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KINGDOM OF CAMBODIA

Nation – Religion - King

**CAMBODIA:
NATIONAL POVERTY REDUCTION STRATEGY**

PROGRESS REPORT
(Updated 19 August 2004)

**Supreme National Economic Council
Ministry of Economy and Finance
Council for Social Development**

Phnom Penh, Kingdom of Cambodia

Note: *This document may be downloaded from the website of the Ministry of Economy and Finance: www.mef.gov.kh
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List of Acronyms

ADB	Asian Development Bank
AFD	Agence Française de Développement
APR	Annual Progress Report
ARI	Acute Respiratory Infection
ASEAN	Association of South East Asian Nations
ATC	Agreement on Textiles and Clothing
AUF	Agence Universitaire de la Francophonie
AUSAID	Australian Agency for International Development
BFAD	Budget and Financial Affairs Department
CA	Civil Administration
CAR	Council for Administrative Reform
CARDI	Cambodia Agricultural Research and Development Institute
CAT	Certified Accounting Technicians
CCC	Cooperation Committee for Cambodia
CDAS	Commune Decentralization Accounting System
CDC	Council for the Development of Cambodia
CDRI	Cambodia Development Resource Institute
CED	Customs and Excise Department
CF	Community Forestry
CG	Consultative Group
CLJR	Council for Legal and Judicial Reform
CMC	Cash Management Committee
CMDG	Cambodian Millennium Development Goal
CNC	Cambodian Network Council /National Council for Nutrition
COA	Chart of Accounts
CPA	Certified Public Accountants
CR	Cambodian Riels
CSD	Council for Social Development
CSES	Cambodian Socio-Economic Survey
DFID	Department for International Development
DHS	Demographic and Health Survey
DOT	Department of Taxation
DS	Defense and Security
EC	European Community
ECS	Economic Cooperation Strategy
EFA	Education for All
ESP	Education Strategic Plan
ESSP	Education Sector Support Program
ESWG	Education Sub-Sector Working Group
FAO	Food and Agriculture Organization
FDI	Foreign Direct Investment
FRMR	Fund for Repairs and Maintenance of Roads

FTB	Foreign Trade Bank
GAP	Governance Action Plan
GDP	Gross Domestic Product
GFS	Government Finance Statistics
GMS	Greater Mekong Sub-region
GSCSD	General Secretariat of the Council for Social Development
GSP	Generalized System of Preferences
GTZ	Deutsche Gesellschaft für Technische Zusammenarbeit
HRMIS	Human Resource Management Information System
HSSP	Health Sector Strategic Plan
HSSP	Health Sector Support Project
IAIS	International Association of Insurance Supervisors
IFAD	International Fund for Agricultural Development
IFAPER	Integrated Fiduciary Assessment and Public Expenditure Review
ILO	International Labor Organization
IMF	International Monetary Fund
IMR	Infant Mortality Rate
IMTC	Inter-ministerial Technical Committee
IRAP	Integrated Rural Accessibility Planning
IRR	Institute of Rubber Research
JICA	Japan International Cooperation Agency
KICPAA	Khmer Institute of Certified Public Accountants and Auditors
LBAT	Labour-based Appropriate Technology
LOC	Law on Customs
LOI	Law on Investment
LOT	Law on Taxation
LTU	Large Taxpayer Unit
LWF	Lutheran World Federation
MAFF	Ministry of Agriculture, Forestry and Fisheries
MDG	Millennium Development Goal
MEF	Ministry of Economy and Finance
MFI	Micro Finance Institution
MMR	Maternity Mortality Rate
MOEYS	Ministry of Education, Youth and Sports
MOH	Ministry of Health
MOP	Ministry of Planning
MOWRAM	Ministry of Water Resources and Meteorology
MOWVA	Ministry of Women's and Veteran's Affairs
MPWT	Ministry of Public Works and Transport
MRD	Ministry of Rural Development
MTEF	Medium Term Expenditure Framework
MTU	Medium Taxpayer Unit
MTWF	Medium Term Wage Bill Framework
NAA	National Audit Authority

NAC	National Accounting Council
NBC	National Bank of Cambodia
NDA	Net Domestic Asset
NGO	Non-Governmental Organization
NIS	National Institute of Statistics
NPA	Norwegian People Aid
NPAR	National Program for Administrative Reform
NPRS	National Poverty Reduction Strategy
NT	National Treasury
O&M	Operating and Maintenance Costs
ODA	Oversee Development Assistant
PADEK	Partnership for Development of Kampuchea
PAP	Priority Action Program
PEFM	Public Expenditure and Financial Management
PETS	Public Expenditure Tracking and Service Delivery Survey
PFM	Public Financial Management
PIP	Public Investment Program
PLWHA	People Living with HIV/AIDS
PMATU	Poverty Monitoring and Analysis Technical Unit
PMG	Priority Mission Group
PMU	Project Monitoring Unit
PPA	Participatory Poverty Assessment
PRGF	Poverty Reduction and Growth Facility
PSP	Private-sector Participation
PT	Provincial Treasury
RCC	Rehab Craft Cambodia
RDB	Rural Development Bank
RGC	Royal Government of Cambodia
RUA	Royal University of Agriculture
SAC	Statistics Advisory Council
SCC	Statistics Coordination Committee
SEDP	Socio-Economic Development Plan
SGS	Société Générale de Surveillance
SIDA	Swedish International Development Agency
SME	Small and Medium Enterprise
SNEC	Supreme National Economic Council
SPS	Sanitary and Phytosanitary Standards
SRCS	Strategy to Rationalize the Civil Service
SWOT	Strengths, Weakness, Opportunities and Threats
TCAP	Technical Cooperation Assistance Programme
TOD	Taxation Department
TOFE	Table of Economic and Financial Operations
TVET	Technical and Vocational Training
U5MR	Under-five Mortality Rate

UNDP	United Nations Development Programme
UNESCO	United Nations Education, Scientific and Cultural Organization
UNFPA	United Nations Population Fund
UNICEF	United Nations Children's Fund
US	United States
VAT	Value-Added Tax
VDC	Village Development Committee
WB	World Bank
WFP	World Food Programme
WHO	World Health Organization
WTO	World Trade Organization

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1. Introduction

Cambodia's development performance in 2003 built upon progress gained in 1999 – 2002, further demonstrating the nation's resolute movement towards lasting peace and sustainable development, manifested in robust economic growth, continuing strengthening of Democratic institutions and alleviation of poverty. Cambodia successfully hurdled all 6 PRGF reviews by February 2003, laying the stage for the Royal Government of Cambodia's vision that: *"By the end of the first decade of the 21st century, Cambodia will have fully reclaimed its destiny, stands as a real partner in regional and global affairs and be well on her way toward being a truly free nation, and above all free from want and poverty."*

In 2003, the Royal Government succeeded in maintaining macroeconomic stability in the face of external and internal disruptions and uncertainty. Improved security and strengthened peace across the entire country have been crucial to social and economic stability and continuing reduction in poverty. As a highlight, in September 2003 Cambodia was approved for membership in the WTO, becoming the first-ever less-developed country to achieve such approval. Indeed, Cambodia is on the correct track in modernizing the economy and liberalizing trade and investment to integrate the country into the regional and world economy.

Cambodia's national elections were held in July 2003. The elections were conducted in an orderly and peaceful manner and certified so by international observers. This was due to the improved law enforcement capability of the Ministry of Interior and the Royal Cambodian Armed Forces. Despite the successful election, the economic and social fabric of the nation was severely disturbed by events such as the anti-Thai riots in early 2003, the outbreak of SARS soon after and arising from the elections, the uncertainty that has persisted into 2004. These adverse events caused unexpected shortfalls in fiscal revenues with serious repercussions on budget execution in general, and the implementation of NPRS programs and projects in particular. Moreover, due to the delay in forming a new government, progress on some actionable measures has been limited. Despite the political deadlock, the RGC has taken serious strides to prepare the reform programs for the new government.

NPRS Dissemination

The Council for Social Development (CSD) has taken serious strides to disseminate the National Poverty Reduction Strategy (NPRS). The NPRS was publicly launched in March 2003, with participation from the broad range of stakeholders including government officials, members of Parliament, representatives of donors, NGOs, academia/researchers, private sector, trade unions and the media. The NPRS was made available both in Khmer and English. Free copies of the NPRS were distributed to a large number of policymakers, civil servants, provincial and local authorities, commune councils, and representatives of vulnerable groups. Several workshops were organized

at the national, provincial and district levels to spread the NPRS and its key messages across to all stakeholders.

The CSD also implemented actions to further discuss NPRS priority activities and strategic actions, so that the actions are linked more closely to the public investment program (PIP).

The First Annual NPRS Report

The coverage of this document, the first Annual NPRS Report, is deliberately selective and thereby limited to only the key, priority areas. Responding to concerns earlier expressed by stakeholders, the Royal Government has: (i) costed and prioritized programs in the annual budget, linking these together within the Medium-Term Expenditure Framework (MTEF); (ii) strengthened budget management; (iii) improved governance and reduced corruption; (iv) called for the building national capacity for poverty monitoring and evaluation of key programs and policies; and (v) focused on elaborating and implementing pro-poor rural and infrastructure development strategies.

The first Annual NPRS Report has also attempted to reconcile the Millennium Development Goals and the NPRS for 2005. Further efforts are necessary both in the UN system and in the Royal Government to merge the MDGs and NPRS targets into a consistent single set that will facilitate policy implementation and monitoring. As the process progresses, future NPRS reports shall be more supportive of the MDGs and also provide a more comprehensive review of Cambodia's development strengths, weakness, opportunities and threats (SWOT).

The Reform Strategy for 2004-2008

Soon after the July 2003 elections, the RGC drafted a comprehensive reform agenda, which selects from and prioritizes actions arising from the NPRS and the *Socio-Economic Development Plan 2001-2005*, and has "good governance" as its backbone.

In the first of the Council of Ministers' Meeting for the third mandate of the National Assembly on the 16th of July 2004, Samdech Prime Minister Hun Sen introduced the "*Rectangular Strategy*" for growth, employment, equity and efficiency. The "*Rectangular Strategy*" is an integrated structure of interlocking rectangles, as follows:

First, the core of the *Rectangular Strategy* is **good governance** focused at four reform areas: (1) anti-corruption, (2) legal and judicial reform, (3) public administration reform including decentralization and deconcentration, and (4) reform of the armed forces, especially demobilization;

Second, the overall environment for the implementation of *Rectangular Strategy* consists of four elements: (1) peace, political stability and social order; (2) partnership in development with all stakeholders, including the private sector, donor community and

civil society; (3) favorable macroeconomic and financial environment; and (4) the integration of Cambodia into the region and the world.

Third, the four strategic “growth rectangles” are: (1) enhancement of agricultural sector; (2) private sector development and employment generation; (3) continued rehabilitation and construction of physical infrastructure; and (4) capacity building and human resource development.

Fourth, each strategic “growth rectangle” has four sides:

- *Rectangle 1: Enhancement of Agricultural Sector* which covers: (1) improved productivity and diversification of agriculture; (2) land reform and clearing of mines; (3) fisheries reform; and (4) forestry reform;
- *Rectangle 2: Continued Rehabilitation and Construction of Physical Infrastructure*, involving: (1) continued restoration and construction transport infrastructure (inland, marine and air transport); (2) management of water resources and irrigation; (3) development of energy and power grids, and (4) development of Information and Communication Technology;
- *Rectangle 3: Private Sector Development and Employment Generation* covers: (1) strengthened private sector and attraction of investments; (2) promotion of SMEs; (3) creation of jobs and ensuring improved working conditions; and (iv) establishment of social safety nets for civil servants, employees and workers; and
- *Rectangle 4: Capacity Building and Human Resource Development*, including: (1) enhanced quality of education; (2) improvement of health services; (3) fostering gender equity, and (4) implementation of population policy.

NPRS Report Participatory Process

The Progress Report on the assessment of NPRS implementation has been prepared through a participatory process involving various key units of the Royal Government and its development partners, including the: Supreme National Economic Council (SNEC), Ministry of Economy and Finance (MEF), General Secretariat of the Council for Social Development (GSCSD), line ministries, donors, NGOs both local and international, and representatives of civil society. The SNEC was responsible for the drafting of the report, including the incorporation of comments and contributions from stakeholders. The GSCSD coordinated the process as a whole, linking with all line ministries and updating the NPRS matrices. Multiple consultations were organized with all key and core stakeholder groups, as well as members of the seven sectoral working groups

Starting October 2003, the Royal Government invited a broad set of domestic and external stakeholders to be represented on the NPRS Advisory Group, including: NGO Forum, MediCam, CCC, CDRI, CSD, PADEK, University of Cambodia, UNICEF, WHO, UNESCO, WFP, JICA, GTZ, AFD, AUSAID, IMF, UNDP, WB, ADB, FAO, DFID, Sida and the EC. The NPRS Advisory Group met several times during the process of preparation of this report, to constructively read, review, comment upon and contribute to the final report.

The timetable for the preparation of the NPRS Annual Progress Report highlights the participatory nature of its preparation (see Table 1 below). On 27 October 2003, the "zero" draft was circulated for comments to all stakeholders. The first meeting of core group of stakeholders took place on 4 November 2003 to discuss the "zero" draft and revise it into a first draft. The first draft was discussed in a large workshop involving all stakeholders on 4 December 2003. The results of the workshop were the basis of producing a second draft presented to stakeholders on 22 December 2003. On 12 January 2004 the second draft was circulated to the International Financial Institutions. A final draft is scheduled for completion by 27 April 2004. On 30 April, the final version will be submitted for consideration by the Council of Ministers, and when approved, officially shared with the international donor community.

Table 1.1: Timetable and Preparation of the First Cambodia NPRS Progress Report

Week/ Date	Activity/ Event
October 20, 2003	Contributions from MOP, MOEYS, MOH, MRD, MAFF and MTPW MOP responsible for revision of matrix Preparation of first draft by MEF
October 22	NPRS Advisory group identified
October 27	"Zero" draft circulated to advisory group and line agencies Work on indicators and revisions
November 4	Core group discusses "zero" draft, with support by MEF and GSCSD Redraft
November 14	Circulation of first draft
December 4	Workshop of representatives of all stakeholders and NPRS Advisory Group to discuss first draft, with support by SNEC and GSCSD Revision of first draft by SNEC, with inputs from MOP and line agencies.
April 12	Circulation of second draft to the IFIs and line agencies
April 27	Final Report due
April 30	Final Report submitted to Council of Ministers

May 10

Release of report for wide dissemination, including to major donors.

2. Cambodia's Macroeconomic Framework

Despite some political uncertainty related to the July 2003 elections, economic growth in 2003 turned out better than expected.

2.1. Recent Economic Performance

The Cambodian economy grew by 5.2 percent in 2003 compared to 5.5 percent in 2002, led by continued growth in garments exports, a rebound in overall investments and an upward surge in agricultural production. However, the tourist sector declined by 10 percent due to the combined impact of the anti-Thai disturbance in Phnom Penh early in 2003 and the outbreak of SARS across most of the region. However, the drop in foreign direct investment was more than compensated by domestic private investment and higher consumption induced by higher public spending. Moreover, the weakness in the service sector receipts was offset by continued strong growth in garments exports. Prices held firm, with inflation slight at 1.2 percent (average percentage change in CPI inflation), in sharp contrast to the 12% inflation experienced during the elections of 1998.

Agricultural production grew by 9.2 percent in 2003, led by a 25.3 percent rebound in crops, following negative growth due to floods in 2002. The surge in crop production enabled the country to maintain its self-sufficiency in rice and kept food prices low. Livestock and fisheries grew moderately, while forestry sector continued its planned decline.

Continued strength in garments exports was reflected in a 27 percent increase in 2003 (Table 2.3), underpinning double-digit growth in manufacturing of 12.2 percent. Construction sector negatively decreased to -3 percent compared to 14 percent growth in 2002 due to slowing down in public and private investments.

The decline in foreign investment approvals was more than offset by strong growth of domestic investments. Investment project approvals in 2003 totaled US\$312 million, of which US\$139 million were proposed investments in the tourism sector. Proposed investments in manufacturing amounted to US\$86 million, including 19 proposals to establish garment factories which are expected to create some 25,000 new jobs. There was a considerable increase in investments undertaken by Cambodian entrepreneurs in 2003, the total of which accounted for 42 percent of all investment projects

The service sector declined, due to the combined effect of anti-Thai disturbances and the outbreak of SARS. Hotels and restaurants sector dropped to the level of -10 percent. Although tourism activity recovered in second half of 2003, overall tourism arrivals in 2003 were almost 11 percent lower than arrivals in 2002, resulting in no growth for services overall.

In 2003, about 40,000 jobs were created in manufacturing, mostly in SMEs, while about 200,000 new workers entered the labor market.¹ It is clear that the development of a robust agricultural sector, labor-intensive industries and services are critical to absorbing the labor surplus.

Table 2.1: Cambodia - Visitor Arrivals, 1998-2003

Modes of Arrival	1998	1999	2000	2001	2002	2003
By air	186,333	262,907	351,661	408,377	522,978	455,972
-Phnom Penh	175,910	234,382	264,649	274,689	320,187	269,674
-Siem Reap	10,423	28,525	87,012	133,688	202,791	186,298
Land and Boat	100,191	104,836	114,704	196,542	263,546	245,042
Total	286,524	367,743	466,365	604,919	786,524	701,014

Source: Ministry of Tourism. 2003. Tourism Statistical Report Year Book.

Table 2.2: Cambodia - Key Macroeconomic Indicators, 2001-2008
(In Percent of GDP, Unless Otherwise Indicated)

	2001	2002	2003	2004	2005	2006	2007	2008
			Est.	Projections				
Real sector								
Real GDP (% change)	5.7	5.5	5.2	4.3	1.9	4.3	5.5	5.9
Real per capita GDP (in riels; % change)	3.1	2.8	3.1	1.7	-0.6	1.8	2.9	3.3
CPI Inflation (end-period; % change)	0.7	3.7	0.5	3.2	2.8	2.5	3.0	3.0
CPI Inflation (average; % change)	0.2	3.3	1.2	2.0	2.9	2.5	2.9	3.0
GDP deflator (% change)	-0.3	2.1	1.6	2.0	2.9	2.5	2.9	3.0
Domestic savings (excl. transfers)	8.1	9.5	7.0	5.3	3.3	4.2	5.6	6.7
National saving	20.1	21.3	18.6	16.7	14.3	14.9	15.8	16.5
Government saving	1.1	1.2	-0.6	1.2	1.1	1.0	1.3	1.4
Private saving	19.0	20.2	19.2	15.4	13.2	13.9	14.5	15.1
Domestic investment	21.2	22.2	21.0	20.0	18.5	19.0	19.5	19.7
Government investment	6.6	7.8	7.4	7.3	7.2	7.0	6.7	6.4
Non-budget, grant-financed investment	5.5	5.2	5.3	5.2	5.1	5.1	5.0	4.8
Private investment	9.1	9.2	8.3	7.4	6.2	6.9	7.8	8.6
Of which: change in inventories	2.1	-0.4	...	...	...	...	...	...
Fiscal sector								
Revenue	10.7	11.2	10.4	11.9	12.3	12.9	13.3	13.7
Tax revenue	7.8	7.9	7.3	8.2	8.0	8.0	8.1	8.1
Of which: Domestic taxes	1.7	1.6	1.8	1.9	1.8	1.8	1.9	1.9
International taxes	5.8	6.1	5.2	6.0	6.0	6.0	6.0	6.0
Non-tax revenue	2.9	3.2	3.1	3.3	2.8	3.0	3.0	3.1
Of which: quota auctions	0.2	0.5	0.4	0.5	0.0	0.0	0.0	0.0

¹ Estimates based on the report by the establishment registration provided by the Ministry of Industry, Mine and Energy, Kingdom of Cambodia.

Capital revenue	0.1	0.1	0.0	0.0	0.0	0.0	0.0	0.0
Revenue measures	...	...	0.0	0.4	1.5	1.8	2.1	2.5
Expenditure	16.3	17.8	17.4	18.0	18.4	18.9	18.7	18.7
Current	9.6	10.1	11.0	10.7	11.2	11.9	11.9	12.3
Wages	3.4	3.7	3.7	3.7	3.8	4.0	4.2	4.5
Civil administration	1.5	1.9	2.0	1.9	2.3	2.6	2.8	3.1
Defense and security	1.9	1.8	1.7	1.7	1.5	1.4	1.4	1.4
Interest payments	0.1	0.2	0.2	0.6	0.7	0.8	0.7	0.7
Social spending (excl. wages)	1.6	2.0	1.9	2.1	2.2	2.3	2.3	2.5
Payment of arrears	...	...	...	0.3	0.6	0.6	0.5	0.5
Other	4.5	4.2	5.2	4.0	3.9	4.2	4.1	4.0
Capital 1/	6.7	7.9	7.3	7.3	7.2	7.0	6.7	6.4
Net lending	0.0	0.0	-0.2	0.0	0.0	0.0	0.0	0.0
Current balance	1.1	1.2	-0.6	1.2	1.1	1.0	1.3	1.4
Primary balance (including grants)	-2.7	-3.6	-4.3	-3.2	-3.1	3.1	-2.7	-2.4
Overall balance	-5.5	-6.7	-7.0	-6.1	-6.1	-6.0	-5.4	-5.0
Overall balance (incl. grants)	-2.8	-3.8	-4.5	-3.8	-3.8	-3.8	-3.4	-3.1
Domestic financing (incl. outstanding operations)	0.3	-0.4	0.9	0.0	0.0	0.0	0.0	0.0
External financing	5.2	7.0	6.0	6.1	6.1	6.0	5.4	5.0
Monetary sector								
Broad money (percent change)	20.4	31.1	15.3	18.3	13.0	16.0	16.7	16.5
Velocity (GDP/M2)	7.2	6.0	5.4	5.0	4.6	4.3	4.1	3.8
Private sector credit (percent change)	4.2	13.2	26.2	16.5	15.2	16.7	16.7	16.1
External sector								
Domestic exports (percent change)	14.0	12.1	19.6	8.0	-9.5	0.7	6.4	7.7
Retained imports (percent change)	8.7	10.9	13.3	12.4	-2.8	4.1	7.1	7.7
Retained imports (excl. garments, percent change)	9.9	5.4	11.3	14.9	1.9	6.3	8.0	8.2
Current account balance (excluding transfers)	-9.4	-9	-10.2	-10.8	-11.5	-11.3	-10.5	-9.7
Current account balance (including transfers)	-1.2	-0.9	-2.4	-3.3	-4.2	-4.1	-3.7	-3.2
Foreign direct investment (US\$, millions)	142	139	77	83	83	91	105	121
Overall balance	1.2	1.5	0.8	0.1	-0.1	0.2	0.9	1.1
Gross official reserves (millions of US\$)	548	663	737	782	804	838	886	935
(in months of imports)	2.7	3.0	2.9	2.8	2.9	2.9	2.9	2.9
Memo item: Net capital flows 2/	9.6	11.6	10.6	49.0	11.4	11.3	10.2	9.3
External debt 3/	67.2	68.4	70.8	46.3	48.3	49.9	49.7	48.9
External public debt-service ratio, accrual basis 4/	3.1	2.8	2.9	2.0	2.2	2.2	2.4	2.6
External public debt-service ratio, cash basis 5/	1.0	1.0	1.2	1.8	2.2	2.2	2.4	2.6

Source: Ministry of Economy and Finance, National Bank of Cambodia, IMF.

1/ Includes net lending and compensation payments to Thailand in 2003;

2/ Net official disbursement, exceptional financing, and official transfers;

3/ Figures include bilateral debt with the Russian Federation and US and reflects impact of completing rescheduling agreements on Naples terms by end-December 2003;

4/ As percent of domestic exports of goods and services. Decline in 2001 of Tonle Sap reflects the tailing off of payments to the Russian Federation;

Sustainable future economic growth in Cambodia remains heavily dependent on the ability of the government to diversify the economy and broaden the base for growth. The challenge for Cambodia is to strengthen governance in order to attract more private investments and ensure competitiveness vis-à-vis neighboring countries. In particular, the country's physical infrastructure framework must be expanded serve the marketing requirements of the rural economy. Social infrastructure like health and education will be further enhanced. Greater domestic investment will also be encouraged, preferably in industries that utilize domestic resources, like small-and-medium enterprises. Regional initiatives to further integrate Cambodia into ASEAN will be accelerated, particularly through the Economic Cooperation Strategy (ECS) partnership scheme with neighboring countries.

Peace, political stability and social order are needy criteria to enhance macroeconomic stability, sustainable development and especially, poverty reduction. Therefore, the Royal Government will continue its work with the direction to implement national security policy by collecting and destroying all kinds of weapons and ammunition; stopping robbery, drugs, mafia and money laundering; cracking down on terrorism and human smuggling to further strengthen peace, political stability and social order for the people to reflect as a step forwards by Cambodia toward development and prosperity with a full pledge to solve all consequences from the genocidal regime and civil war that have destroyed Cambodia in the last three decades. In this sense, the strengthening of peace, political stability and social order will create a real picture for Cambodia to increase trust from investors and tourists as well as facilitating the people to do business as normal and participating in the economic development.

Ensuring appropriate public expenditure to achieve rapid economic growth is crucial for poverty reduction. As set out in the NPRS, the Royal Government aimed to attain inclusive, broad-based economic growth at the rate of 6 to 7 percent per year, and achieved it in 1999-2003. However, current external and internal conditions indicate that a rate of 6 to 7 percent is difficult to achieve in the medium term.

Therefore the Government has revised key macroeconomic targets downward, updating the NPRS on three accounts: (i) economic developments since the NPRS was formulated, for example, the SARS outbreak, the anti-Thai disturbances and uncertain election-period environment. These factors are expected to reduce GDP growth by 1 to 1.5 percent; (ii) revised GDP data through 2002 which now include higher estimates of the size of the informal sector; and (iii) delays in the implementation of structural reforms such as reductions in cost of production and doing business, improvements in quality, increased productivity and improved marketing, social and labor conditions. All in all, the delays mean that Cambodia may only attain the competitiveness status of China only by 2006 – 07.

The revised macroeconomic framework reflects the following: (i) all ratios to GDP are lower as national income has been revised upwards, and (ii) real GDP growth will dip in 2005 as Cambodia will lose the advantages of quota-based garments market share following the phasing out of the quotas. Growth in 2005 will fall to 1.9 percent, and pick up again in 2007-2008 to 5.5 percent and 6 percent respectively once reform programs take effect.

Better performance of the agricultural sector following implementation of market-friendly policies and increased investment is expected to boost rural and agricultural growth, pushing up real GDP growth and substantially contributing to poverty reduction. The contribution to growth of the agriculture sector is also expected to be promoted by recent infrastructure investments and liberalizing policies. Sustained long-term growth is expected to arise from improved agricultural productivity based on intensifying agricultural education and research, advanced technology, agro-industrial development, broadened extension to farmers and increased investments in rural infrastructure. These projections assume the early and determined implementation of key structural reforms. Improvements in competitiveness, by implementing the recommendations of the World Bank's *Investment Climate Assessment*, will contain the extent of anticipated disruption among and relocation of garments producers in 2005 and thereafter. Policy reforms will also attract foreign investment into lower-skilled, labor-intensive manufacturing and tourism-related services. More specifically, the Royal Government, with the strong support of the Government of Thailand, has taken major steps to attract garments factories from Thailand and the rest of the region into the Koh Kong Industrial Estate, close to the Southern Thai-Cambodia border.

With implementation of the reform agenda described in the NPRS, real GDP growth could reach 6 to 6½ percent. Such performance will require political and macroeconomic stability to underpin sustained private sector growth and continuing donor support equivalent to about 10 percent of GDP. Over the medium term, domestic savings are expected to improve by about 2 percentage points of GDP, based on increased budget surpluses and more moderate consumption due to the decline in garments export receipts. The savings will help support domestic investment at 17 percent of GDP. Inflation is expected to remain below 5 percent, and international reserves will remain equivalent to about 2 -3 months of imports of goods and services.

The management and prevention of disasters that have destroyed lives and property is an important part of economic and social planning, especially for the efforts to reduce poverty. In this sense, the Royal Government will concentrate its efforts on enhancing mechanism and national programs to manage disasters created by both nature and human in order to reduce the destruction and losses from all of these disasters. To do this, there is a need to enhance transparency and effectiveness in the implementation of this work and the participation from all related institutions in the framework of cooperation and partnership mechanism.

Table 2.3: Cambodia - Trends in Garments Exports

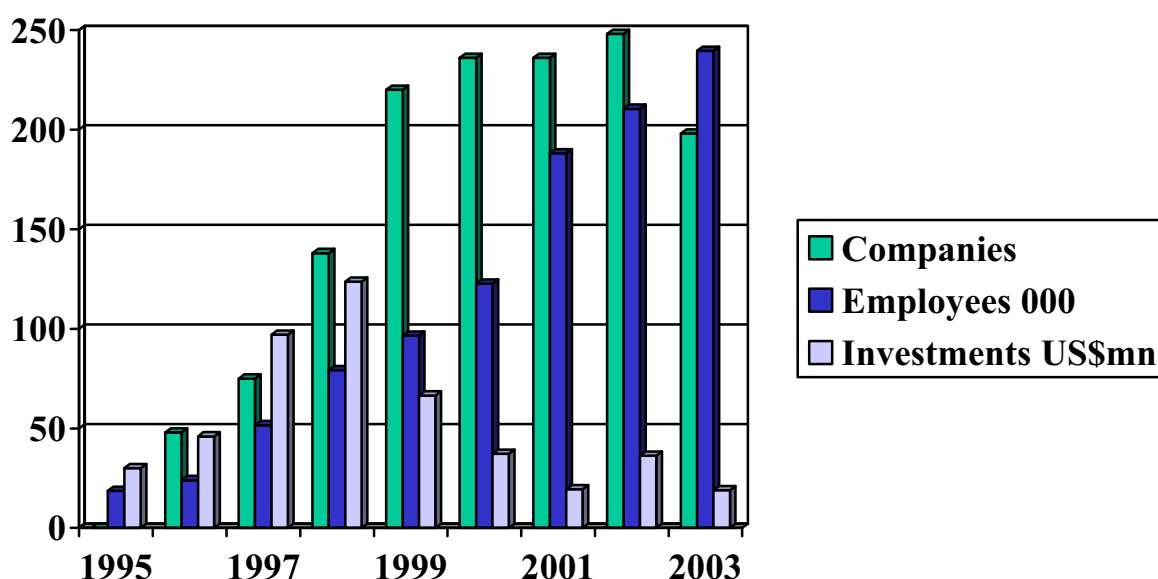
	1995	1996	1997	1998	1999	2000	2001	2002	2003
Total Exports	26.2	106.4	223.9	355.3	653.0	965	1,119.8	1,338.4	1,708
o.w. USA	0.06	1.6	106.8	287.9	515.2	736	792.6	953.3	10,99
EU	25.6	74.8	112.3	62.9	137.8	221	308.8	356.4	397
Others	0.6	3.8	4.8	4.5	0	7.99	18.4	28.7	210
Growth	-	306%	110%	58%	84%	48%	16%	19%	27%

Source: Ministry of Commerce

Cambodia is expected to face serious challenges in the coming years, if the government fails to reduce costs of doing business and combat smuggling, which creates a non-level playing field for investors. While garments exports continued to grow in 2002 and 2003, the prospects of further growth is uncertain due to the ending of the current regime of garments quota import into the US market under the WTO Agreement on Textiles and Clothing (ATC). This will require Cambodian garments to be more competitive vis-à-vis other exporters, particularly the large-scale producers such as India or China.

Cambodia will experience painful adjustments in the near future as garments represent 75 percent of all of Cambodia's exports. Although 16 new factories were established in Cambodia in 2003, some 76 factories employing 21,825 workers closed down due to various reasons, including unstable labor relations. Currently there are 198 garment factories operating in Cambodia. Some 240,000 workers, most of whom are females from poor families in the countryside, are employed in the garments sector.

Figure 2.1: Trends in Garments Sector Investments in Cambodia



2.2. Overall Growth Outlook for 2004-2008

Growth in 2004 is expected to increase to around 4.3 percent as tourism recovers and garment exports continue to increase, but at a slower rate of 13 percent. Tourism is expected to rebound by at least 17 percent, boosting growth of services by over 6 percent. Manufacturing growth will thus slow to about 8.7 percent. Agriculture production is projected to grow at an unpleasant level of only 0.4 percent, with crops projected to grow on average by 3.2 percent.

The end of the garments quota system will adversely affect growth in 2005-06, with GDP slowing to around 2 to 4 percent. The slowdown is expected to dampen growth in services and construction, but the impact will be somewhat offset by continued strong growth in tourism. Improving performance of the agricultural sector will further offset any manufacturing decline. Logging is expected to resume, but given tight controls for sustainability, forest sector growth will not exceed 4 percent.

Box 2.1: Cambodia - Sectoral Growth Outlook, 2004-2008

Garments - a significant decline is expected in 2005, with up to a third of firms closing, with the larger firms absorbing market share. The larger firms enjoy more comfortable margins enabled by economies of scale. Reforms introduced in 2004-2005 are expected to improve competitiveness by reducing operating costs, particularly labor and administrative costs. Cambodia's good record of adherence to core labor standards is expected to help mitigate any declines. There will be some relocation of garments producers to Cambodia from Thailand which has been "graduated" from GSP trading status. After 2006, and especially for products not directly competing with Chinese products and currently exported to the US outside of the quota system (equivalent to 40 percent of Cambodia's exports to the US in 2002), further growth is expected in garments exports, with positive spillover effects for investments in other light manufacturing.

Tourism – is expected to grow at around 15 percent annually in the medium term so long as political stability and security is maintained. Cambodia is a unique and relatively new destination, thus continuing to attract broad segments of travelers. Tourism sector will significantly contribute to the poverty reduction because of its potentiality in the increase of national revenue, the creation of employment and the improvement of people's living standards as well as contributing towards peace, security, cooperation and mutual understanding between people in the region and the world through this sector.

Agriculture – The agriculture sector is envisioned to serve as the backbone of Cambodia's poverty reduction strategy, given its relatively larger impact on Cambodia's poor populations which are largely rural based and dependent on agricultural employment. Current investments in rural roads and irrigation infrastructure is expected to improve market access and productivity of commodities in the coming years. The trend will be aided by policies that enhance land rights and expansion in cultivated land. In the immediate future, productivity improvements may be derived from the introduction of improved seed varieties and more diversified crops (particularly vegetables and fruit trees which are currently imported) and recently-opened community fisheries. Rice yields will move up from 2 to 3 tons per hectare, impacting significantly on national incomes and poverty. Moreover, growing value-added along the agricultural production, processing and marketing chain promises great returns in jobs, employment and incomes. These trends are strongly supported by donors, including the

Agriculture Sector Development Program financed by the ADB, to be followed in the future by a major policy-based program loan.

Construction – could continue to grow but at half the exceptionally high annual rate of growth in the past 4 years financed by large inflows, reflecting continued donor support and private investment. The decline in investments in the garment sector in 2005-06 will likely be accompanied by slower growth in construction-related activity in those two years.

Growth is expected to be about 5.5 percent in 2007. Gains in competitiveness, stemming from policy reforms in 2004 – 2006 will enable gradual recovery in garments exports and added investments in other manufacturing and service activities. Agricultural growth is expected to continue to improve toward 4 percent average annual growth, built upon productivity gains and with spillover effects for food and beverage sector, trade, and other services.

The projected growth rates will enable per capita GDP in dollar terms to increase by about 12 percent by 2008 relative to 2002. Improved agricultural productivity and rural income opportunities in the short-term will ensure that rural poverty will be reduced even during 2005-06 when overall economic growth is expected to decline. Moreover, the structural and agricultural reforms coming onstream will provide the foundation for sustained, higher growth after 2006.

Culture has played an important role in promoting tourism in Cambodia. The creation of natural recreation areas and tourism sites based on geographical criteria with the abundances of attractiveness from nature and rare culture and with the construction of road network to link all of these areas, such as an airport in Ratanakiri province, are the priorities for the Royal Government in this sector. On the other hand, based on these advantages, the government set the development of tourism sector in Cambodia as the “Cultural and Natural Tourism”. These potentialities will play a role as an important energy for the economic growth in Cambodia. In this sense, the Royal Government has considered tourism sector as the most prioritized sector among the 6 prioritized sectors in the strategy to promote economic growth to reduce poverty.

To accelerate the reform process, the Ministry of Economy and Finance will act to further strengthen government capacity, improve customs and tax administration, ensure full implementation of existing tax provisions, and review and reassess all sources of non-tax revenue. Following the example set by the Phnom Penh unit, anti-smuggling units will be strengthened in all provinces. Tax administration/ enforcement measures will be implemented and strengthened. The tax rolls will be purged of inactive and non-productive filers to enable improved assessment of arrears and the likelihood of collection.

2.3. Ensuring Broad-Based Growth

Despite progress made in recent years, Cambodia's production base remains narrow, revenue to GDP ratio low, and governance problems pervasive. Moreover, with the phasing out of garment quotas in 2005 for WTO members, Cambodia will need to compete with its neighboring countries on a level playing field. Accordingly, progress in implementing the NPRS, including measures to strengthen government capacity, enhance the business environment, and improve financial intermediation, are crucial to the achievement of sustainable growth. Efforts to ensure broad-based growth and poverty reduction in the rural areas are essential. A more dynamic rural economy will also help respond to the growing number of new entrants into the labor market each year.

The Royal Government recognizes that strong efforts are needed for Cambodia to improve economic infrastructure, deliver basic services, and enhance governance. The impediments of high transaction costs, poor infrastructure and hidden costs need to be addressed. To ensure broad-based growth, the Royal Government will:

- a. Further orient capital outlays toward infrastructure development in rural areas. To do so, a better planning and allocations of capital outlays, including domestic financed investment and donor financed investment outside the budgetary process, as well as establishing a performance-based monitoring mechanism are needed;
- b. Strive to expand rural income opportunities by: (i) establishing clear land use rights by completing land registration and titling, implementing the social land concessions program and enhancing participatory land use planning; (ii) develop a master plan for fisheries development, including a model for sustainable community fisheries; and (iii) develop projects in community forestry and smallholder rubber plantations.
- c. Develop and implement a strategy for promoting sustainable microfinance institutions and SME financing based on sound financial practices; and

2.4. Monetary Developments

Monetary developments in 2003 reflect Cambodia's efforts to maintain a stable fiscal position despite political uncertainty. Banking liquidity in 2003, as measured by M2, rose 15 percent after having increased by 31 percent in 2002. The major sources of liquidity growth include the increase of 15 percent in residents' foreign currency deposits and the 18 percent increase in currency held outside banks. Net foreign assets increased moderately while net domestic assets of banks rose significantly. The increase in NDA was due to a surge in credit to the private sector, which grew by 26 percent or US\$69 million in 2003.

Monetary stability was temporarily disrupted in April 2003 by the issuance of treasury bills and the injection of riels into the economy pushed down the value of the Cambodian riel against the US Dollar. The riel depreciated slightly by 2 percent against the dollar, but stabilized quickly at 4,000 riels. Monetary stability was quickly restored and overall, the exchange rate remained stable during 2003 at around CR 3,995-CR 4,050 to the dollar. The overall fiscal deficit (excluding grants) increased from 6.6 percent of GDP in 2002 to 7.0 percent of GDP in 2003, as spending accelerated before the July elections. International reserves were maintained at the equivalent of 2.9 months of imports.

2.5. External Sector Outlook

The overall balance of payments deteriorated in 2003, with the current account deficit wider at -10.2 percent of GDP reflecting the impact of higher petroleum prices and lower tourist arrivals and foreign direct investment due to SARS and some political uncertainty. The growing fiscal imbalance was linked to the depreciation by 2 percent of the riel to the US dollar in April – May 2003, with official reserves declining by 10 percent in July 2003 following intervention to support the riel by the National Bank of Cambodia. Improved fiscal control following the July 2003 elections has encouraged the gradual return of foreign currency deposits, resulting in gross official reserves being maintained at almost the same level as in 2002.

The external balance is expected to slightly deteriorate in 2004. Petroleum prices increased to a record high of US\$41 a barrel, although tourism growth has resumed. As a result the current account deficit (excluding transfers) increased from 10.2 percent of GDP in 2003 to 10.8 percent of GDP in 2004. However, together with the expected increase in foreign direct investment due to improved political stability, gross international reserves are expected to increase to US\$782 million, or 2.8 months of imports, by the end of 2004.

Agreement on debt rescheduling with the U.S. and Russia may reduce amortization payments, but it could increase interest obligations. Cambodia's external debt repayment will have significant impact on budget execution and thereby on poverty reduction goals. By 2008, after rescheduling of its pre-1993 obligations, Cambodia's external debt is estimated to be about 48.9 percent of GDP, and debt service will equal 2.6 percent of exports of goods and services. However, the fiscal burden of the debt is heavy, given the low revenue to GDP ratios. Thus Cambodia intends to pursue prudent external debt management policy and strictly avoid non-concessional financing.

However, even with reforms, the trade balance will continue to deteriorate through 2008 and a sizeable current account deficit will remain. Even as reforms to enhance competitiveness are begun in, garments exports are expected to decline due to the

phase-out of quotas in 2005, with recovery attained only by 2007. Once the cost of doing business in Cambodia declines, new export industries will emerge. The current account deficit (excluding transfers) is expected to be contained at around 10 percent of GDP, given the projected strong performance of the tourism industry. Assuming that foreign assistance grows at the same rate as industrial country GDP, and there is at least moderate increase in FDI in the improved business environment, gross international reserves could increase slightly to about 2.7 months of import by 2008.

2.6. Alternative Macroeconomic Scenarios

Potentially higher growth could arise from the discovery of a viable oil field, accompanied by more vigor in reforms to improve the investment environment and enhance agricultural productivity. Such improvements will also enable Cambodia to fully capitalize on economic cooperation agreements with its neighbors.

Slower growth could stem from exogenous shocks or policy failures from sources such as drought or flood that devastates agricultural output. Another SARS outbreak or an episode of global terrorism would hurt tourism. Adverse developments affecting trading partners, such as a global recession or higher oil prices, could lower growth prospects. Finally, continued improvements in China's competitiveness could make it difficult to expand Cambodia's exports even with the full and prompt implementation of programmed reforms.

If reforms to improve the environment for private sector growth are delayed, growth is likely to remain below 3 percent. Without reforms to improve competitiveness, garments exports will not recover after 2005, with firms accounting for about 30 percent of output shutting down. Should improvements in private sector environment not be achieved, investments in manufacturing and services will be held back and construction and other economic activity would also slow down to about half of the rate expected in the full-reform scenario.

Should reforms geared toward boosting agricultural productivity are postponed, agricultural growth rates will remain at the average of the last four years. Stagnant agricultural growth will impact unfavorably on the poor. Slower growth of the manufacturing and services will hamper the pace of poverty reduction since urban job creation will also be slow. Moreover, slower agricultural growth will make it impossible to improve conditions for the poor in the rural areas where poverty is most entrenched.

2.7. Fiscal Developments

2.7.1. Budget Execution in 2003

The country's fiscal position deteriorated in 2003, as revenue performance suffered due to the outbreak of SARS, continuing inefficiencies in revenue collection and election-related uncertainty. Overspending associated with the general elections put significant pressures on the budget. Furthermore, sluggish growth during the first half of 2003, coupled with negative investors' and consumers' sentiments associated with the disturbances of late January, slower collection and increased smuggling during the election period, constrained revenue collection. As a result, cash shortages became severe during the first half of 2003. Domestic revenue declined from 11.2 percent of GDP in 2002 to 10.4 percent in 2003. Tax revenue dropped from 7.9 percent to 7.3 percent, while non-tax revenue fell from 3.2 percent to 3.1 percent of GDP.

Financing for the 2003 elections, compensation due to Thai enterprises that suffered loss during the January disturbances, and the continuing financing obligations for the reconstruction of social and economic infrastructures, especially roads, bridges, schools and hospitals have driven up spending. Current expenditures increased from 10.1 percent of GDP in 2002 to 11.0 percent of GDP in 2003. For the first time since 1997, Cambodia experienced a current fiscal deficit of 0.6 percent of GDP, thus exerting pressure on cash management. The figures in Table 2.4 below illustrate the status of budget execution in 2003. The figures show budget commitments, on accrual basis, which means that cash disbursement is lower.

Table 2.4: Budget Execution in 2003
(in Million Riels)

Million Riels	2003		
	Budget Law	Outturn	% of Budget Law
Total Current Expenditures ('000)	1,765	1,758	99.6
I. General	285,695	402,714	141.0
Royal Palace	22,740	23,065	101.4
National Assembly	35,190	34,190	97.2
Senate	18,050	17,871	99.0
Constitutional Council	3,300	3,453	104.6
Council of Minister	56,750	84,644	149.2
spending on special government activities		41,192	
Civil Service Secretariat	1,250	1,234	98.7
CDC	3,980	2,770	69.6

Million Riels	2003		
	Budget Law	Outturn	% of Budget Law
Interior-Administration	16,400	29,046	177.1
spending on ID card for general election		8,300	
Relations Assembly and Inspections	2,660	2,333	87.7
Foreign Affairs and Int'l Cooperation	52,000	54,115	104.1
Economy and Finance	50,530	103,210	204.3
road maintenance		45,925	
demobilization of Armed Forces		28,489	
Planning	5,375	5,240	97.5
Justice	9,650	11,099	115.0
Nat'l Election Committee	3,235	26,781	115.0
spending on general election		24,345	
National Audit Authority	4,585	3,662	79.9
II. Defense and Security	413,500	411,014	99.4
National Defense	268,300	269,515	100.5
Interior – Security	145,200	141,498	97.5
III. Social	664,150	615,901	92.7
Information	12,615	12,084	95.8
Public Health	202,000	172,966	85.6
Education, Youth and Sport	323,000	300,458	93.0
Culture and Fine Arts	14,640	13,839	94.5
Environment	8,675	7,739	89.2
Social Affairs, Labor and Vocational Training	33,630	33,388	99.3
Public Worship and Religion	3,615	3,705	102.5
Woman Affairs and Veteran	65,975	71,721	108.7
IV. Economic	190,155	170,513	89.7

Million Riels	2003		
	Budget Law	Outturn	% of Budget Law
Civil Aviation Secretariat	7,300	6,514	89.2
Industry, Mines and Energy	8,155	7,009	85.9
Commerce	18,000	16,186	89.9
Agriculture, Forestry and Fishery	43,340	39,024	90.0
Rural Development	21,000	16,901	80.5
Posts and Telecommunications	42,750	34,710	81.2
Public Works and Transport	15,030	14,030	93.3
Tourism	12,140	15,462	127.4
spending on ASEAN Tourism Forum		6,667	
Urbanization and Construction	8,005	6,833	85.4
Water Resources and Meteorology	14,435	13,844	95.9

Source: Ministry of Economy and Finance

The budget commitments of six ministries and agencies exceeded planned expenditure: The National Electoral Committee overspending was related to the general election, overspending by the MEF was caused by larger spending on roads (economic transfers) and demobilization (social transfers). Overspending by Interior-Administration was due to the issuance of ID cards used for voter registration. Overspending by the Council of Ministers was because of special government spending on inauguration or ground-breaking ceremonies of economic and social infrastructure projects. Overspending by the Ministry of Tourism was related to the organization of ASEAN Tourism Forum, Overspending by the Ministry of Justice was due to the increase in judge's salaries.

Revenue shortfalls seriously crimped budget execution in 2003. The public health sector continues to be seriously underfinanced. While 86 percent of health spending was committed, disbursement of cash for non-drug expenditures was only 61 percent, affecting day-to-day operations at health facilities, especially at the beginning of the year. Serious delays in fund releases on both O&M and PAP expenditures were encountered in 2003. But this problem would be solved in 2004 when the revenue increased strongly.

Table 2.5: PAP 2002-2003 for Health and Education

Item	2002 PAP Budget	PAP Disbursed in 2002		2003 PAP Revised Budget	PAP Disbursed in 2003		2003 PAP Disbursed in Jan-Feb 2004
		Amount	%		Amount	%	
Education	75,055	22,923	30.5	76,980	50,885	66.1	22,651
Health	52,000	21,953	42.2	49,460	40,399	81.7	11,760
Total	127,055	44,876	35.3	126,430	91,284	72.2	34,411

Source: Ministry of Economy and Finance

PAP implementation has been delayed since 2002. The MOEYS and MOH experienced difficulties in securing PAP funds releases in 2002, due to delays in procurement procedures and difficulties in establishing decentralized management at provincial and district levels. The PAP 2002 for education was delayed until a regulatory framework for proposed spending was agreed upon in October 2002 on the setting of per school and per student allocations and the guidelines on the use of school operating budgets. The implementation of the government decision to re-deploy staff and performance-based incentive payments for school staff in difficult/ remote areas was also delayed due to the late approval by the Council of Ministers. Overall, in 2002 only 35 percent of cash was disbursed to implement the PAP programs in health and education.

Because 65 percent of PAP allocations were not released in 2002, disbursement of 2002 PAP continued into 2003. PAP disbursement accelerated in the second half of 2003, reaching 72 percent of the total education and health PAP budget (Table 2.5). However, the education PAP was released slower at 66 percent. While the education Ministry recognizes that overall release rates are somewhat disappointing, overall PAP spending in 2002 has increased substantially compared to PAP 2001. The PAP for health has been implemented in 8 provinces and 15 central agencies supporting rural activities in TB, malaria and HIV/AIDS, and the constraints in cash disbursement has made it difficult to attain the objectives of health service delivery.

Box 2.2: PAP Disbursement Problems and Proposed Solutions

The Royal Government established a Task Force on 11 September 2003 to identify causes of low disbursements to the social sectors, especially health and education, and recommend remedies and improvements, identify institutional constraints and propose actions to immediately accelerate disbursements, taking into account overall fiscal constraints.

The Task Force identified the main **causes of low disbursements**:

- a. Shortfall in cash flows: the Budget System has several basic serious deficiencies which include: (i) Budget formulation: revenue forecasted are too high, and loose expenditure estimates; and (ii) Budget implementation: expenditure commitments not limited to available budget resources, and supplementary expenditure credits are not fully offset or funded.
- b. Rapid increase in the PAP budget for health and education, while revenue declined during 2003.
- c. Large stock of PAP payment arrears carried over from year to year.
- d. Continued worsening in payment arrears, not only in chapter 13, but also chapter 11 budgets of line ministries at all levels (central and sub government levels).

The Task Force proposed the following **actions**:

- a. **Short-term:** (i) Both MOH and MOEYS payment arrears to be totally disbursed by end of May 2004, and (ii) earmark one eighth of daily cash revenue collected by NT for the PAP;
- b. **Medium-term:** (i) Improvements in Public Financial Management, including establishment of a Unified Budget System, and (ii) establishment of an Executive Reform Committee at the MEF.

Agriculture and rural development is seriously under-funded – the allocation of national budgets to the sector is quite small relative to its economic importance and its potential for poverty reduction. Though the share of budget disbursement for the Ministry of Agriculture, Forestry and Fisheries (MAFF), the Ministry of Rural Development (MRD) and Ministry of Water Resources and Meteorology (MOWRAM) has increased from 2.5 percent in 1999 to 4.5 percent in 2003 as a share of the Government budget (from CR 27.47 billion to 78.69 billion in nominal terms), the size of the allocation is low in view of

the large share of the population in the sector. In per capita terms, current spending was merely US\$1.4.

Wages as a percentage of recurrent expenditures in agriculture has declined from 29 percent in 1999 to 24 percent in 2003. PAP resources do not seem to be directed to high priority services as intended. PAP expenditures on forestry replanting accounted for 28 percent of total PAP spending in 2001 and 54 percent in 2002. Of these funds, MAFF reports that the majority were spent on contract workers and materials. PAP funds were also spent on animal health, community fisheries, and agricultural research (the Cambodian Agriculture Research and Development Institute (CARDI) and the Royal University of Agriculture (RUA), as well as the Institute of Rubber Research (IRR) and animal food for the state zoo.

Spending by program in MAFF appears to have little impact on sector priorities. Forestry accounts for fully 21 percent of total recurrent spending and nearly half of total direct service spending. In comparison, agricultural extension accounts for less than one percent of total recurrent spending. Animal health and agronomy also account for relatively low shares. Furthermore, an analysis of the regional spending pattern shows that the provinces only receive about 39 percent of total MAFF and MOWRAM spending, while the central level consumes the remaining 61 percent. Thus, as part of the agricultural reform, the RGC will take serious action to align the budget to the priorities at the sectoral level, especially more attention will be given to increase extension activities.

Table 2.6: Current and Capital Expenditures, MPWT and MRD, 1997-2003
(Millions CRs)

Ministry	Expenditure	1997	1998	1999	2000	2001	2002	2003
MPWT	Current	6,944	6,373	9,322	20,316	21,456	12,944	14,030
	Capital	17,190	6680	19,926	52,267	70,682	114,584	56,125
	Total	24,134	13,053	29,248	72,583	92,138	127,528	70,155
MRD	Current a/	2,037	2,215	3,256	7,558	12,513	18,395	16,901
	Capital	1,649	3,783	12,474	4,810	18,163	43,105	62,839
	Total	3,666	5,998	15,730	12,368	30,676	61,500	79,740
Grand Total		27,820	19,051	44,978	84,951	122,814	189,028	149,895
% of Government Expenditures		22%	12%	25%	4.1%	5.1%	6.4%	4.9%

a/ Includes PAP.

Source: The Ministry of Economy and Finance

Since 1999, the RGC has given high priority to road rehabilitation. Total expenditures on roads have increased significantly in the past several years, and will continue to increase due to resources from the Fund for the Repair and Maintenance of Roads (FRMR). There has been dramatic growth in capital expenditures for both MPWT (nominally up by a factor of four over the five years to 2002, but declined again in 2003) and MRD (up by a

factor of ten from 1998-2002, and slightly increased in 2003), though not all MPWT and MRD expenditures are for roads. Between 2002 and 2004, the government allocated around 53 billion CRs (US\$13 million) for FRMR, but only 60 billion CRs (US\$15 million) in cash were disbursed during 2002-2003 or US\$7.5 million a year.

It is estimated that the total annual government expenditure on road rehabilitation and maintenance (excluding expenditures funded from the FRMR) was on the order of 100 Billion CRs, equivalent to about US\$ 25 million. Of this some US\$19 million (76 percent) was for MPWT's primary and secondary network and US\$6 million (24 percent) for MRD's tertiary network. Capital expenditures made up about 80 percent of the total MPWT and MRD budget in 2002. Expenditures from the FRMR can potentially add another US\$ 8 million equivalent per year. Table 2.6 summarizes budget execution of MPWT and MRD. The investment budget was mainly used for road construction and rehabilitation. In 2003, the budget disbursement for both ministries declined by 20 percent.

As a result of high spending and revenue shortfalls as described earlier, the 2003 fiscal deficit (excluding grants) widened to -7.0 percent of GDP. To counter the growing imbalance of the government's fiscal position, the Ministry of Economy and Finance will take the following actions: (i) strengthening of role of the Cash Management Committee (CMC); (ii) establishing a Taskforce on non-tax revenue collection to ensure full transfer of non-tax revenue to the budget; (iii) improving revenue collection by enhancing customs and tax administration, combating smuggling and recovering arrears; (iv) containing current and capital government spending strictly to the budgeted amount; (v) increasing transparency of signed contracts; and (v) constraining domestically financed capital spending. The immediate policy issues facing the country pertain to effective implementation of PFM reform as outlined in Section 2.7.4.

Attaining fiscal sustainability by narrowing the primary deficit to below 2 percent of GDP is a challenge for the RGC. The government is conscious that both expenditure restraint in non-priority areas and additional revenue efforts are needed, especially if domestic arrears are to be reduced over the medium term. To reduce budget deficit the government will ensure substantial expenditure compression, while increasing revenue to at least 11.9 percent of GDP in 2004. This will require additional tax policy measures equivalent to about 0.8 percent of GDP.

Moreover, further actions will be taken to strengthen government capacity, including through attracting and retaining high quality civil servants. The RGC will implement the economic action agenda in order to broaden the base of economic growth, so that the fruit of growth benefits all social strata of the population. This reform is designed to improve market rules and ensure transparent business environment.

2.7.2. Revised Medium-term Fiscal Framework

The Ministry of Economy and Finance (MEF) has revised the medium-term fiscal framework to reflect the foregoing developments. Following the implementation of the public financial management reforms, domestic revenue is expected to increase moderately within the next five years from 11.9 percent of GDP in 2004 to 13.7 percent by 2008. Determination is required at all levels to combat smuggling and improve governance which in turn will attract investments and create economic opportunities that will expand the tax base. Tax reforms will continue to strengthen compliance and expand the real regime. The private sector will be encouraged to fully comply with its fiscal obligations.

Table 2.7: Medium Term Budget Framework for Priority Sectors
(As Percent of Current Expenditures)

	2002*		2003*		2004		2005		2006		2007	
	% Str.	% GDP	% Str.	% GDP	% Str.	% GDP	% Str.	% GDP	% Str.	% GDP	% Str.	% GDP
Current expenditure	100	10.1	100	10.5	100	10.6	100	11.5	100	11.9	100	12.3
o.w. Wage	37.25	3.74	34.96	3.67	35.14	3.61	40.00		40.00		40.00	
Health	10.44	1.05	9.84	1.03	12.05	1.28	11.29	1.30	11.76	1.40	11.75	1.45
Education	18.39	1.85	17.09	1.79	18.77	1.99	17.58	2.02	17.71	2.11	17.62	2.17
Defense and security	25.83	2.60	23.38	2.45	22.87	2.42	20.41	2.35	19.33	2.30	18.66	2.30
Agricultural sector	4.44	0.45	3.97	0.42	4.61	0.49	4.85	0.56	5.32	0.63	5.50	0.68
a. Agriculture	2.52	0.25	2.22	0.23	2.52	0.27	2.65	0.30	2.76	0.33	2.79	0.34
b. Rural development	1.17	0.12	0.96	0.10	1.24	0.13	1.32	0.15	1.38	0.16	1.39	0.17
c. Water Resources	0.75	0.08	0.79	0.08	0.85	0.09	0.88	0.10	1.18	0.14	1.32	0.16
Public Works and Transport	0.82	0.08	0.80	0.08	0.81	0.09	0.84	0.10	1.06	0.13	1.18	0.15
Women's Affairs	4.10	0.41	4.08	0.43	3.84	0.41	3.63	0.42	4.02	0.48	4.05	0.50
Justice	0.46	0.05	0.63	0.07	0.67	0.07	0.84	0.10	0.82	0.10	0.83	0.10
Memo												
Current expenditure, in billion riels	1,574.91		1,758.11		1,888.39		2,148.55		2,376.43		2,666.52	
Estimate for debt service					50		200		220		280	
Estimate for clearance of domestic arrears					45		120		120		120	
Current discretionary expenditures	1,575		1,758		1,793		1,829		2,036		2,267	
Health in percentage of discretionary expenditure	10.44		9.84		12.69		13.27		13.72		13.82	

Education in percentage of discretionary expenditure	18.39	17.09	19.76	20.66	20.67	20.73
Nominal GDP, in billion riels	15,667	16,748	17,815	18,683	19,970	21,679
Nominal GDP, in million US\$	3,996	4,208	4,507	4,730	5,011	5,387
Exchange Rate Riels/US\$	3,921	3,980	3,953	3,950	3,985	4,024

**Outturn*

Current discretionary expenditures equal current expenditure minus spending on debt service and domestic arrears

Source: Ministry of Economy and Finance

Government's current expenditure is expected to increase from 10.5 percent of GDP in 2003 to 12.3 percent of GDP in 2008, reflecting Cambodia's stringent efforts to pay interests, following debt rescheduling with Russia and the US. At the same time, the level of current spending on non-priority sectors should be reduced to allow for the reduction of domestic arrears. As a percentage of GDP, total expenditures are expected to increase moderately from 17.4 percent in 2003 to 18.7 percent in 2008. The planned level of capital expenditures shows the commitment of the RGC to invest in physical infrastructure.

Table 2.7 above provides a review of actual and projected trends in expenditure allocations. Attention is given to the priority social and economic sectors. The priority sectors have received rising budget allocations (as shown in Table. 2.2).

2.7.3. Ensuring Medium-Term Fiscal Sustainability

The Royal Government will maintain the level of overall deficit within the range of 5 to 6 percent of GDP in 2004-2008. The deficit will be financed through concessional loans and grants. Fiscal consolidation is to begin with the 2004 budget aiming to reverse the growing imbalance in 2003 arising from low revenue as well as Thai compensation and election-related spending. Substantial expenditure compression will be necessary to make room for priority development spending, and avoid accumulation as well as allow for repayment of domestic arrears. The wage bill will need to be contained below 5 percent of GDP. Other current expenditures will need to be maintained at about 4 percent of GDP (i.e. below the 2002 level), thereby allowing capital spending to meet the infrastructure development needs. In this regard, a consensus will be built to maintain at the same level the budget allocation for the non-priority sectors, including the budget for the Parliament.

2.7.4. The Public Financial Reform Program

In 2003, the Royal Government, World Bank and the Asian Development Bank released the *Integrated Fiduciary Assessment and Public Expenditure Review* (IFAPER). The IFAPER constitutes a major, participatory exercise on the appraisal and of the status and reform program on public expenditures in Cambodia.

Acting on the recommendations in the IFAPER report, the Royal Government adopted a public financial management (PFM) reform program, whose longer term objective is to incorporate what are generally accepted as the best international standards. The PFM reform program consists of:

First, a prioritized and sequenced strategy and action plan: a concise strategy statement, based on a clearly articulated vision of the PFM system's key features, and prioritization and sequencing of Government plans and other policy statements/advice to permit development of a rolling, multi-year, costed, annual work program;

Box 2.3: Key Features of an Effective PFM System

1. The PFM legal framework specifies: (i) separate functions for the national government and for each of the lower provincial and local government levels and (ii) the fiscal relationships between the levels;
2. To ensure that they are affordable, all government policies, programs and projects are formulated, announced and implemented in the context of a fully integrated, *unified* budget system including a fully integrated single central account.
3. All government policies and strategies are formulated in a consistent program framework across all sectors.
4. Medium term budget planning and control ensures that all of the government's policy and program objectives are clearly stated and affordable into the future beyond the next budget year.
5. The budget explains clearly the government's plans to mobilize and use all of its resources, not just its cash, through the budget and the future years.
6. Budgeting for the government's human resources is fully integrated into the medium term rolling budget formulation framework.
7. All post-budget supplementary expenditure credits are fully financed.
8. The acquisition, deployment, use and disposal of all government assets and resources, including its human resources, are openly competitive, apolitical, nondiscriminatory and transparent
9. Government responds promptly and publicly to any problems which emerge during the course of budget implementation. Its public explanations are prompt and clear.

10. There is a computerized, comprehensive and integrated financial and budget management information and accounting system which consolidates financial transaction planning and execution reporting by all finance ministry departments and all line ministries and other budget sector spending agencies.

11. The PFM system is designed to seek maximum value for money over time from the use of government resources.

12. The finance ministry sets the standards for, and guides and monitors, financial management in line ministries and other spending agencies. This includes standards for internal audit institutional arrangements and operations.

13. Government sector institutions and government-owned enterprises provide full annual reports and audited accounts promptly.

14. There is timely, searching independent external audit which is widely debated.

15. The PFM system generally and the organic law in particular are designed to promote accountable, ethical behavior and punish misbehavior.

Second, complementary capacity building and organizational change: development of a capacity building strategy to support the PFM reform program by identifying and providing sustainable approaches to systematically address key capacity weaknesses that would need to be overcome for successful implementation, including the issue of providing meaningful incentives for good performance;

Third, performance management/indicators: establishment of a performance management system as a tool for MEF management to handle program formulation, improve transparency and accountability, monitor progress, and enable international comparisons; and

Fourth, coordinated donor support mechanism: development of a coordinated donor mechanism to assist the RGC with implementation of its PFM reform agenda.

The improvement and reform strategy, which the Government has now adopted involves transforming the traditional cash-based budget system into one which provides for the proper management of all government assets and resources. This will involve the eventual introduction of generally accepted standards for accrual accounting.

The strategy will also involve the gradual shift of accountability for the detailed deployment of budget resource inputs from the Ministry of Economy and Finance to program managers in line ministries and other spending agencies. Increasingly over the longer term they will be given sufficient flexibility in the choice and deployment of

resources to achieve the Government's policy and program objectives. They will then be held accountable for the proper guardianship of those resources and for program outputs and outcomes.

All of the Government's policies and programs will be clearly stated and fully costed through the medium to longer term. This will ensure that the Government's policy and program objectives are affordable and are fully funded in successive budgets into the future.

The PFM improvement and reform strategy involves the construction of a succession of platforms, each one building on the earlier ones until the last platform is reached. It is envisaged that this will take a number of years to achieve. However, the timetable has to remain flexible because the strategy involves ensuring that each platform is firm enough to sustain the next one before moving on from one platform to the next. In other words, the strategy will be implemented on a rolling basis. The Government is adopting this approach to ensure that the management of public resources is not exposed to any more risk than it is already.

As part of the PFM reform, the RGC in conjunction with WB, ADB, WHO, DFID and UNDP is conducting the *Public Expenditure Tracking and Service Delivery Survey* (PETS), which would focus on two central themes: (a) improving service delivery and (b) reducing the fiduciary risk to public funds. The objectives of the PETS are to: (i) assist the RGC in identifying problems in the budget system that impede the efficiency and effectiveness of service delivery in health and education, in order to generate proposals for solving them, and (ii) serve as an independent monitoring tool to assist government in improving accountability by disseminating information and engaging service delivery beneficiaries.

This exercise will trace and document the flow of funds, as well as leakage, from the National Treasury (NT), through the provincial treasuries (PTs), to service providers. It will also examine how those resources are combined with other inputs—including human capital—at the facility level to generate health and education services in order to better understand the linkages between expenditure and service delivery. The PETS will assess the public expenditure and financial management (PEFM) practices in place at the national and sub-national levels and analyze to what extent current practices help or hinder budget execution. This work will provide a set of recommendations for removing bottlenecks, strengthening fiduciary accountability, and thereby improving the flow of funds to pro-poor services.

The appeal of the PETS approach is strengthened by the possibility of fostering greater transparency—and thus accountability—in public service delivery. The PETS will generate information of great interest to the intended beneficiaries of government policy. Strengthening citizens' ability to engage on service delivery issues would increase demand for more effective and efficient service delivery.

The result of the PETS will be used to make a comprehensive evaluation of the budget system and assess the efficiency and effectiveness of the PAP, compared to the other forms of budget arrangements. The PETS result will be used to set the strategy of the PFM system, identify impact for future program, improve the PFM system and review the financing modality of the education policy and education sector management.

Also the RGC is conducting the *benefit incidence analysis* in the education and the health sectors to assess the pro-poor impact of the public expenditures.

The IFAPER identifies the following reform measures (in some cases, implementation is ongoing):

Later platform objectives will be aimed at intensifying a program to upgrade and strengthen the management capacity and accountability of the RGC's administration across all ministries and other central government agencies. This will allow an expansion and acceleration in the gradual shift of responsibility for detailed control of budget resource inputs from the center to line ministries while at the same time increasing their accountability for program performance in the achievement of the Government's economic and social policy objectives. The RGC plans to propose the following short term recommendations for implementation beginning 2004, drawing from the IFAPER:

Platform 1: The first platform objective is designed to make the annual budget more credible and more predictable to budget managers (this provides the basis for accountability by improving budget execution). A major step will be the elimination of the cash shortages which continue to frustrate line ministries' efforts to execute the Government's policies and programs and to deliver its services to the community.

- Post budget execution data (TOFE) on website;
- Ensure that the Government's financial statements (MEF's budget settlement accounts) are audited annually;
- Undertake the necessary analyses, including the following studies, to prepare the groundwork for an accelerated pay and employment policy:
 - labor market survey, to determine the remuneration needed to be offered functional analyses;
 - remuneration policy study to develop options to accelerate increases in remuneration and introduction of performance-based compensation;
 - a functional review that covers the appropriate institutional arrangements, organization, processes, and staffing of government functions;
 - employment policy study to develop proposals for redeployment and compensated retrenchment.
- Undertake feasibility study of comprehensive tax administration reform;
- Develop a plan to reduce spending on low priority sectors and incorporate into the 2005-2007 MTEF;

- Improve the pro-poor incidence of spending further by making greater use of equity funds to improve coverage in more remote provinces (by helping the poor obtain services in larger provincial or national facilities);
- Establish the institutional framework for preparation of the MTEF within MEF and the priority sectors;
- Evaluate the operational efficiency, compliance, and performance of PAP by undertaking a review and tracking survey before further expansion (focusing on education and health);

Thus the first platform is aimed at enhancing the predictability of the budget by limiting expenditure commitments to available budget resources, making the budget more comprehensive, establishing transparent rules for budget release, making greater use of the banking system for Treasury operations, reducing the stock of payment arrears, and making greater use of the treasury single account.

Platform 2: Initial improvements are made in internal control and holding managers accountable (this enables a focus on what is done with resources by providing better data, effective discipline, and greater internal transparency)

- Strengthen financial planning and expenditure monitoring capacity by issuing guidelines and defining roles and responsibilities of provincial authorities and communities for financial management, procurement and reporting procedures;
- Set timetable for automation of customs department, including selection of IT system and financing plan;
- Increase the share of civil administration wage bill as a percentage of recurrent spending, especially in the priority sectors through targeted allowances;
- Define and apply threshold for National and Provincial Treasury expenditure operations to be executed by check or bank transfer, and use the banking system for all intergovernmental transfers;
- Review options for execution of PAP through the banking system;
- Prepare and implement a modified chart of accounts at the National Treasury;
- Undertake an inventory of all revenue accounts and draw up a schedule for the elimination of revenue retention accounts that have no basis in law;

Platform 3: Improvements are made in linking policy priorities and service delivery targets to budget planning and implementation (this enables greater accountability for performance)

- Improve the linkages between the planning and financing institution, departments and units in the procedure of allocation the resources to the strategies, plan and projects appropriately priority.
- Improve the linkages between resource allocations and strategies that have a stronger poverty reduction impact in upper secondary and tertiary education;

- Cost and operationalize the (Health Sector Strategic Plan) HSSP by linking it to the annual budget and MTEF;
- Develop a road maintenance program and increase sector funding for routine maintenance, together with oversight and reporting requirements;
- Strengthen management of the Fund for the Repair and Maintenance of Roads (FRMR) by:
 - establishing a formula-based allocation mechanism for maintenance funds;
 - providing for regular financial and performance audits of the fund and its contractors, starting with NAA in 2003;

Platform 4: Accountability and review processes for both finance and performance are integrated (this would result in greater external transparency and provide a solid basis for deconcentration)

- Strengthen project management capacity by developing financial management training manual, training a core group of civil servants, and developing proposals for establishing a unified Project Monitoring Unit (PMU) within the line ministries;
- Further strengthen financial planning and expenditure monitoring capacity for finance units in MOEYS, schools, districts, and provinces;
- Develop and arrange financing for a medium-term capacity building program for the National Audit Authority;
- Develop options for improving the management and control of civil service employment, including means to better control the establishment;

2.7.5. Tax Reform Program

The RGC received extensive technical assistance of tax and customs reform from the IMF through TCAP. The PFM reform agenda will address non-tax revenue mobilization and revenue forecasting, while building on existing reforms in tax and customs. Coordinated and mutually reinforcing reforms to the revenue system are fundamental underpinnings to any PFM reform program. The customs reform program will be discussed as part of the trade facilitation section. Following is the status of tax reform programs and action plan to be undertaken in 2004-2005.

In 2003, the Department of Taxation (DOT) prepared a new organizational structure and drafted a circular (Prakas) for review. Communication strategies and recommendations regarding taxpayer services have been proposed and discussed. DOT also initiated a change process in the Large Taxpayer Unit (LTU) and the Medium Taxpayer Unit (MTU). The use of banking system for tax collection was introduced for large taxpayers. The department is now preparing to use the banking system for medium taxpayers. The DOT also reviewed the policy of tax regime to make it consistent with the Amendment to the Law on Taxation (LOT). An unambiguous depreciation schedule based on the needs of all stakeholders has been established and

the method of taxing dividends has been revised as it is a priority with Law on Investment and Amended Law on Investment.

The DOT reviewed the elimination or reduction of the tax exemption provided under the Law on Investment (LOI) and provided recommendations regarding return on investment and risk management. In terms of tax administration, the department accepted the option regarding the lowering of tax bands without changing the exemption level. The DOT started the work on computerization. Computer system support is completed with the integration of the computer system.

The DOT reviewed the regulation to lower the threshold of VAT to service level and removed the threshold on government contracts. This is aimed at transferring more taxpayers from the assessment regime to the real regime. The department decided to propose VAT on all electricity bills and that a VAT exemption should exist on the first 100 kwts per month in order to mitigate the impact on low income families. A joint Tax and Customs committee has been formed to address the smuggling of liquor, cigarettes, milk and other products. The committee has completed reports on Motorcycles and parts.

To strengthen the tax policy analysis capacity of the tax officials, several training courses were provided on the following topics: Industry Audit, Tax Treaty, Collection Enforcement, Revenue Estimation and Forecasting, Risk Assessment and Accounting , as well as Basic Tax Training for 60 new tax officials. Data on filing of tax returns (returns processing) in electronic format has been developed.

To strengthen tax policy and administration in 2004-2005, three areas have been identified to be the priority areas for implementing the tax reform namely (i) Change process, (ii) Tax policy, and (iii) Tax administration:

- change process includes establishing a formalized and transparent approach to the change process through the use of an Organizational Technology Framework and identifying the essential elements; providing the linkage and balance all the essential elements as they are dependent on each other; establishing the Departmental vision and communicate that vision within and outside the Department; conducting a review of the current Tax Department's functional roles and responsibilities and provide advice and assistance in the taking of appropriate action to establish formal roles and responsibilities of Headquarters, Regional or Provincial Offices and District Offices, (functional model);
- tax policy reform involves identify anomalies in the laws and make recommendations for changes based upon the modernization of tax policy and linked to fiscal direction and policy of the central government with regard to tax regime, tax on profits for the estimated regime, tax on salaries, local taxation, value added tax, turnover tax, excise, and tax policy analysis;

- tax administration reform involves (1) improving headquarters' management capacity; (2) implementing the real regime in the five main regional offices; (3) establishing a solid management information system with appropriate data to meet the needs of the MEF, head office, and the field or district offices; (4) developing an operational procedures and manuals at all level and performance standards at the divisional and individual staff level; (5) establishing of LTU and MTU in Phnom Penh to improve administration of the largest taxpayers; (6) establishing a monthly statistical reports; (7) ensuring the real regime covers all large and medium sized business; (8) implementing the real regime in all provinces in the medium term; (9) establishing formal audit manuals and procedures and a modern management information system within the audit operation; (10) developing an audit strategy that provides for a broader coverage of taxpayers; (11) utilizes new selection techniques based on risk analysis; (12) and ensuring information on importations from registered/non-registered taxpayers is received from the Customs Department.

2.7.6. Medium Term Budget Framework

Ensuring that budget allocations match with policy statement and poverty reduction strategy is a challenge for Cambodia. In this regard, the RGC recognizes that more needs to be done to get rid of the incremental psychology and to ensure strategic efficiency of the budget. In this regard, the National Assembly and the Senate have an important role to play in linking policies and strategies to the budget.

Table 2.8: Budget Allocations for Priority Sectors, 2002-2007
(Baseline And High-case Scenario, in Billion Riels)

	2002*	2003*	2004	2005	2006	2007
Current expenditure	1574.91	1758.11	1888.39	2148.55	2376.43	2666.52
Health	164.39	172.97	227.55	242.57	279.47	313.32
Baseline				240.00	270.00	300.00
Education	289.67	300.46	354.45	377.71	420.87	469.84
Baseline				360.00	400.00	440.00
Defense and security	406.75	411.01	431.87	438.52	459.36	497.57
Agricultural sector	69.91	69.77	87.05	104.20	126.43	146.66
a. Agriculture	39.65	39.02	47.59	56.94	65.59	74.40
Baseline				50.00	55.00	60.00
b. Rural development	18.40	16.90	23.42	28.36	32.79	37.06
Baseline				25.00	27.00	30.00
c. Water Resources	11.86	13.84	16.05	18.91	28.04	35.20
Baseline				18.00	22.00	25.00
Public Works and Transport	12.94	14.03	15.30	18.05	25.19	31.46
Baseline				16.00	20.00	24.00
Women's Affairs, Social Affairs, Veteran and Youth Rehabilitation	64.62	71.72	72.51	77.99	95.53	107.99
Baseline				75.00	80.00	100.00
Justice	7.20	11.10	12.65	18.05	19.49	22.13
Baseline				15.00	18.00	20.00

* Outturn

Source: Ministry of Economy and Finance

Table 2.8 shows that the RGC plans to increase between 2004 and 2007 budget for health and education from 227 billion CRs (1.28 percent of GDP) and 354 billion CRs (1.99 percent of GDP) to 313 billion CRs (1.45 percent of GDP) and 469 billion CRs (2.17 percent of GDP) respectively. Allocations for the agricultural sector will increase from 87 billion CRs (0.49 percent) to 146 billion CRs (0.68 percent of GDP). Allocation for the Ministry of Women's and the Ministry of Social Affairs, Veteran and Youth Rehabilitation will increase from 72 billion CRs (0.41 percent of GDP) to 107 billion CRs (0.50 percent of GDP). The allocations for the Ministry of Justice will increase from 12.6 billion CR (0.07 percent) to 22 billion CRs (0.10 percent of GDP).

Table 2.9: Government Investment Projects, 2002-2007
(in Million US\$)

	2002*	2003 ^a	2004	2005	2006	2007
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	USD	% GDP	USD	% GDP	USD	% GDP	USD	% GDP	USD	% GDP	USD	% GDP
Capital expenditures		7.9		7.5		7.3		6.7		6.6		6.6
Investment on locally funded projects, o.w. Counterpart funds (50.2)	70.84	1.77	53.75	1.28	50.00	1.11	50.00	1.06	60.00	1.20	70.00	1.30
Construction and equipment (50.1)	12.60	0.32	17.50	0.42	15.00	0.33	15.00	0.32	15.00	0.30	15.00	0.28
of Which	58.23	1.46	36.25	0.86	35.00	0.78	35.00	0.74	45.00	0.90	55.00	1.02
Health	0.28	0.01	0.50	0.01	0.50	0.01	1.00	0.02	1.00	0.02	1.00	0.02
Education	1.92	0.05	0.91	0.02	1.00	0.02	2.00	0.04	2.00	0.04	2.00	0.04
Agriculture	0.03	0.00	0.30	0.01	1.00	0.02	2.00	0.04	3.00	0.06	4.00	0.07
Rural development	10.77	0.27	15.70	0.37	15.00	0.33	15.00	0.32	15.00	0.30	15.00	0.28
Water resources	0.96	0.02	0.90	0.02	1.00	0.02	2.00	0.04	2.00	0.04	4.00	0.07
Public works	27.52	0.69	14.82	0.35	20.00	0.44	25.00	0.53	25.00	0.50	25.00	0.46

* *Outturn*

^a *January-October 2003*

Source: Ministry of Economy and Finance

Table 2.9 shows the medium-term investment framework for 2002-2007. Total investment expenditure as share of GDP is expected to be maintained at the level of around 6 to 7 percent of GDP, reflecting the need to further rebuild the country's social and economic infrastructure. Government's investment budget covers mostly the construction of rural roads, rural irrigation facilities and provincial roads. Most of capital investment in health, education, agriculture, public works and transport come from ODA.

**Table 2.10: Estimated ODA Disbursement and Projection for 2002-2007
(in Million US\$)**

	2002*		2003		2004		2005		2006		2007	
	USD	%GDP	USD	%GDP	USD	%GDP	USD	%GDP	USD	%GDP	USD	%GDP
Health	63	1.58	65	1.54	65	1.44	65	1.37	65	1.30	65	1.21
Education	64	1.60	64	1.52	64	1.42	64	1.35	64	1.28	64	1.19
Agricultural sector	35	0.88	40	0.95	45	1.00	45	0.95	45	0.90	50	0.93
Public Works and Transport	76	1.90	80	1.90	85	1.89	85	1.80	80	1.60	80	1.48
Social development	63	1.58	62	1.47	62	1.38	62	1.31	60	1.20	60	1.11
Other												
Total	500	12.51	500	11.88	500	11.09	500	10.57	500	9.98	500	9.28

* *Outturn*

Source: Ministry of Economy and Finance

Table 2.10 indicates that ODA disbursement in 2002 was US\$500 million or 12.5 percent of GDP. Of this 12.5 percent of GDP, only about 6 percent of GDP is considered to be investment-related, thus was already incorporated into the capital expenditure in Table 2.2. The remaining 6.5 percent of GDP consists of emergency relief, technical assistance, NGO activities, which mostly are recurrent spending by nature. Moreover, a large proportion of the technical assistance is spent or transferred back to overseas.

3. Brief Overview of NPRS/MDG Implementation in 2003

Although the NPRS Annual report is selective, this section will provide a general overview of NPRS implementation in a general term to enable all stakeholders to make a general assessment on the implementation of poverty reduction action plans. This section will highlight the achievements and shortcomings of NPRS implementation and actions to be taken by the government to ensure effective strategy implementation in the coming years by focusing on the implementation of the governance reform and the overview of NPRS implementation in other sectors and structural reforms.

3.1. Harmonizing NPRS and MDG

To facilitate the implementation and monitoring of the NPRS, it is essential to merge the NPRS and CMDG into a common framework. The RGC has attempted to merge the two frameworks into a common set of indicators as incorporated in Table 3.1, which will be used for monitoring NPRS implementation to check performance against the benchmark set in the NPRS. Indeed, CMDG is the long-term goals, whereas SEDP/NPRS is the medium-term strategy attempting to achieve the set goals. To merge different framework and targets, the RGC will prepare in the future an MDG-friendly NPRS Annual Progress Report instead of preparing two separate reports in order to reduce the burdens of reporting and monitoring activities. Furthermore, the next NPRS and Socio-Economic Development Plan (SEDP) will be combined into one document in order to ensure the coherency of policies and strategies.

There is obviously the benefit of having a small set of common NPRS/MDG monitoring indicators. With the current weak monitoring capacity associated with the lack of an appropriate incentive system for staff, too ambitious a monitoring project would not be feasible. Moreover, improved costing of policies and strategies is desirable to identify resources needed to achieve the MDG targets. Accordingly, the NPRS-II targets will be revised to reflect the availability of resources.

Overall, the experiences of the first year of NPRS implementation highlighted the urgent need for transforming all NPRS policy action matrix into investment projects. The investment projects will be prioritized, costed and incorporated into three-year action plans with an annual breakdown to facilitate implementation. This exercise cannot be achieved in the short run, given the lack of capacity and incentive system. There is a

need for intensive training and reviewing projects by developing standards and unit and average costs of public goods and services.

Table 3.1 provides a set of key intermediate and final indicators used for NPRS monitoring: (i) input indicators - financial and physical indicators of resource provided (money, material and personnel); (ii) output indicators - the intermediate goods and services generated; (iii) outcome indicators - access to and use of goods and services and satisfaction of beneficiaries; and (iv) impact indicators, which affect the key dimensions of wellbeing.

There is a problem in data collection in Cambodia. Most of the input and output indicators can be prepared on an annual basis. But, outcome and impact indicators are mostly based on specific surveys, such as the Cambodian Socio-Economic Survey (CSES) and the Demographic and Health Survey (DHS), which are conducted one every 5 years. The 2004 CSES will be completed in 2005, based on which a Poverty Profile will be prepared. Table 3.1 summarizes the main basic indicators used for NPRS monitoring.

Table 3.1: Merging NPRS/MDG Monitoring Indicators

OBJECTIVE	INDICATOR	NPRS VALUE (YEAR)	APR	SOURCE OF DATA/TIME INTERVAL
1. PROMOTING OPPORTUNITIES				
	Growth rate in real GDP	5.7% (2001)	5.2% (2003)	National Accounts, annual
	Tax revenue as percentage of GDP	7.8% (2001)	7.3% (2003)	National Accounts, annual
2. IMPROVING RURAL LIVELIHOODS IN ORDER TO ERADICATE EXTREME POVERTY AND HUNGER (CMDG1)				
	Poverty headcount index	36% (1999)		MOP (socio-economic household survey), 2-5 years
	Percentage of rural households that are landless	12-15% (2002/CDRI)		MOP (Socio-economic household survey), 2-5 years
	Growth rate in real value added in agriculture	-2.7% (2000)		National Accounts, annual
	Average paddy yield per hectare, mt	2.07 (2001-2002)	1.916 (2002-03)	MAFF, annual
	Non-rice crop production as percentage of total planted area	9% (2001-2002)	12% (2002-03)	MAFF, annual
	Total production of fish, mt	427,000 (2001-2002)	406,150 (2002-03)	MAFF, annual
	Total production of animal	204,330		MAFF, annual

OBJECTIVE	INDICATOR	NPRS VALUE (YEAR)	APR	SOURCE OF DATA/TIME INTERVAL
		(2001-2002)		
(CMDG1)	Labor force participation rate of children age 5-17 Female: Male:	16.5% (1999)		MOP (Socio-economic household survey, and labour force survey), 2-5 years
(CMDG1)	Prevalence of underweight (weight for age <2 z-scores) children under-five years of age Female: Male:		45.2 (2000)	DHS
(CMDG1)	Proportion of households using iodized salt Female: Male:		14 (2000)	DHS
2.1. NUTRITION				
(CMDG1, Nutrition)	Percentage of children under 5 who are moderately or severely stunted Female: Male:	44% (2000)		DHS
(CMDG1, Nutrition)	Protein energy malnutrition in children under 5	45% (2000)		DHS
(CMDG1, Nutrition)	Malnutrition among women of reproductive age	21% (2000)		DHS
3. EXPANDING JOB OPPORTUNITIES				
	Value of exports (in billion riels)	6,768.6 (2001)		National Accounts, annual
	Value of export as % of GDP	50.6% (2001)		National Accounts, annual
	Rural non-agricultural employment	15.3% (1999)		MOP (Socio-economic household survey), 2- 5 years
	Rural female non-agricultural employment	19.8% (2000)		MOP (Socio-economic household survey), 2- 5 years / Labour Force Survey, 2-3 years
	Industrial employment in urban areas other than Phnom Penh	9.2% (1999)		MOP (Socio-economic household survey), 2- 5 years
	Urban female non-agricultural employment	68.4% (2000)		MOP (Socio-economic household survey), 2- 5 years / Labour Force Survey, 2-3 years
	Rural unemployment rate	2.3%		MOP (Socio-economic

OBJECTIVE	INDICATOR	NPRS VALUE (YEAR)	APR	SOURCE OF DATA/TIME INTERVAL
		(2000)		household survey), 2-5 years / Labour Force Survey, 2-3 years
	Rural female unemployment rate	2.7% (2000)		MOP (Socio-economic household survey), 2-5 years / Labour Force Survey, 2-3 years
	Growth rate in real value added in industry	29.0% (2000)		National Accounts, annual
	Growth rate in real value added in services	3.1% (2000)		National Accounts, annual
4. Strengthening Capabilities				
4.1. Achieving Nine-Year Basic Education (CMDG2)				
	Percentage of 12 year-old who have completed primary education	33% (1998)	N/A	MOP (Socio-economic household survey), 2-5 years
	Primary gross enrolment ratio ²	109.8 (2000-01)	118.0 (2002-03)	MOEYS (Education Management Information System), annual
	Female primary gross enrolment ratio Female:	103.2 (2000-01)	112.0 (2002-03)	MOEYS (Education Management Information System), annual
	Lower secondary gross enrolment ratio	27 (2000-01)	36.5 (2002-03)	MOEYS (Education Management Information System)
	Female lower secondary gross enrolment ratio	20.3 (2000-01)	29.5 (2002-03)	MOEYS (Education Management Information System)
	Primary net enrolment ratio	83.8 (2000-01)	88.9 (2002-03)	MOEYS (Education Management Information System)
	Female primary net enrolment ratio	80.7 (2000-01)	86.8 (2002-03)	MOEYS (Education Management Information System)
	Lower secondary net enrolment ratio	16.6 (2000-01)	19.1 (2002-03)	MOEYS (Education Management Information System)
	Completion rate in G5	45% (1997/98)	N/A	MOEYS (Education Management Information System),

² Gross Enrolment Ratio (GER)=G1(total student in grade 1)/total population at age 6 only; Net Enrolment Ratio (NAR)=G1(total student in grade 1 at age 6 only)/total population at age 6 only;

OBJECTIVE	INDICATOR	NPRS VALUE (YEAR)	APR	SOURCE OF DATA/TIME INTERVAL
				annual
4.2. Promoting Gender Equality and Empowering Women (CMDG3)				
	Female lower secondary net enrolment ratio	13.7 (2000-01)	17.1 (2002-03)	MOEYS (Education Management Information System)
	Female adult literacy rate, age 15 and above	61.4% (1999)	N/A	MOP (Socio-economic household survey), 2-5 years
	Literacy rate 15-24 yrs Female Male	76% 71% 82% (1998)	N/A	MOP (Socio-economic survey), 2-5 years
	Primary education Female Male	46% 54%	46.7% 53.3%	MOEYS (Education Management Information System), annual
	Lower secondary school Female Male	37% 63%	39.8% 60.2%	MOEYS (Education Management Information System), annual
	Percentage of seats in national parliament held by women	11.5% (2002)	12.19% (2003)	MOWVA, annual
4.3. REDUCING CHILD MORTALITY (CMDG4)				
	Infant mortality rate	95 (2000)	N/A	DHS
	Infant mortality rate of the poor	110 (2000)	N/A	DHS
	Under 5 mortality rate	125 (2000)	N/A	DHS
	Maternal mortality rate	437 (1998)	N/A	DHS
	Under 5 mortality rate, ratio of richest wealth quintile to poorest girls	0.5 (2000)	N/A	DHS
	Percentage of children under 1 year of age who are fully immunized	40% (2000)	N/A	DHS
	Reduced proportion of underweight children aged 6-59 months	45%	N/A	DHS
4.4. Improving Maternal Health (CMDG5)				
	Percentage of births attended by skilled health personnel	32%	N/A	DHS
	Health expenditures among poor and vulnerable households as % of household income	11% (1999)	N/A	MOP (Socio-economic survey), 2-5 years
	Total fertility rate	4% (2001)	N/A	DHS
	Total fertility rate for the	6.8%	N/A	DHS (disaggregation)

OBJECTIVE	INDICATOR	NPRS VALUE (YEAR)	APR	SOURCE OF DATA/TIME INTERVAL
	poorest	(2000)		
	Contraceptive prevalence rate (modern methods), women aged 15-49 years	19% (2000)	N/A	DHS
	Contraceptive prevalence rate (modern methods) for the rural poorest, women aged 15-49 years	11% (2000)	N/A	DHS (disaggregation)
4.5. COMBATING HIV/AIDS, MALARIA AND OTHER DISEASES (MDG6)				
	HIV/AIDS prevalence rate, age 15-49	2.6% (2002)		MOH (estimated by HIV/AIDS program)
4.6. SAFE WATER AND SANITATION				
	Percentage of rural population with access to safe drinking water	29% (1999)	N/A	MOP (Socio-economic household survey, Census), 2-5 years
	Percentage of urban population with access to safe drinking water	69.5% (1999)	N/A	MOP (Socio-economic household survey, Census), 2-5 years
	Percentage of rural population with access to sanitation facilities	8.6% (1999)	N/A	MOP (Socio-economic household survey, Census), 2-5 years
	Percentage of urban population with access to sanitation facilities	49% (1999)	N/A	MOP (Socio-economic household survey, Census), 2-5 years
	Percentage of children under 5 that are moderately or severely stunted	44% (2000)	N/A	DHS
5. REDUCING VULNERABILITIES				
5.1. DISASTER MANAGEMENT				
	Planted area damaged by flood (paddy), ha	190,273 (2000-01)	81,172 (2002-03)	MAFF, annual
	Planted area damaged by flood (seedling), ha	5,930 (2000-01)	3,200 (2002-03)	MAFF, annual
	Damage by flood, US\$	40 million (2002)	None	NCDM
	Planted area damaged by drought (paddy), ha	55,623 (2000-01)	52,000 (2002-03)	MAFF, annual
	Planted area damaged by drought (seedling), ha	9,922 (2000-01)	22,654 (2002-03)	MAFF, annual
	Number of people affected by drought	2 million (2002)	None	NCDM, annual

OBJECTIVE	INDICATOR	NPRS VALUE (YEAR)	APR	SOURCE OF DATA/TIME INTERVAL
5.2. MINE ACTION				
	Annual casualty (death and injury)	848 (2002)	745 (2003)	CMAA (CMAC/MAG/Halo Trust/RCAF)
	Monthly casualty (death and injury)	71 (2002)	62 (2003)	CMAA (CMAC/MAG/Halo Trust/RCAF)
5.3. FOOD SECURITY				
	Milled rice surplus, mt	364,148 (2002)	686,000 (2002-03)	MAFF, annual
	Rice planted area, million ha	2.24 (2001-02)	2.14 (2002-03)	MAFF, annual
	Food consumption as a % of household expenditure	61.6% * (1999)	N/A	MOP (CSES), 2-3 years
	Ratio of the price of rice between the most expensive district and the cheapest district	11.1 * (1999)		MOP (CSES), 2-3 years
5.4. SOCIAL SAFETY NET PROGRAMMES				
	Number of people in safety net programme	NA	Not set	MOSALVY
5.5. ETHNIC MINORITIES				
	Gross primary school enrolment ratio among ethnic minority children	NA		MOEYS (Education Management Information System), annual
	Gross lower secondary school enrolment ratio among ethnic minority children	NA		MOEYS (Education Management Information System), annual
	Male literacy rate, %	5.3 (2000, MOEYS)	N/A	MOP (CSES), 2-3 years
	Female literacy rate, %	0.0% (2000, MOEYS)	N/A	MOP (CSES), 2-3 years
5.6. ENSURING ENVIRONMENTAL SUSTAINABILITY (MDG7)				
	Percentage of land area covered by forest	58.6% (2002)		DFW/MAFF
6. INSTITUTIONAL STRENGTHENING AND IMPROVED GOVERNANCE				
6.1. LEGAL AND JUDICIAL REFORM				
	Percentage of provinces and municipalities with at least 3 judges and prosecutors	NA	95% (21/22) (2003)	MOJ, annual

OBJECTIVE	INDICATOR	NPRS VALUE (YEAR)	APR	SOURCE OF DATA/TIME INTERVAL
	Percentage of female prosecutors	0 (2002)	1.5% (2003)	MOJ, annual
6.2. CIVIL SERVICE REFORM				
	Average monthly salary of public servants, US\$	20 (2001)		MEF, and line agencies, annual
	Size of public/civil administration	163,529 (1999)		COM, Secretariat for Public Function, MEF, and line agencies, annual
	Size of the armed forces	248,600 (1998)		Ministry of Defense, annual
6.3. DECENTRALISATION, LOCAL GOVERNANCE AND DEMOCRATISATION				
	Number of VDCs established and functional	8,000 (2002)	7,896	MRD / Seila, annual
6.4. ANTI-CORRUPTION				
	Formulation and approval of anti-corruption legislation by 2003			RGC / COM
6.5. PUBLIC RESOURCE MANAGEMENT				
	Foreign X reserves, in months of imports	3.0 (2001)	2.9 (2003)	MEF, annual
	Disbursement for PAP	67% (2001)		MEF, annual
	Defence expenditure as % of current expenditure	30.1% (2001)	24.8 (2003)	MEF, annual

From the above indicators, we have seen that there have been some progress and improvements in input and output indicators across the board, mainly reflecting robust growth in 2002. Lower economic growth and political uncertainty, coupled with revenue shortfalls in 2003 have made the progress of the first year of NPRS implementation limited, especially in terms of improving service delivery for the poor. The NPRS was launched in March 2003, shortly before the July 2003 elections. The delay in the formation of a new government has delayed the implementation of some reforms.

Following is a snapshot of achievements in 2003, constraints and proposed policy response for 2004-2005 in order to implement the NPRS.

Achievements	Constraints	Policy Response
Macroeconomic developments		
<ul style="list-style-type: none"> Real GDP growth of 5.2%, due to continued growth in garments exports, a rebound in overall investments and an upward surge in agricultural production; 	<ul style="list-style-type: none"> It become more and more difficult to attain inclusive, broad-based economic growth at the rate of 6 to 7 percent per year; Delays in the implementation 	<ul style="list-style-type: none"> Improving investment climate; Diversifying the economy and broaden the base for growth by strengthening governance in order to attract more

Achievements	Constraints	Policy Response
<ul style="list-style-type: none"> • Agricultural production grew by 9.2 percent in 2003; • Credit to the private sector, which grew by 25 percent or US\$67 million in 2003; • Inflation of 1.2 percent and the exchange rate remained stable; • International reserves were maintained at the equivalent of 2.9 months of imports; • These achievements were made, despite the unfavorable political and economic conditions in Cambodia in 2003. 	<p>of structural reforms such as reductions in cost of production and doing business, improvements in quality, increased productivity and improved marketing, social and labor conditions will have long-term implications on growth;</p> <ul style="list-style-type: none"> • Real GDP growth will dip in 2005 as Cambodia will lose the advantages of quota-based garments market share following the phasing out of the quotas; • The overall balance of payments deteriorated in 2003, with the current account deficit wider at -10.2 percent of GDP reflecting the impact of higher petroleum prices and lower tourist arrivals and foreign direct investment; • External debt repayment will have significant impact on budget execution and thereby on poverty reduction goals. • The country's fiscal position deteriorated in 2003, as domestic revenue declined from 11.2 percent of GDP in 2002 to 10.5 percent in 2003. Tax revenue dropped from 7.9 percent to 7.3 percent, while non-tax revenue fell from 3.2 percent to 3 percent of GDP; • Financing for the 2003 elections, compensation due to Thai enterprises that suffered loss during the January disturbances, and the continuing financing obligations for the reconstruction of social and economic infrastructures, especially roads, bridges, schools and hospitals have driven up spending. • Revenue shortfalls seriously cramped budget execution in 	<p>private investments and ensure competitiveness vis-à-vis neighboring countries.</p> <ul style="list-style-type: none"> • Encouraging greater domestic investment, preferably in industries that utilize domestic resources, like small-and-medium enterprises; • Promoting regional initiatives to further integrate Cambodia into ASEAN, particularly through the Economic Cooperation Strategy (ECS) partnership scheme with neighboring countries; • Further orienting capital outlays toward infrastructure development in rural areas; • To counter the growing imbalance of the government's fiscal position, the following actions are required: (i) strengthening of role of the Cash Management Committee (CMC); (ii) establishing a Taskforce on non-tax revenue collection to ensure full transfer of non-tax revenue to the budget; (iii) improving revenue collection by enhancing customs and tax administration, combating smuggling and recovering arrears; (iv) containing current and capital government spending strictly to the budgeted amount; (v) increasing transparency of signed contracts; and (v) constraining domestically financed capital spending. The immediate policy issues facing the country pertain to effective implementation of PFM reform. • Pursue prudent external debt management policy and strictly avoid non-concessional financing.

Achievements	Constraints	Policy Response
	2003, while fiscal deficit (excluding grants) widened to -7 percent of GDP.	
Governance reforms		
<i>Forestry reform</i> <ul style="list-style-type: none"> • Forest concession cancellations; • Contract signed with SGS as an independent monitor; • Adoption of the Sub-Decree on Community Forestry; • 80,000 ha of community forestry developed; • Improved protected area management; 	<ul style="list-style-type: none"> • Though illegal logging has been reduced from the crisis proportions, small-scaled illegal logging persisted; • Weak enforcement capacity, due to low incentives; • Illegal loggers are armed with weapons, leading to sporadic clashes; 	<ul style="list-style-type: none"> • Eradication of small-scaled illegal logging; • Strengthening the capacity of community forestry;
<i>Legal and judicial reform</i> <ul style="list-style-type: none"> • Adoption of the Strategy for Legal and Judicial Reform; • On-going participatory process to establish the Short and Medium-Term Plan of Action; • The Supreme Council of the Magistracy Secretariat strengthened; • Salaries of judges increased; • Measures to adopt fundamental laws such as Civil Code and Civil Procedures, Criminal Code and Criminal Procedures in place; • Adoption of laws relating to human rights, laws on investment, trade and commerce and laws that support natural resources management; • Launch of the Royal School of Magistracy and the Lawyer Training Center; • Pilot Court was established in Kandal Province; • The Programme Management Unit (PMU) of the Council for Legal and Judicial Reform strengthened. 	<ul style="list-style-type: none"> • Low capacity and lack of enforcement of laws; • Low salary for enforcement officers; • Lack of clear indication in legal system used; • Inadequate number of well-qualified legal experts and the lack of incentives; 	<ul style="list-style-type: none"> • Establishment of a Commerce Court, a Juvenile Court and Administrative Court; • Substantial human and financial resources are needed to implement the comprehensive reform programs;
<i>Administrative reform</i>		

Achievements	Constraints	Policy Response
<ul style="list-style-type: none"> • The remuneration and classification regimes have been overhauled; • Targeted allowances for education, health and senior management; • Capacity Building Strategy for the Civil Service was reviewed; • The study on developing service delivery policy including user fees is completed; • Policy and program for de-concentration has been drafted for approval in 2004; • The preliminary Governance Action Plan II was completed; 	<ul style="list-style-type: none"> • The studies to investigate ways and means to accelerate pay and employment reforms to improve the quality and access of public services are on going; • More actions are required for introducing performance-based civil service system; • Low salaries in the civil services; 	<ul style="list-style-type: none"> • Implementation of the Priority Mission Group program; • Complete other studies
<p><i>Anti-corruption</i></p> <ul style="list-style-type: none"> • A draft Anti-corruption Law was submitted to the National Assembly for adoption; • Cambodia joined the Anti-Corruption Action Plan for Asia and the Pacific; • The institutional capacity of the National Audit Authority (NAA) is being strengthened; • Full implementation of the Public Procurement Sub-decree in all ministries; 	<ul style="list-style-type: none"> • Concrete actions are limited; • Weak capacity in drafting commercial contracts, leading to the loss of government revenue; • Low salaries create rent-seeking mentality; 	<ul style="list-style-type: none"> • Streamlining procedures and institutional responsibilities for inspections related to production and import and export operations in order to reduce corrupt practices; • Ensuring a sound risk management in cargo inspections to improve efficiency, while maintain high standards to combat drug trafficking and terrorism; • Establishing Internal Audit Unit in all line ministries; • Strengthening government capacity in drafting contracts; • Putting in place a procedure to evaluate the legal and financial terms of all contracts and seeking professional legal as well as financial advice for those contracts with large fiscal implications; • Ensuring transparency in both public and private sector, especially in the case of compliance with contracts; • Further strengthen procurement procedures, ensuring a competitive bidding process;

Achievements	Constraints	Policy Response
<p><i>Decentralization</i></p> <ul style="list-style-type: none"> • Regulations were adopted and a series of training were conducted to build up capacity of the commune and sangkat councils to ensure effective decentralized governance; • Deconcentration reforms by preparing an Organic Law to define the role of the province and district; • Progress has been made through initiative of the MEF to decentralizing expenditure management to the line Ministries including the Priority Action Plan (PAP) Ministries, Education, Health, Agriculture and Rural Development; 	<ul style="list-style-type: none"> • Slow disbursement of funds to the commune councils has undermined the delivery of development projects at the grassroots level; • Few resources controlled by the commune councils resulted in an extremely low level of implementation of services and investment; • 	<ul style="list-style-type: none"> • Ensure the delegation of increased responsibility from line Ministries to the province and their provincial departments. • Ensure full transfer of the block grant to the commune budget; • Explore appropriate formula for developing own source revenue, local contribution and tax sharing for the commune budget; • Piloting a commune decentralization accounting system (CDAS) in two provincial treasuries; • Further building up institutional capacity of the commune councils.
<p><i>Gender and development</i></p> <ul style="list-style-type: none"> • Gender equality indicators improved slightly, suggesting that gender equality still remains an issue across social spectrum; • Training programs on gender, leadership, management and mainstreaming gender into the national statistical system; • Legal protection of women and girls, aimed at preventing and investigating trafficking of women and children; • Raising public awareness on domestic violence; • Promotion of micro credit programs, • Skill training on fruit and vegetable marketing and training in food processing; • Establishment of Women's Enterprise centers • Female primary gross enrolment also increased from 103 to 112; • Girls enrolment in lower secondary is encouraging with 	<ul style="list-style-type: none"> • The percentage of women in the newly elected National Assembly has not increased significantly; • Enforcing legal codes dealing with domestic violence and the trafficking of women; • Cultural norms that impede actions to strengthen capabilities of women; • Unequal access to education, paid employment, land ownership and other property rights; • Women also suffer from poor reproductive health services, due to high costs; • HIV/AIDS epidemic has diversified and created multiple burdens for women; • Trafficking and the sex trade always target vulnerable women and children; • Domestic violence continues to represent a threat for Cambodian women; • The declining in the garment 	<ul style="list-style-type: none"> • Reducing the gender gap in secondary school enrolment; • Tackling issues of domestic violence, trafficking of women; • Increasing female access to productive assets such as financial capital, reducing gender based discrimination in the labor market and providing the enabling environment to permit greater female entry into higher quality employment; • Increasing female participation in formal and informal decision-making structures; • Improving female access to high level positions in the public administration; •

Achievements	Constraints	Policy Response
<p>the growth rate 9% higher than for boys over the last three years;</p> <ul style="list-style-type: none"> • Increase access of female students in higher education. 	<p>industry will have considerable impact on female job seekers;</p>	
Structural reform		
<p><i>Private sector development</i></p> <ul style="list-style-type: none"> • Improvements in road infrastructure, power and water supply reliability, human resources, tax administration, airport terminals, expansion in telephony network, macroeconomic stability, peace and security. 	<ul style="list-style-type: none"> • The quality of governance (and the burden of corruption), regulatory burden, and the weakness of the court system and legal environment for market competition as the urgent areas of reform. • Cambodian firms face both excess transaction costs (in time or money) and uncertainties. • Cambodian firms lag behind firms in other Asian countries both in labor and total factor productivity. • The government also faces strong pressure from influential firms, both local and foreign, to provide unfair treatment in the form of special contracts. • Cambodian firms identify corruption as their leading constraint to the operation and growth of Cambodia. Business's view of agency integrity is negative, with the Judiciary and Customs viewed the most negatively. Thus, staying in the informal sector appears to be a rational response, because informal firms pay less tax and bribes. The formal private sector faces myriad transaction costs and barriers to establishment and operation. • Trade facilitation practices stand out in having high official and unofficial costs, delays, uncertainty and discretion for clearance procedures. Boundaries 	<ul style="list-style-type: none"> • Remove impediments to private sector development by taking serious strides to train human resources, build up institutions, notably the rule of law, rehabilitate physical infrastructure; • Improve the investment climate, including the legal, regulatory and administrative environment and increasing access to key factor inputs, including skilled personnel and competitive access to finance. • Promoting business membership organization and strengthening its advocacy capacity; • Reducing policy-based impediments to efficient transactions, particularly in such areas as trade facilitation and business transactions; • Rationalizing roles and responsibility of government agencies involved in the control of exportation and importation by introducing single window with flat fee; • Implementing customs streamlining programs and introducing process automation; • Rationalizing all agencies that contribute to high costs and delays including those in the Customs and Excise Department, the Ministries of Interior, Commerce, Public Works and Transport, Industry, Health, Agriculture and Labor;

Achievements	Constraints	Policy Response
	<p>between the responsibilities of agencies involved in control over importations are ambiguous, and lead to overlaps. Clearance at the port of Sihanoukville involves, for Customs purposes only, twelve steps, which mainly consist in visiting key officials. Due to high cost of formal trade process, illegal trade process and frequent under-declaration of goods, the RGC loses significant revenue throughout the trade process.</p>	<ul style="list-style-type: none"> • Decreasing the overall time it takes to import and export products; (v) increase the visibility and predictability of the process with respect to both time and cost, and (vi) consistent with WTO and WCO guidelines. • Reducing entry barriers, such as unnecessary licenses and the high cost of registering business, and • Taking a supply chain approach to removing bottlenecks on a product basis. • Increase competitiveness by substantially reducing costs, including unofficial costs. However, the high costs of transportation, utilities and handling of containers;
<p><i>Financial sector reform</i></p> <ul style="list-style-type: none"> • Submission of the draft law on negotiable instruments and payment transactions to the National Assembly for adoption. • Conducting on-site inspection for six commercial banks; • Completion of bank re-licensing program with improvement in banking intermediation and public confidence; • Progress achieved in restructuring the NBC's branches; • Introduction of new chart of accounts (COA) for commercial banks; • Restructuring the state-owned commercial bank, the Foreign Trade Bank (FTB) by appointing new board of directors, improved bank management and operations. The statement of intent for privatization of FTB was announced; • Good progress in 	<ul style="list-style-type: none"> • Lack of experienced staff members and incentive schemes to attract good people to work in developing financial markets; • High interest rates for micro-finance loans, limiting the access by the poor to credit; 	<ul style="list-style-type: none"> • Establishing a legal framework that ensures enforceability of financial contracts; • Fully implementing the new chart of accounts; • Further develop the bond market; • Prepare legal framework for the development of a capital market;

Achievements	Constraints	Policy Response
<p>implementing the <i>Financial Sector Blueprint 2001-2010</i>. A Law and sub-decree on Government Securities were drafted and a Diagnostic and Policy Review for the establishment of a Non-Government Securities Market were prepared. The Non-Government Securities Issuance and Trading Law is also being drafted.</p> <ul style="list-style-type: none"> • A new Reinsurance Cooperation, Cambodia Re, was established to provide reinsurance and value-added services to reduce the outward flow of insurance premiums. • An Accounting Law was adopted in compliance with the International Accounting System and Standards and the National Accounting Council (NAC) and the Khmer Institute of Certified Public Accountants and Auditors (KICPAA) were established; 		
Rural and agricultural development		
<ul style="list-style-type: none"> • Real value added in agriculture grew by 3.6%; • Crops production increased by 25.3%, of which paddy production increased by 23% to 4.7 tons; • Introduction of high-yielded varieties, new farming technologies and extension services; • Cambodia has increased rice exports that would bring more benefits to the poor farmers, as a result of higher rice surplus; • Improved food security and nutrition, however malnutrition is still widespread; • Establishment of water user communities; • Introduction of integrated rural accessibility planning 	<ul style="list-style-type: none"> • Lack of coordinated government-donor framework for agricultural investment; • Weak management of community fisheries; • Strong competition with imported agricultural products; • Low paddy yield per hectare compared to neighboring countries; • Low proportion of government spending on agricultural and rural development; • Under-developed market infrastructure and network; • Limited access to credit, due to the under-developed banking system in the provinces; • The rural poor are vulnerable to natural calamities, such as 	<ul style="list-style-type: none"> • Adoption of Sub-decree on Fishery Community; • Expansion of agricultural extension services; • Further improvement in rural infrastructure and services; • Increased public investment in agriculture and rural development, research and extension services focused at: (i) increasing the productivity of farmers; (ii) farmer-owned and operated irrigation; (iii) rural enterprises; (iv) enhanced skills and capacity in lending to agricultural and agro-based enterprises; (v) decentralized public investments and budgeting; and (vi) promoting microfinance; • Agricultural land concession reforms;

Achievements	Constraints	Policy Response
<p>(IRAP);</p> <ul style="list-style-type: none"> • Empowerment of commune councils in rural road maintenance; 	<p>flood and drought. There is a need to strengthen the safety nets and protect the vulnerable groups from both external and internal shocks. However, the number of land mine accidents has steadily declined, while food security indicators have improved.</p>	<ul style="list-style-type: none"> • Ensuring competitiveness of agricultural products by reducing fertilizer import costs, improving trade facilitation and licensing reforms; • Strengthen access to financing by removing impediments to rural branch banking; • Promoting agro-industries; • Improving export competitiveness of domestic processing through power sector reforms, elimination of illegal road checkpoints, and reducing informal customs clearance costs; • Establishing an agricultural information center; • Establishing Sanitary and Phytosanitary Standards (SPS), strengthening laboratory testing and certification of products for exports; and • Initiating the "One Village One Product" concept to promote exports.
Education		
<ul style="list-style-type: none"> • The Education Strategic Plan (ESP) strategy is having a significant impact on improved equity in access to education; • Primary gross enrolment ratio increased from 110 in 2000/01 to 118 in 2002/03; • Highest enrolment growth in poorest quintile at 3.5% and increases in enrolment share in the poorest communes; • Declining poverty/education gap in primary education; • Overall reduction in repetition and drop out rates. 	<ul style="list-style-type: none"> • Primary schools in the poorest communes are relatively understaffed; • Overall secondary enrolment share from the poorest communes is low at 6.7% compared to 35% in the richest, representing considerable inequity in access to grade inequities in access are more severe for upper secondary where the richest quintile accounts for 52% of overall enrolment s 7-9; • Achieving the overall target of 50% enrolment by 2005 remains a considerable challenge; • A key barrier to access is the lack of a secondary school in many of the poorest districts 	<ul style="list-style-type: none"> • Review/update of the ESP and ESSP priorities; • Conduct a public expenditure tracking survey (PETS); • Streamline annual budget and PAP approval and implementation processes; • Improve financial management, internal audit and monitoring mechanism; • Implement education-wide pay reforms and performance based teacher and school director incentives programs; • Prepare capacity building plans; • Expansion of secondary school construction in underserved areas (particularly lower secondary); • Provide incentives through

Achievements	Constraints	Policy Response
	and communes;	targeted scholarships for the poor (including girls scholarships); • Strengthening consultative processes within Government Ministries, MoEYS and donor/NGOs partners in the formulation of the EFA national plan.
Health		
<ul style="list-style-type: none"> • Spending on health increased from 40 billion CRs to 50 billion CR, but slow disbursement in the beginning of the year undermines service delivery; • The number of malaria-related deaths has fallen; • The numbers of people (15 to 49) living with HIV has declined from a peak of 3.8 percent in 1998 to the current estimate of 2.6 percent in 2003; • Physical coverage of the population by the public health system has expanded; • Delivery care at health centers or hospitals has increased but is still below 10 percent of expected deliveries; • Piloting Equity Funds to further promote access to priority services; • Adopting strategy to provide incentives to staff, mainly medical workers, working in remote areas through performance-based measures; 	<ul style="list-style-type: none"> • Unpredictable budget disbursement to the health facilities undermines the quality of service delivery at the facility level; • Health conditions in Cambodia continue to be poor; • Access to services remains low and uneven; • Reduced access by the poor and minority population to health services with the introduction of cost recovery; • IMR and MMR are still high by regional standards; • The development of the private sector in the health sector has drained the brains from the public sector. 	<ul style="list-style-type: none"> • Adoption and subsequent enforcement of the legal and regulatory instruments for sector reform; • Definition of roles and responsibilities for health services administration and health care delivery at national, provincial, and district levels; • Effective improvement of key sector-wide functions, particularly in the areas of: (i) accessibility to health facilities, quality of care and utilization of services; (ii) human resources development (including manpower planning); (iii) decentralized financial management; (iv) procurement (including various possibilities for contracting in and contracting out services); and (v) evaluation of sector performance.
Road infrastructure		
<ul style="list-style-type: none"> • Between 1999-2003 a total of US\$430 million were disbursed to rehabilitate the national and provincial road network, allowing for the rehabilitation 1,850 km of national roads and 177 new bridges; some 10,000 km of rural roads were rebuilt; • In 2003, some 1,650 km of 	<ul style="list-style-type: none"> • Lack of systematic, unified planning and budgeting process; • Rapid degradation of rehabilitated roads, due to the lack of maintenance; • Though a Road Fund was earmarked in the budget, disbursement is still problematic; 	<ul style="list-style-type: none"> • Adoption of the Road Law to provide a legal framework and clearly define roles and responsibilities of government agencies on road construction and maintenance; • Encouraging greater private-sector participation (PSP) in the provision of road and road transport services and

Achievements	Constraints	Policy Response
<ul style="list-style-type: none"> national roads and 3,000 km of secondary and tertiary roads were rehabilitated and maintained; US\$1.75 million Routine Maintenance Program, funded by Japan, was launched with the objectives of maintaining 1,242km of national roads. 	<ul style="list-style-type: none"> The establishment and implementation of an adequate road maintenance fund is essential in order for Cambodia to benefit fully from the assets already built and to ensure the long-term sustainability of the road network. 	<ul style="list-style-type: none"> infrastructure; Establishing a clear mechanism for road maintenance; In 2003-2005, the RGC plans to rehabilitate and repair more than 1,000km of the main and other national roads.
Poverty monitoring		
<ul style="list-style-type: none"> Significant efforts were undertaken by the NIS and the line ministries, supported by UNICEF and GTZ, to set up "CAM-Info", an indicator-oriented data base and dissemination tool to monitor outcomes of NPRS, MDG and other policy frameworks; over 300 indicators from 12 international and national plans of action/strategies, including NPRS indicators, have been incorporated into the database. 	<ul style="list-style-type: none"> Monitoring NPRS and CMDG has proven to be a challenge, due to the lack of an incentive system for government staff to work on information gathering and data collection; Poverty monitoring is fragmented between and within government ministries and agencies; their capacity for data analysis is still limited. 	<ul style="list-style-type: none"> Measuring progress towards CMDGs requires effective system of monitoring and evaluation embedded in sound institutional framework. Improving coordination of Monitoring and Evaluation activities conducted by various government bodies.

3.2. Governance Reforms

3.2.1. Forestry Reform

The implementation of forest sector reform has reached a critical stage, where all stakeholders should pay attention to the strengthening of institutional capacity and improving coordination to ensure smooth implementation of policies. Following is the overview of some of the Government's most important accomplishments in the forest sector.

In keeping with existing commitments, the RGC did not issue new forestry management concessions. Arrangements were made for small salvage operations (collection of stumps) and other works provided for in Cambodian law and regulation. The government initiated forest concession cancellations on the basis of technical and legal reviews supported by the World Bank and the Asian Development Bank, by the exercise of the Government's legal rights to punish illegal logging, and through voluntary abandonments.

The RGC signed a contract with Société Générale de Surveillance (SGS) to act as the Royal Government's officially recognized Independent Monitor of Forest Crime Reporting.

SGS will mobilize immediately and their Team Leader is already on station in Cambodia. An early major activity under the project will be a public inception workshop.

Strategic Forest Management Plans and Environmental and Social Impact Assessments that were submitted by concessionaires were publicly disclosed in November 2002, an unprecedented display of transparency, and consultations with affected communities were initiated and will continue through the subsequent levels of planning. Revised version of the plans, that have resulted from the World Bank-assisted Forest Concession Management and Control Pilot Project, are also due to be made available for public inspection.

Forest concession system and individual concessions have been radically restructured to make them more accountable and responsive to the public interest. The RGC will continue with further reforms, including consummation of revised contracts with the remaining concessionaires, further measures to improve community consultations and to avoid social problems and adverse environmental impacts and to raise the technical standard of practice by concessionaires and the Government agencies involved in concession management.

On the legislative front, the RGC has developed a plan for the completion of additional regulatory instruments and guidelines required for the implementation of the new 2002 Forest Law. In November 2003, Prime Minister Samdech Hun Sen signed into effect a Sub-Decree on Community Forestry. This Sub-Decree enables Government to put public forest assets under the stewardship of local communities in the framework of approved management plans and benefit sharing arrangements. The Sub-Decree was the product of over six years of consultation and work with many stakeholders and advisers and compliments other measures, such as the Sub-Decree on Social Land Concessions, that Government is pursuing to make the country's land resources more productive and better managed.

Government has already been working in partnership with various donor agencies and non-governmental organizations piloting community forestry in different parts of the country. Nearly 80,000 hectares had been developed under community forestry arrangements. The RGC will continue these partnerships under the framework of the new Sub-Decree. The government is in the process of developing an arrangement with USAID which will provide \$2 million in support to civil society organizations in Cambodia working on community forestry.

Illegal logging, wildlife smuggling, corruption and encroachment on forest land have been reduced from the crisis proportions prior to the Government's reform program. The Government's crackdown on illegal logging has consisted of measures across the full spectrum of forest law enforcement, prevention, detection and suppression. The RGC's entire approach to resource management, including concession management reform, community forestry and protected areas management is aimed in large part at

preventing crime by crowding out illegal activities with good practice. While expansion of scientific management is time consuming and expensive, the RGC is also addressing the other areas of law enforcement.

Forest crime monitoring and reporting efforts have continued unabated throughout disruption in international technical assistance projects and well known disputes with the previously recognize official Independent Monitor, Global Witness. This reporting program, which needs to be further strengthened and improved, provides Government the basis for strategically applying its scarce enforcement resources to priority problems for the most impact.

Despite the Government's decision to engage a new Independent Monitor, it continues to welcome the work in Cambodia of Global Witness and other NGOs and civil society organizations concerned with forest law enforcement. Conservation International, WildAid and other groups constitute a new and vibrant architecture for monitoring forest crime in Cambodia and we welcome the additional and more constructive and objective scrutiny they put on Government's efforts. The RGC is also redoubling its efforts to obtain additional expert technical advice on forestry law enforcement and have approached the members of the donor Working Group on Natural Resource Management for assistance.

3.2.2. Legal and Judicial Reform

Some progress has been made to reform the country's legal and judicial sector. Yet, the Government is determined to accelerate the pace now that key foundations are in place. The Strategy for Legal and Judicial Reform has been approved by the RGC in June 2003. Important laws were enacted to complement the legal framework, from laws relating to human rights to laws on investment, trade and commerce and laws in support for natural resources management. Starting from January 2003, the government increased remuneration of judges and prosecutors. The Civil Code and Procedures and the Penal Code and Procedures are being readied for submission to the National Assembly and Senate. The Royal School of Magistracy and the Lawyer Training Center are operational. A pilot court was established in Kandal province in order to introduce some best practices in handling cases and upgrade the court. Needs and improvement measures have also been identified to improve its performance. Preparation is underway to establish a Commerce Court, a Juvenile Court and an Administrative Court are underway. Core support institutions such as the Supreme Council of the Magistracy, the Council of Jurists, the Ministry of Justice and support mechanisms to the Council for Legal and Judicial Reform are being strengthened. Resources are being mobilized to undertake projects in order to significantly improve access to legal and judicial services. But so far most of the resources are coming from the government budget.

To implement Cambodia's commitments under the WTO, various laws related to commercial transactions will go through the legislative process. This process will create

a predictable business environment based on the rule of law. The government will take further efforts to improve the capacity of the judiciary, for example through professional training at the newly established institutions.

Although all the donors realize the importance of the reform of the court systems, only a few have put the money where the mouth is. Efforts are more focus on criticism rather than concrete actions. Judicial reform has been identified by the Investment Climate Survey as critical for providing enabling environment for private sector development and poverty reduction. Improved access to justice and judicial services for the poor constitutes a remedy to address injustice and reverse their poverty situation.

The complexity of the problems is also caused by the three decades of wars, with the warrior's mentality of some segments of the population, rapid transformation of the society leading to the change in values and virtues, and more importantly the change in legal system from a mixed French and Cambodian laws into the Anglo-Saxon laws. There are only a small number of Cambodian legal experts who are working in the sector. Thus, this requires substantial technical and financial assistance from the international community and the efforts of the Cambodian government. However, donors and human rights organizations have adopted the attitude of criticizing, rather than giving a helping hand to build up institutional capacity of the sector. With so low budget for the court, one cannot expect too much in terms of improved efficiency. Moreover, law enforcement is still a challenge. It is difficult to enforce laws predictably and transparently when the salary of the enforcement officers is much lower than a minimum subsistence level.

Participation in reviewing draft laws and statutes is seen as an avenue for protecting the interests of the poor. While in theory broad consultation on draft laws and statutes is a good idea, both human and financial resources allocated to this process is negligible. This points out to the fact that legal and judicial reform is very much linked to the success of fiscal and administrative reforms.

3.2.3. Administrative Reform

The National Program for Administrative Reform (NPAR) is designed to turn the Administration and the Civil Service into forceful partners in the implementation of the Government agenda. The NPAR is a multi-year program articulated in three phases: setting the foundations to sustain the reform, reorganization and redeployment, strengthening capacity and developing human resources.

Phase 1 of the program is for all practical purposes completed. It was designed to achieve five major results: to document and control the composition and distribution of the Civil Service workforce, to develop essential instruments to manage and motivate personnel, to assess needs of ministries relating to corporate services (back office), to

complete preparatory work to move the Administration closer to citizens, and, strengthen the capacity to plan and manage the reform.

The remuneration and classification regimes have been overhauled. Targeted allowances more conducive to performance were introduced to address urgent needs in education, health and senior management. Further initiatives, such as the Priority Mission Group (PMG) program, have been readied for implementation. The Council for Administrative Reform (CAR) has undertaken sets of studies to investigate ways and means to accelerate pay and employment reforms to improve the quality and access of public services. Pilots are underway to significantly improve access to administrative public services (e.g. One Stop Windows). Programs to enhance capacity such as the Economic and Public Service Capacity Building project have been introduced. Background work to articulate a service delivery policy including user fees was completed. In addition, policy and program for de-concentration has been drafted and have been readied for consultation in 2004.

Now that the foundations are in place, attention turns to adapting the Administration and Civil Service to needs and means. The needs are clear – quality public services when and where needed. The means are also clear – they include a transformed public administration, closer to the people, more effective, accountable and transparent.

The government recognizes that increase in salaries will have tremendously positive impact on service delivery to the poor. Cambodia's total wage bill accounted for 3.64 percent of GDP in 2002. But it falls just slightly below the set average of 39 percent. This makes the Cambodian civil service is about average in terms of cost (the wage bill as a percentage of GDP, current expenditures, or revenues) and size (civil servants as a percentage of population), as compared to other low income countries, according to the IFAPER. With respect to the share of civil service employment to the total population, Cambodia, at 1.5 percent in 2003, falls just below the low income country average of 1.6 percent. This comparison suggests that Cambodia's is not a bloated civil service.

The RGC Strategy to Rationalize the Civil Service (SRCS) was set in 2001 on the basis of the then planned Fiscal Framework for the period 2002-2006. Increasing the remuneration of civil servants was the first priority. By January 2003, average salaries were increased by 44% through a better use of existing envelope and the introduction of targeted allowances. The CAR was also mandated to investigate ways and means to accelerate the pace of such reforms (including the introduction of innovative measures such as the PMG programme). Studies that should be completed early in 2004 will inform on specifics of next steps. The envisioned MTWF would have allowed increasing the average civil service wage from US\$ 28 in 2002 to US\$ 51.5 in 2006.

In order to raise the salary of the government's officials, the government decided to raise the salary by 10 to 15 percent in average per year.

When it approved the SRCS, the Royal Government mandated the CAR to investigate ways and means to accelerate pay reforms. The CAR undertook to commission a set of studies including a labor market study, an operational review and studies on pay and employment options. The RGC also mandated the CAR to investigate innovative promising ways to accelerate pay reforms such as establishing the PMG.

Various scenarios and projections show that likely available government resources would not suffice to raise public service salaries to adequate levels while at the same time respecting principles of relativity and sustainability, and that donor funded support would be required.

The CAR's Strategy to Rationalization the Civil Service (SRCS) is based on a medium term wage bill framework (MTWF) for the period 2002-2006. The MTWF envisions increasing the average civil service wage from US\$ 28 in 2002 to US\$ 51.5 in 2006. The end term goal of the existing MTWF is to increase the average civil service wage to that of the current minimum wage in the garment industry, regarded as a benchmark for adequate wage levels in the private sector.

The wage level as envisaged in the MTWF is inadequate and does not reflect the average civil servant's opportunity cost. Reaching an average public sector wage of US\$52 in 2006 will not be sufficient to break out of the cycle of poor service delivery. To address this issue, the Government has committed to undertaking a labor market survey to determine the remuneration needed to be offered by the Government to provide the incentives needed to recruit and retain well-qualified staff. The labor market analysis includes a comparator pay survey and studies of private sector as well as NGO markets. At present, the RGC considers the natural retrenchment through retirement and setting limit on new recruits as a measure to trim the size of the civil service, while avoiding social and political problems.

The other important issue is the supply of resources for the civil service wage bill over the medium term. The civil service wage bill is a function of the levels of economic growth and taxation, and is directly calculated as a percentage of current expenditures. The Government plans to raise the revenue to GDP from 11.2 percent in 2002 to 13.7 percent in 2008, which will enable it to increase the overall level of spending from 17.8 percent in 2002 to 18.7 percent in 2008, thus increasing the level of resources available for public sector salaries while reducing the overall balance from -6.7 in 2002 to -5.0 in 2008 (Table 2.2). The establishment of the Priority Mission Group (PMG) is possible stop gap measure to improve civil service efficiency.

On average, the total public sector wage bill (chapter 10) is set at a maximum of 40% of current spending or 4 percent of GDP. Given the wage increase effected in 2002 due to the introduction of a new classification system, however, the wage bill increased to 3.34 percent of GDP or 32 percent of the current budget. Wage bill levelled off again in 2003-2004, indicating that there is still room for wage increase in the future.

3.2.4. Anti-Corruption

As stated in the NPRS, "corruption is an endemic problem worldwide that can only be mitigated through close cooperation among countries. Corrupt activities are the result of opportunity, behavior and risks. The approach can only be holistic, participative, gradual and sustainable."

The Royal Government's anti-corruption efforts are sweeping, yet expectations are frustrated. Many initiatives in the Governance Action Plan directly address root causes of corruption. Significant advances were made in the management of government revenues and expenditures and in the management of natural resources. A draft Anti-corruption Law was submitted to the National Assembly for adoption. Cambodia joined the Anti-Corruption Action Plan for Asia and the Pacific. Recognizing that rigorous control on revenue collection and expenditure management is essential for fighting corruption, the government has strengthened the check and balance mechanism such as the National Audit Authority (NAA) and inspection functions of the line ministries. The NAA will work with the Internal Audit Unit of the line ministries to have the Damocles sword hung over the decision makers and improve the monitoring of government ministries and agencies. At the same time the government has expanded the scope of implementation of the Public Procurement Sub-decree to all ministries in order to improve governance.

The Royal Government intends to follow through on steps already taken:

- It will seek early approval of the draft anti-corruption law submitted to the National Assembly and the Senate;
- It will continue to strengthen Public Financial Management;
- It will streamline the delivery of public services to contain opportunities for corrupt practices particularly in those areas relating to trade, commerce and investment;
- It will fully participate in international for a dedicated to fighting corruption such as the Anti-Corruption Action Plan for Asia and the Pacific;
- It will continue to reinforce check and balance mechanisms through the establishment of a Citizen Bureau;
- It will develop and enforce codes of ethics within the public sector;
- In its deadlines with the private sector, the RGC will enhance the transparency of public tenders and contracts.

3.2.5. Decentralization and Local Governance

The RGC started decentralization reform since 1996, with the piloting of the Seila program, based on the bottom-up, integrated, participatory, decentralized rural development. This will allow active community participation in grassroots institutions

and increase the ownership of development projects, by shifting decision-making and accountability closer to individuals, households and communities. This process enabled a greater percentage of available development resources to be programmed or leveraged to support locally identified priorities. However, only in 2002 that political decentralization took place in the form of elected commune councils with discretionary and delegated powers. In 2003, a number of regulations were adopted and a series of training were conducted to build up capacity of the commune and sangkat councils to ensure effective decentralized governance. In this regard, the government has made significant progress in creating a legal framework for decentralization at the commune level.

However, there are only few resources controlled by the commune councils leading to an extremely low level of implementation of services and investment. At present, the communes depend on the block grant transfer from the central government. The 2003 commune fund totaled 51 billion CRs, of which 40 billion CRs is a transfer from the central government, 3.6 billion CR commune own resources and 7.8 billion CRs comes from UNDP. The commune budget is divided into general administration fund (38% of the budget) and local development budget (62%). However, as of October 2003 only about half of the budget was disbursed to the commune councils, due to cash shortages nation-wide: 12 billion CRs for general administration and 13 billion CRs for local development. The RGC is committed to replenish the budget in an additional transfer in 2004.

The RGC recognizes that delayed disbursement has undermined the delivery of development projects at the grassroots level in 2003. However, it would be misleading to judge the progress of commune decentralization from the fiscal performance in 2003. Rome was not built in one year. The main problem rested with the revenue shortfalls and cash shortages, caused by the impacts of the Anti-Thai riots, the outbreak of SARS and the political uncertainty in the lead up and in the aftermath of the general elections.

Thus, the challenge is to ensure predictable and timely release of funds, partly through the development of commune own resources. The key activities in 2004 will include the following: (i) ensure full transfer of the block grant to the commune budget; (ii) review the existing rules and regulations of the commune financial system; (iii) explore appropriate formula for developing own source revenue, local contribution and tax sharing for the commune budget; (iv) pilot a commune decentralization accounting system (CDAS) in two provincial treasuries; (v) build up institutional capacity of the commune councils. The RGC is conscious that there are certain limits to developing commune own source revenue or tax sharing arrangements, as not all the communes are endowed with taxable resources. Moreover, the current size of the communes is not optimal for management.

The government also moving ahead in implementing deconcentration reforms by preparing an Organic Law to define the role of the province and district. The challenge is

to ensure the delegation of increased responsibility from line Ministries to the province and their provincial departments. Considerable progress has already been made through individual initiative by line Ministries including the Priority Action Plan (PAP) Ministries, Education, Health, Agriculture and Rural Development as well as Ministry of Urban Planning, Land Management and Construction to better define a framework under which deconcentration of services can more coherently develop.

Unsettled relationship between provincial governors and the heads of provincial department has increasingly become an impediment to efficient provincial management. In some cases, governor has little influence on some provincial public officials, who are linked up to the senior management of the line ministries. The problem is compounded by the inability of the provincial governor to influence nomination of provincial department officials. To break this triangular relationship, the government's deconcentration strategy is to integrate the role of governors in the tangle web of a merit-based system.

3.2.6. Gender and Development

This section on gender discusses the "gender disparities that present on-going barriers to poverty reduction" such as unequal access to education, paid employment, and land ownership, their poor reproductive health, vulnerability to HIV and trafficking, and generally disadvantage position in both family and society. To improve monitoring on gender issues, the RGC has worked with the NIS to introduce gender-specific indicators in order to enable data collection and analysis. While the priority actions undertaken by the Ministry of Women and Veteran's Affairs (MOWVA) are aimed to address gender issues, gender is a cross-cutting issue. Gender issues are being mainstreamed into the sectoral policies of the RGC and the responsibility for closing the gender gaps also lies within the sector ministries - especially agriculture, education, and health. Specific actions in these sectors will be discussed separately in the section on cross-sectoral priorities. In the same vein, the MOWVA has worked closely with the line ministries to mainstream gender. Gender issues will be identified more specifically in the forthcoming Country Gender Assessment.

The NPRS and SEDP II states that one of its goals is to ensure that Cambodian women participate and benefit equally with men in all sectors of society and national development. Some progress has been made in reaching these objectives, in particular: major policies of the RGC now acknowledge the importance of addressing gender issues and targets and indicators have been established for the Millennium Development Goals (MDGs) and will be incorporated into the NPRS; some ministries have made budget provisions to address gender disparities in particular, in education; the National Council for Women has been established and is operational and Cambodia is moving towards meeting its international reporting obligations; the number of women in decision making in both public and private spheres has increased; increased public awareness on gender

equality and equity; and the Ministry of Women's and Veteran's Affairs has recently been included as a priority in the MTEF.

However, much more remains to be done to improve the status and welfare of women in Cambodian society, the majority of women are among those who live below the poverty line. In this regard, developing a legal framework to protect women is essential in streamlining gender. Thus, it is important to speed up the completion of a legal framework against trafficking in women has progressed, adopt the law against domestic violence and increase the number of women holding public functions.

The early decentralization experience has been considered successful in particular in increasing women's participation in decision-making at the grassroots level. The capacity of the women elected to the commune councils is being strengthened by MOWVA's and NGOs' training programs. The new commune Planning and Budget Committees are composed of one woman and one man from each village covered by the commune. The RGC recognizes that a "critical mass" is necessary to give women the confidence to participate actively. The Seila Gender Mainstreaming Strategy 2001-2005 was prepared and implemented by MOWVA that also focuses attention on promoting awareness of gender issues in local government and community-based authorities by: (i) building commitment and capacity, (ii) increasing participation of women in local development planning and governance and, (iii) enhancing capacity for gender monitoring, evaluation and database management.

In 2003, in order to promote gender equity and mainstream gender issues in all government departments, the MOWVA conducted a series of training programs on gender, leadership, management and mainstreaming gender into the national statistical system for civil servants, commune councilors, NGOs and media personnel. Priorities were given to legal protection of women and girls, aimed at preventing and investigating trafficking of women and children and raising public awareness on domestic violence. Moreover, the government has strived to ensure equal access rights of women to economic resources and opportunities and their equitable participation in national decision-making, development planning through the promotion of micro credit programs, developing policy on fruit policy on fruit and vegetable marketing and training in food processing and marketing and converting the Women in Development centers to Women's Enterprise centers.

In the area of increasing the number of women in the decision-making position, there has been an increase in the number of women elected as commune councilors, as political parties were able to nominate their female members to stand for elections. However, the percentage of women in the newly elected National Assembly has not increased significantly, as the candidates are selected from the list of the Steering Committee, which is a close-door club of political parties. The criteria for expansion of Steering Committee members are stringent for both women and men and political parties do not often review the composition of their Steering Committee. In this regard,

there is also a need for the change in attitude and perception among women, as well as the improvement in the overall political culture in Cambodia to allow more meaningful participation of women in politics. To this, the RGC conducted leadership programs for senior women civil servants in order to promote equitable participation of women in national decision-making. Moreover, the government is working to increase access of female students in higher education. At present, women represent only a small proportion of graduate students. Moreover, there is a need for the change in perception of politics as a men's domain.

The RGC is conscious that more needs to be done in Cambodia to reach gender indicators and targets for the CMDGs. Gender disparities present on-going barriers to poverty reduction. Among these are unequal access to education, paid employment, land ownership and other property rights. Women also suffer from poor reproductive health services. They are generally in a disadvantaged position in both family and society. Recently analysis confirms the seriousness of these problems, as reported below.

Lack of access caused by distance to and costs at existing Health Centers and hospitals also contribute to maternal mortality and morbidity. The DHS 2000 found that 88 percent of women reported they could not access health care services because the financial costs were too high. There are significant regional differences in the availability of maternal health care services. The percentage of those who received no antenatal care is the highest in Monduliri/Ratanakiri and Prey Veng (80 percent and 79 percent respectively) and the lowest in Phnom Penh (16 percent).

HIV/AIDS epidemic has diversified and created multiple burdens for women. As of 1998, 2.4 percent of pregnant women, 42.6 percent of commercial sex workers, and 19.1 percent of indirect commercial sex workers were infected with HIV. At the same time as progress has been made on the use of condoms in the sex industry, there is evidence of an increasing incidence in married women, a group of which should not be overlooked by HIV/AIDS strategy and programs. Women also bear primary responsibility for caring for family members with HIV/AIDS, as they do for victims of land mines and other disabilities and illnesses.

Trafficking and the sex trade always target vulnerable women and children. Cambodia has become a sending, receiving and transit country for the trafficking of women and children. About 88,000 Cambodian women are trafficked into Thailand and between 40-60 percent of sex workers (14,000) in Cambodia say they were forced or tricked into the business. The Anti Trafficking Law is being drafted and is expected to be submitted for approval by the National Assembly in 2004. Poverty, social upheaval, underdeveloped legal infrastructure and weak law enforcement are all contributing to the rapid growth of the sex industry and trafficking of women and children. However, during the second half of 2003 the authorities have conducted a series of raids against the traffickers of women and children and brought the perpetrators to justice.

Domestic violence continues to represent a threat for Cambodian women. The PPA 2001 found that 76 percent of participants of its focus group discussions believed that much more domestic violence occurs now than in the past. The RGC submitted the Domestic Violence law to the National Assembly. However, the adoption of the law was hamstrung by political developments in 2003 in the lead up and aftermath of the July elections.

To ensure equal access, rights of women and veterans to economic resources: (i.) training in food processing and marketing were conducted; (ii.) training programs for women entrepreneurs; and (iii.) established micro credit schemes.

The declining in the garment industry, especially after 2005 will have considerable impact on female job seekers, as female workers of the garment industry represents about 90 percent of the workforce. To increase opportunities for young women for paid employment, the RGC is working to attract garment factories from Thailand as part of the program of industrial relocation within the sub-region. The economic strategy also focuses on broadening the sources of growth by promoting agriculture and agro-industry and continued expansion of the garment sector, which employ large proportion of women.

The Cambodian MDG Report classified the major challenges in terms of gender equality and female empowerment under social, economic and political/legal categories:

- Socially, there is a pressing need to reduce the gender gap in secondary school enrolment and pursue efforts in primary education. In addition, measures must be put in place to directly tackle issues of domestic violence, trafficking of women and cultural norms which promote gender inequality in many facets of social life;
- On the economic front, core challenges involve increasing female access to productive assets such as financial capital, reducing gender based discrimination in the labor market and providing the enabling environment to permit greater female entry into higher quality employment;
- With respect to political and legal challenges, key issues include: increasing female participation in formal and informal decision-making structures; improving female access to high level positions in the public administration; enforcing legal codes dealing with domestic violence and the trafficking of women.

The MOWVA has chosen six priority programs for the MTEF 2003-05. The first five come under poverty reduction and the sixth relates to the better administration of veterans' pensions and contributes to good governance and administrative reform.

The reason for this limited range of activities is the human resource capacity of the Ministry to manage more programs. In addition, the Ministry realizes that in 2005 there will be an opportunity to review its initiatives and its human resources. Each of the above initiatives is explained below:

3.2.6.1. Conversion and Expansion of WID Centres to Women's Enterprise Centres

The Ministry recognizes the development of micro and small enterprises (MSEs) as crucial to the achievement of broader development objectives, including poverty reduction and the empowerment of women. MSEs are regarded as having high growth potential for self-employment, supplementing or providing alternatives to agricultural activities, and easing migration pressure. They also have a valuable role to play in improving skills levels and building human resources, stabilizing incomes, reducing seasonality, and generating cash for meeting food and non-food needs of the family, thereby making a significant contribution towards poverty reduction.

At least 100,000 young women come onto the labor market each year. In recent years, many have been able to get work in the garment manufacturing industry of whose labor force approximately 80 percent are young women. However, this source of employment will be affected by Cambodia's accession to the World Trade Organization. In any case, Cambodia must develop its human resources to be more skilful, more enterprising and economically independent.

The target groups are women and veterans who: (i) intend to and have potential for establishing their own enterprises; (ii) are already engaged in some form of business activities; and (iii) with special needs especially poor young women who have dropped out of school early, widows and the disabled.

The Women's Enterprise Centers will provide an integrated package of knowledge and skills including:

- Human resource development through specialized skills
- Enterprise development through business training especially market research
- Linkages to MFIs and other support services
- Socio-cultural empowerment of women through literacy enhancement, instruction in health, nutrition, life skills, and personal and business counseling and support

3.2.6.2. Expansion of Micro Credit Schemes

The MOWVA has been managing micro credit schemes since 1985. The loans range from 50,000 Riels (US\$12.50) to 500,000 Riels (US\$125) at 3 percent per month interest rate. MOWVA would like to convert this program into a Micro Finance Institution (MFI) so that it can expand. The first step will be to have an independent evaluator conduct an assessment of the current management and any changes required, the positions required to manage the MFI including job descriptions and possible the training needs of the personnel. The ministry also continues to work on disability, to help poor disables, to strengthen continuity, to rehabilitate labor's ability and to promote the living standards of disables.

3.2.6.3. Micro and Small Business Development for Veterans' Families

The MOWVA plans to introduce the micro and small business development scheme in order to provide skill training, loans and facilities to the veterans who have suffered the same socio-economic disadvantage. When the soldier-provider dies, many families are faced with low levels of education and a lack of marketable or income generating skills. The proposed initiative addresses these issues.

3.2.6.4. Promotion of Better Nutrition

This initiative focuses on two priority areas: the nutritional status of infants and their mothers. MWVA, as a member of the National Council for Nutrition (CNC) and Inter-ministerial Technical Committee (IMTC), plays a very important role in promoting awareness of healthy family living, especially in these two areas.

A concentrated and sustained campaign is necessary to increase knowledge about breast-feeding and the nutritional status of women and children, as well as to change people's attitudes toward the use of commonly available foods and nutritional intake. Base line data will be collected, and key agents will be trained and supported by providing per diems and bicycles/motor bicycles to work at village level. For the first stage, the program will operate in five provinces.

3.2.6.5. Dormitories for Secondary School Girls

The NPRS identified the correlation between the education level of mothers and healthier children, better nutrition in their families, a higher up-take of birth-spacing methods and families with higher than average incomes. Therefore, better education for girls will help reduce poverty for the next generation of Cambodians. Children frequently have to travel and sometimes stay away from home in order to attend secondary schools. Qualitative research conducted by MOWVA indicates that boys can stay at pagodas but parents have serious concerns for the personal security of teenage girls for whom there is no such provision.

To address this problem, MOWVA, in consultation with MOEYS, proposes to build dormitories for girls in three selected locations as a pilot program in the first instance. These will be managed by NGOs or community organizations with trained managers and assisted by resident female teachers who will receive a salary supplement to compensate them for their increased responsibilities.

3.2.6.6. Computerisation of MOWVA and its Provincial Departments

MOWVA is only slowly moving towards computerization. It was recently the recipient of 10 second-hand computers which were donated by business people in the Republic of Korea and a further 7 second-hand computers from the People's Republic of China. Since 1998, the Ministry has been responsible for the payment of pensions to demobilized soldiers, disabled soldiers and their families. To-date, the administration of this work has been done by hand and is naturally inefficient, time consuming and liable to human error.

MOWVA proposes to completely computerize the Department of Veterans' Pensions and their counterparts in all the Provincial Departments. In the PDWVAs, the connections will allow for efficient communication from the Ministry to all its Provincial Departments for other business, as well as for the payment of pensions.

3.3. Structural Reforms

3.3.1. Private Sector Development

The challenge for Cambodia in the next five years is to broaden the base of economic growth driven by private investment and trade. To this end, the RGC will take action to remove impediments to private sector development by taking serious strides to train human resources, build up institutions, notably the rule of law, rehabilitate physical infrastructure. The reform will focus on the improvement to the investment climate, including the legal, regulatory and administrative environment. The reform should also allow for improvements in access to key factor inputs, including skilled personnel and competitive access to finance.

Indeed, during the last five years there have been considerable improvements in road infrastructure, power and water supply reliability, human resources, tax administration, airport terminals, expansion in telephony network, macroeconomic stability, peace and security. This should open up economic opportunities for the private sector.

However, an Investment Climate Survey conducted by the World Bank identified the quality of governance (and the burden of corruption), regulatory burden, and the weakness of the court system and legal environment for market competition as the urgent areas of reform.³ The survey also indicated that Cambodian firms face both excess transaction costs (in time or money) and uncertainties. Finance and infrastructure are also critical for the long-term reform agenda. Comparative survey evidence shows that Cambodian firms lag behind firms in other Asian countries both in labor and total factor productivity. At the same time, the government also faces strong

³ *The World Bank. 2003. Private Sector Development Strategy for Cambodia: Investment Climate Assessment.*

pressure from influential firms, both local and foreign, to provide unfair treatment in the form of special contracts.

Fighting to attract FDI will be critical for Cambodia's future growth. However, according to Cambodian firms identify corruption as their leading constraint to the operation and growth of Cambodia. Business's view of agency integrity is negative, with the Judiciary and Customs viewed the most negatively. Thus, staying in the informal sector appears to be a rational response, because informal firms pay less tax and bribes. The formal private sector faces myriad transaction costs and barriers to establishment and operation.

Trade facilitation practices in Cambodia stand out in having high official and unofficial costs, delays, uncertainty and discretion for clearance procedures. Boundaries between the responsibilities of agencies involved in control over importations are ambiguous, and lead to overlaps. Clearance at the port of Sihanoukville involves, for Customs purposes only, twelve steps, which mainly consist in visiting key officials. Due to high cost of formal trade process, illegal trade process and frequent under-declaration of goods, the RGC loses significant revenue throughout the trade process.

Thus, to support industrial diversification, the focus will be on removing impediments to growth and building institutions, so that Cambodia will be able to compete with her neighboring countries to attract investors. This shall include: (i) promoting business membership organization and strengthening its advocacy capacity; (ii) reducing policy-based impediments to efficient transactions, particularly in such areas as trade facilitation and business transactions; (iii) rationalizing roles and responsibility of government agencies involved in the control of exportation and importation by introducing single window with flat fee; (iv) implementing customs streamlining programs; (v) introducing process automation; (vi) reducing entry barriers, such as unnecessary licenses and the high cost of registering business, and (vii) taking a supply chain approach to removing bottlenecks on a product basis.

To increase competitiveness, concrete actions should be taken to substantially reduce costs, including unofficial costs. However, the high costs of transportation, utilities and handling of containers at the ports identified in the NPRS have not been addressed. Cambodia also has high minimum wage and more number of public holidays compared to other developing countries. The government will also pay more attention to vocational training in order to increase the level of skills and productivity of Cambodian workers.

Cambodia's accession to the WTO in September 2003 can be seen as an important step forward in attracting FDI. Cambodia will use this membership to implement a comprehensive policy reform agenda aimed at the achievement of sustainable development. In order to effectively integrate the country into the regional and world economy and market, Cambodia must deepen reforms in all sectors, especially in

institutional capacity building and human resource development, a process which takes time and requires strong commitment and political will at all levels. Moreover, to reap the benefits presented by the WTO accession, the Cambodian administrative system needs further improvement to allow for an expansion of industrial base in light of small domestic market.

To promote private sector enabling environment, the RGC will take the following actions, which are based on the ongoing value chain study analysis and the investment climate review.

3.3.1.1. Streamlining Trade Facilitation

The RGC's policy on trade facilitation is aimed at (i) rationalizing all agencies that contribute to high costs and delays including those in the Customs and Excise Department, the Ministries of Interior, Commerce, Public Works and Transport, Industry, Health, Agriculture and Labor; (ii) decreasing the total import and export transaction costs to the private sector while at the same time increasing formal revenue flow to the RGC; (iii) decreasing unnecessary and redundant operational costs to the RGC to manage the trade process; (iv) decreasing the overall time it takes to import and export products; (v) increase the visibility and predictability of the process with respect to both time and cost, and (vi) consistent with WTO and WCO guidelines.

Thus, the Government's reform agenda in improving trade facilitation in 2004-2008 is focusing on:

- strengthen customs legal framework by developing and implementing a revised law on customs (LOC) and related regulations to provide the legislative base for reform and to meet international commitments and standards;
- ensure management of clearance by objective rather than by institutions by rationalizing the roles and responsibilities across government agencies in order to avoid the overlapping of responsibilities and the delays for clearance;
- improve customer services by reducing the costs of informal payment and introduce a single window with flat fee for services;
- strengthen the anti-smuggling enforcement mechanisms;
- modernize and streamline customs procedures by developing and implementing of streamlined customs clearance procedures to enhance trade facilitation and improve effectiveness of operations;
- strengthen enforcement by developing and implementing an enforcement strategy and programs based on the principles of risk management in order to reduce smuggling and other illegal cross border activities; and
- improve departmental infrastructure by developing and implementing and infrastructure plan to ensure the department is provided with adequate office and examination facilities, equipments, and enforcement tools.

3.3.1.2. Building Institutions and Promoting the Rule of Law

- speed up the reform of the judiciary to ensure contract enforcement and provide fair judicial redress;
- adopt commercial legislation and establish a commercial court;
- establish a system of arbitration and mediation for commercial disputes;
- streamline business registration by introducing a one-stop, automatic register of companies and establish computerized database of registered enterprises.
- reduce barriers to entry and promote level playing field for competition;
- improve the tax regime by increasing the number of companies subject to large and medium taxpayer units and reforming the assessment regime of taxation;
- promote business associations and strengthen its advocacy capacity;
- rationalize quality control agencies by establishing a Metrology, Standards, Technology and Quality control agency;
- improve the Government-Private Sector Forum by ensuring transparent enforcement of decisions made;
- promote leasing business;

3.3.1.3. Strengthening Governance

- streamline customs procedures;
- combat smuggling;
- improve the tax administration;
- enact Anti-Corruption Law and strengthen implementation of anti-corruption measures
- ensure transparent, predictable and efficient regulatory framework, especially in terms of customs and trade regulations, business registration, business inspection, fire and safety, environmental and labor regulations;
- improve governance in the provinces to promote rural firms and attract investments in agro-industry;
- require public disclosure of the key terms of contracts undertaken with the private sector for public services to enable greater accountability of service providers;

3.3.1.4. Promoting Market Infrastructure and Deregulation

- Reduce the time and the costs of different kinds of inspection;
- Establish an information system to facilitate firms to have access to bank credits and to help commercial banks evaluate investment proposals;
- Institutionalize the labor market through the development of a registry of required skill profile, training needs and availability of human resources for the private sector;
- Improve infrastructure, expand the coverage of electricity, telephone and communications network, water supply and sewerage system, increase the efficiency of ports, and reduce the costs of electricity, port handling, transportation and communications charges;

- Discourage monopolistic trading arrangement through the relaxation of licensing and inspection requirements;
- Increase the participation of firms in the formal economy by reducing the regulatory burden on firms. This will involve:
 - reducing the cost of registration;
 - elimination of obsolete and unnecessary licensing requirements;
 - elimination of minimum capital thresholds for registration; and
 - reforming the inspection regime.
- Introduce a law governing all forms of private participation in infrastructure;
- Revisit the generous provisions on overtime, nightshifts, and holidays, while uphold the core labor standards with the view to make Cambodia's garment industry competitive;

3.3.1.5. Enhance Market Access/Information

- Strengthen trade promotion and market information activities;
- Develop a directory of enterprises, to be combined with the computerized registration system;
- Develop website to promote local products;
- Strengthen capacity of customs department to prevent smuggling;
- Develop export promotion potential through the establishment of industrial zones for exporters.

3.3.1.6. Promoting Small and Medium Enterprises

The RGC will create a legal framework for Micro-SME promotion by establishing the institutional framework and implementing the following policies: (i) facilitate the provision of medium and long term financing; (ii) suppress smuggling; (iii) reduce barriers to exports such as export duties and unnecessary regulation; (iv) reduce barriers to imports; (v) temporary protection for key infant industries; (vi) promote linkages between SMEs and big industries; (vii) establish a national center for productivity to assist SMEs improve their productivity and reduce their production costs; (viii) establish a national products standards institution consistent with regional and international standards; (ix) establish a national laboratory for physical, chemical, micro-biological and mechanical testing of product quality; (x) establish a bureau for intellectual property rights; (xi) arrange for vocational or skills training, both domestically and abroad; (xii) accelerate the implementation of the "one village, one product" program; and (xiii) further strengthen the legal framework with laws on factories, industrial zones, patents, measurements and industrial safety.

3.3.2. Financial Sector Reforms

3.3.2.1. Banking Reform

In an effort to promote development of interbank and money markets, the first step is to introduce legal framework to underpin the interbank/money market activities. The introduction of the law on negotiable instruments and payment transactions will provide a good basis for improved payment system and liquidity management. Several workshops including consensus-building seminars were conducted; feedbacks were carefully incorporated in the draft law. After a long process of consultation with all the stakeholders, the final draft was discussed and approved by the plenary session of the Council of Ministers on May 09, 2003. The draft law is now waiting for the review and approval by the National Assembly.

The banking sector has been continuously strengthened through reforms in various areas. In 2002, the outdated supervisory regulations were revised and replaced by new regulations that are consistent with international standards. To enforce prudential regulations the NBC has moved to carry out the task of full scope inspection of banks, and up to now on-site inspection for six commercial banks has been successfully completed.

The completion of bank re-licensing program introduced by the NBC has been successfully revamped the banking system. Since 2002, 16 commercial banks were de-licensed and put under liquidation, a majority on a voluntary basis. The whole process of liquidation of the closed banks is progressing well. As for the liquidation of insolvent banks, the NBC has made various efforts to protect depositors' savings. During 2002-2003, the performance of licensed banks improved greatly in terms of profitability. The banking intermediation and public confidence has improved which resulted in an upward trend in deposits and credit. Progress has also been achieved in restructuring the NBC's branches. They now act as banks for the provincial treasury of the MEF, and contribute thereby to improve cash management.

To help effective bank supervision, the new chart of accounts (COA) was made available to banks by mid January 2003. For effective implementation of the COA banks are classified into 3 tiers according to their accounting systems. By September 2003 all tier I banks were almost completed to implement COA, while a number of tier II and tier III banks still faced difficulties in complying with the COA. The NBC has continuously examined the bank compliance with conditions for implementation of the new COA. Corrective measures were promptly introduced to the non-compliant banks with the aim of ensuring a full compliance by year-end 2003.

Restructuring the state-owned commercial bank has made considerable progress. The Ministry of Economy and Finance (MEF) is the major shareholder of FTB, holding 80 percent of shares, while the NBC still maintain 20 percent of the bank's equity. The new board of directors was appointed to reflect the new ownership. The Bank management and operations have been strengthened and improved by the Reform Commission to achieve a commercial bank status with the aim of privatization in 2004. The statement

of intent for privatization of FTB was announced January 24, 2003 to make it known to public of FTB future plan. For the NBC to completely divest from FTB the NBC has requested that MEF should include the 20 percent of NBC stakeholder in FTB in the MEF budget so that MEF could take over 100 percent of FTB.

3.3.2.2. Implementation of the Financial Sector Blueprint

The Royal Government has undertaken serious strides to implement its ***Financial Sector Blueprint 2001-2010***, which envisages the development of a sound, market-based banking system; non-bank financial institutions that will increase the depth of the financial sector; money/ inter-bank and capital markets, diversification of banking services and introduction of new financial instruments for the banking industry.

This includes the development of legal infrastructure for capital markets. In this regard, the Ministry of Economy and Finance (MEF) prepared a draft Law and sub-decree on Government Securities and has taken the first step to make a Diagnostic and Policy Review for the establishment of a Non-Government Securities Market. MEF expects that this law will be adopted in 2004 and implemented over the next few years, allowing for the issuance and trading of Non-government Securities and establishment an Independent Regulatory and Supervisory Agency. To prepare a legal framework for this purpose, the MEF is drafting the Non-Government Securities Issuance and Trading Law. This will pave the way for the establishment of a stock market in Cambodia by 2007.

To protect businesses and individuals from catastrophic events, the MEF has taken actions to revise the present law and sub-decree on insurance for complying with the International Standard (IAIS core principles), adopt three compulsory insurance on Motor vehicle; Passenger transport on land and constructor's all risk liability and establish the National Bureau and the Insurance Association for the implementation of the ASEAN Protocol 5. A new Reinsurance Cooperation, Cambodia Re, commenced its operations in 2003 in order to provide reinsurance and value-added services tailored to the needs of Cambodia and thereby reduce the outward flow of insurance premiums.

The MEF also gives priority to the establishment of an accounting system with the view to promoting the rule of law in commercial and financial transactions. In this regard, an Accounting Law was adopted in compliance with the International Accounting System and Standards and established the National Accounting Council (NAC) and the Khmer Institute of Certified Public Accountants and Auditors (KICPAA) was established in 2003. Moreover, the MEF has also promoted training in Certified Accounting Technicians (CAT) and Certified Public Accountants (CPA).

To further promote financial intermediation, the government will take the following actions:

- To promote bank lending, priority will be placed on establishing a legal framework that ensures enforceability of financial contracts. Related laws are currently going through the legislative process. Additional measures needed to improve the legal environment regarding financial contracts will be considered.
- With the strengthening of the supervisory capacity of the National Bank of Cambodia (NBC), consideration is being given to reducing the present highly conservative quantitative prudential regulations. A full on-site inspection will be carried out for all commercial banks in 2004.
- Efforts will continue to help all banks fully implement the new chart of accounts by the end of the year. A mechanism for assisting SMEs and individuals who are not subject to the new Accounting Law should be established to promote good financial reporting. Better provision of information on their activities will make banks more willing to extend credit to them.
- A concrete plan for privatization of the Foreign Trade Bank, specifying measures to be taken accompanied by a timetable, will be prepared.

3.3.2.3. Rural Credit

Access to credit in rural areas is key to broad-based economic expansion. The RGC has several measures in this area: (i) transforming NGOs into formal microfinance institutions (MFIs) or registered finance operators; (ii) improving supervision to mobilize resources; and (iii) reducing interest rates to increase access by the poor to credit.

The NBC continued to transform NGOs in Cambodia into formal licensed MFIs or registered rural financial operators. In the first nine months of 2003 the NBC gave licenses to five MFIs and registered four NGOs as rural credit operators. Presently, there are more than 100 rural financial operators including licensed micro finances, registered and non-registered NGOs in which most of them are in small size.

The introduction of an on-site and off-site inspection manual for MFIs in earlier 2003 has contributed to improvement in supervision of MFIs. To strengthen off-site supervision by ensuring the quality and consistency of the financial information submitted by financial institutions, a standardized new chart of accounts has also been prepared. The new chart of accounts is gradually being implemented by the licensed MFIs and those NGOs that intend to apply for a license in the future. Likewise, the NBC has developed simplified reporting formats for both registered and licensed institutions. For prudential purposes on-site inspection has been conducted before granting license and registration certificate as rural finance operators. The NBC has at the same time started an eighteen-month cycle of on-site inspections for licensed institutions.

With the aim of reducing the interest rate on loans and therefore to improve access of rural poor to banking services, the NBC has issued guidelines to MFIs on the methodology to calculate the interest rate. All MFIs are free to set interest rates according to a market mechanism. However, their inability in properly calculating interest rates has led to high interest rates prevailing in the market. Thus, this guideline is designed only to improve financial analysis. The NBC is conscious that administrative measures could lead to unsustainable microfinance institutions.

In fact, rural finance operators are requested to calculate their lending rate taking into account the repayments of principal already made on that loan and should base the calculation only on the loan outstanding. Customer, in turn, shall have credit amortization table. The huge gap between demand and supply of funds represents a major constraint to low lending rate in micro finance sector. The regulation on the licensing and registration of MFIs aims therefore to upgrade their legal status and strengthen their operations that will enable them to attract more resources, either in the form of refinance assistance from the Rural Development Bank (RDB) or as equity participation. Building the institutional capacity of the NGOs that have become licensed MFIs is critical for their sustainability.

4. Sectoral Priorities

A key implementation challenge for Cambodia is to align the annual budget and the Medium-Term Expenditure Framework (MTEF) to the NPRS. This is an evolving exercise, which requires an annual update. Moreover, a critical aspect of linking NPRS to annual budget lies in fact that poverty reduction strategy constitutes a performance-based approach to development, while Cambodia's budget system is an incremental and line-item budgeting. To bridge the mismatch, the Ministry of Economy and Finance (MEF) has introduced some elements of the program-based approach, the PAP and the MTEF. To ensure effective implementation of the NPRS, the RGC will introduce gradually a more program- and performance-based budget system, including the performance-based civil service system.

Moreover, NPRS implementation depends on the efforts exercised by the RGC to mobilize both domestic revenue collection and Overseas Development Assistance. This is also conditional on the pace of reforms to be undertaken by the government to improve governance, strengthen tax and customs administration and implement reform programs to attract more ODA. At the same time, improving investment climate would expand business activities and enlarge tax base of the economy.

4.1. Agricultural and Rural Development

Increasing productivity and incomes of the rural poor is critical for poverty reduction. There are however many constraints. Lack of a coordinated government-donor framework for agricultural investment reduces the effectiveness of donors. Agriculture in Cambodia remains relatively inefficient; hence there is considerable potential for rapid growth in productivity and incomes from effective, well-coordinated investments in agriculture. Growth in the agricultural sector will bring considerable benefits to the large proportion of the poor who are dependent on agriculture, improving food security and incomes, and reducing the rate of rural-urban migration.

4.1.1. Current Performance in agricultural production

In 2003, agriculture is estimated to grow 9.2 percent. Within agriculture, crops and fisheries are the most important sub-sectors, followed by livestock, poultry and forestry.

According to the Ministry of Agriculture, Forestry and Fisheries (MAFF) statistics, in 2003, out of 2.7 million ha of cultivated land, 78 percent was devoted to rice, 6 percent to other food crops, 4 percent to industrial crops, and 6 percent to fruits and permanent crops. Total crops production experienced a robust growth of 5.3 percent, mainly due to the good rice harvest.

Rice, the main crop and staple food of the population, is cultivated on 2.1 million ha of land. The irrigated area for rice is estimated at 430,000 ha (about 23 percent of total

rice area) of which 11 percent is supplemental wet season irrigation, 11 percent is partial dry season irrigation, and about 1 percent is fully irrigated. Paddy production in 2003 increased by 23 percent from 3.8 million tons in 2002 to 4.7 million tons in 2003, outstripping the population growth of 2.5 percent. This level of rice production exceeded consumption needs by more than 686,000 tons.

The increased rice production is primarily a result of the Cambodian Agricultural Research Institute (CARDI) developed and introduced new highly yielded varieties with new farming technologies, disseminated to farmers through the MAFF extension services. However, current yield levels and cropping intensities in rice are low, approximately 2 tons per ha, compared with those under similar ecosystems in neighboring countries of 5-8 tons per ha.

Other food crops' cultivated area is about 8 percent of total cultivated areas. These include maize, cassava, sweet potato, mung bean and vegetables. Maize production grew strongly at 11 percent, followed by cassava production.

The growth rate of animal stock and poultry has been particularly strong at 2.6 percent. Large animals are still used mostly for animal traction purposes. Pigs have also had a disappointing performance because of strong growth in imports.

Inland fish catch was estimated at 431,000 tons in 2003, of which about 14 percent comes from fishing lots, 4 percent from bagnets (dais), 26 percent from medium scale fisheries, 35 percent from household fishing, and 21 percent from rice field fisheries. Marine catch was about 30,000 tons. These figures underestimate a large proportion of small-scale fishing and fish catch at the rice field level and the marine catch that was directly sold offshore.

There has been some progress in improving food security and nutrition in 2003, reflecting increased agricultural production, better roads and market developments. However, there is still unevenness across the country between surplus and deficit districts. In terms of meeting the MDG1 of halving the proportion of people who suffer from hunger by 2015 one of Cambodia's greatest strength lies in its potential for producing up to a million tons more rice without resorting to deforestation, as the cultivated area is still below the pre-war period. Moreover, increasing yield from 2 tons to 3 tons per ha will have great beneficial impact on food security. For this reason, the government's policy is to make agriculture a viable sector.

At the policy level, attention is being given to increase awareness on malnutrition, iron deficiency, children feeding and salt iodization through workshops, training programs and advocacy. Much more remains to be done in this area, as domestic production of iodized salt covers only 20 percent of national requirement, while vitamin A coverage among children of 6-59 months was only 34 percent and the number of mothers who receive iron supplementation is still low. The government has activated Provincial

Nutrition Coordination Committees in a number of provinces and commissioned the preparation of Provincial Action Plans on Food Security and Nutrition. To finance these action plans, the government will formulate concrete projects and prioritize recommendations for wider public and donors' support.

The decision by the RGC to introduce community forestry and community-based fisheries has improved access by the poor and benefited the rural population. Priority action in 2003 was to help fisher communities to improve management and reduce illegal fishing. After the reform of fishing lots in late 2000, fishing lots have been reduced from about 235 covering almost one million ha to 164 covering about 420,000 ha. The reduction of fishing lots has also reduced the conflicts with farmers and communities living on fishing lot boundaries or in their proximity. However, there is only limited improvement in the provision of micro credit through the institutionalization of microfinance operators and the costs of credit to poor households are still high.

In 2003, the following actions were implemented by MAFF: (i) rehabilitating and maintaining rural facilities; (ii) establishing water user communities and irrigating about 150,000 ha of rice fields; (iii) finalize the draft Sub-decree on Fishery Community, which would ensure the benefits to poor farmers; (iv) conduct trainings on pesticide safe use; and (v) adopt the Community Forestry (CF) Sub-decree by the Council of Ministers on October 17, 2003 in order to promote sustainable natural resources, management and conservation.

4.1.2. Integrated Rural Development

Rural development is a cross-sectoral issue, which spans from democracy and decentralization to the improvement in rural infrastructure, health and education services to the rural people. The Ministry of Rural Development (MRD) has sought in 2003 to improve access to rural infrastructure, particularly rural transportation and water supply, to improve access to rural finance and credit schemes, promote sustainable natural resource management and stimulate rural community development through the decentralisation and de-concentration of government functions. MRD provided support for the Commune Councils within the Seila project to implement rural infrastructure projects such as road constructions, well water, schools, water gates, culverts, small scale irrigations and monitoring the quality of constructions.

The MRD has worked closely with the commune councils to build their capacity to carry out their respective functions and to effectively provide services, and to review and monitor activities that ensures the quality of services and better practice of good governance.

Table 4.1: Rural Development Projects, 1996-2007

Types	TA	RI	IRD	Food-Aid	Total
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Grants	\$10,268,203	\$16,024,000		\$166,147,290	\$192,439,493
Loans		\$177,145,746	\$163,320,100		\$340,465,846
TOTAL	\$10,268,203 1.98%	\$193,169,746 34.27%	\$163,320,100 31.60%	\$166,147,290 32.14%	\$532,905,339 100%

Source: The Ministry of Rural Development

The MRD is working with development partners to implement 27 rural development programs and projects totaling US\$533 million, which span over 1996 – 2007. It was estimated that some US\$ 55 million were spent in 2003 on rural infrastructure, such as rural roads, irrigation, water supplies and critical civil works. The ADB, KfW, World Bank, EU and PR China are the major donors in rural infrastructure, while Japan, UNDP, GTZ, NPA, UNICEF, LWF, IFAD, AusAid and World Bank are engaged in integrated rural development. Moreover, ADB, ILO, SIDA and AFD provided technical assistance and the WFP provided food aid to the rural communities in Cambodia.

The MRD is also involved in Integrated Rural Accessibility Planning (IRAP), which is a new planning tool to better identify access priorities and develop proposals for infrastructure and support the investment programs, such as roads, schools and water wells at the district level. IRAP assigns accessibility ranking to communes and villages according to their levels of access to basic minimum needs and services.

Table 4.2: Rural Development Outputs in 1999-2003

Activities	Units	Activities	Units
Earth Roads	8,855km	Wells	40,500
Laterite Roads	5,037km	Reservoirs	1,848
Bridges	1,429	Ponds	6,412
Culverts	5,002		
Dikes	679km	School Building	1,414
Canals	452km	VDCs	7,896
Employment	28.0M wd	Members	43,090

Source: The Ministry of Rural Development

During the last five years, substantial improvements have been made in providing rural services to Cambodia's poor communities. In particular, in 2003 the MRD was involved in preparing technical standards for rural road construction; empowering the commune council in rural road maintenance; conducting an inventory of rural roads; building and maintaining a total of 1,000 km of rural roads; and building around 700 water wells. MRD is moving from project oriented to sectoral and program approach. Priorities will be

given to the following development poles to achieve poverty reduction through the expansion of economic opportunities: (i) areas surrounding the Tonle Sap Lake to ensure biological diversity, where 3 million people live; (ii) border area development, especially in Battambang, Banteay Meanchey, Oddar Meanchey, Siem Reap and Svay Rieng; (iii) the Northeastern provinces, such as Rattanakiri and Mondulakiri to ensure environmental protection and promote ethnic minority development.

Priority actions for 2004 will be improving rural infrastructure, providing safe water, increasing rural access to irrigation facilities, especially small scale irrigation, improving health services, strengthening the capacity of Village Development Councils and promoting community development, supporting the commune councils in promoting grassroots development, expanding microfinance, distributing land to the poor, and providing vocational training and protecting ethnic minorities.

4.1.3. Agricultural and rural development policies

The agriculture and rural development strategy of the Royal Government of Cambodia over the term 2003-2008 shall tap the sector's enormous potentials and thereby generate employment, enhance household incomes and ensure sufficient food production.

To modernize the agriculture sector, the Royal Government will take the following actions:

- **First**, increase the percentage of public investment into agriculture and rural development, particularly at the provincial and local levels, with resource allocations dominated by local level public irrigation facilities, rural roads and other rural infrastructure, where construction services shall as much as feasible be contracted by, and accountable to Commune Councils;
- **Second**, encourage increased private sector investment in farm and village-level enterprises in key sub-sectors including small-scale commercial, market-oriented aquaculture, crop and livestock production, and agro-enterprises such as processing, post-harvest facilities and mechanization;
- **Third**, accelerate and stabilize broad-based growth of agricultural GDP through sustainable development of high-value products; and
- **Fourth**, increase local-level expenditures and investments in: (i) extension services focused at increasing the productivity of farmers; (ii) farmer-owned and operated irrigation; (iii) rural enterprises; (iv) enhanced skills and capacity in lending to agricultural and agro-based enterprises; (v) decentralized public investments and deconcentrated budgeting and services for the agricultural sector; and (vi) revolving funds for farmers' groups managed according to microfinance principles.

4.1.4 Policy and Institutional Reforms

The agriculture and rural development strategy envisioned by the Royal Government in its third mandate aims to increase the productivity of rural land and labor, stimulate incomes and employment, and establish linkages among agriculture and agro-industries in order to increase these sectors' multiplier effects. The successful implementation of the strategy requires further policy and institutional reforms to be implemented in 2003-2008 that shall remove impediments that are currently hampering agricultural sector development, including:

Agricultural Land Concession Reforms: As of December 2003, the MAFF has granted 25 land concessions for agricultural production, covering about 724,000 hectares. However, only ten of the concessions have initiated any planting activities, which have involved less than 14,000 hectares - less than 2 percent of the total concession area. Clearly this is detrimental to agricultural development, as valuable resources are under-utilized and are held more for speculative purposes. Reforms toward market-based incentives such as taxation of idle assets should be used to reduce the unused, non-productive land concessions. Moreover, the full set of sub-decrees and regulations to implement the 2001 Land Law should be issued promptly.

Research and Extension Services: The national extension system should be strengthened, particularly in terms of productivity-enhancing content, and linked to technology delivery structures based on provincial and local governments. The Cambodian Agricultural Research and Development Institute (CARDI) which has received significant donor support will lead the effort particularly in rice, cooperating with MAFF provincial departments to expand outreach and research and extension activities, including promotion of the use of appropriate technology, inputs, improved seeds and sustainable practices.

Competitiveness of Cambodia's Agricultural Products: Value chain analysis of Cambodia's agriculture indicates that in order to improve the export competitiveness of Cambodian agricultural products, a number of policy reforms must be simultaneously undertaken, including:

- Reduce fertilizer import costs and dilution of fertilizer through trade facilitation and licensing reforms;
- Strengthen access to financing by removing impediments to rural branch banking, improved land titling, and strengthening legal institutions for collateral and contract enforcement;
- Encourage agro-industries by creating guarantee and other credit schemes

- Encourage the establishment of private agro-processing centers by ensuring the provision of necessary public goods;
- Improve export competitiveness of domestic processing through power sector reforms, competitive contracting of private providers, elimination of illegal road checkpoints, and reducing informal customs clearance costs;
- Promote exports by establishing an agricultural information center;
- Establish Sanitary and Phytosanitary Standards (SPS), strengthen laboratory testing and certification of products for exports; and
- Initiate the "One Village One Product" concept to promote specialization and quality improvement of agricultural products.

Capacity Building in Agriculture and Rural Development Planning: The institutional capacity for sector strategy, policy and planning functions of government agencies involved in the agricultural sector is limited. The training so far provided has been insufficient. To meet the human resource development needs of Cambodia's agriculture sector, especially at the provincial and district level, the government will introduce good human resource management system and develop the capacities of the managers and staff both in short-term and long-term training program, as follows:

- Short-term capability building courses for all key officers and staff – including those at local levels, for upgrading, refresher and information dissemination purposes.
- Further support for the Commune Councils to develop and implement rural infrastructure projects and thereby enhance delivery of social and economic services, increased access by the poor to productive assets and training, including the Integrated Rural Accessibility Planning (IRAP) approach to better identify access priorities and develop proposals for infrastructure investments
- Long-term capacity-building courses for MAFF and MRD managers and staff at all levels – with emphasis on degree training at advanced centers abroad.

4.2. Education

The MoEYS Education Strategic Plan (ESP) and the Education Sector Support Program (ESSP) provide the overarching policy and implementation framework for improving the livelihoods of poor people using education as a critical factor in enhancing social development and economic growth. Key strategies focus on reducing the poverty trap in accessing education through reducing the cost burden to poor families. The ESP/ESSP recognizes the critical role of educating girls in promoting family health, improving nutrition and contributing to economic development.

A critical factor in achieving poverty reduction through education has been to significantly increase the education recurrent budget share over the last three years (from 13.6 percent to 18.3 percent with a target of 20 percent by 2005 percent). Moreover, budgets have been prioritized for basic education (over 60 percent share) in order to maximize pro-poor expenditures⁴.

As primary and lower secondary school access increases, demand for post-basic education is expanding. Providing opportunities to the poor for accessing upper secondary, technical and vocational education and training, and higher education have been identified as priority areas for policy development. The importance of protecting budgets for basic education will be ensured through the development of sector wide sustainable Education For All financing strategies, including public-private partnerships, in particular for post-basic education levels.

4.2.1. Primary Education: Poverty Impact and Main Strategies

Overall primary enrolment has continued to expand. The primary gross enrolment ratio increased from 110 in 2000/01 to 118 in 2002/03. Female primary gross enrolment also increased from 103 to 112. The highest enrolment growth in 2002/03 is in poverty quintile 1 at 3.5 percent, (followed by 2,3,4) with negative growth of 2.3 percent in the richest quintile. This pattern accounts for further increases in enrolment share in the poorest communes. In 1999/00 the share in quintile 1 was 15.1percent compared to 17.1percent in 2002/03. The number of children entering primary schools in the poorest communes (quintiles 1, 2 and 3) is considerably higher than in the richer communes. Primary enrolment growth for girls continues to outstrip that for boys (girls 27 percent, boys 22 percent since 1999) which is reducing the enrolment gender gap.

Overall, this points to the fact that the poverty/education gap in primary education is declining and that ESP strategy is having a significant impact on improved equity in access by broad socio-economic grouping. Key strategies have been the abolition of start of the year parental contribution, provision of additional school facilities and poverty (and gender) targeted incentives including school feeding programs in the poorest communes.

Whilst there has been some reduction in repetition and drop out rates since 1999, resulting in significantly reduced public and parental costs, progress is currently behind target. Progression rates are 63 percent in quintile 1 compared to 69 percent in quintile 5. Addressing these issues remains a priority through a combination of strategies including further reduction in cost burdens, increasing facilities in underserved areas, quality improvement and efficiency measures.

⁴ Performance data (including on poverty impact in the next section) are from the Education Sector Performance Report prepared by MOEYS for the last joint government/ donor/ NGO annual review of the ESSP which took place in May 2003.

Primary schools in the poorest communes are relatively understaffed, with an average Pupil: Teacher Ratio of 79 to 46 in the richest. Disadvantages are being mitigated by optimizing limited resources including double-shift and multi-grade teaching, and strategies for improving teacher deployment to remote and poor areas through the use of incentives.

4.2.2. Secondary Education: Poverty Impact and Main Strategies

Similar enrolment patterns are evident for lower secondary education with 30 percent growth in the poorest communes compared to 10 percent in the richest. However, the overall enrolment share from the poorest communes is low at 6.7 percent compared to 35 percent in the richest, representing considerable inequity in access to grades 7-9. Lower secondary gross enrolment increased from 27 in 2000/01 to 36.5 in 2002/03. Thus, achieving the overall target of 50 percent enrolment by 2005 remains a considerable challenge. Girl's enrolment in lower secondary is encouraging with the growth rate 9 percent higher than for boys over the last three years.

Inequities in access are more severe for upper secondary where the richest quintile accounts for 52 percent of overall enrolment, compared to just 1.8 percent for quintile 1, with quintiles 2 and 3 also significantly underrepresented. Female share of upper secondary enrolment is around 33 percent, contributing to low participation in TVET and higher education at around 25-30 percent. The Royal Government will focus on both short and long vocational trainings to promote the exports of labor and set up the vocational skills programs based on market demand.

A key barrier to access is the lack of a secondary school in many of the poorest districts and communes. A major priority is immediate and rapid expansion of secondary school construction in underserved areas (particularly lower secondary). Complementary strategies aim to provide incentives through targeted scholarships for the poor (including girls scholarships).

4.2.3. Education Sector Wide Financing Framework

Following recommendations from the ESSP Review of May 2003 and from the IFAPER and arising from the finalization of the EFA National Plan, MOEYS and donor partners have agreed on the need for a thorough program of policy and strategic development in critical, currently under-developed areas. This is expected to culminate in a revised Education Strategic Plan (ESP) for 2004-08, scheduled to be appraised by mid 2004.

Guiding principles of the ESP revision should be that education financing and budgeting policy and allocations are used as an instrument for pro-poor policy reform and implementation rather than for system maintenance. In particular, one of the critical areas is, as mentioned above, the development of sector-wide pro-poor financing

strategies ensuring expanded access to post-basic education levels while protecting basic education.

Equally important, MOEYS has decided to give particular attention to the issue of salaries. The issue of teachers' low pay has been recognized as a major cause of low education quality. The related practice of informal fees charged by teachers in order to make a living also continues to be an obstacle to access to schooling by the poor.

The Council for Administrative Reform (CAR) is working on strategies for government-wide pay reform, including through a series of studies that will help set forth accelerated reform measures for the whole civil service. This may include accelerating reforms selectively and starting in the priority sectors. The case for such measures for the education sector is supported by the IFAPER analysis, which highlights that the current salary share, including PAP 1 allocations, is around 58 percent in Cambodia. This is abnormally low for a country at this stage of education reform and development.

Hence key financing considerations for ESP revision include a) what is the most effective balance between salary and non-salary spending? b) what proportion of recurrent funding requirements can be realistically provided by Government? and c) what are the implications for levels of external assistance and modalities? As a starting point for financing strategy dialogue, two alternative financing options 1 and 2 have been considered by MOEYS.

Table 4.3: Education Personnel Policies in the Education MTEF

	Baseline	Year 2007	
	2003	Scenario 1	Scenario 2
Total education rec't budget (bn riels)	300.46	440.00	469.84
Personnel costs (bn riels)	189.24	318.86	463.716
Share personnel costs (%)	63.0%	72.5%	98.7%
Average monthly income (US\$)	42.6	61.9	90.0

Source: Ministry of Economy and Finance

The 1st scenario continues to give highest priority to increasing non-personnel spending volumes, especially through priority programs. The 2nd scenario proposes that MOEYS would contain non-personnel spending growth, but would involve education budget envelopes higher than the 'hard budget ceilings' taken from the baseline case in scenario 1.

The ESP revision process will consider the potential opportunities and limitations of these two financing options and related strategies.

Option 1 offers the opportunity to continue to maintain a high share and volume of spending on currently agreed priority action programs, which are increasingly directed at

quality improvement activities and inputs. The major limitation is that this option is less likely to provide a conducive institutional and governance framework for this investment in quality. For example, increases in teacher's salary may be insufficient to offset continuation of informal contributions, with adverse effect on access to basic education for the poorest families. An associated potential limitation is that until teachers salaries are considered adequate by both Government and communities it will prove difficult to hold schools and teachers accountable for education system performance.

Option 2 offers the opportunity to introduce a potentially effective institutional framework for both pro-poor access and quality improvement. There is a greater opportunity to abolish the major cost-barrier in accessing basic education by the poor (i.e. informal payments to teachers) and a greater likelihood that Government and communities can begin to hold school directors and classroom teachers accountable for school and student performance standards. Although a potential limitation is a lower volume of spending on quality-oriented programs, the stronger governance framework may offset the non-salary spending differential between options 1 and 2.

On balance, with strong MOEYS commitment to governance reform, option 2 appears more likely to accelerate implementation of EFA goals, policies and targets.

There are a number of implications for Government, donor and private sector financing strategy. For Government, strategic considerations include (a) scope for increasing overall Government spending on education, incorporating at least 70% for basic education, (b) establishing transparent, well-regulated and managed cost sharing mechanisms for upper secondary, TVET and higher education (e.g. user fees, student loans etc.) and (c) expansion of targeted and merit-driven scholarship programs for the most needy students unable to pay fees or secure student loans. Government could also consider new mechanisms for encouraging public/private partnership in capital investment for post-basic education, through funding development grants and loans against agreed policy and eligibility criteria.

For donors, within both options 1 and 2, key considerations include (a) the scope for increasing overall levels of external funding for education, (b) within increased funding levels, to review the balance of performance-related budget support, capital investment and technical assistance and (c) within increased levels of recurrent budget support, to review allocations towards PAPs and the transitional costs of proposed salary reform.

MOEYS is well aware that it needs to identify priorities so that additional resources spent on personnel would effectively translate into better education quality and enhanced access for the poor through improved governance and personnel management systems. The scenarios above are based on average incomes across the whole education workforce, including all categories of personnel and all forms of income that is, regular salaries and several forms of occasional allowances. This hides large variations in individual situations and across categories of personnel, which need to be analyzed. It is

also important to analyze the average income composition and in particular, the balance between regular salaries and other forms of income.

Although much of this analytical work has yet to be done, it is already clear that MOEYS may want to apply pay increases selectively, for instance giving priority to raising the regular salary of primary school teachers whose salary has not increased much in 2002, even though they have an essential role in reaching the government commitment of 9 years basic education for all.

It is also important that salary increases are made permanent so that it gives a real guarantee of improved living and working conditions to teachers, against expectations of better performance and accountability. This implies that the composition of the education wage bill should shift, with less being spent on occasional allowances – which are often abused because regular salaries are low – and more being spent on regular salaries (for instance through revising functional allowance rates for selected categories of personnel).

Finally MOEYS is also well aware that salaries have to be paid regularly. Anecdotal evidence suggests that this may not be the case, hence forcing education personnel to recourse to other means for their living. MOEYS and MEF have planned that the forthcoming Public Expenditure Tracking Study will focus on issues of delays in payments of salaries, and this will provide a base for designing measures addressing these issues.

The key follow-up actions to be taken over the next year are:

- Review/update of the ESP and ESSP priorities and strategies based on lessons learned;
- Conduct a public expenditure tracking survey (PETS) and use its results to further improve the education budget system;
- Streamline annual budget and PAP approval and implementation processes in order to ensure predictable and timely disbursement;
- Improve financial management, internal audit and strengthen the monitoring mechanism;
- Implement education-wide pay reforms and performance based teacher and school director incentives programs linked to the first phase of redeployment and reclassification of teaching and non-teaching staff against more efficient staff deployment norms.
- Prepare capacity building plans by central and provincial departments, as a basis for coordination of external assistance and monitoring of progress.
- Strengthening consultative processes within Government Ministries, MoEYS and donor/NGOs partners in the formulation of the EFA national plan.

4.3. Health

Much more remains to be done to improve health and sanitation conditions of significant share of the Cambodian population to an acceptable level. Utilization of public health facilities is poor and there are financial barriers to utilization. The under-five mortality rates (U5MR) and the Infant Mortality Rate (IMR) have likely increased slightly over the last decade. Cambodia will have difficulty in meeting its target of reducing U5MR from 125 in 2000 to 55 per 1,000 live births by 2015.

Cambodia has made some progress in recent years in improving maternal mortality from 473 to 437 per 100,000 live births between 1995 and 2000. But, there is considerable gap between these levels and CMDG target, which aims at reducing the maternal mortality rate to 140 per 100,000 live births by 2015.

The HIV prevalence rate in the adult (15-49) population fell from 3.3 percent to 2.6 percent between 1997 and 2002. A linear trend extrapolation would suggest that Cambodia would meet its CMDG target of 1.8 percent in 2015. The case, which should be worried and focused, is the transmission from man to woman and children. In this sense, the National Aids Authority will have to be partner with NGOs, to avoid using Cambodian as experiments and to continue mechanism, policy and proper institutions in order to mobilize aid for this work.

Despite the improvement in food security at the aggregated national level, the utilization of food at the individual level is hampered by inappropriate dietary habits and feeding practices of children, micronutrient deficiencies, poor health and lack of safe water and sanitation.

Greater community involvement in primary health care services and pre-paid health insurance schemes has the potential to increase efficiency of resource use. Decentralization, which brings service providers closer to users, has the potential to increase transparency, efficiency and quality of service provided. Moreover, institutional strengthening must improve weak coordination and management within the public sector. Additionally, to protect low-income, vulnerable groups from sliding into poverty on account of high treatment costs, the MOH has piloted community-based health insurance and pre-payment schemes in partnership with NGOs.

The main issues facing the health sector is as follows: (i) unpredictable budget disbursement to the health facilities undermines the quality of service delivery at the facility level; (ii) Reduced access by the poor and minority population to health services with the introduction of cost recovery; (iii) The development of the private sector in the health sector has drained the brains from the public sector.

4.3.1. Health Financing Issues

The health sector is financed from three main sources: government revenue, donors and private, mainly out-of-pocket, contributions. Ideally, three main sources of funding

should be reflected in the MTEF: government, donor and private household finances through official user charges. Inevitably it will be some time before the MTEF can capture funding in a comprehensive way and accurately reflect their flow through the system. A number of systems are in place to develop this information base. The current configuration focuses on funding from Government and External fund (Loans and Donors). Total Government funding increased by 280 percent in real terms between 1995 and 2002, from just over one to a budget of around three dollars in 2002.

**Table 4.4: Health Sector Spending by Source, 2002 (Actual)
And Expenditure Plan for 2003-2007**
(Million US\$, High-case Scenario)

Source of Funding	2002 (actual)	Expenditure Plan for 2003-2007				
		2003	2004	2005	2006	2007
Government ^a	42.21	43.96	58.06	62.41	71.13	78.52
User fee ^a	NA	2.29	2.27	2.7	2.7	2.7
Total external aid ^b	20.44	28.93	43.77	44.83	23.38	10.48
Total health spending	62.65	72.89	101.83	107.24	94.51	89.00
Population	13.5	13.8	14.1	14.5	14.8	15.2
Health spending per capita	4.64	5.28	7.22	7.40	6.39	5.85
% Government	67.37%	60.31%	57.02%	58.20%	75.26%	88.22%
% External	32.63%	39.69%	42.98%	41.80%	24.74%	11.78%

Source: Medium Term Expenditure Framework, Draft as of December 2003

a. High-case projection; b. only investment-related projects (excluding recurrent costs)

Current concerns are: (1) allocations for maintenance are inadequate; (2) the share of wages to recurrent spending has decreased significantly (only 10 percent, one of the lowest shares in the world); and (3) the share of operating costs (excluding drugs and supplies) has risen consistently. Also because capital and recurrent funding processes are totally separate, capital spending is treated as a "free-good" in the sense that no obligation is placed on MOH to maintain and eventually replace items.

Although under the RGC/ADB/DFID/WB financed Health Sector Support Project (HSSP) the government has committed that, commencing in fiscal year 2003, at least 50% of budgetary funds allocated to the health sector should be disbursed by no later than September 30 of each year, the delays in disbursement still persists. Table 4.7 shows that in 2003, health program at the national level accounted for 66 percent of the national health budget, while health program at the provincial level accounted for only 34 percent. Only 25 percent of the wage bill for health workers was released, while the disbursement of running costs excluding drugs accounted for 33 percent of the annual budget. The most difficult area of budget execution was the implementation of PAP, where only 17 percent of the health PAP budget was released.

Table 4.5: RGC Health Spending by Economic Classification

And Level, 2001-2003
(Million Riels)

Chapter	Actual					
	2001	%	2002	%	2003	%
10 Salaries	12,735	10.42%	23,251	14.60%	22,115	12.09%
11 Operating cost (excluding drug)	24,030	19.67%	44,737	28.09%	40,875	22.34%
11 Drug and medical supply	44,948	36.79%	43,698	27.43%	57,634	31.50%
12 Semi-autonomous		0.00%		0.00%	7,080	3.87%
13 Program of action (ADD & PAP)	39,851	32.62%	46,849	29.41%	54,804	29.95%
31 Social allowance	599	0.49%	733	0.46%	444	0.24%
32 International organization	20	0.02%	16	0.01%	20	0.01%
Recurrent expenditure	122,183	100%	159,284	100%	182,972	100%
50.01 Investment construction and equipment	7,099		1,139		2,009	
50.02 Investment counterpart contribution to loan	1,929		1,110		N.A	
Capital expenditure	9,028		2,249		2,009	
Total	131,211		161,533		184,981	
Central level incl natl programs	88,004	72%	102,097	64%	121,570	66%
Provincial level	34,179	28%	57,187	36%	61,402	34%
Total recurrent only	122,183	100%	159,284	100%	182,972	100%
Per capita (CR)	9,327		11,799		13,259	
Per capita (US dollars)	\$2.38		\$3.01		\$3.33	

Source: MTEF, Draft as of December 2003

Note: Chapter 11 operating costs include utilities, office supplies, maintenance, training, patient food and staff expenses.

Day-to-day operations of health facilities have been hampered by low disbursement of funds for non-drug expenditures. Serious problems with release of funds were encountered since the first half of 2002 and during 2003, for disbursement of both Chapters 11 and 13. Even though the major proportion of funds allocated for 2002 were disbursed at the end of the year, 36 percent of promised funds for central level institutions through Chapter 13 was withheld.

Unpredictable budget disbursement to the health facilities undermines the quality of service delivery at the facility level. Moreover, the current practice of budget allocations is based on the number of health facilities. The better off population tend to benefit more from the services delivered by the public sector than the poor population. Thus, to ensure equitable access to health services, it is important to allocate the budget based on the poverty index by targeting poorer districts and to districts with minority populations.

Budget allocation to provinces is 56.7 percent of the total budget. The remaining budget for central level is divided to national program and institutions (19.6%), national

hospitals (13.7%) and the ministry's cabinet (10%). Even the allocation to the ministry is low, but the budget allocation to national programs, institutions and hospitals is high, 33.3% of the total budget, because "good customer environment" of those institutions.

Drug procurement took a controversial and problematic turn in 2002. Although savings of US\$ 4 million was predicted through the move towards a new procurement system based on competitive tendering, the actual outcome was a delay of supply to the provinces by 8-10 months with numerous emergency alternative stop-gap measures to off-set the shortage of drugs at health facilities. Moreover, there are still problems with drug quality and utilization, including (i) MOH's limited capacity to adequately purchase pharmaceuticals, (ii) problems with drug management and distribution, (iii) insufficient funding from the public budget to cope with price and drug consumption increases, and (iv) the ability to control drug quality is modest and the enforcement of drug regulations is plagued by logistic and personnel problems.

The RGC recognizes that the geographical allocation of resources is a serious concern in terms of poverty-targeting of resources. Per capita allocations in fact vary seven-fold across the country, largely the result of a resource allocation formula based on capacity and number of facilities.

User fees also contribute a significant amount toward health care spending, though revenue from user fees obtained at the facility level vary considerably. For selected schemes for which data is available, user fees account for 15 to 60 percent of total facility income.

The regulations regarding user fee expenditure allow facilities to retain 99 percent of collections (49 percent is allocated to staff remuneration and 50 percent for operational use). Local authorities view fees as an important way of ensuring supplies and attendance of health staff. Facilities generally report that user fees have led to a general increase in activity. The concern is that, unless adequate provision is made, user fees impact disproportionately on the poor and undermine their ability to access care. The DHS found that more than 26 percent of patients paying for health care obtained the money by borrowing or selling assets. Therefore, the government and donors have tried to address this problem by establishing equity funds, aimed at providing exemption to the poor. A second concern with user charges is that they may distort the priorities of health staff toward health care that makes money rather than what is most effective for patients.

Thus, although the introduction of cost recovery of health care facilities is considered as a sound solution to the problem of inadequate funding, it has resulted in lower access by the poor to basic health services. Both government and donors recognize that the establishment of equity funds is critical in protecting the affordability of health services for the poor and minorities. In 2003, the government has adopted the following strategies, aimed at reducing financial barriers to access among the poor and improving

management capacity within the public sector: (1) regulatory mechanisms for price control through official user fee schemes with community participation in setting prices, identifying the poor for exemptions and monitoring quality will be established; (2) Equity Funds to further promote access to priority services; (3) NGOs will be contracted to provide primary and secondary care services (MPA/CPA) for poor, remote areas. Such initiatives are on-going and will further expand to cover twelve districts in Takeo, Kampong Cham, Prey Veng, Mondulhiri, Ratanakiri, Preah Vihear and Koh Kong, (4) support from NGOs will be mobilized for other non-contracted areas to extend services through MPA and CPA to poor and marginalized communities, and (5) incentives to staff working in remote areas will be effectuated through performance-based measures.

The MOH has carried out in 2003 ten pilot Equity Funds in different provinces and Phnom Penh to test out the viability of this project, whose aim is to target the poorest people and promote the use of public health facilities. Equity funds are established by government and donors to finance maternal and child health services, treatment and management of infectious diseases and accidents and injuries. The health facility is reimbursed at the end of each month for those certified as poor. Funds are disbursed from donors and government to NGOs and other equity fund holders through quarterly advances based on performance reports of the previous quarter. Prices for user charges are set jointly by all key stakeholders, such as facility management, provincial and/ or Operational District administrators, community representatives and fund managers. To facilitate implementation the MOH issued a guideline for Equity Fund management at different levels and set responsibilities for key stakeholders.

Moreover, the government recognizes that monitoring of financial performance in the health sector should progress beyond disbursement and expenditure figures and move more towards connecting financing against service delivery outputs. Therefore, it is important to develop indicators and system for monitoring financial and service delivery performance defining responsibilities at all levels.

4.3.2. Health Sector Outputs and Outcomes

As reported in the NPRS there have been important achievements in the health sector up through 2002, for example, Polio has been eradicated and the levels of other communicable diseases, while still high, have shown significant decline. The number of malaria-related deaths has fallen while the numbers of people (15 to 49) living with HIV has declined consistently for the last three years from a peak of 3.8 percent in 1998 to the current estimate of 2.6 percent in 2003. This was achieved through the HIV/AIDS education and the 100-percent condom use programs. A number of NGOs are presently implementing support programs to people living with HIV/AIDS (PLWHA) and families infected. The total transmission rate has decreased. The rate of transmission among youth has also dropped. However, basing on remarks from NGO, there has been an increase in the transmission among women, especially housewives. However, the government set out measures and provides fund to related ministries to reduce aids transmission to women, especially housewives.

Physical coverage of the population by the public health system has also expanded. Delivery care at health centers or hospitals has increased but is still below 10 percent of expected deliveries. At the same time MOH experimented with different modalities of service delivery, like contracting out of public service delivery.

Despite these achievements, progress in other areas has lagged, and health conditions in Cambodia continue to be poor relative to other Asian countries. Infant mortality has fallen to 86 in 2001 from 95 in 1997, slightly lower than in Lao PDR but three times the rate in Vietnam. One of the reasons is that access to services remains low and uneven, as considerable provincial variations are apparent. In 2002, the average number of annual contacts with public facilities varies from 0.18 (Kok Kong) to 0.5 (Mondulkiri). This is due to the fact that geographically many areas of Koh Kong is less accessible. The rich and the middle class can cross the border to Thailand and make use of private health facilities, while the public facilities are mainly used by the poor. Based on MOH data for 2002, only about 54 percent of the population lives within 10 kilometers of basic public health services.

**Table 4.6: Use of Health Facilities And Health Status
by Socio-economic Status**

	Rural poorest	Rural rich	Urban poor	Urban rich	Poorest women
Immunization – measles	45%	85%	(..)	78%	41%
Diarrhea - ORT use	11%	44%	(..)	41%	12%
ARI - seen medically	31%	52%	(..)	53%	25%
Severely underweight	16%	6%	(..)	6%	18%

Antenatal visits - trained person	14%	56 %	20%	71%	
Delivery – attended by medically trained	14%	75%	23%	88%	
Use of modern contraceptive	10%	22%	12%	24%	
Knowledge of HIV/AIDs	59%	89%	56%	93%	
Infant mortality rate a/	108.70	58.30	(..)	41.10	94.10

Source: Adapted from DHS, 2000, Macro International by Livia Montana

a/ (..) Indicates large sampling error due to small number of cases.

Access is skewed away from the poor and toward middle-income and wealthy groups. Use of services, as reflected in immunization rates, trained delivery, and medical attention for disease, is higher for rich rural and urban residents compared to the rural poor by a wide margin. Given that many diseases such as ARI and diarrhea likely impact more heavily on the poor, the actual difference in use relative to need is even larger. Likewise, health status indicators are much worse for the poorest groups. Infant mortality, for example, of the poorest group is more than double that of the richest.

Resources appear to be more or less equally distributed between men and women. It is, however, usual for the health needs of women to be greater than those of men. If reproductive health care, which is predominantly used by women, is subtracted from utilization and spending it is likely that the benefits incidence would be shown to favor men. This analysis reinforces the need not only to improve health indicators on average, by improving the overall management of the sector, but also to target interventions to the poorest groups where low cost interventions could have most impact. A preliminary multivariate investigation suggests that location of facility is extremely important.

However, the challenges facing the health sector include the following: (i) while government financing for health has increased, expenditures on primary health care are low (2.7% of total MOH expenditures), (ii) the numerous challenges of capacity building at all levels, including the planning and programming of interventions, financial and human resource allocation and deployment, monitoring and evaluation, and human resource development, (iii) continuing challenges of prevention and control of tuberculosis, dengue, and malaria and HIV/AIDS despite recent achievements, (iv) high morbidity and mortality due to under-nutrition, and (v) maternal mortality and other reproductive health problems.

The development of the private sector in the health sector has drained the brains from the public sector. Doctors and medical workers in the public sector are poorly paid, demotivated and perform unsatisfactorily. Most of the qualified medical staff is deployed in the urban areas. Therefore, speeding up civil service reform and introducing a market-based incentive to reward good performance and the providers working in remote areas and/or with minority populations will be of utmost importance.

4.3.3. Planned Expenditures in the Health Sector: 2003- 2005

Total government funding for recurrent expenditures for the health sector has been estimated by the MOH, and may exceed the current resource envelope. The Ministry after evaluating the forthcoming resources from external sources will decide how individual's plans should be cut in order to fit in with broad sector objectives.

**Table 4.7: Projected Fiscal Support for the Health Sector, 2003-2007
(High-case Scenario)**

Key Area of Work	Actual Exp. 2002	Budget 2003	MTEF 2004	MTEF 2005	MTEF 2006	MTEF 2007
Health Service Delivery	137,352	161,528	188,446	246,287	299,291	359,539
Behavior Change	1,792	3,976	4,315	5,555	6,121	7,335
Quality Improvement	248	374	944	1,237	1,403	1,615
Human Resource Development	4,907	6,434	9,202	12,021	14,185	16,962
Health Financing*	0	0	960	1,200	1,296	1,344
Institutional Development	17,233	29,688	24,792	32,500	35,000	41,549
Total (Million Riels)	161,532	202,000	227,600	298,800	357,296	428,344
Total (Million US\$)	41.20	50.75	57.58	75.65	89.66	105.97

Source: Medium Term Expenditure Framework, Draft as of December 2003.

The challenges facing MOH include: (a) adoption and subsequent enforcement of the legal and regulatory instruments for sector reform; (b) definition of roles and responsibilities for health services administration and health care delivery at national, provincial, and district levels; and (c) effective improvement of key sector-wide functions, particularly in the areas of: (i) accessibility to health facilities, quality of care and utilization of services; (ii) human resources development (including manpower planning); (iii) decentralized financial management; (iv) procurement (including various possibilities for contracting in and contracting out services); and (v) evaluation of sector performance.

4.4. Road Infrastructure

The RGC's goals for road transport in the medium term emphasize efficiency, competition, and the contribution of transport services to economic growth and poverty reduction. The NPRS emphasizes improving the accessibility of road networks, ensuring cost-effectiveness, enhancing road safety, and improving rural transport. The focus is on continuing for rehabilitating and reconstructing the main (primary) national roads (NR1-7), building road links to neighboring countries, and developing a sustainable road maintenance program. A separate rural road policy emphasizes the establishment of a strategic tertiary network linking district centers and improved access to isolated communities and border areas.

The major shortcoming in the sector is that there is no systematic, unified planning and budgeting process. Due to the lack of a coherent sector planning framework, as well as the dispersion of resources into several different funds, there is a lack of coherent budgeting process in the sector, inadequate attention to technical criteria, and a lack of transparency in investment (and procurement) decisions. To address this shortcomings, in 2004 the MPWT is drafting a Road Law to provide a legal framework and clearly define roles and responsibilities of government agencies on road construction and maintenance.

Table 4.8: Estimated Expenditures on Roads, 2001
(in Million US\$)

	2001	2002	2003	2004
MPWT	13.72	21.69	19.04	18.00
Current	1.99	3.14	9.83	10.00
Capital	11.73	18.55	9.21	8.00
MRD	5.95	12.16	16.96	35.24
Current ^a	0.55	1.38	1.50	1.00
Capital	5.40	10.78	15.46	34.24
Donors	59.71	76.43	121.56	111.55
Grand total	79.38	110.28	157.56	164.79

^a Includes PAP

Source: The Ministry of Economy and Finance

The RGC's policy is to encourage greater private-sector participation (PSP) in the provision of road and road transport services and infrastructure. There is growing competition in freight and passenger transport services, although state-owned enterprises are still active in both. There is a growing capability in the local road construction industry, fostered both by the volume of joint-venture and subcontracted work under donor-funded projects and MRD's program to strengthen the capabilities of local groups in LBAT methods of construction.

Both the Ministry of Public Works and Transport (MPWT) and the Ministry of Rural Development (MRD) have ambitious plans to rehabilitate their respective networks. During the last 10 years about 500 km of the main national (primary) roads (included bridges) have been improved and another 1200 km of national and provincial (secondary) roads have been rehabilitated.

Table 4.9: Road Categories And Length
(as of June 2003)

Type of Road	Length		Asphalt or DBST Pavement		Gravel, Laterite or Earth Pavement		Trafficable		Untrafficable	
	Km	%	Km	%	Km	%	Km	%	Km	%
National Roads (A, Primary roads 1-7)	1,988	5.59	1,333*	67	655	33	1,988	100	0	0
National Roads (B, Primary Roads- 2 digit)	2,165	6.10	315	11.7	1,850	88.3	2,165	100	0	0
Provincial Roads (PR, Secondary Rods)	3,555	9.91			1,224	3.4	1,224	34.4	2,331	65.6
Rural Roads (Rural, Tertiary Roads)	28,000	78.40			11,580	41.5	11,580	41.5	16,420	58.5
Total	35,708		1,648		15,319		16,957		18,751	

*Included 500km of main national roads (NR1-7) which have been improved and matched to standard(Asphalt concrete).

Between 1999-2003 a total of US\$430 million were disbursed to rehabilitate the national and provincial road network⁵. During this period, the MPWT rehabilitated 1,850 km of national roads and built 177 bridges with total length of 8,410 m. The Engineering Department of the Royal Cambodian Armed Forces rehabilitated another 1,371 km of roads and built 490 Bailey bridges with total length of 11,194 m. The MRD rehabilitated 10,000 km of rural roads.

Only in 2003, the RGC has rehabilitated and maintained 1,650 km of national roads and 3,000 km of secondary and tertiary roads, financed by both government and development donors. Attention is also being given to road maintenance.

Table 4.10: Major Roads Under Construction And Maintenance in 2003

RN No	Route	Length, km	No. of Lanes	Width (m)	Asphalt surface	Laterite or earth Surface(km)
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⁵ Speech by H.E. Tram Iv Tek, Secretary of State for Public Works and Transport, 26 February 2004.

					(km)	
RN 1	Phnom Penh(Watt Phnom)-Svay Rieng-Vietnam Border	167	2	11.5	124	43
RN 2	Phnom Penh(Monivong Bridge)-Chambak-Takeo-Vietnam border	121	2	6-11	73	48
RN 3	Phnom Penh(Watt Phnom)-Kampot-Veal Rinh	202	2	6-11	202	0
RN 4	Phnom Penh(Chaom Chau)- – Sihanoukville	214	2	10	214	0
RN 5	Phnom Penh(Watt Phnom) - Kampong Chhnang-Pursat-Battambang-Sisophone-Poi Pet-Thai Border	407	2	6-11	292	115
RN 6	Phnom Penh(Watt Phnom)-Skun-Kampong Thom-Sieam Reabp-Sisophone	416	2	11	170	246
RN 7	Skun-Kompong Cham-Snoul-Kratie-Stung Treng-Lao Border	461	2	6-11	258	203
	Total	1,988			1,333	655

The MPWT launched in 2003 a US\$1.75 million Routine Maintenance Program, funded by Japan. A total of 1,242km of national roads will be maintained under this project. Currently, the rehabilitation of all main national (or primary) roads (NR1-7), in total length of the 1,988km, was secured. It is expected to complete at the end of 2006. In 2003-2005, the RGC plans to rehabilitate and repair more than 1,000km of the main and other national roads. Cambodia still faces serious challenges in road maintenance, due to unreliable budget disbursement. Though a Road Fund was earmarked in the budget, disbursement is still problematic.

**Table 4.11: Other National Roads Under Construction
And Maintenance in 2003**

RN No	Route	Length, km	No. of Lanes	Width (m)	Asphalt surface (km)	Laterite or earth Surface(km)
RN11	Neak Loeung-Chup	90	2	11.5	90	0
RN21	Takhmao-Chrey Thum/Vietnam border	75	2	11	75	0
RN22	Takeo-Ang Ta Saom	9.6	2	6-11	9.6	0
RN33a	Ses Sar-Damnakh Chang Oeu	18.3	2	11	18.3	0
RN41	Kampot-Toek Chhou	10.3	2	7	10.3	0

RN46	Treng Traying-Kirirum	28	2	6	28	
RN61	Thnal Keng-Prek Kdam	16.1	2	6-9	16.1	
RN63	Seam reap-Phnom Krom	14.3	2	6-9	14.3	
RN66a	Vong Toch	20.59	2	6	20.59	
RN63b	Vong Thum	6.2	2	6	6.2	
RN71	Troeung Kampong Thmar	23.6	2	9-11	23.6	
	TOTAL	312			312	

4.4.1. Medium Term Strategy and Plan for Sustainable Road Rehabilitation and Maintenance.

The needs for road rehabilitation exceed the available resources. However, Cambodia would need at least US\$100 million annually to rehabilitate and maintain the primary and secondary road network in the country. Moreover, the annual requirement for the rehabilitation and maintenance of tertiary road could cost Cambodia US\$50 million. This exceeds resource availability even with likely external financing. Therefore, the RGC intends to prioritise needs and prepare a comprehensive work plan for road rehabilitation and maintenance.

Table 4.12: Road Rehabilitation Program, 2004-2006

Classification	Length 1969 base, km	Urgent Repair and Rehabilitation 2004-2006, Length (Km)				
		1993-2003	On going	Priority and committed	Add'l NR Recons- truction	TOTAL Length (Km)
National(main 1-7)	1,988	500	1,333	655		1,988
National(others)	2,165		315		1,850	2,165
Provincial	3,555				2,000	2,000
Rural - Local	28,000	1,500	1,500	1,500		4,500
Total	34,708					10,653




The rehabilitation of the roads network shall be accelerated by adopting stage construction, simplifying contracting procedures, and by employing short-life (three-year) rehabilitation (or emergency repair) schedules. In 2003, external assistance for rehabilitation of other 655 km. of National Roads was secured. The plan target is to repair in short-life schedule a further 1,850 km. First priority will be the secondary national roads linking Phnom Penh to the provincial capitals. Second priority will be the 2,000 km of national roads that link adjacent provinces.

Continued rehabilitation and construction of physical infrastructure will be one of the four pillars of the economic agenda of the Royal Government in its third term 2003-

2008. Continued restoration of road infrastructure is the key component of the economic development strategy. The strategy is to provide all-weather access to and from the nation's capitals, production, tourism and heritage sites and all key border crossings. Mostly, the main (primary) national roads have been designated as Asian/ASEAN or Regional Highways for facilitating the international transportation, trade and tourism across the borders. Moreover, the strategy is also to develop the other national roads and provincial (secondary) roads to connected as the feeder/supporting rods to the Asian/ASEAN or Regional Highways and the main national (primary) roads; and strengthening the linkages between and among two economic zones: Tourism Region and Agro-Industrial & Eco-Tourism Region.

There are three broad economic zones into which the country divided for the transport planning purposes: 1-Tourism Region, formed by Seam Reap, Oddor Meanchey, Preah Vihear and Kampong Thom provinces; Agro-Industrial & Eco-Tourism Region covering the eastern region of Mekong River including Stung Treng, Ratanakiri, Mundulkiri Kratie provinces; 3-Industrial Region, defined by entire northern costal region of the country. A key aspect of the strategy is the establishment of a sustainable financing and maintenance system for the road network.

Table 4.13: Road Strategy

Description		Implementation					
Program Target		6, 000 km (road network)					
Urgent Repair/ short-life Maintenance:							
Rehabilitation: 3-5 years Maintenance:							
Reconstruction: 10-20 yrs Maintenance:							
Years	2000	2003	2005	2010	2015	2020	

Source: SNEC. Economic Action Agenda

4.4.2. Rural Road Strategy

The MRD's rural transport strategy aims to increase rural access by giving priority to cost-effective maintenance and rehabilitation of rural roads, and promoting the use of labour-based appropriate technology (LBAT) with the involvement of the local private sector (small and medium sized contractors) in the execution of the works.

The planning process is one of the most important aspects and a transport policy is an essential for proper development of infrastructure. In addition a sustainable maintenance procedure, standard technical specifications, choice of technology, capacity building and community awareness are all very important considerations. Ownership- Identification of the user, and development of the legal structure and policy for road use are vital for the long-term operation of any infrastructure.

Rural Road Maintenance – Labor BAT is not a complicated technology, but high engineering standards still need to be met. Once a road is built, traffic increases, and without maintenance, deterioration occurs quickly. In Cambodia, monsoon rains, flood, and oxcart can cause a lot of damage to an incorrectly designed and built road, or a road without maintenance

4.4.3. Roads Maintenance Program and Fund

As far as possible, the maintenance of designated national and provincial roads, bridges and ferries, and the control and regulation of vehicles shall be self-financed from registration fees, tolls, international transit charges, fuel levies, penalties or other related taxes and duties. Except in special circumstances, all provincial, urban and rural roads are maintained from locally-generated funds. The successful implementation of the five year plan requires US\$250M will be needed. The targets for road maintenance are:

1 st year	1,650 Km
2 nd year	2,700 Km
3 rd year	3,800 Km
4 th year	4,900 Km
5 th year	6,000 Km

The establishment and implementation of an adequate road maintenance fund is essential in order for Cambodia to benefit fully from the assets already built and to ensure the long-term sustainability of the road network. The Government will aim to ensure that the maintenance of the road network, including bridges and ferries, is financed by vehicle registration charges, tolls, international transit fees and fuel levies or other related taxes and duties.

A high priority will be to resolve issues related to the planning and implementation of routine and periodic maintenance, such as: (i) definition of policies and priorities and the planning of road maintenance program, (ii) financing of maintenance program, considering a fund of road maintenance and contracts on road maintenance; (iii) installation of a financial and physical monitoring system; and (iv) enforcement of vehicle weight regulations.

The annual and rolling three year maintenance Program will have the following characteristics:

- Overall allocation between preventive (routine and periodic) maintenance, rehabilitation and reconstruction;
- Emergency repair activities (i.e. what is called maintenance at present) shall continue to be prioritized within their own budget, separate from the budget or fund for road maintenance.
- Reserve Fund for emergency purposes and works;
- Annual and rolling three-year maintenance program to be managed by the Ministry of Public Works and Transport, in coordination with the Ministry for Economy and Finance, based on provincial submissions.
- The Annual Budget Allocation should be decentralized or allocated directly to the provincial departments of transport and finance or local contractors.
- Routine maintenance should always be accorded highest priority.
- At least 3-4% of the maintenance fund should be use for planning, data collection and road conditions survey.
- At least 25% of the routine maintenance budget, will be undertaken by local labor or by the MPWT's force account teams such as Maintenance units/groups or Road Construction Center at the regional or provincial levels or contracted by the provincial departments of MWPT.
- Periodic maintenance activities will as far as possible be procured both from private contractors and MPWT's force account teams or RCC at the regional or provincial levels through competitive bidding, supervised by Central MPWT.
- Central procurement will be limited to imported material. The allocated funds for maintenance will include a portion for the procurement of spare parts, minor equipment, and hand tools (At least 10% of the maintenance fund can use).
- Routine maintenance will be undertaken for at least 1,800 km of maintainable roads, including all roads that have been rehabilitated or reconstructed since 2000.
- All parts of each road (carriageway, shoulders, ditches, culverts, bridges and road side areas) will be maintained.
- Service levels and trigger values for routine maintenance will be decided.

- The highest priority for periodic maintenance will be given to roads that have been included in emergency rehabilitation programs but are not due for reconstruction within another three years.
- The standard periodic maintenance activity will be a complete surface treatment.

4.4.4. Upgrading and Maximizing Regional Links

Cambodia's geographic location offers strategic opportunities for the country to serve as a regional transportation hub for the Greater Mekong sub-region. The Government places high priority on further expanding trade particularly within ASEAN and on improving cross border linkages. Thus the reconstruction of RN6 will be continued to link Siem Reap and Angkor Wat temples to Phnom Penh and Poipet /Cambodia-Thai border.

Regional routes will be improved and the upgrading of RN1 and RN5 will constitute the first phase of the Ho Chi Minh-Phnom Penh-Bangkok Road through Cambodia. RN7 will be rehabilitated to link southern Laos with Phnom Penh and Sihanoukville via RN4 together with construction of a bridge over the Mekong River at Kompong Cham. RN48 will be rehabilitated to link Sihanoukville, the trade-industrial zone of the country to Bangkok port.

In the framework of economic cooperation between Cambodia and Thailand some more of secondary roads and provincial roads will be rehabilitated and linked with Cambodia-Thai border, including NR56, 57, 58, 59, 68, 69, and 64. The rehabilitation of national roads NR78, 76a, 78a, 78b, 76, 72, PR303a, 303b in Ratanakiri and Mondulkiri Province will facilitate the transport of goods and people across the border with Viet Nam.

4.4.5. Key Actions for Road Reconstruction and Maintenance

The RGC will take the following key actions, aimed at promoting sustainable road reconstruction and maintenance:

- Mobilize financing from both national and international sources to rehabilitate, reconstruct and improve the road network, and supplementary investments in bridges and ferry sites thereby improving land transport throughout the nation.
- Upgrade Regional Links (GMS/ ASEAN/ ASIAN and Regional Corridors), thereby opening up some of the more remote areas of the country to international trade and tourism.

- Fully implement Fund and Management for Roads Maintenance system, thereby assuring that investments in road rehabilitation and reconstruction shall generate sustainable benefits;
- Decentralize/devolve rural roads management and financing.
- Strengthen the planning capability management and monitoring system;
- Enhance the establishment and enforcement of the legal framework for development and utilization of national road network;
- Increase the speed of the road network rehabilitation program by paving or installing bituminous surfacing of the remaining road links from Phnom Penh to all provincial towns, focusing on those paved before 1970
- Repair and maintain for year-round access all links to economic poles, key economic areas, cultural and tourist areas, and the border crossings;
- Improve urban transportation, particularly in Phnom Penh and main regional cities, by constructing ring roads or diversions to facilitate and reduce congestion and accidents;
- Improve the management and enforcement of rules and regulations pertaining to all types of vehicles, especially regarding road weight restrictions, and the technical qualifications of drivers in the issuance of licenses.

4.4.6 Railway Transport

The rail system consists of a 386 km Northern line constructed between 1929 and 1942, which runs from Phnom Penh to Poipet in the north west; and a 246km Southern line built in the late 1960s, which runs from Phnom Penh to the deep sea port at Sihanoukville. The Northern line was very poor, and that the link between Sisophon and Poipet near the Thai border was so damaged as to make it unusable at any speed. The Southern track was in reasonable condition, but the formation was poor and 70 percent of sleepers needed replacing. Rail traffic nonetheless showed signs of increasing as peace and security were established in Cambodia.

The RCR Strategic Plan lists five policy objectives; (1) continued rehabilitation of physical infrastructure; (2) increased income generation in order to support rail operations; (3) promotion of competition with other transport modes in the context of a market economy; (4) promotion of the establishment of other rail services and increase the connections with major customers such as dry ports in order to promote the transport of containers and petroleum; (5) construction of a 255 km link between Phnom Penh and Lock Ninh (Vietnam) that would integrate Cambodian rail into the regional railway system (Singapore-Kunming rail link).

For the short- to medium-term, four key activities are identified, (1) rehabilitate the Phnom Penh - Sihanoukville line, (2) reconstruct the Sisophon-Poi Pet line (48 km), (3) repair and rehabilitate rolling stock, stations, signal facilities and communication systems, modernizing equipment where appropriate, (4) Rehabilitate the Phnom Penh – Battambang – Sisophon line. If these can be undertaken successfully, growth rates in the transport of goods and services are envisaged of 11 and 13 percent, respectively.

Long-term development programs include the construction of the 255 km line from Phnom Penh to Lock Ninh in Vietnam, a 105 km line from Sisophon to Siem Reap, installation of modern repair and maintenance equipment, and human resource development. The Northern line runs through rich agricultural areas that are poorly served by the road network, and potentially connects with the Thai railway system, becoming part of the proposed Trans Asian Railway linking the ASEAN sub-region with China.

Table 4.14: Prioritized Railway Projects (Million US\$)

No.	Projects/Railway	Time Period	Financing/Expenditure
1...	To rehabilitate railway from Poipet to Sisophon	2004-2007	14.5
@...	To rehabilitate railway from Phnom Penh to Sihanouk ville	2004-2007	53.4
#...	To rehabilitate railway from Phnom Penh to Sisophon	2004-2006	40
\$...	To construct ASEAN railway 255 km from Phnom Penh to Vietnam's border	2005-2010	550

5. Alignment Among Development Partners

The RGC is asking development partners to align their assistance to the NPRS. The government recognizes that using national owned strategies as vehicles for aid will improve coordination and country ownership, increasing predictability of assistance and enhance national capacity. The following actions have been taken to ensure consistency of policies and strategies of both government and her external development partners in order to ensure better coordination, alignment and harmonization.

- *First*, linking NPRS to MTEF and to the annual budget;
- *Second*, integrating the PIP into MTEF;
- *Third*, incorporating MDGs in NPRS and SEDP III;
- *Fourth*, using the NPRS Annual Report for the CG process;
- *Fifth*, more assertive government leadership;
- *Sixth*, the Joint government-donor working group mechanism can be used effectively to implement the NPRS;
- *Seventh*, TA can be used more efficiently to develop national capacity.

To ensure better donor alignment the Royal Government of Cambodia will use the NPRS Annual Progress Report as one of the key documents for the CG Meeting to solicit donors' support for the implementation of poverty reduction action plans and policy matrices. The line ministries are required to take the lead in their sector in order to allow for better coordination and implementation of identified projects in the context of a sector-wide management.

There is good cooperation between the line ministries and agencies involved in the APR consultation process, which provides good coordination and cooperation of the agencies involved. The CDC has also been active in providing institutional support for this process. In this regard, the APR will provide substantial inputs into the CG lead document, especially in the areas of macroeconomic management, structural reforms and outlook, as well as progress in governance reforms. Moreover, the RGC intends to use the APR as one of the key CG documents.

Considerable efforts have been deployed to strengthen coordination and alignment of key stakeholders and donors in the PFM reform. Based on the IFAPER prepared by the government, ADB and the WB, other agencies and donors, such as AusAID, DFID, EC, France, IMF, JICA and UNDP have accepted the PFM reform strategy, policies and recommendations as agendas for actions. They are committed to providing financial support and capacity development to government agencies involved in the reform. This alignment process has increased the coherence, synergy and complementarities of external assistance with Cambodia's owned "PFM reform platforms". To ensure ownership of the reform programs, MEF management, senior and technical officials are involved in the preparation of the reform platforms, which will be implemented with a strong component of capacity building.

Another successful example of donors' alignment is the establishment and ongoing development by MoEYS of a comprehensive sector wide policy framework and approach in the implementation of the Education Strategic Plan (ESP) and the Education Sector Support Program (ESSP). The Education Sub-Sector Working Group (ESWG) has provided clear strategic direction and effective enabling mechanisms for the government to build partnership with Agence Universitaire de la Francophonie (AUF), Asian Development Bank, Australia, Belgium, Canada, European Commission, France, Germany, Japan, Sweden, United Kingdom, United States of America, UNDP, UNESCO, UNICEF, UN World Food Program and World Bank.

The alignment of donors has been guided by the Common Education Policy Matrix and associated benchmarks and performance indicators; the agreed Partnership Principles; coordination mechanisms including the Ministry Donor/NGO/Coordination Committee, the Education Sub-Sector Working Group, the NGO Partnership (NEP), the joint ESSP Reviews and the ongoing institutionalisation of a culture of constructive engagement, openness, transparency and information sharing.

There has already been considerable efforts in ensuring the alignment of donors in disseminating and implementing the NPRS. Complementing to the Trust Fund Grant, a number of donors have indicated support for the implementation of the NPRS:

GTZ has directly supported GSCSD financially, providing funds for the translation into Khmer of the NPRS, e-mail, internet, and communication costs, printing of a grassroots manual of the NPRS in Khmer and English for commune level and for a mobile show for to take the NPRS (through video and theatre) to 13 provinces of the country. In addition, initial funding for TV spots and posters has been provided. WB has also supported financially to reprint the grassroots manual. UNESCO and UNFPA have assisted with financing workshops on the NPRS. WFP, UNICEF, UNESCO, UNFPA, SIDA and ADB have paid for the printing of the NPRS.

In addition to the NPRS and the SEDPII, Cambodia has a number of important on-going and planned activities, which support the development of the NPRS framework. Apart from providing funding to the GSCSD for the NPRS, GTZ now plans to use their projects to specifically target poverty, under the umbrella of the NPRS (food security and nutrition, health, land management, rural development). The PMATU, supported by UNDP and SIDA, is under training to carry out poverty analysis and to develop and monitor quantitative and qualitative indicators of poverty. UNDP is also playing a leading role in assisting with the MDG localization process. UK DFID provides a poverty specialist in the World Bank office in Cambodia.

To ensure better alignment of various documents and initiatives, the government has proposed the above calendar as a work plan. This will allow better coordination of various government agencies and strengthen their inputs into the strategy documents.

This alignment is designed to better incorporate sectoral strategies into the Annual Progress Report and link it to the medium term and annual budget process. Moreover, this will also allow for timely donors' support for strategy implementation.

**Table 5.1: Proposed NPRS Alignment Calendar
Including Actions by Government and Donors**

Timing	Cycle/Stage	Government Action	Donor Action
Planning Cycle (MTEF including PIP)			
January-March	Consolidation of budget and outturns	<ul style="list-style-type: none"> • Consolidation of budget year Y • Out-turn year Y-1 • Prepare MTFP (years Y+1 to Y+3) 	
February-April	Joint Sector Reviews (e.g. Education, Health)	<ul style="list-style-type: none"> • Data collection and analysis • Sector Performance Review Reports • Joint conclusion of reviews, including indications of new policies, policy shifts etc. (with indicative financial implications) 	<ul style="list-style-type: none"> • Review Reports?
April	Consolidation of performance reviews and outline MTEF	<ul style="list-style-type: none"> • Council of Ministers' approval of MTFP • Preparation of outline MTEF including preliminary sector envelopes for years Y+1 to Y+3 	
End April/Early May	NPRS Annual Progress Report	<ul style="list-style-type: none"> • NPRS Annual Progress Report (based among others on sector review outcomes and plans) published and widely distributed (Civil Society, private Sector, Donor Community) 	
Late May	Review and dialogue on APR	<ul style="list-style-type: none"> • CG meeting for joint RGC/ donor dialogue on APR (performance review, future priorities) 	<ul style="list-style-type: none"> • Indication of support (budget support and projects) for Y+1 to Y+3, based a.o. on discussions on draft MTEF

Timing	Cycle/Stage	Government Action	Donor Action
Planning Cycle (MTEF including PIP)			
June		<ul style="list-style-type: none"> • Government finalizes MTEF for Y+1 to Y+3, with inputs from APR review and indicative donor commitments • Council of Ministers' approval of MTEF • Guidelines for budget year Y+1 preparation are issued, with sector envelopes for years Y+2 and Y+3 	
August/ early Sep	Sector MTEFs and budget hearing meetings	<ul style="list-style-type: none"> • Sectors' submission of MTEF (Y+1 to Y+3) with (detailed) annual budget for year Y+1 • Budget hearing meetings, incl. review of sector MTEF (and multi-annual PAP frameworks for PAP ministries) 	
September	Annual fiscal plan and MTEF	• Annual budget plan and MTEF consolidation	
Early October		• Submission of annual budget plan and MTEF to Council of Ministers	
October/ November	Dialogue on budget and MTEF	<ul style="list-style-type: none"> • Sector meetings and six-monthly CG meeting, including review of year Y execution • RGC information on year Y+1 budget plan and MTEF to donors, 	• Donors' confirmation of commitments for year Y+1
December	Budget to Assembly		

Also to improve alignment of existing initiatives, the government has reconciled the NPRS and the Cambodia MDG (CMDG) Report targets in an attempt to provide the first common indicators for the two frameworks. However, the government is conscious that there are different indicators as well for them. For example, the RGC decided to single out de-mining as the eighth CMDG, while partnership will become the ninth CMDGs. Therefore, during the next rounds of reporting these indicators could be integrated into the NPRS process.

6. Challenges for NPRS Monitoring

Monitoring NPRS and CMDG has proven to be a challenge, due to the lack of an incentive system for government staff to work on information gathering and data collection. Poverty monitoring is fragmented between and within government ministries and agencies. The MEF is responsible for providing government finance statistics (GFS), which is used for calculating input indicators; the CDC is collecting data on ODA disbursement, which is used for preparing both input and output indicators, while the National Institute of Statistics conducts surveys that provide inputs for outcome and impact indicators. The line ministries also play an important role in providing output and administrative data. However, their capacity for data analysis is still limited. Thus, improvement in the statistical units of all government ministries and agencies involved in NPRS implementation is critical in strengthening the NPRS monitoring system.

For this reason, the preparation of the APR has encountered difficulties in collecting input, output and outcome indicators and the new timetable for the progress report reflects data collection realities: input indicators, especially budget indicators are made public in April; output indicators and measures implemented by the line ministries are usually reported at the end of the second quarters of the year; outcome indicators are collected from the socio-economic survey or the Demographic and Health Survey, which are conducted every 4-5 years.

Nevertheless, significant efforts were undertaken in 2003 by the NIS and the line ministries, supported by UNICEF and GTZ, to set up "CAM-Info", an indicator oriented database and dissemination tool to monitor outcomes of NPRS, MDG and other policy frameworks. The database of socio-economic indicators will allow users to: (i) organize and document statistical data on socio-economic development in the country; (ii) access quantifiable indicators for planning, implementation, monitoring and evaluation; and (iii) coordinate and distribute this information to interested parties. Over 300 indicators from 12 international and national plans of action/strategies, including NPRS indicators, have been incorporated into the database. Cam Info is due to release its first report by March 2004.

The proposed system will be in the form of National Data Warehouse that is able to connect to individual data mart from various statistical units. When data and information is collected from different sources with various formats it will be processed into data warehouse or data mart through data staging. Data staging is the process of data cleaning, transforming, scrubbing and finally validating in order for data to be codified and unified in formats. National data warehouse is the main server that can be stored all kind of data and information once it is processed. Data mart is a smaller data warehouse that can be stored specific data for specific purpose for example health data mart or education data mart. This would serve the purpose of specific user e.g. an expert who wishes to search for data related to health he/she can go directly to health

data mart and retrieve it. It is not necessary that data mart and data warehouse be kept in one place. Data mart can be located in any ministry or institution from which data can be exchanged and shared with the national data warehouse and other data marts when it is all networked.

The overall objectives of Cam Info are to (i) strengthen the efficiency of monitoring and analysis and build institutional linkage across line ministries and in the longer run across provinces; (ii) monitor progress, policies, plans, programs, and strategies and recommend changes, if any; (iii) measure and assess poverty impact of development efforts by taking into account Global Agendas; and (iv) provide accurate, well-analyzed information to implementers, decision-makers as well as donors. The RGC will work closely with its development partners to improve the monitoring and evaluation system, especially in updating the indicators in the matrix.

6.1. Roles and responsibilities of the National Institute of Statistics (NIS)

The draft Statistics Law provides sole responsibility to NIS for data collection, collation, process, production and dissemination at national level. However, the law provides room for other statistical units and agencies to collect and produce its own data for internal purpose. In order to enforce the law once it has been approved by the National Assembly two high level bodies are proposed to be established in order to govern statistical works. Those are Statistics Advisory Council (SAC) chaired by Minister of Planning and Statistics Coordination Committee (SCC) chaired by General Director of NIS. The establishment of the Cambodia Statistics Information System, which links the national NIS data warehouse to the database of the MOEYS, MOH and other line ministries, will allow policy makers to make informed decision.

At present, the NIS is conducting the Cambodia Social and Economic Survey (CSES) 2003-2004, which is the first comprehensive survey, financed by UNDP and SIDA. The WB also assists in the conduct of the survey. This survey will provide detailed information on poverty line and national accounts, thus contributing to the improvement in the quality of data and promoting dissemination. Moreover, it will provide trend data as well as benchmark data on selected issues (e.g. input-output tables), preparation of the inter-population census; and other survey, such as establishment survey.

The NIS is preparing the Statistics Master Plan in order to integrate the existing activities into a holistic framework. These documents are used to produce statistic indicators for the NPRS and MDGs. In 2004, UNPD will provide further technical and financial support for statistical reforms, especially in capacity building and drafting the Statistical Law. Thus, higher priority will be given by the government to passage of the Statistics Law by the parliament and budgetary allocations should be made to allow preparation of basic statistics in line with the new law.

6.2. The Role of Joint Technical Working Groups and the Civil Society

The Working Group mechanism was established in 1999 at the CG meeting to follow up reform programs implemented by the RGC and to allow donors to speak in one voice in dealing with the government. At present, there are eight working groups on administrative reform, governance, fiscal reform, natural resource management, including land management, social sector, demobilization, health and education; and government-donor partnership. However, the performance of the working groups was mixed, due to limited participation and representation of the RGC in some of the WGs and the lack of coordination between groups. In this regard, there is a need for a review for the following reasons: (i) an ad hoc manner and lack of overall framework of the existing working groups; (ii) the need to have greater coherence based on clearly defined TOR; (iii) joint/shared responsibility.

To increase the performance of the working groups the RGC has put forth a proposal to review and restructure the WGs in order to ensure ownership and leadership by the government. The reform will allow government's representation as chairman or co-chairman, supported by a technical staff from the concerned ministries. A clear and jointly developed TORs will be prepared for each of the groups with joint action plans, priorities and benchmarks, as well as joint financial commitments.

Moreover, the working groups will be used to follow up the progress on government's reforms agenda; to align donors' support to government's development priorities or to support the NPRS; or a combination of the above. In this regard, Prime Minister Hun Sen proposed that the WG should become a mechanism to align donors' support for NPRS implementation.

The civil society has played an important role in the monitoring of poverty reduction. Cambodian NGOs is apart of civil society and the international NGOs is part of the international civil society. NGOs can contribute much to poverty reduction plans from their development experience. Thus, NGOs are in a strong position to convey the needs of vulnerable groups to policy makers.

NGOs can prepare report card survey to feel the pulse of the public on certain important issues, such as decentralization and convey the concerns to the policy makers. In the future, trade unions, ethnic associations and farmers' association will play an important role in this monitoring process. Moreover, it is critical to determine how to involve the poor and vulnerable groups could participate in this process, whose purpose is to address their problems. There is also a need for strengthening the capacity of the Parliament to allow meaningful monitoring.

7. Risks

The recent gains in macroeconomic stability would also be reversed. In the absence of public sector reforms and a vibrant private sector, the targeted increase in fiscal revenue would not be achieved and this will constrain pro-poor infrastructure and social spending, and delay the much needed revamping of the civil service pay scale. In addition, the external position would deteriorate leading to a decline in accumulated reserves.

Thus, key risks still remain, due to the failure to (i) improve competitiveness, especially in view of the expected phasing out of garment quota in 2005, could reduce growth even more; (ii) raise fiscal revenue could squeeze social spending and the wage bill, further weakening government capacity, and (iii) strengthen the judiciary will undermine proper functioning of the market-based system, and hence growth. Failure to improve governance could lead to a decline in aid inflows, which will be detrimental to rebuilding infrastructure and human capital.

Delayed implementation of policies would also have a negative impact on the growth outlook. If reforms aimed at improving manufacturing competitiveness, and the environment for the private sector, are not introduced in 2004, the garment sector would be unable to compete at the lower post-quota prices and investment would slow down. Similarly, the growth rate would be lower if the reforms identified in the NPRS for improving agricultural productivity are implemented at a slow pace.

There are also external risks to growth such as possible recurrence of SARS, unfavorable weather conditions that undermines agricultural production, geopolitical tensions, world oil hikes and possible political uncertainties associated with domestic political problems. These factors would have adverse effects on poverty reduction efforts