legal instruments. A *Civil Procedures Law* and a *civil Code* are currently being drafted with assistance from JICA and expected to be completed within the next two years. They will ensure certainty in basic contract law principles, allowing private rights of contract, the facilitation of securities lending and hypothecation, and property rights. A draft Companies Law was submitted to the Council of Ministers and will be adopted in mid-2001. A new draft of the Commercial Contract Law is being prepared with technical assistance from JICA. In May 2000, the Council of Ministers ratified adherence to the New York Convention on Commercial Arbitration. In addition, a commercial arbitration provision is being drafted in parallel to the Companies Law.

Bankruptcy legislation is expected to be promulgated by December 2001, but an insolvency law has not yet been considered. An insolvency law will be needed to enable borrowers to pledge collateral to promote the development of more complex business dealings. Legislation to support secured transactions is also required to facilitate the use of collateral in connection with all commercial lending operations in order to increase credit availability. Moreover, it is necessary to establish a transparent public registration system for collateral

pledged under secured transactions. A Negotiable Instruments Law is also needed to provide a legal underpinning for the development of inter-bank market and payment system. This law will cover negotiable instruments including checks, bills of exchange and promissory notes.

3.1.4 Governance

Good governance is an increasingly important development issue in Cambodia. During the transition towards liberal democracy and a market economy over the past decade, policy-makers, donor agencies, and civil society leaders have recognized that the governance system needs to be improved to match the changing role of the state. Good governance is emerging as one of the key strategies to sustain social and economic development in Cambodia.

Cambodia's governance structure has been evolving since the promulgation of a new Constitution in 1993. The dynamic change gained further momentum following the formation of a new government in late 1998. The newly gained peace and stability provide a more solid foundation for sustainable development in Cambodia. The government has committed itself to major reforms in an effort to revive Cambodia's economy and reinvigorate its engagement with the donor community. The governance structure and the related issues for reforms are: i) public finance reform; ii) public administration and armed force reforms; iii) decentralization; and iv) legal and judicial reforms. Three major challenges are facing Cambodia to enhance good governance:

- 1- Strengthening accountability institutions in the public sectors: Accountability institutions need to be strengthened to hold public officials accountable and to operate in a transparent manner. Public sector needs to strengthen financial integrity as well.
- 2- Building more partnerships between government and non-government sectors: At present, productive interaction between the government and nongovernment sectors is limited. It is vital that the government builds more partnerships with non-government sectors, in particular the private sector and civil society.
- 3- Building government capacity for local governance: Public expenditure reform envisages financial devolution to provincial administration. Plans for demobilization stress the role in the reintegration of demobilized soldiers. Local administration will be expected to bear heavy responsibilities to implement these reform initiatives. The success of these reforms hinges on the managerial capacity of local governments

3.1.5 Women

Women in Cambodia have greater equality with men than a woman in many other developing countries. Women and men have equal status under law, including the right to own land. The legal status and rights of women are protected under the Cambodian Constitution. At the household level women are active and usually equal participants in household management and decision making. Wives usually handle household financial transactions although decisions are jointly made with husbands. Women are full partners in rice cultivation, being engaged in activities such as transplanting seedlings from seedbeds to fields. Both men and women are involved in harvesting, transporting and threshing. Many other farm activities are shared, such carrying water and wood, and tending livestock. However, women are traditionally less empowered than men in companies and government offices in Cambodia.

Some social restrictions in terms of transportation and appearance are apparently affecting the mobility of women in the rural areas.

The government is committed to improving the status of the women who are vital human resource for the development of Cambodia. The government aims to ensure that the interests of the women are integrated into the planning and implementation process. The strategies being implemented marks a shift from the welfare and the women in development approaches, which have been the core activities of the ministry of women affairs. The new strategy aims to develop programs organized around HRD with a strong emphasis on equality and strategic management. During the past years, various projects have been developed, discussed, negotiated and started.

3.1.6 Environment

In recent decades Cambodia's environment has deteriorated as a result of conflict, neglect and uncontrolled resource exploitation. The use of renewable resources including surface and ground water, soil and land resources have exceeded sustainable level in some localized areas. Past policy ignored environmental planning.. This has led to both the depletion of natural resources and the degradation of environmental quality manifested in atmospheric contamination, surface water pollution, soil erosion and loss of forest cover. The government recognizes the need for effective environmental protection and natural resources management. In 1993 the government set up the Ministry of Environment and gave it a broad mandate to protect Cambodia's natural resources and to prevent environmental degradation. The government is committed to ensuring that the natural resources that provide the basis for growth are managed in a sustainable manner.

3.1.7 Human Resource Constraint

Cambodia's human capital has been severely depleted, reflecting the destruction of the education system in 1970s, and also subsequent low level of public expenditure on education. The education budget has stagnated at levels well below international norms. In 1999, public expenditure on education was only 1.3 percent of GDP. The main cost of education was borne primarily by donors and NGOs (46 percent) and households (27 percent). The consequences are apparent: low labor productivity and skills. For example, 24 percent of the total and 31 percent of the female waged labor force have never received any education: and technical and managerial capacity in both the public and private sector is limited. Girls are under-represented in formal education at all levels, particularly at the secondary level and above, with adverse consequences for their health, and for the health and education of their children. Poor education is thus perpetuating the cycle of poverty and contributing to weak governance.

Although, considerable progress has been made in building schools and expanding education services since 1990s, increasing primary and secondary gross enrolment- net enrolments are still low at all levels, indicating high rates of repetition and dropout. It currently takes 19 years to produce a primary school graduate. The problems are not only infrastructure and accessibility-although the quality of facilities is still very poor in many rural areas (70 percent of schools lack water and latrines for example, and 48 percent of primary school buildings are incomplete), and access to rural schools is constrained by lack of roads, the quality of services provision and the cost of schooling, particularly for poor households. Education quality in Cambodia is low due to excessively large class size. Most schools have no budget for materials. 91 percent of primary school teachers have lower secondary education or

less and virtually no government funds are available for teacher training. Wages for teachers are below subsistence requirements. Accordingly, both supply and demand factors explain low enrolment rates among the poor and significant disparities in enrolment across income groups and between rural and urban areas. Higher education institutions are inadequately equipped and staffed to meet the need for skilled labor, and suffer from governance problems. There is a consensus that the education system is failing to train the next generation of leaders, and that this could be a costly failure for the country.

3.1.8 HIV/AIDS Control

Poor standards of healthcare contribute significantly to poverty through reduced productivity and increases households indebtedness particularly in rural areas. Levels of morbidity and mortality from infectious communicable diseases such as malaria, dengue, tuberculosis, diarrhea and acute respiratory infections, and sexually-transmitted diseases are among the highest in the world. Problems are aggravated by inadequate water supply and sanitation services. Cambodia also has the region highest prevalence of HIV/AIDS. HIV prevalence in Cambodia is the highest in East Asia with 4 percent of the adult population aged 15-40 infected. The majority of HIV cases under 20 are female, most of them commercial sex workers. The estimated number of AIDS cases is 150,000. It is clear yet if the epidemic has peaked. The highest prevalence rates are in the southeast central provinces and along the Thai border.

The economic and social impact of the epidemic in the next ten years is potentially devastating. The direct cost of HIV/AIDS include the public and private costs of treatment care and prevention, caring for orphans, funerals and preparing the healthcare system to deal with the growing epidemic. The burden of illness and death will fall heavily in households with consequences of increased indebtedness and forced sale of assets, malnutrition of children, dropout from school. The most important indirect costs of AIDS are private losses to households, extended families and communities.

Cambodia has a National Strategic Plan on AIDS prevention and control backed by numerous donors and NGOs including EU, IDA, UNAIDS, UNESCO, UNICEF, WHO. NGOs have played a key role, providing a range of services including education and social support. The key challenges are better prevention and public education. Concerned agencies will need to ensure that programs reach rural population, particularly women and that vulnerable population understand transmission modes, to develop realistic goals for prevention; to ensure that research is undertaken on how AIDS is culturally translated at the local level, and to ensure increased and sustained involvement of political leaders and community authorities, including religious leaders in prevention.

3.2 External Opportunities and Constraints

3.2.1 Official Development Assistance (ODA)

The International Community pledged a total sum of more than US\$4 billion of assistance to Cambodia at the three ICORC meetings held so far, and at 1996,1997 and 1999 Consultative Group Meetings. Of this amount, about 3.173 billion was estimated to have actually been disbursed for projects and activities by the end of 1999. At the 1996,1997 and 1999 CG Meeting for Cambodia, the PIP/ODA Resource Mobilization Program was presented with funds requirements of about US\$500 million per annum to cover on-going and proposed

capital investment, investment related technical assistance and free-standing technical assistance projects, plus budget support/balance of payments support. The 1996 CG Meeting netted pledges of US\$ 501 million for the year 1996 from all the major donors, plus US\$ 18 million from NGOs. The 1997 CG Meeting netted pledges of US\$ 450 million for the year 1997 from all the major donors, plus US\$25 million from NGOs. The 1999 CG Meeting netted pledges of US\$ 471 million for the year 1999 from all the major donors, plus an indicative US\$ 55 million from NGOs.

Estimated investment requirement for Sectoral and Special Program total to US\$ 1.574 billion for the 2000-2002 period. From this amount, the Estimated Government Counterpart/Capital Expenditure for three years of around US\$ 295 million is deducted, and the Estimated Budget Support Requirement for meeting deficits amounting to US\$ 150 million is added back. Net External Support Requirement for Sectoral and Special Programs and for Budget Support would therefore total to US\$ 1.429 billion (or US\$ 476 million per year). If we include Balance of Payment Support requirements from the IMF of US\$ 67 million for the 2000-2002 period, then Total External Support Requirements would then be US\$ 1.496 billion. This averages to about US\$ 499 million per annum and is consistent with the estimated external assistance disbursement of about US\$445 million expected for 2000(see Table 1-1999/2000 Development Cooperation Report).

Out of the US\$1.496 billion in external assistance needed for 2000-2002, about US\$ 709 million has already been committed, leaving a balance of about US\$787 million unfounded and to be raised. The International Community is urged to pledge the entire amount of US\$ 1.496 billion or US\$ 499 million per annum for the period 2000-2002,as the overall funds needed, including those funds already committed. Based upon these pledges the Royal Government of Cambodia will enter into further consultations with individual bi-lateral and multi-lateral partners for commitment of resources to specific program and projects.

3.2.2 External Debt

Since 1993 Cambodia has normalized its relationships with the international financial institutions and has mobilized both grants and concessional loans for the rehabilitation and reconstruction of the country, ravaged by many decades of wars and internal strives. Between 1993 and 2000, Cambodia has borrowed SDR329,824,629 from ADF, SDR267,900,000 from IDA, and SDR62,297,404 from other international, multi-bilateral partners, IFAD, OPEC, China , Japan, and Malaysia. At the same time, Cambodia succeeded to secure the PRGF by SDR58,500,000 from the IMF. As related to the dept before 1993, the RGC has initiated the negotiations on settlement of possible financial obligations contracted with countries concerned.

3.2.3 The Export Sector

The export sector is one of Cambodia's economic success stories of the last few years. Since the mid-1990s, exports have grown from very small to over US\$ 1 billion or one quarter of the nation's Gross National Product in 2000. Perhaps as many as 350,000 Cambodians are directly employed in the sector today. Export workers contribute anywhere between 75 to 250 percent more value-added per worker than does the average worker in Cambodia (between \$1000 and \$2000 per export worker per year compared to \$570 per average Cambodian worker.)

But Cambodia's export base remains extremely narrow dominated by garment producers who create nearly US\$ 700 million worth of value-added (US \$ 1 billion in gross sales) and followed by three or four smaller sectors with value-added ranging between \$175 and \$50 million respectively: logs and sawn timber, tourism, labor services, and rubber. Cambodia must consolidate and diversify its current export base, including developing new products and targeting new markets. In this regard, current exports have limited value-added content and often a weak multiplier effect on the rest of the economy. Cambodia needs to move towards exports that require more input from the local labor force and local entrepreneurs and that have a higher value-added content

The benefits of Cambodia's exports are concentrated overwhelmingly in three economic areas – Phnom Penh, Sihanoukville, and Siem Reap – where the bulk of the sector is established. Exports, today, are aggravating the wealth gap between those three areas and the rest of the country. Cambodia must find ways to regionalize and decentralize the sector so that benefits accrue more widely throughout the country.

To address the needs of the trade sector, the Royal Government of Cambodia has adopted a "Preliminary Concept Paper" for a **"Pro-Poor Trade Sector Strategy for Cambodia"** and is working to formulate and implement a medium-term Trade Sector Strategy and Action Plan based on that paper.¹ The strategy rests on three preliminary concepts.

Since the mid-1990s, Cambodia has gone a long way towards changing the macro-environment in which it conducts trade. Cambodia has joined ASEAN and AFTA. Cambodia has secured MFN with key trading partners – including the United States and the European Union – through the negotiations of some 20 bilateral trade agreements. Cambodia is also reforming and reducing its tariff structure to become even more friendly to investors and exporters, within the limits of what can be reasonably done so as not to jeopardize our fiscal base. Last, Cambodia is now working on its accession to the WTO.

Macro-reforms and better market access are necessary for Cambodia to improve its trade performance. Yet they are not enough. Cambodia has a weak supply capacity for exports. Cambodia must identify and strengthen the institutional and human capacity of its business sector and must strengthen support to exporting enterprises, including in areas of trade support and trade facilitation services.

The first concept of Cambodia's Pro-Poor Trade Strategy is to shift the balance of emphasis from the concern of the last few years for macro-policy issues for trade to issues of export enterprise development. RGC refers to this as shifting from "comparative advantage" to "competitiveness" or, also, "turning export potentials into export businesses."

The second concept is a corollary of the first one. Competitiveness is about enterprises, but also sectors. Cambodia is turning its attention to identifying realistic export trade opportunities and formulating and implementing well-focused sectoral action plans to convert those opportunities into businesses. This is to ensure that limited Government and donor-supported Technical Assistance resources are not spread too thin.

The third concept in Cambodia's Pro-Poor Trade Sector Strategy is the need to regionalize and decentralize the export base of Cambodia so that exports become an instrument

¹ RGC, "A Pro-Poor Trade Sector Strategy for Cambodia: A Preliminary Concept Paper," tabled at the Pre-Consultative Group Donor Meeting, January 29, 2000

for redistributing economic opportunities and poverty-reduction. This should come about in at least two ways.

One involves promoting the development of export sectors that are rural-based such as agriculture, agro-processing, fish-farming, new tourism destinations, and others. The other involves the choice of regional development policy instruments such as special economic zones, export processing zones, and industrial estates to be located in new regions (for example the Thai and Vietnamese land borders or the coastal regions closest to Thailand) that might attract new export investment in agro-processing, industry or even services.

3.2.4 Foreign Direct Investment Trends

Foreign Direct Investment Trends are encouraging despite slowdowns over the last years. In 2000, the Council for the Development of Cambodia (CDC) approved a total of 96 new investment projects which could create about 59,279 jobs with US\$103 million registered capital and US\$269 million fixed assets. Although FDI approvals by CDC declined by 40% from 1999 levels, other new investments which did not apply for incentives have been established through agreements with other sectoral ministries/agencies. Main areas of new investments include plantations/agro-industry, garment and textile, construction, food processing, telecommunications, and tourism. More than 60% of FDI has been in light industry and services, which indicates that industry policy needs to be focused to the needs of the fastest growing sectors. More investments in manufacturing activities are now taking advantage of special trading rights under Most Favoured Nation (MFN) and the Generalized System of Preferences(GSP) now extended to Cambodia by many industrialized countries. The fixed assets for proposed industrial sector projects, mainly garment factories, accounted for 40% of investment approvals in 2000, which new tourism projects accounted for 29%, infrastructure accounted for 26%, with the balance in agriculture/agro-industry and other industries. Some 56 new garment factories with a registered capital of US\$32 million and fixed assets for US\$84 million were approved by the CDC. These garment projects would create 50,153 jobs, accounting for 85% of jobs to be created. As an important element of the local economy, the informal sector continues to be active and grow, with small and medium enterprises expanding and expected to graduate to higher levels of organization, production levels and size.

4. Action Program for 2001-2010

4.1 Development Target and Strategy, 2001-2010

Since 1998, the Royal Government of Cambodia unveiled the political platform dubbed as an "Economic Government". This political platform and reform programs were developed and implemented with the ultimate goals of strengthening the free-market mechanism, accelerating economic growth and alleviating poverty. A landmark, wide-ranging fiscal reform measures were unveiled to build up a strong foundation for long-term economic growth and sustainable development. To be fully successful, the fiscal reforms should go in tandem with the reforms in other key areas, including military and police demobilization, public sector restructuring aimed at strengthening democracy, improving and increasing the efficiency of the public services, enhancing the rule of law and the respect for human rights. The main thrust of the economic reform package focuses on maintaining macroeconomic stability, strengthening the banking and financial institutions, fiscal reform measures, ensuring a sound management of public property and increasing public investment in physical and social infrastructure and human resource development.

In 1999, with the favorable conditions created by the 1998 July General Elections, the dismantling of the political and military organizations of the Khmer Rouge and the integration of their forces into the mainstream of the society, and the accomplishment of peace for the first time in many decades, the Royal Government of Cambodia has achieved encouraging results in the implementation of the "Triangle Strategy", put forward by Prime Minister Samdech HUN SEN. The 1st side of this triangle is peacekeeping, security and stability enhancement. The 2nd side is Cambodia's rapid integration into the International Community and normalization of its relationship with the international financial institutions. The 3rd side is to put Cambodia firmly on the path of reforms, military and police demobilization, fiscal, administrative and judicial reforms, as well as the implementation of decisive measures to combat illegal logging. This strategy has succeeded in overcoming the political rivalries and to rigorously prepare the Cambodian people, who are both the objectives and the instrument of development, to meet the challenges of the future. Cambodia has definitely cleaned up the internal and external political environment and created conditions to put the country on the path of reform. The year 1999 was a turning point, paving the way for a new phase to begin in 2000. The year 1999 also witnessed Cambodia moving and re-activating itself, by producing, creating employment and purchasing power, reconstructing its infrastructure and expanding its network of economic relations. However, the major challenges to be addressed are: (1) To continue to maintain favorable conditions for peace, security and national reconciliation; (2) To create a strong foundation for long-term, stable and high growth with equity, aimed at poverty alleviation; (3) To prevent the risk created by the widening gaps between the have and the have-not; (4) To ensure environmental protection and prevent the degradation of natural resources; and (5) To strengthen good governance, which is the backbone of the Government's strategy and reform programs. Therefore, this Report is geared to present what has been done and what will be done, and reflects the Government's efforts and strategy to meet the goals of the reforms and address the challenges that Cambodia's would face in the first decade of the twenty-first century.

By 2010 the development goals of Royal Government of Cambodia is to raise GDP per capita to around US\$500; reducing the extreme poverty to half of the person level and

hopefully to 10 percent, in the urban areas; raising life expectancy at birth to 60-63 years and adult literacy to over 90 percent; ensuring access to soft drink water and hygienic sanitation facilities for virtually everyone; making power supply available to all urban residents and to nearly all rural villages; providing access to a nearby public telephone for everyone; ridding the country of landmines; and securing further reductions in gender inequalities, particularly in terms of access to health and education facilities, social protection, income and employment opportunities, and credit.

4.2 Projections to the Year, 2010

4.2.1 Projected Trends in GDP, Labor Force and Population, 2001-2010

Projections for future development of Cambodia have to be considered with the limitations they suffer from, particularly, because of weaknesses and uncertainties in the existing data-base. However, based on the past experience and practice gained from developments in many regional countries, it is possible to present a vision of what is achievable in Cambodia in the period of 2001-2010, provided the country is able to sustain over time its commitment to growth with equity as well as a policy matrix that would permit its realization.

One present uncertainty, and one that is obviously important to any long-term vision for the country, concerns the size of the country's population. This will not be fully resolved until a new population census is undertaken. In the meantime, the best estimate is that provided by the Demographic Survey of Cambodia, and Projected to 2010.

GDP, Population and Labor Force, 1999-2010

	1999	2000	2005	2010
Population (million)	11.7	12.23	13.76	15.58
Population growth rate (percent)	3.0	2.36	2.36	2.39
GDP growth rate (percent)	5.0	4.5	6.4	7.5
GDP per head (1995 US dollars)	268	300	400	500
Urban population (million)	1.30	1.50	3.07	3.92
Urban population growth rate (percent)	-	8.0	6.0	5.0
Urban/Total population (percent)	10.0	12.0	22.3	25.2
Population over 18 year age (million)	5.15	6.72	7.90	9.05
Proportion of total population (percent)	-	54.9	57.4	58.4
Labor force (million)	5.0	5.4	6.3	7.3
Labor force growth rate (percent)	1.2	3.0	3.0	3.0

By 1999, the estimate of population around 11.7 million, the base year's GDP per head was US\$269. The annual growth rate of population - currently about 2.4 percent - is not expected to decelerate very much through 2010 because, while the total fertility rate is expected to decline by 0.4 children per woman in each five-year period, the population's present age structure will continue to have a major impact on future population growth rates. Thus, since the number of women in the 20-29 age group will increase rapidly in the future, the projected crude birth rate will decelerate only slightly through 2010 despite the projected decline in individual female fertility. As a result, the dependency ratio will remain very high throughout this period.

Meanwhile, the total population is expected to increase to over 12 million by 2005 and to over 15 million by 2010. If the Royal Government is able to sustain annual real GDP growth rates of 6-7 percent through 2010, GDP per capita will more than treble to over US\$500 during this period. With a slower real GDP growth rate of, for example, 4-6 percent through 2010, GDP per capita would rise only to around US\$400. By contrast, sustaining an annual real GDP growth rate of 7-9 percent would allow GDP per capita to rise to around US\$800 by 2010. Thus, given that future population levels have been essentially set up by today's youthful age structure, the extent to which Cambodian incomes and living standards improve will depend largely on raising agricultural productivity and on sustaining GDP growth, with relatively small annual changes in GDP growth rates giving rise to relatively large differences in end-of-period levels of GDP per capita. Similarly, GDP per capita projections are also sensitive to the base level of GDP per capita. However, in general terms, trebling or quadrupling the levels of real GDP per capita would provide opportunities for making a major impact on absolute poverty by 2010, only doubling them would probably not. It is thus critical to accelerate the country's GDP growth.

The important implication of projected population levels and of rising GDP would be the likely acceleration of urbanization. The extent of Cambodia's present urbanization is about 10 percent, the lowest in the region. If these annual rates are achieved, urban population levels would increase almost three times from 2000 to 2010 and the extent of urbanization would rise to about 25 percent of the population.

One issue of vital concern is the need to introduce a continuing planning process that will be able to anticipate and then to provide sufficient physical and social infrastructure facilities to absorb some 3.9 million new urban residents or nearly three times the present number of urban residents between 2000 and 2010. This is especially acute for a country with such a fragile urban environment as exists in Cambodia and one that is already over stretched by the damage, neglect and in-migration that have occurred in recent times.

A further issue concerns the kind of urban hierarchy that will evolve, because the question is not so much whether there will be a population movement to the town but rather to which towns will that movement go. Currently, Phnom Penh is some ten times the size of the country's second largest town (Battambang) in terms of population. Clearly with the perceived and real attractions of Phnom Penh for foreign investors and internal migrants alike, there are potential dangers and diseconomies arising from excessive population concentration in Phnom Penh. However, while this underscores the Royal Government's rationale to disperse economic activity and for encouraging the evolution of provincial growth poles, thought will need to be given to the means by which this can be achieved.

Some will occur as a result of improved land communications with Thailand and Viet Nam as part of the GMS initiative, as it will more generally result in improved physical facilities within provincial towns as well as from improved links between those towns and the country's main markets and ports. This provides added justification for encouraging the external community to target more of their assistance to areas outside Phnom Penh. Any over-concentration of public investment in Phnom Penh runs the risk of slowing the geographical dispersal of economic activity, and of accelerating the rate at which the capital's population will grow. Whether, as is occasionally suggested, providing extra tax incentives to firms locating outside Phnom Penh should have a role to play in dispersing economic activity is more open to debate and will need careful study before any decision to introduce them is taken.

4.2.2 Prospective Sectoral Trends, 2001-2010

Significant shifts in the sectoral composition of GDP can be expected to occur as rapid economic growth takes place, shifts that have already begun in the initial transformation of the 1990-1996 period. While it is inevitably conjectural, with several sectoral growth assumptions having to be made and numerical rounding to make them internally consistent, Table 2 provides a possible scenario for the structural transformation of the Cambodian economy over time, and one that is broadly consistent with the transformations of other regional economies.

Projected Average Annual Growth of GDP by Industrial Origin

	1999	2000	2005	2010
Agriculture				
Annual growth rate	1.5	1.8	4.1	4.0
Share of GDP (percent)	41.9	40.41	34.0	29.8
Industry				
Annual growth rate	11.4	16.0	8.4	11.0
Share of GDP (percent)	20.4	21.74	23.0	24.5
Services				
Annual growth rate	5.8	6.0	7.3	8.5
Share of GDP (percent)	37.7	37.73	43.1	45.8

Agriculture is a main sector for economic indicator, the share of the agriculture sector would decline from 41.9 percent of GDP in 1999 to a projected 29.8 percent in 2010, as the relatively fast annual growth in the initial years decelerates to rates more common in other countries of the region. Over the medium term, the growth inputs can be expected to come from the rising yields and output of traditional annual crops (especially rice) as water control, fertilizer use, and transport and marketing possibilities improve and as planted area expands. Gradually, however, greater growth impetus may be expected to arise from a rehabilitated and modernized rubber industry, expanded livestock increasing diversification into various higher-value field crops and possibly from fisheries. As agricultural productivity rises, rural incomes will increase a trend that should accelerate as off-farm rural employment expands and migration to the towns for higher-paid wage employment occurs.

Accordingly, the share of agriculture in the country's total labor force might be expected to decline from the 80 percent registered in 1999 to 60-65 percent by 2010.

The industry sector's share is projected to grow from 20.4 percent of GDP in 1999 to a projected 24 percent by 2010 as mining manufacturing, electricity generations, construction and water resources expand, but, by virtue of their initial relative size and expected dynamism, with manufacturing and construction providing the main sectoral impetus. Cambodian Industry Sector could develop depending on foreign investment. The share of the service sectors already relatively large for the country in the initial stages of transformation could expand from 37.7 percent of GDP in 1999 to a projected 45.8 percent by 2010. However, if tourism were to expand rapidly and if the potential for oil, gas and significantly with result changes in the proportionate sectoral composition of GDP by 2010. These apart, given the expected propensity to absorb labor in manufacturing, construction and many of the services subsectors.

4.2.3 Prospective External Trade Trends 2001-2010

With the present weakness of domestic production base, Cambodia needs to import a wide range of goods. To expand export not only in the medium term but also beyond, Cambodia will be heavily reliant on foreign investment. Foreign trade and investment are, therefore, central to the Royal Government's development strategy and they are likely to remain so even after domestic incomes and savings improve.

However, it is not meaningful to try to project likely growth rates in exports and imports. Instead, it is more useful to estimate a level of exports in 2010 that, relative to projected GDP for that year, would suggest an achievable ratio for a low-income, developing, export-oriented economy, and to work back to the present via a national annual export growth rate that would be required to meet it. Moreover, since Cambodia currently has a substantial trade deficit largely financed by external assistance whose level and terms cannot be expected to last indefinitely, efforts have to be made reduce it to a more sustainable level.

Accordingly, Table 2 shows a possible scenario for Cambodia that is based on an expected export-GDP ratio of about 37.7 percent by 2010 and an import-GDP ratio of about 32 percent. This Table postulates a trade deficit of about 5 percent of GDP being reached by 2010. To achieve these targets would require an annual average rate of real export growth of about 12 percent over the 10-year period, and an annual average rate of real import growth of about 9.3 percent. While this would still lead to persistent and rising nominal trade deficits, since the current level of imports is significantly higher than current exports, they would fall from 9.8 percent of GDP in 2000 to more sustainable, but still relatively high levels by 2010.

One important issue that emerges from this scenario concerns whether it is feasible in a Cambodian context to sustain such relatively high rates of export growth at the same time as having relatively modest rates of import growth. This is particularly true of a situation in which the export of labor-intensive manufactures is expected to play an important role in the national development process. Thus, since many labor-intensive manufactures - such as garments, for example - also tend to have high an import content, it will be important to balance these with the promotion of exports which have a lower import content. For Cambodia, and certainly over the early years, such exports could include agricultural products and high-value natural resource-based industries. These would tend to have higher domestic value added relative to imported inputs, and they would thus help both to sustain exports and to contain imports. Without such exports, particularly given the importance of garment-making firms in the Royal Government's list of investment approvals, it might prove difficult to maintain the export and import growth rate differentials that are required to achieve a more sustainable balance of trade position over time.

External Trade Trends 2000-2010

	2000	2001	2005	2010
Domestic Export				
Annual growth rate (percent)	20.0	17.2	15.0	12.0
Level (US\$ billion)	0.67	0.85	1.35	2.38
Level as % of GDP	16.0	20.3	22.5	27.7
Retained Imports				
Annual growth rate (percent)	10.0	11.7	10.0	10.0
Level (US\$ billion)	1.08	1.56	1.74	2.80
Level as % of GDP	25.7	24.0	29.0	32.6
Trade Deficit				
Amount (US\$ billion)	0.41	0.71	0.39	0.42

Deficit as % of GDP	9.8	7.2	6.5	4.9
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4.2.4 Social Trends and Living Standards 2001-2010

Although the private sector is seen as being the prime engine of growth, an important contribution to national development will have to be made by the Royal Government in its roles as "strategist" and "manager" of development policy. Unbridled private activity could eventually prove disastrous in social or environmental terms, hence the authorities will have to ensure that, in support of private initiatives to exploit development potential, the distribution of growth benefits is equitable, access to those benefits is widened (especially for the poor), and the current incidence of social deprivation is addressed specifically in development programs. It is the quality of investment (including foreign investment) that is important, not only its quantity. Particular attention will need to be given to improving education and health facilities which, in the final analysis, means increasing expenditure on them, improving their quality, and widening their distribution by 2010 Cambodia's revenue-GDP and tax-GDP ratios (11.55 percent and 8.17 percent, respectively) are exceptionally low even for a low-income country, and the country's taxable capacity is not being captured by the Royal Government. However, as these ratios rise - possibly to 20 percent and 17 percent, respectively, by 2005, and to 22 percent and 18 percent by 2010 government expenditure on education and health would have to rise commensurately. A possible scenario suggests that public expenditure in health and education rises to about 2-3 percent of GDP and 4-5 percent of GDP, respectively, by 2000 or soon after, and is maintained at these levels through 2010. If these were to transpire, significantly higher levels of public expenditure could be made available to the health and education authorities, and major improvements in the key social indicators would be result.

Mayor Target for Social Development 2000-2010

	2000	2010
General Maternal Mortality Infant Mortality Under-5 Mortality Children's Nutrition Status	300per 100,000 live births 80 per 1,000 live births 120 per 1,000 live births 25% of under-Ss malnourished	250 per 100,000 live births 65 per 1,000 live births 90 per 1,000 live births 15% of under-Ss malnourished
Education Children completing compulsory schooling. Primary (Grade 6) and lower Secondary (Grade 9). Enrollment of female students in first grade of higher secondary education.	65% of 12 year-olds completing Grade 6. 50% of 16 year-old girls enrolled in Grade 10	85% of 15 year olds completing Grade 9. 60% of 16 year-old girls enrolled in Grade 10
Access to Health Services Overall births attended by trained midwife or nurse. Access to birth-spacing information Access to birth-spacing services Children vaccinated against tuberculosis polio and measles. Others.	70% of births attended by a trained health person. All referral hospitals and health centers to provide birth-spacing information and services Contraceptive prevalence rate 20% Over 80% of one-year olds vaccinated with all antigens	80% of births attended by a trained health person All referral hospitals and health centers to provide birth-spacing information and services. Contraceptive prevalence rate 40% 100% of one-year old vaccinated with all antigens. Neo-natal tetanus eradication. Inclusion of hepatitis B vaccine in EPI. Control of measles.
Access to Safe water	65% of rural population and 90% of urban population to have access to safe water	75% of rural population and 95% of urban population to have access to safe water
Improved Sanitation	100% of urban population and 20% of rural population to have access to improved sanitation facilities	100% of urban population and 45% of rural population to have access to improved sanitation facilities

Thus, attaining these expenditure levels and gradually improving quality and access, as has happened in some other countries of the region, would allow for the kind of improvements shown in Table 4. By 2010, therefore, Cambodia could be in a position where, even though some income poverty would exist, the extent of deprivation, social distress, and vulnerability - especially among women and children - that now prevails would have been virtually eliminated. Even those with low incomes could be protected by social security but, importantly, they would be insulated against most of the hardships they face today, especially those that relate to preventable disease, sexual exploitation, hazardous childbirth, trauma, child labor, landmine, poor hygiene, illiteracy, and a lack of basic marketable skill with which to make a living.

4.3 Cambodia's Long Term Development Goal

This long-term vision of the country is inevitably predicated on the existence of peace and personal security because, without them, the required levels of investment would not take place. Moreover, this refers not only to foreign investment and tourism but, arguably more important over the long term, to myriad small investments made by millions of Cambodians in their own or their community's land and property, or in their own micro-enterprises.

The main objectives of our "Economic Government" are geared towards the alleviation of poverty, which has plagued the country. The leadership's long-term vision is that in 20-30 years, Cambodia will have developed to the level of neighboring advanced economies in the region and the Cambodian people attained a proper and decent living standard, and enjoying progress, prosperity and happiness. These represent the virtuous aspirations of the Cambodian people. We are confident that Cambodia can have this vision materialize through the achievement of high annual economic growth of 6-7% over the next two to three decades. Without high, sustainable economic growth, Cambodia cannot hope to alleviate the poverty of its populace. Moreover, the principle of poverty alleviation also requires equitable sharing of the fruits of economic growth.

There is a convergence of views between the government and its development partners on this long-term development agenda. The Royal Government's strategy 2001-2010 aims to reduce poverty by: (1) safeguarding social stability and security; (2) building human capacity; (3) strengthening infrastructure and fostering an environment for private investment; (4) fully protecting and preserving the natural environment; (5) enhancing national revenues in the context of a fully accountable and transparent fiscal policy; and (6) encouraging the private sector as an engine of growth, investment, and employment creation. The government and development partners have also agreed that the short to medium-term priorities are to tackle fundamental fiscal and governance problems. If these are not resolved it will be difficult to pursue the longer-term agenda and reduce poverty. Over the next three years the government therefore intends to focus its reform efforts on increasing domestic revenue mobilization, improving inadequate and inefficient expenditure the present management and environmentally unsustainable forest management and reforming the public sector.

4.3.1 Macro-Economic Goals and Public Finance Reform measures

In order to ensure the efficient implementation of the reform programs, the Government has taken decisive measures to strengthen budgetary discipline, continue fiscal reforms and clean up public finance. This is designed to accelerate further economic growth, attract both domestic and foreign investors and mobilize more foreign aid. In this regard, it is necessary to generate current account surpluses by taking revenue-enhancing measures, rationalization of public expenditures, improving tax and customs administrations, rigorously implementing on-site audits, combating corruption, fostering good governance and resuming the Pre-Shipment Inspection (PSI) mechanism.

A number of revenue-enhancing measures have been taken by strengthening capacity for collection of VAT and other taxes, as well as enlarging the coverage of VAT, expansion of the tax base, overhaul of the legal framework and tax collection procedures, and improvement in recovery of arrears. Developing a clearer and more even-handed tax incentive system under the law on Investment, and Improving Tax Administration, Tax Audits, and Customs Administration;

- Transferring non-tax revenues, particularly from forestry revenues, into the budget more effectively, continuing to suppress illegal logging, strengthening forest concession management and forest crime monitoring, and improving forest law;
- Rationalizing public expenditure, including ensuring that allocations to health, education, agriculture, rural development, and public works are realized to the fullest extent possible;

- Improving public expenditure management by establishing a budget strategy and execution center in the Ministry of Economy and Finance, adopting sector-wide approaches in consultation with donors and NGOs, and developing a medium-term expenditure framework;

4.3.2 Economic Sectors

Agriculture, Forestry and Fisheries. The Government's policy goals and objectives for agriculture are to accelerate market based agriculture growth in order to maximize the contribution that agriculture can make to rural development through employment creation, income generation, poverty reduction and economic growth Medium term objectives are to:

- Improve food security through expansion in the production of rice and other food crops
- Add value to crop and livestock production by developing agro-processing industries
- Increase income opportunities for farm households by diversifying crop production particularly those headed by women
- Strengthen the participation of rural communities in sector programmer design and implementation
- Ensure sustainable agricultural production through the improved management of natural resources
- Increase the availability of rural financial services.

The Government's strategy is geared towards promoting and strengthening competitive markets for the supply and distribution of good quality agricultural inputs including availability of loan and saving services at market interest rates for farmers and small entrepreneurs. The Government will continue to promote sector development by encouraging open access to domestic, as well as the provision of economic infrastructure such as rural roads, bridges, community water supplies, flood control systems and other facilities in support of the rural economy and programs that strengthen institutions supporting agriculture. The Government will not intervene in the market except for regulation of standards, environmental protection and management of emergency situations.

Boosting Rice Production. Introduction of new seeds, efficient production techniques, more favorable seasonal conditions, increased fertilizer use, and increased public investment in agricultural machinery have contributed to recent increases in rice output.

In the medium to long-term irrigation development will continue to focus on developing multipurpose storage reservoirs for irrigation, flood control and power generation purposes. Legislation providing legal status to voluntary associations for water use and other activities in agriculture will be prepared, so that the commitments and transactions of such associations can be legally binding. The Government will seek external assistance to assist with the establishment of a database on ground and surface water resource to better inform policy and investment decisions.

Industry, Trade and Manufacturing. The medium term goal is to improve the contribution industrial sector to growth and development by pursuing the following strategies:

- Develop outward oriented industrial and services sector which is internationally competitive, efficient and based on appropriate use of factor endowments;
- Accelerate the completion of the structural reform process thereby improving industrial competitiveness and efficiency;
- Rationalize and improve efficiency of public sector support services assisting the growth and development of the industrial sector.
- Strengthen an efficient finance and banking system that supports expansion of the private sector.
- Provide aggressive support, especially non-financial assistance, to SMEs as they will be the key to ultimate poverty reduction in Cambodia.
- Ensure that public investment programs supports the development of enabling sectors of infrastructure, energy and human capital to improve competitiveness and efficient of industry and promote regional trade
- Promote agricultural trade through the establishment of trade and agricultural associations oriented for exports and secure international market access
- Promote the standardization and accreditation of products and services geared to support international trade.

The Government is committed to strengthening market mechanisms to drive the continued restructuring and export led expansion of the industrial and agricultural sector in order to facilitate addition of equity and technical skills and more closely align output and product development with international market demand. The growth and development of export oriented small and medium enterprises based on services and light industry is a priority. The Government recognizes that the policy and institutional support measures that were adopted to support the growth of new industries and services are different from the measures that were adopted to support the traditional industries. The new industries and services will benefit from a policy environment that reduces the cost burdens to them. These policies need to encourage an outward orientation, responsiveness and flexibility to respond to market demands, access to capital and a supportive legal and regulatory framework.

The policy objective is to provide a consistent incentive based framework for the private sector supported by public investment measures to take the lead role in the establishment of a competitive and outward oriented industrial sector. This is the criterion, which the Government will use to measure the effectiveness of policy and investment interventions. With appropriate private sector involvement, the establishment of export processing zones in Phnom Penh and Sinhanoukville and serviced industrial estates in other strategic areas will be important in establishing export growth centers and in stimulating further private investment. Cambodia's industrial development strategy addresses various elements: export orientation; labor intensity; natural resource-basis; careful choice of appropriate scale in

different industries; rural industry promotion and growth in the informal sector, which provides the bulk of the employment particularly to women. The promotion of tourism-related industries is also a key component, as is in the longer-term, down-stream industries based on oil and gas.

Accelerate Tourism Growth. Given strong growth in world tourism, particularly in the East Asia and Pacific region, and exceptional tourism assets and destinations in Cambodia, the tourism sector is capable of growing at an average annual rate of 30% to reach one-half million visitors by 2000. This will provide substantial employment opportunities, since both direct and linked activities are labor intensive, and generate additional foreign exchange and government revenues in the short term. Tourism strategy is based on the alleviation of identified constraints to development such as inadequate training, lack of research and statistics, inappropriate promotional financing and legislative controls, weak private sector, poor infrastructure, low product and quality standards and unfavorable international image.

Mines and Minerals. An analysis of the manufacturing and mining sector, as of the end of 1993 showed that the mining, metal and non-metallic mineral portion of the sector was growing at a rate of 7.4% per year and was both a major economic factor (26% of Manufacturing Establishments) and a major employer (29.6% of total manufacturing employment). The important policy goals and objectives are to promote the optimization of the sustainable utilization of the natural resource base, one of the important pillars of poverty alleviation, highlighted in the SEDP, and particularly, in the priority development plan "Management of Environment and Natural Resources". Achieving these goals, the mineral sector has a key responsibility in: (a) ensuring and monitoring the environmentally and socially responsible discovery, (b) development and exploitation of the Nation's mineral resources to serve as catalyst to accelerate the industrial, economic and social development of Cambodia. In addition to these development goals, the primary objectives for mineral sector can be summarized as follows: (i) Development, implementation and enforcement of a comprehensive mineral development policy supported by Mining Law and appropriate Sub-Decrees, Rules and Regulations;(ii) Undertaking an assessment of the mineral resource potential of the nation;(iii) Conducting research into technology and methods for the optimal mining and economic recovery of the nation's mineral resources; (iv) Ensuring the orderly, safe and environmentally sound development of mineral resources; (v) Monitoring and enforcing mining, environment and rehabilitation plans associated with resource development projects; and, (vi) Ensuring an appropriate fiscal return to the government of utilization of the nation's mineral resources. With regard to the Policy Framework, the Government is committed to strengthening mechanisms to develop the indigenous resources based industry in order to drive the restructuring and export led expansion of the industrial sector and economic development.

In summary, planned activities and public investments for 2000-2002 in trade and industry amounts to a modest US\$5 million, which reflects the growth and dominance of the private sector. Public investments are focused on developing public sector capacity to support and facilitate entry into the WTO. Public investment in the important tourism subsector amounts to US\$2.2 million and is designed to build capacity in public sector support services to the industry.

4.3.3 Strategies and Action Plans Related to Land Reform

The RGC has embarked on a state reform agenda that impact on the land sector. The state reform as described below, are sustainable economic, social development, poverty reduction and good governance. Land Reform is seen as one of the most important means of achieving the objectives reforms. The main outputs of the land reform are to provide secure

land to all eligible landowners, reduce of current uncountable land disputes, lay a foundation for efficient, sustainable and equitable use of state land, those actions contribute to promote and secure the investments especially on agriculture and tourism sectors developments. The current action plan will a development of an adequate land policies, systems and capacity for land registration and administration. At field level, the project will support systematic land registration and land administration in municipalities and provinces selected on the basis of a criterion that would include a mixte of poverty reduction, economic growth and social stability considerations .The large land policies has start by an adoption of a comprehensive land policy framework and has been divided to three aspects: Land Administration, Land Management and Land Distribution.

1. Land Administration defined as "a system implemented by the state to administer rights in land within private sector collaboration".

The first Land Administration objective is to provide land tenure security to all eligible landowners and develop an effective, efficient and transparent land registration system. This was thought to have the potential to strengthen public order, and to reduce, eliminate and prevent land disputes. Another objective of enhancing land administration was to develop processes to manage state property effectively and transparently.

Actions that could overcome these constraints were specified. Clarification of policy and implementation arrangements for: the delineation and demarcation of administrative boundaries and of state land were given priority. Implementation of an accelerated systematic land registration program was recognized as the core of Land Administration reform. This program should be based on efficient, effective and transparent land registration system that will have to be developed. To make this work a comprehensive awareness and education program for all stakeholders in the land sector will have to be undertaken. A land valuation system for Cambodia has to be developed. As land registration will take time and inevitably expose some competing claims to land, land dispute resolution mechanisms will need to be strengthened. To optimize efficiency, a legal framework for the participation of the private sector in cadastral surveying, land registration and other areas should be established. Institutional strengthening and human resource development in land administration, supported by adequate funding, will have

to establish soon. Also a review of registration fees and prepare a plan for cost recovery for land administration must be undertaken.

2. Land Management has been defined as "A system implemented by the state to manage the use of land resources and the social, economic and environmental issues that relate to this allocation and use".

The objectives of land management should be land must be managed effectively and equitably to alleviate poverty and sustain natural resources and environment that land management must support the decentralization policies and rural development.

However, in Cambodia, land policy is under elaborated, the legal framework is weak and institutional roles and responsibilities are unclear. There is no clear land classification system and, at all levels, there is no clear land planning or enforcement. There is also no inventory of land under different uses, maps are out of date and there is no **GIS/LIS**. As a consequence of protracted past-strife, there is a lack of resources (skilled human resources

,budget, and equipment) there is lack of experience and expertise in land management and land law and a lack of technical assistance. Most people cannot afford to buy land.

The MLM UPC identified an extensive suite of action that will be needed to overcome these constraints. A priority will be to develop a comprehensive land policy. Equally, a land use planning system, appropriate for the situation in Cambodia, including the preparation of master plans at all levels and a flexible land policy, with a priority in urban areas, will have to be set up. Before undertaking this task, research and collation of existing maps and textual data will have to be done. Some new mapping will be needed. This new data and existing information will then have to include zoning regulations, urban regulations, a construction code, expropriation law, and regulations for the transfer of public state property to private state property. Human resources that will be needed to undertake this technical legal and related work and to ensure public cooperation will have to be built up by training and education programs in the land sector. The financial support and technical assistance that will be required for this list of activities would have to be found.

3. Land Distribution is defined as: " the allocation of land between people by the state and the market". The following objectives of Land Distribution were agreed. Land should be distributed to reduce poverty, for socio-economic development, to strengthen public order and increase equity.

The issues associated with attempting to achieve these objectives are sensitive and complex. Currently most of the poor have too or no land. This is being exacerbated by explosive population growth and the extensive internal displacement amongst civilians and the soon to be demobilized soldiers and their families. Productive land is not always in the hand of those who can make best use of it because of subsidized and illegal land allocations in the past. This is retarding socio-economic development. Speculation in the land market is inflating prices of land framework for the protection and distribution of state property has generated land disputes throughout the country. The rising demand for land and the lack of land market regulations has exposed the weaknesses of local administrative authorities.

The MLMUPC and many stakeholders hope that the passing of the revised land law and passing of complementary implementation instruments will redress some of these problems. However more information is needed to draft and enact the sub decrees that will be used for land distribution. An inter-ministerial task force is proposed to commission and analyze studies of existing patterns of land holding, where land can be obtained for redistribution and who this land should be allocated to. This analysis could then be used to design land distribution mechanisms.

Action in the area of taxation was also identified as an option increasing the productivity of the national land stock. A new land taxation regime will be required. However, the existing unused land tax could be effectively enforced. More competitive concession allocation practices could also be adopted. Other measures to prevent accumulation and under utilization of land will have to be identified. The distribution of demined land has to be made more equitable. Ensuring equity in land distribution will depend on the administrative capacity of local authorities.

Environment, Natural Resource Management and Conservation. The Government's goals and objectives for environmental protection and conservation are to manage, conserve and protect Cambodia's environment and natural resources in an ecologically sustainable manner to assist in alleviating poverty throughout the nation. The medium term objectives are to: Develop

coastal zone management; Enhance forest concession management; Reduce urban and industrial pollution; Strengthen protected areas management; Improve management of the Tonle Sap ecosystem; and, Build the environmental planning capacity of core institutions.

Environment Strategy. The Government's environmental protection and natural resources management efforts are guided by the following principles: (1) Recognition of the link between poverty alleviation and the environment. To safeguard the environment the Government must increase economic opportunities of the rural poor. Natural resource degradation is in part due to exploitation of basic needs by the rural poor. Reducing rural poverty is essential to achieving sustainable management of Cambodia's environment. (2) Recognition of the importance of communities. Structured interventions to provide local communities with the skills to manage the natural resources base on which their livelihoods depend is the most effective way of achieving sustainable management of these resources. (3) Recognition of the need for institutional capacity building. The MoE and other organizations lack the technical specialization to effectively protect, preserve and manage Cambodia's environment. (4) Recognition of the importance of an integrated approach to environmental planning. Environmental issues are cross-sectoral and different institutions have responsibilities and implement activities that concern the environment. The MoE promotes an integrated and multi-disciplinary approach to environmental management. These principles serve as the framework for addressing environmental priorities identified by MoE.

Environmental and Development Planning. The Government recognizes that effective environmental protection and natural resources management is a cross-sectoral concern. Thus, many of the Government's action to protect the environment and manage environmental impacts are integrated with investment and policy priorities in other sectors. The Government will, over the medium term, prepare and implement routine monitoring of the implementation of all public investment projects in order to ensure that their implementation is environmentally sound and with a view to strengthening the link between development planning and environmental protection. Environmental impact assessment (EIA) and compliance procedures will be incorporated into new projects screening procedures being introduced with the assistance of the ADB and UNDP.

Institutional Capacity. The capacity of the Government's institutions to formulate and implement appropriate environmental planning is critical to the success of environmental management. Over the medium term the Government will support structured interventions that support the capacity of MoE to plan and implement policies and projects, draft legislation and monitor compliance of pollution producing entities. The Government will also identify ways in which public environmental awareness can be increased so that people will be able to make informed decisions and participate in the decision-making process concerning the environment.

Environmental Education. The Government will increase environmental awareness and education with a view to building durable constituencies for the conservation, protection, and sustainable management of natural resources. With external assistance the Government will integrate environmental education into the schools and higher education curriculum to increase environmental awareness among teachers and students. Targeted campaigns will be launched aimed at increasing public awareness at home and at work.

Coastal Management. Coastal area issues include depletion of the fish stock, coral reef exploitation and depletion of mangrove habitats. In addition, the potential for rapid tourism development in coastal areas and the prospect of oil and gas exploration necessitates establishment of a comprehensive multiple-purpose plan for effective coastal management.

The aim is prevention of further coastal environment degradation rather than belated costly rehabilitation, which will be achieved by integrating environmental concerns with economic development policies. The Government will commission with external assistance the development of a comprehensive mangrove habitat management plan that will provide for mangrove restoration and preservation program This will provide the basis for subsequent zoning of all coastal activities and their development in line with economic and environmental priorities.

Urban And Industrial Pollution. Waste management infrastructure and institutional capacity has not kept pace with rapid economic growth and urban expansion. The Government will introduce legislation to manage solid and liquid wastes. National discharge standards will be set and compliance and monitoring systems developed and established. A key element of the strategy will be to promote environmental awareness of the harm caused by unmanaged discharge of pollutants.

Tonle Sap. With the support of external assistance the Government will accelerate efforts to protect the Tonle Sap ecosystem. A strategic natural resource management plan will be developed with the participation of all stakeholders in order to ensure its comprehensiveness, effectiveness and to facilitate its implementation. The Plan and the establishment of a multi-sector advisory and management body will also contribute to better co-ordination of interventions designed to protect the Tonle Sap ecosystem.

Protected Areas Management. Illegal logging, wildlife poaching and high poverty levels pose serious threats to the ecological integrity of Protected Areas. The Government will develop its capacity to better manage those areas designated as protected for biodiversity conservation. Management plan will be prepared and implemented aimed at enabling MoE to fulfill its role as the responsible agency for managing protected areas.

In summary, planned activities and public investments for 2000-2002 in environment, natural resource management and conservation amounts to US\$ million and include the completion with external assistance of capacity building projects covering environmental impact assessment, mangrove management, coastal zoning and management of the Tonle Sap ecosystem.

4.3.4 Infrastructure

Physical infrastructure rehabilitation. The continuing need to reconstruct, upgrade and maintain physical infrastructure consisting of road networks, railways, ports, inland navigation facilities, airports, irrigation and drainage, power and electricity, water supply and sanitation, and telecommunications/national information services forms the basis for increases in productive capacity, in market access and of economic activity, particularly for the rural areas. Cambodia is situated as a natural hub in the road networks connecting Thailand, Laos and Vietnam and voluminous trade and transport traffic is expected to pass through.

Transport. The Government's goal for transport is to establish an efficient low cost competitive transport network, so as to maximize the contribution of transport services to economic growth and regional co-operation. Medium term objectives are to:

- Rehabilitate, maintain and expand transport infrastructure to facilitate integration of markets and maximization of trade especially within the region

- Increase the revenues from the transport sector to cover an increasing share of maintenance and development cost.
- Improve sector operational performance and enhance efficiency of use of existing infrastructure
- Strengthen sector institutional capacity in sector planning and management.
- Promote increasing private sector participation in the transport sector.

The focus of medium term policy and complementary investment actions is on additional upgrading of transport infrastructure in particular primary roads; further policy and institutional reform, enhanced cost recovery from transport users and institutional capacity building to improve sector management.

Maximizing Regional Links. The Government recognizes that the country's geographic location offers strategic opportunities for establishing Cambodia as a regional transportation hub for the Greater Mekong sub-region. The Government places high priority on further expanding tMde to the maximum extent possible to finance the local cost of domestic road and railway programs either alone or in cooperation with international agencies. In addition, the Government will assess the scope for financing of regional infrastructure programs through the participation of the private sector, as has been the case with the international airport. The modalities, incentives, and regulatory structures required to expand this type of financing and management needs, will be further analyzed with the support of technical assistance.

Ports and Inland Waterways. Investment priorities include rehabilitation of dredges to allow for the regular dredging of all major waterways, rehabilitation, and expansion of Sihanoukville deepwater sea port for which a master plan is currently under implementation. Further upgrading of the Phnom Penh Inland River port as well as improvements to smaller domestic river and lake ports and upgrading of existing ferries. The establishment of self-financing entities to own, manage and maintain the international ports of Phnom Penh, Sihanoukville and Koh Kong and to assist provinces to establish locally-generated funding mechanisms to develop and maintain inland port facilities, is being pursued with the private sector. Other plans include: establishing a national ports policies; establishing maintenance organizations for waterways and ports; and a comprehensive database for executing future-oriented studies.

The Railway Network has long been a vital, but much damaged and grossly under-utilized asset. An immediate priority will be to prepare performance standards and a regulatory framework that is aimed at facilitating the expansion of private investment throughout the transport sector, as the regulatory framework for private participation in specific areas such as rail is not clear. The Southern railway line between Phnom Penh and Sihanoukville port requires further rehabilitation to reduce excessive operating costs and thereby also enable effective competition with road transport. The viability of rehabilitating the Northern railway line, including the missing link to the Thai border, is currently being finalized. The study for the construction of the new segment linking Phnom Penh and Ho Chi Minh city (255km include 2 main bridges across the Mekong and Sap river) a part the Trans-ASIAN Railway (Singapore-Kunming) Railink Project was completed and is seeking fund.

Civil Aviation. The Civil Aviation infrastructure requirements have been identified in the Civil Aviation Development Framework (1996) and Civil Aviation Business Plan (1999) prepared for the State Secretariat of Civil Aviation. These studies make in-depth evaluation of present situation of civil aviation in Cambodia and comprehensively define the needs, justification and priority for meeting these needs: a) Enactment of Regulatory frameworks, b) Airports development, c) Development of air navigation services, including introduction of new CNS/ATM system, d) Development of human resources, to cater to the specialized economical, technical, and operational requirements of civil aviation.

For future development of Civil Aviation, government has adopted a set of target and strategies to become an effective authorized organization and a source of national strength. These strategies are indicated bellow:

1. Enactment of Civil Aviation Code (Law) and preparation of empowering rule and regulations for technical, operational and economical standards.
2. Transformation of SSCA into the national level.
3. Capacity building and human resource development,
4. Transformation of SSCA from single centrally controlled integrated Government function into separate autonomous civil aviation entities.
5. Modernizing and strengthening air navigation services and installing the desired navigation and communication equipment.
6. Improvement of enacted Civil Aviation Code
7. Upgrading the designated airport and giving commercial orientation to the airport development.
8. Introduction of new CNS/ATM system.
9. Continuing transform SSCA into separate autonomous civil aviation entities.
10. Continuing overseas training and broadening the in-house training facilities and equipment.
11. Installing new CNS/ATM system for modernized air navigation services.
12. Upgrading all airports and ensure their efficient management.
13. Continue strengthening the regulatory base and increasing commercial orientation of airports and non-regulatory areas
14. Follow up overseas training and strengthening in-house training to meet demands of the complex and dynamic civil aviation industry.

To meet vast civil aviation infrastructure requirement and strategy technical assistance and financial support are required. This support is feasible through external assistance. It is expected that the Banks, Donor assistance and a fair private sector investment would be forthcoming to meet civil aviation needs.

Water Resources Management. The Government's goals and objectives for the irrigation, water supply, and sanitation sectors are to:

- Improve and expand fully operational irrigation areas from 16% to 20% of total rice cultivated area within five-year program (1998-2003) through rehabilitation of irrigation systems
- Organize the irrigated program and water use communities in the improved irrigation scheme
- Improve and expand access to piped potable water supply

- Improve and expand access to sanitation facilities
- Strengthen institutions supporting irrigation, water supply, and sanitation
- Establish reliable hydro-meteorological information system.

The wider provision of water facilities and infrastructures in both rural and urban areas is a high priority of the Government both as means of addressing one the root causes of poverty reduction and as a way of increasing living standards and improving food security and public health.

Electricity Power Development: The energy system is in difficulties and this has significant economic and social implications because of the economy's dependence on petroleum imports. The Government is concerned to strengthen technical and financial performance of the sector and address institutional weaknesses that result in an inadequate and inefficient service. Eliminating the power supply deficit is critical for economic growth. The focus of the Government's priority program is on the power sub-sector . The Government's goal is to provide reliable electricity supplies, to promote the efficient development of the power sector and to strengthen institutional capacities in policy formulation, regulations and sector management.

Oil and Gas: Cambodia remains dependent on imports for all of its oil supplies, a situation that is likely to continue for the next few years. Exploration activity continues in offshore Cambodia and further drilling may take place next year. The deregulated oil and gas sector does not need significant support for securing an adequate supply of petroleum products to the country. However, in support of improved and transparent natural resource exploitation and strengthened financial controls the Government will implement review of oil and natural gas contracts by international reputable specialists before tendering of the contract. The Cambodian National Petroleum authority (CNPA) is seeking investors to conduct exploration activities in prospective onshore acreage near the Tonle Sap. In the area of overlapping claims between Cambodia and Thailand, exploration activity has been deferred pending resolution of the claims. The Authority is seeking to agree with Thailand a basis for joint development of this area, thought to contain significant reserves. A draft Petroleum Law prepared in 1997 is under review before being submitted to the Council of Ministers and legislature for approval. The Authority is also in the process of preparing a legislative regime for regulation of the downstream petroleum industry in Cambodia to bring it into line with regional standards, and is seeking technical assistance for completion and implementation of this legislative reform program.

Posts-Telecommunications and National Information Services: The goals and objectives for communications are to establish an efficient commercial low cost telecommunications network of adequate capacity and coverage in line with the Master Plan together with an efficient public postal service and public broadcast network. Medium term objectives are to:

- Provide telecommunications network capacity to cover Phnom Penh, Sihanoukville and Siem Reap and to expand services to the urban cores of provincial towns
- Extend telecommunication services to rural areas beyond the provincial cities, firstly at district level and later down to commune level.

- Establish a data network, in Phnom Penh and expand gradually to provincial areas, that supports transmission of data at varying speeds for facilitation of IT applications and E-Commerce.
- Establish national standards for the design, construction and operation of all telecommunications services
- Strengthen postal organizational structure and institutional capacity to improve service delivery
- Expand the television and radio network.

The development of the sector hinges on further improvement in the regulatory and legal framework of telecommunications and more efficient use of resources in the postal and information services. Strengthening of the telecommunication policy framework will encourage additional private investment and alternate financing and technical shortages. Restructuring of the postal and information services primarily through reallocation of resources to their most efficient use is a priority and a prerequisite for additional major capital investment in these sub-sectors. National Information Services are committed to the maintenance and expansion of an independent press and to expanding the coverage and efficiency of radio and television networks.

4.4 Social Development

A growing economy is the principal key for accelerated and sustainable growth and development, for combating poverty and for reduction in the country's dependence on external assistance. Within the over context of democracy and good governance, the private sector continues to be the "main engine of Cambodia's economic growth". Increasing and enhancing the economy's market-orientation is therefore an essential thrust. Improvements to rural infrastructure, crop production and irrigation schemes will enhance access to inputs, services and markets and directly contribute to safeguarding crops from climatic hazards and to raising rural productivity and incomes. The commercialization and step-by-step privatization of state-owned enterprises will result in more efficient performance to increase Government revenues. In order to foster the process of private sector growth, Government's capacity needs to be strengthened by, among others, enhancing technical capabilities and making organizational structures more appropriate to current and future needs. It is therefore important to note and bear in mind that the goals to be reached and strategies to be followed are in fulfillment of the Government's "pro-active, dynamic and catalytic" role in achieving economic growth through private sector efforts, including in agriculture. This role, even under the new Government, continues to be pro-democracy, pro-growth, pro-private sector, pro-poor and pro-environment in nature.

4.4.1 Health

Within the above-mentioned context, the policy of the Royal Government of Cambodia for health sector has the following priorities: Provision of basic health services to all people with involvement of community participation; Decentralization of financial and administrative function; Human resource development; Introduction of competition among public and private sector based on technology and professional ethics; Promotion of people's awareness of health

care providers' qualifications and healthy lifestyles; Promotion of health legislation; Special attention to control and prevention of communicable diseases, women's and child health, and taking into account priorities such as elderly and disabled people, mental health, eye care and oral health; Strengthening health information system.

The overall goal of the Ministry of Health is to promote people's health enabling them to participate in the development of the socio-economic sector and reduce the poverty in Cambodia.

The objective is to improve equity and accessibility to basic health services with good quality, efficiency and low cost in order to assure the sustainability of its functions, and to protect the poor.

Therefore, there will be four areas for investment focus:

- Strengthening Health system through: Strengthening Health Management, Planning and legislation through continuing of health sector reform and initiating the preparation for the SWAP for aids coordination; Strengthening Basic Health Services; human Resource Development; Reform of Pharmaceutical management.
- Existing health programs and others, which are being developed, which will be provided in the integrated manner at operational districts, especially at health centers: Tuberculosis control; Control of Malaria, dengue Hemorrhagic Fever and schistosomiasis; Control of AIDS/STDs; Immunization programs; Women and child health programs; Elimination of leprosy.
- Preparedness and response to emerging priorities: Strengthening Medical Specialty for ENT, Oral, and mental health; development of Health Education; Cancer Prevention; blindness Prevention; strengthening national laboratory for controlling food and drug administrations.
- Rehabilitation, upgrading capacity of technology at national and provincial hospitals and expansion of blood transfusion service at referral hospitals over the country.

The overall indicators are defined, and will be measured. In addition to the overall health indicators, specific performance goals and objectives have been defined and will be used for monitoring and evaluation. Selected indicators for monitoring and evaluating overall program implementation progress and results are described.

The total cost of the Public Investment Program for Health Sector is estimated at US\$523 million equivalent. Investment costs are estimated at about 48% of total costs, and external assistance is expected to remain significant. an amount of US\$ 464 million (89% of the total cost) was planned for the two main areas, which aims at providing the basic health services and essential public health interventions.

Although the government has committed, within its limited means, to increase the MOH recurrent budget form 0.7% in 1999 to 1.33% of GDP for the year 2002, a financial gap in an amount of US\$145 million (or 28%) has to be requested, for additional commitment, from donor/lending agencies.

4.4.2 Education:

Government's policy priority for education is ensure equitable access and quality improvement for 9 years of basic education by around 2010. For post basic education Government's priority is enable more equitable access for the poorest, alongside a growing public/private partnership in financing and management.

A cross cutting priority is to strengthen legislative and regulatory frameworks for quality assurance and sector performance monitoring across all sub sectors. It is recognized that total public expenditure has been below what is necessary to achieve these policy objectives.

The Government intention is to more than double the education recurrent budget over the next 3 years as an initial step in securing policy implementation. Increased public spending on education will adopt clearly defined pro poor policies and strategies. For example, the key strategic priority is to reduce direct and indirect costs to parents (the major access barrier) through a significant increase in performance based teacher salaries, thereby eliminating the need for informal parental payment to teachers .

An associated strategy will be to significantly increase school operating budgets, increasingly managed at provincial/district and school levels. These strategies will help secure teacher and pupil attendance, and alongside better availability of instructional materials to assure quality improvement. This will be linked to stronger legislative and regulatory and quality assurance mechanisms.

In specific terms, the policy target is increased public spending volumes and shares (both wage and no wage) for basic education, and targeting selective scholarships for the poorest in post basic education, while encouraging private sector involvement in upper secondary and tertiary education.

The primary policy objective and target is to implement EFA by 2010. A central policy target is to ensure a substantial enrolment rise, especially at lower secondary level (enrolment target 850,000 by 2005). In other words, a projected trebling of enrolment in 5 years. The paper proposes a reallocation of resources that allow this to happen. In addition, the paper indicates the key measures required to ensure that children stay at school and progress rapidly across grades. The required actions for legislative and regulatory reform are set out in the assumptions of the paper.

Another key feature is to significantly increase public spending volumes and shares for upper secondary and post secondary education. This in recognition of inevitable growth in public demand for such opportunities. In the medium term, the paper acknowledges a necessary trade-off between quantitative growth and quality improvement. Simultaneously, the paper leaves the door open for a growing enabling role by Government in stimulating public/private partnerships through better quality assurance, financial management and tighter regulation.

The action program includes the fundamental importance of improved living conditions for teachers. Within the overall resource allocations, there is provision for a doubling of teacher salaries in the next 5 years. It is emphasised that teacher pay rises need to be linked to performance improvements (eg. regulation of attendance) and efficiency gains.

The strategy will be a graduated across-the-board increase for all staff, alongside larger pay rises for core groups, who will make the greatest impact on policy implementation (eg. head-teachers, teachers in remote areas, etc.). In particular, the proposals emphasize the

importance of the classroom teacher, alongside more efficient and scale down administrative support.

The fundamental thrust will be to remove the cost barriers for access to basic education for the poorest families through shifting this responsibility to Government. At the same time, parents will be held accountable, through rigorous monitoring of pupil attendance rates. These financing reforms will be underpinned by early action to establish mechanisms that provide strict quality assurance and information (eg. strengthening the inspection) and stronger legislation and regulatory instruments.

The central thrust will be to secure a recurrent public funding ensuring priority for basic education(e.g. a share of between 70-75% per annum). A second key feature will be a substantial increase in non-salary resource for quality and quality assurance measures. The projections are a rise from 55 billion Riels in 2000 to 255 billion Riels in 2005. A fundamental feature is the projected fall in the share of parental contribution to basic education costs from 50% to 18% over the next 5 years.

A key objective is continued private cost sharing at around 45-50% at upper secondary level. This will be linked to merit-based scholarships for the poorest families. Growing cost sharing is envisaged at post secondary level, linked to greater operational autonomy and better regulation of TVET and higher education institutions. In summary, the paper calls for review and strengthening public/private partnership at post-basic levels. At the same time, it recognizes the need for policy measures that avoid prohibitive costs for poorer parents.

The projections indicate a medium term recurrent budget shortfall of around Riels 130 billion over the next 5 years. At this stage, the intention is for Government to approach donors to help fill this financing gap in order to implement shared EFA policies and targets. Projected capital investment and capacity building requirements are an estimated Riels 100165 billion per annum. These levels are broadly in line with donor support over the past decade and are judged to be realistic. The paper envisages growing opportunities for new mixed donor funding modalities (eg. sector budget support, sector development loans). These would combine sector recurrent budget support, sector development loans). These would combine sector recurrent budget support, capital investment funds and technical support for capacity strengthening.

4.4.3 Rural Development

The co-ordination and planning of an integrated rural development management structure rests with the Ministry of Rural Development (MRD). The structure being established constitutes a major initiative towards a system of decentralized, participatory rural development planning and management. Specifically, the rural development structure will: (1) promote the decentralization of planning, financing and implementation of rural development projects and programs; (2) facilitate an integrated rural development approach which is participatory, area-based and multi-sectoral; (3) provide a forum at each administrative level for dialogue and joint action both among government departments and between the Royal Government and civil society, and the balance between the vertical line ministries' authority and the local authorities; and (4) define, utilize and mobilize the comparative advantages and appropriate capacities within government, civil society, the private sector, international and local agencies and rural communities themselves for development purposes.

Operation and Maintenance of Rural Infrastructure. As of December 1999, only 1,661 km of rehabilitated road was capped with laterite, with only 600 km. maintained regularly as

routine and periodic. Therefore about 1,000 km of rural roads that have been rehabilitated do not have funds for maintenance. A strong, well-functioning rural infrastructure improves basic health & hygiene; reduces the vulnerability; creates new economic opportunities; creates new employment; enhances democratic process and skills' and facilitates and improves the delivery of other rural services. The maintenance of rural infrastructure is to: (1) Prolong the life of the roads and extend the time for when complete reconstruction will be needed; (2) Reduce the expense to vehicles driving on the road; (3) Make the roads available for greater periods of time to the public. In addition, this maintenance not only achieve the above stated purpose, but most importantly, the funds invested in rural road maintenance will directly benefit local people who actually participate in the maintenance works. It is estimated about 85% of total cost of rural road maintenance will be in the form of payment to workers from the local communities where the roads are constructed or rehabilitated. This is one major income generating activities and would directly contribute to increase the purchasing powers in rural areas.

Rural Water Supply and Sanitation Sector. Only about 3.2 million people have access to clean water. Water supply and environmental sanitation are the most felt needs in rural communities. One of the primary manifestations of poverty is the lack of access to clean water and sanitation. Women and children have to walk long distances from the home to fetch water, particularly in the dry season. The time and energy spent in meeting the essential need of water supply has significant non-quantifiable, direct and indirect effects on health, nutrition and productivity. Often people use water from lakes and ponds, which is sometimes pumped to small tankers and sold. There is no treatment of this water, which is often unsafe for drinking.

4.4.4 Women and Veterans Affairs

The MoWVA's mandate is being implemented through the development of a strategic plan with the rights-based approach to empowerment. The plan is called Neary Ratanak-Women Are Precious Gems. The new strategy aims to develop programs organized around human resource development which entails capacity development of national and provincial staff of the MoWVA as well as capacity development of women and families of Veterans. The plan aims to answer, in a coherent framework, the call for advocacy and law enforcement, prociding a new image of Cambodian women, as equal partners in the country's development. In order to implement its mandate, the MoWVA has identified the following high priorities:

- To develop first the human resource to equip the Ministry, as the national machinery for the promotion of the status of women
- To proactively assess the needs of women at the grass roots, plan and implement multi-sector poverty alleviation program with women groups, NGOs and local governments by utilizing the Ministry extensive structure down to the district level
- To establish and develop effective planning and co-ordination mechanisms with focal point officers in line ministries, NGOs and the international community aiming at mainstreaming gender issues and concerns in all policies and programs in the country.
- To collect and collate data and research papers on the situation of women and veterans in Cambodia and based in them guide a national investment plan for the promotion of the status of women and reintegration of veterans.

- To establish the Cambodian National Council for Women (CNCW).

To address these high priority areas of work and successfully implement the strategy MoWVA urgently needs assistance in the implementation of the following development programs: (1) Strategic Management; (2) Policy and Planning; (3) Reproductive and Sexual Health particularly HIV/AIDS; (4) Information and Communication; (5) Family and Economic Development; (6) Human Resource Development; (7) Legal Protection; (8) Gender Advocacy (9) Administration and Finance; (10) Reintegration and Socio-Economic Development of Veterans.

4.5 Good Governance

Good Governance has been recognize as a prerequisite to economic development. The Royal Government has demonstrated its commitment to enhancing governance. The Royal Government is committed to mobilizing internal resources towards the many identified priorities. However, timely and quality technical and financial support of the international community can lever and accelerate the pace of reforms. The Government has determined that the following six priority actions will retain attention:

- To establish "priority groups"
- To further democratize the country (decentralization/deconcentration)
- To accelerate and better coordinate reform of the Sate
- To accelerate legal and judicial reform programs
- To facilitate the development of a comprehensive Governance Action Plan of prioritized initiatives with the active involvement of all stakeholders
- To establish partnership arrangements

The Government's political will to proceed on governance issues is firm. Prime Minister H.E. Samdech HUN SEN has repeatedly affirmed that the quest for good governance is a political and practical necessity for the sake of the people. The Royal Government is committed to action in partnership with the civil society and the international donor community and to doing what it can to mobilize resources towards the many identified priorities. The Royal Government welcomes international support in its historic quest for good governance. New partnerships among stakeholders, and in particular the international donor community and civil society will be crucial for the success of collective efforts.

Table 1: GDP Growth Rate by Industrial Origin

1990	1991	1992	1993	1994	1995	1996	1997	1998	1999	2000
R bn	%	%	%	%	%	%	%	%	%	
127.4	6.7	1.9	1.00	2.3	7.5	2.2	5.8	2.5	1.5	-1.8
74	7.2	-0.4	-2.3	-10.4	28.2	4.4	-2.7	0.6	9.1	-2.6
34.1	1.2	7	3	-0.5	-2.8	2.5	1.2	5.6	-4.9	2.8
12.4	8.9	-5.9	-5.5	-5.9	1.4	8.3	7.8	5.4	16	4.0
6.9	24.6	15.1	0	75.5	-22.5	-14.7	44.3	-0.1	-33.2	-6.5
36.3	8.8	15.7	13.1	4.2	20.2	11.7	20.4	8.6	11.4	16.0
2.8	7.1	6.7	6.3	7.2	2.8	-4.6	0.1	1.4	8.0	10.5
17.2	7.0	3.3	7.9	4.9	10.8	18.7	35.1	16.4	9.1	18.9
0.5	0	20	16.7	7.5	31.0	0.9	1.6	3.7	3.8	12.3
15.8	11.4	30.1	18.3	2.2	39.8	1.3	-6.4	-13.2	21.6	11.1
80.0	8.5	11.2	7.0	-0.2	4.2	4.8	-3.7	-1.3	5.8	6.0
6.4	9.4	15.7	9.9	10	0.1	8.8	-14.4	-2.6	13.2	8.6
30.5	12.8	16.0	6.0	5.8	9.1	-0.2	-2.4	-5.3	1.7	7.3
11.0	0	0	4.5	24.5	17.9	6.2	-3.3	-4.1	18.3	8.7
				1.7	4.4	8.3	-0.8	2.9	3.5	3.4
243.7	7.6	7.1	3.90	4.0	6.7	5.5	3.7	1.8	5.0	4.5

Table 2: Summary of Budget Operations

(In Billion Riel, current prices)

	1995	1996	1997	1998	1999	2000 (est.)
<u>REVENUE</u>	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
<u>EXPENDITURE</u>	1,206	1,343	1,262	1,571	1,839	2,073
1. Current Expenditure	695	813	808	940	1,111	1,186
Defense & Security	426	407	419	453	468	439
- of which wages	230	223	252	294	327	304
Civil Administration	264	406	389	487	642	746
- of which wages	117	122	134	153	191	212
2. Capital expenditure	511	629	452	629	728	887
- local financed investments	57	62	110	122	224	309
- externally financed investments	454	567	342	507	504	578
<u>BUDGET BALANCE</u> (Cash basis)						
- overall	-563	-692	-379	-626	-509	-650
- current (excluding grants)	-60	-103	59	-30	205	212
<u>FINANCING</u>	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				-2	38	0
	<i>AS A PERCENTAGE OF GDP</i>					
<u>REVENUE</u>	8.5	9.0	9.6	8.9	11.5	11.8
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
<u>EXPENDITURE</u>	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
<u>BUDGET BALANCE</u>						
<u>Current deficit</u>	-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

Table 3: Monetary Survey

Item	1995	1996	1997	1998	1999	2000
BILLION RIELS						
Net Foreign Assets	550	881	1,172	1,726	2,019	2,448
Net Domestic Assets	99	31	-109	- 494	-577	-591
Domestic Credit	446	567	697	841	876	1,057
Net claims on government	148	128	54	179	103	83
State enterprises	5	5	6	6	10	9
Private sector	293	435	637	656	763	965
Other Items	-347	-536	-805	-1,335	-1,453	-1,648
Total Liquidity	649	912	1,063	1,230	1,443	1,943
Money Supply (M1)	278	329	385	543	532	570
Currency in Circulation	251	300	356	509	490	528
Demand deposits	28	29	29	34	42	42
Quasi Money	371	583	678	687	911	1,373
Time & savings deposits	5	8	13	20	32	35
Foreign Currency Deposits	366	575	665	667	879	1,338
Annual Percentage Change						
Net Foreign Assets	40.7	60.1	33.0	47.3	17.0	21.2
Net Domestic Assets	67.6	-68.7	-450.5	-354.4	-16.8	-2.0
Domestic Credit	15.6	27.1	22.8	20.7	4.2	20.7
Net claims on government	3.3	-13.7	-57.8	232.5	-42.5	-19.4
State enterprises	-14.9	2.3	13.5	1.2	66.7	-10.0
Private sector	23.8	48.1	46.5	3.0	16.3	26.5
Other Items	-6.2	-54.5	-50.1	-65.8	-8.8	-13.4
Total Liquidity	44.3	40.4	16.6	15.7	17.3	34.7
Money Supply (M1)	39.6	18.1	17.0	41.1	-2.0	7.1
Currency in Circulation	42.3	19.5	18.8	43.0	-3.7	7.8
Demand deposits	18.5	5.5	-1.3	18.5	23.5	0
Quasi Money	48.0	57.2	16.4	1.3	32.6	50.7
Time & savings deposits	-71.5	55.0	68.2	51.4	60.0	9.4
Foreign Currency Deposits	57.2	57.3	15.7	0.3	31.8	52.2

Sources: National Bank of Cambodia

Table 4: Balance of Payments
(\$ million)

	1996	1997	1998	1999	2000 (est.)
<u>Trade balance</u>	-428	-231	-173	-231	-380
<u>Exports (fob)</u>	644	862	890	980	1,049
of which : Domestic	295	534	604	712	939
Re-exports	348	327	296	268	110
Imports	-1,072	-1,092	-1,073	-1,212	-1,428
<u>of which: Retained</u>	-723	-765	-777	-946	-1,318
Service (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	-110	20	-7	-52	-176
Transfers					
Official Loans (net)	90	41	43	44	79
Non official investment(net)	170	123	101	66	130
of Which: Foreign Direct	294	168	121	129	130
Investment (net)					
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
<u>Other</u>	-3	0	11	9	n.a
<u>Annual Percentage</u>					
<u>Change</u>					
<u>Domestic exports</u>	10.1	81.0	13.0	17.9	31.9
<u>Retained Imports</u>	22.9	5.8	1.6	21.4	39.3
<u>Foreign Direct Investment</u>	94.9	-42.8	-28.2	7.2	0.0
<u>As Percent of GDP</u>					
<u>(current Prices)</u>					
<u>Domestic exports</u>	9.3	17.5	21.6	23.5	30.3
<u>Retained Imports</u>	-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