

**FOR
AGENDA**

EBD/00/123

December 22, 2000

To: Members of the Executive Board

From: The Secretary

Subject: **Cambodia—Interim Poverty Reduction Strategy Paper**

Attached for consideration by the Executive Directors is the interim poverty reduction strategy paper for Cambodia. This subject, together with the paper on the second review for Cambodia under the Poverty Reduction and Growth Facility (to be issued) and the joint staff assessment of the interim poverty reduction strategy paper for Cambodia (EBD/00/124, 12/22/00), will be brought to the agenda for discussion on a date to be announced. At the time of circulation of this paper to the Board, the Secretary's Department has received a communication from the authorities of Cambodia indicating their preference to publish it.

Questions may be referred to Mr. Rumbaugh (ext. 36094) and Mr. Marciniak (ext. 36732).

Unless the Documents Section (ext. 36760) is otherwise notified, the document will be transmitted, in accordance with the procedures approved by the Executive Board and with the appropriate deletions, to the WTO Secretariat on Wednesday, January 3, 2001; and to the Asian Development Bank, the Food and Agriculture Organization, and the United Nations Development Programme, following its consideration by the Executive Board.

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KINGDOM OF CAMBODIA
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ROYAL GOVERNMENT OF CAMBODIA

**INTERIM POVERTY REDUCTION
STRATEGY PAPER**

PHNOM PENH, OCTOBER 2000



FOREWORD

The preparation of the Interim Poverty Reduction Strategy Paper (IPRSP) was commissioned by the Prime Minister Samdech HUN SEN and overseen by *the Committee on Economic and Financial Policies*, established by the governmental decree No 25 dated 10 June 1997 and chaired by the Minister of Economy and Finance, with broad inter-ministerial representation. An umbrella working group headed by Secretary General of the Ministry of Economy and Finance, Dr. AUN PORN MONIROTH, with broad representation from the line ministries was established to directly oversee the drafting of the IPRSP document. Three sub-groups were set up to work on different dimensions of the IPRSP:

- (i) *Poverty Diagnostics;*
- (ii) *Macro and Sectoral Policies; and*
- (iii) *Legal, Institutional and Governance.*

The IPRSP drafting process commenced from June and ended in September 2000. The drafts IPRSP were commented upon by the representatives of government ministries and agencies and by all donors concerned. The draft was sent to all chairpersons of the nine commissions of the National Assembly and the Senate for comments. Feed-backs from the legislative body will be incorporated into the IPRSP and the full PRSP.

The working groups held three meetings to discuss the drafts, followed by the discussions in the sub-groups. The drafts were discussed during two meetings of *the Committees on Economic and Financial Policies*. Moreover, a consultative process was launched with active participation of donor community and Non-Governmental Organizations (NGOs) on 25 July 2000. Extensive consultations on the drafts were also conducted within a framework of bilateral cooperation with representatives of donor countries concerned. All comments and recommendations were incorporated into the text in order to upgrade the quality of this paper. Overall, sixth drafts were submitted for consultations. The Royal Government of Cambodia (RGC) will seek to consolidate the processes and products as far as possible, bearing in mind the essential features of a full PRSP, namely:

- (i) country ownership;
- (ii) poverty focus;
- (iii) consultative process; and
- (iv) systematic monitoring of outcomes.

The main concept behind the IPRSP is that the RGC has responded to poverty by taking measures to accelerate economic growth, improve the distribution of income and wealth and promote social development. At the National Workshop, held in May 2000, to launch the preparation of the Second Socio-Economic Development Plan 2001-2005, the Prime Minister based the government poverty reduction strategies on three main components:

- (i) long-term, sustainable economic growth at an annual rate of 6 to 7 percent;
- (ii) equitable distribution of the fruits of economic growth between the have and the have-not, between urban and rural areas and between the two opposite sexes; and
- (iii) sustainable management and utilization of the environment and natural resources.

Growth is the most powerful weapon in the fight for higher living standards. Faster growth will require policies that encourage macroeconomic stability, shift resources to more efficient sectors,

and integrate with the global economy. However, the benefits of growth for the poor may be eroded if the distribution of income worsens. In this sense, the Royal Government of Cambodia (RGC) has adopted concrete measures that target interventions to improve health and education outcomes. At the top of the list are female education to ensure gender equality, safe water and sanitation, child immunization, as well as social safety nets to protect the most vulnerable. Attention is also needed to the social structures and institutions, which affect development, otherwise called social capital. In the spirit of this motto, the government's pro-poor policy should be geared toward establishing a favorable environment to promote and generate economic growth without environmental degradation and equitable distribution of resources.

On the basis of our broad strategy, we have formulated the following policy response to poverty: *promoting opportunities, creating security, strengthening capabilities and generating empowerment.*

Our approach to promoting opportunities is via strengthening macroeconomic performance, accelerating economic growth, promoting private sector development, developing the physical infrastructure, strengthening the energy sector, ensuring sustainable development of the agricultural sector, improving water resource management, advancing rural development and decentralization, ensuring a sound natural resource management, encouraging income generation activities, embarking on land reform and increasing access to microfinance for the poor. Though well-targeted programs for rural areas could have quick impact on the rural population, poverty reduction strategy should also give due emphasis to the development of the industry and service sectors. Our approach not only calls for the modernization of agriculture but also the development of other sectors which could become powerful locomotives to help pull Cambodia out of the shackles of poverty.

Reducing the vulnerability of the poor by developing resistance to external shocks and increasing the overall sustainability of their livelihoods is a priority as is assisting those poor who want to diversify out of agriculture, and these concerns have not received sufficient attention. The current emphasis is on credit for income generating activities, but there is a need to also address vulnerability to fluctuations in income, as this results in cash flow constraints that may lead to deferment of investment and/or distressed land sales, so as to smooth consumption expenditure. This could be tackled by providing insurance, savings and loans for consumption purposes. Moreover, security can be ensured by expanding safety net programs, promoting environmental protection and clearing landmines.

The government plays a crucial role in the service delivery and the improvement in capabilities. This requires a focus on the quality and availability of services for the poor and the capacity of the government, non-governmental organizations and private sector agencies as the supplier of these services. The government is exploring ways to use the private sector means to improve service delivery. Essentially this focus is on the role of government and issues of effectiveness and efficiency and involves questions about the degree of government decentralization and civil service reform.

Priority actions that need to be taken by the RGC over the short to medium term are:

- (i) establish priority groups of government officials to improve service delivery and increase productivity;
- (ii) expand decentralization and continue deconcentration of the system of administration to increase accessibility of essential services to the people;
- (iii) accelerate the reform of the state by implementing action plans in demobilization, administrative and fiscal reforms with a view to strengthening the rule of law and consolidating the foundation of the market economy;
- (iv) deepening the judicial reform and establishing a national program for judicial reform; and
- (v) implement the measures outlined in the Governance Action Plan (GAP). Good governance is the backbone of the success of the reform programs, the success of the poverty reduction and the success of Cambodia's development.

The ultimate objectives of poverty reduction is to ensure more cohesive, consensus-based development with equity for Cambodia and all Cambodians.

This IPRSP highlighted the government's policy framework, comprehensive strategies and commitment to pull Cambodia and Cambodians out of the shackles of poverty. These strategies will be further elaborated in more details in the Second Five-Year Plan and the full PRSP, for which the Ministry of Planning is responsible. The successful implementation of these strategies will be attributable to many factors, including endogenous and exogenous, as well as subjective, human factors and other objective variables that are beyond the control of human being. For example, Cambodia has experienced the most destructive flood, which will have an impact on the rate of economic growth and the pace of poverty reduction. However, as Prime Minister Samdech HUN SEN has recently reiterated on many occasions in his address to government officials at all levels that this natural disaster will not substantially affect the wide-ranging, ambitious and draconian reform programs that have been implemented by the RGC. The RGC will do its utmost to accelerate these reforms and render them more effective. With strong determination, support and participation of the Cambodian people at all levels and the development partners from all quarters, the RGC will definitely win the war against poverty in Cambodia.

Phnom Penh, 20 October 2000

KEAT CHHON, MP
Sr. Minister
Minister of Economy and Finance

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I. THE NATURE OF POVERTY IN CAMBODIA

Definition of Poverty

1.1. Different indicators are used to measure poverty. The poor can be defined differently and priority is given to different groups of the poor. Poverty is sometimes defined as a lack of income or consumption and lack of opportunities. Broader dimensions include poor education and health outcomes (low capabilities), vulnerability (livelihood insecurity), powerlessness and discrimination against women and ethnic groups. Moreover, people move in and out of poverty, which makes definition of poverty lines and better knowledge about cyclical, seasonal and unexpected shocks important.

1.2. In Cambodia the measurement of poverty is based on a poverty line that takes into account food consumption that provides at least 2,100 calories of energy per person per day and a small allowance for non-food consumption to cover basic items like clothing and shelter.

Demographic Situation in Cambodia¹

1.3 According to the results of the General Population Census, Cambodia's population in March 1998 were 11.43 million people with the annual growth rate of 2.49 percent. Some 84 percent of the population live in rural areas. Female represents 51.8 percent of the population. There are 2.18 million households, of which 0.55 million or 25.7 percent are headed by women. The number of economically active persons is 5.1 million of which 51.6 percent are females. Unemployment rates are higher for females (5.9 percent against 4.7 percent for males). Urban areas recorded unemployment rates that are higher than those for rural areas.

Impact of the Khmer Rouge Regime on the Population

1.4 The sex and age composition of a population is the result of interaction of fertility, mortality and migration in the past. Cambodia has a young population with children (aged 0-14) forming 42.9 percent. The sex and age structure beyond age 25 reflects the high levels of mortality during the Khmer Rouge regime and the internal strife during the 1970s. The effect of high mortality and large scale out migration of adult males from the country during the Khmer Rouge period is revealed by very low sex ratios in the age groups 40-44 onwards.

Geographic Distribution of Poverty

1.5 The identifying geographic distribution of the poor will allow anti-poverty interventions to be targeted in an efficient way. World Food Program (WFP) Cambodia has proposed to conduct a poverty mapping on the basis of the combined "Census Data 1998", the "Socio-Economic Survey of Cambodia 1999" and the "Poverty Profile of Cambodia, 1999". The objective is to have commune level estimates of the percentage of population, which is poor, based on food poverty- and poverty line. Therefore, full PRSP will contain poverty analysis by province to allow better poverty targeting interventions.

A. LACK OF OPPORTUNITIES

1.6 In 1999, only 15 percent of employed Cambodians were in wage employment (i.e. in the formal sector), though the share is as high as 53 percent in Phnom Penh and as low as 11 percent in rural areas. For wage earners, average monthly salary was US\$43. About 46 percent describe themselves as unpaid family workers.² A significant percentage of women, 20.3% in Phnom Penh and 68.2% in rural areas are unpaid family workers while men's indicators are considerably lower

¹ Ministry of Planning (1999). General Population Census of Cambodia 1998: *Final Census Results*.

² Ministry of Planning (2000). Report on the Cambodia Socio-Economic Survey 1999.

(27.3% at the national level, 6.0% in Phnom Penh and 30.2% in rural areas). Open unemployment is however low, since people cannot otherwise survive. The headcount poverty rates indicate that the pattern of poverty across economic activities is roughly the same as found in the 1997 Socio-Economic Survey (SES). By type of employer, poverty is most prevalent among the self-employed accounting for 39 percent of all poverty incidences, and lowest among public sector employees.³ It is however important to emphasize that, over 65 percent of the farming population are women and of these, 80 percent work in the agricultural sector.

Box 1: Poverty Profile for 1999

Cambodia is a very poor country with GDP per capita estimated at only \$268 in 1999 and with other non-income indicators of poverty comparing poorly with those in other countries in the region. The Poverty Profile of Cambodia, based on 1999 data, shows that an estimated 35.9 percent of the population is poor and the poverty rate is higher in rural areas (40 percent), which is four times higher than poverty in Phnom Penh (10 percent). Rural households, especially those for whom agriculture is the primary source of income, account for almost 90 percent of the poor.

The poor are more likely than the better off to live in households that are larger. Poverty incidence increases from 24 percent for a household of 4 people to 45 percent for one with 10. Poorer households also tend to have a larger share of children. Poverty incidence increases from 27 percent for a household with one child to 49 percent for a household with more than 3 children.

Poverty rates rise with age, reaching a maximum for the 36-40 year old group of household heads, and then declining. The relatively lower poverty rate for people living in households whose head is aged 50-60 years and above may reflect the wealth accumulation that this elderly head has achieved or it could be there is a younger generation within the household whose economic success is sufficient to allow them to support their elders within the same household.

One of the legacies of war and armed conflict in Cambodia is the relatively large proportion of the population is living in female-headed households (17 percent). However, there is no difference in poverty rates between male and female-headed households, although women experience poverty more acutely than men because of their multiple burdens of child rearing and care and household work, work to earn income, and also involvement in community activities. Moreover, female-headed households are at a disadvantage over those living in male-headed households in the urban areas. Women's experience of poverty have had consequences such as intergenerational transfer of poverty to children, especially girls, substitution of women's work by young girls in household maintenance, low investment in the education and health of the girl-child, particularly if a trade-off has to be made against the survival needs of the household.

Those who are poor because of the war or landmine-related disability of their household head are among the poorest of the poor in Cambodia. They are a group of the poor deserving of special attention because their standard of living falls so far below the poverty line and their capacity for participating in economic activities is limited by disability.

Source: Ministry of Planning (2000). A Poverty for Cambodia, 1999 (draft).

1.7 Against a background of prolonged conflict and internal displacement the current level of poverty in Cambodia largely results from inadequate opportunities, particularly in agriculture and other rural activities and in the urban informal sector. The poor lack access to education leaving them with few marketable skills and an inability to participate in modern production processes and obtain access to credit. While urban poverty is a problem in Cambodia, the correlation between poverty and remoteness from urban locations is strong. Rural people in Cambodia have

³ Ministry of Planning (2000). *A Poverty Profile of Cambodia, 1999 (draft)*.

less access to social services such as health, education and safe water. In addition, knowledge of their rights as well as protection of their rights and information about how government works is also lacking among the poor in rural areas. Inadequate public services, underdeveloped markets, weak communications and infrastructure, insufficient health and education and insecurity are dominant features of rural life that contribute to poverty. According to a survey by the World Food Program (WFP), widows are four times poorer due to lack of assets, lack of power and lack of knowledge.

1.8 The Poverty Profiles of Cambodia, 1999 have found that the headcount poverty rate was 35.9 percent. Poverty estimates for 1999 are not comparable with 36.1 percent estimated for 1997 as the 1997 Poverty Profile made upward adjustments to impute health and education expenditures and rental values for dwelling (unadjusted poverty estimate for 1997 would reflect a headcount index of 47.8 percent). Poverty incidence in 1993/94 (39.0 percent) is not comparable either as coverage of the 1993/94 survey was significantly constrained due to security reason (35 percent of the population was not covered). Poverty rates are highest in rural sector and lowest in Phnom Penh. About 90.5 percent of the poor live in rural areas. Approximately 2.3 percent live in Phnom Penh and the rest (07.2 percent) live in other urban areas⁴ However, the inequalities among the poor are higher for other urban areas than for the rural sector. Some urban areas outside Phnom Penh have a significant minority of their population with very low living standards. Poverty rate in Phnom Penh is lower than for the other regions.

1.9 A particular characteristic of urban poverty is the presence of about 35,000 squatters families in all seven wards of Phnom Penh. There are approximately 170,000 squatters living legally or illegally in the capital, of which more than 50 percent are children.⁵ Their main occupations are micro venders, laborers, moto-taxi drivers, soldiers and police officers. Their average daily income is about 5,000 to 7,000 CRs per household, which is much higher than the average household income in the rural areas. However, squatters are facing many problems, such as high costs of living, indebtedness, the lack of water, sanitation and drainage etc.

1.10 Among the most vulnerable are street children and families living in Phnom Penh and other urban areas. Current estimates of the number of street children in Phnom Penh range from 10,000 to 20,000,⁶ of whom some 976 are abandoned children.⁷ Two thirds of the abandoned children come from the provinces. The phenomenon of abandoned children has been caused by breaking relationships in the families and poverty. They are increasingly facing with the problem of drugs, HIV/AIDS, prostitution, "Big Brothers", health risks and the feeling of no future and exclusion.

B. VULNERABILITY

1.11 Although Cambodia has emerged from 30 years of warfare and displacement, much of its population remains vulnerable to poverty and food insecurity.⁸ The border areas in particular remain fragile and heavily land-mined as previous rebel strongholds are brought into the mainstream economy. Low purchasing power and remoteness of the majority of its rural population exacerbate food security. As harvests depend on weather conditions, floods and

⁴ A Poverty Profiles of Cambodia, 1999 (draft), page 31.

⁵ Urban Sector Group (USG), 2000.

⁶ Mith Samlanh/ Friends (2000). This data include children who have their own home but have to depend on the streets for survival because their families are very poor.

⁷ Mith Samlanh/ Friends. Survey on Substance Use Among Street Children in Phnom Penh (2000).

⁸ World Food Program, 2000.

droughts can have adverse impacts on food security, the incidence of which is geographic and household specific. Although average rice consumption per person per year is estimated at 151.2 kg, this varies considerably, with the poorest consuming more rice with minimal dietary diversity. FAO/WFP Crop and Food Supply Assessments showed a gradual annual increase in total paddy harvest (wet and dry season) each year since 1994. Yet, 85 percent of rice surplus is produced by only 25 percent of the rice growing communes, representing less than a fifth of the country's population. Even within the five surplus rice growing provinces analysed by a 1998 WFP Crop survey, 17 percent of communes suffered from significant rice deficits (greater than 3 months consumption deficit). Rice prices increase considerably during the pre-harvest season from July to December of each year, and most poor families are in constant debt.

1.12 Analysis by WFP suggests that the major causes of food insecurity and malnutrition among certain population groups within Cambodia include:

- Inter-district and household production/consumption variations, combined with poor marketing infrastructure, access, and lack of purchasing power; substantial unofficial exports of grain to neighboring countries;
- low agricultural productivity caused by poor use of technology and lack of access to quality seeds, fertilizers, irrigation and credit;
- declining access to common property resources (forest and fisheries); and
- lack of dietary diversification and poor access to adequate food.

1.13 Some 47 percent of the population do not have adequate access to health care services, with the nearest public health clinic to villages being on average 3 km away. The cost of medical care represents approximately 30 percent of family expenditure. The cost of health services has been cited as one of the main causes of indebtedness for the poor and vulnerable. Thus, many people may become unable to work because they cannot afford the expenditures related to purchasing treatment for illness. Often the poor are compelled to sell their land and other assets to meet health costs thus losing future income as a result of landlessness.

1.14 After more than three decades of wars, landmines are the main challenge that hamper access by the poor to agricultural lands and create vulnerability for people living in rural areas. It is estimated that about 4-6 million anti-personnel and anti-tank mines and unexploded ordnance were laid in Cambodia. Mine casualties create a distinct vulnerable group in the country, the amputees. CSES 1999 reported that landmine explosions were the cause of disability of 11 percent of the disabled population, which is currently estimated at 169,000 or 1.5 percent of the total population. Landmine therefore is one of the major causes of poverty in Cambodia.

C. *LOW CAPABILITIES*

1.15 National average for key indicators of capability, like education enrollment and mortality rates, are low by regional standards. This is shown in Table 1.1. The Ministry of Women's and Veterans' Affairs (MWVA) Five-Year Plan (2001-2005) advocates for a number of measures to increase the enrollment and retention of girl children in school, such as providing dormitories, scholarship, material assistance, as well as increase the number of female school teachers, to re-examine school textbooks and teacher education curriculum so as to promote gender equality. MWVA also advocates for the improvement in existing literacy programs to include skills training and provision of credit and to incorporate topics such as human rights, women's rights and all forms of violence against women and health concerns like HIV/AIDS.

Table 1.1. Key Human Development Indicators 1998

	Cambodia ^{a/}	Western Pacific Region ^{b/}
Primary enrolment	78	97.8
Secondary enrolment	14	58.3
Adult literacy rates ^{c/}	71	
Infant mortality rates	80 ^{d/}	38
Life expectancy	54	73
Underweight children under five	40	
Access to safe drinking water	29 ^{d/}	

Note: a/ Ministry of Health (1999). Health Situation Analysis 1998 and Future Direction for Health Development 1999-2003. b/ UNDP Human Development Report 1999. c/ MEYS/UNESCO survey reported the adult literacy rate of 37 percent, but the definitions of the two figures are not comparable as the semi-literate category is excluded. d/ Ministry of Planning (1999). General Population Census of Cambodia.

1.16 The poor are more likely to have a head of household who is less educated than the average. Poverty rates are higher for households in which the head of the household has had either no formal education (38 percent) or only some primary schooling (39 percent). These two groups account for 77 percent of the poor. The prevalence of poverty among households in which the head has completed lower secondary schooling and higher secondary education falls to 32 percent and 24 percent, respectively. In households where the head is a university graduate, poverty incidence is only 7 percent.

Access to Public Services

1.17 Poorer households have much less access to basic social services than the better off. Only 4 percent of people in the poorest consumption quintile have access to piped water compared to 17 percent in the richest consumption quintile. In rural areas, the poorest quintile has net primary school enrolment of 50 percent, significantly below the 75 percent of the richest quintile. Less than 5 percent of rural children ages 12 – 14 in the poorest quintile are enrolled in lower secondary schools, but 25 percent in the richest quintile are. About 21 percent of people in the poorest quintile have to travel more than 5 kilometers to reach a health clinic; only 14 percent in the richest quintile have to travel that far. About 6 percent of the poorest two quintiles live more than 5 kilometers from the nearest road; only 1.4 percent in the richest quintile does. While almost 20 percent of the richest rural quintile have access to publicly provided electric lighting less than 1 percent in the poorest quintile receives the same service. In rural areas, the enrollment rate of the male population aged 5-19 is 55.6% while the female population is 45.7%. The percentage of population 5 years and over in the rural area with no grade completed is 28.1% for the male and 41.5% for the female.

1.18 Currently, around 60% of the total 929 health centers are providing minimum package of activities. Out of 67 referral hospitals, including provincial hospitals, 65 are in different stages of development towards fully offering complementary package of activities. Better services are also being provided by national hospitals. Although physical accessibility is increasing, utilization of public health facilities remains low. The number of new visit per inhabitant per year is around 0.3. Hospital bed occupancy rates fall between 45-50%. There are 0.3 physician and medical assistant per 1,000 inhabitants and 0.7 secondary and primary nurses per 1,000 inhabitants. Qualified staff still concentrates in urban area, though in recent years there has been an overall increase in health personnel employed at district level as compared with that at the provincial level. At present about one eighth of the public health facility are officially charging user fees, although many have put in place exemption criteria. Invariably, 50% of the revenues thus

collected cover recurrent costs, 49% are distributed among staff, and 1% is sent to the central government.

1.19 The costs of health and education services are also disproportionately borne by the poor. Households finance 82 percent of all health expenditures, while donors and NGOs contribute 14 percent each and the government 4 percent.⁹ The cost of one child in primary school takes up a quarter of all non-food spending per capita in the poorest quintile, while a child in lower secondary school takes 57 percent of non-food spending. The highest out-of-pocket costs are experienced by poor households, while wealthier households are more likely to benefit from fee exemptions at public facilities. To address this problem the RGC has committed to increasing spending on health and education, improving sector performance and reducing parental contribution to education from the current level of 50 percent to 18 percent during the next five years.

D. SOCIAL EXCLUSION

1.20 Social exclusion can be defined as the barriers preventing the poor from fully participating in the social mainstream of the society, due to such factors as illiteracy, lack of access to decision making, corruption, and also discrimination on the basis of sex and ethnicity.

Box 2: The Most Vulnerable Groups

Cambodia's most disadvantaged groups consist of internally-displaced people and returned refugees, war widows, orphans, street children, squatters, people with disabilities and isolated ethnic minorities. They have poor access to education, training and employment opportunities.

Until recently many people were displaced as a result of armed conflicts. Between 1992 and 1993, in addition to the 370,000 refugees repatriated from the Thai border camps to Cambodia, another 180,000 IDPs were returned to their place of origin.¹⁰ A large proportion were female heads of household with children. Most of them lack appropriate skills and receive hardly any material and moral support.

Over the past three decades Cambodia has been devastated by civil war and the genocidal regime, which resulted in war widows and orphans. More importantly this affects the lives of children who represent nearly half of the population of Cambodia, in the worst cases leading them to be homeless, disabled, petty criminals or drug addicts. Increasingly they are facing the influences of drug abuse.

CSES 1999 estimated the disabled population of Cambodia at 169,000 or 1.5 percent of the total population, of whom 20 percent live in urban sector and 80 percent in rural areas. Forty-four percent of the disabled population are amputees or those who are unable to use one or more limbs. Ill health and disease are the principal cause of disability. Disabilities in one out of five disabled persons were caused by congenital factors. Landmine explosions were the cause of disability of 11 percent of the disabled population. The cause of disability of more than one out of ten was reported as war or armed conflicts.

Isolated ethnic minorities consist of some 30 to 35 ethnic groups living in the hilly and mountainous areas of Cambodia. Their isolation and the harshness of their habitats increase their vulnerability and often cause extreme poverty.

1.21 According to the 1999 Cambodia Socio-Economic Survey (CSES 1999), adult literacy rate was 71.2 percent nationally. The rates for males and females were 82.9 percent and 61.1

⁹ World Bank, 1999, *Cambodia Public Expenditure Review*.

¹⁰ UNICEF (1996).

percent respectively. The literacy rates were 87.29 percent in Phnom Penh, 72.04 percent in other urban areas and 69.18 percent in rural areas. However, the CSES 1999 literacy surveys relied on people's own evaluation of their ability to read and write. A recent Ministry of Education, Youth and Sport (MEYS)/UNESCO survey, which included a reading and writing test, reported that functionally literate people make up only 37 percent of Cambodia's adult population. The survey also showed strong connections between illiteracy and poverty. Farmers, fishers, housewives, laborers and highland minorities are groups with high level of illiteracy. It was concluded that the poor and the illiterate are largely the same people. The MEYS/UNESCO survey also indicated that gender imbalances in the literate population are severe. According to the survey, 47.6 percent of men are literate, while only about 22 percent of women can read and write. In general, people aged 25 to 40 had a higher illiteracy rate than other age groups, thus suggesting that they were deprived of education during the protracted wars.

1.22 The lack of access to decision making has prevented the poor from actively participating in community activities, created the gaps between government policies and the status of its implementation, and resulted in the conflicts between the local authorities and local population. Many existing laws and regulations were adopted without consultations with the local communities. Therefore, the interests of the poor are not always protected. New problems are emerging as Cambodia moves upward on the scale of economic development, such as land disputes.

1.23 Corruption has been identified as Cambodia's leading problem ahead of other major problems that include weak governance, problems with safety and crime, the cost of living, unemployment, the high cost of health care, political instability, the high cost of education, and drug abuse and trafficking.¹¹ Pervasive corruption is associated with other indications of weak governance. As elaborated below, at the CG Meeting in Paris in May 2000, Prime Minister Samdech Hun Sen has committed to fighting corruption, by eradicating its causes rather than plucking only its manifestations.

II. REVIEW OF EXISTING STRATEGIES AND PERFORMANCE

A. OVERALL STRATEGIES

2.1 The existing overall strategies of the RGC have been articulated in the following strategic statements: The National Program to Rehabilitate and Develop Cambodia (NPRD-1994); the Five-Year Socio-Economic Development Plan; the Triangle Strategy; the Royal Government Platform for the Second Term 1998-2003; and the Policy Framework Paper (PFP). These are briefly reviewed below.

The National Program to Rehabilitate and Develop Cambodia²

2.2 The National Program to Rehabilitate and Develop Cambodia (NPRD) sets a cohesive package of objectives of establishing the rule of law, ensuring economic stabilization and implementing structural reforms, strengthening capacity building, fostering rehabilitation and construction of physical infrastructures and facilities, integrating Cambodia's economy into the region and the world, promoting rural development and sound environmental management, and optimizing the use of natural resources.

¹¹ Cambodia: Governance and Corruption Diagnostic: Evidence from Citizen, Enterprise and Public Official Surveys, World Bank, May 2000.

¹² National Program to Rehabilitate and Develop Cambodia, February 1994.

Review of the First Social-Economic Development Plan for 1996-2000¹³

2.3 A number of socio-economic targets are referenced in the First Socio-economic Development Plan 1996-2000 (SEDPI). Given the distribution of the population and of the poor in particular, the SEDPI emphasized rural development and also stressed the need to strike a balance between this goal and that of assisting the urban poor and the development of major urban growth poles. On the assumption that investments in rural locations are more likely to have pro-poor benefits than investments in urban areas, the SEDPI target allocation for public investment expenditures was for 65 per cent to go to projects in rural areas and 35 per cent to urban areas. During the implementation it turned out to be the opposite: 65 percent of investment expenditures went to projects in urban areas, whereas only 35 percent of expenditures went to projects in rural areas. Overall, the targets set for the SEDPI were ambitious. Moreover, public investments were not allocated as planned, leading to a slow decline in poverty and an increase in income inequality.

Table 2.1.: Major Poverty Targets of SEDPI and Performance Record

	1996 ESTIMATES	TARGETS BY 2000	OUTCOME IN 1998
Health			
Maternal mortality	650 + per 100,000 live births	300 per 100,000 live births	473 per 100,000 live birth
Infant mortality	115 per 1,000 live births	80 per 1,000 live births	80 per 1,000 live births
Under-5 mortality	181 per 1,000 live births	120 per 1,000 live births	115 per 1,000 live births
Children's nutrition status	40-50% of under 5' malnourished	25% of under 5' malnourished	40% of under 5' malnourished
Education			
Children will become functionally literate and numerate through completing primary school	13% of primary school and students complete Grade 5 in five years	65% of 12 year olds to complete Grade 6 and become functionally literate and numerate	33% of 12 year olds completed Grade 6
Enrolment of female students in first grade of higher secondary education	19% of students in higher secondary education are female	50% of 16 year old girls to be enrolled in Grade 10	34% of 16 year old girls enrolled in Grade 10
Access to Health Services			
Rural births attended by trained midwife or nurse	More than 90% of rural births at home, most attended by traditional midwives	40% of births in rural areas to be attended by a trained person	33% of births
Access to birth spacing information and services	Services available only in urban areas	80% of couples in the 12 most populous provinces to have birth-spacing information and services	70% of couples
Children vaccinated against Tuberculosis	One year olds vaccinated 78%	Over 80% of one-year olds vaccinated with all antigens	63% of one year olds
Polio	54%		
Measles	53%		
Access to Safe Water			
	26% of rural population and 65% of urban population have access to safe water	65% of rural population and 90% of urban population to have access to safe water	23.7% of rural population 60.3% of urban population
Improved Sanitation			
	74% of urban population have access to improved toilet facilities	100% of urban population and 20% of rural population to have access to improved toilet facilities	49% of urban population 8.6% of rural population

Sources: Ministry of Health Consultative Group Position Paper 1999 and Health Situation Analysis 1999. Ministry of Education, Youth and Sports Progress Review: Education Investment Framework 1995-2000. Population Census of Cambodia 1998

2.4 The SEDPI set a number of targets to be achieved by 2000 and emphasized specific development priorities that in addition to poverty reduction and rural development included

¹³ First Five Year Socio-Economic Development Plan 1996-2000. Royal Government of Cambodia. 1997

public administration reform and demobilization. The principal target set was to attain an average annual rate of real GDP growth of 7.5 percent. Fiscal and monetary priorities were also set out.

2.5 Available data on actual performance against SEDPI social development targets showed mixed results. As shown on Table 2.1, the actual performance in terms of access to safe drinking water, improved sanitation, children's nutritional status and education was disappointing while satisfactory progress was achieved in other health service indicators. However, the information shown on Table 2.1 need to be treated with caution, as some of the 1996 estimates of the social development parameters from which the SEDPI targets were derived appear to be very high. For example, the percentage of rural population with access to safe water was estimated at 26 percent in 1996, but the actual number was less at 23.7 percent at the end of 1998. Similarly, the number of the urban population with access to improved toilet facilities was estimated at 74 percent in 1996, but at the end of 1998 only 49 percent of the urban population had access to improved sanitation. On the other hand, Table 2.1 shows that 1996 estimates of the number of the rural population with access to improved sanitation was 6 percent and if accurate by the end of 1998 the situation improved so that 8.6 percent of the rural population had access to better toilet facilities. Overall social indicators nevertheless appear to be moving in the desired direction with the maternal mortality rate being reduced from 650 per 100,000 live births in 1996 to 473 in 1998 and infant mortality falling in the same period from 115 per 1,000 live births to 80. Under-5 mortality was also reduced from 181 per 1,000 live births in 1996 to 115 in 1998. Similarly education is moving in the desired direction, but at a rate of progress slower than anticipated. The indicators for better health access appear to have made the best progress and this may be due in part to the MOH having more capacity than other ministries enabling MOH to attract more external assistance in support of public health objectives.

2.6 Past efforts to reduce poverty have focused mainly on stand-alone projects neglecting the broader policy and institutional environment of poverty reduction. A key issue is that many if not most of these development projects are financially unsustainable without donor support and until such time as government can mobilize sufficient domestic revenues may not be financially sustainable for decades. The same is true of those programs that provide assistance, largely through NGOs to the disabled and other vulnerable groups of the poor, as publicly assisted safety nets are largely absent in Cambodia with the exception of pensions for civil servants and modest assistance programs for widows and orphans.

The Government's Triangle Strategy

2.7 After the 26 July 1998 elections, a new "Economic Government" led by Prime Minister HUN SEN, was established and was specially devoted to economic development. The Prime Minister's agenda for the next ten years is to prepare Cambodia to fully reclaim its destiny, to be a genuine partner in regional and global affairs and to be well on its way to becoming a truly free nation, free from want and poverty above all. A new strategy, called the Government's "Triangle Strategy", was developed to materialize this long-term vision. It is structured in a strategic triangle consisting of three key areas of government business.

2.8 **The first side of this strategic triangle** is building peace, restoring stability and maintaining security for the nation and people.

2.9 **The second side of the strategic triangle** is Cambodia's integration into the region and normalization of our relationships with the international community. This will allow Cambodia to attract more foreign assistance and Foreign Direct Investment (FDI) to support our ultimate objectives of development. Soon after the formation of the new government, Cambodia

succeeded in regaining its seat at the UN. As a result, Cambodia is now the 10th member of ASEAN and will join the WTO in the near future.

2.10 **The third side of the Government's strategic triangle** is to promote development based on the favorable conditions created by the implementation of the policy directions mentioned earlier. The Royal Government of Cambodia (RGC) is conscious that promoting sustainable growth and poverty reduction is inextricably linked to reforms. Therefore, soon after the formation of the RGC of the second term of office, a truly, nationally owned agenda for reform actions and progress was arrived at and agreed upon after intense discussion and consideration. Important levels of government machinery considered all aspects of it and came up with recommendations for its practical implementation of the agenda with the view to establishing a sound foundation for long-term economic growth and sustainable development. The four key areas of the government reform programs consist of the following: (i) reform of the armed forces, especially military demobilization; (ii) public administration reform, geared toward improving the efficiency of the public services; (iii) judicial reform, aimed at strengthening democracy, enhancing the rule of law and upholding respect for human rights; (iv) economic reform, which has resulted in the maintenance of macroeconomic stability and sustainable economic growth over the long run.

The Royal Government's Political Platform

2.11 The Royal Government's Political Platform for the Second Term 1998-2003, presented by Prime Minister Hun Sen in November 1998 to the National Assembly, spelled out the tenors of domestic, defense, foreign, economic and social policies. The principal guidelines of the social policy is to strengthen the country's capability in terms of human resource development, improving the health status of the population and widening access by the poor and vulnerable groups, in particular handicapped, orphans, widows, women in crisis and homeless people, to economic opportunities.

Box 3: The Priority of Productive Employment Generation

While the emphasis on investing in rural areas cannot in general be faulted it should be kept in mind that urban investment can also be pro-poor if it creates productive employment for surplus rural labor. Growth of labor-intensive manufacturing such as garment production, for example, has a dual impact on poverty. The current competitiveness of Cambodia's textile and apparel exports may provide a solid foundation for increasing real income per capita and hence reducing poverty. In addition, development of labor-intensive manufacturing by drawing labor from rural areas can generate increases in agricultural productivity and incomes thereby reducing poverty at its most potent source.

Employment generation is a priority because about 140,000 jobs have to be created each year to accommodate new labor market entrants, which has to be added to those new job seekers generated by planned demobilization of the armed services and reform of public administration.

Employment is growing much faster than real production in the agricultural sector, as agriculture is absorbing much of the increase in the labor force resulting in the decline in agricultural labor productivity. Farmers are becoming poorer, as the size of farmland per household is decreased making them also more vulnerable to food insecurity. The RGC and donor agencies should see to it that programs for increasing agricultural productivity and hence economic growth are aimed increasing farm outputs and incomes and generate livelihood and employment through farming systems intensification and diversification rather than displace farm labor through mechanization. Such agricultural growth strategy has multiplier effects that promote growth of non-farm employment opportunities through enhancement of demand for non-farm goods and services.

2.12 The objectives of the government's economic policy are to promote sustainable development, maintain macroeconomic stability and foster durable management of natural resources. The economic platform sets the following four main goals: accelerate economic growth to improve the living standards and create employment for the population; maintain price and exchange rate stability, and a single-digit inflation; promote exports to reduce unemployment and trade deficit; and alleviate poverty of the population.

Policy Framework Paper

2.13 The Government's economic reform is geared to ensure macroeconomic stability, strengthen the banking and financial system, undertake fiscal reform measures, establish a sound management of public property and increase public investment in the area of physical and social infrastructure, promote private sector development, and develop human resources. The government's economic objectives are centered on poverty alleviation and sustainable economic growth and are clearly stated in the Policy Framework Paper (PFP) prepared in October 1999. The key elements of the strategy are: strengthening revenue collections and enhancing the transparency of fiscal operations, combined with reforms of the civil service and military; increasing public investment with a view to rehabilitating the country's poor social and physical infrastructure, and shifting spending priorities to health, education, agriculture and rural development; and strengthening legal framework and economic institutions.

B. SECTORAL STRATEGIES¹⁴

Increasing spending and improving performance of priority sectors

2.14 A common theme of government policies is increased public spending on the social sectors, in particular basic education and health services. However, a persistent feature of budgets in recent years has been the weak relationship between budget formulation and budget execution. Additional problems with actual public expenditure outlays include the inadequate level of funding that reaches the local level and the leakage of funds in the public expenditure management system. The ongoing Ministry of Health (MOH) Accelerated District Development (ADD) program is addressing some of these concerns and appears to be achieving positive results. The ADD modalities are being evaluated against the new Priority Action Program (PAP) approach. After emerging from more than three decades of war and internal strife, everything is the priority for Cambodia. The PAP intends to make the trade-offs between competing demands to reduce poverty. The PAP comprises rigorously selected program activities of strategic importance, such as primary school, basic health, rural roads or agricultural extension, which will have serious impacts on poverty nationwide.

2.15 There is a strong need to strengthen the links between poverty reduction strategies, planning and budgetary processes, aid co-ordination and aid management arrangements, so that resources are directed to the priority areas and implementation capacity constraints addressed. However, for increased social sector spending to achieve desired outcomes the maintenance of an appropriate policy and institutional framework that can effectively guide and set the required level and composition of public expenditure is required. Rather than simply build more schools or clinics, for example, the focus should include understanding of why the children of the poor may not be attending school and what policy measures are required to remedy this. Children of the poor, especially girls, do not go to school or drop out very early in school. What is more alarming is that the rate of girls' enrolment and retention in school is getting lower over the years. As illustrated in paragraph 2.39 the decline in government spending on education has led to such

¹⁴ Royal Government of Cambodia (2000). Socio-Economic Development: Requirements and Proposals.

disappointing performance of the sector. The increase in government spending and the reduction of parent's contribution to schools would help the children of the poor, especially girls, not to drop out very early in school. Therefore, the Ministry of Education, Youth and Sports (MEYS) has adopted a pro-poor policy of reducing parental contribution to education spending from the current 50 percent to 18 percent in the next five years. Moreover, with the introduction of the PAP the RGC intends not only to increase spending, but also to check performance against goals. Therefore, improving the efficiency with which spending takes place (reducing leakage, reallocating within the education budget etc) is equally important. Thus, the PAP allows the four priority ministries to implement its medium-term plan of actions in the areas, which will have a strong impact on poverty reduction.

Education

2.16 The education strategy envisages the repositioning of the education system to underpin Cambodia's market economy. Planning and management for improved access and quality of basic education are identified as the prerequisites to human resource development. The RGC's top priority is to increase investment in basic education, which constitutes the necessary foundation for technical and vocational skills training and tertiary education. There were debates within the Ministry of Education, Youth and Sports (MEYS) on the introduction of a cost recovery policy to regularize or formalize the currently widespread unofficial fees and contributions. On the one hand, it was recommended that imposing user fees at the university level is feasible, as there is substantial private willingness to pay for tertiary education. However, there is a need for an exemption system to guarantee poor students access to high education and to increase the number of qualified primary school teachers in poor areas. The MEYS has planned to introduce user fees at the university level from the 2000-2001 academic year. On the other hand, as it was indicated in the MEYS's policy paper, entitled *Equity, Efficiency and Quality of Education Financing: Proposed Policy Agenda for Action*, the formalization of the user fees at the primary/ secondary levels would exclude an increasing number of poor children, and therefore was not adopted.

Health

2.17 Since 1996, the Ministry of Health (MOH) has introduced organizational and financial reforms with the view to strengthening the health system. The health infrastructure was reorganized from an administrative system to a system based upon criteria of population and accessibility of services. This is to improve access by the poor living in rural areas to quality services. The basic unit of health care is the decentralized "Operational District", which provides a comprehensive primary health care (PHC). In each operational district there are one District Health Office (DHO), one Referral Hospital (RH), and 10-15 health centers. This health center provide a Minimum Package of Activities (MPA), such as basic preventive, promotive and curative care including prenatal care, immunization, birth spacing, prevention of micro-nutrient malnutrition, and treatment of acute respiratory infection and diarrhea. The referral hospitals provide complementary package of activities, which include emergency medical and surgical interventions.

2.18 The objectives of this reform strategy are to (i) provide basic health services to all people, especially those who are involved in the community lives; (ii) improve equity and accessibility to basic health services with good quality, efficiency and low costs; (iii) specifically target women, children, elderly and disabled people; (iv) introduce decentralization of financial and administrative functions; (v) encourage competition between the public and private sector services; and (vi) promote awareness of healthy lifestyle.

Agriculture

2.19 The RCG's agricultural development strategy features a two-pronged framework – one that embraces rapid, sustained and equitable agricultural growth as well as empowerment of the poor.¹⁵ The first prong is the growth-mediated approach whose main thrust is to invigorate and modernize the agricultural sector, generate employment, enhance household incomes and improve the access of the less privileged to food. Modernization, in the context of Cambodian agriculture, a small holder and dynamic agriculture (making use of appropriate technological innovations) where farmers have control over their production environment. Among others, the growth-mediated approach calls for the maintenance of a consistent macroeconomic and agricultural policy framework that promotes an environment conducive to increased private sector participation in agricultural development and encourages public and private sector investment in essential infrastructure, provision of public goods and human resource development. Such a strategy seeks to promote rapid and sustainable increase in productivity through the adoption of suitable, productive and cost-effective technologies such as small-scale, farmers-controlled, private irrigation facilities and crop diversification. The second prong is the entitlement-mediated approach which empowers farmers, rural poor and other vulnerable groups to enhance their ability to participate in the growth process. It focuses on improving these groups' access to land, water and other production inputs for sustainable livelihood, food security and overall socio-economic development.

2.20 Given the goals of poverty alleviation, food security, environment-friendly, sustainable growth, global competitiveness and principle of equitable development, the strategic framework for agricultural development would center on the following components: (i) maintenance of an appropriate macroeconomic framework and a favorable policy and institutional environment; (ii) accelerated and sustainable irrigation development including a greater degree of water control (and drainage) by farmers; (iii) development of highly productive and diversified farming systems; (iv) accelerated program for titling and distribution of agricultural lands; (v) development of an export market for rice and other agricultural products along with processing and product quality control facilities; (vi) strengthening essential agricultural support services and functions including extension, research and development, marketing, credit and input distribution; (vii) expansion of livestock production with emphasis on animal health services, nutrition and range management and small-scale poultry and swine production and establishment of feed processing plants; (viii) improved management and introduction of appropriate technologies for rice fish farming and aquaculture; (ix) promotion of community-based forestry, agro-forestry-livestock farming systems and protection and management of critical watersheds and (x) strengthening the capacities at all levels of the Ministry of Agriculture, Forestry and Fisheries, Ministry of Rural Development and Ministry of Water Resources. A favorable policy environment would, among others, preserve and maintain a liberal and market-oriented trade environment, deregulate further the exportation of agricultural products, develop products quality standards by encouraging private investment in appropriate infrastructure and facilities for post-harvest handling, storage and processing and legislate and enforce appropriate commercial laws and institutional arrangements for efficient and cost-effective resolution of conflicts to enhance transparency and accountability and reduce transaction costs.

Water Resource Management

2.21 Inadequate irrigation facilities and the lack of institutional capacity and financial resources for the development, operation and maintenance of irrigation facilities are major

¹⁵ Ministry of Agriculture, Forestry and Fisheries, Royal Government of Cambodia. May 2000. Agricultural Strategies and Policy Framework for Sustainable Food Security and Poverty Alleviation.

constraints to accelerated and sustained agricultural growth. The primary strategies for achieving rapid and sustained agricultural growth in the short and medium terms are (i) jump start the development of cost-effective, short-gestation, appropriate and private irrigation technologies (e.g., shallow tube wells and low-lift pump systems) and (2) improve the performance of existing irrigation facilities through minor repair and proper operation and maintenance of irrigation facilities and enhance institutional capacity for better water management and improved delivery of essential irrigated agriculture support services. Private sector-led, small-scale irrigation facilities would be the engine of growth of agriculture in the long term as the country has about 4.8 million ha of agricultural lands underlain by shallow aquifers. This is prerequisite to crop diversification and intensification as the development of farmers' controlled small scale irrigation facilities give farmers greater degree of control over their production environment and their choice of crops and crop mixes. For equity in access to irrigation facilities and address localized shortfalls in food production, the medium and long term irrigation strategies would include the development of small-scale gravity irrigation systems, improvement and expansion of areas covered by medium and large irrigation systems as institutional capacity for planning, construction and operation of such systems is enhanced and optimization of the benefits from irrigation development.

2.22. To fast track the development of small, private irrigation systems, grants from international donor and credit from the Rural Development Bank and other rural financing institutions should be tapped and channelled to the private sector and individual farmers in target communities.

Rural Development

2.23 Cambodia's rural development programs have focused on the critical elements affecting the rural poor, including rural roads, primary health care, sanitation, rural water supply, education and vocational training for rural people, community development, household farming system, rural credit (seeds, fertilizer, rice banks, micro-enterprises) and improved information at village level. The strategy aims to (i) promote the decentralization of planning, finance and implement rural development projects and programs; (ii) facilitate an integrated rural development approach which is participatory, area-based and multi-sectoral; (iii) provide a forum at each administrative level for dialogue and joint actions both among government departments and between the RGC and the civil society, and the balance between the vertical line ministries and the local authorities; and (iv) define, utilize and mobilize the comparative advantages and appropriate capacities within the government, civil society, the private sector, international and local agencies and rural communities themselves for development purposes. Given the importance of rural infrastructure in poverty alleviation, a broad rural infrastructure strategy will be formulated within the framework of the full PRSP in order to sustain and scale up the current efforts, to assess key infrastructure's institutional, financing and governance issues and to ensure sustainable improvements in transport to rural areas.

Rural Roads

2.24 One of the RGC's poverty reduction priorities is rural infrastructure rehabilitation. After more than three decades of wars, much of the infrastructure (roads, markets, flood control and drainage structures, warehouses and water supply systems) that had previously served the rural population is in a state of dilapidation. Only 1,866 km of laterite road out of the existing 28,000 km of rural roads were rehabilitated and only 926 km of this laterite road is maintained on a regular basis. A well-developed rural road infrastructure will greatly contribute to poverty reduction by reducing vulnerability, opening new economic opportunities, creating new employment, enhancing democratic process, developing skills, and facilitating and improving the delivery of rural services. Addressing the institutional responsibility of road network

rehabilitation is vital in terms of policy formulation, institutional arrangements and priority interventions. The Ministry of Public Works and Transport (MPWT) is responsible for the rehabilitation and maintenance of national and provincial road network. The Ministry of Rural Development (MRD) is responsible for the development of rural roads, given its comparative advantages and knowledge about the rural areas. Within the framework of decentralized rural development the Village/ Commune Development Committees (VDC/CDC), which is responsible for making decision at the local level, has been extensively consulted. Both ministries rely on government budget (Chapter 50.01) and donor's assistance (grant and loans) for road maintenance and rehabilitation. Food-for-work programs have been implemented as a means to rehabilitate rural roads and to meet nutrition needs of the populace. Politicians and political parties have also been active in financing rural road construction.

Land Policy

2.25 The objectives of the RGC's land policy are to promote sustainable economic and social development, reduce poverty and decentralize the administration. Land administration, management and distribution are the priority sectors which require immediate attention of policy makers. The government has identified specific policy areas to be addressed. Technical issues such as land registration, cadastral mapping, GIS/LIS, land valuation, and geodetic network require immediate attention. Legal issues, including regulations to implement the Land Law should be addressed in a matter of urgency. The large number of institutional issues associated with the complexity of the land sector will be given full consideration by the RGC, including training, organization of government and the private sector, cooperation and communication, on-going management and operations.

2.26 The objectives of improving land administration are to provide land tenure security to all eligible landowners and develop an effective, efficient and transparent land registration system. This will have the potential to strengthen public order, and to reduce, eliminate and prevent land disputes. Moreover, enhancing land administration will help develop process to manage state property effectively and transparently.

2.27 A proper land management system should be established in order to reduce poverty and promote sustainable natural resource management. To this end, a priority will be to develop a comprehensive land use planning system, including the preparation of master plans at all levels. New data and the existing information will be integrated into a GIS to complete an inventory of all land. A legal framework for land management will include zoning regulations, urban regulations, a construction code, expropriation law, and regulations for the transfer of public estate to private property.

Governance

2.28 The RGC has identified two categories of governance reform where action is critical over the near- and the medium-term. A detailed governance reform program is outlined in the draft Governance Action Plan (GAP) submitted by the RGC to the recent CG Meeting. The government intends to launch the consultation process on GAP with donors and all the key actors. The first category of actions involves cross-cutting areas where improvements are pre-requisites for a well functioning government for poverty reduction. They are: (1) judicial and legal reform; (2) public finance; (3) administrative reform; and (4) anti-corruption. Key governance improvement issues with the potential for swifter poverty reduction include first strengthening the ability of the RGC to articulate strategy and policy and to implement it effectively. This requires a sustained focus on improving the links between policy making, medium term expenditure planning, aid co-ordination and revenue raising and the allocation of scarce resources. In addition to these cross-cutting areas, the RGC has identified demobilization of the armed forces as a

national priority. The success of demobilization programs will allow the RGC to take the following actions: (i) make savings from reduced defense and security expenditure; (ii) shift budgetary resources from defense and security to social and economic sectors; and (iii) redirect the workforce from the non-productive to the productive sector.

C. POLICY PERFORMANCE AND POVERTY TRENDS

2.29 Three phases characterize economic growth in Cambodia over the nineties:¹⁶

- Growth has been particularly rapid since the beginning of the decade, with a peak at 7.6% in 1995, and an average yearly rate of 6.6% over the first four-year phase;
- The drop was just as steep with growth rate of 3.7% in 1997 and 1.8% in 1998; but it does not seem to have deeply affected the high rate trend, since the average yearly rate for the six years between 1993 and 1998 remained at around 4.7%. It is not unnecessary to recall that this rate did not go beyond 3.4% over the 1988-91 period, although growth in manufacturing have reached 6.3%;

Table 2.2: Key Economic Indicators
(In percent of GDP, unless otherwise indicated)

	1993	1994	1995	1996	1997	1998	1999-	2000
	(act)	(act)	(act)	(act)	(act)	(act)	(act)	(pro)
Real GDP growth	4.1	4.0	7.6	7.0	3.7	1.8	5.0	5.5
Per capita GDP growth					282	249	257	272
GDP (Rls.B. current prices)	5,414	6,131	7,200	8,250	9,100	10,900	11,960	13,035
GDP (\$m. current prices.)	2,192	2,386	2,924	3,123	3,033	2,868	3,147	3,430
Riel/US\$ average official rate	2,470	2,569	2,462	2,641	3,000	3,800	3,800	3,800
CPI (% increase, Q4/Q4)	41.0	17.9	3.5	9.0	9.2	13.3	-0.5	5.0
Budget revenue	5.4	9.6	8.9	9.1	9.6	9.0	11.5	11.7
Budget expenditure	11.2	16.5	16.7	16.1	13.8	14.9	15.9	17.0
Current budget deficit	-1.4	-1.4	-0.6	-1.2	0.6	-0.3	1.8	1.8
Overall budget deficit	-5.8	-6.9	-7.8	-7.0	-4.2	-6.0	-4.4	-5.3
External current account(\$m) 1/	(251.6)	(366.6)	(476)	(512)	(337)	(324)	(351)	(451)
External current account	-9.4	-13.7	-16.1	-15.5	-8.1	-8.2	-11.5	-13.1
Gross Foreign Reserves(US\$ m)	71	100	182	235	262	390	422	494
(in months of retained imports)	2.0	3.1	2.6	2.1	2.4	3.6	3.3	3.5

Notes:

1/ Excludes official transfers.

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

- Then, Cambodia has experienced a clear upturn with economic growth rate bounced back to 5% in 1999; it is expected to reach 5.5% in 2000, and as high as 6.3% in 2002.

2.30 Even if the overall growth record has been good in the 1990s (with the exception of 1997-8 following the Asian financial cataclysm and domestic political problems), sectoral distribution of growth has been quite uneven. More work is needed to understand sources of growth and competitiveness in the Cambodian economy.

2.31 Agriculture keeps accounting for over 40 % of GDP (42.6% over 1993-98) and is especially important for the poor. The 93-96 period was satisfactory, but the intermediate period 97-98 was weak (1.4% in 1997 and -0.8% in 1998). In fact, the poor performance of this sector – along with tourism – is largely accountable for the low level of the overall growth in 97 and 98. Rice production, a determining factor of the growth of the agricultural sector, is often adversely influenced by floods and droughts. Forestry, continuously plagued by much illegal logging, experienced a high growth rate of its value added in 1993-96, 20.8% on average, reaching a peak

¹⁶ Ministry of Economy and Finance (2000). *Macro-Economic Management*.

at 41.7% in 1994. A downturn seems to have begun in 1995 (2.4%) and continued in 97-98. However, the data is probably far from providing an accurate picture of the sector!

2.32 The industrial sector still displays a remarkable dynamism, which illustrates the country's openness. The average growth rate was 8.9% in 1993-96 and continues until 1998 (7.0%), in spite of internal events in Cambodia and the financial crisis in the region. Construction – which accounts for more than third of the industrial sector – is the sub-sector with the highest growth, with an average annual rate of 13.1% in 1993-96.

2.33 Similarly, manufacturing, a fairly dynamic sub-sector even before 1992 - 6.3% average annual growth rate in 1988-91 - confirms its positive trend, with textile and garments reaching an annual growth rate close to 15.0% for the 1993-96 period. Rapid development of the garment industry has a favorable impact on poverty, as it creates employment for female workers coming from the rural areas. The average rate for 94-98 was nothing short of 19.6%. Yet, textile and garments are expected to slow down in 1999-2002 (8.3% average rate), following the introduction of quotas for the American market. These quotas may shrink even further unless a favorable response is given to external demands regarding the social rights of the factory workers.

2.34 Services follow the dynamic experienced by the country since 1992 - equivalent average growth in 1993-96 (7.1%) and 1999-02 (7.6%), against 1.8% in 1988-91. This sector includes tourism-hotels, transportation-communications, real estate and commercial activities.

2.35 In sum, the recovery phase started in 1999 can lead the country towards high, stable growth. Nevertheless, the domestic economy will remain fragile. Much like any other economy, it will remain very sensitive to external shocks. It will remain even more vulnerable to internal factors – in particular, the performance of the agricultural sector and its sub-sector, paddy, as well as, more generally, the government's orientation in terms of economic policy, stabilization efforts, desire for and implementation of reforms.

Table 2.3: Medium-Term Macroeconomic Framework, 1997-2004
(in percent of GDP, unless otherwise indicated)

	1997 (Act.)	1998 (Act.)	1999 (Est.)	2000 (Proj.)	2001 (Proj.)	2002 (Proj.)	2003 (Proj.)	2004 (Proj.)
Real GDP growth	3.7	1.8	5.0	5.5	6.0	6.0	6.0	6.0
Per capita GDP (US dollars)	282	249	257	272	292	313	336	363
GDP deflator (percent change)	6.0	13.1	3.8	3.2	5.0	3.7	3.5	3.5
CPI (e.o.p., % increase)	9.2	13.3	-0.5	5.0	3.7	3.7	3.7	3.7
National saving	11.7	11.6	11.7	11.9	10.1	12.1	11.6	13.9
Of which: Government saving	0.6	-0.3	1.8	1.8	1.4	1.3	1.2	1.1
Domestic investment	13.0	12.9	15.8	17.5	17.5	18.0	18.0	18.5
Budget revenue	9.6	9.0	11.5	11.7	12.1	13.0	13.5	13.5
Budget expenditure	13.8	14.9	15.9	17.0	17.8	18.1	18.2	18.4
Current budget deficit	0.6	-0.3	1.8	1.8	1.4	1.3	1.2	1.1
Overall budget deficit	-4.2	-6.0	-4.4	-5.3	-5.6	-5.0	-4.7	-4.9
Current account (excl. transfers)	-8.1	-8.2	-11.5	-13.1	-12.8	-11.9	-11.1	-10.0
Current account (incl. transfers)	-1.4	-1.3	-4.2	-5.6	-7.4	-5.4	-6.4	-4.6
Gross Foreign Reserves (US\$ m)	262	390	422	494	564	634	705	787
(in months of retained imports)	2.4	3.6	3.3	3.5	3.6	3.8	3.9	4.1

Source: Royal Government of Cambodia and IMF estimates.

2.36 The RGC's medium-term strategy is to raise economic growth and per capita income, and to reduce poverty. The medium-term macroeconomic framework for 2000-2004 is aimed at raising economic growth to 6 percent, lowering inflation to 3.7 percent, containing the external current account deficit (excluding transfer) to 10 percent of GDP, and increasing gross official reserves to four months of import coverage. The projected increases in output growth are premised on rising levels of investment (both public

and private) and savings. The later will require fiscal consolidation that increases revenue to 13.5 percent of GDP.

Changes in Income Poverty

2.37 As suggested in paragraph 1.8 poverty estimates for 1993/94, 1997 and 1999 are not comparable. The 1997 Poverty Profile made upward adjustments to impute health and education expenditures and rental values for dwelling. Poverty estimates for 1993/94 are not comparable either as coverage of the 1993/94 survey was significantly constrained due to security reason (35 percent of the population was not covered). The 1997 Poverty Assessment however suggested that poverty declined slightly in parallel with the strong growth performance of the Cambodian economy between 1992 and 1996.¹⁷ The evidence suggests that the percentage of Cambodians living in poverty fell slightly from 39 percent to 36 percent based on the headcount index (i.e. the proportion of the population living below the poverty line) between the surveys of 1993-94 and

Box 4: Knowledge and Statistical Gaps

Cambodia is unusually rich in terms of availability of household survey data of various kinds, which have been carried out with the support of various donors, albeit there are problems with comparability, and improvement in data quality is desirable. The major surveys in recent years are the Socio-Economic Survey 1997 and the Health Survey. Overall the quality is reliable. Dissemination activities are good. Data is publicly available, including on CD roms. A lot of sectoral information is also available on-line, at the websites of the line ministries.

The General Population Census was conducted in March 1998 for the first time for more than three decades. The census report contains the final population totals and important indicators on social and economic situation in Cambodia. A report on the 1999 Socio-Economic Survey (1999 SES) was released recently by the MOP and the Poverty Profile 1999 is forthcoming. Other sources of statistical data are Demographic and Health Survey 2000 (DHS) and Child Labor Survey 2000. The National Institute of Statistics (NIS) is presently preparing (for the first time since 1995) an annual statistical yearbook, which includes key poverty indicators. The Ministries of Education and Health also provide a range of poverty-relevant indicators on a regular basis. However, for some figures official estimates are not consistent with the household surveys. This may raise some problems when a baseline needs to be chosen for the purposes of monitoring progress during the period of the PRSP.

The monitoring and analysis of poverty needs to be expanded to improve understanding of the effects of government interventions and reforms on various income groups and on respective gender. This should also apply to vulnerable groups such as: forest dependents, women experiencing domestic violence, abandoned or parentless children, rural poor families, urban squatter families, street children and returnees. This could include better understanding of the constraints and incentives faced by the poor and the ways in which various income groups respond to government policies and programs as well as the distribution effects of tax reforms, public expenditures and specific poverty alleviation programs.

1997. Poverty incidence fell from 37 percent to just under 30 percent in urban areas, excluding Phnom Penh where it remained at 11 percent, and fell slightly in rural areas from 43 to 40 percent. Growth was also associated with a significant increase in consumption inequality that suggests a lessening of the poverty reduction impact of an expanding economy. While the poorest 20 percent of the population increased their consumption expenditure per capita by 1.7

¹⁷ Because the 1993-94 Socio-economic Survey and 1997 Socio-economic Survey are not directly comparable because of differences in coverage, the Cambodia Poverty Assessment uses national accounts estimates of private consumption, consumption estimates of the two surveys and direct measures of welfare to suggest that welfare levels improved during the period.

percent between 1993-94 and 1997 the corresponding increase for the richest 20 percent of the Cambodian population was 17.9 percent.¹⁸

2.38 Final results for the 1999 SES are not yet available, and there may be comparability problems with the earlier years. But based on what is known about trends in per capita growth, and in agricultural production in particular, it would be not surprising if income poverty did not improve between 1997 and 1999. Per capita income dropped from US\$276 in 1997 to US\$268 in 1999. This is only an average. The performance of agricultural incomes was generally worse.

2.39 As suggested in Table 2.4, the education performance from 1996-1999 has been disappointing. The sector experienced a decline in important indicators, such as net enrolment in primary schools, survival rate to Grade 6 and net enrolment in Lower Secondary. The gender index saw a slight improvement over the period for lower primary, but deterioration for the lower secondary. This in part was attributable to the regional financial crisis and the domestic political turmoil. Facing acute budget constraints in 1997 and 1998, the RGC had to cut spending on O&M for this sector in order to increase military-security spending, aimed at bringing the political-military apparatus of the Khmer Rouge to a total collapse. Moreover, in 1998 the government's spending priorities shifted to organizing the elections. Therefore, increasing spending for education is the top priority for the RGC in the current reform process.

Table 2.4: Trends in the Education Sector

Indicators	1996/97	1997/98	1998/99	1999/2000
Net enrolment in primary	85	78.8	78.3	
Survival rate to Grade 6	53.7	45.2	NA	
Net enrolment in Lower Secondary (G.6-9)	23	16.0	14.0	
Gender Parity Index				
Primary (net enrolment)	44.8	45.0	45.6	
Lower Secondary	37.0	34.8	34.3	
Public education expenditure (%)				
National budget	11.8	8.1	8.3	
National income	1.0 ^a	0.89	0.94	

Source: Ministry of Education, Youth and Sports. Notes: a/ World Bank, PER 1997;

2.40 A recent review conducted by the MEYS indicated that equitable access to education is a serious problem. At all levels students from the poorest families remain under-represented and under-served. At primary level, the poorest children and girls are more likely to enroll later and drop out earlier for social and financial reasons. Girl enrolment at all levels accounted for only 44.3 percent of total enrolment.¹⁹ This indicator fell more acutely in remote provinces, such as Rattanakiri (34.4 percent) and Mondulakiri (41.8 percent). At lower and upper secondary levels children from the poorest quintile represent only 5 percent and 2 percent of enrolment respectively. At post-secondary level, the richest quintile constitutes almost 60 percent of enrolment. Access constraints include a combination of inequitable distribution of facilities, distance and transportation barriers and social factors linked to the costs of schooling.

2.41 The health sector has received adequate attention from the RGC and donors alike, thus achieving remarkable progress in recent years. The health indicators in Table 2.5 have shown steady improvement over the 1990s. The infant mortality rate declined by 16 percent between 1990 and 1998. Immunization coverage has expanded significantly over this period. Nevertheless, Cambodia is still ranked the lowest in the Western Pacific Region. The leading

¹⁸ Ministry of Planning, 1998, *An Updated Poverty Profile for Cambodia-1997*

¹⁹ Education Statistics and Indicators, 1998/99, Ministry of Education, Youth and Sport.

causes of infant and child mortality and morbidity are HIV/AIDS, diarrhoeal diseases, acute respiratory infection, vaccine preventable diseases, dengue hemorrhagic fever and malaria. Protein-energy malnutrition and micro-nutrient deficiencies - notably iron, iodine and Vitamine A deficiency - are also prevalent. Chronic malnutrition affected 56 percent of under-five year old children. Therefore, improving food security, in conjunction with well-developed preventive programs, could have a strong impact on the health status of the rural population.

Table 2.5: Trends in Health Indicators

Indicators	1987	1990	1992	1997	1998	1999
Births attended by health staff (% of total)	--	47.0	21 ^{a/}	--	31.0	--
Female life expectancy (years)	50.0	51.8	53.0	55.4	55.3	--
Male life expectancy (years)	47.1	48.9	50.1	52.6	52.5	--
Average life expectancy at birth (years)	48.5	50.3	51.5	54.0	53.8	--
Infant mortality rate ^{b/}	130.0	121.6	115.0	103.0	80.0	--
Under-5 mortality rate ^{b/}	--	--	--	--	133.0	--
DPT Immunization ^{c/}	55.0	38.0	32.0	70.0	64.0	64
Measles Immunization ^{c/}	53.0	34.0	33.0	68.0	63.0	63

Source: a/ Estimate for 1993. Estimate for 1994 was 29.0. b/ Per 1,000 live births. c/ Percent of children aged 12-23 months immunized before their first birthday against DPT/Measles. 1999 World Development Indicators.

2.42 One of the challenges of the RGC is to bring the spread of communicable diseases under control. Malaria and tuberculosis are the major causes of morbidity and mortality for adult population. HIV/AIDS has become a priority health problem and will become a constraint for economic development of the country. HIV prevalence among blood donors had increased from 0.1 percent in 1991 to 4 percent in 1998. This trend indicates an epidemic increase of AIDS among the high-risk population groups.

III. STATEMENT OF POVERTY REDUCTION OBJECTIVES AND STRATEGIES

3.1 Reducing poverty in Cambodia is the primary development objective of the Government, as poverty is economically wasteful, morally unacceptable and socially divisive. The RGC has declared its commitment to making a concerted and sustained national effort to rid the scourge of poverty from Cambodia, so that all Cambodians can reap the benefits of economic growth and participate in the development process. Rapid poverty reduction is seen as an integral part of the process of national reconciliation and cultural renewal and key to the maintenance of political and social stability.

A. COMPONENTS OF THE PROPOSED POVERTY REDUCTION STRATEGY

3.2 At the National Workshop, held in May 2000, to launch the preparation of the Second Socio-Economic Development Plan 2001-2005, Prime Minister Samdech Hun Sen stated that the Royal Government's main poverty reduction strategy is geared to achieving (i) Long-term, sustainable economic growth at an annual rate of 6 to 7 percent; (ii) Equitable distribution of the fruits of economic growth between the have and the have-not, between urban and rural areas and between the two opposite sexes; and (iii) Ensuring sustainable management and utilization of the environment and natural resources. The Government's strategic motto is "Poverty reduction through high economic growth over the long term by ensuring environmental sustainability and social equity." Therefore, the government's pro-poor policy should be geared toward establishing a favorable environment to promote and generate economic growth without environmental degradation and with equitable distribution of income. The main elements of the Royal Government's Platform for its Second Term, 1998-2003, aim to reduce poverty by:

Consolidation of peace, stability and social order
Investment promotion
Domestic resource mobilization
Allocating investment to priority sectors and improving agriculture
Building institutional capacity and strengthening good governance
Integration of the Cambodian economy into the region and the world
Human resource development
Consolidation of the partnership with the donor community and civil society.

3.3 **First**, the consolidation of peace, stability and social order by taking concrete steps to strengthen the rule of law, uphold human rights, promote democracy with the view to establishing favorable political and security environment for sustainable development over the long term.

3.4 **Second**, reform of fiscal policy through actions taken to increase domestic resource mobilization and implement budget reforms aimed at enhancing and rationalizing public expenditure. The thrust of this policy is to gradually cut defense and security expenditures and earmark the savings for public investment in physical infrastructure and social sectors. Our objectives are to avoid domestic financing of the budget, and increase gradually the current budget surplus with a view to creating and enhancing savings to finance public investment. Moreover, in terms of long-term strategy Cambodia cannot forever rely on foreign capital. Therefore, endeavors should be geared toward increasing domestic savings, including both public and private. Hence, apart from efforts deployed to improve the public expenditure management and enhance revenue collection, the RGC is determined to strengthen and develop the financial industry and the banking system in order to encourage private savings to the level that is responsive to the increasing needs of economic development.

3.5 **Third**, investment promotion and facilitation through and mobilization of foreign aid and attraction of foreign direct investment (FDI). Cambodia needs massive influx of investment during the next few years to generate economic energy and accelerate the speed for its take-off. Therefore, the RGC has sought the understanding of Cambodia's development partners and donors on this important point and is looking for an increase in aid in the next few years, so that Cambodia is well prepared for the economic take-off. The RGC has made tremendous efforts to attract foreign direct investment and is working on how to improve the investment climate. Attention is accorded to ensuring a social environment conducive to stability, security, transparency, accountability and predictability, which will favor and promote investment in Cambodia.

3.6 **Fourth**, shifting investment outlays to priority sectors and improving the productivity of agriculture in order to build a solid foundation for economic growth. Given that 90 percent of the poor live in rural areas, the strategy for poverty alleviation should be focused on the improvement of agriculture productivity. This will be done by strengthening and developing effective agricultural support services including agricultural research, extension, on-farm water management, quality inputs supply and distribution (such as those now being implemented under the FAO-assisted Special Programme for Food Security in Cambodia), developing suitable infrastructure such as small-scale, farmers' controlled irrigation facilities and farm-to-market roads, formulating and implementing a comprehensive water resources policy framework and plan of action, combating land grabbing and landlessness, developing and implementing sound land tenure and land use policies and protecting the environment. At the same time, attention is being given by the RGC to the strengthening and expansion of the micro-finance institutions in order to expand economic opportunities and create employment in the rural areas. Infrastructure and essential supporting facilities, such as road, irrigation, water supply, electrical power and

telecommunications will play a crucial role and constitute sine qua non conditions in these endeavors. Given the current pace of investment, we can hope that in the next five years we will be able to build up the earlier mentioned infrastructure network to the extent that will meet the fundamental needs of the economy. It is indispensable to make investment in intellectual capital - ideas, wisdom, morality, knowledge and know-how -, which by no means is as important as investment in infrastructure. More investment in these sectors is required for economic take-off.

3.7 **Fifth**, building institutional capacity and strengthening good governance is key to the concept of sustainable development with equity. This is also linked to the establishment of the rule of law, administrative reforms, the promotion of transparency and accountability and the combat against corruption, which will have direct impact on poverty alleviation and trickle down economic growth to all strata of the society.

3.8 **Sixth**, integration of the Cambodian economy into the region and the world with the aim to increase the economies of scale by expanding the markets, improve factor mobility and reduce the prices of imported and exported products. In this sense, Cambodia's participation in the regional economic integration into the region and the globalized economy will increase the attractiveness of Cambodia to investors, promote higher factor productivity, and create and develop comparative advantages of the nation through the participation in international competition and specialization. Compared to neighboring southeast Asian countries, Cambodia can develop competitive edge in the production of agricultural products (e.g., rice, corn and vegetables) and processed meat products. If economic integration can be properly implemented and handled, it will play a crucial role and have positive, direct or indirect impact on economic development, food security and poverty alleviation.

3.9 **Seventh**, the experience of a number of developing countries show that investment in human capital, especially investment in education, agricultural research, vocational training, job creation and health, is key to ensuring economic take-off and reducing poverty. As stated earlier, massive investment, in conjunction with physical, intellectual and mental energy of highly qualified human resources is required for economic take-off. Social and human resource development, therefore, is even more important and is very urgent within the context of the integration of Cambodia's economy into the region and the world. The RGC has deployed considerable efforts in increasing investment in these areas, through both the budget and foreign aid mobilization.

3.10 **Eighth**, maintaining and strengthening partnership with the donor community, NGOs and the civil society. Attention is accorded by the Royal Government to maintenance and the strengthening of partnership with the donor community and NGOs, which have provided invaluable technical and financial assistance to Cambodia over the last few years. Without such assistance Cambodia could not have achieved such remarkable progress and prosperity and will not be able to overcome the difficulties facing the country in the future.

3.11 There are, however, no quick fixes to poverty reduction. The policies needed to swiftly reduce poverty are generally well known within and beyond the Government. The key missing element is effective implementation of poverty reduction policies and the monitoring and evaluation of their achievement/underachievement. The emphasis of the PRSP must be on action and the setting and monitoring of poverty reduction targets that are relevant, simple and easily updated as and when required.

3.12 The government recognizes that faster economic growth alone may not be enough to significantly reduce poverty in Cambodia because of the large and growing inequalities associated with observed growth

patterns that reduce the possibility that growth alone can solve poverty. Economic growth is essential for reduction of poverty, but the speed and extent to which it can reduce poverty depends on its composition. The poor of Cambodia include many people who are at risk of being left behind as the economy grows. This includes the disabled, aged, the landless and the unemployed, subsistence farmers and particular groups of the urban poor. Gender biases and illiteracy increase the likelihood that many of the poor will be unable to participate in economic growth. As poverty reduction in Cambodia depends on the nature of the growth path and what types of incomes are raised, the ability of economic growth to create jobs particularly for the disadvantaged is of critical importance. It is equally important to continue with the programs aimed at providing direct support and protection for the poor such as the WFP's Food for Work projects and the government's emergency food targeting schemes.

Table 3.1: Linking Poverty Diagnostics to Government Policies

Dimensions of Poverty	Government Policies
<p><i>LACK OF OPPORTUNITIES</i></p> <ul style="list-style-type: none"> -Low average income -Low level or inadequate farming technology -Extensive poverty, especially in rural areas -Landlessness and lack of access to land -Low education for girl -Poor access to assets and skill training -Lack of infrastructure -Problem of landlessness 	<p><i>PROMOTING OPPORTUNITIES</i></p> <ul style="list-style-type: none"> -Macroeconomic stability -Economic growth -Promoting private sector development -Improving physical infrastructure including irrigation and rural roads -Measures to promote agriculture. -Land reform
<p><i>VULNERABILITY</i></p> <ul style="list-style-type: none"> -Poor access to credit and capital -Crop failure -Weather conditions -Environmental degradation -Increased violence against women - rape, domestic violence, trafficking of women and children -Health problems and vulnerability of women to HIV/AIDS infection -Land mines 	<p><i>CREATING SECURITY</i></p> <ul style="list-style-type: none"> -Micro-finance schemes -Safety net programs -Environmental protection -Access to health services -Mine clearance -Improve irrigation and drainage facilities -Crop mixes manipulation for increased biological stability and economic viability
<p><i>LOW CAPABILITIES</i></p> <ul style="list-style-type: none"> -Low outcomes, especially education -Bad water and sanitation -High costs of healthcare 	<p><i>STRENGTHENING CAPABILITIES</i></p> <ul style="list-style-type: none"> -Service delivery -Increase public spending on health, education, agriculture and rural development
<p><i>SOCIAL EXCLUSION</i></p> <ul style="list-style-type: none"> -Illiteracy -Lack of access to decision making -Corruption -Discrimination on the basis of sex and ethnicity -Low representation of women in key decision-making positions -Heavy burden placed on women for household work, child rearing and child care as well as care of the sick and the elderly 	<p><i>GENERATING EMPOWERMENT</i></p> <ul style="list-style-type: none"> -Judicial reform -Education policy -Fostering enabling environment for NGOs -Governance and anti-corruption -Decentralisation

3.13 Most government policies will affect the poor in Cambodia either directly or indirectly. This section highlights the most important areas for action, as summarized in Table 3.1. In

addition, there are some key cross-cutting issues, like revenue mobilization and relations with donors that are dealt with at the end of this section. The priority policies will be reviewed in developing the full PRSP/SEDP II. Poverty reduction measures will be undertaken within the context of the medium term fiscal program, which begin with the formulation of the 2001 budget.

3.14 The main exogenous risks are macroeconomic shocks and natural disasters. The 2000 flood may have an impact on the rate of economic growth and the government's efforts at poverty reduction. Therefore, our immediate priority is to shift resources to the rehabilitation of the infrastructure damaged by the flood. Nevertheless, the flood will not substantially affect the wide-ranging, ambitious and draconian reform programs that have been implemented by the RGC. The RGC will do its utmost to accelerate these reforms and render them more effective. At the same time, the main endogenous risks are institutional constraints, limited administration capacity, fragile political stability and weak budgetary and financial systems. The challenges of coordinating the process of poverty reduction strategy implementation amid limited administrative capacity would be a risk. Moreover, improving the efficiency of budget execution and spending for priority sectors will be critical to the success of the poverty reduction strategy.

B. PROMOTING OPPORTUNITIES

3.15 The current approach to promoting opportunities is via strengthening macroeconomic performance, accelerating economic growth, promoting private sector development, developing the physical infrastructure, strengthening the energy sector, ensuring sustainable development of the agricultural sector, improving water resource management, advancing rural development and decentralization, ensuring a sound natural resource management, encouraging income generation activities, embarking on land reform and increasing access to microfinance for the poor. Though well-targeted programs for rural areas could have quick impact on the rural population, poverty reduction strategy should also give due emphasis to the development of the industry and service sectors. Our approach not only calls for the modernization of agriculture but also the development of other sectors which could become powerful locomotives to help pull Cambodia out of the shackles of poverty.

3.16 The share of the industrial sector to the GDP is expected to increase from 20 percent in 1999 to about 22.6 percent in 2003, whereas those of agriculture will drop from 36.9 percent to 32.2 percent. Services will record a steady growth from 43.1 percent to 45.2 percent. The RGC has adopted the following industrial development policies: Export-oriented, natural-resource-based, labor-intensive and tourism-related industries. Starting out with labor-intensive manufacturing for export, such as garment and textiles, Cambodia's industry can progressively move towards more technologically-sophisticated and capital-using activities. It is also crucial to build on the country's comparative advantages by developing natural resource-based industries of different kinds, including agro-business, wood-based, and fisheries-based industries. Small and medium enterprises (SMEs), such as rice milling and post-harvest handling, food processing, animal feed production, furniture-making, brick and tile manufacture, are important sources of revenue generation for the poor. Moreover, the development of micro-enterprises and small-scaled informal sector has the potential to absorb an increasing number of the poor.

3.17 Since mid-1990s garment industry recorded a dramatic growth rate, creating employment for tens of thousands of workers, many of who come from the rural areas. In this regard, the RGC has made considerable progress in the enforcement of labor rights, which have a strong potential for poverty reduction and empowerment. These include the passage of the 1997 Labor Law which is consistent with international standards, the government's decision to agree to labor rights provisions in the bilateral textile agreement with the United States, and other regulatory

improvements underway. However, the industrial and manufacturing sector, especially garments, are recently growing at a slower pace compared to the previous years. Therefore, the RGC has explored the experiences of neighboring countries in consolidating the foundation for industrial growth by focusing on the development of electronics and the toy industry, a labor-intensive sector, in which Cambodia has enjoyed a comparative advantage. The government's economic strategy is to focus on the heavy investment in the development of infrastructure, while striving to ensure proper environment for domestic and foreign direct investment. The RGC's strategy is to develop a growth corridor linking Phnom Penh (financial and industrial center) to Siem Reap (tourism industry), Sihanoukville (export processing zones) and Kompong Cham (agro-business) and to promote special development zones in the border areas. Moreover, attention is given by the RGC to reap the benefits from various ASEAN economic initiatives, including the ASEAN Industrial Cooperation Scheme (AICO), the ASEAN Free Trade Area (AFTA) and the ASEAN Investment Area (AIA) and to take advantage of the loss by some more developed regional countries of their Most Favored Nation (MFN) and General System of Preferences (GSP) status.

Fostering Macroeconomic Stability

3.18 The first element of the strategy is continuation and strengthening of prudent macroeconomic management combined with economic openness and market orientation. Cambodia needs to continue to deepen its integration with the region and global economy and maintain an outward looking and market based economic, financial and trade policies. In this regard, the government will maintain its market-based exchange rate policy and liberal exchange system. Trade reform will also continue in the context of AFTA and WTO. A key focus is the institutional strengthening needed to ensure a stable macroeconomic environment conducive to economic growth.

3.19 The government's economic framework focuses on increasing economic growth to 6-7 percent over the medium term, keeping inflation below 4 percent, containing the external current account deficit to sustainable levels, and prudent management of external debt. To reach these objectives, the government will pursue fundamental fiscal reform aimed at increasing revenue and improving the pattern and efficiency of spending. The main thrust of the structural reform programs is to strengthen forestry and public resource management, improve tax administration, implement civil service and military reform, promote financial sector development and private sector development and embark on trade reform. The RGC is committed to reviewing the tax policy framework with the objectives of raising revenues, enhancing tax buoyancy and equity, and removing distortions that discourage private investment. This is designed to develop a modern tax framework and transparent procedures for managing natural resource concessions, including mining, petroleum and forestry with the objectives of improving their sustainable, efficient utilization and enhancing revenues to the government.

3.20 Privatization and improved performance of state owned utilities is a priority with additional reforms needed in the public enterprise sector to improve performance and facilitate access to local and foreign capital. The commercialization of the remaining state owned utilities will attract investment, and promote the effective functioning of markets. Improving the performance of the commercial banking system is essential to creating an enabling environment for private sector led growth spearheaded by foreign direct investment and bank restructuring within the context of the new law on banking and financial institutions is an integral part of that effort.

Accelerating Economic Growth

3.21 Economic growth is central to poverty reduction because it provides income generating opportunities and the resources to fund swifter poverty reduction mechanisms. The continuation of the ongoing reform program is crucial to create the conditions for increased domestic saving and stimulate private sector investment domestically and from overseas in order to obtain the target growth rates of 7 percent over the next decade. This will require maintenance of macroeconomic stability and continuation of market based reforms and outward orientation of economic policies. It will also require development of stronger, economic, social and political institutions to obtain better governance of Cambodia. According to the Poverty Profile of Cambodia for 1999, at a growth rate of 6-7 percent per year it would take less than 5 years for the average poor person to exit poverty, assuming that this growth rate is distributionally neutral amongst the poor. However, it will take more than just growth to rapidly improve the lives of the very poor. The expected time to exit poverty for those people who are so poor that they cannot even afford the food poverty line is more than 15 years, at a 3 percent continuous rate. Thus, targeted programs are needed to deliver benefits to the poor, in the form of improvements in their human and physical assets and through interventions (e.g. infrastructure, markets) that improve the returns they get from those assets.

3.22 *Broad-based growth will also need to be accompanied by an emphasis on improving the access of the poor to credit, education, health and infrastructure as well as drinking water and sanitation. Efforts have been deployed by the RGC to increase access of the poor to markets by building rural roads providing information and developing rural markets. Moreover, attention should also be given to assisting producers to duly benefit from their efforts. Most donors also stress better governance to improve the responsiveness of the state to the needs of the poor as well as the decentralization of power and resources from central government to provincial and local institutions in order to facilitate the participation of the poor in decision-making.²⁰ The scheduled Commune-Sangkat Council elections to be held in the near future and the proposed establishment of the Councils should assist in developing local institutions and promoting grassroots democracy with the potential for contributing to faster poverty reduction.*

Facilitating Private Sector Development

3.23 The RGC is committed to developing and strengthening the legal and regulatory framework and institutional capacity conducive to private investment and business activities in Cambodia. The RGC considers the private sector as an engine of economic growth and employment generation. A robustly growing private sector can complement public investment in the social sectors, absorb the redundant public sector workforce and provide the resources needed to absorb the rising employment demands. However, private sector development has been constrained by the lack of secure legal and regulatory institutions and the limited financing sources. Efforts to improve business climate and create a level playing field for the private sector include harmonizing laws and regulations, adopting a comprehensive commercial code, strengthening the rule of law and good governance, maintaining Cambodia's competitiveness vis-à-vis the region and improving the quality of the judicial system. The main components of new commercial legislation have been submitted to the Council of Ministers.

3.24 The RGC recognizes that improving the business climate and establish an enabling environment for private sector development is a key prerequisite for fostering growth-reducing poverty and achieving sustainable economic development. A government-private sector forum is held once every six months to identify the constraints facing the private sector and to take action to remove the impediments to private investment. During the last meeting of this forum held in

²⁰ Representative of this donor consensus are the Asian Development Bank Cambodia Country Operational Strategy 2000 and the World Bank Cambodia Country Assistance Strategy 2000.

July 2000, the Prime Minister decided to establish a joint working group to help improve the business climate in Cambodia. The constraints to private sector development in Cambodia include inadequate infrastructure, security problems for investors in remote areas, weaknesses in the legal system, the costs of and access to finance, inadequate market information on consumer trends and shortages of skilled labor and the lack of skilled managers²¹. The lack of and/or poor quality of roads restricting access to markets and raw materials, the quality of the ports, reliable electricity and water supply in the provinces were perceived as constraints by entrepreneurs consulted. Personal security problem in rural areas also prevents both local and foreign businesses to diversify their investments away from Phnom Penh. Small and medium enterprises (SMEs) identify the dearth of regulation on land tenure as an important handicap to small business development.

Developing Physical Infrastructure

3.25 Provision of economic infrastructure is another policy that can reduce the barriers to the economic participation of the poor. Not only does infrastructure affect the pattern of growth, but lack of it also worsens poverty as it prevents access to health and education and increases women workload. Moreover, development of infrastructure is crucial in the context of continuing trade liberalization in order to provide the poor with easier access to markets for example through feeder roads. Infrastructure improvement together with more access of the poor to credit, education and health would ensure that the positive impacts of open markets are not put at risk because of the lack of poor people to participate in the development process. Key physical infrastructure priorities include the creation of an efficient power sector, rural electrification, the repair and maintenance of the national road system, improved water supply and sanitation, better telecommunications, establishment of provincial/municipal master plans, topographical, administrative and sectoral maps and rural housing development. Agricultural infrastructure such as rural roads, irrigation and drainage facilities and markets are also crucial to poverty alleviation. Capacity building for the improved delivery of essential agricultural support services and functions including agricultural research, policy planning monitoring and evaluation, provision of agricultural inputs and the transfer of technology and knowledge to farmers must go hand-in-hand with the development of infrastructure.

Strengthening the Energy Sector

3.26 According to the 1999 CSES, about 17 percent of all households have access to electricity. In rural areas only 2 percent of the households have access to public electricity, while another 5.4 percent uses privately generated electricity. The quality of education and healthcare in rural areas is constrained by the lack of access to electricity, which tends to perpetuate poverty in the rural areas. Thus, rural electrification would not only improve the social services targeting the poor over the medium to long term, but also would boost labor productivity in agriculture. However, the challenge to the development of a robust power sector in Cambodia is the high costs of electricity generation. Development of hydro-electric stations, though it is detrimental to the environment, will help address this constraint. Donors, however, tend to give priority to other sectors, which have quick impacts on people's life. By December 2000, the National Assembly will adopt the Electricity Act, which will provide a regulatory framework for the energy sector.

Promoting Sustainable Development of Agriculture

²¹ Annex E. Private Sector Assessment: Broad Overview. *Cambodia: Country Assessment Strategy. Building Foundations for Sustainable Development and Poverty Reduction. World Bank. 2000*

3.27 As 85 percent of the population live in rural communities and 75 percent of the poor are farmer-headed households, the key to sustained economic growth, poverty reduction and development of the rural economy is through accelerated and sustainable agricultural development. The potentials of agricultural growth are in: (i) accelerated development of small-scale, cost-effective, short gestation, private irrigation systems such as shallow tubewells and low-lift pumps; (ii) improving rice productivity; (iii) improving farming systems including crop diversification and intensification; (iv) expansion and improvement in livestock production; (v) improved management and appropriate technologies for rice-fish farming and aquaculture schemes and (vi) community-based agro-forestry. Small-scale, farmers' controlled irrigation offers the best growth opportunities for agriculture in Cambodia as the country has about 4.8 millions ha of agricultural lands underlain by shallow aquifers or crisscrossed by waterways. The development of irrigation facilities should, however, go hand-in-hand with improvement in the essential irrigated agriculture support services and functions such as those being implemented on pilot scale by the FAO-assisted Special Program for Food Security (SPFS) so that the benefits from irrigation development are optimized. There are good short and medium term potentials for increasing rice yield levels and cropping intensities. For medium and high productivity soils, annual unit area productivity of as much as 5.5 t/ha of rough rice (double the present level) are feasible. There are excellent opportunities for improving the existing farming systems. Livestock production can also be improved to benefit the majority of the rural poor. Emphasis would be on backyard production of poultry and swine, development of feed processing facilities and on large animal production using idle grasslands. The poverty alleviating opportunities in fisheries are in rice-fish production and aquaculture.

3.28 The development of this sector is principally constrained by the lack of clear policy framework and action plan for agricultural development; underdeveloped export market for rice and other crops, presence of barriers to export growth (e.g., inferior products quality, lack of trade information, poor infrastructure and support services and inadequate harvest and post-harvest facilities) and weak institutional capacities; low crop productivity, inadequate agricultural support services; poorly performing and inappropriate irrigation facilities; limited access of farmers to production resources and inadequate institutional capacities for planning and implementation of agricultural development activities. The strategies for agriculture were set out in paragraphs 2.19 and 2.20).

3.29 Rigorous actions have been undertaken by the Government to increase the sustainability of forest resources. These include a very successful policy of crime prevention, detection, crackdown and monitoring of illegal activities. Forest crime monitoring and reporting units within the Department of Forestry and Wildlife and the Ministry of Environment were set up and a focal point coordinator position was created within the Council of Ministers for monitoring reports. An international NGO, Global Witness, was formally designated by the Government as the independent monitor. Controlling illegal logging combined with measures already taken and planned to restructure the forestry concession system, will begin to mobilize the revenue potential of the forestry sector which will become an important source of finance for poverty reduction measures in agriculture and in other sectors.

Improving Water Resource Management

3.30 The RGC's top priority is to increase the provision of water facilities and infrastructure in both rural and urban areas with the view to addressing one of the root causes of poverty and improving the living standards, food security and public health. Both the shallow and deep aquifers of the country would be optimally utilized for irrigation and domestic water supply purposes. Where technically and economically feasible, the rehabilitation of existing irrigation facilities would be carried out to provide equity in access to irrigation water and to boost

agricultural production in food insecure. The short to medium strategy is to encourage a private sector-led shallow tubewell and low-lift pump irrigation development program. The development of medium to large scale, gravity irrigation systems should only be resorted to after the institutional capacities at all levels are sufficiently developed for the design and implementation of such systems. The government's water policy objectives are to expand fully irrigated areas from 16 to 20 percent of the total rice cultivation areas over the period of five years to 2003 through the development of appropriate irrigation facilities, enhanced local ownership and control, increased private sector involvement in irrigation development and enhanced capability for operation and maintenance by local government units and water user communities.

3.31 Attention is also given by the RGC to establish a reliable and sustainable hydrological information management system of all surface and groundwater sources (river basins and aquifers) which will provide basic information to support strategic planning and sustainable and environment-friendly development of water resources for various utilization objectives (e.g., irrigation, potable water supply, hydropower, transportation, fishery, flood control and protection of environmental resources. In this regard, the RGC has planned to (i) prepare a detailed water sector profile; (ii) formulate investment strategies; (iii) establish an institutional framework for sustainable operation and maintenance of irrigation systems; (iv) identify the action plan for the National Water Resource Development Policy; and (v) strengthen project planning and implementing capacity at all levels.

Advancing Rural Development and Decentralisation

3.32 The RGC has proposed a strategy that is based on the bottom-up, integrated, participatory, decentralized rural development. The objectives are to expand the number of Village Development Committees (VDCs) - an elected body whose function is to represent the village to government, non-government and international organizations in the management of rural development projects - to cover up to 69 percent of all villages by the end of 2000.²² 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. Policy and institutional reform is being supported by strategic public investments including village water supplies and rural roads, to support the restoration and maintenance of essential rural infrastructure and to generate rural employment. Priority is given to raising rural incomes to reduce the widespread poverty and to keep within manageable proportions rural-urban migration.

3.33 The RGC has planned to further decentralize its system of administration and introduce financial devolution at the grassroots level by submitting to the Parliament a Commune Administration Law. The elections are scheduled for late 2001 to elect Commune Councils, which will have their own budget consisting of tax and non-tax revenues and a block grant from the national budget. The councils will have responsibility for delivering services, including social services to the villages. The councils will have a greater say in the development of their regions.

Ensuring Sound Natural Resource Management

3.34 There is a strong correlation between sound natural resource management and poverty reduction. On the one hand, the plight of the poor can be improved by widening their access to forest, fisheries and water resources. Therefore, poverty reduction programs would be tailored to the specific situations faced by the poor scattered in various provinces. For example, ensuring free access to forest resources by hill-tribe people and the respect for their land tenure practice are instrumental in alleviating poverty in the Northeast of Cambodia. Providing access to fisheries

²² Ministry of Planning. *Cambodia Human Development Report 1999: Village Economy and Development*.

and water resources is critical to improve the living standards of the people living in the Tonle Sap region. On the other hand, sound natural resource management is required to promote sustainable development.

Encouraging Income Generation Activities in Rural Areas

3.35 Fostering income generation activities of the rural economy would generate growth and productive employment, curb unemployment and underemployment in the rural areas, upgrade food security and integrate the rural population into the growing web of domestic markets. These activities can provide additional revenue to those who work during the non-agricultural season, thus having the potential to impact on poverty.

Addressing Urban Poverty

3.36 A well-targeted program is also required to address urban poverty. The RGC is committed to work towards protecting and improving the quality of life of the urban poor through development and management of appropriate social services. The Ministry of Social Actions, Labor, Vocational Training and Youth Rehabilitation (MOSALVY) and the Ministry of Women's and Veterans' Affairs (MWVA) could play a crucial role in addressing urban poverty by co-financing poverty reduction programs with NGOs, such as Urban Sector Group (USG) to address the problems of squatters, Mith Samlanh/ Friends to work with street children and Youth With A Mission (YWAM) to work with street families. More attention will be given by the RGC to assist the squatters by providing micro credit and vocational training and helping with job placement. Special targeted programs should be given to increase their access to health, education and basic services, such as water, electricity. Their legal status should be addressed to prevent arbitrary eviction. The RGC seeks to develop a new partnership with NGOs to improve the plight street children and families by co-funding supportive programs to enable them to be reintegrated into the society. Attention will be given by the RGC in cooperation with NGOs to providing professional training and job placement for the street children and widening access by young street children to public educational and health facilities.

Implementing Land Policy

3.37 Land policy will focus on land distribution, land management and land administration. The core program of the land reform consists of the development of a national land policy, improved management of the national land stock, commencement of systematic land registration, tax reform, the establishment of a legal framework to enforce property rights, the establishment of provincial, municipal and national master plans and zoning and the development of rural housing. In the medium to long term, the RGC will resolve the problem through the adoption and enforcement of a new Land Law and the implementation of the National Systematic Land Registration that will secure land tenure, provide a basis for reduction in land ownership conflicts, and facilitate land management, natural resource monitoring and state property protection. Land use classification is essential to conducting demarcation of different types of land, such as permanent estate forest, fishing lots and other agricultural land, which can help the poor to gain access to land, improve land tenure and engage in traditional fisheries.

3.38 The seminar on landlessness was launched by the RGC in August 2000 to identify landless people and the causes of landlessness and formulate policies to address this important issue. Following are actions that the RGC intends to take with the view to find solution to this complex issue: (a) conduct in-depth research on issues relating to land access, and poverty and vulnerability, on the basis of which policy reforms could be formulated; (b) identify landless and land poor vulnerable groups at the district and provincial level so that they can be more effectively targeted; (c) train local and provincial level authorities to prepare land resource maps and other planning documents that can provide baseline data for managing land resources in the

locality more effectively and enable the systematic monitoring of the land situation and the land status of poor and vulnerable groups; (d) take steps to ensure that the traditional access of established local communities to the use of common property resources (land, forests and waterways) is not usurped by new groups; (e) review the policy to distribute de-mined land by targeting IDPs, ex-soldiers and other needy groups; (f) ensure security of tenure for the agricultural population through correction of the weaknesses in the existing land practices and laws; (g) embark on a program aimed at providing greater land access and land titles to the class of small land owners and tenants; (h) review the programs of assistance to IDPs and returnees to draw the lessons of past experiences, especially with regard to the allocation and distribution of land; (i) improve access to housing and other needed infrastructure for urban vulnerable groups in Phnom Penh and other towns with priority given to deprived and poor squatter areas; (j) conduct studies to examine how gender bias is manifested in the land policy and land registration system; inheritance of land; land ownership arising from marriage; and land/property disposal in conflicts between husband and wife.

C. CREATING SECURITY

3.39 Reducing the vulnerability of the poor by developing resistance to external shocks and increasing the overall sustainability of their livelihoods is a priority as is assisting those poor who want to diversify out of agriculture, and these concerns have not received sufficient attention. The current emphasis is on credit for income generating activities, but there is a need to also address vulnerability to fluctuations in income, as this results in cash flow constraints that may lead to deferment of investment and/or distressed land sales, so as to smooth consumption expenditure. This could be tackled by providing insurance, savings and loans for consumption purposes. Moreover, security can be ensured by expanding safety net programs, promoting environmental protection and clearing landmines.

Access to Micro Credit for the Poor

3.40 The severe lack of effective financial services in rural areas is one of the major constraints to agricultural growth and rural development. Micro-finance operations of NGOs are virtually the sole financial service providers in rural areas. NGOs provided a total of US\$23 million in loans to some 334,000 households and have been instrumental in employment and income generation for the poor. None of commercial banks have the resources or inclination to expand their operations to rural areas. However, the rural credit gap is estimated at US\$70 million. Since 1995, attention has been given by the RGC to micro-finance by establishing what is now the Rural Development Bank (RDB). The main objectives are to ensure sustainable development of micro-finance. The RDB has conducted wholesale operations and does not engage in any commercial lending itself. The RGC considers that only with the development and expansion of the decentralized financial system, it is possible to meet the needs of the poor and to respond to market situation. Thus it is imperative for the RDB to foster NGO micro-credit programs, which should target at the poorest of the poor directly.

Coping with Globalization

3.41 At a broader level it is crucial that Cambodia continues to strengthen its international relations and deepen its commitment to open markets and trade as a member of ASEAN. It should also intensify its involvement in the Mekong River Commission, Greater Mekong Sub-region. This is imperative since the Mekong River is the lifeblood of Cambodian agriculture and inland fishery. Any development upstream might have far-reaching consequences in Cambodia. The country should also strengthen its engagement with the international system through accession to the World Trade Organization. Cambodia must continue to increase its international participation not least because discussions and rules on such issues as trade, foreign

investment and the international financial architecture have implications for its development and poverty reduction efforts. Cambodia must ensure that it is not excluded from such negotiations because of lack of capacity or lack of access to negotiations. However, economic integration per se will not address the problem of poverty. Benefits of a growing global economy have been unevenly distributed leading to wider economic disparities, the feminization of poverty, increased gender inequality, including through often deteriorating work conditions and unsafe working environments especially in the informal economy and rural areas. While globalization has brought greater economic opportunities and autonomy to some women, many others have been marginalized, due to deepening inequalities among and within countries, by depriving them from the benefits of this process. Government interventions are needed to provide training, improve the skills, widen access to credit and help the vulnerable segment of the population to compete in this global network.

Safety-net Type Programs

3.42 According to the SES 1999, it would cost a minimum of 1,332 million riel per day or US\$126 million per year to eliminate poverty with perfectly targeted transfers. If the economic growth rate enjoyed by the poor were only one percent per year, it would take over 20 years for the average poor person to exit poverty. But at a growth rate of four percent per year it would take less than six years for the average poor person to exit poverty. Hence, economic growth that acts to raise the real consumption levels of the poor can have a powerful effect on the elimination of poverty. Targeted programs are needed to deliver benefits to the poor, in the form of improvements in their human and physical assets and through interventions that improves the returns they get from those assets.

3.43 The government social safety net programs are limited in scope and in impact on the poor. The RGC social intervention budget is insufficient to meet the growing needs for social security of the population. In 1999, the Chapter 31 social intervention budget amounted to 103 billion riels (US\$27 million or approximately 0.9 percent of GDP). Moreover, the institutional implementation capacity/human capacity is still limited, in part caused by the lack of incentives. However, much of this budget is to assist the civil servants. Only a limited amount of the small budget of the Ministry of Social Affairs, Vocational Training, and Youth Rehabilitation (MOSALVY), which is responsible for disadvantaged groups, is spent on the rehabilitation of the internally displaced people. Political parties and politicians have contributed to some extent to improve the plight of the poor. Hence, the poor and the vulnerable rely on informal transfers, the Cambodian Red Cross, donors/NGO programs, and individual coping strategies.

3.44 Together with donors like WFP, the RGC through the Ministry of Rural Development (MRD) runs food-for-work-based income and employment generating projects. These are combined with commune-based social support activities, thereby increasingly targeting the most vulnerable. While food-for-work activities help to rehabilitate infrastructure, social support-interventions promote basic primary and non-formal education, skills training, health, and support vulnerable groups including street children, amputees, and orphans.

Environmental Protection

3.45 Environmental protection efforts are guided by the following principles: (i) the link between poverty reduction and the use of environmental resources; (ii) the importance of the communities (intervention mechanisms should provide local communities with the skills to properly manage the natural resources and must be designed to preserve and utilise women's traditional ecological knowledge, including the traditional ecological knowledge of indigenous women in the management of natural resources and preservation of bio-diversity); (iii) the need for institutional capacity building and (iv) recognition of the importance of an integrated

approach to environmental planning. In the short and medium terms, the thrusts of environmental protection include the following: development and protection of coastal zones better forest management including protection of critical watersheds; erosion control; control of urban and industrial pollution; strengthening capacity for protected area management; improved management of the Tonle Sap ecosystem; capacity building for environmental planning and resources management of institutions concerned; and establishing various communities, such as forestry communities, fisher communities, water user communities and rural road maintenance communities.

Mine Clearance

4.46 The top priority of the RGC's policy in improving security for the Cambodian people is to take systematic and concerted efforts with the donor community to clear landmines in agricultural lands, raise public awareness about the dangers of mines, provide training on mine disposal and increase assistance to landmine victims. Since the establishment of the Cambodia Mine Action Center (CMAC) in 1992, some 105,693 anti-personnel mines, 1,696 anti-tank mines and 531,727 unexploded ordnance have been removed and 73 sq. km. of land cleared. The RGC has deployed considerable efforts to reorganize CMAC and mobilize donors' support for mine clearance activities.

D. STRENGTHENING CAPABILITIES

3.47 The government should play a crucial role in service delivery and continuing improvement in capabilities of institutions concerned. This requires a focus on the quality and availability of services for the poor and the comparative advantage of the government, non-governmental organizations and private sector agencies as the supplier of these services. Essentially this focus is on the role of government and issues of effectiveness and efficiency and involves questions about the degree of government decentralization and civil service reform.

3.48 Increasing spending alone will not result in poverty reduction. Therefore the RGC has taken measures to ensure a quality change through streamlining procedures of pre-audit and strengthen post audit of expenditure in order to ensure that development is trickled down to the commune and village level. These measures entail the streamlining of budget disbursement procedures and providing the spending units, at provincial and central levels, the control over their own budgets by transferring them into Budget Management Center (BMC).

Health Policies²³

3.49 Greater investment in health services to reduce diseases would mean not only less poverty, as fewer people become ill or unable to work, but also that society would benefit from lower rates of communicable diseases. The MOH has proposed the following health strategies: (i) promote women and child health through basic care service delivery for all women; (ii) reduce the incidence of communicable disease such as malaria, dengue fever, tuberculosis, diarrhea disease, acute respiratory infection, and sexually transmitted disease, particularly HIV/AIDS; (iii) improve the coverage of good quality service; (iv) upgrade the skills of health staff; (v) provide drugs, equipment and materials; (vi) strengthen the capacity of the referral hospitals through the use of improved technology and management techniques; (vii) facilitate the development of the private health sector; and (viii) promote public awareness about sanitation and hygiene.

²³ Ministry of Health (1999). *Health Situation Analysis 1998 and Future Direction for Health Development 1999-2003*.

3.50 Priority pro-poor health actions being put in place or proposed include providing integrated basic health services to the entire population with an emphasis on under-served areas and mothers and children. Better targeting of public health spending for the benefit of the poor and official establishment of cost recovery systems that include an exemption system for the poor. Development of a sustainable essential drugs program to ensure access of the population particularly the poor to essential drugs. Within the framework of the introduction of the Priority Action Program (PAP) from July 2000, the Ministry of Economy and Finance (MEF) in conjunction with the MOH has introduced the decentralization of budget management by providing budget managers at the provincial and district levels greater flexibility in procurement. The cost center budgeting of PAP budget and the new budget procedures were aimed to channel funds to grassroots levels, speed up fund release and enable budget managers to plan their activities in advance. MEF and MOH have conducted training courses to build up capacity for financial management in seven provinces where the PAP is scheduled to introduce in 2000.

3.51 The spread of HIV/AIDS in Cambodia is alarming and to the extent that could threaten sustainable development in the country. An estimated 180,000 people or 3.7 percent of the adult population (15-49 years old) - are HIV infected. The burden of AIDS-related illness and death has led to the aggravation of poverty and increased indebtedness. To respond to the rapid spread of HIV/AIDS, the RGC has adopted a National Strategic Plan on AIDS prevention and control. The strategy focuses on improving prevention and public education, with a strong emphasis on the use of contraception. The plan calls for an increasing role of community authorities and religious leaders in raising public awareness of this epidemic. However, the RGC has experienced a funding gap of 80% for an effective country-wide program for a multi-pronged HIV/AIDS control and has limited coordination for effective HIV/AIDS programming and implementation. NGOs and international organizations have played a key role in providing a range of services including education on transmission modes and social support, especially in reaching out to the rural population, particularly women and other vulnerable groups. There is an urgent need to upgrade and expand HIV/AIDS programs, especially in rural areas, and for women-headed households and children affected by HIV/AIDS.

Water and Sanitation

3.52 Preparatory work is now being undertaken to establish a water supply and sanitation policy framework, which will focus on financial autonomy, tariff adjustment to initiate cost recovery, private sector participation, donor coordination, water resource allocation, and regulatory responsibilities. The RGC accords high priority to the development of this sector as a means to improve the health of the population and reduce poverty in rural areas. Attention is given to making better use of the existing water resources, strengthening institutional capacity, bringing the production level of existing clean water processing plants to design capacity, improving their performance and expanding connections to end-users. Managerial autonomy and financial independence will be further enhanced to allow the utilities to finance their own maintenance and investment programs. Rural wells will be expanded through increased government budget allocations and donor support with the focus on active participation of the local beneficiaries - particularly women who are primary collectors and users of water - in their operations and maintenance.

Education Policies²⁴

3.53 Government's policy priority for education is to ensure equitable access and quality improvement for 9 years of basic *Education for All*, particularly among girls, by around 2010. It is essential to promote gender equality and inculcate equal value to the girl-child. For post basic

²⁴ Ministry of Education, Youth and Sports (2000). *Education Financing Policy Paper*.

education Government's priority is to enable more equitable access for the poorest, alongside a growing public/private partnership in financing and management. A cross cutting priority is to strengthen legislative and regulatory frameworks for quality assurance and sector performance monitoring across all sub sectors. It is recognised that total public expenditure has been below what is necessary to achieve these policy objectives. However, the RGC plans to more than double the education recurrent budget over the next 3 years as an initial step in securing policy implementation.

3.54 Increased public spending on education will adopt clearly defined pro poor policies and strategies. For example, the key strategic priority is to reduce direct and indirect costs to parents (the major access barrier) through a significant increase in performance based teacher salaries, thereby eliminating the need for informal parental payments to teachers. An associated strategy will be to significantly increase school-operating budgets, increasingly managed at provincial/district and school levels. These strategies will help secure teacher and pupil attendance, and alongside better availability of instructional materials, assure quality improvement.

E. GENERATING EMPOWERMENT

Better Governance

3.55 Priority actions that needs to be taken by taken by the RGC over the short to medium term are: Establishing priority groups of government officials to improve service delivery and increase productivity; introduce decentralization and deconcentration of the system of administration to increase accessibility of essential services to the people; accelerate the reform of the state by implementing action plans in demobilization, administrative and fiscal reforms with a view to strengthening the rule of law and consolidating the foundation of the market economy; deepening the judicial reform and establishing a national program for judicial reform; and implement the measures outlined in the Governance Action Plan (GAP).

Law Enforcement

3.56 A priority of the government is the development of an impartial, effective and efficient legal and judiciary process. This issue concerns personal security from violence and threats both within and outside the household together with access to justice and protection of property rights and enforcement of contracts. It requires a review of laws and regulations that may adversely affect the poor and actions to remedy them including issues of land reform, land tenure, land access, gender equity and the rule of law. However, the notion of land ownership is not common especially in rural areas. Therefore, while reviewing laws and regulations of land, it is indispensable to raise awareness of the rural population about the notion of land ownership. Moreover, it is imperative to introduce a comprehensive and consistent framework for adopting needed laws and regulations. Improving the access to land by the poor will contribute to poverty alleviation and income generation. In addition to land reform noted above (para 3.25) priority interventions should be targeted towards strengthening regulatory and enforcement capacity, and effective and competent dispute settlement processes, including identification of the status of landless people, expansion of agricultural land through land clearance, and prevention of land usurpation, encroachment by influential groups and concentration of land by a single owner. Cadastral administration needs to be strengthened by ensuring the adoption and strict enforcement of the new land law, establishing a transparent system of land titling and land registration, enhancing the institutional capacity of land administration and protecting the state estate. Moreover, in drafting laws special attention should be given to their prospective impact on women. Legal reform together with the maintenance of macroeconomic stability and provision of core infrastructure will provide a boost to private sector development.

Box 5 : Governance Action Plan

The RGC is conscious that good governance is an essential prerequisite for sustainable socio-economic development and social justice. A Governance Action Plan (GAP) was prepared and tabled for discussion at the Consultative Group (CG) meeting held on 25-26 May 2000 in Paris.

The GAP identifies two categories of governance reform where action will be critical to Cambodia's development over the near- and the medium-term. The first category involves four cross-cutting areas: (1) **judicial and legal reform**: improving the legislative process, promoting dissemination of laws and regulations, developing a legal framework for private sector, developing human and material resources and infrastructure, enhancing the integrity of the judiciary and meeting private sector's needs for the arbitration of commercial disputes; (2) **public finance**: streamlining customs control, combat smuggling, developing a modern customs administration, improving VAT refunds, developing a regulatory framework for tax on profits, undertaking a comprehensive reform of investment incentives, ensuring integrity of the budgetary process, improving performance of spending units and strengthening the public investment management program; (3) **civil administration reform**: rationalization of employment structure, review of remuneration and establishment of management system, enhancing productivity and motivation, reinforcing transparency and participation, ensuring a close link between administrative and financial decentralization and developing human managerial and human resources at the sub-national level; and (4) **anti-corruption**: setting ethical standards, enacting special anti-corruption legislation, enforcing the sub-decree on public procurement and strengthening enforcement and scrutiny. The RGC recognizes that without credible actions in these areas, the basic virtues of good governance will not take hold in Cambodia.

In addition to these cross-cutting issue areas, the RGC has identified two specific policy issues on which governance reforms must be implemented. One is natural resource management, including land management and forestry management. Fair resolution of land disputes is essential to social peace and environmental sustainability, which are, in turn, fundamental to poverty reduction and economic development. The other policy issue is demobilization of the armed forces.

Source: Governance Action Plan. Royal Government of Cambodia. May 2000

Fostering enabling environment for NGOs

3.57 NGOs can be partners in development and poverty reduction with the RGC at all levels. To do so, a transparent and supportive framework for collaboration is needed. The proposed NGO Law should provide clear guidelines for NGO operations so that both NGOs and government officials clearly understand the operating environment. A supportive NGO law would enable NGOs to contribute to poverty reduction by allowing them to respond quickly and creatively to problem situations when they occur. Programs first developed by NGOs are often adopted by government to greater benefit of the overall population. Government regulation should structure a framework that provide adequate information on development activities and the fiscal impact of NGOs on the country's development. The framework should also encourage self-regulation. The right balance between regulation and facilitation should be achieved so that scarce government resources need not be committed to managing a complex regulatory framework.

F. ADDRESSING CROSS-CUTTING ISSUES

Relationships with Donors and the Move to Partnership²⁵

3.58 Partnership implies long-term transformation on the part of all the partners - the RGC in combination with civil society, the private sector and the International Donor Community – and especially changes in the way in which internal and external relationships are managed. A successful transition to a new partnership concept must be based on a mutually understood and accepted definition and a general understanding and acceptance of its implementation considerations. As the RGC intends to move from "Donorship" to "National Ownership", we will move as soon as possible from *Control to Leadership*, and from mere *Co-ordination to Collaboration*, perhaps building on the existing set of aid co-ordination and management mechanisms and various ongoing donor-sponsored discussions. This will allow us to transition from *Piece-Meal/Ad-hoc Approaches to Programmed Development Outcomes* using our Priority Action Programs (PAPs) in education, health, rural development, and agriculture, which are supported by the Medium-Term Expenditure Framework (MTEF), our overall Public Investment Program (PIP), all of which operate within the national Public Investment Management System (PIMS). This will facilitate our progress on the road from *Dependency to Sustainability*. However, fund leakage and corruption should be addressed in a direct way in order to move toward a consolidated budget by incorporating government and donor resources.

3.59 Through more collaborative partnerships, all partners must seek innovative and effective ways to transfer know-how and develop nationally sustainable capacities. It would be desirable to share clear and common expectations among all the partners, regarding objectives, results and outcomes, operating principles, values and ethics, performance measures, mutual resource commitments, financial control, management of human resources, etc. The Government fully accepts that each partnership must have a Lead Partner, which in some instances may be a ministry, agency, a local level of government, a national partner (a civil society or private sector organization), or an external Donor Agency. Partnership structures should embody policies and strategies that better encourage and reward the transfer of know-how and the building of human resources and other institutional capacities within both the Government and its national partners.

3.60 The need to improve aid co-ordination and aid management is a priority, so that more resources are channeled to priority areas. As noted already, this did not happen vis-à-vis rural and urban areas during SEDPI. In order to enhance effects of poverty reduction strategy through efficient utilization of donor assistance, it is essential to seek genuinely effective aid coordination by paying careful attention to the situation in Cambodia and examining the comparative advantage of various aid modalities.

3.61 Avoidance of aid duplication, promotion of rational allocation and efficient utilization of resources are expected to be achieved by the "incremental" introduction of sector-wide and other approaches in specific sectors such as education and health. Such approaches enable activities to be based on development strategy made in close coordination among the government, donors, civil society and others. However, the project type aid can also effectively contribute to poverty reduction if it is appropriately geared towards the government's development strategy on the basis of nation-wide consultations with stakeholders. In addition, the positive impact of stand-alone projects would likely be of more benefit to the poor if the poor or their representatives were

²⁵ Council for the Development of Cambodia. (2000). *A New Development Cooperation Partnership Paradigm for Cambodia: Strengthening Development Cooperation and Aid Coordination and Management*.

involved from the start in identification and design as well as implementation. Therefore, the RGC is committed to strengthening bilateral partnership with all donors to promote project aid.

3.62 The RGC has piloted the partnership approach in the PRSP process, which will be closely linked to the formulation of the Second Five-Year Socio-Economic Development Plan. The two important government documents will be implemented in a single strategic framework in conjunction with other poverty-related activities. The draft I-PRSP was reviewed by the Committee on Economic and Financial Policies, chaired by the Minister of Economy and Finance, whose members are drawn from the line ministries. In June, early drafts of this document were circulated among 16 members of the Donor Working Group on Fiscal Reforms. In July-August 2000, the draft I-PRSP will be submitted for consultations with donors, international financial institutions (IFI), NGOs, the civil society and the private sector.

Revenue mobilization

3.63 Poverty reduction efforts are severely constrained by weak revenue mobilization efforts. Since the Department of Customs and Excise accounts for the collection of a lion share of budget revenue, the RGC has taken steps toward the establishment of a customs administration based on international standards and procedures. The Government is also committed to further upgrading legislation, streamlining customs control, combating smuggling, developing infrastructure for trade and statistics and information reporting, and developing a modern customs tax administration.

3.64 Actions have already been taken to enhance the revenue system by introducing a VAT for 1500 large taxpayers. The RGC is firmly committed to deepening revenue mobilization improvements through: rigorous implementation of the VAT; strict limitations on tax incentives; increased efforts to recover arrears from the private sector; and the enhancement and full transfer to the Treasury of non-tax revenues. Moreover, the RGC is seeking to develop a regulatory framework for tax on profits and promote information exchange among tax-related agencies.

3.65 The short to medium term actions that have already been committed to by the RGC, as reflected in the PRGF and SAC, are incorporated in the Policy Matrix set out in Annex 1.²⁶ It also draws on a recent summary prepared for the May 2000 CG Meeting held in Paris. These will be reviewed in light of understanding reached under the full PRSP.

IV. CAPACITY BUILDING AND POVERTY MONITORING

4.1 One of the most important parts of the I-PRSP process is to ensure a sound institutional capacity for the implementation of poverty reduction strategies as outlined earlier. During the first term of office, the RGC took considerable strides to build and strengthen the capacity of government ministries to improve public service delivery. Nevertheless, the capacity to provide care and protection for the poor. Government ministries, including the Ministry of Social Affairs, Labor, Vocational Training and Youth Rehabilitation (MOSALVY) and the Ministry of Women's and Veterans' Affairs (MWVA), are faced with limited human and financial resources to develop a social service system. More attention therefore should be paid to inter-ministerial coordination in carrying out poverty reduction strategies, contained in the I-PRSP. Some ministries are well equipped to face the challenges, while others still rely on external resource people. In-service training across various ministries is crucial for the success of the I-PRSP process. The capacity to

²⁶ For more details see the Poverty Reduction and Growth Facility (PRGF) and the Structural Adjustment Credit (SAC).

provide assistance to social welfare, child welfare, the rehabilitation of disabled persons and the re-insertion of the most vulnerable groups should be reviewed as part of the administrative reform program of the RGC.

4.2 Poverty reduction strategies will remain on the paper if there is no mechanism in place to implement and to monitor them. Poverty monitoring needs to be systemized. Therefore, it is essential to identify appropriate poverty indicators as part of the full PRSP process.

V. PRSP WORKPLAN

A. ARRANGEMENTS FOR THE I-PRSP

5.1 The preparation of the I-PRSP is overseen by the High Level Committee on Economic and Financial Policies, established by the governmental decree No 25 dated 10 June 1997 and headed by Minister of Economy and Finance KEAT CHHON, with broad inter-ministerial representation. An umbrella working group headed by Secretary General of the Ministry of Economy and Finance Dr. AUN PORN MONIROTH, with broad representation from the line ministries. At the next level, three sub-groups were set up to work on different dimensions of the I-PRSP.

- (1) *Poverty Diagnostics* - led by the Ministry of Planning, and including the Ministries of Economy and Finance; Education, Youth and Sports; Health; Rural Development; and Women's and Veteran's Affairs.
- (2) *Macro and Sectoral Policies* - led by the Ministry of Economy and Finance, and including the Ministries of Agriculture, Forestry and Fisheries; Commerce; the Council for the Development of Cambodia; Health; Education, Youth and Sports; Planning, Public Works, Rural Development; Social Affairs, Labor, Vocational Training and Youth Rehabilitation; Water Resources and Meteorology, Women's and Veterans Affairs and Environment.
- (3) *Legal, Institutional and Governance* - led by the Council of Ministers, and including the Ministries of Agriculture, Forestry and Fisheries; Interior; Justice; Economy and Finance; Land Management and Women's and Veteran's Affairs.

5.2 The framework for IPRSP (e.g. opportunities, empowerment and security) builds on the World Development Report (WDR) 2000/2001 "*Attacking Poverty*" and the Source Book for Poverty Reduction Strategy.

B. ARRANGEMENTS FOR FULL PRSP

5.3 Overall responsibility for the full PRSP will pass from the Ministry of Economy and Finance (MEF) to the Ministry of Planning (MOP), which is also responsible for the preparation of the SEDP. For the process of preparing the full PRSP, it is envisaged that it will emerge from the ongoing preparation of the Second Socio-economic Development Plan 2001-2005, which is scheduled for completion by the end of 2000. The work plan for preparing the PRSP is set out presently below.

5.4 The RGC will seek to consolidate the processes and products as far as possible, bearing in mind the essential features of a full PRSP, namely

- (i) Country ownership;
- (ii) Poverty focus;
- (iii) Consultative process;
- (iv) Systematic monitoring of outcomes.

The expected timeframe for preparation of the full PRSP is 12 months.

5.5 The following highlights a workplan for the PRSP, both technical, and for the consultations. Some of these activities have already been planned by part of the sectoral programs or within the framework of the SEDP or other donor activities. The priority areas include the investigation of provincial difference in poverty, poverty mapping, identification of poverty indicators, employment and labor market study, income and safety net study and the analysis of the incidence of health and education expenditure. To address the institutional capacity constraints mentioned in paragraph 3.13 attention is given by the RGC to building up capacity with external partners' support, including the current Technical Cooperation Action Plan (TCAP) program, put in place by the IMF. The RGC is looking for funds to implement the TCAP activities.

Activities	Schedules	Ministries responsible
1. Investigation of causes of poverty and determinants of changes overtime, using 1997 and 1999 SES;	Nov 2000	MOP
2. Investigation of provincial difference in poverty;	Dec 00 - Mar 01	MOP
3. Poverty mapping;	Sept 00 - Apr 01	MOP/WFP
4. Identification of poverty indicators;		MOP
5. Prepare a study on the status of landless people;*	Jan - April 01	MRD
6. Conduct an employment study and analysis of the labor market;	Nov 2000	MEF/CDRI
7. Prepare income and safety net study;	Feb 2001	MOP
8. Investigation of whether health and education of the poor is improving, and why, using Demographic and Health Survey 2000; *	Dec 00 - April 01	MOP with MOH, MEYS
9. Analysis of the incidence of education and health expenditures (updating the 1997 PER);	Feb - Mar 01	MEF
10. Tracking study to help ensure that projected increases in health and education spending reach schools and clinics; *	Early 01	MEF with line ministries
11. Conduct study to develop formula for budget allocation to commune councils consistent with poverty objectives;	May - June 01	MEF
12. Consolidation of budget including external funds, at least for four priority sectors; *	Apr - Jun 01	CDC and MEF
13. Investigation of cross-sectoral linkages in education, health, roads, water and sanitation;	Nov 00 - Mar 01	MOP
14. Costing of all major programs to ensure consistency with macroeconomic framework;	Jun 01	MOP, MEF and line ministries
15. Conduct research on poverty reduction strategies based on the above studies;	Jan - Aug 01	MOP and line ministries
16. Setting targets for outcomes and intermediate indicators, based on sectoral inputs and results of participatory process (to be reviewed on an on-going basis.	Nov 00 - Mar 01	MOP

* External assistance sought.

5.6 For the I-PRSP, an umbrella Working Group and Sub-groups with broad inter-ministerial representation have reviewed the drafts and provided comments and feedbacks. The draft was also disseminated to chairpersons of the National Assembly and Senate commissions, NGOs, international organizations and various donors for comments. This document will be considered by the Boards of the Bank and Fund in December 2000.

5.7 In the I-PRSP, the authorities have proposed an approach to consultation on the full PRSP. It will begin with dissemination of the I-PRSP in Khmer to all key players. Workshops will be organized at both central and local levels to identify pressing issues of poverty and actions to reduce poverty.

5.8 To build on the results of the Socio-Economic Survey carried out in 1999, the RGC will conduct a participatory poverty assessment and this will be used to complement the poverty profile based on quantitative data for the full PRSP.

5.9 A draft PRSP will be prepared for comments by stakeholders, including key government officials, chairpersons of the National Assembly and the Senate commissions, umbrella NGO groups, the private sector and various donors. The process will allow active participation of the local communities and authorities in the preparation of the full PRSP.

C. PARTICIPATORY PROCESS
to be discussed between MOP and MRD

Activities	Schedules	Needs	Estimated cost
1. Dissemination of I-PRSP in Khmer and Public Info Campaign, including participation plan for PRSP	Sept 00		\$40,000
2. Survey of NGO/civil society concerns regarding poverty reduction	Sep - Oct 00		
3. Workshops at central level	Jan - May 01		\$80,000-\$150,000
4. Workshops at local levels	Jan - May 01		\$20,000-\$30,000
5. Participatory Poverty Assessment	Oct00-Jan 01		\$75,000 (FINANCED BY ADB)
6. Stakeholder analysis, including key government officials and umbrella NGO groups and private sector. Determination of criteria for selection of stakeholders, eg representativeness.*	Feb - Mar 01	International consultant National consultant	\$75,000-\$100,000
7. Implementation of participatory processes, at local and central levels, including consultations with local communities, local authorities, the National Assembly and the Senate.*	Mar - Jul 01	International consultant National consultant	\$60,000-\$70,000

* External assistance sought

ANNEX 1: POLICY MATRIX (2000-2002)

Policy Objectives and Targets	Strategies and Measures	Implementation	TA Requirements (to be completed)
I. MACRO-STABILITY AND ECONOMIC OPPORTUNITY	The Government will develop a modern tax framework and transparent procedures with the objectives of improving sustainable, efficient utilisation and enhancing revenues. The ultimate goal is to generate additional revenue of 4 percent of GDP over four years to 2002.		
1. Fiscal Reform			
(j) Revenue mobilization			
a. Broaden revenue base	Improve VAT administration and extend VAT coverage.	2000-02	
	Re-institute pre-shipment inspection.	August 2000	
b. Reduce tax and duty exemptions.	Review mechanism for timber royalties, in the context of budget formulation.	2000-02	
b. Reduce tax and duty exemptions.	Revise Law on Investment to rationalize tax and duty exemptions.	March 2001	
c. Strengthen revenue administration and governance.	Grant no new ad hoc tax or import duty exemptions.	2000-02	
c. Strengthen revenue administration and governance.	Strengthen customs administration.	2000-02	
c. Strengthen revenue administration and governance.	Fully transfer non-tax revenue from line ministries to the Treasury.	2000-02	
c. Strengthen revenue administration and governance.	Reinforce procedures to collect tax and non-tax arrears.	2000-01	
(ii) Expenditure management			
a. Expenditure priorities	Ensure strict implementation of annual Public Investment Program consistent with priorities and link more closely to recurrent expenditure, through such mechanisms as MTEF.	2000-02	
a. Expenditure priorities	Provide adequate funding and meet budgetary targets for spending on basic health and education and rural development in line with Public Expenditure Review.	2000-02	
a. Expenditure priorities	Fully implement the Priority Action Program (PAP) for Health and Education and expand its coverage to Agriculture and Rural Development.	2000-02	
b. Enhance the effectiveness of expenditure management.	Strengthen budgetary procedures to strictly limit spending decisions outside the budget framework.		

(ii) Expenditure rationalization	The Government will fully operationalize the Budget Strategy and Enforcement Center at MEF to streamline the procedures to screen the bids for funding and facilitate cash disbursements to key social and economic sectors.	2000-02	
	Establish responsibility for performance at the level of spending units in parallel with the strengthening of technical, financial and managerial capabilities.	2000-02	
2. External sector policies.	Maintain market based exchange rate system.	Ongoing	
	Reduce tariff rates and simplify the tariff structure.	2000-02	
	Strengthen the debt management unit and refrain from commercial borrowing on non-concessional terms.	2000-02	
	Continue discussions with external creditors with a view toward concluding bilateral rescheduling agreements.	2000-01	
	Formulate procedures to promote market access for Cambodian products in EU countries.	2000-02	
	Encourage the establishment of business and producers' associations.	2000-02	
	Adopt the Export Processing Zone Law to promote international trade.	2000-01	
3. Land and Forestry			
a. Provide for an environmentally sustainable, socially responsible and economically viable forestry policy.	Strengthen forestry monitoring mechanism, including quarterly reports by monitoring unit for Council of Ministers and public release.	2000-02	
	Strengthen concession management and contract terms to improve transparency, monitoring, revenue performance and enforcement.	2000-02	
	Submit to National Assembly a revised Forestry Law to provide a permanent framework for sustainable forestry management.	December 2000	
	Review the log export ban policy commensurate with improvements in monitoring capacity.	January 2001	
	Develop community forestry, initiating mechanisms for the award of long term tenure rights to local communities and indigenous peoples.	2000-02	
b. Land policy	Develop a national land policy and improve the management of the national land stock;	2000-02	

4. Agriculture, water resource and rural development	Strengthen the legal framework to enforce property rights and commence a systematic land titling.	2000-02	
	Enforce the new Land Law and implement the National Systematic Land Registration program	2000-02	
	Establish land use classification, such as permanent forest estate, fishing lots and other agricultural land to help the poor gaining access to land and improving land tenure.	2000-02	
	Develop and enforce measures to prevent encroachment of land by privileged groups.	2000-05	
	Increase public investment in rural infrastructure: energy, irrigation, roads, markets and post-harvest facilities	2000-05	
	Continue to foster a policy environment emphasizing the market orientation of the economy, deregulation and increased private sector participation	2000 - 05	
	Improve agricultural support services and functions including research and development, extension, marketing, distribution of inputs and provision of micro-credit.	2000-05	
	Promote crop intensification and diversification and development with private sector initiatives of value adding and employment generating agro-processing activities.		
	Enlarge access by the poor to common resources: forests, rivers, lakes and new agricultural lands.	2000-05	
	Jump start the development of small-scale, farmers owned and controlled irrigation facilities including shallow tubewells, low-lift pumps and small farm reservoirs. Improve the performance of existing irrigation system and irrigated agriculture.	2000 - 05	
	Promote rural income generation to diversify and raise incomes of rural poor.	2000-05	
	Development of export markets for rice and other crops	2000-05	
	Develop and reinforce technical capability for the planning, design, development, repair, operation and maintenance of concerned agencies at all levels..	2000-05	
	Formulate and implement a comprehensive water resources policy framework and National Action Plan, including the development of a plan of urban and rural water supply and integrated water resource development and management.	2000-05	
	Formulate and implement actions programs for expansion and improvement in livestock production with focus on animal health and nutrition for backyard raising of poultry and swine and production of meat and dairy for large animals in properly managed pastures and grasslands.	2000-05	
Formulate and implement action programs for increased public and private sector investment in rice-fish farming and aquaculture..	2000-05		

	Improve technical capacity in water resources and irrigated agriculture R & D, project formulation; hydrologic surveys; and on-farm water management.	2000-02	
	Draft Water Law and water management regulations.	2000-02	
5. Improved infrastructure			
a. Create an efficient power sector.	Enforce the Electricity Act.	December 2000	
	Establish a regulatory body for electricity.	June 2001	
	Commercialise EDC through a performance-based contract.	December 2000	
	Formulate and implement strategy for provincial town and rural electrification and pilot projects.	2000-02	
	Develop institutional and financial mechanisms that leverage private and community investments.	2001-02	
b. Transport	Develop and implement a comprehensive transport sector policy with the input of key constituencies.	2000-02	
	Operationalize the government road fund.	2000-02	
	Encourage private sector's participation in the development of the transport sector.	2000-02	
3. Private sector development and public enterprise reform.			
a. Create enabling development for private sector development.	Adopt comprehensive Commercial Code and implementing regulations and required sub-decrees, including provisions for business organization, bankruptcy, product liability, contracts and intellectual property rights.	2000-02	
	Corporatise the eleven utilities and infrastructure SOEs to remain in the public sector.	2000-02	
b. Streamline the public enterprise sector.	Implement the restructuring plans for seven rubber plantations.	2000-02	
4. Banking sector policies.			
a. National Bank of Cambodia (NBC)	Avoid central bank financing of the budget.	1999-02	
	Improve supervision capacity, including strengthening staff and setting supervision guidelines.	1999-02	

b. Commercial banks.	Re-license all existing commercial banks under the new financial institution law and close those that do not comply with the law.	December 2000	
	Restructure and privatize the Foreign Trade Bank.	2000-01	
II. SECURITY			
Safety net programs	Implement more projects geared towards the disadvantaged groups.	2000-02	
	Promote basic primary and non-formal education, skills training, health, and support vulnerable groups including street children, amputees, and orphans.	2000-02	
	Co-finance programs with NGOs to improve the plight of squatters, street children and families.	2000-02	
III. CAPABILITIES			
a. Education	Increase public spending for education, in particular promote motivation and incentives of the teaching staff (eg. location all in remote areas).	2000-02	
	Expand access to Grade 1 to 9 to all school age children through provision of additional classrooms and equipment	2000-02	
	Closing rural/urban and gender gaps at both primary and lower secondary levels.	2000-02	
	Increased the shares (both wage and non wage) for basic education and target selective scholarships for the poorest in post basic education, while encouraging private sector involvement in upper secondary and tertiary education.	2000-02	
	Decrease schooling costs to parents through addressing current informal payment by increasing teacher salaries.	2000-02	
	Improve teaching and learning process through government's provision of textbooks, increased school operating budgets and additional resources for professional development;	2000-02	
	Strengthen inspection of education quality and ensure rigorous monitoring of staffing norms.	2000-02	
b. Health	Expand the network of health centers and referral hospitals.	2000-02	
	Provide minimum and complementary packages of activities (focussing on maternal and child health and national disease control) and expand these services into rural areas.	2000-02	
	Introduce cost-sharing partnerships with local communities through user fees and expand	2000-02	

	access and equity of services for the poor through a well-monitored system of user fee exemptions;		
	Improve the utilisation and coordination of resources funded by government budget, donors and the local community;	2000-02	
	Upgrade the financial management capacity of the health managers and move towards de-concentration of authorities and responsibilities from higher level to district health managers.	2000-02	
c. Water and sanitation	Develop financing mechanisms that leverage private and community investments.	2000-02	
	Develop regulatory framework that encourages outsourcing of utility operations to the private sector.	2000-02	
IV. EMPOWERMENT			
a. Measures to reduce corruption	Adopt a sub-decree on internal audit.	2000-01	
	Strengthen internal audit departments of the line ministries.	2000-02	
	Establish and operationalize the National Audit Authority	December 2000	
	Review arrangements for enforcing the sub-decree on public procurement.	2000-02	
b. Governance	Finalize the Governance Action Plan (GAP).	2001	
	Implement the GAP	2000-02	
	Strengthen the rule of law and transparency including modernizing the judiciary	2000-02	
	Continue to expand the coverage of the Village Development Committees (VDCs)	2000-02	
	Strictly comply with the December 1997 Prime Ministerial Order requiring explicit approval of and financial control by the MEF of all contracts involving state assets.	2000-02	
	Establish proper audit/accounting systems.	2000-02	
V. CROSS-CUTTING ISSUES			
a. Civil service reform	Rationalize the civil service through elimination of irregular workers, normal attrition in line with sector personnel management strategies geared towards quality, efficiency and overall performance of the civil service.	2000-02	
	Validate the result of civil service census through completion of the identification procedures.	May 2001	

	Adopt and implement the action plan for civil service reform.	March 2001 onward	
b. Demobilization.	Complete the implementation of the pilot demobilization program and continue to carry out the assistance and integration program for demobilized soldiers during the pilot phase.	November 2000 onward	
	Implement the large-scaled Demobilization and reintegration program under the Cambodia Veterans Assistance Program (CVAP) after the external assistance for demobilization has been credited to the government accounts.		
c. Environment	Implement the action plans outlined in the National Environmental Action Plan (NEAP) in particular bio-diversity and protected area management.	2000-02	
	Mobilize financial and technical resources to implement the NEAP.	2000-02	
d. Statistics.	Implement recommendations made by technical assistance advisers, to improve the coverage, quality and timeliness of economic data.	2000-02	
	Improve coverage of <i>Government Finance Statistics</i> , especially to incorporate donor financed expenditure into the budget.	2000-02	
e. Poverty monitoring	Maintain regular poverty monitoring based on national multi-purpose household surveys.	2000-02	
	Build institutional capacity to better link poverty analysis to policy formulation.	2000-02	