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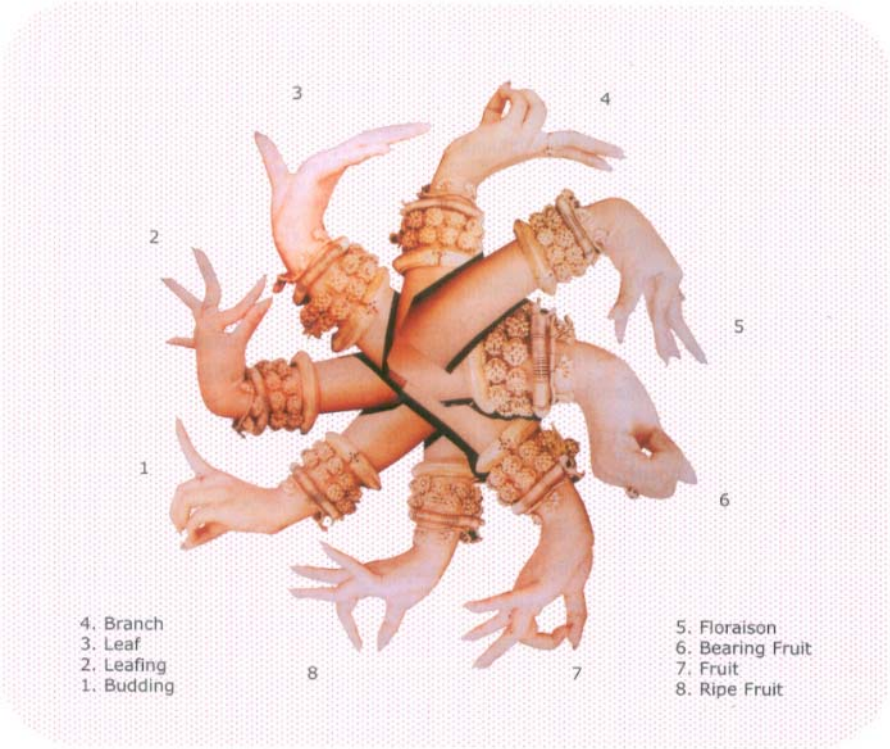
Royal Government of Cambodia

SOCIO-ECONOMIC DEVELOPMENT PRIORITIES and the OFFICIAL DEVELOPMENT ASSISTANCE NEEDS



May 2002

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ROYAL GOVERNMENT OF CAMBODIA

SOCIO-ECONOMIC DEVELOPMENT PRIORITIES
and the
OFFICIAL DEVELOPMENT ASSISTANCE NEEDS

Prepared for the 2002 Consultative Group Meeting for Cambodia
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FOREWORD

The purpose of this report is to present to our national and international development partners a succinct summary of the Royal Government of Cambodia's socio-economic development priorities and its external development assistance needs over the next three years (2002-2004). It also includes an update on progress made since 2001's CG meeting in Tokyo by the Royal Government in implementing initiatives to reduce poverty and the implementation of its broader policy reforms agenda. The foundation of this report are the Interim Poverty Reduction Strategy Paper (IPRSP), the Governance Action Plan (GAP), the Financial Sector Development Vision and Plan for 2001-2010, and the *2nd Socio-Economic Development Plan (2001-2005)* all of which outline Government's strategies and policies. The *Financial requirements and ODA Mobilization Targets* presented in this report are based on the Government's three year rolling Public Investment Program for 2002-2004, as well as the emerging sectoral priority programs/projects.

In addition, the report reflects the Government decisions that have been made to implement the Poverty Alleviation Strategy, the Governance Action Plan, the 2002 Financial Law, as well as Government's decisions resulting from discussions at the bi-annual follow-up meeting between the RGC and the donor community and the Government-Private Sector Forum. In this report decisions of the Government concerning the implementation of sectoral strategies and policies have been incorporated.

The Paper is the result of a long process of consultations and coordination between CDC/CRDB, that has the responsibility for the preparation of this paper, and the ministries from January to April 2002. Its main topics and the Executive Summary were reviewed and adopted by the Council of Ministers on 03 May 2002. Before its adoption, there was extensive participation of the International Donor Community, the Private Sector, and NGOs/civil society, that included a Consultation Meeting with External Partners held at the Council for the Development of Cambodia on 25 April 2002. In addition to the analyses presented in this document, separate discussion papers on various issues were prepared. These papers outline the RGC's priorities and the resources that it will commit, both in the short and medium term, to achieve its long-term vision for the development of Cambodia. These obligations will be met, and the reform pre-requisites vigorously implemented to put Cambodia in a position to meet successfully the challenges of its future.

The Royal Government of Cambodia would like to take this opportunity to thank all development partners who have been generous in providing support to Cambodia's development programs and hope that they will continue to provide their support to enable us to achieve our goal of reducing poverty among our people. This is the first time that a CG meeting for Cambodia is being held in Cambodia. On behalf of the Royal Government of Cambodia I would like to thank to all external partners, especially Australia, Japan, Sweden, and UNDP who have been generous in providing support in the preparations for and the conduct of this very important meeting.

Phnom Penh, 03 May 2002

KEAT CHHON, MP
Senior Minister, Minister of Economy and Finance
and First Vice-Chairman of the CDC

EXECUTIVE SUMMARY

1. The years 2001 and 2002 represent a period of consolidation in the implementation of Cambodia's policy reforms and social development agenda. It has been nearly four years since the 2nd Legislature of the Royal Government of Cambodia (RGC) was elected into office in November 1998. Since then Cambodia has made considerable progress. With the dismantling of the political and military organizations of the Khmer Rouge and their integration into the mainstream of the society, the Royal Government has achieved tangible results by implementing the "*Triangle Strategy*" put forward by *Prime Minister Samdech HUN SEN.* Cambodia has been working hard to reclaim its destiny and become a genuine partner in the region and global affairs and is now well on its way to becoming a truly free nation. The favorable political environment has also created a "*Diamond Opportunity*" for development, with great hopes for a bright and prosperous future. The year 2002 is the decisive year for the government's reform agenda. It has witnessed the consolidation of peace and security in all parts of the country and the deepening and the widening of the reforms in all sectors: fiscal, banking, administrative and military. The management of natural resources has been strengthened with full implementation of land, forestry and fisheries reforms. The RGC has also embarked on legal and judicial reform, aimed at strengthening the rule of law. Therefore, the years 2002-2003 will be crucial for Cambodia's march towards sustainable development. The achievement of equitable growth and the alleviation of poverty among our population through economic progress and social development is the highest priority of the Royal Government. And much remains to be done to achieve our overarching objectives. But now we can see the light at the end of the tunnel. The Interim Poverty Reduction Strategy Paper (IPRSP), the Governance Action Plan (GAP), the Financial Sector Development Vision and Plan for 2001-2010, and the *2nd Socio-Economic Development Plan (2001-2005)* outline the strategies and policies for achieving Prime Minister HUN SEN's goal of uplifting Cambodia to reclaim its position of a once strong and proud nation.

2. The first side of the "Triangle Strategy" put forward by the Prime Minister Samdech HUN SEN focuses on building peace, restoring stability and maintaining security for the nation and the people. This has been accomplished through the commitment of the Royal Government, the sustained work and support of our people, and generous assistance from our development partners. For the first time in its recent history, Cambodia stands at the threshold of making a transition to a period of sustainable economic growth that will enable it to achieve durable poverty reduction.

3. Peace, stability and security in the entire country and for all of our people are the most important pre-requisite conditions for sustainable development. The Royal Government is, and will remain, strongly committed to strengthening political stability, security and social order throughout the country, to build a safe and stable environment for our people and to foster business confidence.

4. The integration of Cambodia into the region and normalization of relationships with the international community formed the second side of our strategic triangle. Soon after the formation of the new Government, Cambodia succeeded in regaining its seat at the United

Nations and became the 10th member of the Association of South East Asian Nations (ASEAN). We have normalized the relationship with international financial institutions, the donor community and international organizations and our efforts to join the World Trade Organization are well advanced.

5. Promoting economic and social development is the third side of the Government's strategic triangle and our largest challenge. Notwithstanding the important strides that we have made in recent years, much remains to be done. The Government recognizes that achieving sustainable socio-economic development depends not only on the effective implementation of our ambitious reform programs, but also on the pace of their implementation, to move the country to a higher economic growth plateau that will enable us to tackle the causes of poverty.

6. To ensure sustainability of the structural adjustment reforms and Cambodia's economic development, and to share the “win-win” situation in ASEAN, the Royal Government will take all the steps necessary to further accelerate the momentum of the past 3½ years. We have set three conditions to achieve our development goals. First, the whole Kingdom should work hard with discipline and respect for law and order. Second, the whole Kingdom should work assiduously and avoid a “stop-and-go” situation. Third, all Government ministries and agencies should uphold the rule of law and strictly follow the principles of Good Governance. Reforms are a “life-or-death issue” for Cambodia. We are confident that if the above measures are successfully implemented, we will be able to catch up with the pace of development of other countries in the region even though we have lost considerable time.

7. As Prime Minister HUN SEN stated in Tokyo in June 2001, the long-term Vision of the Government is to have a socially cohesive, educationally advanced, and culturally vibrant Cambodia without poverty, illiteracy, and disease, which will allow each person to be the best that it is in them to be. Realizing the Vision will require continued adherence to the principles of the market economy, the values of democracy and social justice, human rights and welfare, and the formulation and implementation of policies to reduce poverty by promoting sustainable economic growth and social development.

Major Achievements Since The Last CG Meeting In June 2001

8. Since the June 2001 Consultative Group Meeting in Tokyo, the Royal Government of Cambodia (RGC) has made significant progress in implementing its political platform and reforms agenda aimed at sustaining economic growth, reducing poverty, accelerating economic reconstruction, maintaining macroeconomic stability, strengthening the banking and financial institutions, implementing additional fiscal reform measures, ensuring a sound management of public property, and increasing public investment in physical and social infrastructure and human resources development.

9. In terms of the progress in implementing the government’s reform agenda, the years 2001-2002 reflected our endeavors to prepare grounds for the following:

First, organizing the commune elections, strengthening democracy, promoting the respect of basic rights and dignity of the Cambodians from all walks of life;

Second, pursuing the implementation of the reforms, while focusing on the implementation of the Governance Action Plan (GAP);

Third, implementing the Interim Poverty Reduction Strategy Paper (IPRSP) and the Financial Sector Development Vision and Plan for 2001-2010.

Fourth, commencing implementation of the Second Socio-Economic Development Plan (SEDP II).

Thus, in all its actions and endeavors, the RGC has put forth its best effort to implement the recommendations made at the last CG meeting.

10. Overall, in terms of political developments, the year 2001 was the year of strengthening security and social safety, enhancing democracy and increased respect for the basic rights and dignity of Cambodians from all walks of life and preparing for the devolution of power to the grassroots level through decentralization and commune elections. 2001 also witnessed the strengthening of institutional capacity at both central and provincial levels and gradual improvement in the living standards of the population by embarking on reforms in all sectors and in particular implementing the government's poverty reduction strategy. These achievements have been made possible by active participation of the authorities at all levels, Cambodia's development partners, NGOs and many international organizations, that have displayed their strong commitment to Cambodia.

11. The commune elections held in February 2002 are an important step forward for democracy and represent a fundamental expression of deepened reform process in all sectors in Cambodia. The newly established commune councils represent a delegation of power to local communities who will become integral elements of local governance. The devolution of power and the transfer of resources to the grassroots communities will lead the process of change that has now become essential for the Cambodian people. This change process will not only unleash the powerful force of financial devolution and engender a far-reaching stimulus for strengthening grassroots democracy, but will also significantly restructure the social capital of local communities. It will also promote further political stability and security in the country, which is vital for the country's march toward improving the living standards of our people, better respect for human rights and achieving sustainable development.

12. According to the Constitution of the Kingdom of Cambodia and the National Assembly Elections Law, the general elections will be held on Sunday 27 July 2003.

13. The RGC's focused efforts to strengthen macroeconomic management and a focused implementation of the fiscal reforms have resulted in a robust real GDP growth of 5.3 percent in 2001, in spite of a decline in the fourth quarter of 2001 caused by the deterioration in the world economic environment and the short-term impact of the terrorist attacks of September 11. The rate of inflation has been contained below the last year level. Monetary developments in 2001 have reflected the improved fiscal position. Gross international

reserves reached the equivalent of over 3 months of import coverage at the end of 2001. The market exchange rate has been broadly stable against the U.S. dollar and in real effective terms.

14. For the Royal Government, the war on poverty is not just a convenient slogan or a mere policy issue but a deep felt passion. Progress and social justice are the two bedrocks of our government's policies and strategies. The Second Socio-Economic Development Plan (SEDP-II) 2001-2005, which was adopted by the Council of Ministers in December 2001, reflects this commitment. The Government's poverty reduction strategy embodied in SEDP-II has three main components:

i. achieving 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.

15. The strategic message of the SEDPII is that economic growth is a prerequisite for poverty reduction and the key to growth is private sector development, which will be achieved through sustained improvement in the governance environment. SEDPII also presents quantitative targets and outlines the processes for monitoring and evaluating the progress and impact of our policies. SEDPII also presents targets for various social development indicators for the Plan period, including a target to reduce the poverty headcount index from 36 to 31 percent in order to reduce poverty by half in fifteen years.

16. A Poverty Reduction Strategy Paper (PRSP) is being prepared that uses the SEDPII as its key building block. Key areas where additional work is needed to build on SEDPII to develop the PRSP include: (i) improving monitoring and evaluation mechanisms; (ii) developing more comprehensive performance indicators and targets; (iii) improving the costing of priority public policies and programs and their linkage to the budget; (iv) integrating the macroeconomic framework and the overall poverty reduction strategy, and (v) developing a trade strategy within the framework of the poverty reduction strategy. To elaborate on the PRSP process, the RGC has institutionalized the PRSP framework by establishing the Council for Social Development (CSD), which is responsible for monitoring and facilitating the implementation of the government's poverty reduction strategies and policies. The CSD is assisted by a General Secretariat, which is responsible for formulating the PRSP, as well as for coordinating poverty policy and program formulation, implementation and monitoring; capacity development in poverty monitoring and analysis; and facilitating consultation and consensus building regarding pro-poor policy questions among development partners. In addition, CSD is assisted by four working groups focusing on general administration, poverty reduction, sector work, and social aid. The PRSP process is expected to be completed by the end of 2002.

17. Fiscal performance in 2001 has broadly been good, with improved revenue mobilization and expenditure restraint. Concerted efforts have been made to implement fiscal reform, including improved budgetary management, broadening the tax base, avoiding ad hoc customs duty exemptions, and improving customs administration; re-orienting government spending to priority programs in agriculture, rural development, health and education; improving administrative procedures to ensure that social sector spending targets

are met; and improving public sector governance, transparency, accountability and adherence to the rule of law. More importantly, the RGC has set the target of reconstructing all the existing paved roads by 2005.

18. The 2001 Budget was implemented cautiously to make room for financing the commune elections and to reach the targeted fiscal balance. The increased spending on flood relief in 2000 and the financing of commune elections have had a major impact on the fiscal position in 2001. Domestic revenues increased 7 percent from 2000 level, reflecting increased collection of non-tax revenues. The total expenditure has been contained below targets, thus minimizing the need for domestic budget financing. In 2001, the overall fiscal deficit (excluding grants) has been contained at 5 percent of GDP, while the current surplus was maintained at 1½ percent of GDP.

19. Considerable progress has been made in **restructuring the banking sector** by reducing the number and improving the quality of commercial banks in an effort to instill public confidence. Recapitalization, strengthened banking supervision, and improved management of the Foreign Trade Bank of Cambodia are designed to protect depositors. Moreover, these reforms are aimed at promoting a strong and well-functioning financial sector that can overcome the problem of self-financing and to mobilize idle financial resources for productive investment. To this end, the Royal Government adopted the "Vision and Financial Sector Development Plan for 2001-2010", which outlines a long-term vision and a strategy for sequencing policy reforms to develop the financial system over the next ten years. We hope that by rigorously implementing this strategy over the next 10 years, Cambodia will be able to establish a vibrant, efficient and modern financial sector based on international standards.

20. The RGC has made serious efforts and achieved significant successes in implementing the Governance Action Plan (GAP). Most of the year one initiatives under GAP have been completed. Based on our experiences with the implementation of GAP and the progress we have been able to achieve, the Royal Government has undertaken to update the GAP to introduce new initiatives and priorities. The new priority initiatives evolve around needs and issues in the areas of social development, investment and commerce, demobilization, administrative reforms and anti-corruption. The details on the updated GAP are being provided in separate discussion papers.

21. To highlight some of the major achievements, in the area of **public administration reform**, the RGC has successfully completed the civil service census, issued ID cards to government officials, established a computerized payroll, put in place a classification system for civil servants and introduced a human resources management information system (HRMIS). In this context, in October 2001, the Cabinet approved the strategy for the rationalization of civil service. At the same time, within the framework of the 2002 budget, the RGC has introduced a new remuneration and classification system more conducive to career professionals. The establishment of the priority mission groups by using the government's budgetary resources is a project to increase labor productivity and provide incentives to those involved in priority missions. In the area of administrative reforms, which are key to improving public services delivery, the Government has taken big steps forward to

create momentum to support reforms in all areas. These efforts will accelerate economic growth and promote poverty reduction.

22. An important part of the program for state reform is the introduction of **decentralization** at commune level and the associated **deconcentration** of management functions to the provincial level in order to ensure improvement in governance at the grassroots level. The devolution of power that is being carried out through decentralization and deconcentration will shift the focus of development closer to the people in all our endeavors including the implementation of structural adjustment, strengthening democratic local governance, enhancing the efficiency and impact of public services delivery and the alleviation of poverty. Based on our experiences over the last five years with piloting decentralization under the Royal Government's Seila Program, we have concrete evidence that this process enhances the participation of the people, increases local ownership and strengthens the bonds between the State and civil society. Under the National Committee for Support to Commune Councils (NCSC), these experiences are now being institutionalized and transformed into a decentralized regulatory framework at a rapid pace. Regulations on powers and functions of the Commune/Sangkat Councils (C/S Councils), delegation of authority to the provincial governors for supporting the Councils and the role of the Commune Clerks have been formulated and approved. The Commune/Sangkat Fund has been established and regulations on the systems for fiscal transfers and financial management have been designed and approved. Also, regulations on the Commune Planning and Budgeting System, with a high degree of public participation and accountability have been designed and approved.

23. The Royal Government is well aware that the adoption of regulations must quickly be followed by training and capacity building of the C/S Councils on their duties as well as the systems that will enable them to function, so that the critical process of “learning by doing” can commence. In this regard, three cycles of training have been designed and budgeted focusing on General Orientation, the Financial Management System and the Planning and Budgeting System. The Orientation Training for all 1,621 commune/sangkats has been successfully completed, training on the Financial Management System is underway and will be completed in July and the training on Planning and Budgeting will be carried out from July to September of this year. The strong commitment of the Royal Government's commitment to this important reform process is reflected in the first transfer of 12.5 billion Riels ($ 3.2 million equivalent) in May to the commune/sangkat accounts that included 10 billion Riels from the national budget and 2.5 billion Riels from UNDP support to Seila financed by Sweden and the United Kingdom. In over one third of the rural communes, bidding and contracting of private sector entities has been completed by the C/S Councils and implementation of first-year investment priorities is underway. While the Royal Government is fully aware that local democratic governance and the decentralization process is a long road, we are confident that our critical initial steps are meeting the challenge.

24. The **legal reforms** are on track, and the RGC has been successful in enacting many of the needed laws and regulations. Legal reforms are necessary to support the evolutionary process of social and economic change, and the legal system must be adjusted to support the new economic strategy. Hence, our efforts are being focused on putting in place basic elements of the legal framework to underpin the development of a vibrant market economy

and the promotion of trade and investment by developing the legal framework on property rights, the creation and winding-up of business entities, contract and a fair marketplace, banking, tax and accounting. Moreover, in the next few years attention will be given to the development of laws pertaining to accounting, insurance, secured transactions, commercial enterprises, bankruptcy, contracts and commercial credit, and law on negotiable instruments and payment transactions in order to ensure the effective functioning of the financial sector. Other efforts concentrate on streamlining the process of formulation of the laws and regulations and their wide dissemination.

25. To speed up the **judicial reforms,** the Council of Ministers drafted a Master Plan for Legal and Judicial Reforms. Given the importance and the sensitivity of the legal and judicial reforms, in-depth discussions and extensive consultations will be held on developing a Master Plan in order to identify effective and efficient measures and improve the quality of this important document for submission to the Council of Ministers as soon as possible. The Council for Legal and Judicial Reform will also carry out a comprehensive assessment study to identify the specific needs for human, financial and material resources to accelerate the reforms process. Cambodia's development partners, including relevant local and international organizations should consider providing technical and financial assistance, if we really want to see tangible progress in implementing legal and judicial reforms. Indeed, a lot remains to be done and it requires close cooperation between the RGC, the Parliament, the courts and all our external partners, who want to see Cambodia's judicial system to be independent, impartial and professional. Efforts are already underway to build the capacity of the judiciary system. For example, the Royal School for the Magistracy is being established and training of trainers is being provided.

26. Significant progress has been made to implement **reform and restructuring of the Royal Cambodian Armed Forces (RCAF)**. Building on the experiences and lessons learnt from the Pilot demobilization program and the strong moral, material and financial support from the donor community, the Council for the Demobilization of Armed Forces has successfully completed by late last year the discharge of the first batch of 15,000 military personnel plus their family members. The process of this first full-scale reduction-in-force was carried out in an orderly, manageable, efficient, smooth, transparent, accountable and timely manner, as planned, without any problems or incidents. This year the CDAF will continue to closely cooperate with the Donor Working Group on Demobilization to procure and deliver the four options of reintegration assistance packages as well as other assistance planned in the demobilization program to the 15,000 veterans who had been discharged last year. The CDAF will also begin to lay the foundation for the second full-scale demobilization of another 15,000 soldiers to achieve RGC's target of reducing the armed forces by a total of 55,000 soldiers over a period of five years (1998-2003). Prompt implementation of the full military demobilization program is crucial for budget savings and redirecting resources to the priority sectors: physical infrastructure, social and economic sectors, especially education, health, agriculture and rural development. This demobilization program when fully implemented would result in savings of up to 2 to 5 billion CRs.

27. Rigorous implementation of the **forest management policies** is the top priority of the RGC and it remains vigilant in this area. Since the fifth CG meeting, several decisions and actions have been implemented by the RGC to create conditions conducive to the

sustainable management of forest resources. The RGC is committed to strengthen the Forest Crime Monitoring Unit (FCMU) by providing it with additional financial support. The FCMU has assisted the RGC in monitoring illegal logging in order to effectively stamp out corruption from this sector. The legislative and policy framework that is indispensable for achieving sustainable resources management has been strengthened considerably with the passage of the long-awaited new forestry law. The Law concerning the protected areas is under preparation to provide the framework for the sustainable management of the bio-diversity and natural resources contained in the 23 protected areas. A sub-decree on community forestry has been developed through a nationwide participatory multi-stakeholder process to enhance local community participation in forest management decision-making processes. The initial steps on the development of a forest policy statement and a restructuring of the forest administration have been taken by DFW/MAFF. The RGC is firmly committed to complete the reform process in the forestry sector to eliminate illegal logging, to enhance capacity building for DFW's staff and public awareness, strengthen forest rehabilitation and reforestation activities, and to enlarge natural forest conservation for eco-tourism with the assistance of our development partners.

28. A comprehensive **reform of the traditional fishing lot system** has been completed. The RGC has cancelled or reduced the size of official fishing lots by a total of 536,302 ha, accounting for some 56 percent of the total fishing lots to allow the poor free access to fishing and to earn a living in 12 provinces. The MAFF has drafted a new Fisheries Law, prepared a Fisheries Master Plan, and a sub-decree on Community Fisheries and Fishing Lot Auctions has been issued after extensive consultations with all stakeholders. Fisheries reforms have improved access to fisheries resources by poor farmers and fishermen, thus contributing to the implementation of the government's poverty reduction policy.

29. The RGC has accorded priority to the preparation and implementation of **land policy**, which focuses on land distribution, land management and land administration. To ensure efficient enforcement of the Land Law, nine governmental sub-decrees have been drafted. The RGC is preparing a framework for land policy. The core elements of the RGC land policy will support systematic land registration, tax reforms, 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 housing policy. A systematic land registration pilot project is being implemented using state-of-the-art technology. It has delivered land title certificates for the first time to the inhabitants of Samrong District, Takeo Province. Overall, 15 percent of land in the Kingdom of Cambodia has been registered. A request for the establishment of a master plan for Sihanoukville has been made and a land use plan along National Route 4 is being prepared. Also, a Land Management and Administration Project to complete the registration of land throughout the country and to strengthen the political, legal, institutional and technical aspects of land management has started in May 2002. It will cover 10 provinces and one municipality.

30. The RGC considers the private sector, both domestic and foreign, as the engine of growth. A vibrant private sector requires that crucial elements of structural policy be in place. The RGC has doubled its efforts to create a climate that fosters investor confidence through improved dissemination of information to investors about the "rules of the game", with regards to taxation, regulations and the protection of property rights. The RGC has

completed the review of the Law on Investment and the draft Law is awaiting approval of the legislature. This Law will ensure the maintenance of balance between the need for increased revenues and Cambodia's competitiveness with countries in the region. Thus, the draft amendment to the Law on Investment while rationalizing the investment incentives, provides a simplified and transparent mechanism to automatically qualify investment projects for incentives.

31. Notwithstanding tremendous difficulties and impediments, the RGC has made significant progress in **combating corruption**. The GAP itself is a compendium of measures that in one way or another combat corruption by addressing its root causes. Cracking down on illegal logging, measures to increase tax revenues, the removal of ghost workers from the public sector and the army payrolls and the confiscation of land, which had been sold off or held illegally, were among the measures aimed at tackling corruption. The RGC has made considerable efforts to establish and operationalize the National Audit Authority. RGC believes that streamlining bureaucratic procedures, simplifying and modernizing the tax system, eliminating excessive regulations, and motivating public servants by giving them a decent level of salaries can help reduce the opportunities for corruption. Enacting anti-corruption law and regulations is just one part of the equation. Rigorous implementation of those laws and regulations is another part.

32. Sustained economic growth cannot be achieved without the supply of skilled manpower that is needed by the private sector. Similarly, in spite of the Royal Government's commitment and substantive efforts, successes in the areas of administrative and governance reforms are hampered by a lack of capacity within the public sector to effectively enforce and manage the implementation of the approved laws and regulations. It is important to note, that while Cambodia can benefit from the experiences of its development partners in the formulation of policies and processes, effective enforcement and management of the implementation of the approved policies, laws and regulation is likely to remain constrained, at least in the short- to medium-term, by the existing gaps in Cambodia's human capital base.

33. Procurement constitutes an integral part of budget execution. A major proportion of public expenditure at every level of government is incurred through the procurement of goods and services and construction activity. The performance criteria for evaluating procurement activities is economy, i.e. acquisition at the lowest price without sacrificing quality and timely delivery. To this end, the government adopted in 1995 a decree (No 60) on Public Procurement, based on international standards and best practices. However, since 1997, because of domestic political turmoil and regional financial cataclysm, some of the important provisions of this decree have not been fully implemented. To remedy these shortcomings, the government adopted a decision in December 2001 requiring full implementation of public procurement procedures for four priority ministries (Education, Health, Agriculture and Rural Development) in the acquisition of goods, services and construction activities, except for heavy capital investment in road, bridge and sewerage construction.

34. The Royal Government would like to reassure its development partners that it has been firmly resolved to fulfilling its commitments made in Tokyo in June 2001. It has

scrupulously supported the implementation of all the ten recommendations made during the Tokyo 2001 CG meeting. It is true that for different reasons we have moved faster in some areas than others, at the same time, RGC has remained committed to make use of every opportunity to improve and accelerate these complex reforms in all areas. In the final analysis, our development partners with a comprehension of the constraints we face can judge what we have achieved. From RGC's perspective we can honestly state that we have come a long way from where we were not too long ago. The Royal Government remains committed to implementing policies and programs that will lift Cambodia to a higher destiny, to a new plateau of sustainable development.

Development Priorities

35. The development vision of the Royal Government of Cambodia is to have a socially cohesive, educationally advanced and culturally vibrant Cambodia without poverty, illiteracy and disease. Realizing the vision will require continued adherence to the values of social justice, human welfare and empowerment of the people and the formulation and implementation of policies to reduce poverty by promoting sustainable economic growth and better governance.

36. The "Triangle Strategy" of the Government, which was adopted after the July 1998 election, is designed to achieve this Vision. Restoring peace and stability, and maintaining security for the nation and people, which formed the first side of the "Triangle", is critical for creating favorable conditions for Cambodia's march towards progress and prosperity. Cambodia has been integrating into the region and has normalized its relationships with the international community. After regaining its seat at the United Nations, Cambodia became the 10th member of the Association of South East Asian Nations (ASEAN) and the process of joining the World Trade Organization (WTO) is well advanced. This is the second side of the triangle strategy.

37. The third side of the Government's strategic triangle is to promote economic and social development through the implementation of an extensive reform program. Significant progress has been made in the implementation of these reforms, and economic growth has been strong in the last two years despite the impact of the 2000 floods and the global slowdown in the last quarter of 2001 following the September 11 terrorist attacks in the United States. However, much remains to be done.

38. In the context of the "Triangle Strategy", and building on the "*Interim Poverty Reduction Strategy"*, the RGC's development strategies are: (i) to foster broad-based sustainable economic growth with equity, with the private sector playing the leading role; (ii) to promote social and cultural development by improving the access of the poor to education, health, water and sanitation, power, credit, markets, information and appropriate technology; (iii) to promote sustainable management and use of natural resources and the environment; and (iv) to improve the governance environment through effective implementation of the Governance Action Plan (GAP).

39. The timely implementation of the GAP, and its specific strategies for civil service reform, decentralization, military demobilization, legal and judiciary reform, gender equity,

public financial management, anti-corruption and natural resource management, is therefore a key priority for the Government.

40. The RGC's strategic message is that economic growth is a prerequisite for poverty reduction and that the key to economic growth is private sector development. At the same time, it recognizes that the pace at which private sector can develop depends largely on sustained improvements in the governance environment.

41. The Government is committed to maintaining a stable macroeconomic environment, as sustained economic growth with poverty reduction cannot be achieved in an environment of macroeconomic instability or of serious fiscal and external accounts imbalances. The targets of the RGC's medium term macroeconomic framework include: achieving an average annual economic growth rate of 6-7 percent, keeping inflation below 4 percent, containing the external account deficit to a level consistent with concessional financing and foreign direct investment flows and increasing gross official reserves to about 3.5 months of import coverage.

42. Faster growth is essential in order to improve social indicators and to provide the tax base needed to finance higher levels of public expenditure on social sectors. Adherence to the on-going reform program is crucial for achieving higher economic growth, diversification from garments to other types of basic manufacturing, and development of Cambodia's tourism potential. The development of the tourism sector is important because of its significant multiplier effects on other sectors of the economy.

43. The RGC's strategic focus is on implementing those measures that have the dual benefits of both promoting growth and reducing poverty. This will include initiatives to enhance state effectiveness, develop physical infrastructure particularly in underserved rural areas, increase investment in human resources particularly women and children, and to combat epidemic diseases especially HIV/AIDS. Success in promoting growth and reducing poverty will require close cooperation within and outside the Government, so that timely actions at the macroeconomic level and across and within sectors are implemented in the way intended.

44. Continuing fiscal reform is critical in order to build on recent increases in revenue capacity and to accelerate the shift from defense and security expenditures to the socials sectors. The implementation of the military demobilization program is a key element of the reform program, as savings from downsizing the army are essential for redirecting spending to the social sectors. Public administration reform is also an important component of the fiscal strategy and its civil service reform component is vital to achieving planned sector wide reforms in health and education. Key priorities for the Government include promoting financial transparency and addressing corruption issues particularly in health and education disbursements.

45. Decentralization offers a range of possibilities including the opportunity for broader political debate about development strategies and new ways of holding government accountable to its actions. The extent to which the development potential of decentralization

will be realized depends crucially on success in dealing with other related governance issues concerning the health, education, and transportation sectors as well as gender issues.

46. Accelerating growth in the rural economy would result in the largest reduction in poverty because its incidence is highest there and inequalities are lowest, an important consideration given that economic growth will benefit some more than others. Agricultural and irrigation improvements are key to broad based economic growth and poverty reduction and there is little doubt that there is much potential for improvement.

47. In addition, the development process must deal with the unexpected, in particular the harm done to the fragile welfare of the poor and the health of the economy as a result of natural disasters. Strengthening national disasters preparedness, relief, mitigation and rehabilitation of flood control systems are important poverty reduction priorities of the Government. As is providing targeted special programs for those who are unable to effectively participate in the growth process as well as enhancing ongoing preventative measures to combat malaria, tuberculosis, and in particular the HIV/AIDS epidemic. Establishing Cambodia as a popular ecological and cultural tourism destination will also provide an additional boost to economic growth.

48. Further development of rural infrastructure will help rural and remote communities, which include the poor and the poorest, facilitate market access for those without it and put essential services within reach of the most needy. Improving the access of the poor to education and health services, making better use of human capabilities, improving the income earning potential of the poor, widening their range of choice, improving the quality of their lives and reducing their social exclusion are crucial priorities of the Government.

49. Gender equality is integral to the development process and cannot be separated from other population issues. The key issue is how to improve gender equity across a range of sectors in order to give women the skills and status needed to participate in contemporary society on an equal footing with men. In the education sector, ensuring that girls are enrolled in school and stay enrolled is imperative. Women's education is a crucial determinant in birth spacing and reproductive health and in determining the educational level and employment of their daughters. In the health sector, providing more accessible reproductive health services to the current generation of women will produce better maternal and child health and help reduce the current high rates of maternal and child mortality.

50. In short, macroeconomic stability, implementation of the GAP, continuing trade liberalization and expansion of economic and social infrastructure will facilitate private sector expansion and thereby fuel higher economic growth, raise incomes and create jobs that will pave the way for durable poverty reduction. For those unable to benefit from direct participation in the economic growth process special support programs will be implemented.

51. The macroeconomic outlook for 2002 might be affected by the deterioration in the world economic environment that began in mid 2001 and is just beginning to recover. As a result of the recent upturn in the global environment, the Ministry of Economy and Finance has revised its projections for 2002 upwards. GDP growth is now projected to increase by 5-5 ½ as compared to the previous projection of 4 ½ -5 percent. The anticipated higher

economic growth is attributable to the dynamism of garment exports and the vibrant tourism sector. Agriculture is expected to rebound after recent devastating floods and drought. Inflation, however, is expected to remain low and the exchange rate stable. More employment will be created in the services sector. The current budget surplus will be maintained at about 1½ percent of GDP, while the overall fiscal deficit (excluding grants) will be contained at less than 6 percent of GDP and financed by external concessional resources and grants. The external current account deficit is projected to widen to 11 percent of GDP. Also taking into account the positive international environment, the increase in gross international reserves in 2002 is targeted to grow further to cover about 3 months of imports.

52. The spending priorities for the 2002 budget are: (i) holding the commune elections and the operationalization of the Commune-Sangkak Councils; (ii) implementing the full demobilization program; (iii) a speedy implementation of the Governance Action Plan (GAP); and (iv) executing the Interim Poverty Reduction Strategy Paper (IPRSP) by shifting further spending priorities from defense to social and economic sectors. The budget strategy will be geared towards further enhancing the mobilization of tax and non-tax revenues to meet the target of 13 percent of GDP through rigorous implementation of existing fiscal measures and the introduction of new tax policies, as well as continued efforts to collect tax arrears from the largest taxpayers, re-negotiation of contracts for the Angkor Wat temple complex and the telecommunications contract for the second international gateway. The fiscal reforms undertaken under the Strengthening Economic and Fiscal Management (TCAP) Project, which focuses on improvement in public expenditure management, tax, customs and treasury reforms, will be crucial for the revenue mobilization efforts and improvement in fiscal governance.

53. The 2002 National Budget can be succinctly described as an instrument that will promote democracy, reduce poverty, strengthen good governance and empower women. The spending priorities for the 2002 budget are targeted towards meeting these goals. Strengthening good governance will be the hallmark of the 2002 budget execution. The 2002 budget will also significantly empower local communities through the financial devolution to the local levels that will strengthen democracy at the grassroots level. To operationalize the Commune Councils the Government has earmarked 20 billion CRs in the 2002 Budget, of which the first transfer of 10 billion CRs was made in May as block grants to the Commune Fund, which was established to facilitate fiscal decentralization.

Development Management

54. Effective development management requires not only providing leadership in the processes of development planning, programming, and the implementation of development programs but also the ability to lead agencies and to facilitate the processes to arrive at a consensus on the most effective use of available resources for development. It entails building partnerships among the various national participants – the government entities at various jurisdictional levels, NGOs, the civil society, and the private sector; as well as building effective partnerships with our external development partners.

55. The RGC's overall objective of building development cooperation partnerships is to facilitate Cambodia's continuing transition to a growth-oriented market economy with equity

by effectively promoting and supporting the emerging partnership model of development cooperation, based on Cambodian leadership, ownership, and accountability, thus contributing to increased effectiveness of development resources, to increased resource mobilization, and to a sharper focus of development cooperation on human development, poverty reduction, and participatory development.

56. At the fourth and fifth CG meetings, the RGC shared with its development partners its vision of the principles for building these development cooperation partnerships as well as the strategic implementation considerations for effective cooperation partnerships. Significant progress has been made since the May 2000 Informal Working Session on Partnerships at the fourth CG Meeting. The CDC/CRDB has been appointed as the RGC's Partnership Focal Point. As the *Partnerships Focal Point*, CDC/CRDB's main role is to provide technical support to ministries/agencies in effectively managing the process of establishing partnership arrangements and coordination of resource mobilization activities. It is also responsible for expanding the development management information networks within Government, and for coordinating technical issues with sectoral ministries related to resource mobilization. However, the *Lead Responsibility* for sectoral partnerships will remain firmly in the hands of each sectoral ministry/agency.

57. An Inter-Ministerial Steering Committee to Strengthen Development Cooperation Partnerships was formally established in 2001. Key central agencies and those sectoral ministries that were at an advanced stage of discussions on sectoral development partnerships (such as Health, Education, Rural Development, Agriculture, Women's Affairs, and others) are represented on the Steering Committee. The membership of the Inter-Ministerial Steering Committee, chaired by the 1st Vice-chairman of CDC, consists of key officials in-charge of Partnership arrangements (either Minister or Secretary/Under-Secretary of State). The objective is to ensure that key officials are seriously involved in policy decisions and operational actions for capacity development, integration/enhancement of information and monitoring systems, and for assessing progress and identifying issues during the transition to fully functioning development partnerships, covering dimensions such as procedural harmonization, ownership, and capacity indicators.

58. The Inter-Ministerial Steering Committee to Strengthen Development Partnerships is supported by a Secretariat, located in CDC/CRDB. In addition, Partnership Working Groups in four ministries, Health, education, Agriculture, and Women and Veteran Affairs have been established. The process of building national partnerships has begun and RGC is determined to move ahead in forging relationships with all of its national development partners.

59. Forging effective partnerships with our external development partners is the other challenge that the RGC would now like to seriously embark upon and we would need the support of all our external partners to face this challenge. For the RGC, the starting point for building these mutually beneficial partnerships are the OECD/DAC guidelines and criteria for building partnerships and capacity development activities that were agreed to by all donor agencies and countries at the OECD/DAC Conference in 1999. A systematic implementation of these guidelines and criteria, with established benchmarks, will help the Government not only in effectively managing its development programs but also taking ownership of its

development process. The Government and our external development partners need to develop mechanisms that provide for a systematic assessment of the capabilities of the lead agencies, facilitators and proponents as well as for checks and balances between donors who participate in Partnership arrangements under the SWAP and those who intend to continue on with the traditional project-based assistance. The Government would also welcome progress by our external development partners in simplifying and harmonizing their internal rules and procedures to minimize the extra-ordinary burden on the limited capacities within our implementing agencies, and equally importantly, the harmonization of the varied capacity building practices of our external partners. *The RGC would like to propose that a donor Working Group, under the CG mechanism, be established as soon as possible to lead the implementation of this very important task. Such a group should function along the line of other donor working groups dealing with the reform issues.*

60. To conclude, the RGC would like to note that although much progress has been made in building partnerships for development since 1997, and we have a few examples of successes, a situation remains in which a significant proportion of ODA still bypasses the national budgeting process because of direct funding by donor agencies to project implementers. This situation has resulted in inadequate Government ownership of many development projects, in insufficient coordination by donor agencies regarding sectoral issues and capacity building; and in a proliferation of different procurement, disbursement, auditing, and progress monitoring procedures among agencies. It has also resulted in capacity depletion and has adversely affected Government's institution building efforts. The RGC intends to show its political will to assume ownership of its development agenda and provide leadership of the process to achieve this goal. The Government and the external partners need to engage in an open consultation process to agree on a "national development agenda for their support", particularly, in the area of poverty reduction. Once common objectives have been established, donors will need to adjust their own strategies and activities to the Royal Government's priorities. Capacity building must be dealt with through an integrated approach that also involves civil society and the private sector. This is an area where true partnerships could lead to major efficiency gains.

Financial Requirements and ODA Resource Mobilization Targets

61. The alleviation of poverty among Cambodia's population through economic progress and social development is the highest priority of the Royal Government. The 2nd Socio-Economic Development Plan (2001-2005) and the Poverty Reduction Strategy (PRS) outline the strategies and policies for achieving this goal. The implementation of these strategies and policies will be achieved through a focused and prioritized Public Investment Program (PIP). The PIP is designed within the framework of a three-year rolling plan to capture priority proposals and needs on an on-going basis. The programs and projects that constitute our public investment program will be financed both from the National Budget and with the assistance of our external development partners. The PIP is comprised of the Government's priority programs that are being implemented and/or are planned to be implemented in various sectors and constitute the basic information for the allocation of national budget resources as well as for the mobilization of assistance from our external development partners.

62. Over the years, our external development partners have been generous in providing support to Cambodia's public investment program. At the five CG Meetings for Cambodia held so far, we have worked hard to keep our resource mobilization targets for external assistance at around US$500 million per annum to cover on-going and new projects, including budgetary/balance of payments support. At the 1996 CG meeting, pledges of US$501 million for the year 1996 were made by our major partners, plus US$18 million by NGOs. At the 1997, 1999, and 2000 CG meetings, our major development partners had pledged US $ 450 million, 471 million, and 548 million respectively. At the last CG meeting in 2001, the pledges amounted to US$ 556 million. In addition, the NGOs have increased their assistance considerably from a pledge of US$ 18 million for 1996 to US$ 55 million for1999, 2000 and 2001.

63. The Royal Government is pleased to report that over the last three year, 1999-2001, disbursements have steadily increased from just under US$ 400 million in 1999 to nearly US$ 472 million last year (2001). At the same time, the amounts pledged by donors have also increased significantly – from US$ 526 million in 1999 to over US$ 610 million in 2001. Excluding the year 1998, when no CG meeting was held and consequently no formal pledges were recorded, disbursements over the 1992-97 and 1999-2001 have totaled nearly 3.7 billion dollars – constituting 73.3 percent of the pledges made by donors during these two periods. In more recent years, the ratio of disbursements to pledges has been higher – representing a greater absorptive capacity within the Government. Disbursements have increased from 76 percent of the donor pledges in 1999, to 77.3 percent in the years 2000 and 2001. The RGC is gratified by the support of its external development partners and hopes that they will continue to provide their support to enable Cambodia to achieve its goal of reducing poverty among its people.

64. The total costs of the Government's planned development programs, both on-going and new programs, over the next three years (2002-2004) is estimated to be around US $ 1,388.4 million. The Government of Cambodia has committed from its own resources US $ 148.2 million for these development programs. After adjustments for estimated available Government counter part funds (US$ 148.2 million), and taking into consideration the requirements for budget support (US$ 150 million), and balance of payments support/stand-by-facility from IMF (US$ 67 million); **the total requirements for external assistance over the next three years amount to US$ 1,457.2 million that averages to US$ 485.7 million per annum,** and includes US$ 15 million for the general elections in 2003. Some of our external development partners have already committed to provide just under US$ 612.8 million. *Thus a gap of US $ 844.4 million in the financing of these development programs remains at the present time for which the RGC is seeking additional support from its external development partners.*

1. INTRODUCTION

1. The years 2001 and 2002 represent a period of consolidation in the implementation of Cambodia's policy reforms and social development agenda. It has been 3½ years since the 2nd Legislature of the Royal Government of Cambodia (RGC) was elected into office in November 1998. Since then Cambodia has made considerable progress. With the dismantling of the political and military organizations of the Khmer Rouge and their integration into the mainstream of the society in 1999, the Royal Government has achieved tangible results by implementing the "*Triangle Strategy*" put forward by *Prime Minister Samdech HUN SEN.* Cambodia wants to reclaim its destiny and become a genuine partner in the region and global affairs and has made considerable efforts to become a truly free nation, free from poverty above all else. The favorable political environment has also created a "*Diamond Opportunity*" for development, with great hopes for a bright and prosperous future. The alleviation of poverty among our population through economic progress and social development is the highest priority of the Royal Government. The *2nd Socio-Economic Development Plan (2001-2005)* and the *Interim Poverty Reduction Strategy (IPRS)* outline the strategies and policies for achieving these goals.

2. The first side of the "Triangle Strategy" put forward by the Prime Minister Samdech HUN SEN focuses on building peace, restoring stability and maintaining security for the nation and the people. This has been accomplished through the commitment of the Royal Government, the sustained work and support of our people, and generous assistance from our development partners. For the first time in its recent history, Cambodia stands at the threshold of making a transition to a period of sustainable economic growth that will enable it to achieve durable poverty reduction.

3. Peace, stability and security in the entire country and for all of our people are the most important pre-requisite conditions for sustainable development. The Royal Government is, and will remain, strongly committed to strengthening political stability, security and social order throughout the country, to build a safe and stable environment for our people and to foster business confidence.

4. The integration of Cambodia into the region and normalization of relationships with the international community formed the second side of our strategic triangle. Soon after the formation of the new Government, Cambodia succeeded in regaining its seat at the United Nations and became the 10th member of the Association of South East Asian Nations (ASEAN). We have normalized our relationships with international financial institutions and other international organizations and our efforts to join the World Trade Organization are well advanced.

5. Promoting economic and social development is the third side of the Government's strategic triangle and our largest challenge. Notwithstanding the important strides that we have made in recent years, much remains to be done. The Government recognizes that achieving sustainable socio-economic development depends not only on the effective implementation of our ambitious reform programs, but also on the pace of their implementation, to move the country to a higher economic growth plateau that will enable us to tackle the causes of poverty.

6. To ensure sustainability of the structural adjustment reforms and Cambodia's economic development, and to share the "win-win" situation in ASEAN, the Royal Government will take all the steps necessary to further accelerate the momentum of the past 3½ years. We have set three conditions to achieve our development goals. First, the whole Kingdom should work hard with discipline and respect for law and order. Second, the whole Kingdom should work assiduously and avoid a "stop-and-go" situation. Third, all Government ministries and agencies should uphold the rule of law and strictly follow the principles of Good Governance. Reforms are a "life-or-death issue" for Cambodia. We are confident that if the above measures are successfully implemented, we will be able to catch up with the pace of development of other countries in the region even though we have lost considerable time.

7. As the RGC stated in Tokyo in June 2001, the long-term Vision of the Government is to have a socially cohesive, educationally advanced, and culturally vibrant Cambodia without poverty, illiteracy, and disease, which will allow each person to be the best that it is in them to be. Realizing the Vision will require continued adherence to the principles of the market economy, the values of democracy and social justice, human welfare, and the formulation and implementation of policies to reduce poverty by strengthening good governance and promoting sustainable economic growth and social development.

8. This paper presents information on the socio-economic development priorities of Cambodia for the next three years (2002-2004). It identifies the on-going and specific new initiatives that the Government plans to implement to achieve its development priorities. It also presents information on the magnitude of external development assistance – to complement our own domestic resources – that is required to support the implementation of on-going projects and to begin the implementation of new initiatives.

9. The Paper is the result of a long process of inter-ministerial consultations and coordination from January to April 2002. Its main topics and the Executive Summary were reviewed and adopted by the Council of Ministers on 03 May 2002. Before its adoption, there was extensive participation of the International Donor Community, the Private Sector, and NGOs/civil society, that included a Consultation Meeting with External Partners held at the Council for the Development of Cambodia on 25 April 2002. In addition to the analyses presented in this document, separate discussion papers on various issues were prepared. These papers outline the RGC's priorities and the resources that it will commit, both in the short and medium term, to achieve its long-term vision for the development of Cambodia. These obligations will be met, the reform pre-requisites vigorously implemented to put Cambodia in a position to meet successfully the challenges of its future.

10. The paper begins by highlighting what has been achieved since the last CG meeting in Tokyo in June 2001. It provides an update on Government's policy performance, macroeconomic performance, monetary and fiscal performance, and sectoral developments. The next section presents the highlights of the development challenges of Cambodia. Section four, outlines Cambodia's development priorities in all spheres: macroeconomic and fiscal management, social sectors, economic sectors, infrastructure, and other cross-sectoral priorities. Section five presents Government's financial requirements and ODA resource mobilization targets for the implementation of the Government's Public Investment Program for 2002-2004, and finally the conclusions.

2. MAJOR ACHIEVEMENTS SINCE THE LAST CG MEETING IN JUNE 2001

Major Achievements

2.1 Government's Policy Performance
2.2 Macroeconomic Performance
2.3 Monetary and Fiscal Performance
2.4 Sectoral Developments
2.5 Other Cross-cutting Programs

11. Since the June 2001 Consultative Group Meeting in Tokyo, the Royal Government of Cambodia (RGC) has made significant progress because of its concerted efforts to: (i) implement the Interim Poverty Reduction Strategy Paper (IPRSP); (ii) deepen the fiscal and banking reforms; (iii) finalize and implement a civil service reform strategy; (iv) further devolution of power at the commune level, through the commune elections; (v) drafting an action plan for legal and judicial reform; (vi) implementation of the full demobilization program; (vii) ensuring sound management of natural resources, including the adoption and initial implementation of the Land Law, formulation of the Forestry Law and the Community Forest Law and improving the access by the poor to fisheries resources; (viii) implementation of the procurement sub-decree for four priority ministries; (ix) amendment to the Law on Investment; (x) adoption of the Vision and Financial Sector Development Plan for 2001-2010; (xi) finalization of the Second Socio-Economic Development Plan (2001-2005); and (xii) operationalization of the National Audit Authority (NAA). In all its actions and endeavors, the RGC has put forth its best effort to implement the recommendations made at the last CG meeting.

12. Cambodia, at present, is at a historic juncture. The year 2002 is the fourth year of our second term in office and a decisive year for Government's reform efforts. Over the last twelve months, the country has experienced a level of security and personal safety that it had not witnessed in recent times.

13. The uniquely historic, highly laudable and noteworthy achievement in 2002 was the recent commune elections. It represented an important step forward for democracy and a fundamental expression of deepened reform process in all sectors in Cambodia. The newly established commune councils represent a delegation of power to local communities who will become an integral element of local governance. The devolution of power and the transfer of resources to the grassroots communities will lead the process of change that has now become essential for the Cambodian people. This change process will not only unleash the powerful force of financial devolution and engender a far-reaching stimulus for strengthening grassroots democracy, but will also significantly restructure the social capital of local communities. It will also promote further political stability and security in the country, which is vital for the country's march toward improvement in the living standards of our people, better respect for human rights and sustainable development.

14. According to the Constitution of the Kingdom of Cambodia and the National Assembly Elections Law, the general elections will be held on Sunday 27 July 2003.

2.1 GOVERNMENT'S POLICY PERFORMANCE

15. Overall, year 2001 was the year of strengthening security and social safety, enhancing democracy and increased respect for the basic rights and dignity of Cambodians from all

walks of life and preparing for the devolution of power to the grassroots level through decentralization and commune elections. 2001 also witnessed the strengthening of institutional capacity at both central and provincial levels and gradual improvement in the living standards of the population by embarking on reforms in all sectors and in particular implementing the government's poverty reduction strategy. These achievements have been made possible by active participation of the authorities at all levels, Cambodia's development partners, NGOs and many international organizations, that have displayed their strong commitment to Cambodia.

16. In terms of political developments and the progress in implementing the government's strategy, 2001 reflected our endeavors to prepare the grounds for the following:

First, organizing the commune elections, strengthening democracy, promoting the respect of basic rights and dignity of the Cambodian people at the grassroots level;

Second, pursuing the implementation of the reforms, in particular continuing to implement the Governance Action Plan (GAP);

Third, preparing and commencing implementation of the Second Socio-Economic Development Plan (SEDP II);

Fourth, implementing the poverty reduction strategy.

2.1.1. Strategy for Poverty Reduction

17. Since the June 2001 Consultative Group Meeting in Tokyo, the Royal Government of Cambodia (RGC) has made significant progress in implementing its poverty reduction strategy and formulating a comprehensive package of policies to attain this goal. For the Royal Government, the war on poverty is not just a convenient slogan or a mere policy issue but a deep felt passion. Progress and social justice are the two bedrocks of our government's policies and strategies. The Second Socio-Economic Development Plan (SEDP-II) 2001-2005, which was adopted by the Council of Ministers in December 2001, reflects this commitment. The Government's poverty reduction strategy embodied in SEDP II has 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.

18. The strategic message of the SEDPII is that economic growth is a prerequisite for poverty reduction and the key to growth is private sector development, which will be achieved through sustained improvement in the governance environment. SEDPII also presents quantitative targets and outlines the processes for monitoring and evaluating the progress and impact of our policies. SEDPII also presents targets for various social development indicators for the Plan period, including a target to reduce the poverty headcount index from 36 to 31 percent in order to reduce poverty by half in fifteen years.

19. A Poverty Reduction Strategy Paper (PRSP) is being prepared that uses the SEDPII as its key building block. Key areas where additional work is needed to build on SEDPII to develop the PRSP include: (i) improving monitoring and evaluation mechanisms; (ii) developing more comprehensive performance indicators and targets; (iii) improving the costing of priority public policies and programs and their linkage to the budget; (iv) integrating the macroeconomic framework and the overall poverty reduction strategy, and (v) developing a trade strategy within the framework of the poverty reduction strategy. To elaborate on the PRSP process, the RGC has institutionalized the PRSP framework by establishing the Council for Social Development (CSD), which is responsible for monitoring and facilitating the implementation of the government's poverty reduction strategies and policies. The CSD is assisted by a General Secretariat, which is responsible for formulating the PRSP, as well as for coordinating poverty policy and program formulation, implementation and monitoring; capacity development in poverty monitoring and analysis; and facilitating consultation and consensus building regarding pro-poor policy questions among development partners. In addition, CSD is assisted by four working groups focusing on general administration, poverty reduction, sector work, and social aid. The PRSP process is expected to be completed by the end of 2002.

2.1.2. Economic and Fiscal Reform Agenda

20. Fiscal performance in 2001 has broadly been good, with improved revenue mobilization and expenditure restraint. Concerted efforts have been made to implement fiscal reform, including improved budgetary management, broadening the tax base, avoiding ad hoc customs duty exemptions, and improving customs administration; re-orienting government spending to priority programs in agriculture, rural development, health and education; improving administrative procedures to ensure that social sector spending targets are met; and improving public sector governance, transparency, accountability and adherence to the rule of law. More importantly, the RGC has set the target of reconstructing all the existing paved roads by 2005.

21. The 2001 Budget was implemented cautiously to make room for financing the commune elections and to reach the targeted fiscal balance. The increased spending on flood relief in 2000 and the financing of commune elections have had a major impact on the fiscal position in 2001. Domestic tax revenues increased 7 percent from 2000 level, reflecting increased collection of non-tax revenues. The total expenditure has been contained below targets, thus minimizing the need for domestic budget financing. In 2001, the overall fiscal deficit (excluding grants) has been contained at 5 percent of GDP, while the current surplus was maintained at 1½ percent of GDP.

22. Considerable progress has been made in **restructuring the banking sector** by reducing the number and improving the quality of commercial banks in an effort to instill public confidence. Recapitalization, strengthened banking supervision, and improved management of the Foreign Trade Bank of Cambodia are designed to protect depositors. Moreover, these reforms are aimed at promoting a strong and well-functioning financial sector that can overcome the problems of self-financing and to mobilize the idle financial resources for productive investment. To this end, the Royal Government adopted the "Vision and Financial Sector Development Plan for 2001-2010", which outlines a long-term vision

and strategy for sequencing policy reforms to develop the financial system over the next ten years. We hope that by rigorously implementing this strategy over the next 10 years, Cambodia will be able to establish a vibrant, efficient and modern financial sector based on international standards.

2.1.3 Public Administration Reform

23. To highlight some of the major achievements, in the area of **public administration reform**, the RGC has successfully completed the civil service census, issued ID cards to government officials, established a computerized payroll, put in place a classification system for civil servants and introduced a human resources management information system (HRMIS). In this context, on 19 October 2001, the Cabinet approved the strategy for the rationalization of civil service. At the same time, within the framework of the 2002 budget, the RGC has introduced a new remuneration and classification system more conducive to career professionals. The establishment of the priority mission groups by using the government's budgetary resources is a project to increase labor productivity and provide incentives to those involved in priority missions. In the area of administrative reforms, which are key to improving public services delivery, the Government has taken big steps forward and created a momentum to support reforms in all areas. These efforts will accelerate economic growth and promote poverty reduction.

24. An important part of the program for state reform is the introduction of **decentralization** at commune level and the associated **deconcentration** of management functions to the provincial level in order to ensure improvement in governance at the grassroots level. The devolution of power that is being carried out through decentralization and deconcentration will shift the focus of development closer to the people in all our endeavors including the implementation of structural adjustment, strengthening democratic local governance, enhancing the efficiency and impact of public services delivery and the alleviation of poverty. Based on our experiences over the last five years with piloting decentralization under the Royal Government's Seila Program, we have concrete evidence that this process enhances the participation of the people, increases local ownership and strengthens the bonds between the State and civil society. Under the National Committee for Support to Commune Councils (NCSC), these experiences are now being institutionalized and transformed into a decentralized regulatory framework at a rapid pace. Regulations on powers and functions of the Commune/Sangkat Councils (C/S Councils), delegation of authority to the provincial governors for supporting the Councils and the role of the Commune Clerks have been formulated and approved. The Commune/Sangkat Fund has been established and regulations on the systems for fiscal transfers and financial management have been designed and approved. Also, regulations on the Commune Planning and Budgeting System, with a high degree of public participation and accountability have been designed and approved.

25. The Royal Government is well aware that the adoption of regulations must quickly be followed by training and capacity building of the C/S Councils on their duties as well as the systems that will enable them to function, so that the critical process of “learning by doing” can commence. In this regard, three cycles of training have been designed and budgeted focusing on General Orientation, the Financial Management System and the Planning and

Budgeting System. The Orientation Training for all 1,621 commune/sangkats has been successfully completed, training on the Financial Management System is underway and will be completed in July and the training on Planning and Budgeting will be carried out from July to September of this year. The strong commitment of the Royal Government's commitment to this important reform process is reflected in the first transfer of 12.5 billion Riels ($ 3.2 million equivalent) in May to the commune/sangkat accounts that included 10 billion Riels from the national budget and 2.5 billion Riels from UNDP support to Seila financed by Sweden and the United Kingdom. In over one third of the rural communes, bidding and contracting of private sector entities has been completed by the C/S Councils and implementation of first-year investment priorities is underway. While the Royal Government is fully aware that local democratic governance and the decentralization process is a long road, we are confident that our critical initial steps are meeting the challenge.

2.1.4 Legal and Judicial Reforms

26. The **legal reforms** are on track, and the RGC has been successful in enacting many of the needed laws and regulations. Legal reforms are necessary to support the evolutionary process of social and economic change, and the legal system must be adjusted to support the new economic strategy. Hence, our efforts are being focused on putting in place basic elements of the legal framework to underpin the development of a vibrant market economy and the promotion of trade and investment by developing the legal framework on property rights, the creation and winding-up of business entities, contract and a fair marketplace, banking, tax and accounting. Moreover, in the next few years attention will be given to the development of laws pertaining to accounting, insurance, secured transactions, commercial enterprises, bankruptcy, contracts and commercial credit, and law on negotiable instruments and payment transactions in order to ensure the effective functioning of the financial sector. Other efforts concentrate on streamlining the process of formulation of the laws and regulations and their wide dissemination.

27. To speed up the **judicial reforms,** the Council of Ministers drafted a Master Plan for Legal and Judicial Reforms. Given the importance and the sensitivity of the legal and judicial reforms, in-depth discussions and extensive consultations will be held on developing a Master Plan in order to identify effective and efficient measures and improve the quality of this important document for submission to the Council of Ministers as soon as possible. The Council for Legal and Judicial Reform will also carry out a comprehensive assessment study to identify the specific needs for human, financial and material resources to accelerate the reforms process. Cambodia's development partners, including relevant local and international organizations should consider providing technical and financial assistance, if we really want to see tangible progress in implementing legal and judicial reforms. Indeed, a lot remains to be done and it requires close cooperation between the RGC, the Parliament, the courts and all our external partners, who want to see Cambodia’s judicial system to be independent, impartial and professional. Efforts are already underway to build the capacity of the judiciary system. For example, the Royal School for the Magistracy is being established and training of trainers is being provided.

2.1.5 Military Demobilization

28. An important element of the RGC's agenda for the next two years left in the second term of its office is the implementation of the **reform and restructuring of the Royal Cambodian Armed Forces (RCAF)**, as specified in the Defense White Paper adopted by the Royal Government in February 2001. The reform process will substantially reduce current manpower levels of RCAF's to a level that will allow the RCAF to fully and efficiently discharge its duties as stipulated in the Constitution and in line with regional and world developments in the 21st century. The RGC will launch Programs that will transform the demobilized soldiers into productive members of the civilian labor force who will contribute to sustainable economic development and poverty reduction among the Cambodian people.

29. Significant progress has been made to implement **reform and restructuring of the Royal Cambodian Armed Forces (RCAF)**. Building on the experiences and lessons learnt from the Pilot demobilization program and the strong moral, material and financial support from the donor community, the Council for the Demobilization of Armed Forces had successfully completed by late last year the discharge of the first batch of 15,000 military personnel plus their family members. The process of this first full-scale reduction-in-force was carried out in an orderly, manageable, efficient, smooth, transparent, accountable and timely manner, as planned, without any problems or incidents. This year the CDAF will continue to closely cooperate with the Donor Working Group on Demobilization to procure and deliver the four options of reintegration assistance packages as well as other assistance planned in the demobilization program to the 15,000 veterans who had been discharged last year. The CDAF will also begin to lay the foundation for the second full-scale demobilization of another 15,000 soldiers to achieve RGC's target of reducing the armed forces by a total of 55,000 soldiers over a period of five years (1998-2003). Prompt implementation of the full military demobilization program is crucial for budget savings and redirecting resources to the priority sectors: physical infrastructure, social and economic sectors, especially education, health, agriculture and rural development. This demobilization program when fully implemented would result in savings of up to 2 to 5 billion CRs.

30. Therefore, prompt implementation of the full military demobilization program is crucial for budget savings and redirecting resources to the priority sectors: physical infrastructure, social and economic sectors, especially education, health, agriculture and rural development. Hence, this demobilization program will create favorable conditions for the government to implement the reform of public expenditure, especially focusing on shifting resources from non-productive to priority, productive sector.

2.1.6 Sound Management of Natural Resources

31. Rigorous implementation of the **forest management policies** is the top priority of the RGC and it remains vigilant in this area. Since the fifth CG meeting, several decisions and actions have been implemented by the RGC to create conditions conducive to the sustainable management of forest resources. The RGC is committed to strengthen the Forest Crime Monitoring Unit (FCMU) by providing it with additional financial support. The FCMU has assisted the RGC in monitoring illegal logging in order to effectively stamp out corruption from this sector. The legislative and policy framework that is indispensable for

achieving sustainable resources management has been strengthened considerably with the passage of the long-awaited new forestry law. The Law concerning the protected areas is under preparation to provide the framework for the sustainable management of the bio-diversity and natural resources contained in the 23 protected areas. A sub-decree on community forestry has been developed through a nationwide participatory multi-stakeholder process to enhance local community participation in forest management decision-making processes. The initial steps on the development of a forest policy statement and a restructuring of the forest administration have been taken by DFW/MAFF. The RGC is firmly committed to complete the reform process in the forestry sector to eliminate illegal logging, to enhance capacity building for DFW's staff and public awareness, strengthen forest rehabilitation and reforestation activities, and to enlarge natural forest conservation for eco-tourism with the assistance of our development partners.

32. The plight of the poor can be improved by widening their access to forests, fisheries, water resources and other public goods. Providing access to fisheries and water resources to improve livelihoods of the people living in the Tonle Sap and the Riparian region has been a high priority of the Government. A comprehensive **reform of the traditional fishing lot system** has been completed. The RGC has cancelled or reduced the size of official fishing lots by a total of 536,302 ha, accounting for some 56 percent of the total fishing lots to allow the poor free access to fishing and to earn a living in 12 provinces. Fisheries reform has improved access by poor farmers and fishers to fisheries resources, thus contributing to the implementation of the government's poverty reduction policy. The MAFF has drafted a new Fisheries Law, prepared a Fisheries Master Plan, and a sub-decree on Community Fisheries and Fishing Lot Auctions has been issued after extensive consultations with all stakeholders.

33. The RGC has accorded priority to the preparation and implementation of **land policy**, which focuses on land distribution, land management and land administration. After the enactment of the new Land Law, attention has been given to the establishment of a mechanism for systematic enforcement of this law with a view to securing land tenure, providing a basis for reduction in land conflicts, and facilitating land management. To ensure efficient enforcement of the Land Law, nine governmental sub-decrees have been drafted. At the same time, priority is given to strengthening institutional capacity in land dispute resolution by organizing seminars to train government officials in techniques for land dispute resolution, and drafting a sub-decree on Cadastral Commission.

34. The RGC is preparing a framework for land policy. The core elements of the RGC land policy will support systematic land registration, tax reforms, 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 a housing policy. With technical assistance from the Federal Republic of Germany and Finland, the RGC has carried out a systematic land registration pilot project using state-of-the-art technology and delivered land title certificates for the first time to the inhabitants of Samrong District, Takeo Province. Data has been collected on 62,046 parcels of land. Of these records for 26,534 parcels have been put on public display for verification, So far, certificates of land title have been issued to 2000 legal landowners. Overall, 15 percent of land in the Kingdom of Cambodia has been registered. To fully implement this daunting task, we have organized training courses for government officials on the methodology for cadastral index mapping and land registration.

The next step is to develop maps for land use in priority provinces and cities. A request for the establishment of a master plan for Sihanoukville has been made and a land use plan along National Route 4 is being prepared. Also, a Land Management and Administration Project to complete the registration of land throughout the country and to strengthen the political, legal, institutional and technical aspects of land management has started in May 2002. This project, that has a total budget of US 33.9 million for the next five years, is being supported by the World Bank, Germany, Finland, and the Royal Government of Cambodia. It will cover 10 provinces and one municipality.

2.1.7 Strengthening Good Governance and Combating Corruption – The Backbone of Reform

35. The RGC has made serious efforts and achieved significant successes in implementing the Governance Action Plan (GAP). Most of the year one initiatives under GAP have been completed. Based on our experiences with the implementation of GAP and the progress we have been able to achieve, the Royal Government has undertaken to update the GAP to introduce new initiatives and priorities. The new priority initiatives evolve around needs and issues in the areas of social development, investment and commerce, demobilization, administrative reforms and anti-corruption. The details on the updated GAP are being provided to you in separate discussion papers.

36. The RGC recognizes that transparency is essential to fight corruption, which takes a toll on economic performance and undermines the efforts to reduce poverty. For those without money and connections, corruption in public services can have debilitating consequences. Corruption diverts government spending away from socially valuable goods, such as education and health and undermines public investment on the rehabilitation and development of the infrastructure, such as roads, bridges, dikes and canals, that is needed by our poor rural communities. To this end, streamlining bureaucratic procedures, simplifying and modernizing the tax system, eliminating excessive regulations, and motivating public servants by giving them a decent level of salaries can help reduce the opportunities for corruption. Enacting anti-corruption laws and regulations is just one part of the equation. Rigorous implementation of those laws and regulations is another part. And we know very well that changing the mentality of the people will take some time.

37. Notwithstanding tremendous difficulties and impediments, the RGC has made significant progress in combating corruption. The GAP itself is a compendium of measures that in way or another combat corruption by addressing its root causes. Cracking down on illegal logging, the increase in tax revenue, the removal of ghost workers from the public service and the army payrolls and the confiscation of land, which had been sold off or held illegally, were among the measures aimed at tackling corruption. The RGC has made considerable efforts to establish and operationalize the National Audit Authority. These measures will substantially contribute to our fight against corruption. The government is committed to rigorously improving governance by implementing the principles and measures that have been stipulated in the Governance Action Plan (GAP).

38. The RGC considers the private sector, both domestic and foreign, as an engine of growth. A vibrant private sector requires that crucial elements of structural policy be in place.

The RGC has doubled its efforts to create a climate that fosters investor confidence through improved dissemination of information to investors about the "rules of the game", with regards to taxation, regulations and the protection of property rights. The RGC has completed the review of the Law on Investment and a draft Law is awaiting approval of the legislature. This Law will ensure the maintenance of balance between the need for increased revenues and Cambodia's competitiveness with countries in the region. Thus, the draft amendment to the Law on Investment while rationalizing the investment incentives, provides a simplified and transparent mechanism to automatically qualify investment projects for incentives.

39. Sustained economic growth cannot be achieved without the supply of skilled manpower that is needed by the private sector. Similarly, in spite of the Royal Government's commitment and substantive efforts, successes in the areas of administrative and governance reforms are hampered by a lack of capacity within the public sector to effectively enforce and manage the implementation of the approved laws and regulations. It is important to note, that while Cambodia can benefit from the experiences of its development partners in the formulation of policies and processes, effective enforcement and management of the implementation of the approved policies, laws and regulation is likely to remain constrained, at least in the short- to medium-term, by the existing gaps in Cambodia's human capital base.

40. Procurement constitutes an integral part of budget execution. A major proportion of public expenditure at every level of government is incurred through the procurement of goods and services and construction activity. The performance criteria for evaluating procurement activities is economy, i.e. acquisition at the lowest price without sacrificing quality and timely delivery. To this end, the government adopted in 1995 a decree (No 60) on Public Procurement, based on international standards and best practices. However, since 1997, because of domestic political turmoil and regional financial cataclysm, some of the important provisions of this decree have not been fully implemented. To remedy these shortcomings, the government adopted a decision in December 2001 requiring full implementation of public procurement procedures for four priority ministries (Education, Health, Agriculture and Rural Development) in the acquisition of goods, services and construction activities, except for heavy capital investment in road, bridge and sewerage construction.

41. The Royal Government would like to reassure its development partners that it has been firmly resolved to fulfilling its commitments made in Tokyo in June 2001. It has scrupulously supported the implementation of all the ten recommendations made during the Tokyo 2001 CG meeting. It is true that for different reasons we have moved faster in some areas than others, at the same time, RGC has remained committed to make use of every opportunity to improve and accelerate these complex reforms in all areas. In the final analysis, our development partners with a comprehension of the constraints we face can judge what we have achieved. From RGC's perspective we can honestly state that we have come a long way from where we were not too long ago. The Royal Government remains committed to implementing policies and programs that will lift Cambodia to a higher destiny, to a new plateau of sustainable development.

2.2 MACROECONOMIC PERFORMANCE

42. Since 1999, Cambodia has followed and made significant progress in implementing a macroeconomic framework aimed at achieving equitable long-term economic growth and sustainable development. The focus of this framework has been on maintaining macroeconomic stability, strengthening the banking and financial institutions, implementing fiscal reform measures, ensuring a sound management of public property, and increasing public investment to develop the physical and social infrastructure and human resource of our nation. Since the Tokyo CG Meeting in June 2001, Cambodia has made impressive strides in strengthening political and economic stability and re-integrating itself into the international community.

43. For the RGC, growth is the most powerful weapon in combating poverty and it remains committed to pursuing policies that encourage macroeconomic stability, shift resources to more efficient sectors, and integration within the global economy. The renewed political stability, a greater sense of security in the country and the pace and pattern of economic recovery in the region have helped Cambodia consolidate, broaden and deepen the reforms underway and to maintain the momentum for sustainable social and economic development.

44. The RGC's focused efforts to strengthen macroeconomic management and a focused implementation of the fiscal reforms have resulted in a robust real GDP growth of 5.3 percent in 2001, in spite of a decline in the fourth quarter of 2001 caused by the deterioration in the world economic environment and the short-term impact of the terrorist attacks of September 11. The rate of inflation has been contained below the last year level. Monetary developments in 2001 have reflected the improved fiscal position. Gross international reserves reached the equivalent of over 3 months of import coverage at the end of 2001. The market exchange rate has been broadly stable against the U.S. dollar and in real effective terms.

ECONOMIC GROWTH

45. In 2001, the overall economic performance has been buoyant despite the terrorist attacks and global slowdown. Preliminary estimates for the first quarter of 2002 indicate a reversal of the setbacks experienced in the last quarter of 2001. Following the September 11 terrorist attacks in the US, some sectors were hard hit, particularly the tourism sector and, to some extent, the garment industry. The potential indirect effects of the attacks – on consumer sentiment and spending, on business confidence, and risk aversion – are likely to be significantly more important. Overall, the impact of the terrorist attack has led to slower growth in garment exports and the tourism sector in the last quarter of 2001, but we hope it will only be a temporary setback. To cope with the aftermath, the RGC has taken steps to promote tourism and the garment sector. At the same time, concerted efforts have been made to improve the agriculture sector that was hard hit by last year's floods and drought. As a result of the unforeseen developments, although real GDP grew by a robust 5.3 percent in 2001, it fell short of the planned target of 6 percent.

46. Over the last twelve months our monetary and fiscal policies have remained prudent with a focus on fiscal consolidation. It should be noted, however, that the Cambodian

TABLE 1: SELECTED MACRO-ECONOMIC INDICATORS

Indicator	1993	1994	1995	1996	1997	1998	1999	2000	2001 Preliminary
GDP in billions of Cambodian Riels (at current prices)	**5,970**	**6,185**	**7,597**	**8,325**	**9,149**	**10,543**	**11,646**	**11,923**	**12,932**
GDP in million US$ (at current prices)	2,173	2,406	3,079	3,153	3,059	2,794	3,054	3,090	3,296
Real GDP Growth (in %)	**4.1%**	**6.3%**	**8.4%**	**3.5%**	**3.7%**	**1.5%**	**6.9%**	**5.4%**	**5.3%**
Real GDP % share (at current prices)									
• Agriculture (in %)	40.9%	41.9%	46.2%	41.7%	42.2%	41.9%	40.4%	35.6%	31.9%
• Industry (in %)	12.7%	13.0%	13.0%	14.6%	16.0%	17.2%	18.4%	22.7%	24.4%
• Services (in %)	43.5%	39.9%	36.6%	38.7%	37.4%	36.6%	37.0%	37.7%	43.6%
Per Capita GDP (in US$)	229	242	294	286	263	227	241	238	286
Population (in Millions)	9.474	9.954	10.470	11.034	11.640	12.280	12.663	12.961	13.300
Inflation in Cambodian Riels (% year average)	75%	-0.5%	7.8%	7.2%	8.0%	14.7%	4.0%	-0.8%	-0.6%
Inflation (in % quarter to quarter)	41.1%	17.8%	3.5%	9.0%	9.1%	12.6%	0.0%	0.5%	-1.3%
Net Foreign Reserves (in US$ million)	62	70	110	164	197	323	349	410	467
Gross Foreign Reserves (in US$ million)	71	100	182	234	262	390	422	482	550
Gross Foreign Reserves (Months of Imports)	1.5	1.5	1.7	3	3.3	3.5	3.3	2.8	3
Total Savings (as % of GDP)	15.7%	18.0%	21.0%	25.6%	20.5%	21.3%	20.1%	20.9%	21.5%
Reil/US$ parity (year average)	2,747	2,570	2,467	2,640	2,991	3,774	3,814	3,859	3,900
Reil/US$ parity (end of year)	2,350	2,593	2,560	2,720	3,400	3,800	3,775	3,906	3,900
Total Investments (in US$ million)	**303**	**429**	**614**	**800**	**623**	**612**	**635**	**682**	**769**
Public Investments	84	131	208	238	151	166	191	229	263
• of which domestic financed	2	31	23	23	32	24	59	80	51
• of which foreign financed	82	100	185	215	119	142	132	149	212
Private Sector Investments	219	299	406	562	472	447	444	453	506
• of which domestic financed	165	209	255	322	322	327	314	323	356
• of which foreign financed	54	90	151	240	150	120	130	130	150
Total Investment as % of GDP	**13.9%**	**17.8%**	**19.9%**	**25.4%**	**20.5%**	**21.9%**	**20.8%**	**22.1%**	**23.6%**
• of which Public Investment	3.9%	5.4%	6.8%	7.5%	4.9%	5.8%	6.3%	7.4%	8.1%
• of which Private Investment	10.0%	12.4%	13.1%	17.9%	15.6%	16.1%	14.5%	14.7%	15.5%

Sources: Ministry of Economy and Finance; National Bank of Cambodia; National Institute of Statistics/Ministry of Planning

economy remains vulnerable to domestic political developments. The elections scheduled for 2003 will be crucial to improving the investment climate for domestic and foreign investors alike. Long-term political stability is needed to ensure an enabling environment for economic growth.

INFLATION

47. During 2001, inflation has remained subdued as prices of food and beverages declined, except in April during the Khmer New Year. The floods that brought alluvial soil to farming areas have contributed to increased agricultural productivity. There was a greater supply of agricultural products such as vegetables, fruits, eggs, chicken and pork. The annual inflation rate declined by 0.6 percent, compared to 2000, reflecting lower prices of food and beverages, petroleum products, clothing and foot ware.

48. Consumer Price Index (CPI) decreased by 3 percent in the first quarter, mainly due to a decline in food and beverage prices by 5.7 percent. This was offset by an increase in prices for housing and utilities, which increased by almost 2 percent. In the second quarter of 2001, a further increase in housing and utilities prices, as well as higher prices for transport and communication; and personal care drove up the CPI by 0.15 percent. The increase in domestic retail oil prices, reflecting the conditions in world oil markets, drove up transportation and communication prices by almost 1 percent. Inflation showed upward trends in the third quarter of 2001. Weakening local currency, the Riel, induced price increase in August-September 2001.

2.3 MONETARY AND FISCAL PERFORMANCE

49. Monetary developments in 2001 have reflected the improved fiscal position. Broad money supply grew by 20.7 percent in 2001, largely owing to increased foreign currency deposits, while continued fiscal restraint has provided room for private credit to increase by 4 percent. Gross international reserves reached the equivalent of over 3 months of import coverage at the end of 2001. The market exchange rate has been broadly stable against the U.S. dollar and in real effective terms. Despite the deterioration in garment exports and tourism receipts in the last quarter of 2001, the current account deficit in 2001 (excluding official transfers) was smaller than previously projected (10 percent of GDP), reflecting the strong performance in the first nine months.

50. Prudent monetary policy and fiscal discipline pursued by the government have been successful in maintaining low inflation and stable exchange rate and in supporting economic growth. Despite the shrinkage in the number of banks following the introduction of the bank-restructuring program, money supply continued to expand at a reasonable pace, as public preference for monetary assets persisted. Liquidity of the banking sector recorded a robust growth of 20.7 percent, out of which 4.3 percent was contributed by local components, as compared to 1.5 percent a year earlier. Domestic currency outside banks accelerated faster than expected as the introduction of new bank notes and the need of the private business to make tax payments in local currency induced higher demand for the Riel. Foreign currency deposits, the largest component of broad money, recorded an increase of 24%, indicating strong confidence in the banking sector and in the economic policies of the RGC in spite of

the general slowdown globally following the September events. Credit to the private sector rose by 4%, while government's recourse to bank financing remained negligible. Capital and reserves of the banking system continued to rise, up by 9.6% over last year, reflecting the banks' efforts to strengthen their capital base in compliance with the recent requirements of the law.

51. *Balance of Payments:* In 2001, Cambodia had an overall balance of payments surplus of US$71 million. As a result, gross foreign reserves have increased and would be sufficient to finance about 3.4 months of total imports of goods and services. The data on external transactions for 2001 show that deficit on current account (excluding official transfers) contracted by 13.5% to US$219.4 million, and represented 6% of GDP. The main contributing factors were declines in deficit on both trade balance (14 percent) and income account (18.3 percent). In 2001, the value of domestic exports amounted to US$1,198.8 million, an increase of 10% over last year. One contributing factor was the increase of 13 percent in exports under Generalized System of Preferences. Retained imports increased slightly, up by 5.2% in 2001. During the same period, estimates by the Ministry of Tourism and the Ministry Interior suggested a sustained development in the tourism sector as passenger arrivals in Cambodia continued to rise by about 30%. This reflected the confidence of foreign tourists in the political stability and safety within Cambodia In 2001, receipts of official transfers were estimated to be US $ 274 million, a slight increase of 1.1 percent relative to 2000. Foreign investment flows were estimated to be flat at US $ 113 million due to global economic slowdown even before the September 11 events. Capitalization of the banking sector rose by US $ 27 million, showing the bank's efforts to comply with the provisions of the law concerning the new minimum capital requirements.

REVENUES

52. Progress has been made in implementing fiscal reforms in 2001. Following are key policy actions taken by the Ministry of Economy and Finance in 2001 to enhance revenue collection and strengthen governance:

- Treat all diesel sales as final sales for VAT purposes;
- Improved enforcement of the 10 percent tax on entertainment services;
- Implement stamp system for taxes on cigarettes;
- Establish a Large Taxpayers Unit (LTU), with the direct payment by check or transfer to the National Treasury accounts at the NBC for the largest taxpayers; and
- Reduce the number of tariff bands from 12 to 4 and lower the maximum tariff rate to 35 percent, with associated increase in excise rates in the context of tariff restructuring;
- Conducting a study on the viability on the expansion of the real regime to another five provinces. The real regime has been expanded in 2001 to five provinces: Sihanoukville, Battambang, Siem Reap, Kompong Cham and Koh Kong.
- Expansion of VAT coverage to include 150 additional firms.
- Preparing for implementation of government decision (by Prime Ministerial Order), which specifies the means for strengthening inter-agency cooperation to reduce smuggling, and detailing assistance requirements and practical arrangements among

TABLE 2: NATIONAL BUDGET INDICATORS

Particulars	1995		1997		1999		2000			2001			2002		
	Budget Out-Turn		Budget Out-Turn		Budget Out-Turn		Budget Out-Turn			Budget Out-Turn			Planned Budget		
	in Billion Riels	% of GDP	in Billion Riels	% of GDP	in Billion Riels	% of GDP	in Billion Riels	in Million US$	% of GDP	in Billion Riels	in Million US$	% of GDP	in Billion Riels	in Million US$	% of GDP
DOMESTIC REVENUE:	**643.0**	***8.46%***	**881.0**	***9.63%***	**1,253.1**	***10.76%***	**1,458.6**	**376**	***12.23%***	**1,529.3**	**392**	***11.83%***	***1816.0***	***466***	***13.60%***
1. Tax Revenue	445.5	*5.86%*	597.4	*6.53%*	979.7	*8.41%*	1,069.1	275	*8.97%*	1,096.6	281	*8.46%*	*1249.0*	*320*	*9.35%*
Direct Taxes	21.8	*0.29%*	46.1	*0.50%*	77.5	*0.67%*	135.5	35	*1.14%*	140.5	36	*1.09%*	*138.0*	*35*	*1.03%*
Indirect Taxes	26.4	*0.35%*	65.7	*0.72%*	89.8	*0.77%*	107.8	28	*0.90%*	580.5	149	*4.49%*	*161.0*	*41*	*1.21%*
Customs Import Duties	320.8	*4.22%*	485.7	*5.31%*	795.5	*6.83%*	796.9	205	*6.68%*	837.6	215	*6.485*	*950.0*	*244*	*7.11%*
2. Non tax Revenue	189.8	*2.50%*	271.3	*2.96%*	359.6	*3.09%*	360.2	93	*3.02%*	423.8	109	*3.28%*	*542.0*	*139*	*4.06%*
o/w forestry Revenue	52.9	*0.70%*	37.4	*0.41%*	36.3	*0.31%*	41.0	11	*0.34%*	29.3	8	*0.23%*	*46.0*	*12*	*0.34%*
3. Capital Revenue (Domestic)	7.7	*0.10%*	12.3	*0.13%*	13.7	*0.12%*	29.3	8	*0.25%*	9.1	2	*0.07%*	*25.0*	*6*	*0.19%*
Tax System Structure:															
% of total tax revenues															
• *Internal Tax*	*116.4*	*26.1%*	*249.9*	*41.8%*	*529.5*	*55.0%*	*649.7*		*62.5%*	*701.2*		*62.9%*	*819.0*	*210*	*65.6%*
• *External trades tax*	*329.1*	*73.9%*	*347.5*	*58.2%*	*433.4*	*45.0%*	*390.4*		*37.5%*	*413.5*		*37.1%*	*430.0*	*110*	*34.4%*
EXPENDITURE:	**1,247.9**	***16.43%***	**965.3**	***10.55%***	**1,515.7**	***13.01%***	**2,039.7**	526	***17.11%***	**2,362.0**	**606**	***18.26%***	***2636.0***	***676***	***19.73%***
1. Current Expenditure	736.8	*9.70%*	816.0	*8.92%*	1,095.9	*9.41%*	1,215.5	313	*10.19%*	1,384.9	355	*10.71%*	*1576.0*	*404*	*11.80%*
Defense & Security	430.7	*5.67%*	419.3	*4.58%*	468.1	*4.02%*	450.7	116	*3.78%*	405.4	104	*3.13%*	*300.0*	*100*	*2.92%*
Civil Administration	306.1	*4.03%*	396.6	*4.34%*	627.8	*5.39%*	764.8	197	*6.41%*	959.0	246	*7.42%*	*1186.0*	*304*	*8.88%*
2. Capital Expenditure	**511.1**	***6.73%***	**149.3**	***1.63%***	**419.8**	***3.60%***	**824.2**	**212**	***6.91%***	**977.1**	**251**	***7.56%***	***1060.0***	***272***	***7.94%***
Locally financed investments	56.9	*0.75%*	110.3	*1.21%*	223.6	*1.92%*	303.4	78	*2.54%*	283.0	73	*2.19%*	*360.0*	*92*	*2.70%*
Externally financed investments	454.2	*5.98%*	39.0	*0.43%*	196.2	*1.68%*	520.8	134	*4.37%*	694.1	178	*5.37%*	*700.0*	*179*	*5.24%*
DEFICIT/SURPLUS															
Overall	**(604.89)**	***-7.96%***	**(84.31)**	***-0.92%***	**(262.58)**	***-2.25%***	**(581.04)**	**(148.98)**	***-4.87%***	**(832.72)**	**(218.00)**	***6.44%***	***(820.0)***	***(210.26)***	***-6.14%***
-of which current	(93.81)	*-1.23%*	65.03	*0.71%*	157.17	*1.35%*	243.15	62	*2.04%*	144.36	45.00	*1.12%*	*240.0*	*61.54*	*1.80%*
GDP in Billions of Cambodian Riels	**7,597**		**9,149**		**11,646**		**11,923**			**12,932**			**13,357**		

Source: Ministry of Economy and Finance

- the Customs Department, the Armed Forces, the Military Police, the Police and the local authorities.

53. As part of additional revenue measures, the Ministry of Economy and Finance (MEF) has taken the following steps to recover non-tax revenue:

- Reinforce procedures to collect tax and non-tax arrears, especially the arrears on telecommunications and from state assets;
- Improved collection of visa fees and introduce a sticker visa;
- Review the contract on the sale of tickets to the Angkor temple complex;
- The establishment of a taskforce between the MEF and the line ministries to provide for a monitoring mechanism for leases of state assets and increase efforts to collect arrears and payments due on leases of state assets;
- Initiate inventory of state assets;
- Prepare the assessment report with the Ministry of Post and Telecommunications in order to review the contract for the second international gateway and to ensure appropriate transfer of revenue to the budget.

54. Having taken the above revenue-enhancing measures, domestic tax revenue increased modestly in 2001. In nominal terms, domestic revenues increased 7 percent and current revenues by 9 percent, compared to 2000, reflecting increased collection of non-tax revenue. This largely reflects a boost in domestic revenues from new measures introduced in the second half of 2001. In 2001, non-tax revenues have increased almost 19 percent over last year, because of higher collections compared to last year from civil aviation (40 billion riels, compared to 25 billion riels); tourism income (14 billion riels, compared to only 6 billion riels); visa fees (31 billion riels compared to 20 billion riels), post and telecom (33 percent higher than last year), casino royalties (20 billion riels); and quota (104 billion riels compared to 88 billion riels).

55. The overall revenue performance, however, has been adversely affected by shortfalls in excise revenue collection as a result of the consolidation of the tariff bands and the capping of the highest rate at 35 percent. It is, however, only a temporarily problem. The international trade tax collection has met the budgetary target.

56. Tax revenue collection increased modestly and was only 5 percent higher than last year, mostly attributed to the payroll tax (44 percent above last year), excise (43 percent above last year), VAT (7 percent above last year) and international trade tax (a slight reduction of 4 percent). As part of the tariff restructuring, the maximum tariff rate was reduced to 35 percent and the tariff bands were streamlined from 12 to 4. To offset customs tariff reduction, the government increased the excise rates. Combined together international trade tax and excise collection increased by 5 percent, partly due to an abnormal increase in the imports of petroleum products in December 2001, in anticipation of an introduction of an additional petroleum tax in 2002. Such an increase will have an impact on the collection of international trade tax in the first quarter of 2002. It is also important to highlight the fact that with the expansion of the real regime to five provinces, domestic VAT collection increased by 17 percent. The collection of profit tax experienced a decrease of 2 percent, due to arrears recovery last year. Turnover tax collection decreased by 23 percent compared to the

previous year, as more companies have been transferred from the estimated to the real regime.

57. Governance has been strengthened in revenue collection through the implementation of the Strengthening Economic and Financial Management (TCAP) Project, which consists of reforms in budget management, customs, taxation and treasury. Measures have also been taken to prevent leakages, especially by combating smuggling and strengthening customs administration. An inter-agency cooperation initiative, covering both the central and provincial levels, was launched by the RGC to combat smuggling. Through this initiative support will be provided to strengthen practical cooperation arrangements between the Customs Department, the Armed Forces, the Military Police, the Police and the local authorities to prevent and crack down on smuggling. At the same time, the government has taken steps to increase collection of telecommunications revenue and non-tax revenue.

PUBLIC EXPENDITURE

58. On the expenditure side, the following actions have been taken to improve public expenditure management:

- Continue to remove ghost workers and ghost soldiers from civilian, defense and security payroll;
- Improve spending priorities by providing adequate funding and meet budget targets for spending on social and economic sectors, such as health, education, agriculture and rural development;
- Improve the implementation of the Priority Action Program (PAP) to increase budget disbursement to the priority sectors;
- Increase public investment in rural infrastructure;
- Repair and maintain national roads and bridges and strengthen institutional capacity;

59. The 2001 Budget was implemented cautiously to make room for financing the commune elections, provide support to flood relief efforts of the RGC, and to reach the targeted fiscal balance. The increased spending on flood relief in 2000 has had a major impact on the fiscal position in 2001. The financing of commune council elections put an additional constraint on budget execution in 2001. However, total expenditure has been contained below targets, thus minimizing the need for domestic budget financing. In 2001, the overall fiscal deficit (excluding grants) has been contained at 5 percent of GDP, while the current surplus was maintained at 1½ percent of GDP.

60. In 2001, concrete steps were taken to implement RGC's policies to shift spending priorities by providing adequate funds for social and economic sectors, and for public investment in rural infrastructure. Although progress has been achieved in reorienting government spending away from defense and security, the pattern of disbursements for social sector spending has remained irregular, reflecting primarily inefficient cash management at the national and provincial levels. Military spending continued to decline from 6.4 percent of GDP in 1994 to 4.1 percent in 1999 and 3.1 percent in 2001. At the same time social spending has increased from 2.1 percent of GDP in 1994 to 2.6 percent in 1999 and 3.5 percent in 2001. Over the last five years, disbursements of Health budget have

almost tripled from 45 billion CRs in 1997 to 130 billion CRs in 2001, while disbursements for Education budget more than doubled from 83 billion CRs in 1997 to 212 billion CRs in 2001. In real terms, Health and Education spending has increased from 1.5 percent of GDP in 1994 to 2.6 percent of GDP in 2001. Capital expenditure increased by 4 percent in 2001.

61. Through rigorous implementation of the fiscal reforms along with stringent budget management and revenue enhancing measures introduced in 2001, the RGC succeeded in containing expenditures at a level that was required to maintain macroeconomic stability. To strengthen governance in public expenditure management, in 2001, the RGC started the full implementation of the procurement procedures in four priority ministries: Ministry of Education, Youth and Sports, Ministry of Health, Ministry of Agriculture, Forestry and Fisheries, and the Ministry of Rural Development.

2.4 SECTORAL DEVELOPMENTS

2.4.1 SOCIAL SECTORS

EDUCATION SECTOR

62. For Cambodia, investment in education and training is critical for achieving sustained economic growth and productivity improvement. The Government is committed to expanding equitable access to basic education and improving its quality and strengthening the efficiency of use of resources allocated to education. The Government is also committed to mobilizing additional resources for education to increase spending in line with other countries in the region. The Government's education reform process that began in mid 1999 has resulted in the formulation of an education policy and strategic frameworks that establishes the overall sector development priorities, sub sectoral targets and a medium term education expenditure framework for the period 2001/2005. In late February 2001, the education strategic plan (ESP) was reviewed and appraised by other stakeholders, following which a more detailed education sector support program (ESSP) was prepared late May 2001. In late June 2001, both the ESP and the ESSP were again reviewed and broadly endorsed by the Government, donors and NGOs. Subsequently, these education reform plans have been endorsed at a high-level Governor's Forum and the Education Round Table. The key policy elements and the phasing/sequencing and implementation of these policy priorities will continue to be refined through a rolling Program guided by the Government-led *Education Strategic Plan (ESP) and the Education Sector Support Program (ESSP)* issued around mid 2001. The joint endorsement of ESP and ESSP by the Government, donors and NGOs provides a shared framework and commitment to key policy actions that will be further elaborated in a joint common policy action matrix to be endorsed in 2002.

63. **Basic Education**: The basic education reform agenda now being implemented is aimed at improving the delivery of education services and strengthening equity of access. The Government accords the highest priority to providing nine years of quality basic education. Recent reforms have begun to address these equity and efficiency issues with the extension of school instructional hours, increased textbook provision and increase in teachers' salaries even though salaries of other public servants have been frozen. Abolition

of start of the year parental contributions, provision of school operating budget and remedial classes under PAP have resulted in immediate impact. MoEYS reports that primary school enrolment has increased from 2.3 million to 2.7 million in the last 12 months. Secondary enrolment has increased from 380 000 to 460 000. It has reported increased enrolment in parts of the country where children were less willing or able to attend school. Also, the progression rates in primary school in 2001 have increased from around 75% to 90%. In other words, repetition in the lower grades is being reduced, allowing more children to enter grade 1. The number of girls in the higher grades is also increasing. In other words, the reforms are dealing with both the *poverty and the puberty traps.*

64. **Upper Secondary:** In recent years, reforms have focused on increasing enrolment, especially of girls, strengthening academic standards, and reducing repetition and drop out rates through a sustained improvement in the quality of education. Enrolment of girls is still low but improving with girls constituting about one third of total enrolment. The planned education reforms include expansion of the upper secondary education facilities in under-served areas, curriculum development, and provision of adequate operational budgets, as well as measures to ensure equitable access for the poorest families. Incentive programs at upper primary and lower secondary levels (eg. school feeding, scholarships for the poor) have resulted in increasing retention and progression of the poor and girls that will result in increased upper secondary enrolment over the next 2 to 3 years reflecting the enhanced participation of the disadvantaged and vulnerable groups. As part of the reform process, the Government has begun to carry out a public/private partnership study in 2001 that will examine the opportunities for the participation of the private sector in providing upper secondary school education services.

65. **Higher Education**: The Government recognizes that higher education institutions need to improve performance. A number of areas have been identified that need to be addressed to make post secondary education yield higher returns and be able to support the process of economic and social development. A policy priority of the Government is to strengthen financial, regulatory and management systems alongside improved quality assurance mechanisms, linked to increased operational autonomy for the institutions. The priority action program (PAP) for higher education in 2001 and 2002, which includes operational budget support for institutions, is the initial vehicle for improved institutional governance and transparent financial planning and management. MoEYS will also prepare an enabling legislation in 2002 on the revised status of higher education institutions, designed to underpin the governance, institutional and financing reforms.

66. **Technical and Vocational Education and Training (TVET)**: Concomitant with economic growth is the increased demand in urban and rural areas for a broader range of relevant technical skills. At present the capacity of the public TVET system is limited and its orientation is largely divorced from the needs of a market economy. In recent years, student enrolment and the number of courses have been declining because of a perception of poor quality of training and lack of opportunities for employment in public administration. The weakness in public sector TVET system have encouraged a robust private sector response with an increasing number of private sector institutions providing training, on a fee basis, in information technology and foreign languages. However, most private sector TVET activities are confined to Phnom Penh and TVET capacity in rural areas remains dependent on

external assistance through non-formal TVET delivery. In early 2001, a Strategic Plan for the development of the TVET system has been approved by the National Training Board. The first priority of the Government is to put in place the needed regulatory and quality control mechanisms and to support the growing public/private partnerships, and to ensure an increased operational autonomy for the institutions. TVET plans for 2002 include expansion of the provincial training center network to underserved provinces, sustainable financing of the TVET operations and the national training fund, as well as support for building capacity of the public sector TVET system.

HEALTH SECTOR

67. During 2001, the Ministry of Health reviewed and revised its formal Health Policy Statement for 1999-2003. The 1999-2003 policy had focused on seven main areas, these have been expanded to 12, and sharpened in focus. The Health Sector Review was also completed in 2001, it is the first step in a sequence of actions that will shape Cambodia's health services in the future. The purpose of the Review was to provide a broad assessment of the sector's performance and of the effectiveness of the policies and strategies that have guided its development. The Ministry is now engaged in a consultative process that will result in a Health Sector Strategic Plan for 2003-2007. The level of financial resources available for funding priority health services will be established in the course of the preparation of the Government's Medium Term Expenditure Framework.

68. **Findings of the Health Sector Review**: The main features of Cambodia's health sector are of relatively recent origin. Only ten years ago the role of the Ministry of Health (MOH) was very modest in scope, and there was only a nascent private sector. However, both have since developed rapidly. The achievements of the MOH during such a brief period are particularly striking. It has successfully reasserted technical and fiscal control over the entire public health system. It has also developed a national health policy and strategy that includes major financial reforms (e.g., the introduction of formal user fees) and a national system of primary health care coverage. The MOH has also made substantial progress in many critical areas of public health, including polio eradication, TB and malaria control, HIV/AIDS prevention and in the introduction of modern birth spacing. The period in which these achievements have been made is so short and recent that in most cases their impact is not yet fully reflected in the available survey data. Perhaps most commendably, the MOH has remained flexible and open to change and has been truly innovative in some areas. Another noteworthy achievement is the extent to which the many NGOs working in the health sector provide their support through the Government's health care system. Yet, despite the many achievements, in Cambodia's newly established health sector much work remains to be done.

A Strengthened Health Care System

69. *The Strategic Plan:* Drawing on the experiences of implementing the 1996-2000 and 1999-2003 Health Policy and Strategies, during 2001 the Ministry of Health evaluated and revised these policies and strategies for the health sector in consultation with its partners, including international organizations and relevant institutions. The Health Sector Review has been completed and the Report released. Based on this review, the Ministry of Health is

preparing a Strategic Plan for Health Sector for the 2003-2007 period that will be completed in 2002. The Review of the Health Sector and preparation of the Strategic Plan will set the stage for the establishment of Sector Wide Management.

70. *Expansion of basic health services:* During the year, under the Ministry's Health Coverage Plan, expansion of basic health services to the remote areas has been continuing. The number of health centres equipped with materials, drugs and staff, has increased from 678 in 2000 to 768 in 2001. Now 81 percent of the 940 health centres that have been planned are completely functioning and providing the minimum package of activities (MPA). Although the establishment of referral hospitals is more time consuming, 10 district hospitals are now providing major or minor surgery under the CPA and qualify as referral hospitals.

71. *Health technology:* While strengthening health system through health district development, the Ministry of Health has also promoted health technology expertise. The new Cardiac Centre in Phnom Penh is a major achievement that will play an important role in training Cambodian health professionals.

72. *Budgets:* The RGC's financial reform program has allowed the Ministry of Health to utilize the budget of the Priority Action Program in seven provinces and cities, and eight national programs. Meanwhile, we continue using the Accelerated Developed District budget in 32 districts.

73. *Partnerships:* As part of strengthening the district health system through partnership with the private sector and NGOs, during 2001 the Ministry of Health evaluated the two pilot 'contracting-out' operational districts, three 'contracting-in' operational districts and four 'control' districts. The evaluation has shown that both these forms of contracting have increased the provision of basic health services from two to three fold over the three year implementation period. Consultations increased from five to 10 fold within three years, and health expenditure per capita rose from $2.8 to $4.5. This is a reasonable level of expenditure by comparison with the per capita health expenditure in the whole country of $7 (about $2 from the government and $5 from international aid). In some districts, the health expenditure of the poor has been reduced 60-70 percent within the 3 years of the pilot project.

74. *User fee schemes:* For generating income in order to improve basic health care services, the Ministry of Health has been piloting various user fee schemes in a number of hospitals and health centres. The findings of the evaluation of these schemes shows that while such schemes have contributed to an improvement of both the quantity and quality of health care at the health centers, in the case of hospital care, especially for serious conditions, these could adversely affect the poor.

75. *Quality assurance:* For quality assurance of public sector health services, the Ministry of Health has made efforts to improve health legislation. These have included: a sub-decree on medical professional practice, regulations on public sanitation, a sub-decree on cosmetic products management, regulation of dairy milk products, a sub-decree on permission for foreign businesses in health, the establishment of the Inter-ministerial Committee for Tobacco Reduction, and a procedure for opening or closing medical services. In addition,

the University of Health Sciences has been adopted by a sub-decree as a public administrative institution.

Improved Health Services Delivery

76. *Attendance rates:* In general, the delivery of health care services has increased significantly. The new attendance at OPD per inhabitant per year is now 0.51. The utilization rate of OPD at HCs has doubled over the last two years.

77. *Immunization:* During 2001, Cambodia was declared polio free - poliomyelitis has been totally eradicated from the country. The Ministry has now begun programs for the eradication of tetanus and measles. The Ministry has also implemented an immunization program for Hepatitis B in Kampong Chhnang province.

78. *Ante-natal care and birth spacing:* Although there is still insufficient training of health staff for ANC and delivery, birth spacing activities have increased gradually, with 96 percent of currently married women knowing at least one method of family planning, and 24 percent currently using a family planning method – 19 percent a modern method.

79. *HIV/AIDS:* The declining prevalence rate of HIV/AIDS is a signal of success in the HIV/AIDS prevention program in Cambodia. The 100 percent condom use program has been expanded nationally.

80. *TB:* Implementation of DOTS for treatment of TB has been extended to many new HCs, and the cure rate is being maintained at a high level (85 percent). However, the new case detection rate remains low. In addition, there is a need to pay particular attention to the increasing impact on TB of HIV infection rates in the country.

81. *Malaria:* In general, both new cases and the mortality rate of Malaria decreased from the previous year. But incidence remains high, particularly in provinces which are close to the Thai, Vietnam, and Lao borders. Malaria outbreaks have been managed effectively and activities against schistosomiasis have been performed effectively.

82. *Blood donation:* The blood donation system has been extended to provinces and RHs at OD level and blood collection activities have been encouraged. All donated blood is now strictly tested by laboratories.

83. *Other public health services:* Other public health service activities such as oral and dental health, mental health, blindness prevention, food safety and nutrition, have also been delivered with good results during the year.

84. *The private sector:* Regulation of private sector services, both pharmacies and clinics, has been promoted to ensure they conform to legal regulations. The number of illegal pharmacies and clinics remains high, however. In 2001, 11 new drug companies were registered, making a total 82 in the country. The Ministry approved 33 pharmacies, and 16 illegal pharmacies were closed. It was estimated that there were 1,876 places providing private sector health care services, including medical care, dental care, laboratory services

and cosmetic surgery in 2001, of which 80 percent are illegal. There are a total of 114 private hospitals, though these have fewer than 500 beds. Some well-off patients travel to Thailand or Vietnam for treatment.

85. *Other interventions:* The Ministry has also established preventive health services for military engineers who are working on construction of bridges, roads and/or are posted at the borders; health consultations for demobilized soldiers; emergency health services in areas affected by natural disasters such as floods and fires; border health programs at the borders with Vietnam, Laos, and Thailand; and ensured that Cambodia is integrated into ASEAN by participating in, and conducting, regional conferences.

Improved Management of the Health System

86. *Supply of drugs and equipment:* During 2001, the Ministry of Health received 1,162 tons of drugs worth 14 million $US, of which, 60 percent was funded by the government, 33 percent by international aid funds, and seven percent from other sources. These drugs have been distributed quarterly to Operational Districts, National Hospitals, Referral Hospitals, and Health Centres. For distant provinces, the drugs have been distributed semi-annually. The prioritized target for these drugs and medical equipment is to support the basic health services at HCs, RHs, National Programs and all outreach activities. The Ministry of Health has also developed guidelines for using the drugs for all health staff and organized teams to train health staff at their facilities in using the guidelines effectively.

87. *Regulation of the drug in the private sector:* To support the private sector health services the Ministry of Health has provided training on its policies to drug sellers in Phnom Penh and operators of private pharmacies. The Ministry has also emphasized regulation of all pharmacies and pharmaceutical companies.

88. *Human resource development:* The Ministry of Health has promoted training activities, local and international, in order to strengthen the human resource base of the health system. In 2001, 134 medical doctors, 32 pharmacists, 26 dentists, 289 nurses, 11 midwives, 11 physiotherapists, and 20 laboratory technicians have graduated from Cambodian education institutions. The Ministry, and particularly the Human Resources Department, has provided continued training on the Minimum Package of Activities to 357 health staff. For international training activities, 393 staff has received short course overseas training and 45 received long-term overseas training from 6 months to 2 years.

89. *Staff Management:* During 2001 the Ministry recruited 489 additional new staff, dismissed 412 staff, and allowed leave of absence without salaries to 1215 staff. In addition, the Ministry, in collaboration with the Council of Ministers, Secretary of State of the Public Functions, and other Ministries has developed and used a staff information management system and job analysis. As a result, the number of medical doctors and medical assistants per 1,000 population has decreased from 0.4 in 1998 to 0.3 in 2001, and the number of nurses and midwives per 1,000 population has decreased from 1.2 to 0.9. There remains an imbalance between medical doctors, medical assistants and nurses, and the shortage of nurses and midwives has resulted in insufficient staff at HCs and RHs. It is important to note, however, that during this year, the number of new staff recruited and staff resuming their

work is less than one third of the staff that left their jobs for retirement, leave of absence, disabilities, attendance at long-term training, work in other Ministries, and leave for other reasons. In general, the number of medical doctors and medical assistants per 1,000 habitants in 2001 of 0.3 is not significantly less than our neighboring countries: Vietnam (0.48), Thailand (0.24), and Laos (0.24), Indonesia (0.16) and Myanmar (0.30).

90. *Budgeting:* In 2001, expenditure by the Ministry of the funds allocated in the National budget was high (83.7 percent of the allocated budget). Expenditures of the allocated budget at the central level was 91.3 percent and 83.7 percent at provincial level. There was an improvement in expenditures from the PAP budget; on the other hand expenditure from the ADD budget was a lower percentage than last year.

91. *Coordination:* The Ministry had excellent coordination and international collaboration to support the delivery of health services during the year. In 2001, the Ministry signed 8 MoUs with NGOs, and 10 with bilateral donors. To ensure integration of the country into ASEAN, the Ministry participated in four technical meetings, of which one was held in Phnom Penh. The Ministry has maintained its existing coordination mechanisms of regular Cocom and Prococom meetings.

92. *Other activities:* Other supporting activities included: Supervision, Inspections, Regular meetings, Health information Systems, Laboratories, Research, Procurement, General administration and Construction and provision of material and equipment for ODs.

93. *Overall achievement:* Overall, with the strong support of the RGC, the Ministry of Health has achieved remarkable results during 2001. These results reflect the physical and moral effort of health staff at all levels and excellent cooperation of the relevant institutions, the external development partners, NGOs, the private sector, and the society at large.

2.4.2 ECONOMIC SECTORS

AGRICULTURE, FORESTRY AND FISHERIES

94. The Agriculture, Forestry, and Fisheries, combined, contribute about 43 percent of GDP and provide direct employment to nearly 80 percent of the labor force. Since 85 percent of the population lives in rural communities and 75 percent of the poor are farmer-headed households, the performance of the agriculture sector remains a key element for achieving sustained economic growth, poverty reduction, and development of the rural economy. The development of the agriculture sector is principally constrained by low productivity, which will require concerted efforts to overcome structural constraints. Inadequate transportation and irrigation infrastructure, lack of agriculture inputs, inefficient marketing and inconsistent institutional support remain immediate concerns. The RGC recognizes that its own capacity to provide efficient and effective support services has been a problem and is seeking increased private sector involvement. In recent years, reforms have focused on removing state responsibility for production to market-based agriculture resulting in land reform, price liberalization and adoption of legislation to permit joint ventures between the state and foreign investors. The MAFF was re-organized in collaboration with the FAO and additional capacity building is currently being provided by WB under its

Agricultural Productivity Improvement Project. Extension services have been expanded to research on rice varieties and transfer of agriculture technology to farmers with the support of AusAid. Under the ADB's ongoing Agriculture Sector Program, the RGC has taken actions for (a) wider dissemination of agricultural marketing and technological information, (b) liberalization of fertilizer pricing and marketing, (c) formulation of rural finance strategy, (d) divestment of the rubber sub-sector, and (e) establishment of local rural development committees. Policy and institutional reform is being supported by strategic public investment including village water supplies and rural roads to support the restoration of essential rural infrastructure and to generate rural employment. For the Government, raising farm and rural incomes is essential if widespread poverty is to be reduced and rural-urban migration is to be kept within manageable proportions.

95. **Forest Management Reform**. The RGC has made significant progress since the fifth CG meeting in 2001, in its efforts to ensure sustainable management of forest resources. In order to improve the performance of forest concessionaires conducting commercial logging activities, the RGC has introduced several rigorous measures, including the suspension of logging activities from January 1, 2002 until such time that a concessionaire would have a new forest management plan approved by DFW/MAFF consistent with international standards and would have renegotiated a model forest management investment agreement with the RGC. A significant reduction in the annual allowable cut was also imposed on forest concessionaires in 2000/2001. During the past year, there has also been continued progress in reducing the incidence of forest crimes. To strengthen the effectiveness of the partnership between project components further, the RGC has established an inter-ministerial Technical Working Group to improve information exchange and resolve internal differences between project components, and initiated plans to incorporate a bar-coding system that will strengthen the ability of project components to monitor the chain of custody of logs from forests to final users.

96. The legislative and policy framework that is indispensable to achieving sustainable resources management has been strengthened considerably with the passage of the long-awaited new forestry law. In addition, with the support of GTZ, a sub-decree on community forestry has been developed through a nationwide participatory multi-stakeholder consultative process to enhance local community participation in forest management decision-making processes. The initial steps to develop of a forest policy statement and a restructuring of the forest administration have been carried out by DFW/MAFF. The RGC is committed to complete the reform process in the forestry sector. It will continue its efforts to eliminate illegal logging, to enhance capacity building for DFW's staff and public awareness, strengthening forest rehabilitation and reforestation activities and to enlarge natural forest conservation for eco-tourism with the assistance of various donors. These efforts will ultimately stabilize the annual revenue stream received by the Government that will enable the Government to achieve the long-term sustainable forest resources management.

97. **Fisheries Reform:** Since the last CG meeting, the RGC has initiated a number of reforms to achieve sustainable use of natural resources that will also assist in the alleviation of rural poverty. These include the fishing lot reforms accomplished towards the end of 2001. The establishment of community fisheries is now underway in both inland and marine fisheries areas. The Sub-degree for the management of community fisheries has been

drafted after extensive consultations with stakeholders, Government agencies and NGOs. The establishment of community fisheries will also provide opportunities to these communities to participate in fisheries management and in the attainment of the goal of sustainable use fisheries resource. The Fisheries Law is also being reviewed by the Ministry of Agriculture, Forestry and Fisheries (MAFF)/Department of Fisheries (DoF). The MAFF has also launched initiatives on the conservation and management of fisheries resources, administrative reforms and capacity building. The DoF is seeking external technical assistance for fisheries management (monitoring, control and surveillance programs), the demarcation of fishing lots boundaries, fish sanctuaries and rehabilitation of freshwater fisheries and for building capacity of the DoF. The Department of Fisheries is also considering declaring the biosphere reserve core areas as fish sanctuaries in the future. For the time being, fishing in these areas will be restricted inside, while fishing operations will continue outside to protect the sanctuaries. A Master Plan for fisheries covering the 2001-2011 period is currently being prepared to guide the development of the fisheries sector.

INDUSTRIAL SECTOR

98. The Industrial sector in Cambodia consists mainly of manufacturing enterprises (73.5 percent) and construction activities (18.8 percent). Mining activities are quite minimal. Value added in the manufacturing sub-sector is comprised mainly of food processing and garment manufacturing. The textile & garment sub-sector led this spurt, displaying a remarkable dynamism. The industrial sector's share in GDP has increased from 12.7 percent in 1993 to about 18.3 percent in 1998, and to 23.5 percent in 2000.

99. In 2001, the Cambodian Investment Board at the Council for the Development of Cambodia (CDC/CIB) approved a total of 51 new investment projects that are expected to create about 28,347 jobs. These projects will have US$130 million registered capital and US$230 million fixed assets. Although FDI approvals by CDC declined by 14% from 2000 levels, other new private sector investments, which did not apply for incentives, have been established through agreements with relevant sectoral ministries/agencies. The main areas of new investments were: plantations/agro-industry, garments and textiles, food processing, telecommunications, tourism and Infrastructure construction. More than 90 percent of FDI is in light industry services and Infrastructure construction. More investments in manufacturing activities are now taking advantage of special trading rights under the Most Favoured Nation (MFN) and the Generalized System of Preferences (GSP) that has now been extended to Cambodia by many industrialized countries. The fixed assets of proposed industrial sector projects, mainly garment factories, accounted for 44 percent of CDC investment approvals in 2001, while new tourism projects accounted for 32 percent, infra-structure for 20 percent, with the balance in agriculture/agro-industry. The CDC approved some 14 new garment factories and 12 expansion projects with a registered capital of US$17 million and fixed assets of US$36 million. These garment projects would create 24,392 jobs, accounting for 86 percent of expected jobs to be created. As an important element of the local economy, the informal sector continues to be active and to grow, with small and medium enterprises expanding and expected to graduate to higher levels of organization, production levels and size.

100. The RGC recognizes that improving the business climate and creating an enabling environment for private sector development are key prerequisites for fostering growth, reducing poverty and achieving sustainable economic development. Challenges for the development of private sector include: weaknesses in the legal system, costs of and access to finance, inadequate market information on consumer trends, shortages of skilled labor, inadequate infrastructure that restrict access to markets and raw materials, the quality of the ports, the high cost of essential services namely electricity, water supply, and telecommunications service. Land issues for agriculture investment projects remain an obstacle for the Royal Government of Cambodia to be surmounted. Agriculture sector that has a real potential for growth cannot be developed if our focus remains only on food production utilizing traditional methods and technique. The RGC intends to consider a fiscal stimulus package, and will formulate policies and strengthen the legal framework for SMEs to create an enabling business environment for these enterprises. The level of SME activities in Cambodia is still low, accounting for 8.3% of GDP, compared to the average of 20-25% of GDP in the region.

101. Even though, several countries in the region have taken bold measures to attract investment, the *Investment Law of the Kingdom of Cambodia* is still generous in comparison with the investment regimes of other countries in the region. However, tax incentives alone - without an overall environment comprising adequate political stability, physical security, social order, legal and institutional frameworks, infrastructure (water, electricity, road), human resources and external markets - cannot attract investments. The RGC has been vigorously implementing revenue-enhancing measures by tightening and rationalizing incentives to generate additional resources to strengthen government institutions, increase investment in infrastructure, human resources, security, social order and market expansion research. In line with these initiatives, a review of investment incentives has been undertaken in conjunction with the removal of the 1 percent minimum tax on business turnover, which was considered distortionary. The MEF and the CDC working closely with the Foreign Investment Advisory Services (FIAS) of the World Bank Group as well as with other International Financial Institutions and private sector have completed the review of the Law on Investment and the draft Law is awaiting approval of the legislature. This Law will ensure the maintenance of balance between the need for increased revenues and Cambodia's competitiveness with countries in the region. Thus, the draft amendment to the Law on Investment while rationalizing the investment incentives, provides a simplified and transparent mechanism to automatically qualify investment projects for incentives. The amendment to the Law on Investment, includes provisions for :

- Eliminating the special 9 percent corporate tax rate for all new investments and phasing the 9 percent rate out to the standard 20 percent under the Law on Taxation for the next five years for existing, approved and operational projects;
- Eliminating tax free reinvestment of profits and introducing an appropriate investment allowance in the Law on Taxation applicable to all qualified investment, new or expanded, irrespective of source of finance, without evaluation;
- Repealing the current tax holiday provisions and introducing a new formula of Tax holiday: trigger period (≤3 years from business date) + 3 years + n to be mentioned in yearly financial Act, conditional on annual certification of compliance, to all qualifying new investment, without evaluation; the use of a tax holiday will deny the tax payer

any benefits available under the Law on Taxation during the tax holiday including the initial investment allowance as well as accelerated depreciation allowance; all current tax holidays provided under the Law on Investment will be "grand-fathered";

- Eliminating the right to tax-free repatriation of earnings and other incomes by approved enterprises.

102. In addition to these measures for increasing State revenues and attracting more FDI, the RGC has strengthened fiscal and economic management by focusing especially on the management of budget, strengthening tax and customs administrations and the national treasury. It has also shortened the length of approval process of new investments by simplifying administrative procedures.

TOURISM

103. Tourism plays a very important part in the rebuilding of the Cambodian economy. Cambodia has world-famous attractions including the archeological sites of Angkor Wat, world-class hotels in Phnom Penh and in Siem Reap, a rich history, and a culture that dates back to thousands of years. The number of tourists coming to Cambodia has been steadily growing over recent years. In 2001, visitor arrivals are estimated to be over 600,000. Since 1998, the number of tourists have increased at an average annual rate of 25-30 percent, and we hope to achieve a target of 1 million tourist arrivals by 2003.

104. Government has adopted an open skies, roads and water policy. Siem Reap Airport is undergoing a US$14 millions expansion. Phnom Penh's Pochentong International Airport is planned to be expanded. Highway six will reopen in 2002, allowing direct travel from Thailand to Angkor . Recently, Southeast Asian leaders have given the go-ahead for a US$2.5 billion 5,500 km rail link from Singapore to Kunming which will include stretches between Thailand and Cambodia and between Cambodia and Vietnam. At the same time, the Mekong River and Tonle Sap are being promoted by the government as waterways for cruise operator itineraries.

105. **Preparation for staging ATF 2003** is picking up momentum and there is progress in infrastructure development and tourism facilities. Plans to build the new Phnom Penh Exhibition and convention center (PECC) in the Capital is on track. This facility will support more national and international events of this stature in the future.

TRADE

106. The Royal Government's effort in Trade Sector Strategy formulation is part of its ongoing work for designing a National Poverty Reduction Strategy. At the national level, the work started with the formulation of the Second Five-Year Socio-Economic Development Plan, and the Interim PRSP. For the trade sector, the effort started with the preparation of a *"Preliminary Concept Paper for the Formulation of a Pro-Poor Trade Sector Strategy for Cambodia"* followed by our *"Tokyo Road Map: Mainstreaming Trade for Poverty Alleviation"* which was tabled at the July 2001 CG meeting in Tokyo. The aim of the trade strategy is to fully "mainstream" it into the PRSP.

107. The early efforts of the Royal Government to formulate the pro-poor trade sector strategy – initially under the umbrella and with the support of the Integrated Framework for Trade Related Technical Assistance (IF) – coincides closely with the PRSP effort. The IF is the outcome of a commitment made by six multilateral Agencies (IMF, ITC, UNCTAD, UNDP, World Bank, and WTO) to ensure better integration of trade policies with national development strategies and to increase the benefits that Least Developed Countries (LDCs) derive from trade-related technical assistance made available to them by the international community. On April 17, 2001, Cambodia was designated as one of the three pilot countries for pro-poor trade sector strategy formulation under the IF initiative.

108. The *Tokyo Road Map* essentially provides all the necessary inputs required to formulate a robust pro-poor trade sector strategy for Cambodia that can become a critical cornerstone of the country's poverty reduction strategy. It tackles some *cross-cutting policy and institutional issues* aiming at improving the overall environment for a successful pro-poor trade strategy. It focuses on what must be done to *strengthen and develop a number of product-sectors for exports*, especially product-sectors whose development will have a strong positive impact on Cambodia's poor and will help decentralize the export base from the two or three cities where it is concentrated at the moment. It involves building solid mechanisms for *participation and ownership* by all the relevant stakeholders. Last, it reviews a number of *initial interventions in areas that are considered as serious bottlenecks.*

109. Following the presentation of the *Tokyo Road Map*, the Royal Government and donors agreed to conduct a Diagnostic Study of *Cambodia's Integration and Competitiveness* into the international trading system. This study identifies obstacles and institutional development needs to address the demands of increased engagement in the international economy facing Cambodian households and firms and focuses on strengthening and developing a number of product-sectors for exports, especially product-sectors — rice, diversified agriculture, fisheries, garments, tourism, labour services.

110. Cambodia has made considerable progress in establishing a modern trade regime. Over the last several years the Royal Government has embarked on a comprehensive program of economic and trade policy reforms. On the trade side, all quantitative restrictions limiting the ability of firms and individuals to engage in international trade were largely removed. More recently, the tariff regime has been significantly simplified with the number of rates falling from 12 to 4 in April 2001 and the top rate reduced to 35 per cent. The currency is convertible with dollarization pervasive. Thus in many respects the trade regime is relatively open.

111. The economy has responded well to this opening of trade. Growth rates of 5 per cent are good compared with those achieved in Cambodia's recent past. However they fall short of the performance achieved by neighboring countries. Moreover, these growth rates are insufficient to make a dent in the incidence of poverty.

2.4.3 PHYSICAL INFRASTRUCTURE

TRANSPORTATION

112. Cambodia's transportation infrastructure as well as public sector management capacities were severely damaged by years of war and neglect, unrest and intentional disruption. The problems have been exacerbated in recent years because of chronic budget constrains which have resulted in almost a complete cessation of maintenance activities on all modes of transport. Inadequate support services have created huge operational problems. The operational, policy and institutional constraints render the present transport system inadequate to meet the present and future needs of a growing economy. RGC's first priority in rebuilding the transportation infrastructure has been the reestablishment of the road network.

113. The RGC with external assistance from ADB, UNDP, World Bank, USAID, Japan, EU and other bilateral agencies and several NGOs has been focusing development efforts on the rehabilitation of the primary road network, including bridges and ferry crossings, in order to facilitate goods transport and the integration of markets. Significant projects in this category have included the reconstruction of the Cambodia-Japan Friendship bridge across the Tonle Sap at Phnom Penh, the upgrading of the first section of NR6 and NR7 and the construction of the Mekong Bridge at Kampong Cham, the reconstruction of NR4 to Sihanoukville, as well as the rehabilitation of long sections of NR 1,2,3,5 and 11. The Government has also from its own limited budget resources financed the repair and rehabilitation of some primary and secondary roads which link isolated areas (e.g. NR56, 58,59,67, 69a) to promote socio-economic development in rural areas. Other projects within the transport sector include improvements to the international ports in Phnom Penh and Sihanoukville. Renovations of the Pochentong airport with new traffic control and passengers facilities and upgrading of the Siemreap airport and facilities through a BOT arrangement and emergency repairs to key rail lines. The Construction of a bridge across the Mekong at Kopongcham was completed in December 2001.

114. The **Road Transport** is the only mode, which has nation-wide coverage, and it carries about 90 percent of the freight moved within the country. Within the road network system, primary routes connecting to neighboring countries such as Vietnam, Lao and Thailand have not yet been rehabilitated. The rehabilitation, improvement and connection of the main national roads/corridors and of transport system is a high priority of the RGC.

115. Within the domestic transport network, almost 65 percent of passenger kilometers per year and 69 percent of freight are carried by road. Boats account for about 15 percent of passenger and 20 percent of cargo traffic. The rail network carries the remaining 20 percent of passenger and 10 percent of the total cargo traffic. International seaports at Sihanoukville and Phnom Penh are the key gateways linking Cambodia to the regional and international markets. International Airports in Phnom Penh and Siemreap are also important gateways for growing passenger traffic.

116. The **railways** are limited to 2 lines, both of which are in poor condition due to acts of sabotage and limited maintenance activities. The northern line is from Phnom Penh to

Poipet (385km), however, the last section from Sisophon to Poipet has not been used since the early 1970's. The southern line is from Phnom Penh to the port of Sihanoukville (263km).

117. **River transport** was the main means of travel in the past. Inland ports and waterways play a very important role in the country. Agriculture and forest products, oil and bulk cargo, and heavy machinery can be transported by inland navigation. Passenger water transport is also important because of poor land transportation service. However, inland ports and waterways have been left unimproved. Inland ports, such as Kompong Cham and Kratie, and inland waterways development projects are being seriously considered by the RGC. Historically, Phnom Penh has played an important role, being strategically located at the waterway junction of the Mekong, Tonle Sap and Bassac rivers. In recent years, there has been a continuing shift from river transport to vehicular transport as the main mode of travel.

118. Most of the waterways traffic is on the Mekong river between Phnom Penh and Ho Chi Minh city and from Phnom Penh upstream to Kratie. Vessels of up to 5,000 tones can navigate along the Mekong up to Phnom Penh for most of the year. Traffic on waterways other than the Mekong is by mean of small craft and constitutes a very small volume. International ports play an important role and are expected to increase in importance not only for traffic within the country but also to neighboring countries

WATER RESOURCES MANAGEMENT AND SANITATION

119. As Cambodia rebuilds its society and economy, obstacles to the Royal Government's goal of poverty alleviation and economic development must be identified and addressed. Water is of fundamental importance in many sectors, although many people take water for granted. A sector-wide analysis just completed by the Royal Government has revealed many areas in which water – too much water, too little water, or water of inadequate quality – may soon limit the Nation's development efforts. Cambodia has abundant total water resources, however rural and urban population growth and growing affluence in urban areas has placed unprecedented demand for water resources. Deforestation, soil erosion and sedimentation in the Great Lake, changes in the hydrologic regime cause by ill-advised Khmer Rouge projects, and sedimentation of waterways have resulted in abnormal floods and droughts. Nevertheless, Cambodia has substantial potential to meet its needs by developing major streams for multi-purposes including irrigation, water supply and hydropower.

120. *Water demand and use*: Total use of water is estimated to be 0.75 km^3/year, of which 94% is for agriculture. There are more than 1,000, and possibly as many as 2,000 irrigation systems fed by surface water abstractions. The ADB, WB, EU, France, Japan, and Italy are active in the development and capacity building in this sector, but there is still a large need to be met. With assistance from ADB, Japan and WB, the Ministry of Water Resources and Meteorology (MoWRM) is formulating a new water resource development policy including a National Water Strategy and Legislation. MoWRM, however, requires assistance in building its capacity to manage the implementation of policies.

121. In addition to MWRM, which has primary responsibility for water resources and meteorology, other agencies with responsibilities in the sector include the Department of

Provincial Water Supply (DPWS) of the Ministry of Industry, Mines and Energy (MIME), which is responsible for urban water outside Phnom Penh. Formal sanitation and drainage in the provincial towns and Phnom Penh rests with the Ministry of Public Works and Transport (MPWT). Water supply in Phnom Penh is the responsibility of the Phnom Penh Water Supply Authority (PPWSA). Management of urban water resources is the responsibility of the Municipality of Phnom Penh (MPP), and the Ministry of Rural Development (MRD) is responsible for the rural water supply.

122. Over the years a number of studies have been carried out, the results of which have been summarized in a report commissioned by the Interim Mekong Committee (WATCO, 1984). In this process, a number of promising irrigation, power and multi-purpose (irrigation and power) projects were also identified that have a total irrigation potential of 358,900ha in wet season and 318,220ha in dry season and a potential for power generation (1,522 GWh/year). There is now an urgent need to develop a Master Plan for the development of the basin to begin the process of implementing these projects.

123. *Irrigation and Flood Control Development* – Cambodia is an agricultural country in which 85% of population consists of farmers. At present, however only 18% of the total rice growing area is irrigated and 82% of the total cultivated area is dependent on rains. Given the temporal variability of rainfall patterns, crop production is often threatened by drought that causes reduced yields and sometimes a complete loss of the crop. Development projects to control floods and to optimize the use of available water resources are important for reducing poverty in both the rural and urban communities. The Emergency Flood Control and Irrigation Rehabilitation Projects supported by the ADB and World Bank are making an important contribution in protecting communities from the adverse effects of floods, which cause loss of life and social disruption on almost an annual basis. The benefits of these projects can be seen in terms of reduced social disruption and annual damage to property as well as in restored and improved agricultural production where irrigation systems have been rehabilitated. The increased crop cultivation reduces dependence on emergency food distribution during the flood season, and improves the overall social and health situation of the communities. Elimination of the damaging effects of floods permits the establishment of permanent improvements within the communities, including schools, clinics and hospitals, as well as other Government facilities. Employment opportunities increase with the flood alleviation measures, leading to overall social benefits to the community and Cambodia.

124. *Water Supply and Sanitation.* The current situation has harmful implications for public health. Diarrhoeal diseases derived largely from drinking unsafe water are a leading cause of morbidity among the population, especially among children. The lack of proper sanitation, inadequate water supply and poor hygiene practices are the primary causes of diverse water borne diseases and various parasitic infections. Moreover, in rural areas women and children often have to walk long distances, especially in the dry season to fetch water that, given the time and energy expended on meeting this need, has significant negative effects on health, nutrition and productivity. With external assistance the Government has focused efforts to rehabilitate production and distribution facilities. Technical assistance has been important in identifying issues, building institutional capacity, developing technical skills and improving operational performance. On-going development projects have included rehabilitation of sanitation and sewerage systems in Phnom Penh,

including collection and treatment, introduction of a charging system, and installation of 12 new pumping stations to reduce flooding in low lying areas. For the rural areas, the plan is to increase access to sanitation facilities from 6-22% covering an extra 1.5 million people by constructing 135,000 latrines on a flexible cost sharing basis as well as providing support for community education in hygiene and sanitation.

125. The *Urban Water Supply and Sanitation* sector is weak in terms of both its technical capacity and financial performance as manifested in low coverage and inadequate service of poor quality. About 75 percent of the population in Phnom Penh and 13 percent in other Provincial and District towns have access to piped potable water supplies. This leaves about 9 million people in rural areas without access to clean water. Rehabilitation in Phnom Penh is on-going with financial support from ADB, WB, France, Japan, and other donors. Under WB Urban Water Supply project, the Sihanoukville Water Supply Authority has begun construction to be finished in 2003 to provide water to about 50 percent of Sihanoukville. Under ADB credits, partial rehabilitation of Battambang, Pursat Kampong Thom, Kampong Cham, Kampot, and Svay Rieng is being carried out and community sanitation and health awareness will be improved in the center of Sihanoukville, Battambang, and Kampong Cham. Another project in Siem Reap provincial town will be implemented through a JICA Grant. Also, under the Cambodia Provincial and peri-Urban Water Supply and Sanitation Project supported by the World Bank a study covering 149 Provincial and District Towns has been completed. Sewerage systems are largely absent in Cambodia with the exception of Phnom Penh and Sihanoukville where limited systems combine rainwater drainage and domestic sewage. A water supply and sanitation sector policy framework has been prepared that focuses on financial autonomy, tariff adjustment to initiate cost recovery, private sector participation, donor co-ordination, water resources allocation, and regulatory responsibilities. A regulatory law is being prepared to supervise all water supply and sanitation operators in this sector. Priorities include making better use of Cambodia's significant water resources, institutional strengthening and bringing production levels of existing plants back to design capacity and improving operational performance. Attention is being given to the rehabilitation of existing networks including connections to end-users. Rural wells are being expanded in support of rural infrastructure programs based on participation of beneficiaries. The RGC will yield managerial autonomy to utilities to enable them to achieve financial independence and to finance their maintenance and investment programs.

126. Preparatory work is also being undertaken to allow water supply authorities in urban areas to eventually graduate into self-financing units. The Phnom Penh Water Supply Authority (PPWSA) introduced a new water tariff in 1997 to permit recovery of operations, maintenance and plant replacement costs, while providing cross-subsidies from industrial and commercial, high consumption users to low-income, low-consumption residential users. Tariffs are reviewed yearly to assess the necessity and feasibility of introducing credit to low income households for payment of connection fees. To allow low income households to connect to the piped water supply, PPWSA reduced connection fees by 25%, as previous charges discouraged low income groups from gaining access to piped water supply, which increased dependency on unsafe water sources that are often more expensive. PPWSA is installing meters to all connections, implementing procedures for leakage detection, for removal of unauthorized connections, and for disconnection and dispute settlement.

127. *Meteorology*. Cambodia frequently suffers from natural disasters like heavy rain, torrential and flash floods, thunderstorms, strong winds, drought, etc. The measurement and interpretation of river height and discharge (quantity) and associated climatic parameters are critical. The annual rise and fall of rivers and inundation of wetlands are vitally important for agriculture and fisheries, urban and rural water supply, and hydroelectricity. As the hydro-meteorological network has not received adequate financial support, what is now required is a sustained effort to re-establish the physical and infrastructure base in order to generate useful data.

ENERGY

128. Electricity: The electricity supply in Phnom Penh has improved over the last 3 years, although supply in other provinces remains limited. The current power supply deficiencies reflect years of neglect and lack of investment in new plants as well as lack of maintenance. Because of dependence on small oil based power generating units, the cost of electric power in Cambodia is the highest in the region. In some rural areas, private operators have installed generating units with simple distribution networks to supply electricity to households at high operating costs. Larger capacity power generation plants in Phnom Penh are being established through external assistance and private sector funds. The power transmission and distribution system has been rehabilitated in Phnom Penh with assistance from bilateral and multilateral donors. Private sector participation is growing with agreements reached on planned construction of Phnom Penh IPP-1 (35MW) and short term IPP-2 (15MW). Rehabilitation of 8 provincial towns is on-going under the ADB credit and AFD's grant aid for Stung Treng province. This project is planned to be commissionedt in 2004. The Kirirum mini hydropower system of 12 MW is being rebuilt with financing from a Chinese private company. The project was commissioned in May 2002 and will contribute to supply power to Phnom Penh and Kampong Speu provincial town. The planned Power Purchase Agreements with Vietnam and Thailand together with rehabilitated units of the Electricite du Cambodge (EDC) are expected to meet the anticipated peak demand in Phnom Penh in year 2004. The RGC's priorities are to establish a reliable supply of electricity through the development of a power sector open to private participation. Government's priority is to improve the reliability of power supply and to improve the efficiency of operations of power production in rural electrification, strengthening the capacity of EDC as well as development of the self-financing capacity of the sector. The RGC is committed to the expansion of power generation capacity with maximum efficiency at the lowest costs to consumers in order to serve the expanding needs of industry.

POSTS, TELECOMMUNICATIONS, AND NATIONAL INFORMATION SERVICES

129. As recently as 1999, communications to and from the provinces relied on out-of date, worn-out VHF radio links in poor condition. This system had about several thousand subscribers in provinces and districts who received a very poor quality of service with less than 50% availability. These links have been supplemented by temporary satellite links with a limited number of voice circuits, soon to be replaced by higher capacity terrestrial equipment. Short-term solutions have been by the operation of high-cost mobile/cellular phone services. Postal services remain disrupted due to the lack of reliable road transport and deficiency in the internal air services. Provincial and district post office buildings have

suffered from lack of maintenance and equipment. The speed and reliability of services will improve directly as a result of improvements in transport infrastructure.

130. For *Postal Services*, the Ministry of Posts and Telecommunications (MPTC) has focused on developing postal and journal distribution network services. Postal revenues increased have increased at an average annual rate of around 16.5 percent since 1994. For *Telecommunications Services*, MPTC is currently responsible for the regulation, administration and management of public telephone network and licensing of other related services supplied by joint venture partners. In order to increase efficiency, the RGC is committed to creating an autonomous state telephone corporation "Cambodia Telecommunications". As of December 31, 2000, national telephone density is about 0.26 sets per 100 users, with Phnom Penh having 2.83 sets per 100 users for a total of 150,285 telephone subscriber lines: MPTC Land-line phones: 19,408 lines; Public telephones: 329, and Mobile Phones (Private Operators): 130,547 lines.

131. Regarding *Information,* the role of the Ministry of Information (MoINF) is to keep people informed to the fullest extent possible regarding domestic, regional and international news, and to assist through the available media in the upgrading of their general, technical and scientific knowledge. A particular objective is to reach people in areas of the country not covered by television by means of radio, and press. Cambodia has an independent press and 39 different newspapers and magazines are currently published.

2.5 OTHER CROSS-CUTTING PROGRAMS

RURAL DEVELOPMENT

132. Around 80 percent of the population of Cambodia lives in rural areas and rural development has been one of the highest priorities of the Government. The RGC has adopted a multi-pronged approach to foster rural development and empower local communities to plan and manage development of their communities. The decentralization and deconcentration of public services delivery, support for participatory decentralized area-based development programs, and the provision of credit to households and small businesses in rural areas are some of the elements of RGC's efforts. Within the RGC, the Ministry of Rural Development (MRD) is mandated to: (i) co-ordinate, co-operate, implement, monitor and evaluate rural development projects and programs to rehabilitate and develop rural areas by assisting the rural population; (ii) co-ordinate the operational efforts of the various line ministries and assistance programs; and (iii) undertake independent research initiatives to develop the rural areas by liasing widely, assessing needs and investigating possible solutions that would maximise opportunities.

133. Some of the major programs that are delivering their support at the community level include: the SEILA program, the Social Fund, and the rural micro-credit schemes. All of these programs have been receiving enthusiastic support from our external development partners and it is hoped that they will continue to provide their support to these very important programs that address the root causes of poverty and tackle directly the national poverty reduction goal.

134. **SEILA Program**: The Royal Government's Seila Program was initiated in 1996 to formulate, test and continuously strengthen decentralized and deconcentrated systems for planning, financing and implementation of local development at the provincial and commune levels. Beginning with 5 provinces and a small number of pilot communes in 1996, by the end of 2001 and prior to the commune elections, coverage had expanded to 12 provinces and 509 communes; half of the provinces and to more than one-third of the rural communes in the country. Combining formal training with a "learning-by-doing" approach to capacity building, approximately 3,000 civil servants and 17,000 elected village representatives in the 12 provinces have been provided training in participatory planning, financial management, contract administration, bidding and procurement, various technical fields and monitoring and evaluation. Over the last six-years, approximately $ 53 million in direct investment has been disbursed through contractual modalities between the Governor and both public and private implementing agencies at the provincial level, and approximately $ 12 million between the CDC and primarily private contractors at the commune level. Adopting a partnership approach with the donor community at national level and an integrated, annual programming framework with international agencies and NGOs at the province level, a high volume of additional, parallel resources have been mobilized and programd each year to support the developments at the provincial and commune levels. External evaluations of the SEILA program have reaffirmed the socio-economic benefits that have resulted from civil works projects implemented by private sector at the commune level as well as the growing capacity of the provinces, districts and communes to manage the decentralized systems.

135. The adoption of the Law on Commune Administration in 2001 and the Commune Elections held in February 2002 are important milestones in Cambodia's march to a new era of grassroots democratization, along with the establishment of the National Committee for Support to Communes/Sangkats (NCSC) and a Department of Local Administration (DoLA) within the Ministry of Interior, who will be responsible for formulating the decentralized regulatory framework and coordinating support to Commune/Sangkat Councils. Anticipating these changes, the Second Phase (2001-2005) of the Seila Program was re-conceptualized as an aid mobilization and coordination framework to support the Royal Government's decentralization and deconcentration reforms. The five-year (2001-2005) $ 95 million Seila Program was approved by the Council of Ministers on 5 January 2001 and is now in its second year of implementation.

136. **Social Fund**: the Social Fund of the Kingdom of Cambodia (SFKC), established in 1994, as an autonomous public institution, under the Presidency of the Prime Minister has been engaged, nation-wide, since late-1995, in supporting the Royal Government's efforts to reduce poverty by financing projects for the rehabilitation and reconstruction of social and economic infrastructure, and other socially productive activities; and by creating short term employment opportunities while enhancing the ability of communities to identify local development needs and manage small scale development projects.

137. The SFKC's portfolio is demand-driven and entirely determined by the requests it receives from communities, local authorities, public institutions and other organizations throughout the Kingdom. It acts solely as a financial intermediary, funding and monitoring eligible projects. A key emphasis of SFKC is on increasing the participation of communities

and the sustainability of the projects while strengthening community ownership in procurement, contracting and management of the facilities created.

138. In terms of demand, cumulatively, to-date, SFKC has received, from local communities, 8,593 project applications valued at US$ 163 million. Of these, 54.7 percent of the projects were in the economic sector and 45.3 percent in the social sector. Disaggregated, these applications included request for: 3,181 school buildings, 364 irrigation schemes, 308 commune and district health centers, 2,957 water wells, 1,255 bridges and culverts, 158 drainage and sewerage systems, 240 secondary school buildings, and 130 premises for vocational training centers. It illustrates the diversity of demand for small-scale infrastructure facilities, particularly in the rural areas of the Kingdom.

139. In the first phase of its work, 1995 through mid-1999, SFKC received US$ 20 million, as credit from the World Bank for the rehabilitation and reconstruction of various social and physical infrastructure facilities in the Kingdom. The second phase of its work commenced in July 1999 with an allocation of about US$ 35 million (including $ 10 million allocated for rehabilitation of facilities damaged floods in 2000) received from the World Bank. In 2001, OPEC Fund has provided US$ 7.8 million for the rehabilitation of economic infrastructure. Additionally, the Royal Government's counterpart support and project level cooperation contributions of various partner agencies amounted to US$ 6.2 million. Cumulatively, so far, a total of US$ 69 million have been allocated for the work of SFKC since its establishment in 1995.

140. In its Phase-I (late-1995 to 1999) work, SFKC disbursed US$ 17.5 million for 1,436 small-scale economic and social infrastructure projects that benefited, directly and/or indirectly, about 1.6 million people. This phase created more than 31,072 person/months of employment for skilled and unskilled workers comprising largely payments to skilled laborers. SFKC supported projects included: construction of 3,756 new classrooms, 2,767 water wells, 1,435 latrines, 14,216 square meters of bridges/culverts, 24,525 cubic meters of dike, irrigation facilities for nearly 2,600 hectares of agriculture land, 78 health centers, 49 bridges, one referral hospital and supplies of 61,961 pieces of classroom furniture. Of the sub-projects implemented, 89 percent were in the rural areas, 11% in the urban areas, and of the total 32 percent were in post-conflict areas.

141. Based on the experiences of Phase-I, SFKC revised some of its operational criteria and approaches for implementing Phase-II, which began in July 1999 and is continuing to date. Under this phase, it has disbursed US$ 25 million for 1,184 small-scale economic and social infrastructure projects (54.65 percent in economic sector and 46.35 percent in social sector) which have benefited, directly and/or indirectly, about 1.2 million people. Out of the total 1184 projects, 140 projects worth US$ 5 million were for the rehabilitation of the facilities damaged by the floods in 2000. This phase (mid-1999 to date) has created more than 39,400 person-months of employment for skilled and unskilled workers.

142. Cumulatively, since 1995, SFKC has approved 2,620 projects, all over the country, valued at more than US$ 40 million. Of the 2620 projects implemented, 68 percent were in post-conflict areas, 89 percent in the rural areas, and 11 percent in the urban areas. In terms

of value, the total labor content of the investments amounted to about 17 percent of the total, creating more than 70,472 person-months of employment.

143. **Rural Credit Schemes**: The Royal Government of Cambodia (RGC) has fully supported and encouraged the participation of Micro-Finance Institutions (MFIs), Specialized Banks, Commercial Banks and especially Rural Development Bank (RDB). Around 80 percent of Cambodia's population lives in rural areas, constituting about 1.87 million households. As of December 2001, the total loans disbursed by the Commercial Banks have amounted to US $ 9 million for agriculture, representing 3.7 percent of the total of their loan disbursements. Most of the Commercial Banks do not have branches at the provincial level. Even those Banks who have established their branches in some provinces, these are limited to big centres and there is virtually no presence at districts, communes or villages level. Also, the possibilities of expansion of their services to these levels appear very limited.

144. Micro-finance institutions, NGOs and Specialized Banks have been providing credit services to the needy in rural areas for some time. At present, these institutions have loaned funds to some 420,000 rural households or 23 percent of the total rural households. The total amount of loans outstanding at present is estimated to be around US $ 37 million. It is estimated that an additional US$10-15 million in credit has been supplied by friends, relatives and moneylenders (village rich men). The total rural credit portfolio of these institutions in the last 10 years, has increased from US$100,000 to US$37 million and from 4,000 to 420,000 end-borrowers. However, the shortage of credit capital still remains between US$60-90 million to respond effectively to the accumulated demand throughout the country.

145. The Rural Development Bank (RDB) plays an important role in financing, refinancing and providing technical assistance to MFIs. The mission of the RDB is to enhance agricultural and rural development to reduce poverty. RDB has played an important role in mobilizing domestic and foreign financial resources to support the provision of rural credit for micro-finance activities. The RDB was capitalized with a fund of US$5 million from the RGC including 1 million Euros from AFD (French Development Agency) as paid-up capital. Later, RDB received an additional grant of around 0.9 million Euros from AFD for supporting family rubber plantations in Kampong Cham province, and US$1.3 million loan from the IFAD (International Fund for Agricultural Development) for the implementation of Agricultural Development Support to Seila Program in four provinces (Pursat, Battambang, Banteay Meanchey and Siem Reap). In the year 2000, a new agreement was signed with ADB for US$20 million Rural Credit and Savings Project to start in year 2001, but several strict conditions of the loan has to be met that have hindered access to these resources. As of December 2001, RDB has approved rural credits amounting to US$4.6 million through micro-finance operators (MFIs and NGOs), benefiting 38,000 rural households.

146. Support to Small and Medium Enterprises: RDB is carrying out a feasibility study on the needs of small and medium enterprises (SME) in Cambodia. In the framework of the financial cooperation between the RGC and German Government, KFW (German Development Bank) is willing to provide RDB through the MEF a financial grant of approximately 8 million DM for the SME scheme in Cambodia. As a wholesale bank, RDB has provided credit to its partner commercial bank to lend to their end-borrowers for

supporting the pilot projects of water supply in Takeo provinve. In addition, the World Bank (WB) has planned to provide the investment capital as loan in the sectors of rural water supply and electricity, as well as for local processing of agricultural products.

ENVIRONMENT and CONSERVATION

147. Significant progress has been made in the areas of environmental management and natural resource conservation since the last CG meeting in 2001. The RGC's efforts have been guided by the National Environmental Action Plan (1998-2002) and the Ministry of Environment's (MoE's) strategic planning activities. The focus of the National Environmental Action Plan (NEAP), that was prepared through a participatory process involving a variety of government and non-government stakeholders, has been the following six priority areas: forest policy; fisheries and floodplain agriculture in the Tonle Sap region; coastal fisheries management; biodiversity and protected areas; energy development and the environment; and urban waste management. The NEAP implementation has been an iterative process and therefore, its priorities and strategies on environment and natural resource management have been reviewed annually.

148. The Ministry of Environment's activities in the area of natural resources conservation and environmental protection have, in close collaboration with MAFF, focused on forestry issues. It has participated actively in the implementation of Government's moratorium on logging and export of timber as well as the implementation of the Forest Management Plan (FMP). The forest management plan includes the environmental impact assessment (EIA) aspects of forest concession management to ensure the sustainable use of natural resources. The EIA reports for some forest concession have been reviewed by the MoE. In the area of bio-diversity which is one of six priority areas of NEAP, MoE has focused on strengthening the management, developing infrastructure, drafting legislations and demarcating boundaries of national park. Two examples of the activities undertaken have included: management of Virak Chey National park (Rattanakkiry province) funded by GEF/ World Bank & RGC and the preparation of the Bio-diversity National Action Plan that was funded by GEF/UNDP and FAO and has now been submitted to Council of Minister for approval. Some forest concessions in Cardamom mountain area have ended and transferred to forest reserve by the government The Government has paid special attention to national parks and wildlife sanctuaries to which necessary equipment, such as fire trucks, have been provided by the Government. The protection of Tonle Sap ecosystem is a very important component of conservation and the sustainable use of natural resource strategy. The establishment of Tonle Sap Bio-sphere reserve and the allocation of 500,000 ha of fishing lots to the communities are important steps that will allow communities to participate in the conservation and sustainable use of natural resources and particularly fish resources. Through support provided by DANIDA, IMO, IDRC, MoE has made significant progress in implementing activities in the coastal zones.

149. Urban waste management has been improved by upgrading facilities for solid waste disposal and transportation. The government is trying, despite some difficulties, to enhance Stung Mean Chey's landfill to prevent adverse impact on human health and the environment. The construction of landfill for industrial waste is being studied at the present time. The

management of solid waste from garment factories has been improved. Seventy percent of existing factories now have their own waste water treatment plant.

150. The development of alternative energy sources to ensure environmental protection and the sustainable use of natural resources is an important element of MoE's strategy. MoE has participated in the review of the EIA report for the planned projects on the construction of the electrical transmission line from Vietnam to southwest provinces and the project on the construction of hydropower dam in Kirirom.

MINES REMOVAL

151. In contrast to the turbulent developments in year 2000, which saw the establishment of the new Regulatory Authority (CMAA) in September 2000, and the suspension of 90 percent of CMAC's staff in the following month, *year 2001 can be characterized as the year of stabilization and progress*. A new organizational structure was approved, and CMAC stabilized its operations and management development with a more realistic and modest Work Plan, that has been steadily implemented. The issue of the legal coherence between CMAC, CMAC Governing Council and the CMAA was addressed in August 2001 with the issuance of a new Decree on the Establishment of CMAC and the Sub-Decree on the organizational structure of the CMAA. By end of December 2001, CMAC had surpassed its operational targets with close adherence to the aims of the original Work Plan. The CMAA has significantly enhanced co-ordination and developed an interim regulatory framework for the sector, and the Council of Ministers had approved the Five-Year Mine Action Strategic Plan as part of the National Poverty Reduction Strategy.

152. In line with the new Partnership Paradigm and mine action sector reforms, a Mine Action Advisory Board (MAB) has replaced the Steering Committee of CMAC. Provisional Regulation Procedures for the operations of the CMAA have been issued. The first meeting of the MAB was held in March 2002 to review CMAC's work p[an for 2002.

153. Two audits of CMAC were carried out by KPMG in the first half of the year, the first was a follow-up to the September 1999 Audit recommendations. The Second Audit Report, released in August 2001, was a full Internal Audit of CMAC for funds disbursed under the UNDP Executed Trust Fund. It covered all areas of management and accounting for the period July 1999 to December 2000, and resulted in a "Marginally Deficient" Audit Opinion, which clearly indicated a major improvement in the state of affairs since 1999[1]. CMAC's monthly productivity report was published regularly throughout year 2001, including analyses of progress against the approved Work Plan for the year, in line with Audit and Evaluation recommendations. In its report of December 2001, CMAC reported that:

- CMAC's delivery in land clearance (9.63 sq. km) by end December was about 37% above IWP target for the year (7.03 sq. km) including Mine Marking Teams and Community Marking Teams. This success is partly due to the success of the

[1] There are 4 possible Audit Opinions: "Satisfactory", "Marginally Deficient", "Deficient", and "Seriously Deficient". CMAC's rise from a "Seriously Deficient" rating in 1999 to "Marginally Deficient" in 2001 constitutes a major improvement by international standards.

Japanese Brushcutter in the field, as well as greater integration of Mine Detection Dogs in operations together with a general improvement in staff morale after the crisis period of 1999-2000.

- CMAC's review of its Mine Awareness Strategy has been completed. New staff have been recruited to implement an eight-month Pilot Project entitled "Community Based Mine Risk Reduction" (CBMRR) with UNDP TF and UNICEF support, and technical inputs by Handicap International.
- With some encouraging results, a new combination of Burshcutters and Mine Detection Dogs together with Manual Demining is being implemented in Samlot where a particularly heavily mined area is being cleared by CMAC, after 2 accidents occurred on the same minefield in early December.

154. CMAC has also developed a Draft Cost Database, which is a significant tool for the calculation of the true cost of its activities. This is the first time an operator has produced such a transparent and wholesome mechanism for controlling and reporting on its productivity in Cambodia. In addition to actual expenditures, the Cost Database takes into account equipment depreciation, in kind equipment and technical advisory costs as well as real consumption of expendables.

COMMUNITY AND SOCIAL SERVICES

155. The thrust of the RGC's vulnerable groups strategy is on reallocating Government spending to social development particularly in rural areas combined with active support for self-employment and job training. The strategy invites participation of local and international NGOs in view of the fiscal limits of Government provision of social support services. With external assistance the RGC is continuing to improve its capacity to identify and design effective delivery mechanisms to protect vulnerable groups. Minimizing unemployment is crucial to reducing the incidence of poverty. Following the RGC 's Policy Platform, MoSALVY has to coordinate activities to address the issues of poverty alleviation strategy. Due to the limited allocated funds, MoSALVY has to identify alternative strategies by expanding collaboration, coordination and cooperation with concerned institutions, relevant agencies in providing services to the most vulnerable groups. The emphasis is on investing in rural areas, and urban investment could also be pro-poor to create 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. Employment promotion is a priority as 228,000 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 force and the reform of public administration.

WOMEN IN DEVELOPMENT

156. The Ministry of Women's and Veterans' Affairs (MoWVA) was established by the Royal Government of Cambodia as the national mechanism with the role and responsibility as a catalyst and facilitator in ensuring respect for women and children's rights by promoting the status and the participation of women in all levels and sectors. The ministry's five-year

plan *Neary Rattanak*, "Women are Precious Gems", emphasizes building the capacity of women as well as changing attitudes and behaviors that discriminate against women within society. This plan focuses on the priority areas of health, education, legal protection and economic development based on the declaration and platform of action of the Fourth World Conference on Women in Beijing. Achieving gender equality and gender equity are key to social justice and the improvement of quality of life for all. Besides the four main prioritized areas, gender mainstreaming is also another critical area in ensuring that gender issues are incorporated into plans, policies and Programs of the government institutions and non-government organizations.

157. Considerable progress has been made by the MoWVA in advancing the participation of women in development over the recent years. Some of these achievement include:

- The approval of laws and sub-decrees on the establishment and the functioning of MoWVA.
- The establishment of the Cambodian National Council for Women.
- The definition of roles and responsibilities to strengthen human resources at both the central and provincial levels.
- Gender mainstreaming at the line agencies through training of trainers who are already gender focal points.
- Development and implementation of a gender mainstreaming strategy in the SEILA Program at both national and provincial levels to build the capacity and the full participation of women in decision-making and to benefit women from the development.
- Membership of development committees at local levels: districts, communes, and villages received training on gender, leadership and self-confidence.
- Establishment of a gender information center which collects and disseminates data and information to analyze and design gender-responsive policies and Program frameworks.
- Report to the United Nations on the human rights situation including reporting on the implementation of the Convention on the Elimination of All Forms of Discrimination Against Women in Cambodia.
- Increased awareness on gender issues through the activities of International Women's Day.
- Development of a national policy on women and AIDS.
- Implementation of a reproductive health project in 62 districts in eight provinces. More than half a million women received information and reproductive health education from 800 trained female volunteers.
- Provision of non-formal education in 209 villages in five provinces with 16,000 participants in 1993-1998.
- Enhancement of the capacities of women and veterans at a community level through capacity building, literacy Programs, family food production, and income generating Programs.
- Implementing a Program on the prevention of trafficking of women and children though education and advocacy in six provinces and facilitating the inter-ministerial committee in monitoring the implementation of local projects on the prevention of sexual trafficking.

- Drafting a law on the prevention of domestic violence and the protection of domestic violence victims and submitting to the Council of Ministers for approval.
- Management process relating to veterans has become more transparent and accountable through proper monitoring.
- Implemented the "Building Together" Program, which supported the MoWVA's plan – Neary Rattanak - in March 2000. The Program focused on building the capacity of the MoWVA to corporate gender concerns and principles into policy formulation and development processes with due regard for equality and justice and improvement of the quality of life for all citizens.

3. CAMBODIA'S DEVELOPMENT CHALLENGES

158. The Population of the Kingdom of Cambodia was estimated to be around 11.5 million in 1998 that is growing at an average rate of 2.5 percent, second highest growth rate among the ASEAN countries. The total population is projected to increase by 1.7 million over the 2001-2006 period. The current age-sex distribution is skewed: there are more females than males – 93 males per 100 females; and children in the age group 0-14 years constituted 42.8 percent of the total population in 1998. The age-sex imbalances that reflect the exceptionally high mortality and out-migration from the country during the Khmer Rouge period have serious implications for the current and future development efforts of the Royal Government.

159. The Royal Government of Cambodia is well aware of the daunting development challenges that it faces today. The man-made and natural disasters over the last three decades have left Cambodia a devastated nation. The decades of conflict and internal strife have not only shattered the physical, social and economic foundations that are necessary for growth and development, but more importantly, they have decimated the human capital base of the nation. The resulting skewed age distribution of the population and the truncated skills profile of the work force pose added challenges to achieving the nation's development goals. The Royal Government recognizes that while the time frame for rehabilitating, reconstructing, and developing the physical infrastructure can be shortened, if resources become available; rebuilding the skills base that is essential for achieving sustained socio-economic development is somewhat constrained by the pace of time itself. Rebuilding the human capital base, to a level that had existed before the Khmer Rouge regime, will take at least a decade – a simple demographic fact about where Cambodia stands today. At present, in terms of the skills available in Cambodia, less than one percent of the population has had any form of training beyond high school. Another implication of the truncated skills profile of the work force is that the education system continues to suffer from serious internal efficiency problems - only about one-third of students enrolling in grade 1 complete grade 6 – further constraining the future supply of badly needed skills.

160. The most critical constraints that continue to affect Cambodia's socio-economic development include:

Human resource deficiency: This remains the greatest bottleneck in Cambodia's development efforts. In the short-term the Government is tackling the problem by importing foreign experts on a temporary basis and as a long-term strategy through a concerted national effort aimed at increasing educational and skills development opportunities.

A financial and foreign exchange gap: With a low per capita income and widespread poverty, Cambodia's ability to mobilize sufficient domestic savings to finance domestic investments is limited.

Inadequate physical infrastructure: The extent and quality of Cambodia's infrastructure is inadequate to attract private investment.

Institutional capacity constraints: Much remains to be done to improve Cambodia's administrative, legal, commercial, judiciary and regulatory institutions, to achieve a standard

that fosters investor confidence and private sector participation in long term investments. At present, addressing governance issues is a major priority of the Government.

161. After 30 years of warfare and civil strife, Cambodian society is faced with the challenges of rebuilding and developing not only its physical and economic infrastructure, but also its human potential. The development of human potential requires the creation of an environment in which all can enjoy long, healthy and creative lives through equal access to, and participation in, the economic, social, and cultural life of the nation.

162. In the global context, the Kingdom of Cambodia is one of the poorer nations with a per capita income estimated to be around US$ 271 in 2000. It ranked 121st out of 162 countries on the United Nations Development Program's Human Development Index for 2001. Although the nation has emerged from 30 years of warfare and displacement, much of the population remains vulnerable to poverty and food insecurity. Approximately 36 percent of the population was estimated to be living below the poverty line in 1999. Ninety percent of the poor live in rural areas, and 71 percent are engaged in agricultural activities. In 2000, Cambodia experienced the worst flooding in 70 years that, in spite of the Royal Government's efforts to mitigate the adverse effects, may have contributed to further worsening the incidence of poverty in rural areas.

163. The rehabilitation and reconstruction of the education system's infrastructure that was completely destroyed by the conflicts and civil wars has been a high priority of the Royal Government. Although significant progress has been made, provision of basic education services remains a formidable challenge. Meeting the goals of basic primary education for all will require substantial resources not only to fill the existing gaps and to improve the efficiency of the delivery of education services but also to keep pace with an expanding population. The Royal Government recognizes that rebuilding a human capital base that can supply the skills needed by both the private and public sectors is a pre-requisite for achieving its sustained socio-economic development goals and the successful implementation of the many reforms that it has embarked upon.

164. Sustained economic growth cannot be achieved without the supply of skilled manpower that is needed by the private sector. Similarly, in spite of the Royal Government's commitment and substantive efforts, successes in the areas of administrative and governance reforms are hampered by a lack of capacity within the public sector to effectively enforce and manage the implementation of the approved laws and regulations. It is important to note, that while Cambodia can benefit from the experiences of its development partners in the formulation of policies and processes, effective enforcement and management of the implementation of the approved policies, laws and regulation is likely to remain constrained, at least in the short- to medium-term, by the existing gaps in Cambodia's human capital base.

165. Medical infrastructure and trained health personnel were decimated by the Khmer Rouge – of the one thousand doctors trained before 1975, less than fifty survived the regime. A similar situation exists in the legal profession, that is a major impediment to the implementation of the Government's legal and judiciary reforms program. At present, some 47 percent of the population does not have adequate access to health care services, with

the nearest public health clinic to villages being on average 3 km away. Although significant progress has been made, Cambodia is still ranked lowest in the Western Pacific Region. The leading cause 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 micronutrient deficiencies – notably iron, iodine and vitamin A deficiency – are also prevalent. Some 56 percent of children under 5- years of age suffer from chronic malnutrition. Only 63 percent of the one year olds are currently vaccinated against tuberculosis, polio and measles. The growing HIV/AIDS infection rate is a serious threat to achieving sustained economic growth at a rate that will be needed to implement and sustain government's poverty alleviation initiatives. Women suffer from poor availability of reproductive health services, especially in rural areas where they are most needed. Anemia is a major but preventable cause of maternal mortality and morbidity in Cambodia. In addition, sexual health services related to the spread of HIV are needed to protect women and children.

166. The burden of health and education costs weight heavily on population, especially the poor. The cost of medical care that represents approximately 30 percent of family expenditure has been cited as one of the main causes of indebtedness among the poor and vulnerable. Of the total expenditure on health services, about 12 percent of GDP in 1966-67, out-of-pocket household expenditures accounted for 82 percent of this expenditure, and the official donor assistance and direct funding by NGOs (combined) for 14 percent. Similarly, the cost of education services is disproportionately borne by the poor. 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 take 57 percent of non-food spending.

167. Food is the most basic human need and rice is the staple food of all Cambodians. In 1995 Cambodia achieved its first (modest) surplus since the eve of the civil war in the late 1960s, and surpluses have been recorded in every subsequent year. However, there are many Cambodians who lack access to this basic necessity due to insufficient purchasing power and poor transport and marketing systems. Also, the agricultural production system remains highly vulnerable to natural disasters and pest damage, leading to large fluctuations in yields. Despite the current surplus, nearly half of the 24 provinces and municipalities are food deficit areas and a significant proportion of the population is unable to meet minimum rice requirements, the critical periods generally being mid-July to mid-October. Groups such as the internally displaced or returnees are particularly vulnerable to food insecurity. In addition to the lack of sufficient rice for many, consumption of rice alone is insufficient to meet dietary needs. For much of the population, rice accounts for over 70 percent of calorie intake and represents about 40 percent of food expenditure.

168. The poor are underserved by physical infrastructure, which is inadequately developed and maintained. The secondary road network is so rundown as to virtually isolate many rural areas, while most tertiary roads are impassable during the wet season. Illegal road taxation compounds the problems of the poor because of the resulting high-cost of transportation. According to the 1998 Census, only 24 percent of rural households have access to safe drinking water, compared with 60 percent of urban households. For the poorest 20 percent of the rural population, the percentage with access to safe water falls to 4 percent. Access to sanitation facilities is similarly low at 8.6 percent in rural areas,

compared with 49 percent in urban areas. Over 94 percent of rural households rely on firewood as the main fuel for cooking, while 86 percent rely on kerosene as a source of light. Less than one percent of rural households have access to publicly provided electric lighting. Access to a telephone service is similarly low in rural areas.

169. Significant environmental degradation has occurred during the 1970s, 1980s, and 1990s. This degradation has been caused largely by overexploitation of resources and unsustainable management practices. Forest cover has been reduced from 74 percent of Cambodia's land area in 1969 to 58 percent in 1997, resulting in reduced biodiversity, increased soil erosion, accelerating river silt, and changes to the shape of the Mekong River, Tonle Sap River and Tonle Sap Great Lake, which has contributed in recent years to extensive flooding. Untreated wastewater is a significant problem leading to the pollution of rivers. A key issue is how to utilize abundant water resources in a sustainable way particularly for the development of irrigation. Inland fisheries have been depleted and coastal zones degraded. The Government has made significant progress in halting illegal logging since 1999, but improved governance in the forestry sector has to be consolidated and extended to encompass the needs of local communities that rely on forest resources. The removal and reduction of fishing lots**,** that begun in late 2000**,** will make available approximately 53 percent of the total lot area for family fishing. This will, however require the formulation and implementation of a legal and regulatory framework for community fisheries management.

170. Although significant progress has been made to create an enabling environment for private sector development many challenges remain to develop the physical, legal, and financial infrastructure necessary to support a vigorous private sector. So far, the proportion of the labor force employed in the formal sector (wage employment) remains low. In 1999, only 15 percent of the labor force was employed 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. There is significant unemployment and underemployment, and a problem of low income for the employed. For wage earners, average monthly salary was US $ 43. A large proportion of the labor force - about 46 percent of the active labor force - consider themselves to be unpaid family workers. In rural areas, more than two-thirds of women describe themselves as unpaid family workers, while in Phnom Penh only around one-fifth of women workers describe themselves as such. Because of the high population growth rate, the size of the labor force, estimated to be 5.1 million in 1998, is expected to increase by around 228,000 new entrants to the labor market annually, most of whom will have a low skills level. Providing productive employment for these new entrants, for demobilized soldiers and retrenched civil servants, and the unemployed and the underemployed, will be difficult, and will require a rapid expansion in labor demand from the private sector (both formal and informal). The Government's efforts to facilitate private sector-led development and to develop human resources are therefore of crucial importance.

171. Cambodia is one of most heavily land mined and UXO (unexploded ordnance) affected countries in the world. Around 45 percent of the 11,102 populated villages recently surveyed are currently contaminated by land mines and/or UXO's. While the combined efforts of the Government and donors have resulted in reducing the number of casualties by around 37 percent over the last three years (1999-2001), the number of casualties related to

UXO's has increased due to the resettlement of refugees and IDPs in UXO affected areas. Given that nearly 85 percent of Cambodia's population lives in rural areas, land mines and UXO's constitute a significant impediment to the development of Cambodia.

172. Gender equality is integral to the development process and cannot be separated from other population issues. The key issue is how to improve gender equity across a range of sectors in order to give women the skills and status needed to participate in contemporary society on an equal footing with men. In the education sector, ensuring that girls are enrolled in school and stay enrolled is imperative. In the health sector, encouraging better birth spacing and providing more accessible reproductive health services to the current generation of women will produce better maternal and child health and help reduce the current high rates of maternal and child mortality.

173. The Government acknowledges that good governance is an essential pre-requisite for achieving sustainable socio-economic development and social justice, and that Cambodia is at the beginning of a long-term process of improving all four elements of the governance – accountability, transparency, predictability, and participation. Numerous studies have been carried out with the support of our development partners that have identified and analyzed governance problems in-depth and pointed to key areas in need of reform. The Governance Action Plan (GAP), announced last year, that is now being implemented was Government's response to alleviating the governance problems identified. The information on progress made in the implementation of the GAP and other reforms is summarized in the next Section.

4. CAMBODIA'S SOCIO-ECONOMIC DEVELOPMENT PRIORITIES

Cambodia's Socio-Economic Development Priorities

4.1 Macroeconomic and Fiscal Management
4.2 Governance
4.3 Social Sectors
4.4 Economic Sectors
4.5 Physical Infrastructure
4.6 Other Cross-Sectoral Programs

174. The development vision of the Royal Government of Cambodia is to have a socially cohesive, educationally advanced and culturally vibrant Cambodia without poverty, illiteracy and disease. Realizing the vision will require continued adherence to the values of social justice, human welfare and empowerment of the people and the formulation and implementation of policies to reduce poverty by promoting sustainable economic growth and better governance.

175. The "Triangle Strategy" of the Government, which was adopted after the July 1998 election, is designed to achieve this Vision. Restoring peace and stability, and maintaining security for the nation and people, which formed the first side of the "Triangle" has been accomplished. Cambodia's integration into the region and normalization of relationships with the international community, the second side of the "Triangle" has also been achieved. Cambodia regained its seat at the United Nations and became the 10th member of the Association of South East Asian Nations (ASEAN) and the process of joining the World Trade Organization (WTO) is well advanced.

176. The third side of the Government's strategic triangle is to promote economic and social development through the implementation of an extensive reform program. Significant progress has been made in the implementation of these reforms, and economic growth has been strong in the last two years despite the impact of the 2000 floods and the global slowdown in the last quarter of 2001 following the September 11 terrorist attacks in the United States. However, much remains to be done.

177. In the context of the "Triangle Strategy", and building on the "*Interim Poverty Reduction Strategy"*, the RGC's development strategies are: (i) to foster broad-based sustainable economic growth with equity, with the private sector playing the leading role; (ii) to promote social and cultural development by improving the access of the poor to education, health, water and sanitation, power, credit, markets, information and appropriate technology; (iii) to promote sustainable management and use of natural resources and the environment; and (iv) to improve the governance environment through effective implementation of the Governance Action Plan (GAP).

178. The timely implementation of the GAP, and its specific strategies for civil service reform, decentralization, military demobilization, legal and judiciary reform, gender equity, public financial management, anti-corruption and natural resource management, is therefore a key priority for the Government.

179. The RGC's strategic message is that economic growth is a prerequisite for poverty reduction and that the key to economic growth is private sector development. At the same time, it recognizes that the pace at which private sector can develop depends largely on sustained improvements in the governance environment.

180. The Government is committed to maintaining a stable macroeconomic environment, as sustained economic growth with poverty reduction cannot be achieved in an environment of macroeconomic instability or of serious fiscal and external accounts imbalances. The targets of the RGC's medium term macroeconomic framework include: achieving an average annual economic growth rate of 6-7 percent, keeping inflation below 4 percent, containing the external account deficit to a level consistent with concessional financing and foreign direct investment flows and increasing gross official reserves to about 3.5 months of import coverage.

181. Faster growth is essential in order to improve social indicators and to provide the tax base needed to finance higher levels of public expenditure on social sectors. Adherence to the on-going reform program is crucial for achieving higher economic growth, diversification from garments to other types of basic manufacturing, and development of Cambodia's tourism potential. The development of the tourism sector is important because of its significant multiplier effects on other sectors of the economy.

182. The RGC's strategic focus is on implementing those measures that have the dual benefits of both promoting growth and reducing poverty. This will include initiatives to enhance state effectiveness, develop physical infrastructure particularly in underserved rural areas, increase investment in human resources particularly women and children and to combat epidemic diseases, especially HIV/AIDS. Success in promoting growth and reducing poverty will require close cooperation within and outside the Government, so that timely actions at the macroeconomic level and across and within sectors are implemented in the way intended.

183. Continuing fiscal reform is critical in order to build on recent increases in revenue capacity and to accelerate the shift from defense and security expenditures to the socials sectors. The implementation of the military demobilization program is a key element of the reform program, as savings from downsizing the army are essential for redirecting spending to the social sectors. Public administration reform is also an important component of the fiscal strategy and its civil service reform component is vital to achieving planned sector wide reforms in health and education. Key priorities for the Government include promoting financial transparency and addressing corruption issues particularly in health and education disbursements.

184. Decentralization offers a range of possibilities including the opportunity for broader political debate about development strategies and new ways of holding government accountable to its actions. The extent to which the development potential of decentralization will be realized depends crucially on success in dealing with other related governance issues concerning the health, education, and transportation sectors as well as gender issues.

185. Accelerating growth in the rural economy would result in the largest reduction in poverty because its incidence is highest there and inequalities are lowest, an important consideration given that economic growth will benefit some more than others. Agricultural and irrigation improvements are key to broad based economic growth and poverty reduction and there is little doubt that there is much potential for improvement.

186. In addition, the development process must deal with the unexpected, in particular the harm done to the fragile welfare of the poor and the health of the economy as a result of natural disasters. Strengthening national disasters preparedness, relief, mitigation and rehabilitation of flood control systems are important poverty reduction priorities of the Government. As is providing targeted special programs for those who are unable to effectively participate in the growth process as well as enhancing ongoing preventative measures to combat Malaria, tuberculosis, and in particular the HIV/AIDS epidemic. Establishing Cambodia as a popular ecological and cultural tourism destination will also provide an additional boost to economic growth.

187. Gender equality is integral to the development process and cannot be separated from other population issues. The key issue is how to improve gender equity across a range of sectors in order to give women the skills and status needed to participate in contemporary society on an equal footing with men. In the education sector, ensuring that girls are enrolled in school and stay enrolled is imperative. Women's education is a crucial determinant in birth spacing and reproductive health and in determining the educational level and employment of their daughters. In the health sector, providing more accessible reproductive health services to the current generation of women will produce better maternal and child health and help reduce the current high rates of maternal and child mortality.

188. Further development of rural infrastructure will help rural and remote communities, which include the poor and the poorest, facilitate market access for those without it and put essential services within reach of the most needy. Improving the access of the poor to education and health services, making better use of human capabilities, improving the income earning potential of the poor, widening their range of choice, improving the quality of their lives and reducing their social exclusion are crucial priorities of the Government. Women's education is a crucial determinant in birth spacing and reproductive health and in determining the educational level and employment of their daughters

189. In short, macroeconomic stability, implementation of the GAP, continuing trade liberalization and expansion of economic and social infrastructure will facilitate private sector expansion and thereby fuel higher economic growth, raise incomes and create jobs that will pave the way for durable poverty reduction. For those unable to benefit from direct participation in the economic growth process special support programs will be implemented.

4.1 MACROECONOMIC AND FISCAL MANAGEMENT

190. The macroeconomic outlook for 2002 might be affected by the deterioration in the world economic environment that began in mid 2001 and is just beginning to recover. As a result of the recent upturn in the global environment, the Ministry of Economy and Finance has revised its projections for 2002 upwards. GDP growth is now projected to increase by 5-5 ½ as compared to the previous projection of 4 ½ -5 percent. The anticipated higher economic growth is attributable to the dynamism of garment exports and the vibrant tourism sector. Agriculture is expected to rebound after recent devastating floods and drought. Inflation, however, is expected to remain low and the exchange rate stable. More employment will be created in the services sector. The current budget surplus will be

maintained at about 1½ percent of GDP, while the overall fiscal deficit (excluding grants) will be contained at less than 6 percent of GDP and financed by external concessional resources and grants. The external current account deficit is projected to widen to 11 percent of GDP. Also taking into account the positive international environment, the increase in gross international reserves in 2002 is targeted to grow further to cover about 3 months of imports.

191. The spending priorities for the 2002 budget are: (i) holding the commune elections and the operationalization of the Commune-Sangkak Councils; (ii) implementing the full demobilization program; (iii) a speedy implementation of the Governance Action Plan (GAP); and (iv) executing the Interim Poverty Reduction Strategy Paper (IPRSP) by shifting further spending priorities from defense to social and economic sectors. The budget strategy will be geared towards further enhancing the mobilization of tax and non-tax revenues to meet the target of 13 percent of GDP through rigorous implementation of existing fiscal measures and the introduction of new tax policies, as well as continued efforts to collect tax arrears from the largest taxpayers, re-negotiation of contracts for the Angkor Wat temple complex and the telecommunications contract for the second international gateway. The fiscal reforms undertaken under the Strengthening Economic and Fiscal Management (TCAP) Project, which focuses on improvement in public expenditure management, tax, customs and treasury reforms, will be crucial for the revenue mobilization efforts and improvement in fiscal governance.

192. Achieving the revenue target of 13 percent of GDP in 2002 is crucial for meeting expenditure needs. This target can be met through a combination of new revenue measures, and the full-year impact of measures introduced in the second half of 2001. The newly created Large Taxpayer Unit (LTU) in conjunction with upgraded auditing will be instrumental in enhancing tax revenue collection in the period ahead. In 2002, the following administrative actions will be taken to enhance revenue collection:

- The LTU will identify the largest arrears, investigate relevant information concerning each of these arrears, and take corrective actions to begin to collect these arrears.
- Tax legislation will be reviewed to provide relevant agencies the authority to take appropriate actions to collect taxes.
- An inventory of state assets involving all ministries will be completed and assets will be confiscated from companies with arrears to the government.
- The monthly casino royalty will be increased and other aspects of the taxation of casinos will be reviewed.
- VAT on airport departure fees and other services will be collected.

193. Strengthening the enforcement capabilities of the Customs Department is urgently needed for improving revenue collection. As a first priority, the Government has intensified anti-smuggling efforts by: (i) allocating more resources for the anti-smuggling program; (ii) implementing the government decision to strengthen inter-agency cooperation, and directing the Customs Department, Armed Forces, Military Police, Police and the local authorities to combat smuggling; (iii) establishing anti-smuggling task forces in several key provinces; (iv) developing an anti-smuggling strategy targeting key revenue sources, high-risk items, and prime locations; and (v) expanding the inspection of selected garment factories to assess compliance with exemptions granted under the Law on Investment. To complement the

limited capabilities of the Customs Department, the government will continue to use the pre-shipment inspection system (PSI), and the PSI Steering Committee will address disputes between the government and the service provider to strengthen contract performance. Customs Department organization, human resources, and the information technology framework will be modernized in line with the work plan designed under the Technical Cooperation Action Plan (TCAP).

194. Expenditure restructuring will also remain a key objective under the 2002 budget. Defense spending will be reduced further to allow for increased priority social outlays. Fundamental reforms of expenditure and liquidity management are also included in the program for 2002. Key priorities in the expenditure program include: (i) increasing funding to key social ministries (i.e., education, health, agriculture, and rural development); (ii) completing the discharge of soldiers under the full demobilization program; (iii) continuing civil service reform; (iv) providing contingency funds to cover new priorities (commune elections, international obligations, higher debt service); and (v) increasing domestically financed capital expenditure. As a result, spending in the priority sectors is budgeted to increase to 3½ percent of GDP in 2002, compared to 3 percent in 2001. The Government has also stepped up efforts to improve the expenditure process, strengthen procurement practices, and upgrade cash management. In addition, the Government has prepared in 2002 the legal framework required for implementing administrative and financial decentralization in the future.

195. Comprehensive reform of budget and cash management will be implemented in 2002. High priority will be assigned to: (i) reducing the number of government accounts by integrating more accounts with the National Treasury single account; (ii) strengthening the budgetary accounting framework and improving regulations and reporting procedures; (iii) improving the operations of the cash management unit; (iv) improving inter-agency cooperation, especially between the National Treasury, the Customs and Excise Department, the Tax Department, the Budget and Financial Affairs Department, and the NBC; (v) reporting by the NBC to the National Treasury of transactions in government budget accounts on a daily basis and full account balances and bank statements for all government accounts on a monthly basis; (v) allowing for direct payment of taxes to the National Treasury account at the NBC by transfer or check, especially for the largest taxpayers; and (vii) establishing the new financial framework for communes with the national and provincial treasuries.

196. The following measures will be implemented as part of the 2002 budget:

A. Tax Measures

- Expand the coverage of the real regime to five additional provinces.
- Increase excise tax on beer from 10 percent to 20 percent.
- Collect VAT on airport departure fees.
- Implement 2 cents per liter excise tax on gasoline and 4 cents per liter on diesel as specified in the Financial Law.
- Conduct a joint review by the Tax Department and the Customs Department to improve collection of VAT.

B. Non-tax Measures

- Intensify efforts to collect revenue from telecommunication services and leases of state assets. Contracts involving state revenue for telecommunications will be reviewed to ensure that appropriate funds are being transferred to the budget.
- Introduce increased royalty fees for casinos based on estimated turnover.
- Increase the share of garment quotas to be auctioned from 10 percent to at least 20 percent.
- Renegotiate contract with Sokha Hotel, the managing company for the Angkor monument complex, as the sales of entrance tickets to the Angkor complex increased by 28 percent to 239,091 in 2001.

C. Tax and Customs Administration Improvements

- Strengthen tax auditing strategy and capabilities.
- Improve coordination between the Customs and Tax Departments, especially regarding exchanges of information pertaining to large taxpayers.
- Strengthen inter-agency cooperation between the Customs Department, Tax Department, and CDC in monitoring duty exemptions for investment companies and apply penalties for undocumented use of duty exemptions.
- Intensify monitoring, enforcement, and collection of tax arrears for the largest taxpayers.
- Strengthen the anti-smuggling unit within the Customs Department and establish formal assistance arrangements with the Armed Forces and the Police to enforce customs regulations, especially on sensitive products and in problem areas.
- Identify the 50 largest accounts in the large taxpayers unit (LTU) that are in arrears, complete an analysis of the arrears, and establish an action plan with collection targets and reports on performance.

197. Procurement constitutes an integral part of budget execution. A major proportion of public expenditure at every level of government is incurred through the procurement of goods and services and construction activity. The performance criterion for evaluating procurement activities is economy, i.e. acquisition at the lowest price without sacrificing quality and timely delivery. In 1995, the government adopted a decree No 60 on Public Procurement, which was drafted based on international standards and best practices. However, since 1997, which witnessed domestic political turmoil and regional financial cataclysm, some of the important provisions of this governmental decree have not been fully implemented. In an effort to remedy these shortcomings, the government made a decision in December 2001 requiring full implementation of public procurement procedures for four priority ministries, Education, Health, Agriculture and Rural Development in the acquisition of goods, services and construction activities, except for heavy capital investment in road, bridge and sewerage construction.

198. Overall, the 2002 budget allocations represent a fundamental commitment of the RGC to deepen the reform process in Cambodia, both within the RGC and the society at large. The most visible expression of this commitment is the mix of planned allocations for the delivery of public goods and services that will be provided to Cambodians from all walks of

life, including the transfer of resources to the grassroots communities. The planned resource allocations should accelerate the process of change, that has now become now "the blood and bone of the Cambodian". This budget will promote further political stability and security in the country that is vital for the country's march toward democracy, development and poverty reduction.

199. The 2002 National Budget can be succinctly described as an instrument that will promote democracy, reduce poverty, strengthen good governance and empower women. The spending priorities for the 2002 budget are targeted towards meeting these goals. Strengthening good governance will be the hallmark of the 2002 budget execution. The 2002 budget will also significantly empower local communities through the financial devolution to the local levels that will strengthen democracy at the grassroots level. To operationalize the Commune Councils the Government has earmarked 20 billion CRs in the 2002 Budget, of which the first transfer of 10 billion CRs was made in May as block grants to the Commune Fund, which was established to facilitate fiscal decentralization.

200. **FISCAL REFORMS:** The Royal Government requires a substantial amount of technical assistance to meet reform objectives. Technical assistance (TA) is required in all principle areas of reforms related to macroeconomic policy, including fiscal reform (tax administration and policy, customs administration, and budget management), banking reform, statistics, and the legal framework. A number of donors are already providing assistance in many of these areas, that include IMF, ADB, UNDP, and the UK through the Strengthening Economic and Financial Management Project and the Technical Cooperation Assistance Project (TCAP). Japan also providing technical assistance in the area of taxation and human resource development. The TCAP focuses on: (i) fiscal reform, including improved budgetary management, broadening the tax base, avoiding ad hoc customs duty exemptions, and improving customs administration; (ii) re-orienting government spending to priority programs in agriculture, rural development, health and education; (iii) improving the quality and timeliness of economic and financial data; (iv) improving administrative procedures to ensure that social sector spending targets are met; and (v) improving public sector governance, transparency, accountability and adherence to the rule of law.

201. As part of the TCAP, the MEF will undertake the following actions: *Budget Management:* Budget formulation and implementation: raising the quality and effectiveness of public expenditures will involve three key improvements in budgetary management:

- Improving the design of budget programs, including the introduction of relevant performance measurement concepts;
- Introducing a Medium-Term Expenditure Framework (MTEF) for Health and Education;
- Integrating capital and recurrent budgets (and eventually aid budgets) not only at the aggregate and sector levels but also in terms of what each should contribute to the composition of improved programs and services; and
- Aligning program expenditures with appropriate responsibilities and accountabilities—between the MEF and line ministries and between line ministries and provincial authorities.

202. *Budget execution*: Modernizing treasury operations is a necessary component in improving overall budget management and fiscal control. At the same time, some automation of existing functions and financial reporting is desirable to improve efficiency and maintain morale, and to help develop a culture of technological change and improvement.

203. *Internal and external audits*: a priority requirement is to establish the appropriate structure within the MEF and to provide it, and the Auditor General, with necessary resources and capacity. The internal audit capacity will coordinate with the budget unit to ensure consistency of approach and methodology.

204. *Treasury Reform:*

- Document and streamline current accounting practices within the Royal Government of Cambodia;
- Establish a single operational structure of government bank accounts in the NBC under government control;
- Enhance current fiscal reporting system;
- Move the Treasury away from performing banking duties;
- Clearly define the institutional role and relationship of the National and Provincial Treasuries;
- Establish a revised structure for a chart of accounts at the Treasury, in conjunction with a revised budget classification system;
- Implement revised accounting practices;
- Establish and implement a plan for basic computerization in NT and all spending agencies;
- Unify the public accounting management into a structure according to the accounting procedures and regulations, under the Treasury. In particular, all national budget operations should be recorded in local currency (MEF, NBC and NT);
- Unify and improve cash management system under the Treasury, on the basis of the Treasury single current account in NBC;
- Improve consequently reporting system for both budget performance and cash transactions.

205. *Customs Reform*

- The development and implementation of a revised Law on Customs and related regulations, such as the Customs Code, to provide the legislative base for reform and to meet international commitments and standards.
- Implement the tariff restructuring program resulting in an un-weighted tariff rate of less than 15% in the year 2002/2003
- The development and implementation of streamlined customs clearance procedures to enhance trade facilitation and improve effectiveness of operations.
- The development of expanded multi-lateral and bi-lateral relations, including accession to the World Trade Organization (WTO), membership in the World Customs Organization (WCO), ASEAN commitments, and development of bilateral trade agreements. Deriving maximum benefit from WCO, WTO, membership, ASEAN and from bi-lateral relations

- Development and implementation of an enforcement strategy and programs based on the principles of risk management in order to reduce smuggling and other illegal cross border activities.
- Automating Customs Systems and Procedures. All information technology (IT) opportunities will be exploited to improve business systems, operating efficiency and service to clients. The long-term goal is fully automated systems for all customs business processes.
- The implementation of a new organizational structure to better meet the needs of the Department, and the development and implementation of a comprehensive human resource plan, including training and development plans.
- Develop and implement a comprehensive and coordinated training and development program to strengthen management skills and technical expertise. The plan will include all training courses provided by donor organizations such as IMF, ASEAN Secretariat, WCO, and bilateral donors.

206. *Tax reform*

- Establish an unambiguous depreciation schedule for tax on profit based on the needs of all stakeholders;
- Revise the method of taxing dividends as it is currently unnecessary complex.
- Consideration of a thin capitalization provision as well as anti-avoidance rules;
- Review double taxation agreements and seek the first agreement with a small country.
- Widen the tax base.
- Review the exemption level of the tax on salary as it is excessively high.
- Review the VAT thresholds, with the possibility of lowering it slightly below the current threshold for goods, to an extent acceptable for Cambodia's level of economic development and revenue performance of its tax administration.
- Pursue implementation of the real regime in five main provincial towns.
- Adopt selective methods to detect fraudulent invoices-, these methods should be supported by improvements of audit activities.
- Introduce mandatory VAT payments through the National Bank of Cambodia banks for the largest taxpayers.
- Streamline the system for controlling refunds and develop risk assessment techniques for the verification and approval of VAT refund claims.
- Establish and implement a reporting system to follow up, at HQ level, the evolution of tax arrears and monitor collection enforcement activities of tax offices. Establish salient information including ageing of account by tax, interest and penalties collected, number of accounts, dollars outstanding, budget to actual, opening to closing inventory, collection to
- Establish a modern management information system within the Audit Operation.
- Increase the number of auditors through internal reallocation of resources and organize appropriate audit training programs for auditors, if needed, seek technical assistance to prepare and develop these programs.

4.2 GOVERNANCE

207. As the Prime Minister, Samdech Hun Sen has said on numerous occasions, good governance is the backbone of sustainable development, social justice and thus to poverty alleviation. It is also an effective lever to translate development efforts into real benefits for the people and to sharing wealth. Good governance is key to reducing inequalities and inequities within the Cambodian society. It is a cornerstone to peace, political stability and social justice, conditions precedent without which nothing else could come to fruition.

208. The Governance Action Plan (GAP) brings governance related initiatives within the jurisdiction of the Royal Government under a common umbrella framework. By nature, the GAP is a rolling strategic plan to be updated periodically in consultations with stakeholders. The objective is to coordinate efforts and to monitor progress better. Concerned ministries and reform councils are responsible for implementation in their respective areas of jurisdiction in collaboration with their development partners. Other sections of this Position Paper amplify on progress and needs from a sectoral perspective. A companion document, the Aide Memoire on Governance together with its annex summarizes progress made in each identified initiative.

209. The Royal Government is also circulating a draft update of the GAP to initiate consultations with all stakeholders in the weeks and months following the CG. The objective is to introduce new initiatives to follow up on progress made and to go further in our quest for good governance. New priority initiatives evolve around needs and issues in social development, investment and commerce, democratization, administrative reform and anti-corruption.

210. Over the last year, the Royal Government has made important strides in implementing its GAP albeit more so in some areas than in others. Progress made in legal and judiciary reform is a case in point. The Royal Government requires substantial technical and financial assistance on a broad front to achieve its governance objectives. Again other sections of this paper and its companion Aide Memoire on Governance amplify.

REFORM OF PUBLIC ADMINISTRATION

211. During the current phase of the implementation of the National Program for Administrative Reform (NP AR), the strategy has been to rationalize the Administration and to improve motivation in order to transform it into a more productive and responsive institution. The implementation of the planned activities over the next few years will require significant external support that has yet to be secured.

212. Over the next twelve months, i.e. the period to the next Consultative Group meeting, the CAR Secretariat will continue to concentrate on implementing the approved Strategy to Rationalize the Civil Service. In particular, building on the successes, efforts will be focused on the following priorities.

1. **Implementing the Priority Mission Groups Program**: PMG's are critical elements of the Royal Government strategy to implement its reform agenda and to improve the delivery of public services. PMGs are early measures to break the logjam on the road to productivity and to making the Administration an effective partner to alleviate poverty and to achieve sustainable development and social justice. Together with the super category A, they will help dampen the current brain drain from the Administration while other reform efforts take hold.
2. **Implementing the Deconcentration Program**: The strategy and the program will unfold in stages first focusing on the needs of the newly elected commune councils and then on bringing public services closer to the people. Attention will focus on the development of an appropriate legal framework for deconcentration.
3. **Implementing the Human Resource Development Strategy and Master Plan**: The HRD strategy is about changing attitudes, improving motivation and know-how to enhance performance and build the capacity of the Administration to sustain the RGC policy agenda. HRD activities cover a broad spectrum, from various forms of training to information sharing through practices that favor empowerment. The Economic and Public Service Capacity Building Project will anchor early HRD initiatives.
4. **Enhancing IT and communications:** The Council for Administrative Reform has elected to adopt a progressive, staged approach, taking advantage as much as possible of proven techniques and practices and to apply them in most urgent areas and where the course can be sustained. As for the reform program itself, the approach seeks to set solid foundations first where it matters most. The IT strategy closely follows that of the National Programme for Administrative Reform itself and its Strategy to Rationalize the Civil Service including the deconcentration strategy. In a first phase technology will be used as an efficiency tool. Attention will then turn to improving service delivery and internal communications.
5. **Investigating ways and means to implement elements of the strategy:** The strategy calls for a significant redeployment of the workforce from the back office to the front office and from non-education sectors to the education sector. In order to maintain the overall size of the Civil Service to current levels and still meet service delivery obligations, new ways of doing business will have to be introduced (e.g. contracting out, privatization, Special Operating Agencies, One Window Service Delivery). Mechanisms to facilitate redeployment or their reintroduction into the private economy will be investigated and readied for implementation.
6. **Strengthening the capacity of the CAR Secretariat:** A well-planned and coordinated capacity- strengthening plan will be implemented within the Secretariat (planned activities will include inter-ministerial representatives when feasible). Efforts will focus on periodic training sessions and on the job tutoring. Activities will take place to coincide with the work cycle.

213. The Aide Memoire on Administrative Reform amplifies on the course of action over the next period. Financial and technical assistance is required in each of the above areas.

DEMOBILIZATION

214. The RGC remains firm in its resolve to continue with the reform of the Royal Cambodian Armed Forces specially through military demobilization. Building on the

experiences and lessons learnt from the Pilot demobilization program and the strong moral, material and financial support from the donor community, the Council for the Demobilization of Armed Forces had successfully completed by late last year the discharge of the first batch of 15,000 military personnel plus their family members. The process of this first full-scale reduction-in-force was carried out in an orderly, manageable, efficient, smooth, transparent, accountable and timely manner, as planned, without any problems or incidents.

215. This year the CDAF will continue to closely cooperate with the Donor Working Group on Demobilization to procure and deliver the four options of reintegration assistance packages as well as other assistance planned in the demobilization program to the 15,000 veterans who had been discharged last year. The CDAF will also begin to lay the foundation for the second full-scale demobilization of another 15,000 soldiers to achieve RGC's target of reducing the armed forces by a total of 55,000 soldiers over a period of five years.

216. The Royal Government will continue to seek support and funding from its external partners to further reduce the size of the Royal Cambodian Armed Forces following the successful completion of the first target.

LEGAL AND JUDICIAL REFORMS

217. The ultimate objective of the legal and judicial reforms is to provide the conditions necessary for a robust private sector as agent of growth and the protection of personal and property rights. With the assistance of the World Bank the Royal Government is developing a comprehensive, well coordinated and participatory framework to legal and judicial reform, based on full stakeholder participation, close partnership with donors, and strict adherence to a strategic framework common to all development partners.

218. The reform is a critical element of the Royal Government change agenda in its pursuit of sustainable development and social justice. The Government has been unrelenting in its attempts at completing the legal framework. Major new laws and regulations have been promulgated and are now being implemented. They cover a wide spectrum from the management of natural resources such as land, fisheries and forestry and wild life, to providing the private sector and the market economy with an appropriate framework and all the way to family violence and human trafficking. Important progress has also been made to reform the judicial system with the establishment of the Royal School for Judicial Training, for example.

219. Following comprehensive diagnostic studies, a strategy and course of action is being prepared with the assistance of the World Bank. To help speed up the process technical assistance has been mobilized. The Royal Government is determined to accelerate the pace in close cooperation with its development partners with the World Bank acting in a coordinating capacity among donors. The work underway entails the finalization of the Strategy and Action Plan; the mapping of initiatives underway or planned; and, the development of a fully articulated project together with work plans.

220. The strategy is being articulated along seven component parts per the Aide Memoire already circulated: (i) further articulating the strategy; (ii) streamlining the law making

process within the Executive Branch; (iii) supporting the regular publication of the Official Gazette; (iv) creation a tri-lingual lexicon of legal terms; (v) developing elementary judicial tools through pilot courts' schemes; (vi) the training of judges and supporting the Royal School of Magistracy; and, (vii) the training of lawyers and supporting the Cambodian Bar.

221. Technical assistance has been deployed to assist the Royal Government empower the management of the reform and to address elements of the strategy such as the streamlining and strengthening of the law formulation process and the preparation of a Master List of priority laws. However, significant technical and financial assistance will be required for the pace of reform to accelerate.

4.3 SOCIAL SECTORS

4.3.1 EDUCATION

222. The Government's policy priorities for the education sector are laid out in its Interim Poverty Reduction Strategy Paper of 2000. These include: equitable access and quality improvements in the provision and delivery of basic education (the first 9 years of schooling) by around 2010. For post basic 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 recognized that total public expenditure has been below what is necessary to achieve these policy objectives. As set out in the Public Expenditure 2002/4, the Government intention is to more than double the education recurrent budget over the next 3 years as an initial step to strengthen policy implementation. Increased public spending on education will adopt clearly defined pro-poor policies and strategies, and to significantly increase school operating budgets that will be managed at the provincial/district and school levels. A key strategic priority of the RGC is to reduce direct and indirect costs to parents (the major access barrier) through a significant increase in performance based teacher salaries. The PAP for 2002 for education sector is designed to secure implementation of these policies. These initiatives will be underpinned by development of new legislation and regulations, covering all levels including higher education, and a draft education act that is planned to be prepared by early 2003.

223. The MoEYS PAP proposals for 2002 are designed to move policy implementation forward. They will assure financial sustainability of the quality and efficiency improvement programs that are being implemented through PAP supported initiatives covering instructional materials, continuous teacher development, expansion of literacy and non formal education and introduction of HIV/AIDS awareness programs. The PAP 2002 proposals for higher education and technical vocational education and training (TVET) are consistent with these policies and strategic directions. In addition, MoEYS has prepared plans for expansion of targeted food and cash/ in kind incentives for upper primary and lower secondary students from poor families to secure attendance and progression into secondary schooling. These revised incentive programs will be introduced in mid to late 2002.

224. **Improving Efficiency and Productivity**: The Government's strategic priority is to achieve significant improvement in the teaching and learning process through the provision of textbooks, increased school operating budgets and additional resources for professional development. A second priority is to make substantial efficiency gains in the use of classrooms through formalized double-shifting and multi-grade teaching. A key measure will be to secure substantial improvements in efficient staff deployment through rigorous monitoring of staffing norms and use of these norms in forward budget preparation. This MoEYS policy and strategic framework recognizes the fundamental importance of improved living conditions for teachers. Within the overall resource allocations, there is provision for a doubling of teacher salaries in the next 5 years. Government is determined to ensure that teacher pay increases are linked to performance improvements (e.g. regulation of attendance) and efficiency gains. Consistent with NPAR proposals, the strategy is to provide graduated across-the-board increase for all staff, alongside larger pay increases for core groups, who will make the greatest impact on policy implementation (e.g. head-teachers, teachers in remote areas, etc.). In particular, the proposals emphasize the importance of the classroom teacher, alongside more efficient and scaled down administrative support. Quality improvements to basic education will be based on curriculum reform. Students will be assessed regularly for learning through a national public examination linked to the regular monitoring of standards set at the end of grade 9 – the final level of basic education

225. **Equitable Access**: Scheduled quality and efficiency improvements to basic education will be complemented by prioritized rehabilitation and expansion of classrooms for primary and secondary schools. Cost effective models for delivery of schooling will be developed. Measures will be taken to reduce costs for poor families linked to targeted scholarships. Pre-entry reception classes will be expanded nationwide to regulate age of entry and secure school readiness. Within this framework, the emphasis will be on achieving better literacy and numerate skills with a view to meeting the Government's target of 90 percent of 12 year olds completing Grade 6 and becoming functionally literate and numerate by the year 2005. The target is to ensure an enrolment of 2.4 million in primary, 0.8 million in lower secondary and 0.3 million in upper secondary schools by 2005. A high priority will be to expand access for the poor and females as well as under-served and low enrolment areas. The reform programs are already showing success and will be expanded to incorporate a broader coverage incentives programs for the poor and acceleration of primary and secondary school building program in currently underserved areas in 2002 and 2003.

226. **Higher Education and TVET**: The framework for strengthening the relevance of higher education and TVET to changing economic needs is provided by the ongoing implementation of strategic plans. These plans specify training delivery systems and roles and responsibilities of a reformed TVET system as well as identification of targeted groups. The Departments of Higher Education and TVET and National Training Board are the main institutions supervising and monitoring the implementation of these plans. In addition to reform of these systems, the Government will strengthen its investment appraisal mechanisms with a view to ensuring that instance external assistance programs as well as foreign direct investment incorporate structured training modules for transfer of technical specialization's to national staff. The Government recognizes that provision of TVET services is a rapidly growing segment of the education and training sector. As most of these services are increasingly being provided by the private sector the Government will play a

supporting role rather than establishing competitive organizations at ministry level. The Government has an important role to play in complementing the emergence of vocational and technical training by modernizing curricula and upgrading teacher's skills in core science and technology areas, business studies and languages in secondary schools. Schools science will be strengthened and courses on self-employment, income generating activities and small business management will be developed and introduced into secondary schools and higher education curricula. Emerging entrepreneurs will be trained in finance and investment analysis, business management and accounting through closer links to the technical and vocational programs of business and non-government organizations. The private sector and NGOs will take the lead role in service provision in entrepreneur enterprise and development training.

227. **Youth and Sports**: The Government is committed to facilitating the emergence of sports facilities and youth associations, so as to increase individual responsibility for health and civil capacity for community initiated self-help development. A key priority is to establish a policy and planning environment conducive to the participation of the private sector in the direct provision of recreational and specialist sports facilities and sponsorship of sporting events. The role of the Government will be essentially that of a facilitator given the fiscal limits of public provision of recreational and specialist sports facilities. However, the Government will in the near term play a more direct role in the provision of school sports facilities as part of the process of rehabilitation and expansion, wherever feasible, of educational facilities.

228. **Resource Mobilization and Financing Options**: The Government is committed to devoting a greater share of national resources to education. Mobilization of additional resources from the budget and external assistance will be complemented by the opportunity to develop alternative financing options from revised private sector/community participation in the development of education. The Government will explore the feasibility of tax incentives to encourage individuals and private business to provide financial support to educational institutions. Schools will be encouraged to provide part of their own financing by developing financing mechanisms with the communities that they serve, linked to better financial regulations. However, Government is determined to reduce the share of non-public spending for basic education to ensure equitable access for the children from poor families. The expenditure composition of education will be further reviewed with a view to increasing the incentive framework for recruitment and retention of teachers and to ensure allocation of expenditures to their highest rate of return. The Government will focus on improving cost efficiency by reducing the number of non-instructional staff to a ratio of 5 to 8 percent of total staff by not replacing those non-instructional staff who leave or retire and by re-deploying non teaching staff who hold teacher qualifications. The Government will explore with donors the scope for moving towards a mixture of recurrent and capital budget support through appropriate modalities, alongside well planned capacity building technical assistance.

229. The Government recognizes that, in common with other sectors, many of the proposed education policy priorities are not easily implemented through traditional project funding alone. This situation applies particularly to many of the proposed institutional reforms. The education MTEF will be revised on an annual basis, taking account of PEP, PIP and PAP allocations for the sector. The MoEYS financing framework 2002/6 will also be

revised annually, taking account of the outcomes of an annual Government/ MoEYS/donor/NGO annual performance review mechanism, which began in 2001. In late 2001, the development partners have produced an ESSP appraisal report and an action plan. The Government anticipates that the PIP for education will increasingly consist of a mix of recurrent and capital budget support. Early in 2002, the Government has secured support for this kind of mixed modality through an education sector development loan from ADB, and support for a substantial program from Sida for capacity building.

4.3.2 HEALTH SECTOR

230. The updated **Health Sector Policy for 2002-2007** is based on a set of values and principles. The ***values*** underlying the policy put emphasis on the provision of high quality health services, with equity, and without discrimination by gender, age, place of residence, or ability to pay, that are pro-poor, and are based on trust between providers and users. The ***working principles*** for the implementation of these policies emphasize social protection for vulnerable groups, listening to what people want, a sustainable cost structure, focus on rural areas, capacity building and human resource development, and partnerships.

231. The updated health Policy will focus on the following twelve priorities:

i. Provision of basic health services to the people of Cambodia with the full involvement of the community.
ii. Provision of essential specialized services as appropriate and within the available resources.
iii. Decentralization and de-concentration of financial, planning and administrative functions within the health sector .
iv. Optimization of human resources through appropriate planning, management, including deployment, and capacity development within the health sector.
v. Priority emphasis on prevention and control of communicable and selected non-communicable diseases and injury.
vi. Priority emphasis on provision of good quality care to mother and child.
vii. Enforcement and further development of appropriate health legislation to protect the health of the population.
viii. Active promotion of appropriate health and health-seeking behaviours among the population.
ix. Emphasis on the quality, effective and efficient provision of health services by all health providers.
x. Increased promotion of effective public and private partnerships for the efficient health sector.
xi. Effective use of the health information system for evidence-based planning, implementation, monitoring and evaluation in the health sector.
xii. Promotion of equitable access to priority services, especially by the poor.

232. The Ministry of Health's operational objectives for 2002 include:

i. Developing a framework for **Sector Wide Management** that includes (a) long-term policy and strategy; (b) a master plan for the development of the health sector from 2001 to 2007; and (c) a framework for medium-term (3 year) health sector expenditures.

ii. Operationalizing the **Boosting of Health Care Services** through continuing discussion with relevant institutions and partners for development of technical and other essential conditions for implementation.

iii. Strengthening the **capacity of provinces and ODs** in developing integrated annual plans for construction of health facilities, and supporting the medium-term development plans of the provinces.

iv. Strengthening quarterly **supervision, control, and monitoring systems** and annual evaluation of all levels, in conjunction with strengthening communicable disease control systems to support the development of action plans, management, and interventions in the case of outbreaks of disease.

v. Utilizing **computerized information management systems** for updating health information at provinces and ODs and encouraging the central level to provide feedback.

vi. **Capacity building** to prepare the budgets and plans, and strengthen the budget management efficiency through Operational District Training in the priority programs. Extend computerized accounting management to all entities and provinces/towns that implement the priority activities, and train OD and health centre staff in accounting techniques over the whole country.

vii. Strengthening the **mechanism for exemption of fees** for the poor when using consultation and treatment services, especially in referral hospitals and the national hospitals. This will assure that the poorest among the population that can not effort to pay for health services are not denied the services which they require.

viii. Improving the **management and the use of income gained from user fees** with efficiency and transparency by following the policy and financial regulations. This will improve the quality of health services and encourage staff to carry out their responsibly and respect their own professional ethics.

ix. Improving the **management, distribution, and the use of drugs** to properly conform to the guidelines and methods of treatment. This will reduce minimum stock shortages and over stocking.

x. Carrying out the pilot strategy **of Integrated Management of Childhood Illness** (IMCI) in Kampong Tralach OD in Kampong Chhnang Province, and in Romeas Hek OD in Svay Rieng province.

xi. Increasing the **coverage rate of expanded program of immunization** for children under 1 year to 80% for 50 ODs and 50% for the other 23 ODs. At the same time, strengthen the system of integrated research on measles, and childhood tetanus.

xii. Increasing the campaign providing **additional measles vaccines** for children from 9 months to 14 years of age in Phnom Penh, Kandal, Kampong Speu, Takeo, Kampong Chhnang, Pursat, Battambang, Svay Rieng, Kampot, Kampong Cham, and Sihanouk Ville.

xiii. Carrying out the campaign of providing **additional tetanus vaccine** for the second and third time to women from 15 to 44 years of age at the provinces/towns and ODs where the rate of tetanus vaccine injections is low.

xiv. Increasing the rate of the **second antenatal consultation** for pregnant women to 40%, and the rate **of tetanus injection for pregnant women** to 50%, of all pregnant women.

xv. Increasing the rate of **birth spacing** to 30% and the rate of **delivery by trained health staff** to 70% of all deliveries.

xvi. Reducing the rate of **HIV/AIDS transmission** by: increasing general awareness IEC for HIV/AIDS prevention; expanding and extending testing and counseling services; expanding the activities of 100% condom use; and promoting the continuum of care for HIV/AIDS.

xvii. Expand **Tuberculosis Care with the treatment of DOTS** at 180 new health centres; at the same time increase the new case finding rate to 58%, and maintain a recovery rate higher than 85%.

xviii. Reduce the rate of **malaria incidence** to 10 per 1,000 population, and the death rate to under 0.10%.

xix. Promote **voluntary blood donation** to ensure both the quality and quantity of blood collected. Open for service 5 blood banks at referral hospitals at OD level.

xx. Construct and expand 100 **new health centres**.

xxi. Develop a **teaching hospital** in order to improve the quality of pre and post service training for health professional.

xxii. Improve, step by step with the existing resources, the **technical skills at referral hospitals**, especially at provincial and OD level, by providing CPA and strengthening the referral system between health centres and referral hospitals.

xxiii. Increase the **training in clinical techniques and management** for health centre staff, referral hospitals, and management officers.

xxiv. In response to the lack of midwives at health centres, provide in-service, refresher training for health staff at health centres in the skills of **maternal and child health care.**

xxv. Strengthen the on going training through **decentralization of the development and use of the health human resource data system** and expand the data management to included students who finish their studies, and the private health services.

xxvi. Promote the **implementation of other public health programs** to response to the needs for health education and promotion, oral and dental health, mental health, eye care, and food safety and nutrition, etc.

xxvii. Strengthen the mechanism for control of the **private sector** practice and conditions, and assure the quality of services as mandated by law.

xxviii. Promote **coordination and collaboration** with international and non governmental organizations and other partners through the use of computer information systems, and strengthen the leadership of the Coordination Committee (Cocom) of the Ministry of Health and the role of Prococom at provincial level.

Public Investment Plan for the Health Sector

233. **Purpose, Approach, Methodologies, and Scope:** The proposed MOH's Public Investment Plan (PIP) 2002-2004 is an integral part of the RGC's three-year rolling plan, which has been designed to help attain the Government's health sector objectives through financial and technical support. Several key strategic choices have been agreed on and identified in order to attain the best fit and maximize the sustainability and impact of the

investments. Along with the health sector reforms, the PIP will ensure the success of both the public health programs and the rehabilitation of basic health services. The PIP also takes into account emerging priorities and development of medical technology.

234. **Goal and Objectives of Health Sector Development**: The overall goal of the Ministry of Health is to promote good health, that will enable the people to participate fully in the socio-economic development of Cambodia and thus contribute to the national goal of poverty reduction. The objective is to improve equity and accessibility of basic health services of good quality health service, efficiently and at the lowest sustainable cost.

235. **Investment Components:** The investments will be focused in the following four areas:

- ***Strengthening the Health System*** by supporting strengthening of health sector management, strengthening basic health services, human resource development, and reform of pharmaceutical management.
- Priority ***Health Program*** will focus on: tuberculosis and leprosy control, control of malaria, dengue hemorrhagic fever and schistosomiasis, control of HIV/AIDS and STDs; and women and child health programs.
- ***Strengthening Hospital and Laboratory Services*** through three projects: Rehabilitation and upgrading the capacity of technology at national and provincial hospitals; expansion of blood transfusion services at referral hospitals throughout the country; and strengthening the National Laboratory for Drug Control.
- Preparedness and response to ***Emerging Priorities:*** will focus on strengthening medical specialty for ENT and oral and mental health, development of health education, primary health care, and mental health.

236. Monitoring and Evaluation: In addition to the overall health indicators, specific performance goals and objectives have been defined and will be used for monitoring and evaluation. Selected indicators for monitoring and evaluating the overall program implementation progress and results have been developed.

237. **Next Steps:** Development of the Health Sector Strategic Plan: A number of tasks in the development of a Strategic Plan for Cambodia's Health Sector have already been completed. These include: the institutionalization of organizational and financial reforms, significant achievements in polio eradication, control of TB, malaria, HIV/AIDS, and expanding birth spacing; and piloting of some innovative strategies i.e. contracting, and community involvement mechanisms. The steps to develop the Health Sector Strategy now being undertaken that will lead to, over the coming 10 months, the preparation of a Health Sector Strategic Plan for 2003-2007, include:

- ***Updating the Health Policy:*** already completed.
- ***Identifying appropriate strategies to achieve the policy goals:*** this will involve consolidation and scaling up of successful strategies, formation of a partners' circle to discuss the process of sector strategy design, the joint health sector review with partners (already completed), the development of effective partnerships between public, private and NGO sectors based on comparative advantages.

- ***Preparation of the Strategic Plan 2003-2007***: this will involve an institutional review of MOH key departments to strengthen SWM capacity, and the facilitation of clear decisions on leadership responsibilities for sector-wide management.
- ***Preparation of a Medium-Term Expenditure Framework***: this will involve the compilation of information on donor support to enable strategic decisions on resource allocation, coordination of MOH and donor inputs to reduce gaps and duplication, and facilitation and strengthening of the donor coordination framework.

238. **CONCLUSIONS**: Cambodia's health sector faces a high burden of disease, and a weak health infrastructure to cope with this burden. Although significant progress has been made in strengthening and maintaining the public health system, much remains to be done. As in the rest of developing world, the primary constraints to strengthening and maintaining the health system is shortage of funding and the lack of legislative environment that supports its implementation. The health sector in Cambodia has gained strong support and political commitment from the Royal Government of Cambodia through increased budget allocations and investments in the social sector. The Ministry of Health, in collaboration with local and external partners, is taking concrete steps to reconstruct and revitalize the public health system with special emphasis on undertaking organizational, financial and budgetary reforms. The Ministry has developed and is implementing a three-year rolling plan of investment, in which most of the allocations are for the basic health services and essential public health interventions. In addition, the MOH is also making efforts to improve health-related regulations, and considering options for working with the private sector. These policies/plans can only be implemented if sufficient resources are made available from both the government and the donors within a collaborative framework for long-term sustainable development.

4.4 ECONOMIC SECTORS

4.4.1 AGRICULTURE, FORESTRY and FISHERIES

239. The RGC's agriculture sector development policies focus on: (i) the continued implementation of agricultural water policy and expansion from 16.62 percent to 20 percent of rice cultivated areas, (ii) expansion of cultivated areas, ensuring safety of land occupation and land utilization, and preventing illegal and violent land occupation, (iii) promoting the establishment of rural finance to provide the needed credit to farmers for buying agricultural materials, (iv) direct public investments by using external assistance and increasing private sector development and investment in the agricultural sector, (v) strengthening extension services, natural resource utilization and management, and agricultural techniques to meet the requirement of the domestic market and for exports, (vi) strengthening sustainable utilization of fishery resource and increasing support for investment in agro-industries, animal husbandry and fish raising, (vii) accelerating the pace of privatization of rubber plantations, assisting private investment companies to invest in large-scale rubber production, and encouraging small holder rubber plantation, (viii) promoting application of forestry policies and laws on forest management, and promoting planting of fast growing and higher yield trees for utilization as fuel wood and charcoal, (ix) Stopping and eliminating all illegal fishing activities, and (x) cooperating with local authorities and other competent bodies

to stop and prevent illegal activities and strengthening inspection through administrative penalties.

240. Agricultural sector development targets to the year 2005 include: (i) a continuing focus on food security, especially at community and household level, and reducing poverty in the agricultural sector, (ii) increasing food production, especially rice production and subsidiary crops, (iii) increasing the exports of surplus agricultural products, (iv) improving the quality of agricultural products and increasing the value added by promoting the development of ago-industrial processing to foster the creation of new jobs for rural area, (v) increasing family incomes and reducing poverty by supporting diversified crop production with high yields and low production costs, and (vi) managing the natural resource through regulation and technical measures for sustainable exploitation.

241**. Expanding Agricultural Extension Services**. The expansion of research and agricultural extension services is a key component of the strategy to boost agricultural productivity. Two new institutions, the Department of Agricultural Extension (DAE***)*** and the Cambodian Agricultural Research and Development Institute (CARDI) were established in MAFF with assistance from AusAid, which is continuing support through a Cambodian Australia Agriculture Extension project. Another programs is under discussion with JICA for the establishment of Northwest Agricultural Research and Development in 5 provinces around Tonle Sap Lake. Extension services previously provided by separate technical departments are now being coordinated to meet the specific needs of farmers. In addition, there are 14 functioning research station that focus mostly on rice. These institutions suffer from shortage of funds, lack of equipment and qualified personnel resulting in inadequate research and extension. With assistance from the World Bank, several research station are being rehabilitated and their personnel trained in areas of variety evaluation and applied research. The Government is looking for additional external assistance to ensure the continuance of farmer training in the areas of integrated pest management techniques and the distribution of new varieties of high quality rice seed developed by the Cambodia-IRRI-Australia Project (CIAP). Complementing these measures will be the strengthening of the Department of Planning, Statistic and International Cooperation and the other Technical offices to undertake and disseminate product analysis, identify potential for diversification, market research, evaluate agribusiness ventures and to advice on agriculture trade policy.

242. **Food Security**. Cambodia produces more rice than it needs in aggregate. The annual exportable surplus has averaged about 10 percent of yearly rice production. Similarly, there is adequate supply of livestock produce. Despite this food surplus situation, about half the nation's 24 provinces and municipalities are food deficit, with 1/3rd of the population unable to purchase minimum food requirements. This points to a need for increasing efficiency of the food distribution system by:(i) reducing transportation cost by improving road system,(ii) reducing marketing margins by increasing efficiency of rice milling, wholesale and retail outlets, and (iii) increasing imports of lower grade rice for sale to low-income families.

243. **Boosting Rice Production and Maximizing Farm Incomes**. Rice yields in Cambodia will continue to show significant variations due to high reliance on uncertain rainfall patterns. To develop alternative income sources, the encourages farmers to undertake small farm enterprises such as rearing farm animals and developing small ponds

fish rearing, food processing, food sale and provision of farm services i.e. transportation, plowing and machine repair. Rice farmers are also encouraged to plant some productive trees on their idle lands, as additional employment opportunities for increasing their farm income. However, farmers need credit to undertake these enterprises. At the same time, there is a need for a change in farmer's view of farming from one that is seen as a way of life to one that treats farming as a business.

244. **Community Participation**. MAFF programs and policies will, where appropriate, be closely coordinated with other institution involved, with the council for Rural and Agricultural Development (CARD) as the coordinating body supporting agricultural Programs and participation of farmer communities. Two of MAFF's basic functions involve providing extension and research services to help farmers to acquire knowledge on techniques and preventive measures in order to increase production

245. **Strengthening Input Distribution**. Increased access and better use of quality agricultural inputs is critical to increasing production of rice and other crops. At present, the use of fertilizer by farmers is highly variable because it is often not available and when it is, the price is often prohibitive. This situation reflects lack of market information on the needs of farmers, which impedes efficient distribution of fertilizer and other agricultural inputs. Considerable price differences between regions that cannot be explained by cost of freight reflect collection of illegal taxes and lack of competition among input suppliers. The Government is resolved to promote a competitive environment, the recently completed reform of the state-owned COCMA concerning the agricultural inputs and a stricter enforcement against illegal tax collectors should redress some of these issues. In addition, the Agricultural Materials Law will provide legal standards for inputs including environmental standards and a monitoring and enforcement agency will be established to supervise its effectiveness.

246. **Land Utilization and Management**. Currently, cultivated land area has increased at about 30,000 ha. annually . This rate will be doubled over the 2002-2005 with at least2/3^{rds} of new land to be devoted to tree crops such as rubber, cashew nuts, coffee, coconut fruits and palm oil. Gross margins from these crops are about US$2,000 per hectare compared with US$400-900 per hectare for annual crops, except vegetables. Farmers growing two hectares of any of these tree crops will enjoy farm incomes well above the poverty level. A crash program will be implemented to make available supplementary irrigation in rice growing areas, in order to enable farmers to plant a second crop of rice or other annual crops. Growing additional crops provide additional employment opportunities and increase both food supply and farm incomes. The RGC will allocate some state land for agricultural development, with about 50,000 ha. of new land made available each year for development by small farmers, private sector, and public development agencies. This land will be sold at market price for commercial enterprises and at nominal rates to low-income farmers. This is to ensure that small farmers rather than larger private sector enterprises are the main beneficiaries of this new policy. However, given the farmer's lack of technical skills and capital, such land development may involve partnership agreements with a private company or public development agency. In addition to the rehabilitation of existing irrigation schemes, there is a need to promote the use of shallow tube-well (STW) irrigation, which can be operated either manually or by using small low-lift pumps (LLPS). These low cost pumps

involve a low capital cost per hectare in order to ensure financial viability, and will be made available to farmers through a credit scheme. This approach is the quickest and cheapest means of expanding irrigated areas.

247. **Livestock Improvement**: Issues facing this sub-sector are improvement of livestock productivity, strengthening the enforcement of legislation, marketing of livestock and its products, disease control, public health and nutrition/ energy requirements of draft animals and animals for food, feed supply for the additional populations of livestock resulting from anticipated lower mortality, availability of credit for livestock purchases and reform of the marketing system that, at the present, disadvantages the producers. There is a need for better management of additional sustainable feed resource use and credit availability to build stock. The potential to increase livestock production is promising and should attract national and international investment in commercial livestock farms. In addressing the constraints, the RGC has focused on animal health service through disease control, strengthening the cooperation with OIE, WTO, public veterinary service and research.

248. *Fisheries management and Administrative improvement:* The MAFF/Department of Fisheries (DoF) is currently reviewing draft fisheries law and legislation to address the most efficient and cost effective strategy for fisheries management, conservation and development. The primary focus of inland fishery management is fishing lot system in which boundaries and the system of bidding. Fishing lot boundaries have been reviewing by releasing 56 percent of total for the local communities in order to establish community-based fisheries management system. On the other hand MAFF/DoF are seeking external technical assistance to improve capacity building of the fisheries inspection programs in terms of monitoring, control and surveillance in both inland and marine fisheries. Marine fisheries also need to improve by preserving habitat and maintaining the adsorptive and regenerative capacities of the marine environment and strengthening the information system for collection, processing, analysis and stock assessment of marine fisheries.

249. *Aquaculture improvement:* the traditional aquaculture has been found and need to be improved the capacity of national institutions to promote local aquaculture development by transferring technology through training and extension to the farmer to be able to adopt a new technology to increase aquaculture production. Small-scale aquaculture is recognized and recommended as an important sector to be improved.

250. **Revitalizing Rubber.** Rubber has long been a major commercial crop and export earner for Cambodia, and as a labor-intensive crop has the potential to contribute to poverty alleviation through rural employment creation. At present, total production is still 45,000 Mt., which is 25 percent of the level achieved in the 1960's. There is scope for increasing the cultivated area from the current 54,000 ha. to about 70,000 hectares, and potential to increase annual production to about 80,000 MT that could provide export earnings of US$54 million annually. The corporatization of the seven existing state-owned plantations should help in transforming these enterprises into efficient productive units. Along with the planned corporatization, the RGC has assured small farmers that rubber will be treated as any other crop and farmers planting this crop will not lose their land titles. In addition, they will be free to sell their latex in the local free market. With these assurances, the Government expects that more farmers will be planting this crop in the future. Because of low labor cost,

Cambodia has a comparative advantage in growing rubber. The new market for rubber wood has made this a dual product crop, which can be grown both for its wood and latex. Expansion of planted crop areas will provide gainful employment to a large number of farmers and raise farm income to levels well above poverty levels.

251. **Forest Concession Management**. The RGC has achieved significant progress since the fifth CG meeting in its efforts to ensure sustainable management of forest resources. In order to improve the performance of forest concessionaires conducting commercial logging activities, the RGC has introduced several rigorous measures, including the suspension of logging activities from January 1, 2002 until such time that a concessionaire would have a new forest management plan approved by DFW/MAFF consistent with international standards and would have renegotiated a model forest management investment agreement with the RGC. Those Companies could not fulfill these requirements will subject to total termination of contracts.

4.4.2 INDUSTRIAL SECTOR

252. The RGC's Industrial Development Action Plan (1998-2003) has two goals: the development of export-oriented industries, and the development of import-substituting production of selected consumer goods. These goals are to be achieved by promoting: (i) labor-intensive industries, (ii) natural resource-based industries, (iii) small and medium enterprises, (iv) agro-industries, (v) technology transfer and upgrading the quality of industrial products, (vi) establishment of industrial zones, and (vii) the development of import-substituting production of selected consumer goods.

253. The promotion of labor-intensive manufacturing will continue to focus on the textile and garments sub-sector, where the ready supply of mostly female labor underpins cost competitiveness. However, the Government recognizes that retaining and increasing market share in an increasingly competitive international environment requires the upgrading of product quality, as well as greater productivity through improvements in technology and management. The development of better industrial relations within the established legal framework is also needed; and ways of increasing the multiplier effect of garment manufacturing need to be investigated. Currently, most of the garment sector operates on cut, manufacture and tailor basis, with fabric and accessories (zippers, buttons, thread) being imported, and the purchase of local inputs limited to transportation and freight clearing services, utility-type services to run factories, and construction to build factories.

254. In order to diversify the manufacturing export base, the Government will encourage toy production, whether under license or through foreign direct investment. Such manufacturing is considered to be well suited to the country's relatively large endowment of low skilled labor. A second area that will be promoted is assembly of electronic products, where all parts and components are initially fully imported.

255. The promotion of natural resource-based industry will focus on identifying and exploiting opportunities in processing of natural resources, including non-metallic mineral resources, timber, and fisheries. The development of animal and fish breeding may permit

their supply as a raw material for reprocessing factories. However, the main prospects in this area are in the use of non-metallic resources for manufacture of construction materials.

256. In regard to small-scale industry and handicraft production, the Government intends to give priority to the promotion of traditional art and crafts for the tourist market in both rural and urban areas. Another area with potential for expansion is the small-scale tobacco producers who can contribute to increasing the supply of raw materials to the large manufacturers. However, in order to succeed it will be necessary for these enterprises to ensure sustained product quality. In addition, because they do not have access to credit other than from high-cost moneylenders they will need to be provided micro-finance credit facilities.

257. The core strategy for agro-industry development is to grant concessional land plots to both domestic and foreign companies on a long-term basis, and to encourage the participation of local small landholders through contract growing for processing factories in the area. The development of agro-industry initiatives will require close co-ordination between the ministries of Industry, Mines and Energy, Agriculture, Fisheries and Forestry, and local authorities, as well as technical assistance in the full assessment of development potential. Strengthening the economic linkage between agriculture and industry within the context of sound environmental management is seen as essential to the creation of incomes and employment.

258. The promotion of technology transfer and the upgrading of products will require the Ministry of Industry to design and implement a quality control system for export products that sets internationally-accepted standards. In addition, the transfer of technology will require the RGC to develop an appropriate legal and regulatory framework covering copyright, trademarks, and so on.

259. The creation of industrial zones is aimed at facilitating export development and creating employment by providing high-quality infrastructure and utilities needed to encourage investment. Zones in suburban Phnom Penh and Sihanouk ville would provide transport and communications, power and water, waste management, education and health facilities, and shopping complexes, along with minimal customs formalities and duty-free importation of business inputs. The spatial concentration of export-oriented enterprises would provide a business incubator environment in which ideas and experiences could be exchanged; and would also permit better control of environmental impacts of specific business activities. Other possible regions for industrial/export processing zones include Koh Kong, Battambang (near the Thai border), and Banteay Meanchey (the most populous province). The Government, with external assistance, will conduct feasibility studies during SEDPII and, where feasibility is established, proceed to full project formulation and implementation.

260. The promotion of import-substitution of selected consumer goods will be undertaken only after a careful analysis of whether or not there is a genuine prospect of a proposed venture becoming internationally competitive.

261. In general, the Government will support broad-based industrial development by: (i) encouraging expansion of the SME sector, especially through provision of medium and long term finance, (ii) improving the performance of State-Owned Enterprises through corporatization and privatization, (iii) stemming the flow of illegally imported products, (iv) reducing barriers to export such as export taxes and inefficient provision of trade facilitation services (e.g. licensing), (v) reducing barriers to importation of business inputs, (vi) providing infant-industry protection in carefully selected instances, (vii) enhancing the linkage between SMEs and between SMEs and large industries, (viii) promoting a national productivity centre that will assist small and medium size firms to increase productivity and reduce production costs, (ix) establishing a National Institute of Standards that will ensure product quality matches regional and international standards, (x) establishing a National Laboratory with the technical capacity to undertake physical, chemical, microbiological, and mechanical analyses of products that establish the quality and other specifications of these products, (xi) establishing an industrial property rights bureau that would protect new products, designs and technologies from illegal copy, (xii) promoting vocational training domestically and overseas, and (xiii) upgrading the legal framework in the areas of factory law, industrial zone law, patent and industrial design law, weights and measures, industrial safety.

262. Private sector organizations will play a key role in identifying industrial development opportunities and constraints, participating in the policy formulation and monitoring processes, and promoting domestic and foreign private investment.

263. **Mineral Sector**: So far the result of geological studies and mineral investigations have indicated that there are about 133 mineral deposits, including 26 deposits of iron and ferro-alloy metals (iron, manganese), 15 deposits of base metals (bauxite and cooper), 21 deposits of precious metals (gold), 51 deposits of industrial minerals (limestone, phosphate and silicasand), 14 deposit of gemstones and ornamental tones (ruby, sapphire, marble, pagodite), 6 deposits of coal, and other deposits of construction materials. Industrial minerals are important inputs as raw materials for mineral-based industries, including cement and phosphate fertilizer factories. Construction materials, such as sand, clay gravel and crushed rocks from granite and other rock resources, are the raw materials utilized by the building and construction industry as well as in the road and bridges constructions. The development of the mineral sector is an important element for achieving socio-economic development, particularly as a source of raw materials for mineral-based industries. The development of this sector, however, will require the participation of both local and foreign investors. The Law on mineral Management and Exploration was promulgated in July 2001, and it is hoped that with the Law in place both domestic and foreign mining companies will invest in the mineral sector in Cambodia.

4.4.3 TOURISM

264. With Cambodia's enormous cultural and natural heritage, tourism policy will be geared towards cultural and eco-tourism. It will ensure the sustainable development of cultural and natural environment as well as the protection of the environmental without becoming an impediment to development. The important issue is how to effectively and efficiently manage and/or balance between protection and development and establish a zoning plan for tourism development to ensure sound management of the sector.

265. There are many historical sites in Cambodia. The Angkor temple is the world's priceless heritage and belongs to all mankind. There is a need to develop a proper master plan for its restoration, development and protection. The development of this area is considerably slow. At present, there are only some road signs for direction, some rest rooms and other facilities to serve visitors. The work on the master plan has to be done as soon as possible by preparing a plan for its development and making the plan available to private investors for their participation

266. Besides the Angkor area, we have other cultural and eco-tourism destinations such as the Kulen Mountain, Kos Ker temple, Preas Vihea temple, and Ta Mok house in Anlong Veng, which can be used as a historical tourist destination. These areas can be developed as a big cultural, historical, and ecological recreation zone, which should not be limited to Angkor. In addition, Tonle Sap Lake has a great potential for developing eco-tourism, such as the water bird area and the fishing villages. In the central zone, there is the Sambo Prey Kuk temples to which a road has been built

267. The Siemreap Airport terminal needs expansion as soon as possible to meet the technical standards, including the landing area and passenger terminal, which need to be enlarged quickly. Many airlines have expressed their interests to fly directly to Siemreap, but are unable to do so because the Siem Riep airport does not fully meet internationally recognized technical requirements. There is a need to develop other infrastructure in this area such as water and electricity supply, with some priority for developing the power sector.

268. The work on road from Siemreap to Kampong Thom and from Poipet to Siemreap needs to be completed as soon as possible. Construction of a 17-km stretch from Rolous to the Siemreap provincial town, with funding from Japan, has been recently completed. However, the road from Kompong Tom to Siemreap border has been delayed.

269. The second area of interest to tourists is Phnom Penh, which is not only the capital of Cambodia, but also its commercial and industrial center. Phnom Penh and the surrounding areas also have potential tourist destinations such as the Mekong river landscape/view, the Preah Raja Trop Mountain, the Chiso Mountain, handicraft production areas, silversmith, silk and mat weaving, and as well as the important historical holocaust center. At present, work on the expansion of the Pochentong airport in Phnom Penh is underway. The expansion will enable Boeing 747 or Airbus 340 flying from big cities in Asia pacific, America, and Europe to land. When National Road number 1, from Vietnam to Phnom Penh, is completed and fully operational plus the opening of boat tours from Vietnam-Phnom Penh-Siemreap; Phnom Penh will become the country's commercial and tourism center on par with the Siemreap Angkor zone.

270. The third zone is the Coastal zone, which received a cruise ship to test the water to develop this kind of tourism. A port development project, financed by a loan of US$40 million from the Government of Japan is currently underway. However, in addition to rehabilitating and developing the port, the Government would like to develop a tourism port where big cruise ships can land including a passenger terminal for passengers and a border checkpoint.

271. The Government's policy thrust on *Culture and Fine Arts* is to enrich the national culture in a way that supports the expansion of services and the creation of employment opportunities for the people and thus contributing to the national goal of poverty alleviation. Developing the cultural resources of Cambodia, especially the Angkor temples sites that have been attracting increasing number of tourists, is a priority of the RGC not only as a socio-cultural development goal but also because of the economic/revenue generating potential of these historical sites. The conservation and development of the national cultural resources will require that other areas where ancient temples are located should also be repaired in order to transform them into cultural tourist zones. The Ministry of Culture and Fine Arts is focusing on the rehabilitation of cultural infrastructure such as: the renovation of the Royal University of Fine Arts to develop the needed human resources; repair and conservation of various ancient temples; and, repair, renovation and modernization of the National Museum and of the National Library.

4.4.4 TRADE

272. Work on Cambodia's accession to the WTO is well advanced. However, complying with WTO requirements is very demanding for a small developing country like Cambodia and we could benefit from badly needed *technical assistance* in several areas: legislative framework, valuation procedures, trade policy evaluation and reporting, assessing the impact of trade protection.

273. Notwithstanding the opening of trade many significant tariff and non-tariff barriers remain. The non tariff barriers to trade involve various bureaucratic costs (often unofficial) and the need to comply with international labor standards as a condition of international market access. Although, customs administration has significantly improved in recent years establishing a low cost formal trade facilitation system faces many difficulties. To begin with, the administrative task is daunting given the porous borders with three neighbors and a long coastline with many rivers and bays. Second, various trade arrangements (rules of origin requirements, preferential trading arrangements in ASEAN) complicate this task. Third, the institutional framework for border control is opaque, with unclear mandates among different agencies. Fourth, limited resources constrain the capacity of the customs department to carry out its functions. Civil service salaries are low, physical support facilities are inadequate, and management information systems are poor. These difficulties are reflected in high unofficial payments, widespread smuggling, unreliable clearance and processing times, and tariff collection that is significantly lower than is implied by the official tariff.

274. Apart from the difficulties associated with 'external' trade facilitation, 'behind the border' constraints (for example, transport, market intelligence) are also significant deterrents to exporting. Shipping charges in Cambodia are the highest in the region and four times the cost for shipments of comparable size in Thailand. Carefully monitored user charges or toll operations to fund road maintenance and construction would be the way to address this problem. So would fuel taxes. *TA is needed* to examine the implications of such options for fund raising and road fund sharing at local levels.

275. Rice is an important source of food for most rural households. An evolution is occurring from rice as a source of food security to rice as a source of trade and income. Rice trade both within the country and across the border is currently constrained by poor transport infrastructure. In addition, export procedures and 'Facilitation fees' pose a significant tax on rice exports. Simulation of impacts on poverty indicate that improving two major elements in rice production technology (paddy to rice yield and post harvest losses) would reduce transaction costs and improve the livelihood of poor Cambodians. A detailed exposure of these unofficial charges is needed to reduce constraints on current and potential exporters of rice.

276. Diversification of agriculture away from rice is increasingly common. The key obstacles to developing non-rice agriculture are similar to those for rice. They include poor transport infrastructure, high energy costs, weak information systems, inherited distrust among buyers and sellers, inadequate access to credit and limited business development skills. Cambodia could potentially benefit from the increasing demand for niche agricultural products, such as spices, herbs, specialty tropical fruits, sesame seeds and essential oils. To do so, action is needed on several fronts. First, the institutional capacity of the Ministry of Commerce needs to be strengthened. Second, *technical assistance is needed* to help small farmers and processors with their informational needs. This could include the facilitation of establishing associations interested in marketing, technology and purchasing inputs.

277. Handicraft production has been hampered by years of civil strife and war that broke the chain of traditional transfer of skill and design. Craftspeople lack critical information on market demand, quality standards and trends. As with diversified agriculture, technical assistance is needed to identify barriers to and sources of market information and to support building associations of people with similar interests in marketing, technology and the sourcing of inputs.

278. Fisheries sector development is hindered by intervention of government agencies in almost every aspect of market transactions. Building a competitive and market responsive fisheries sector will require a change in the corporate culture in the sector to nurture market-based transactions. Regulation of management regimes to control over fishing is required. *Technical assistance is needed* in two main areas: fisheries marketing and distribution and fisheries management. In management, *TA is needed* to examine the incentives for short-term exploitation, unregulated common property fisheries and establishing transparency in the allocation of fisheries access. In addition, *TA can help* with developing a regulatory system for exports to the US and the EU and enabling the private and public sectors to collectively develop a long-term strategic vision for the fisheries sector.

279. Garment sector export growth has been spectacular over the past several years. Some 160 000 people are reported to work in the sector. This growth reflects a combination of limited access to the currently highly restricted US and EU markets (set to expire in 2005), a hospitable policy environment and competitive production costs. In the case of the US, preferential access means that Cambodia has some access to a tightly restricted market. While Cambodia has US market access for a large number of duty items and quota under GSP, for the items it does export - garments, MFN rates apply and for those garments where Cambodia has shown itself to be especially competitive quotas now apply. For the EU,

preferential arrangements are such that Cambodia can export without duty and quantitative limits so long as rules of origin requirements are met. These requirements are in most cases not met given the limited development of Cambodia's textile sector. However substantial production from Cambodia is sufficiently competitive to be able to sell on the UK market without the concession.

280. Tourism is growing at over 30 per cent annually. The challenge for this industry is to find the appropriate roles and tasks for government industry, private operators with respect to such things as industry statistics, promotion, training, certification and charging for 'unique' attractions such as the temples of Angkor Wat. *Core technical assistance needs are: TA to collect tourism related data and to analyze it; a careful evaluation of the net benefits of tourism to Cambodia and its long-term potential; developing a tourism development strategy, involving all major stakeholders, building on successful private-public partnerships such as the Tourism Working Group; in conjunction with the tourism development strategy, identifying those investments necessary to encourage greater regional and domestic tourism as well as eco-tourism – all of which would help the poor; and establishing the appropriate role of the government in regulating, 'charge'-setting, setting standards and collecting industry statistics.*

281. Labor export has been an important option for reducing poverty in several of Cambodia's Asian neighbors, such as the Philippines, Sri Lanka, Thailand and Vietnam. The Royal Government policy is to encourage official labor exports to increase welfare, enhance skills, reduce unemployment and increase state revenues. Constraints to increased exports of workers include, low education and limited foreign language skills, an increasingly competitive market for export labor, and complex regulatory and administrative requirements. Developing appropriate government policies and regulations and bilateral arrangements, which do not prohibitively raise costs yet adequately protects the interests of export workers poses a challenge. *Technical assistance is needed* in these areas and should draw on the considerable regional experience in developing labor markets and regulations.

282. Information Technology has much to offer in enabling all these sectors to move to more productive systems. Already some of Cambodia's many young people are embracing IT based activities. In some cases IT systems are being used to convey market information and expedite transactions of handicrafts produced in villages far from urban centres. In other cases Cambodians are processing data from other countries and thereby effectively exporting data processing services.

283. To draw maximum benefits from the ever changing global market, Cambodia needs to tackle inter-related actions at three levels: significant improvements in market access, linked to a coherent program of technical assistance and capacity building, and based on continuing domestic policy reforms and adjustments.

4.5 PHYSICAL INFRASTRUCTURE

4.5.1 TRANSPORTATION

284. The Government's goal for the transport sector is to establish an efficient (low cost and competitive) transport network that can support economic growth, poverty alleviation, regional cooperation and globalization. The Government's medium term objectives for the transport sector are: to rehabilitate, maintain, and expand transport infrastructure to facilitate integration of market and maximize trade, especially within the region, giving priority to rural development, domestic and international trade routes, and tourism facilities. Specifically, RGC's medium term priorities are to: (i) rehabilitate and reconstruct the main national roads to improve access to a land transport system throughout the nation, (ii) improve the efficiency in the use of existing infrastructure, institutions, and operational performances, and (iii) build road links to neighboring countries, thereby opening to international trade and tourism, (iv) increase revenues from the transport sector to cover an increasing share of maintenance and development, (v) strengthen institutional capacity in sector planning and management, and (vi) promote increased private sector participation in the financing of transport infrastructure development.

285. **ROAD TRANSPORT**: In the road sector, RGC's first priority is the rehabilitation of the road network and strengthening of its operations and maintenance capabilities. A significant bottleneck in the rehabilitation of the road network is the large number of river crossings, also on the main national roads. Many existing bridges have load capacities below 20 tones and collapses are not infrequent. The Road Master Plan has three main objectives: (i) to rehabilitate and reconstruct the main national roads, thereby improving land transport throughout the nation, (ii) to build road links to neighboring countries, thereby opening up some of the more remote areas of the country to international trade and tourism, and (iii) to develop a sustainable road maintenance program, thereby assuring that investment in road rehabilitation and reconstruction generate sustainable benefits.

286. In 2001-2002, external assistance for the rehabilitation of 1,400km of road network was secured. In addition, RGC's planned target is to carry out emergency repairs and short-life rehabilitation of an additional 4,800km of the road network. First priority will be given to the main/secondary national roads that connects Phnom Penh to the provincial capitals. Second priority will be given to 2,000 km of the national road system that directly link adjacent provinces and connects small communities with towns and cities. The planned activities will strengthen the linkage between the three broad economic zones into which the country is divided for transport planning process. These are: (i) tourism zone, formed by the triagle of Siem Reap-Preh Vihear and Kompong Thom, (ii) industrial zone, defined by the entire northern coastal zone of the country, and (iii) agro-Industrial and eco-tourism zone, covering the eastern region of the Mekong river, including Ratanakiri and Mundulkiri.

287. The Government recognizes that the country's geographic location offers strategic opportunities for establishing Cambodia as a regional transportation hub for the Greater Mekong sub-region. The Government places high priority on further expanding trade, particularly within ASEAN, and on improving cross border linkage. The budget will be used to the maximum extent possible to finance the local cost of domestic roads and railway

programs either alone or in parallel with international agencies. In addition, the Government will assess the scope of financing regional infrastructure programs through the participation of the private sector, as has been the case with the international airport, national road NR4, Koh Kong bridge. The reconstruction of RN6 will be continued to link Siem Reap and Angkor Wat temples to Phnom Penh and Poipet/Cambodia-Thai border by road which will open and facilitate increased tourist traffic on this route. Regional routes will be improved and the upgrading of RN1 and RN5 will constitute the first phase of the Ho Chi Minh-Phnom Penh-Bangkok Road through Cambodia. RN7 will be rehabilitated to link southern Laos with Phnom Penh and Sihanoukville via RN4 together with construction of a bridge over the Mekong River at Kompong Cham with the support from the Government of Japan. RN48 will be rehabilitated to link Sihanoukville, the trade-industrial zone of the country to Bangkok port and the other main international ports in the region to facilitate the traffic of goods and could also become importance route for regional trade. In the frame work of economic cooperation between Cambodia and Thailand some more of secondary roads and provincial roads will be rehabilitated and linked with Cambodia-Thai border as NR56, 57, 58, 59, 68, 69, 64, ..etc. The rehabilitation of national roads NR78, 76a,78a, 78b, 76, 72, PR303a, 303b in Ratanakiri and Mundulkiri Province will open the new opportunity for facilitating transportation goods and people crossed the border and international trade and tourism in the framework bilateral, triangle socio-economic cooperation area and Greater Mekong Sub-region.

288. Other immediate plans include the preparation of technical studies to assess requirements and priorities for inter-connecting roads and establishing road-bridge maintenance organizations to ensure that investments are sustained. The government will place emphasis on job generation during project implementation, as these types of projects can provide significant employment during construction using labor-intensive techniques.

289. The establishment and implementation of an adequate road maintenance fund is essential in order for Cambodia to benefit fully from the assets already built and to ensure the long-term sustainability of the road network. In this regard, the Government will aim to ensure that the maintenance of the road network, including bridges and ferries, is financed by vehicle registration charges, tolls, international transit fees and fuel levies or other related taxes and duties. The setting-up and introduction of standard unit costs for use in project preparation and sectoral databases describing the nature of sectoral assets, age, condition and maintenance history will provide a basic for formulating a strategy for meeting recurrent costs.

290. Investment priorities for **port and inland waterways** transport include rehabilitation of dredgers to allow for the regular dredging of all major waterways, rehabilitation and expansion of Sihanoukville deep water sea port for which a master plan was completed and the project implementation is currently under preparation with the financing support from the Government of Japan. Further upgrading of the Phnom Penh inland river port as well as improvements to smaller domestic river and lake ports and upgrading of the existing ferries are also priorities. The establishment of self-financing entities to own, manage and maintain the international ports of Phnom Penh, Sihanoukville and Koh Kong and to assist provinces to establish locally generated funding mechanisms to develop and maintain island port facilities, is being pursued with the private sector. Other plans include: establishing a

national ports policies; establishing maintenance organizations for waterways and ports; and a comprehensive data base for executing necessary future-oriented studies.

291. The establishment of self-financing entities to own, manage and maintain the international ports of Phnom Penh and Sihanoukville through locally generated funding mechanisms is an objective of the Government. Other plans include: establishing a national ports policies, establishing maintenance organizations for waterways and ports, and a comprehensive data base for executing necessary future-oriented studies. The RGC's plan is to develop and maintain the port facilities and to improve the Sihanoukville Port through the construction of a new cargo wharf (400m length), expansion of container wharf (160m), building a Container yard 60 000 m² and container cranes supply, and improving the roads, power supply and lighting system in the port area.

292. The **railway network** has long been a vital, but much damaged and grossly under-utilized asset. An immediate priority of the RGC is to prepare performance standards and a regulatory framework that is aimed at facilitating the expansion of private investment throughout the transport sector. At present, the regulatory framework for private sector participation in specific areas such as rail is not clear. The Southern railway line between Phnom Penh and Sihanoukville port requires rehabilitation to reduce excessive operating costs to enable it to effectively compete with road transport. The viability of rehabilitating the northern line, including the missing link to the Thai border, will be investigated. Additional rolling stock and track maintenance operations will be needed to provide an adequate level of service to the growing traffic. Emphasis will also need to be given to the rehabilitation of additional rolling stock, and upgrading of signaling equipment, development of efficiency standards, and cost recovery management.

293. The availability of **Civil Aviation** services is a pre-requisite for the development of the tourism sector that has a significant multiplier effect on the economy. The Civil Aviation Development Framework (CADF) 1996-2005 guides Government activities. The CADF focuses on immediate establishment of the regulatory framework to meet international standards for safety, operations and security; air navigation services, communications, surveillance, and meteorology, development of national airport; and strengthening institutional capacities in planning and management. It also emphasizes efficiency in regulating and licensing, ensuring that competition is promoted and monopoly situations are avoided, safeguarding consumers, and enforcing adherence by transport operators to national safety, technical and environmental standards. The current CADF needs to be updated and will require support of external partners. There is also a need to improve and upgrade noth-east domestic airports at Stung Treng, Rattanakiri, and Modulkiri. To meet the international safety standards the Communications-Navigation-Surveillance/Air Traffic Management Systems (ATM) are urgently needed. The Pochentong Airport is being further improved under the ongoing BOT agreement. There is also a need to upgrade the Sihanoukville and the Siem Reap international airports improved to international standards to cater to the growing traffic to the area (Angkor temples).

294. Government interventions will be strictly limited to ensuring that markets work by regulating market entry and the licensing of transport systems. This will ensure that competition is promoted and monopoly situations are avoided. The aim is to safeguard

consumers as well as to seek better adherence by transport operators by enforcing the national safety, technical and environmental standards. Suppliers of transport services will not be constrained in tailoring their services to customers provided that they adhere to legislative and regulatory rules designed to protect consumers, workers health and safety and the environment.

295. To ensure that these policy action are successfully implemented and enforced it is imperative that the MPWT has the capacity to implement medium term policies. Furthermore, steps will have to be taken to strengthen and develop sector institutions, so as to increase the range of feasible policy options. The Government with external assistance will promote efforts to improve public sector capacity to identify, prepare, implement, manage, and co-ordinate policy and investment priorities. The MPWT will also carry out with external assistance an inter-modal transport study for the transport sector as a whole to formulate a comprehensive long-term transport policy.

296. Public investments, loans, private sector's investment under BOT formula will be utilized to implement this plan for the rehabilitation and development of the national road infrastructure.

4.5.2 WATER RESOURCES MANAGEMENT AND SANITATION

297. The water resources sector plays a key role in the implementation of the government policies aimed at poverty reduction through the provision of irrigation for rice production and the supply of drinking water to the population in towns and in rural areas. Every year, about 475 billion cubic meter of water flows through Cambodia into the sea. Because there are limited facilities to store these waters, during the dry season, there are only limited options to supplement irrigation for agricultural production and drinking water supply. Floods, droughts, the misuse of surface and underground water resources affect the incomes and the health of the population and cause delays in achieving the poverty reduction goals. A draft of the Water Law has been approved by the Council of Ministers and is now proceeding to the Parliament for endorsement.

298. The RGC's goals for the management of the water resources, sanitation, and metrology are :

i. To increase the irrigated area from 16,62 percent to 20 percent, through water storage during the wet season for double crop production, to increase job opportunities and the income of the population in rural areas.
ii. To take a leading role with regard to drainage, water conservation, water resources development for the benefit of the population, by developing drainage systems and protection dikes.
iii. To study surface water and groundwater to ensure that quantity and quality of water are managed in an integrated manner and to maintain a balance between the demand and water availability.
iv. To improve weather forecasts, hydrological forecasts and ensure the timely warning of natural disasters such as typhoons, floods and drought to the population in the whole country.

299. The Ministry of Water Resources and Meteorology has prepared an action plan to achieve these goals. The elements of the action plan include:

- Meteorology work: increase data collection, set up the geographical information system and disseminate information on the importance of meteorology work; construct synoptic stations and connect the radar system for 24 stations; improve/construct29 agro-meteorological stations; and improve/construct 274 pluviometers.
- Hydrology work: improve hydrological data collection, set up a geographical information system and disseminate information on the important hydrological work; construct/improve 60 hydrological stations; and install 30 stations to analyze water quality and wastewater discharges.
- River Works: study the problems of stability of river bank, streams and canals in the Kingdom of Cambodia; and improve/construct river bank protection works in the region and in important towns.
- Management of potential surface water: design and construct major dams along the river for multiple purposes, such as the Stung Prek Thnot, Stung Komchay, Stung Pursat, Strung Battambang, Stung Ateay, Stung Meteuk, Stung Piphot, Stung Sen, Stung Sekong, Stung Sesan, and the Kirirom hydropower dam; map and plan the development of important slope areas within catchment areas; prepare plans for the distribution of water resources, according to needs in various areas; create a mechanism for public participation in the preparation of plans and water resources development.
- Irrigation system works: improve the inventory of the existing irrigation systems; rehabilitation and design of drainage systems and flood protection systems; rehabilitation of the existing irrigation systems and pumping stations to ensure sufficient irrigation; and create farmer water user communities for all irrigation systems that have been completed.
- Water supply and wastewater: prepare groundwater maps; increase the capacity to supply water to the provinces; and plan drainage and wastewater systems for provinces and tows.
- Human resources development: increase and transfer new technologies to the technical departments to improve the knowledge of the staff, and disseminate information thereon; and train staff according to the specialization of each technical section.
- Preparation of legislation and standards for water resources management: prepare the draft water resources management law for submission to the Council of Ministers and approval; prepare the draft water resources policy; prepare water resources strategies; prepare a draft sub-decree on the licensing of water uses, the licensing of wastewater discharges, the licensing of groundwater drillers and licensing of activities within the framework of flood prevention; and prepare draft technical standards for wastewater discharge and standards for drinking water.

4.5.3 ENERGY

ELECTRICITY POWER DEVELOPMENT

300. Cambodia's Power Sector Strategy (2001-2005) sets out the priorities and a major investment program to lower tariffs and bring reliable electricity supplies to considerably more Cambodians. The planned investment program includes: (i) the development of a generation and transmission grid to link large electricity generation units between Phnom Penh and the provincial capitals; (ii) provincial towns electrification plan to rehabilitate supplies; and (iii) the development and implementation of a rural electrification plan. Rehabilitation and expansion of Phnom Penh's electricity supply system is being continued. Generation capacity is also being expanded with an interconnection from Vietnam and over the next five years from a new gas turbine combined cycle power plant in Sihanoukville. These improvements will allow a reliable and security of electricity supply to the outer regions of Phnom Penh.

301. National Generation and Transmission Grid: The Program to establish a National Generation and Transmission Grid commenced in 2000. The first stage of this program is the construction of transmission line between Vietnam and Phnom Penh through Takeo Province. The second stage is the construction of a transmission line from Kampot province to Takeo province and the third stage is the transmission line from Sihanoukville to Kampot province. It will allow generating units to be established in Sihanoukville to provide supplies to provincial cities between Sihanoukville and Phnom Penh and also increase the capacity available to Phnom Penh. By establishing generation in Sihanoukville which is expected to be a gas power plant, it will lessen the need to transport fuel on the Mekong reducing the danger of oil spills and environmental damage. The portion of transmission line from Phnom Penh to border of Vietnam through Takeo will be established first to import electricity from Vietnam in year 2003. The 220 kv Interconnection from Vietnam will supply power to communities in the South and increase capacity available to Phnom Penh. A Five-Year Rural Electrification Program including renewable energy will also be scheduled. The total cost of this first portion of power transmission and rural electrification project is estimated at US$89M. Another 115 kv interconnection transmission line is also planned to connect from Thailand to Banteay Meanchey, Battambang and Siem Reap provinces to support the provincial and rural electricity program. The plans also include developing hydropower project in Kamchay and there after Stung Battambang, Stung Atay and Russy Chrum.

302. Electricity Law: The Electricity Law has been promulgated and an independent regulatory agency for the electricity sector, the Electricity Authority of Cambodia (EAC) has been established. The EAC is responsible for tariffs setting, licensing of all electricity suppliers and monitoring the national electricity standards, and regulations. Private power suppliers and independent power producers are encouraged to participate in the implementation of the energy Development plan. The technical and operational performance of EDC is being strengthened through concerted capacity building to enable it to develop the needed technical skills and to perform the power sector planning, management, accounting and budgeting functions. The electricity law provides transparency, and a regulatory

framework that will ensure a balance between giving investors a reasonable return on capital and ensuring tariffs are as low as possible.

303. **Hydropower Development:** Decisions about the pace and scope of hydropower development will be taken within a framework that carefully examines the costs and benefits of this development. The first step is to conduct feasibility studies of the potential sites. Further support from donors is being sought to formulate technically sound and economically optimal multipurpose projects, and to strengthen program/project planning capacity for these activities. In addition to the rehabilitation of the Kirirom 12 megawatts project, that is now in progress, a feasibility study of the Kamchay hydropower project in southern Cambodia with an installed capacity of around 120 megawatts is currently being conducted. A number of small-scale hydropower projects are also being considered as priorities for local supply, such as Stung Battambang (60 megawatts) Prek Thnot, Stung Chinit and Sambo project. The total potential of the Mekong tributaries is estimated, with minimum risks to the environment, at 2,200 megawatts, with a further 1,000 megawatts from rivers outside the Mekong Basin.

304. *Sector Financing:* The RGC's approach to financing the power sector is to encourage private sector financing and to seek concessional loans from multilateral and bilateral donors to generate funds for the expansion of the power sector at the lowest cost. While at present, revenues only partially cover total costs, the approach to financing the expansion of the power sector is based on the principle of full cost recovery. The RGC's target for the power sector is have a level of revenues that will meet the total costs operating and maintenance of the facilities as well as the costs of replacement of capital equipment. To this end, further revision of the tariff schedule for different consumers is envisaged to encourage efficiency and power conservation in parallel with intensified efforts to attract additional private sector participation in the development of the power sector.

4.5.4 POSTS, TELECOMMUNICATIONS, AND NATIONAL INFORMATION

305. The RGC's goals and objectives are to establish an efficient commercial low cost telecommunications network of adequate capacity and coverage in line with the Master Plan together with an efficient public postal service and a public broadcast network. For the medium term the objectives are to: (i) provide telecommunications network that can adequately cover Phnom Penh, Sihanoukville and Siem Reap and to expand services to the urban cores of provincial towns; (ii) establish national standards for the design, construction and operation of all telecommunications services; (iii) strengthen postal organizational structure and institutional capacity to improve service delivery; and (iv) expand the television and radio network. Sector development hinges on improvement of the telecommunications regulatory and legal framework and more efficient use of resources in the postal and information services. Strengthened regulatory framework will encourage additional private investment and alternate financing and technical shortages. Restructuring of the postal and information services primarily through reallocation of resources to their most efficient use is a prerequisite for additional major capital investment. National Information Services are

committed to the maintenance and expansion of an independent press and to expanding the coverage and efficiency of radio and television networks.

306. ***Telecommunications:*** Over the next five years, the RGC is committed to establish the Cambodia Telecom (CT), rehabilitate and extend customer telephone networks of Phnom Penh, and construction of a microwave or *FIO* link between: (i) Kampong Cham - Phnom Penh – Takeo - Kampot – Sihanoukville; (ii) Kampong Cham - Kampong Thom - Siem Reap – Sisophon; Kampong Cham – Kratie - Stung Treng; and (iii) Mondukiri, Pailin, Preah Vihear, Udom Mean Chey. It will involve installation of central switching (15,000 lines) in Phnom Penh and network extension to Poipet, Banteay Meanchey, Battambang, Pursat, Kampong Chhnang, Neak Loeung, Svay Rieng, Bavet. The goals are to provide adequate network capacity and coverage to at least one line per 100 people to fully cover Phnom Penh, Sihanoukville and Siem Reap and to expand services to the urban cores of the other provincial towns. Other activities include: preparation and enactment of a Telecommunications Act to provide the legal framework for the industry; maintaining the existing MPTC database and incorporating all relevant information related to the existing networks to allow for monitoring of demand; execution of studies needed for the development of a long-range comprehensive plan for networks extension in provincial towns; Development of this plan to incorporate priorities for development of the provincial system; execution of studies by CT to identify and elaborate on project sites in coordination with town planning authorities; development by CT of administrative units for procurement of equipment, supplies and materials, and establishment of proper accounting and monitoring systems for rehabilitation and new local area networks; establish national standards and practices for the design, construction and operation of all telecommunication systems, and for customer services. Measures will be implemented by CT to develop on-going training, for transferring technical expertise, administrative and operational skills to CT personnel and to operators of provincial systems. There will be full coordination by MPTC with the donor community in the development of plans, studies projects and financing in order to avoid unnecessary duplication of efforts, and to secure the resources necessary to rehabilitate and extend networks.

307. ***Postal Service***: Over the next five years RGC will: (i) strengthen organizational structures and institutional capacity in order to ensure efficient delivery of services; (ii) develop the administrative capacity for procurement of equipment, supplies and materials; (iii) establish proper accounting and monitoring systems; (iv) establish a database of all physical assets and manpower as a basis for planning of maintenance, training and redeployment; (v) carry out studies to assess the requirements for improving and extending postal services into the communes; (vi) promote competition in bulk mail transport to and from the provinces. The Government will ensure that funds are made available and properly managed to maintain constructed facilities. Commercial charges will be applied to telecommunications operators utilizing post office services.

308. ***National Information Services:*** The RGC is committed to maintaining and expanding the independent press and to expanding the coverage and efficiency of the radio and television networks. It will upgrade essential equipment and build technical capacity through continuation of in-house and overseas training, and extend the television network to provinces where reception is not currently available.

4.6 OTHER CROSS-SECTORAL PRIORITIES

4,6.1 RURAL DEVELOPMENT

309. The RGC's strategy to facilitate rural development is to: (i) promote 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 action within government departments and between the line ministries and the local authorities, and between the Royal Government of Cambodia (RGC) and the civil society; and (iv) identify and utilize the comparative advantages and capacities within the government, civil society, the private sector, international and local agencies and rural communities themselves for development purposes.

310. Over the next five years, the Ministry of Rural Development will focus on:

Institutional Strengthening and Human Resource Development: Central institutions will be strengthened and developed. The MRD has recently established two new departments: the Department of Rural Roads and the Department of Ethnic Minority Development. It will continue to strengthen its institutional structure and a high priority will be given to strengthening the human resources capacities of the Ministry.

Local institution's capacities will also be strengthened: The institutional structures of MRD at the provincial and lower levels will be strengthened to develop their current limited capacities to implement rural development programs that support the decentralisation policy of the RGC. The Government's policy of decentralisation requires villages to form Village Development Committees (VDCs) as the basic administrative management unit at community level. VDCs are seen as the foundation of a community based approach for achieving participatory and sustainable rural development. Building capacities of the VDCs to effectively participate in the development processes is an important need and priority of the Government.

Basic Minimum Needs and Indicators: To meet the needs of the poorest areas and to properly target rural development programs and provide the needed roads, schools, health centers, wells, reservoirs and irrigation systems in rural communities; data on a assessment of the "Basic Minimum Needs" (BMN) are urgently required. These data will be developed through an Integrated Rural Accessibility Planning (IRAP) methodology. The MRD has planned a project to carry out a countrywide BMN survey using IRAP methodology.

Rural Roads and Transport Improvement: The development of rural roads is a key priority of the RGC. Rural road construction will lead to increased agricultural production, either by increasing the land under cultivation or by intensifying existing land use to take advantage of expanded market opportunities, consolidating links between agricultural and non-agricultural activities in rural areas and between rural and urban areas. Rural communities access to education, health care and water will be enhanced by feeder roads that will connect these communities to urban centres. Over the next five years, the Ministry of Rural Development

plans to rehabilitate and maintain 21,195 kilometers of rural roads, including 15,195 kilometers of laterite road and 6,000 kilometers of earth filled roads.

Clean Drinking Water and Environmental Sanitation: The MRD will implement a rural water supply development plan that will provide clean water to an estimated 3.8 million rural people by the end of 2005. Providing this water supply requires approximately 44,700 new wells. The MRD also plans to repair 6,800 hand pump wells, dig 415 new ponds (50m x 30m x 3m) for irrigation, and clean 650 existing ponds. In addition to improving clean water supply, the MRD plans to provide environmental sanitation to an additional 1.9 million people in rural areas by 2005. Achieving this sanitation target will require the construction of 124,000 latrines, or 24,800 per year. Latrines will be built on a cost-sharing basis and supported by community education/training in hygiene and sanitation.

Expansion of Small-Scale Irrigation: Expansion of small-scale irrigation systems is an important element of the RGC's integrated rural development strategy. However, to help implement these projects, the local communities will be required to bear some costs. Operation and maintenance by local communities has been encouraged and promoted by the RGC. To ensure effective allocation and use of irrigation water, operations and maintenance of these systems will be managed by water user groups and associations in the rural communities.

Household Food Security Promotion: An important goal of the Royal Government is to achieve food security for all Cambodians by providing support for improving small landholders agricultural output. The MRD will establish by 2005, a development plan promoting integrated household food security programs. This will include alternative crops with increased yields, downstream processing of farm products, animal husbandry, small-scale aquaculture and creating alternative energy sources. Income-generating activities will be actively promoted among rural households.

Rural Economic Development: The provision of Credit will be expanded and vocational training and small business development will be promoted. Both agriculture and business development activities are currently hampered by lack of credit available to farmers and small businesses in rural communities. At present, those willing to borrow pay as high as *10-25 percent per month* on loans In the agricultural sector, loans in kind for the purchase of fertilizer generally demand repayment of double the value at the end of 3-4 months - equivalent to a 20-25 percent monthly interest rate. In rural areas, business, agriculture and wages are the three most important income sources. In the off-farming season, small businesses are the major job providers for farmers. However, these small businesses need credit facilities in order to create jobs.. The MRD will start work to ensure that the needed credit to small businesses in rural communities is made available.

The development of rural communities will require the provision of vocational training in rural communities to enable the rural population to effectively participate and contribute to rural business development and bring about improvements in agriculture sector. The MRD will establish regional vocational training centres in Takeo and in other regions. Concurrently, there will be increased co-operation between the MRD and credit programs, especially at the enterprise centers in Prey Veng and Svay Rieng provinces, where the MRD will take over when PRASAC finishes its mission. There will also be increased co-operation between the MRD and AFD to improve the sericulture centre in Siem Reap province.

Natural Resource Preservation and Environment Protection: Rural development activities can affect the environment both positively and negatively. Protecting natural resources is an objective of the RGC not only because of its importance to the nation but also because of the heavy reliance of rural communities on the natural environment for rain fed farming, forest products etc. The Ministry of Rural Development will begin as soon as possible to establish a comprehensive natural resource preservation and environment protection program.

311. **SEILA Program**: As already mentioned in Section 2, the adoption of the Law on Commune Administration in 2001 and the Commune Elections held in February 2002 are important milestones in Cambodia's march to a new era of grassroots democratization, along with the establishment of the National Committee for Support to Communes/Sangkats (NCSC) and a Department of Local Administration (DoLA) within the Ministry of Interior, who will be responsible for formulating the decentralized regulatory framework and coordinating support to Commune/Sangkat Councils. The Second Phase (2001-2005) of the Seila Program that was re-conceptualized as an aid mobilization and coordination framework in anticipation of these developments is now focused on supporting the Royal Government's decentralization and deconcentration reforms.

312. From 12 provinces and 509 communes at the end of 2001, Seila will expand its support to 17 provinces in 2002. By 2005, it is planned to reach 1,216 communes, 71 percent of the provinces/municipalities, and 85 percent of the total rural communes/ sangkats. Based on an annual, integrated, programming exercise, all technical and financial resources mobilized under the Seila framework will be systematically transferred to Ministries, Provinces and Commune/Sangkat Councils in accordance with both their strategic priorities and institutional mandates and to fill major financial gaps within their overall budgetary framework. A strong strategic partnership between Seila, the NCSC and its sub-committees and DoLA has developed over the course of 2001-2002 whereby Seila, in partnership with other donor programs, is providing a significant percentage of the technical and financial resources required for the formulation of regulatory frameworks; the design of comprehensive training programs for both provincial authorities and Commune/Sangkat Councils; as well as the resources required for implementation of both capacity building and investment activities at national, provincial and commune levels.

313. The Royal Government believes that the definition of Seila as a resource mobilization framework for support to decentralization and deconcentration reforms combined with the annual, integrated programming process has proven its effectiveness. While respecting and supporting the institutionalization of these reforms through the mandated national authorities, the resources generated under Seila from a wide variety of partnerships with IFIs, bilateral and multilateral donors and international and national NGOs have enabled the implementation of the reforms and provided support to a government-owned framework covering the national, provincial and commune levels. In keeping with its name, Seila has established a *foundation* upon which long-term institutionalization processes can build.

314. **Social Fund**: The Royal Government, with the assistance of its external development partners, has been focusing on poverty alleviation and promotion of socio-economic development in the Kingdom. This development objective of the Royal Government is being achieved by various Programs and projects that utilize different methodologies and serve different areas. One of the major Programs initiated by the Royal Government was the Social Fund of the Kingdom of Cambodia (SFKC).

315. In line with its work plan, the SFKC will have committed all its remaining funds of Phase-II and flood supplemental credit by the end of 2002. This will be done by further strengthening community participation and ownership of the sub-projects and facilities, through cash and/or in-kind contributions, and their capacity to properly use and maintain the newly created facilities. The enhanced capacities of the communities should improve the sustainability of the project facilities. In order to meet the urgent and priority needs of the population, and respond to more than 5,000 sub-projects requests received, SFKC is in need of about US$ 100 million to contribute toward poverty alleviation and rural development policies of the Royal Government of Cambodia.

4.6.2 ENVIRONMENT AND CONSERVATION

316. The Ministry of Environment's overall objective is to effectively manage, conserve and protect Cambodia's environment and natural resources in an ecologically sustainable manner that will assist in alleviating poverty throughout the nation. MoE's medium-term objectives are to: (i) develop coastal zone management, (ii) reduce urban and industrial pollution, (iii) strengthen protected areas management, (iv) enhance forest concession management, (v) improve management of the Tonle Sap ecosystem, and (vi) build the environmental planning capacity of core institutions.

317. The MoE's environmental protection and natural resources management efforts are guided by four principles. The *first principle* is the recognition of the link between poverty alleviation and the environment. To safeguard the environment, economic opportunities to the rural poor should be increased. Natural resource degradation is in part due to exploitation by the rural poor, who are seeking to satisfy their basic needs. Reducing rural poverty is therefore essential to achieving sustainable development in Cambodia. The *second principle* is the recognition of the importance of communities. Structured interventions to provide local communities with the skills to manage the natural resources base on which their livelihoods depend is the most effective way of achieving sustainable management of these resources. The *third principle* is the recognition of the need for institutional capacity building. The MoE and other Government agencies involved in environmental management at present lack the technical skills to effectively protect, preserve and manage Cambodia's environment. The *fourth principle* is the recognition of the importance of an integrated approach to environmental planning. Environmental issues are cross-sectoral and different institutions have responsibilities and undertake activities that affect the environment. The MoE will promote an integrated and multi-disciplinary approach to environmental management. These principles will serve as the framework for addressing environmental priorities identified by MoE.

318. Given that effective environmental protection and natural resources management is a cross-sectoral concern, many of the Government's actions to protect the environment and manage environmental impacts are integrated with investment and policy priorities in other sectors. There is a need for monitoring the implementation of all public investment projects to ensure that their implementation is environmentally sound and to strengthen the links between development planning and environmental protection. There is also a need to incorporate environmental impact assessments (EIA) and compliance procedures in new project screening procedures. A high priority of the RGC is to strengthen the capacity of MoE to plan and implement policies and projects, monitor, enforce, and strengthen compliance according to existing environmental legislation. The MoE will be promoting public participation in environmental protection and natural resources management so that people are able to provide information and to participate in the decision-making process concerning the environment.

4.6.3 MINES REMOVAL

319. Over the course of the next three years, the Cambodian Mine Action and Victim Assistance Authority (CMAA) will implement and build upon procedures, processes, and practices designed to ensure that mine action activities conducted in the Kingdom of Cambodia are safe, coordinated, well planned and conducted in accordance with national standards and international obligations.

320. The main elements of the CMAA's Work Plan for 2002, that was distributed to various partners in January 2002, are:

- Development of a medium to longer term *National Mine Action Strategy*, using, *inter alia*, information gained from the Level 1 Impact Survey to be completed in 2002.
- *Coordination of all mine action activities* with partners, including Government Ministries and Departments, the international donor community, and relevant national and international organizations.
- Development of *National Mine Action Standards* based on the International Mine Action Standards to ensure that safety, consistency and accuracy remain paramount in all mine action operations.
- An *accreditation and licensing process* will be developed which, together with a *quality assurance and quality control process*, help maintain the requisite standards, and will ensure that mine action organizations are applying their approved management processes and operational procedures in a manner that will result in the safe, effective and efficient conduct of mine action operations. *Inspection procedures* will be developed to provide the Government with the requisite confidence that the clearance requirements have been met prior to releasing the land to the beneficiary. The combination of accreditation/licensing/monitoring, with post clearance inspection procedures will contribute to the CMAA achieving an acceptable level of confidence that the land is safe for its intended use.
- Development of *Guidelines* to address issues relating to the implementation and testing of *new technologies for mine action*.
- *Monitoring and reporting on* national responsibilities vis-à-vis the various national and international instruments pertaining to mine action, such as *the Anti-personnel Mine*

Ban Convention and the Convention on Certain Conventional Weapons and its Protocols.

- Establishment of a *National Mine Action Database* to process, manage and disseminate information, combined with a national mine action website and a public information plan.
- *Co-ordination and regulation of Mine Awareness programs* in Cambodia, through various means, including the Mine Awareness Advisory Board.
- The Authority has delegated responsibility for coordinating *Victim Assistance* activities to the Ministry of Social Affairs, Labor, Vocational Training and Youth Rehabilitation, and the DAC, through Prakas 308/Mosalvy, dated 26 October 1999.

321. Coordination of all mine action activities will continue to be one of the most important roles of the CMAA. The Authority will coordinate with Government Ministries and Departments, the international donor community, and relevant national and international organizations to ensure that the most effective and efficient use is made of resources, and that land allocation and land use issues are addressed.

322. An important new feature of CMACs 2002 Work Plan is the inclusion of a detailed Management Development Plan (MDP) along with the standard Operational Plan. A set of objectives regarding Corporate Management, Finance, Support and Human Resources have been identified with a view to optimizing the use of advisory services and technical inputs by CMAC's partners in order to enhance management practices and procedures. Clear Objectives, activities and timelines have been identified for the purpose. The MDP was produced through consultations with various CMAC Departments and De-mining Units on their priorities for the coming year as well as the recommendations of the latest audits and the UNDP 2001 Evaluation Exercise. The core responsibilities of CMAC HQ and De-mining Unit Managers are outlined, together with a description of the role of technical advisors.

323. CMAC's total clearance target of 9.7 square kilometers for 2002 is in line with actual 2001 delivery rates (9.63), and is likely to be surpassed if additional Brush cutters are obtained from Japan for operations in the latter half of the year, as planned. In addition to the operational goals outlined (manual, mechanical, dogs, mine awareness, training etc), the Operational Work Plan has strong socio-economic elements, with a comparative description of CMAC's operations as against the results of the Level I Survey and the Cambodia Min/UXO Victim Data Base to demonstrate the relevance of CMAC's work to actual needs. Moreover, the socio-economic impact of CMAC's operations is broken down in terms of numbers of roads, pagodas, water sources, schools, agricultural and resettlement sites, as well as villages and numbers of beneficiaries (direct and indirect).

4.6.3 COMMUNITY AND SOCIAL SERVICES

324. Supplementary government resources for compensation payments and social sector assistance (safety nets) will be required for some time to come and these resources will have to be used carefully in order to secure basic social needs for the most vulnerable and neediest members of society. Poor single headed households, orphaned and abandoned children, the disabled, the elderly and displaced people will receive special attention. To facilitate targeting of poverty reduction initiatives the Government has developed an

integrated household survey system to monitor poverty indicators and provide the basis for the formulation and implementation of anti-poverty policies. The Government is committed to maintaining regular poverty monitoring through multi-purpose household surveys. Linked to this is the commitment to further strengthen institutional capacity to better link poverty analysis to policy formulation and public expenditure priority setting. The monitoring and analysis of the incidence of poverty will be strengthened to development a better understanding of the effects of government investments and reforms on various income groups, on respective gender, and various vulnerable groups such as abandoned or parentless children, rural poor families, urban squatter families, street children, returnees, unemployment and under-employment etc. To meet these challenges the MoSALVY has designed a number of programs/projects that include: Establishment of a Center for Re-Education of Former Sex-workers; Establishment of Labor Market Information System; Construction of 5 Regional Vocational Training Centers; Transfer of Orphanage Centers to Vocational Training Centers; Establishment of National Insurance System for Workers; Construction of a Vocational Training Center in Takeo Province; Construction and Renovation of Provincial Directorates; Capacity Building for Employment Promotion; Construction of a National Center for Rehabilitation in Siem Reap province; Construction and Renovation of a Center for Youth Rehabilitation; Construction of SOS Children Villages.

4.6.4 WOMEN AND VETERANS AFFAIRS

325. The strategies laid out in *Neary Rattanak* and the "Building Together" Program were further elaborated in a five-year plan for MoWVA. The plan focuses on six main prioritized areas: (i) gender mainstreaming, (ii) health; (iii) education, (iv) legal Protection, (v) economic Empowerment, and (vi) management and Capacity Building.

326. Gender Mainstreaming : The RGC's overall goal of gender mainstreaming is to build the capacity of the government in poverty reduction and governance to empower women and increase the participation of women on the basis of quality and equity in all levels of development. The main components of the gender mainstreaming strategy are: (i) b*uilding commitment and capacity, (ii) influencing policies to become gender sensitive and responsive, (iii) increasing the participation of women in national and local development planning and governance, (iv) enhancing capacity for gender planning, monitoring and evaluation, and (v) increasing public awareness and support.*

327. Health: The RGC's goals is to ensure the exercise of rights and the empowerment of women and girls, veterans and their families to access primary health care, especially reproductive health care throughout their lives toward improved livelihoods based on equality and equity. The prioritized objectives include: (i) promotion of awareness among women, girls and veterans of their rights and the exercise of their rights to access health services and develop a basic understanding of primary health, especially reproductive health and HIV/AIDS prevention, (ii) increasing support of leaders of relevant institutions in facilitating the integration of gender concerns into their plans and policies, (iii) promoting activities increasing support for the needs of youth's reproductive health and (iv) supporting the strengthening and expansion of mental health care services.

328. Education: The RGC's goals is to ensure that women, girls and veterans receive their full entitlements in education and skills training at all levels in order for them to become active human resources in promoting equality and equity in society. The p*rioritized objectives include: (i) i*mproving enrolment and attendance of female students at all levels from primary school to university, (ii) expanding and strengthening basic education Programs for children, (iii) expanding and strengthening the informal education system, (iv) promoting gender equity in all levels of the education system.

329. Legal Protection: The RGC's goal is to ensure that women, girls and veterans are fully protected on the basis of equality and equity, and women's rights are included in the formulation and enforcement of laws, legal literacy and education. The objectives to be achieved include: (i) ensuring equal rights between men and women before the law, (ii) developing policies for the protection of women's rights including relevant regulations related to sexual exploitation and domestic violence, and (iii) increasing public awareness of laws, human rights and gender at national and sub-national levels.

330. Economic Empowerment: The RGC's goals is to ensure the equal rights of women and veterans to access economic resources and opportunities to participate equitably in national development and poverty reduction by: (i) ensuring equity in access to and control over economic resources, (ii) enhancing the capacity of women entrepreneurs, (iii) promoting and strengthening the economic environment for women and veterans through associations, and (iv) creating a favorable environment for women in the development of their livelihood.

331. Institutional Capacity Building And Strategic Management: The RGC's goal is to ensure institutional management is sustainable, transparent, effective and able to manage, monitor and evaluate project implementation and human and financial resources. The challenges are to: (i) ensure effective coordination within and among central and provincial levels and projects, (ii) strengthen planning processes, monitoring and evaluation, (iii) strengthen the financial management system and staff capacity, (iv) strengthen internal communication mechanisms, (v) build the capacity of staff in project development and management, and (vi) ensure effective supervision and monitoring of staff performance.

4.7 DEVELOPMENT MANAGEMENT

332. Effective development management requires not only providing leadership in the processes of development planning, programming, and the implementation of development programs but also the ability to lead agencies and to facilitate the processes to arrive at a consensus on the most effective use of available resources for development. It entails building partnerships among the various national participants – the government entities at various jurisdictional levels, NGOs, the civil society, and the private sector; as well as building effective partnerships with our external development partners.

333. The RGC's overall objective of building development cooperation partnerships is to facilitate Cambodia's continuing transition to a growth-oriented market economy with equity by effectively promoting and supporting the emerging partnership model of development cooperation, based on Cambodian leadership, ownership, and accountability, thus

contributing to increased effectiveness of development resources, to increased resource mobilization, and to a sharper focus of development cooperation on human development, poverty reduction, and participatory development.

334. The principles for building these development cooperation partnerships, that have been outlined in the RGC's position paper on "A New Development Cooperation Partnership Paradigm for Cambodia" would continue to guide Government's actions. These principles are:

- **A Common Vision and Shared Objectives** - firmly rooted and based on national and sectoral development objectives, with consensus reached on a mutually agreed set of policy directions, implementation strategies, results and expected outcomes.
- **Agreed Governance and Accountability Structures** - well-articulated roles and responsibilities forming a "shared accountability" where partners would be collectively accountable for the success and operation of the arrangement, operating within well-defined decision making processes and rules where transparency in decision making, operations and access to information are particularly critical.
- **Harmonized Strategic Management and Operational Capacities** - the simplification, streamlining and harmonization of operational policies and capacity development practices particularly in the areas of financial management, program/project planning, procurement, audit and evaluation, staffing, information and communications systems, with credible reporting and monitoring that should lead to the development of common or joint program/project evaluation and audit reviews.
- **Learning and Adaptation Capacities** – Partnerships will be built cautiously and with sufficient flexibility in the arrangements to ensure that each can generate learning and innovation, experiences that can be adapted and replicated across sectors.
- **Building and Maintaining Trust** - Each partner must value the reliability and worth of the arrangement. Having trust means having confidence in one another that each partner will do what they say they will do, and mean what they say. Agreed mechanisms to support accountability, transparency of decision making, information and reporting, audit and evaluation are essential to sustain trust. There must be certain agreed codes of conduct and specific partnership rules of engagement where mutual decisions can be made openly, with clear mechanisms for problem identification and dispute resolution.

335. At the CG Meeting in June 2001, in a paper that provided an update on the progress that had been made, the Royal Government also identified the following strategic implementation considerations in developing effective cooperation partnerships with our development partners.

- ***Ownership, Commitment and Shared Resources***. Development partnerships are seen as governing modalities of managed relationships that facilitate the achievement of sectoral and thematic outcomes through coordinated and more formally integrated activities involving multiple projects, sub-programs and supporting activities. It is recognized that within Government there are gaps in the management capacities and

that efforts to build capacities for national execution need to be dealt with openly and in a transparent manner.

- ***Flexible Partnership Modalities***. The choice of development partnerships models or approaches would depend on what can best serve the interests of Cambodia. At present, two distinct type of partnerships are envisaged: national partnerships, such as between the State, civil society and private sector; and those partnerships that involve donor countries, international agencies, private sector investors and NGOs
- ***Starting Gradually, Getting Priorities Right and Using Pilots.*** The priority and sequencing for pilots that are linked to national development goals and priorities has already been established. The pilot initiatives need to be managed strategically to ensure that lessons learned can be captured and disseminated, and that national capacities are developed and sustained.
- ***Identifying and Differentiating Partner Roles***. It is envisaged that the composition of partners will depend on the purpose of the partnership. In development partnerships involving external donors and NGOs, the Lead Partner should, in all instances, be a national organization (this could be a central or local level of government, possibly a national NGO or private sector organization). The role of the External Lead Partner would also vary, depending on comparative advantages and strengths of the partners and the requirements of the partnership. The External Lead Partners should act as a catalyst, facilitator, technical and resource advisor. The role and responsibilities of the External Lead Partner or facilitator are more than just providing resources, it requires building trust, having expertise on the ground to interact with and build the confidence of the sectoral ministry(ies) and other donors, and a willingness to be flexible in both the timing and use of whatever resources are available. It is therefore critical and crucial that donors organize and mobilize themselves to optimize the comparative advantages of individual donors. In particular, the major lending agencies should forge stronger relationships with UN agencies and some bilateral agencies.
- ***Developing National (in-country) Coordination Capacities.*** The Strategic Management Framework for development partnership must have capacity development as the centerpiece and should focus on national execution of all technical interventions in order to boost national capacity and competencies at local and central levels of the Government as well as the civil society and the private sector.
- ***Strengthening External Donor Capacities for Aid Management & Coordination.*** There is room for strengthening external donor coordination at the country level. Internal donor policies, practices and procedures also need to be closely examined to ensure that they are supportive of Government's policy thrusts for national ownership, leadership and overall coordination, specifically in the context of developing collaborative partnerships.
- ***Implications for Good Governance and Administration Reform***. Reforms in governance and public administration are a major part of the solution to a number of existing aid management/coordination problems and issues. Performance and existing capacity constraints within the civil service need be addressed by both civil service reforms and reforms in services delivery. This will require *enlightened management* on the part of both the Royal Government and its external partners on how very limited public sector human resources can best be managed in the short-term, and realistically developed over the longer term.

336. Significant progress has been made since the May 2000 Informal Working Session on Partnerships at the 2000 CG Meeting. The Prime Minister has appointed CDC/CRDB as the RGC's Partnership Focal Point. As the *Partnerships Focal Point*, CDC/CRDB's main role is to provide technical support to ministries/agencies in effectively managing the process of establishing partnership arrangements and coordination of resource mobilization activities. It is also responsible for expanding the development management information networks within Government, and for coordinating technical issues with sectoral ministries related to resource mobilization. However, the *Lead Responsibility* for sectoral partnerships will remain firmly in the hands of each sectoral ministry/agency. These consensus building tasks have required and will continue to require a lot of work and discussions. Under this institutional framework, the central agencies such as the Ministry of Planning (MoP) and the Ministry of Economy and Finance (MEF) would act as functional service providers in their areas of specialization. The Ministry of Foreign Affairs and International Cooperation (MFAIC) will facilitate diplomatic channels for ODA funds from bilateral donors. The role of the Council for State Reform in these Partnership arrangements is to lead and manage the various policy reform efforts of the Government.

337. An Inter-Ministerial Steering Committee to Strengthen Development Cooperation Partnerships was formally established in 2001. Key central agencies and those sectoral ministries that were at an advanced stage of discussions on sectoral development partnerships, (such as Health, Education, Rural Development, Agriculture, Women's Affairs, and others) are represented on the Steering Committee. The membership of the Inter-Ministerial Steering Committee, chaired by the 1st Vice-chairman of CDC, consists of key officials in-charge of Partnership arrangements (either Minister or Secretary/Under-Secretary of State). The Secretary General of the CDC/CRDB also serves as the Secretary General of the Inter-Ministerial Steering Committee. The objective is to ensure that key officials are seriously involved in policy decisions and operational actions for capacity development, integration/enhancement of information and monitoring systems, and for assessing progress and identifying issues during the transition to fully functioning development partnerships, covering dimensions such as procedural harmonization, ownership, and capacity indicators.

338. The Inter-Ministerial Steering Committee to Strengthen Development Partnerships is supported by a Secretariat, located in CDC/CRDB. In addition, Partnership Working Groups in four ministries, Health, education, Agriculture, and Women and Veteran Affairs have been established. The process of building national partnerships has begun and RGC is determined to move ahead in forging relationships with all of its national development partners.

339. Forging effective partnerships with our external development partners is the other challenge that the RGC would now like to seriously embark upon and we would need the support of all our external partners to face this challenge. For the RGC, the starting point for building these mutually beneficial partnerships are the OECD/DAC guidelines and criteria for building partnerships and capacity development activities that were agreed to by all donor agencies and countries at the OECD/DAC Conference in 1999. A systematic implementation of these guidelines and criteria, with established benchmarks, will help the Government not only in effectively managing its development programs but also taking ownership of its

development process. The Government and our external development partners need to develop mechanisms that provide for a systematic assessment of the capabilities of the lead agencies, facilitators and proponents as well as for checks and balances between donors who participate in Partnership arrangements under the SWAP and those who intend to continue on with the traditional project-based assistance. The Government would also welcome progress by our external development partners in simplifying and harmonizing their internal rules and procedures to minimize the extra-ordinary burden on the limited capacities within our implementing agencies, and equally importantly, the harmonization of the varied capacity building practices of our external partners. *The RGC would like to propose that a donor Working Group, under the CG mechanism, be established as soon as possible to lead the implementation of this very important task. Such a group should function along the line of other donor working groups dealing with the reform issues.*

340. To conclude, the RGC would like to note that although much progress has been made in building partnerships for development since 1997, and we have a few examples of successes, a situation remains in which a significant proportion of ODA still bypasses the national budgeting process because of direct funding by donor agencies to project implementers. This situation has resulted in inadequate Government ownership of many development projects, in insufficient coordination by donor agencies regarding sectoral issues and capacity building; and in a proliferation of different procurement, disbursement, auditing, and progress monitoring procedures among agencies. It has also resulted in capacity depletion and has adversely affected Government's institution building efforts. The RGC intends to show its political will to assume ownership of its development agenda and provide leadership of the process to achieve this goal. The Government and the external partners need to engage in an open consultation process to agree on a national development agenda for their support, particularly, in the area of poverty reduction. Once common objectives have been established, donors will need to adjust their own strategies and activities to the Royal Government's priorities. Capacity building must be dealt with through an integrated approach that also involves civil society and the private sector. This is an area where true partnerships could lead to major efficiency gains.

5. FINANCIAL REQUIREMENTS AND ODA MOBILIZATION TARGETS

341. The alleviation of poverty among Cambodia's population through economic progress and social development is the highest priority of the Royal Government. The *2nd Socio-Economic Development Plan (2001-2005)* and the *Poverty Reduction Strategy (PRS)* outline the strategies and policies for achieving this goal. The implementation of these strategies and policies will be achieved through a focused and prioritized Public Investment Program (PIP). The PIP is designed within the framework of a three-year rolling plan to capture priority proposals and needs on an on-going basis. The programs and projects that constitute our public investment program will be financed both from the National Budget and with the assistance of our external development partners. The PIP is comprised of the Government's priority programs that are being implemented and/or are planned to be implemented in various sectors and constitute the basic information for the allocation of national budget resources as well as for the mobilization of assistance from our external development partners.

342. Over the years, our external development partners have been generous in providing support to Cambodia's public investment program. At the five CG Meetings for Cambodia held so far, we have worked hard to keep our resource mobilization targets for external assistance at around US$500 million per annum to cover on-going and new projects, including budgetary/balance of payments support. At the 1996 CG meeting, pledges of US$501 million for the year 1996 were made by our major partners, plus US$18 million by NGOs. At the 1997, 1999, and 2000 CG meetings, our major development partners had pledged US $ 450 million, 471 million, and 548 million respectively. At the last CG meeting in 2001, the pledges amounted to US$ 556 million. In addition, the NGOs have increased their assistance considerably from a pledge of US$ 18 million for 1996 to US$ 55 million for1999, 2000 and 2001.

TABLE 3: PLEDGES AND DISBURSEMENTS: 1999-2001

(in US$ millions)

EXTERNAL DEVELOPMENT PARTNER	ACTUAL DISBURSEMENTS		
	1999	2000	2001
Bi-lateral donors	206.06	242.28	245.97
Multi-lateral donors: Total	138.65	172.69	182.32
UN Agencies			
• Total programs delivered	90.15	86.55	90.79
• Own resources disbursed	45.28	49.43	44.92
IFIs and EU/EEC	93.37	123.26	137.40
Non Governmental Organizations (Core or own resources)	55.00	51.85	43.56
TOTAL DISBURSEMENTS[1]	399.71	466.81	471.84
TOTAL PLEDGES	526.00	603.30	610.71
Disbursements as % of Pledges	76.0%	77.3%	77.3%

[1] Based on UN agencies own resources only. "Total programs delivered" by UN agencies include their own resources as well as resources mobilized by them from various sources, including bi-lateral donors, for their in-country programs.

343. The Royal Government is pleased to report that over the last three year, 1999-2001, disbursements have steadily increased from just under US$ 400 million in 1999 to nearly US$ 472 million last year (2001). At the same time, the amounts pledged by donors have also increased significantly – from US$ 526 million in 1999 to over US$ 610 million in 2001. Excluding the year 1998, when no CG meeting was held and consequently no formal pledges were recorded, disbursements over the 1992-97 and 1999-2001 have totaled nearly 3.7 billion dollars – constituting 73.3 percent of the pledges made by donors during these two periods. In more recent years, the ratio of disbursements to pledges has been higher – representing a greater absorptive capacity within the Government. Disbursements have increased from 76 percent of the donor pledges in 1999, to 77.3 percent in the years 2000 and 2001. The RGC is gratified by the support of its external development partners and hopes that they will continue to provide their support to enable Cambodia to achieve its goal of reducing poverty among its people.

344. The total costs of the Government's planned development programs, both on-going and new programs, over the next three years (2002-2004) is estimated to be around US $ 1,388.4 million. The Government of Cambodia has committed from its own resources US $ 148.2 million for these development programs. After adjustments for estimated available Government counter part funds (US$ 148.2 million), and taking into consideration the requirements for budget support (US$ 150 million), and balance of payments support/stand-by-facility from IMF (US$ 67 million); **the total requirements for external assistance over the next three years amount to US$ 1,457.2 million that averages to US$ 485.7 million per annum,** and includes US$ 15 million for the general elections in 2003. Some of our external development partners have already committed to provide just under US$ 612.8 million. *Thus a gap of US $ 844.4 million in the financing of these development programs remains at the present time for which the RGC is seeking additional support from its external development partners.*

345. The distribution of the priority planned development programs in the PIP for 2002-2004 by sector is as follows:

- 36.0 percent for social sectors;
- 7.6 percent for economic sectors;
- 34.7 percent for infrastructure; and
- 21.7 percent for cross sectoral programs (see Table 4).

346. Of the total costs of planned development programs over the next three years, US $ 1,388.4 million:

- 70.7 percent is for capital investment and 29.3 percent for technical assistance; and
- on-going programs/projects account for 78.0 percent of the total planned public investments, and new programs/projects 22.0 percent.

347. Of the planned expenditure on *on-going programs/projects* over the next three years (2002-2004):

- 72.6 percent is for capital investment; and
- 27.4 percent for technical assistance.

348. The distribution of the total planned expenditure on *new programs/projects*, US $ 305.55 million, to be started over the next three years (2002-2004) in terms of capital investment and technical assistance is 63.8 and 36.2 percent, respectively. A detailed summary of the information on the planned programs by sector, type of program (capital investment/technical assistance), and the nature of the program (on-going/new), as well as the resource mobilization target in each of these sub-categories is presented in Table 5. More detailed information in individual programs/projects constituting the PIP for 2002-2004 is presented as Annex II.

TABLE 4: DISTRIBUTION OF PLANNED DEVELOPMENT PROGRAMS COSTS FOR 2002-2004, COMMITTED RESOURCES BY GOVERNMENT AND EXTERNAL DEVELOPMENT PARNERS, AND RESOURCE MOBLIZATION TARGETS BY SECTOR

SECTOR	Planned Development Program Costs 2002-2004		Committed Resources % of Total Commitments		% of Total Resource Mobilization Targets
	in US$ millions	% of Total	Government	External Partners	
Social Sector					
• Education	190.75	13.7%	7.9%	12.9%	15.6%
• Health	309.35	22.3%	75.8%	14.4%	17.0%
Sub-total	500.10	36.0%	83.7%	27.4%	32.6%
Economic Sectors					
• Agri., forestry & Fisheries	83.29	6.0%	0.0%	7.4%	6.2%
• Manufacturing & Trade	20.42	1.5%	0.0%	0.8%	2.3%
• Tourism	1.14	0.1%	0.0%	0.0%	0.2%
Sub-total	104.85	7.6%	0.0%	8.2%	8.6%
Infrastructure					
• Transportation	228.59	16.5%	0.7%	26.4%	12.0%
• Water and Sanitation	178.12	12.8%	3.6%	9.3%	17.5%
• Power & Electricity	44.31	3.2%	3.6%	3.7%	2.7%
• Telecommunications	30.66	2.2%	0.0%	0.0%	4.4%
Sub-total	481.69	34.7%	7.9%	39.4%	36.7%
Other Cross Sectoral Programs					
• Environment and Conservation	44.64	3.2%	0.5%	4.8%	2.6%
• Community and social Services	88.67	6.4%	7.0%	10.2%	3.2%
• Culture & Arts	3.40	0.2%	0.0%	0.0%	0.5%
• Dev. Management & Gov.	78.02	5.6%	0.9%	6.3%	6.1%
• Special Programs	87.03	6.3%	0.0%	3.7%	9.7%
Sub-total	301.76	21.7%	8.4%	25.0%	22.0%
TOTAL: All Sectors ($ M)	1,388.40	100.0%	148.17	545.78	694.44
• Capital Investment ($ M.)	981.45	70.7%	112.28	321.21	547.95
• Technical Assistance ($ M)	406.95	29.3%	35.89	224.57	146.49
Percent of Total Planned Program Costs	100.00%	--	10.7%	39.3%	50.0%

TABLE 5: COSTS OF ON-GOING AND NEW DEVELOPMENT PROGRAMS: 2002-2004 AND ODA RESOURCE MOBILIZATION TARGETS BY SECTOR

(in '000s of US$)

SECTOR	Planned Development Programs Costs in				Committed Resources		ODA Resource Mobilization Target
	2002	2003	2004	2002-2004	Govt.	External Partners	
SOCIAL SECTORS							
Education:							
• On-going Projects	55,768	59,204	43,501	158,473	11,676	70,177	76,620
• New Projects	10,266	11,003	11,008	32,277	0	425	31,852
Total Education	**66,034**	**70,207**	**54,509**	**190,750**	**11,676**	**70,602**	**108,472**
Health:							
• On-going Projects	105,464	103,926	99,340	308,730	112,342	78,843	117,545
• New Projects	277	224	122	623	0	0	623
Total Health	**105,741**	**104,150**	**99,462**	**309,353**	**112,342**	**78,843**	**118,168**
TOTAL:							
• On-going Projects	161,232	163,130	142,841	467,203	124,018	149,020	194,165
• New Projects	10,543	11,227	11,130	32,900	0	425	32,475
Total: Social Sectors	**171,775**	**174,357**	**153,971**	**500,103**	**124,018**	**149,445**	**226,640**
ECONOMIC SECTORS							
Agriculture, Forestry and Fisheries:							
• On-going Projects	31,617	20,503	13,479	65,599	0	40,288	25,311
• New Projects	6,806	5,866	5,021	17,693	0	0	17,693
Total Agri. F&F	**38,423**	**26,369**	**18,500**	**83,292**	**0**	**40,288**	**43,004**
Manufacturing and Trade:							
• On-going Projects	0	0	0	0	0	0	0
• New Projects	8,617	7,329	4,472	20,418	0	4500	15,918
Total Mfg. & Trade	**8,617**	**7,329**	**4,472**	**20,418**	**0**	**4500**	**15,918**
Tourism:							
• On-going Projects	0	0	0	0	0	0	0
• New Projects	350	360	428	1,138	0	0	1,138
Total Tourism	**350**	**360**	**428**	**1,138**	**0**	**0**	**1,138**
TOTAL:							
• On-going Projects	31,617	20,503	13,479	65,599	0	40,288	25,311
• New Projects	15,773	13,555	9,921	39,249	0	4500	34,749
Total: Economic Sectors	**47,390**	**34,058**	**23,400**	**104,848**	**0**	**44,788**	**60,060**
INFRASTRUCTURE							
Transportation:							
• On-going Projects	95,824	69,525	28,468	193,817	972	144,082	48,763
• New Projects	7,122	5,831	21,823	34,776	0	0	34,776
Total Transportation	**102,946**	**75,356**	**50,291**	**228,593**	**972**	**144,082**	**83,539**
Water Res. and Sanitation:							
• On-going Projects	44,544	40,592	37,823	122,959	5,291	50,979	66,689
• New Projects	15,121	21,478	18,562	55,161	0	0	55,161
Total Water R & S	**59,665**	**62,070**	**56,385**	**178,120**	**5,291**	**50,979**	**121,850**
Power & Electricity:							
• On-going Projects	13,993	9,990	4,500	28,483	5,400	20,083	3,000
• New Projects	4,892	7,938	3,000	15,830	0	0	15,830
Total Power & Elec.	**18,885**	**17,928**	**7,500**	**44,313**	**5,400**	**20,083**	**18,830**
Telecommunications:							
• On-going Projects	0	0	0	0	0	0	0
• New Projects	6,650	13,170	10,840	30,660	0	0	30,660
Total Telecom	**6,650**	**13,170**	**10,840**	**30,660**	**0**	**0**	**30,660**
TOTAL:							
• On-going Projects	154,361	120,107	70,791	345,259	11,663	215,144	118,452
• New Projects	33,785	48,417	54,2250	136,427	0	**0**	136,427
Total: Infrastructure	**188,146**	**168,524**	**125,016**	**481,686**	**11,663**	**215,144**	**254,879**

TABLE 5: COSTS OF ON-GOING AND NEW DEVELOPEMENT PROGRAMS: 2002-2004 AND ODA RESOURCE MOBILIZATION TARGETS BY SECTOR

(in '000s of US$)

SECTOR	Planned Development Programs Costs in				Committed Resources		ODA Resource Mobilization Target
	2002	2003	2004	2002-2004	Govt.	External Partners	
OTHER CROSS SECTORAL PROGRAMS							
Environment and conservation:							
• On-going Projects	5,020	11,195	10,629	26,844	725	26,119	0
• New Projects	7,090	8,726	1,977	17,793	0	0	17,793
Total Env.	**12,110**	**19,921**	**12,606**	**44,637**	**725**	**26,119**	**17,793**
Social and Community Ser.							
• On-going Projects	26,662	27,302	26,337	80,301	10,389	55,830	14,082
• New Projects	2,819	2,775	2,778	8,372	0	0	8,372
Total Social & CS	**29,481**	**30,077**	**29,115**	**88,673**	**10,389**	**55,830**	**22,454**
Culture & Fine Arts:							
• On-going Projects	0	0	0	0	0	0	0
• New Projects	1,256	960	1,184	3,400	0	0	3,400
Total Culture & Arts	**1,256**	**960**	**1,184**	**3,400**	**0**	**0**	**3,400**
Development Management and Governance							
• On-going Projects	18,316	10,396	8,936	37,648	1,374	34,462	1,812
• New Projects	9,137	24,186	7,049	40,372	0	0	40,372
Total Dev. Management	**27,453**	**34,582**	**15,985**	**78,020**	**1,374**	**34,462**	**42,184**
Special Programs							
• On-going Projects	20,000	20,000	20,000	60,000	0	20,000	40,000
• New Projects	7,144	9,844	10,044	27,032	0	0	27,032
Total Special Programs	**27,144**	**29,844**	**30,044**	**87,032**	**0**	**20,000**	**67,032**
TOTAL:							
• On-going Projects	69,998	68,893	65,902	204,793	12,488	136,411	55,894
• New Projects	27,446	46,491	23,032	96,969	0	0	96,969
Total: Cross Sectoral Programs	**97,444**	**115,384**	**88,934**	**301,762**	**12,488**	**136,411**	**152,863**
TOTAL: ALL PROGRAMS	**504,755**	**492,323**	**391,321**	**1,388,399**	**148,169**	**545,788**	**694,442**
• On-going Projects	417,208	372,633	293,013	1,082,854	148,169	540,863	393,822
• New Projects	87,547	119,690	98,308	305,545	0	4,925	300,620

6. CONCLUSIONS

349. This paper has presented the highlights of what has been achieved since the last CG meeting in Tokyo in June 2001. It has provided an update on Government's policy performance, macroeconomic performance, monetary and fiscal performance, and sectoral developments. It presented a summary on the development challenges that Cambodia faces today, as well as, Government's development priorities in all spheres: macroeconomic and fiscal management, social sectors, economic sectors, infrastructure, and other cross-sectoral priorities. Also, the financial requirements and ODA mobilization targets for next three years (2202-2004) based on on-going and specific new initiatives that the Government plans to implement to achieve its development priorities have been identified. Finally, it has presented information on the magnitude of external development assistance – to complement the domestic resources – that will be required to support the implementation of on-going projects and to begin the implementation of new initiatives.

350. To achieve its development goals, the RGC is fully and firmly committed to the principles of good governance and to maintaining sound macro-economic policies and fiscal discipline. The RGC will do its utmost to raise domestic savings and capital resources to provide as much funds as possible for its developmental program. The Royal Government, however, recognizes that it remains dependent on the support of its external development partners in the short-term. For the next three years, 2002-2004, the total external assistance needs for the priority programs/projects that have been identified are estimated to be US$ 1,457.23 million, after taking into consideration the Royal Government's contribution of US$ 148.17 million from the counterpart funds. The Royal Government would appreciate pledges for the entire three-year period to enable it to plan for the implementation of its priority development programs. At this stage of the development of Cambodia, the Royal Government is well aware of the pitfalls of financing its development programs through loan financing, that has implications for debt and debt services charges that are likely to constrain its ability to restructure its budget allocations for social sectors in the future. It, therefore, places a high priority to seeking assistance from its development partners as grants.

351. Over the years, our external development partners have been generous in providing support to Cambodia's public investment program. The Royal Government of Cambodia is gratified by the support of its external development partners and hopes that they will continue to provide their support to enable Cambodia to achieve its goal of reducing poverty among our people.

ANNEX-1: ODA/PUBLIC INVESTMENTS RESOURCE MOBILIZATION PROGRAM: 2002-2004

(all amounts in '000 of US$)

PIP No.	Project Name/Title	Funding Status	Implementation Period	Total Project Costs	Planned Investments				Committed Resources		ODA Resource Mobilization Target
					2002	2003	2004	Total 2002-2004	GOVT.	External Partners	
EDUCATION/ HUMAN RESOURCE DEVELOPMENT - CAPITAL INVESTMENT PROJECTS											
ON-GOING PROJECTS:											
Basic Education											
199	Basic Education Improvement	Sweden, ADB, UK, EU, France, UNICEF; WB, National Budget	1995 - 2004	62,578	7,446	4,764	0	12,210	2,441	9,769	0
734	Basic Education Quality and Efficiency	ADB,UNICEF	2001-2005	52,310	9,240	11,280	12,820	33,340	7,440	0	25,900
736	Improved Primary Education Progression	National Budget	2001-2005	13,080	2,560	2,560	3,070	8,190	1,280	0	6,910
200	Assuring Equitable Access	Japan, National Budget, NGOs, Sweden, UNICEF, WB	1999-2002	13,500	250	0	0	250	0	250	0
665	Education Facilities Rehabilitation (EFRP)	ADB, WB, Germany, Sweden	2001-2003	16,229	4,937	5,025	2,261	12,223	0	12,223	0
Higher Education											
735	Improving the Quality & Efficiency of Higher Education (MoEYS)	National Budget	2001-2005	2,590	515	515	510	1,540	515	0	1,025
Technical & Vocational											
204	Technical & Vocational Education	ADB/Basic Skills-Education; GTZ, NGOs, EU	1996-2002	48,066	1,070	0	0	1,070	0	1,070	0
Committed Projects (MoEYS):											
376	Basic Education II (Secondary)	Loan negotiations with ADB	2001-2006	20,000	4,000	4,000	4,000	12,000	0	0	12,000
380	First Basic Education Project	WB Learning & Innovation/PHRD Grant; co-financing by DFID	2001-2006	5,000	1,000	1,000	1,000	3,000	0	0	3,000
549	Basic Education Improvement - II	Loan negotiations with ADB; EC; GTZ; NGOs	2001-2003	27,800	3,700	5,600	6,500	15,800	0	0	15,800
Technical & Vocational											
378	Science& Mathematics Teacher Training (Secondary)	JICA/Japan	2002-2006	10,000	2,000	2,000	2,000	6,000	0	0	6,000
			Sub-Total On-going:	**271,153**	**36,718**	**36,744**	**32,161**	**105,623**	**11,676**	**23,312**	**70,635**
PIPELINE-HIGH PRIORITY PROJECTS:											
Basic Education											
383	Primary School Rehabilitation and Construction	Donors Sought; Feasibility Study Required	2002-2006	20,600	1,500	1,500	1,500	4,500	0	0	4,500
			Sub-Total High Priority:	**20,600**	**1,500**	**1,500**	**1,500**	**4,500**	**0**	**0**	**4,500**
			Total (on going and high priority):	**291,753**	**38,218**	**38,244**	**33,661**	**110,123**	**11,676**	**23,312**	**75,135**
EDUCATION/ HUMAN RESOURCE DEVELOPMENT - TECHNICAL ASSISTANCE PROJECTS											
ON-GOING PROJECTS:											
Basic Education											
201	Planning & Management Strengthening	UNICEF; ADB; France; Japan; NGOs	1996 - 2003	26,500	5,000	5,000	0	10,000	0	10,000	0
Upper Secondary Education											
202	Upper Secondary Education Development	ADB, AusAid, France, Japan, NGOs	1997-2002	63,759	1,623	0	0	1,623	0	1,623	0
Higher Education											
203	Higher Education Development	France, ILO, UNFPA	1998-2002	21,534	4,087	0	0	4,087	0	4,087	0
Committed Projects											
371	Planning & Aid Management Support (MoEYS):	Discussions with ADB, UNICEF	2002-2004	3,490	1,240	1,190	1,060	3,490	0	3,490	0
Technical & Vocational											
New	National Cambodia-Korea Vocational Training School (MoSALVY)	EDCF	2002-2004	34,650	7,100	16,270	10,280	33,650	0	27,665	5,985
			Sub-Total On-going:	**149,933**	**19,050**	**22,460**	**11,340**	**52,850**	**0**	**46,865**	**5,985**

ANNEX-1: ODA/PUBLIC INVESTMENTS RESOURCE MOBILIZATION PROGRAM: 2002-2004

(all amounts in '000 of US$)

PIP No.	Project Name/Title	Funding Status	Implementation Period	Total Project Costs	Planned Investments				Committed Resources		ODA Resource Mobilization Target
					2002	2003	2004	Total 2002-2004	GOVT.	External Partners	
PIPELINE-HIGH PRIORITY PROJECTS:											
Basic Education											
193	Information Education System	Donors Sought; Feasibility Study Required	2002-2003	545	425	120	0	545	0	425	120
553	Planning & Management Strengthening Support	Discussions with ADB, UNICEF, SIDA	2002-2005	5,180	1,400	1,500	1,060	3,960	0	0	3,960
Upper Secondary Education											
370	Comprehensive Education-MIS	Donors Sought; Feasibility Study Required	2002-2004	250	50	100	100	250	0	0	250
372	Curriculum Development Center	Donors Sought; Feasibility Study Required	2002-2007	1,000	230	235	235	700	0	0	700
374	Personnel & Finance Reform	Donors Sought; Feasibility Study Required	2002-2004	459	100	186	173	459	0	0	459
379	Secondary Education Dev. Plan Preparation	Donors Sought; Feasibility Study Required	2002-2003	600	300	300	0	600	0	0	600
Higher Education											
551	Institute of Technology	ADB, GTZ, ILO	2002-2005	7,640	1,500	1,560	1,500	4,560	0	0	4,560
724	Teacher Development	UNICEF	2002-2005	24,540	3,210	3,740	4,440	11,390	0	0	11,390
Technical & Vocational											
125	Vocational Training School in TAKEO Province (MoSALVY)	National Budget	2002-2004	309	138	94	67	299	0	0	299
428	Non-Formal Education System (MRD)	Donors Sought; Feasibility Study Required	2002-2004	414	138	138	138	414	0	0	414
Youth and Sports											
723	TVET Quality and Efficiency Improvement	Donors Sought; Feasibility Study Required	2002-2005	2,050	510	515	515	1,540	0	0	1,540
827	Expansion of Non Formal Education	Donors Sought; Feasibility Study Required	2002-2005	4,360	765	1,015	1,280	3,060	0	0	3,060
			Sub-Total High Priority:	**47,347**	**8,766**	**9,503**	**9,508**	**27,777**	**0**	**425**	**27,352**
			Total (on going and high priority):	**197,280**	**27,816**	**31,963**	**20,848**	**80,627**	**0**	**47,290**	**33,337**
HEALTH - CAPITAL INVESTMENT PROJECTS											
ON-GOING PROJECTS:											
78	Strengthen Basic Health Services (BH1)	National Budget; Loans: WB; ADB; Grants:UNICEF;UNDP; UNFPA; WHO;USAID;France;GTZ;Japan;UK;NGOs;	1996-2004	300,827	44,272	43,351	43,351	130,974	44,133	9,200	77,641
79	Women & Child Health (MC.2)	UNICEF; UNFPA; WHO; NGOs; Japan, AusAID; National Budget	1996-2004	75,331	9,194	9,285	5,897	24,376	0	7,169	17,207
82	Tuberculosis Control (TB.5)	Grants: WHO; UK; France; NGOs: MSF; WB; Japan; National Budget	1996-2004	31,770	2,292	2,485	2,485	7,262	4,741	2,521	0
83	Control of Malaria, Dengue, Schistosomiasis (MA.6)	Grants: AusAID; UK; EC; WHO; USAID;NGOs; Loan:WB; National Budget	1996-2004	38,068	5,469	6,119	6,029	17,617	9,550	1,050	7,017
84	Pharmaceutical Sector Reform/Essential Drugs (ED7)	WHO;UNICEF;ADB; KfW;Japan; AusAiD; NGOs; National Budget	1996-2004	14,100	596	604	613	1,813	1,557	0	256
86	AIDS/STD Programme (AI.9)	UNICEF; UNDP; UNFPA; WHO;EC; UK; AusAID; ADB; WB; National Budget	1995-2004	58,811	5,099	2,886	2,130	10,115	3,370	6,745	0
87	Rehabilitation of National Hospitals (NH.10)	National Budget; Japan; France; NGOs; Switzerland, Thailand, WB	1996-2004	112,815	19,462	19,417	20,146	59,025	17,038	39,401	2,586
92	Medical Speciality:ENT/Oral & Mental Care (NO15)	NGOs; National Budget	1996-2004	4,389	321	393	394	1,108	1,107	0	1

ANNEX-1: ODA/PUBLIC INVESTMENTS RESOURCE MOBILIZATION PROGRAM: 2002-2004

(all amounts in '000 of US$)

PIP No.	Project Name/Title	Funding Status	Implementation Period	Total Project Costs	Planned Investments 2002	Planned Investments 2003	Planned Investments 2004	Planned Investments Total 2002-2004	Committed Resources GOVT.	Committed Resources External Partners	ODA Resource Mobilization Target
93	National Institute of Public Health(NPH16)	ADB; KfW; NGOs; National Budget	1995-2004	8,500	1,220	1,366	1,480	4,066	2,513	1,553	0
426	Controlling Food & Drugs Administration	WHO; NGOs; National Budget	1996-2004	14,055	578	578	578	1,734	1,044	390	300
			Sub-Total (on going):	**658,666**	**88,503**	**86,484**	**83,103**	**258,090**	**85,053**	**68,029**	**105,008**
HEALTH - TECHNICAL ASSISTANCE PROJECTS											
ON-GOING PROJECTS:											
80	Strengthening Health Mgt.& Planning (IN-SH3)	AusAid;UK; GTZ;UNDP;UNICEF;WHO; National Budget	1996-2004	73,271	8,149	8,149	8,149	24,447	19,047	0	5,400
New	Support for Cambodia Expanded Program of Immunization Phase II	AusAid	2000-2003	1,957	268	264	357	889	0	889	0
New	Health Sector Boosting Design	AusAid	2000-2003	2,883	965	1,609	0	2,574	0	2,574	0
81	Human Resource Development (IN-HR.4)	AusAid;France;WHO; KFW (Germany); Japan;NGOs; UNFPA; UNICEF; ADB	1996-2004	13,355	1,627	1,239	1,074	3,940	2,193	1,747	0
95	Blood Transfusion Programme	National Budget; ICRC; NGOs; WB; GTZ	1996-2004	9,150	1,177	1,310	1,372	3,859	2,701	0	1,158
94	Health Education,Hygiene & Primary Health Care (HEP18)	NGOs: World Education; AusAID; UNFPA; National Budget	1996-2004	12,662	2,200	2,350	2,590	7,140	2,811	508	3,821
427	Prevention of Blindness	WHO; other Donors Sought	1996-2004	13,466	2,575	2,521	2,695	7,791	537	5,096	2,158
			Sub-Total On-going:	**126,744**	**16,961**	**17,442**	**16,237**	**50,640**	**27,289**	**10,814**	**12,537**
PIPELINE-HIGH PRIORITY PROJECTS:											
684	Rehabilitation & Improvement Nutritional of Mother & Children (MAFF)	Donors Sought; Feasibility Study Required	2002-2004	623	277	224	122	623	0	0	623
			Sub-Total High Priority:	**623**	**277**	**224**	**122**	**623**	**0**	**0**	**623**
			Total (on going and high priority):	**127,367**	**17,238**	**17,666**	**16,359**	**51,263**	**27,289**	**10,814**	**13,160**
AGRICULTURE, FORESTRY & FISHERIES - CAPITAL INVESTMENT PROJECTS											
ON-GOING PROJECTS:											
Crop Production (MAFF)											
272	Agriculture Productivity Improvement	National Budget; WB/IFAD	1999-2003	36,872	4,400	8,957	11,954	25,311	0	0	25,311
			Sub-Total On-going:	**36,872**	**4,400**	**8,957**	**11,954**	**25,311**	**0**	**0**	**25,311**
PIPELINE-HIGH PRIORITY PROJECTS:											
Crop Production (MRD):											
475	Villages Development	Donors Sought; Feasibility Study Required	2002-2005	1,780	516	583	681	1,780	0	0	1,780
Research and Extension (MAFF)											
144	Crop Research & Seed Production	Donors Sought; Feasibility Study Required	2002-2004	500	164	164	172	500	0	0	500
275	Repair and facility Construction for Agri. Engineering	Donors Sought; Feasibility Study Required	2001-2004	772	300	91	381	772	0	0	772
Livestock (MAFF)											
157	Request for Vaccines, Medicines & Equipment	Donors Sought; Feasibility Study Required	2002-2003	221	110	111	0	221	0	0	221
521	Artificial Insemination-Cattle Breeding Station	Donors Sought; Feasibility Study Required	2002-2003	91	33	58	0	91	0	0	91
630	Haenmorraghic Septicaemia Vaccine Production	Donors Sought; Feasibility Study Required	2002-2004	400	322	39	39	400	0	0	400
Forestry (MAFF)											
328	Prek Toek Sap Forest Mgt. Project	Donors Sought; Feasibility Study Required	2002-2010	14,600	550	500	500	1,550	0	0	1,550
			Sub-Total High Priority:	**18,364**	**1,995**	**1,546**	**1,773**	**5,314**	**0**	**0**	**5,314**
			Total (on going and high priority):	**55,236**	**6,395**	**10,503**	**13,727**	**30,625**	**0**	**0**	**30,625**

ANNEX-1: ODA/PUBLIC INVESTMENTS RESOURCE MOBILIZATION PROGRAM: 2002-2004

(all amounts in '000 of US$)

PIP No.	Project Name/Title	Funding Status	Implementation Period	Total Project Costs	Planned Investments 2002	2003	2004	Total 2002-2004	Committed Resources GOVT.	External Partners	ODA Resource Mobilization Target
AGRICULTURE, FORESTRY & FISHERIES - TECHNICAL ASSISTANCE PROJECTS											
ON-GOING PROJECTS:											
New	Agricutlture Quality Improvement Project(MAFF)	AusAID	2000-2005	7,715	1,706	1,164	463	3,333	0	3,333	0
New	CARDI Assistance Project(MAFF)	AusAID	2002-2006	3,000	1,140	735	450	2,325	0	2,325	0
New	Cambodian Australia Extension Project - Phase II (MAFF)	AusAID	2001-2006	7,507	2,037	1,984	558	4,579	0	4,579	0
New	Support Program for Agriculture Sector in Cambodia(MAFF)	EU	1999-2003	36,448	7,289	7,289	0	14,578	0	14,578	0
Livestock (MAFF)											
New	Intergrated Pest Management - IPM Phase 1	Denmark	2000-2002	1,721	674	0	0	674	0	674	0
Research and Extension (MAFF)											
New	Regional Tree Seed Project	Denmark	1999-2003	1,071	214	214	0	428	0	428	0
Forestry											
608	Community Forestry Research Project (MENV)	NGOs; Thailand	1999-2002	325	93	0	0	93	0	93	0
New	Forestry Sector Capacity Building Project(MAFF)	Japan	2001-2004	778	564	160	54	778	0	778	0
De-Mining											
198	De-mining (CMAC)	AusAid; Belgium; CIDA; Denmark; EU;Japan; Norway; Netherlands; New Zealand; Sweden; USAID; UK,National Budget, Holy See, Austria	1993 - 2002	100,000	13,500	0	0	13,500	0	13,500	0
			Sub-Total On-going:	**158,565**	**27,217**	**11,546**	**1,525**	**40,288**	**0**	**40,288**	**0**
PIPELINE-HIGH PRIORITY PROJECTS:											
Crop Production (MAFF)											
628	Increase Horticulture Production/Agri Soil Mapping	Donors Sought; Feasibility Study Required	2002-2004	1,817	1,038	431	348	1,817	0	0	1,817
Crop Production (MRD)											
434	Establish Agricultural Cooperatives	Donors Sought; Feasibility Study Required	2002-2004	105	48	29	28	105	0	0	105
Research and Extension (MAFF)											
177	National Pest Control Program	Commitments from FAO/Netherlands	2001-2003	1,326	436	451	439	1,326	0	0	1,326
172	Agronomy Information Management	Donors Sought; Feasibility Study Required	2001-2003	539	233	173	133	539	0	0	539
517	Agricultural Extension Training: Fish, Rice, Vegetables	Donors Sought; Feasibility Study Required	2001-2003	958	319	319	320	958	0	0	958
De-Mining											
737	Cambodian Mine Action Authority	Donors Sought	2002-2004	1,800	400	700	700	1,800	0	0	1,800
Forestry (MAFF)											
163	Reforestation Programme	Donors Sought; Feasibility Study Required	2002-2004	3,840	1,280	1,280	1,280	3,840	0	0	3,840
181	Cambodia Forestry Action Program	Donors Sought; Feasibility Study Required	2002-2004	894	457	437	0	894	0	0	894
184	Mekong Basin Forestry Study	Mekong River Committee	2002-2003	1,100	600	500	0	1,100	0	0	1,100
			Sub-Total High Priority:	**12,379**	**4,811**	**4,320**	**3,248**	**12,379**	**0**	**0**	**12,379**
			Total (on going and high priority):	**170,944**	**32,028**	**15,866**	**4,773**	**52,667**	**0**	**40,288**	**12,379**

ANNEX-1: ODA/PUBLIC INVESTMENTS RESOURCE MOBILIZATION PROGRAM: 2002-2004

(all amounts in '000 of US$)

PIP No.	Project Name/Title	Funding Status	Implementation Period	Total Project Costs	Planned Investments 2002	2003	2004	Total 2002-2004	Committed Resources GOVT.	External Partners	ODA Resource Mobilization Target
TRADE, INDUSTRY & MANUFACTURING - CAPITAL INVESTMENT PROJECTS											
Industries Support Services:											
PIPELINE-HIGH PRIORITY PROJECTS:											
455	Establishment of Productivity Centre-Cambodia (MIME)	Donors Sought; Feasibility Study Required	2002-2003	1,100	350	750	0	1,100	0	0	1,100
702	Water Supply System Project-5 Places	Donors Sought; Feasibility Study Required	2002-2004	5,060	1,700	1,700	1,660	5,060	0	0	5,060
6	Cambodia Import Export Inspection & Fraud Repression (MoC)	National Budget; Donors Sought; Feasibility Study Required	2002-2004	5,050	3,709	879	462	5,050	0	0	5,050
New	Rehabilitation of Phnom Penh Market	France	2002-2004	4,500	150	2,000	2,350	4,500	0	4,500	0
344	Cambodia Export Oriented Local Industry Trade Promotion Center (MoC)	National Budget; Discussions with Japan; Feasibility Study Required	2002	1,208	1,208	0	0	1,208	0	0	1,208
			Grant Total (high priority)	**16,918**	**7,117**	**5,329**	**4,472**	**16,918**	**0**	**4,500**	**12,418**
TRADE, INDUSTRY & MANUFACTURING - TECHNICAL ASSISTANCE PROJECTS											
ON-GOING PROJECTS:											
New	Intergrated Framework for Trade Related TA	EU; Japan; Australia and Others Bilateral Donors	2002-2003	3,500	1,500	2,000	0	3,500	0	0	3,500
			Grant Total (on going)	**3,500**	**1,500**	**2,000**	**0**	**3,500**	**0**	**0**	**3,500**
TOURISM - CAPITAL INVESTMENT PROJECTS											
PIPELINE-HIGH PRIORITY PROJECTS:											
56	Development of Tourist Sites (MoT)	Donors Sought; Feasibility Study Required	2002-2006	4,600	350	360	428	1,138	0	0	1,138
			Grant Total (high priority)	**4,600**	**350**	**360**	**428**	**1,138**	**0**	**0**	**1,138**
INFRASTRUCTURE & TRANSPORT - CAPITAL INVESTMENT PROJECTS											
ON-GOING PROJECTS:											
Roads											
458	Rehabilitation of RN 7 Kampong Cham-Khnal Totung (MPWT)	Japan	2002-2004	14,000	1,000	2,000	3,000	6,000	0	0	6,000
16	Asian Highway RN 1- Phase 1" NR1.Neak Luang-Border " (MPWT)	ADB	1998-2003	52,500	5,000	2,000	0	7,000	0	7,000	0
211	Rural Infrastructure Improvement (MRD)	ADB	1996-2002	25,100	1,331	0	0	1,331	0	1,331	0
278	Highway 1 (MPWT)	WB	2000-2003	41,000	11,521	6,980	0	18,501	0	11,521	6,980
284	Primary Road Improvement (MPWT)	ADB	2000-2003	88,200	28,910	13,600	0	42,510	0	25,300	17,210
327	Provincial Towns Improvement (MPWT)	ADB	2000-2004	7,600	2,000	2,000	1,800	5,800	0	2,000	3,800
460	Reconstruction of Bridge No 26, NR 6 and NR 6A (MPWT)	Japan	2002-2004	10,000	3,000	4,000	3,000	10,000	0	0	10,000
660	National Transport Network-EFRP (MPWT)	ADB	2001-2003	41,000	15,000	15,000	11,000	41,000	0	41,000	0
662	Rural Infrastructure EFRP (MRD)	ADB	2001-2003	12,600	4,000	4,000	0	8,000	0	8,000	0
Ports and Waterways (MPWT)											
466	Regional Mekong GIS DataBase for Cambodia (MPWT)	Japan	2002-2004	7,000	1,500	1,500	1,500	4,500	0	0	4,500
Aviation											
New	Rehabilitation of Pochentong Airport (MPWT)	France	1995-2003	13,619	1,513	1,513	0	3,026	0	3,026	0
5	Improvement Siem Reap Airport (SCA/CAA)	ADB, National Budget	1998-2002	17,461	5,369	0	0	5,369	972	4,124	273
			Sub-Total On-going:	**330,080**	**80,144**	**52,593**	**20,300**	**153,037**	**972**	**103,302**	**48,763**

ANNEX-1: ODA/PUBLIC INVESTMENTS RESOURCE MOBILIZATION PROGRAM: 2002-2004

(all amounts in '000 of US$)

PIP No.	Project Name/Title	Funding Status	Implementation Period	Total Project Costs	Planned Investments 2002	2003	2004	Total 2002-2004	Committed Resources GOVT.	External Partners	ODA Resource Mobilization Target
PIPELINE-HIGH PRIORITY PROJECTS:											
Roads											
467	RN 5-Rehabilitation(MPWT)	Feasibility Study Required; Donors Sought	2003-2005	22,700	0	700	10,000	10,700	0	0	10,700
695	Rehabilitation NR7 "Kratie-Stung Treng Loas Border" (MPWT)	Donors Sought; Feasibility Study Required	2002-2004	29,700	3,000	3,000	11,823	17,823	0	0	17,823
			Sub-Total High Priority:	**52,400**	**3,000**	**3,700**	**21,823**	**28,523**	**0**	**0**	**28,523**
			Total (on going and high priority):	**382,480**	**83,144**	**56,293**	**42,123**	**181,560**	**972**	**103,302**	**77,286**
INFRASTRUCTURE & TRANSPORT - TECHNICAL ASSISTANCE PROJECTS											
ON-GOING PROJECTS:											
Ports and Waterways (MPWT)											
293	Renovation of Quay of SihanoukVille	Japan	2001-2005	42,600	15,680	16,932	8,168	40,780	0	40,780	0
			Sub-Total On-going:	**42,600**	**15,680**	**16,932**	**8,168**	**40,780**	**0**	**40,780**	**0**
PIPELINE-HIGH PRIORITY PROJECTS:											
545	Feasibility Study: RN5 & RN6 (MPWT)	Donors Sought;Feasibility Study Required	2002	1,000	1,000	0	0	1,000	0	0	1,000
1	Civil Aviation System (SCA)	WB; France	2001-2003	5,376	1,622	2,131	0	3,753	0	0	3,753
546	Airport Study-Koh Kong; Battambang;Rattanakiri (MPWT/CAA)	Donors Sought;Feasibility Study Required	2002	1,500	1,500	0	0	1,500	0	0	1,500
			Sub-Total High Priority:	**7,876**	**4,122**	**2,131**	**0**	**6,253**	**0**	**0**	**6,253**
			Total (on going and high priority):	**50,476**	**19,802**	**19,063**	**8,168**	**47,033**	**0**	**40,780**	**6,253**
WATER RESOURCES, SUPPLY & SANITATION - CAPITAL INVESTMENT PROJECTS											
ON-GOING PROJECTS:											
Water Resource: Irrigation and Flood Control											
664	Emergency Flood Rehabilitation Project / Flood Control & Irrigation (MWRM))	ADB	2001-2003	12,600	6,000	857	0	6,857	1,800	5,057	0
289	Strung Chinit Irrigation and Rural Infrastructures (MWRM)	ADB and AFD co-financing	2001-2006	23,000	400	5,000	6,000	11,400	1,140	10,260	0
397	Komping Pouy Irrigation Rehabilitation and Rural Development Project Phase II (MWRM)	APS(Italia) and Japan	2001-2007	4,000	500	1,000	1,000	2,500	0	0	2,500
New	Northwest Irrigation Sector Project (Stung Pursat, Moung Russey, Partly Stung Battambang)	ADB and Looking for Co-Financing	2003-2007	60,000	0	4,000	8,000	12,000	0	0	12,000
New	Flood Emergency Rehabilitation Project/Flood Control and Irrigation (MWRM)	WB	2001-2004	9,297	4,304	3,706	1,287	9,297	1,228	8,069	0
146	Prey Nop Polder Rehabilitation Phase I and II (MWRM)	AFD(France)	1998-2003	7,400	1,400	600	0	2,000	400	1,600	0
493	Rehabilitation of 30 Hydrology Stations (MWRM)	MRC	2001-2004	370	120	120	130	370	0	0	370
543	Emergency Rehabilitation Irrigation Equipment (MWRM)	National Budget	2000-2003	15,279	5,000	4,279	0	9,279	0	0	9,279
Water Supply/Sanitation											
14	Phnom Penh Water Rehabilitation (MPP)	WB; ADB;France; Japan;UNDP;National Budget	1992 - 2002	63,400	3,232	0	0	3,232	0	0	3,232
273	Phnom Penh Water Supply & Drainage (MPP)	National Budget, ADB, Norway	1997-2002	11,514	2,646	0	0	2,646	303	2,343	0
356	Sihanoukville Sewerage (MPWT)	ADB	2000-2002	4,170	2,842	1,328	0	4,170	0	1,328	2,842
367	Rehabilitation of Sihanoukville Water Supply (MIME)	World Bank	1998-2003	4,084	1,824	439	0	2,263	0	2,263	0
657	Community Sanitation and Health Awareness Program (MIME)	ADB	1999-2004	691	177	207	207	591	0	591	0
656	Provincial Towns Water Supply (MIME)	ADB	1999-2004	12,626	1,944	3,917	3,917	9,778	0	9,778	0

ANNEX-1: ODA/PUBLIC INVESTMENTS RESOURCE MOBILIZATION PROGRAM: 2002-2004

(all amounts in '000 of US$)

PIP No.	Project Name/Title	Funding Status	Implementation Period	Total Project Costs	Planned Investments 2002	2003	2004	Total 2002-2004	Committed Resources GOVT.	External Partners	ODA Resource Mobilization Target
425	Flood Protection Drainage Improvement (MPP)	Japan	2001-2004	25,000	4,600	8,400	11,200	24,200	0	0	24,200
Committed Projects: Water Resource, Irrigation and Flood Control											
New	Prey Nop Polder Rehabilitation Phase III (MWRM)	ADF (France)	2002-2004	3,230	1,000	1,230	1,000	3,230	0	3,230	0
393	Rehabilitation of Kandal Stung Irrigation System (MWRM)	JAPAN GRANT AID for General Project	2002-2005	9,100	1,000	1,000	1,500	3,500	0	0	3,500
308	Barray Irrigation Rehabilitation Project (MWRM)	Request To India	2002-2005	5,148	1,000	1,000	1,500	3,500	0	0	3,500
306	Ponhea Leu Development/Tamouk Resovoir Rehabilitation (MWRM)	Basic Design Formulation and Implementation, KOICA, Korea	2002-2004	3,000	1,000	1,000	1,000	3,000	0	0	3,000
New	Sdau Kong Irrigation Rehabilitation Project (MWRM)	France Embassy	2002-2004	420	100	200	120	420	0	420	0
			Sub-Total On-going:	**274,**	**39,089**	**38,**	**36,861**	**114,**	**4,871**	**44,939**	**64,423**
PIPELINE-HIGH PRIORITY PROJECTS:											
Irrigation											
708	Places of pump station (MWRM)	Donors Sought	2002-2004	9,032	2,934	3,114	2,984	9,032	0	0	9,032
Water Supply/Sanitation											
28	Provincial and Peri-Urban Water Supply and Sanitation Project (MIME)	Discussions:WB	2002-2006	9,100	450	880	1,000	2,330	0	0	2,330
654	Implementation of Water Supply System for Siem Reap Province(MIME)	Donors Sought; Feasibility Study Required	2002-2004	14,983	1,000	1,362	1,936	4,298	0	0	4,298
145	Rehabilitation - Canal No. 3 (MWRM)	Donors Sought	2002-2003	3,748	1,674	2,074	0	3,748	0	0	3,748
655	Detail Design Study & Implement of Water Supply System Takmao (MIME)	Donors Sought; Feasibility Study Required	2002-2004	7,840	2,500	3,000	2,340	7,840	0	0	7,840
479	Improvement of Forest System & Meteorology (MWRM)	Donors Sought for Feasibility Study	2002-2004	600	200	200	200	600	0	0	600
398	Emergency of Meteorological Services (MWRM)	JAPAN GRANT AID for General Project	2002-2005	7,200	750	1,200	1,400	3,350	0	0	3,350
New	Upper Slakou River Irrigation System Rehabilitation Project (MWRM)	JAPAN GRANT AID for General Project	2002-2004	13,000	3,000	5,000	5,000	13,000	0	0	13,000
673	Improvement of Portable Water Supply in Prey Veng (MIME)	Donors Sought; Feasibility Study Required	2002-2004	8,717	1,825	3,190	3,702	8,717	0	0	8,717
502	Construction of Flood Protection Dike (MAFF)	Donors Sought; Feasibility Study Required	2002-2003	396	88	308	0	396	0	0	396
			Sub-Total High Priority:	**74,616**	**14,421**	**20,328**	**18,562**	**53,311**	**0**	**0**	**53,311**
			Total (on going and high priority):	**348,945**	**53,510**	**58,611**	**55,423**	**167,544**	**4,871**	**44,939**	**117,734**
WATER RESOURCES, SUPPLY & SANITATION - TECHNICAL ASSISTANCE PROJECTS											
ON-GOING PROJECTS:											
Irrigation (MWRM)											
395	Technical Service Center for Irrigation Facilities	Japan	2001-2005	6,000	1,345	934	782	3,061	355	2,706	0
New	Part. B of Northwest Irrigation Sector Project/ Project Preparation Technical Assistance	ADB	2002-2003	857	375	500	0	875	15	860	0
New	Part. A of Northwest Irrigation Sector Project/Capacity Building	ADB	2001-2002	390	390	0	0	390	50	340	0
Meteorology											
New	Improvement of Survey and Forecast System for Agro-Meteorology	Japan	2000-2003	866	315	0	0	315		315	0
Water Resources Mgt (MWRM)											
New	Kamchav Multipurpose Project (MIME)	Feasibility Study, Canada	2001-2002	1,500	500	0	0	500	0	500	0
New	The study on Ground Water Development in Central (MRD)	Japan	2000-2002	2,111	1,000	0	0	1,000	0	1,000	0
496	Stung Battambang Water Resource Development (Multipurpose Dam Project)	AFD(France) Master Plan and KOWAKO/Korea for Feasibility Study and Implementation	2002-2003	1,225	500	725	0	1,225	0	0	1,225

ANNEX-1: ODA/PUBLIC INVESTMENTS RESOURCE MOBILIZATION PROGRAM: 2002-2004

(all amounts in '000 of US$)

PIP No.	Project Name/Title	Funding Status	Implementation Period	Total Project Costs	Planned Investments				Committed Resources		ODA Resource Mobilization Target
					2002	2003	2004	Total 2002-2004	GOVT.	External Partners	
New	Stung Chikreng Water Resource Development (MWRM)	AFD(France) Master Plan and KOWAKO/Korea for Feasibility Study and Implementation	2001-2002	375	200	0	0	200	0	0	200
Water Supply/Sanitation											
325	Topographic& Geological Studies "14 Sites" (MWRM)	Donors Sought; Feasibility Study Required	2000-2002	1,099	361	0	0	361	0	0	361
489	Ground Water Investigation-Phase 2 (MRD)	Japan	2002-2004	480	150	150	180	480	0	0	480
368	Water Supply and Sanitation Policy Framework Development (MIME)	WB-TA	1998-2002	975	319	0	0	319	0	319	0
			Sub-Total On-going:	**15,878**	**5,455**	**2,309**	**962**	**8,726**	**420**	**6,040**	
PIPELINE-HIGH PRIORITY PROJECTS:											
New	Prek Thnot River Basin Multipurpose Development Project (CNMC and MWRM)	JICA (Japan) Feasibility Study	2002-2003	1,500	500	1,000	0	1,500	0	0	1,500
490	River System Assessment inCambodia/River Bank Erosion Assessment (MWRM)	ADB	2001-2003	500	200	150	0	350	0	0	350
			Sub-Total High Priority:	**2,000**	**700**	**1,150**	**0**	**1,850**	**0**	**0**	**1,850**
			Total (on going and high priority):	**17,878**	**6,155**	**3,459**	**962**	**10,576**	**420**	**6,040**	**4,116**
POWER AND ELECTRICITY - CAPITAL INVESTMENT PROJECTS											
ON-GOING PROJECTS:											
44	Expansion of Power System (MIME)	Japan; National Budget	2001-2002	32,000	3,000	0	0	3,000	0	0	3,000
347	Power Rehabilitation-Provincial Towns (MIME)	ADB: National Budget	2001-2004	24,000	9,650	9,850	4,500	24,000	5,400	18,600	0
652	Master Plan for Rural Power Supply by Renew.(MIME)	Japan	2001-2002	700	700	0	0	700	0	700	0
			Sub-Total On-going:	**56,700**	**13,350**	**9,850**		**27,700**	**5,400**	**19,**	**3,000**
PIPELINE-HIGH PRIORITY PROJECTS:											
556	Rural Electrification and Transmission Project (MIME)	WB; Japan; Germany	2002-2006	89,000	1,000	3,000	3,000	7,000	0	0	7,000
196	Rural/Solar Electricity Support (MRD)	Donors Sought; Feasibility Study Required	2002-2003	3,450	1,177	2,273	0	3,450	0	0	3,450
274	Hyrdo Power: Mondulkiri	Donors Sought; Feasibility Study Required	2002-2003	3,100	1,450	1,650	0	3,100	0	0	3,100
			Sub-Total High Priority:	**95,550**	**3,627**	**6,923**	**3,000**	**13,550**	**0**	**0**	**13,**
			Total (on going and high priority):	**152,250**	**16,977**	**16,773**	**7,500**	**41,250**	**5,400**	**19,300**	**16,550**
POWER AND ELECTRICITY - TECHNICAL ASSISTANCE PORJECTS											
ON-GOING PROJECTS:											
New	Appropriation Hydrologycal Network Improvement Project	AusAID	2001-2006	1,748	643	140	0	783	0	783	0
			Sub-Total On-going:	**1,748**	**643**	**140**	**0**	**783**	**0**	**783**	**0**
PIPELINE-HIGH PRIORITY PROJECTS:											
675	Prek Dakdeur Micro Hydropower	Donors Sought; Feasibility Study Required	2002-2003	830	445	385	0	830	0	0	830
676	Sre Pok River Basin Hydro Power Development Study	Donors Sought; Feasibility Study Required	2002-2003	800	460	340	0	800	0	0	800
348	Hydro Dev. Plan: Stung Battam & Stung Mongkol	Discussions with ADB;Feasibility Study Required	2002-2003	650	360	290	0	650	0	0	650
			Sub-Total High Priority:	**2,280**	**1,**	**1,015**	**0**	**2,280**	**0**	**0**	**2,280**
			Total (on going and high priority):	**4,028**	**1,908**	**1,155**	**0**	**3,063**	**0**	**783**	**2,280**

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(all amounts in '000 of US$)

PIP No.	Project Name/Title	Funding Status	Implementation Period	Total Project Costs	Planned Investments				Committed Resources		ODA Resource Mobilization Target
					2002	2003	2004	Total 2002-2004	GOVT.	External Partners	
TELECOMMUNICATIONS & INFORMATION - CAPITAL INVESTMENT PROJECTS											
PIPELINE-HIGH PRIORITY PROJECTS:											
416	Joint Relationship with ASEAN (MoInf)	Donors Sought; Feasibility Study Required	2002-2004	10,000	1,000	1,000	1,000	3,000	0	0	3,000
334	Upgrading TV Station (MoInf)	National Budget; Donors Sought; Feasibility Study Required	2002-2004	6,500	1,700	2,000	2,000	5,700	0	0	5,700
294	Telecommunications Network-Central Provinces (MPTC)	Donors Sought; Feasibility Study Required	2002-2003	15,400	1,400	7,500	6,500	15,400	0	0	15,400
366	Enhancement of MPTC Training Institute	Government of Japan; Feasibility Study Required	2002-2006	7,900	2,390	1,850	1,220	5,460	0	0	5,460
418	Upgrade SDH/STM Level-1 to -4 (MPTC)	Donors Sought; Feasibility Study Required	2002	740	40	700	0	740	0	0	740
			Grant Total (high priority):	**40,540**	**6,530**	**13,050**	**10,720**	**30,300**	**0**	**0**	**30,300**
TELECOMMUNICATIONS & INFORMATION - TECHNICAL ASSISTANCE PROJECTS											
PIPELINE-HIGH PRIORITY PROJECTS:											
195	Mass Media Education (MRD)	Donors Sought; Feasibility Study Required	2002-2004	360	120	120	120	360	0	0	360
			Grant Total (high priority):	**360**	**120**	**120**	**120**	**360**	**0**	**0**	**360**
ENVIRONMENT & CONSERVATION - CAPITAL INVESTMENT PROJECTS											
ON-GOING PROJECTS:											
606	Forest Crime Monitoring & Reporting	AusAID; UK-DFID: FAO; NGOs;UNDP;WB	1999-2002	1,850	550	0	0	550	0	550	0
391	Management of Protected Areas II	GEF; WB; RGMt	2000 - 2003	4,910	1,321	514	0	1,835	125	1,710	0
			Sub-Total On-going:	**6,760**	**1,871**	**514**	**0**	**2,385**		**2,260**	**0**
PIPELINE-HIGH PRIORITY PROJECTS:											
333	Suppression on Illegal Action on Wildlife(MAFF)	Donors Sought; Feasibility Study Required	2002-2003	25	7	18	0	25	0	0	25
245	Coastal Wetland Sustainable Development (MoE)	Discussions:ADB Loan	2002-2003	10,000	3,864	6,136	0	10,000	0	0	10,000
			Sub-Total High Priority:	**10,025**	**3,871**	**6,154**	**0**	**10,025**	**0**	**0**	**10,025**
			Total (on going and high priority):	**16,785**	**5,742**	**6,668**	**0**	**12,410**	**125**	**2,260**	**10,025**
ENVIRONMENT & CONSERVATION - TECHNICAL ASSISTANCE PROJECTS											
ON-GOING PROJECTS:											
409	Climate Change Enabling Activity	Global Environment Fund(GEF)/ UNDP	1999-2002	325	70	0	0	70	0	70	0
406	World Wildlife Fund Conservation Programme (MoE)	World Wildlife Fund-Cambodia	1999-2002	855	155	0	0	155	0	155	0
405	Participatory Management of Mangrove Resources II (MoE)	IDRC	2002-2003	225	73	73	0	146	0	146	0
New	Assessment of Biodiversity Capacity Building Need	GEF	2002	100	100	0	0	100	0	100	0
New	Tonle Sap Resource Management and Conservation (MoE)	ADB; GEF; UNDP; UNESCO; FAO	2003-2008	45,193	0	8,000	8,000	16,000	0	16,000	0
New	Environment Mgt in the Coastal Zone, Phase 3	Denmark	2002-2005	3,170	634	634	634	1,902	0	1,902	0
New	Sustainable Mgt of the Kbal Chhay Watershed (MAFF)	Denmark	2001-2003	1,989	663	663	663	1,989	0	1,989	0
353	Coatal Zone Environment Management II (MoE)	Denmark	2000-2002	1,750	172	0	0	172	0	172	0
Committed Projects (MoEnv):											
390	Assistance in Strengthening Capacity of EIA	ADB	2002-2004	3,925	1,282	1,311	1,332	3,925	600	3,325	0
			Sub-Total On-going:	**57,532**		**10,681**		**24,459**	**600**	**23,859**	**0**

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PIP No.	Project Name/Title	Funding Status	Implementation Period	Total Project Costs	Planned Investments 2002	2003	2004	Total 2002-2004	Committed Resources GOVT.	External Partners	ODA Resource Mobilization Target
PIPELINE-HIGH PRIORITY PROJECTS:											
387	Capacity Building in Liquid Waste Management (MoE)	Donors Sought; Feasibility Study Required	2002-2004	1,450	560	440	450	1,450	0	0	1,450
183	Forest Reserve Management-Water Birds(MAFF)	Donors Sought; Feasibility Study Required	2002-2004	2,000	600	800	600	2,000	0	0	2,000
228	Tonle Sap Biodiversity Conservation (MoE)	Proposal to Japan, UNESCO, UNDP	2002-2003	2,000	1480	520	0	2,000	0	0	2,000
452	Training Course on Environmental Skills (MoE)	Japan Overseas Cooperation Volunteers	2002-2004	528	170	113	245	528	0	0	528
451	Conservation/Mgt.Tonle Sap Bio-Sphere Reserve (MoE)	EU	2002-2004	1,790	409	699	682	1,790	0	0	1,790
			Sub-Total High Priority:	**7,768**	**3,219**	**2,**	**1,977**	**7,768**	**0**	**0**	**7,768**
			Total (on going and high priority):	**65,300**	**6,368**	**13,253**	**12,606**	**32,227**	**600**	**23,859**	**7,768**
SOCIAL AND COMMUNITY SERVICES - CAPITAL INVESTMENT PROJECTS											
ON-GOING PROJECTS:											
112	Women in Development	ADB; UK; FAO; GTZ; Japan; New Zealand; NGOs; UNDP; UNFPA; UNICEF	2001-2004	20,665	6,637	4,634	2,883	14,154	2,381	11,493	280
594	Construction of Cambodia Children Villages (MoSALVY)	NGOs:SOS-Kinderdorf International	2002-2004	5,500	2,200	2,000	1,300	5,500	500	5,000	0
			Sub-Total On-going:	**26,165**	**8,837**	**6,634**	**4,183**	**19,654**	**2,881**	**16,493**	**280**
PIPELINE-HIGH PRIORITY PROJECTS:											
123	Tranfer of Orphanages into Vocational Training Center (MoSALVY)	Donors Sought; Feasibility Study Required	2002-2004	2,134	650	705	779	2,134	0	0	2,134
			Sub-Total High Priority:	**2,134**	**650**	**705**	**779**	**2,134**	**0**	**0**	**2,134**
			Total (on going and high priority):	**28,299**	**9,487**	**7,339**	**4,962**	**21,788**	**2,881**	**16,493**	**2,414**
SOCIAL AND COMMUNITY SERVICES - TECHNICAL ASSISTANCE PROJECTS											
ON-GOING PROJECTS:											
663	Rural Livelihood Restoration-EFRP (MRD)	JFPR	2001-2003	2,400	800	800	0	1,600	0	1,600	0
667	Support to PMCU for EFRP (MoP)	ADB	2001-2003	900	287	278	0	565	0	565	0
714	Population and Development Policy(UNFPA)	UNFPA	2001-2005	2,021	514	360	260	1,134	0	1,134	0
715	Support to PMCU for EFRP (MoP)	WB	2001-2004	702	256	203	69	528	0	528	0
738	SEILA Programme (CDC)	AusAID; UK; Netherland; EU; GTZ; IFAD; NGOs;Sweden; UNDP; UNHCR; WFP; WB	2001-2005	95,000	15,717	19,027	21,825	56,569	7,508	35,510	13,551
743	Capacity Development for Poverty Monitoring and Analysis(MoP)	CIDA; UNDP	2002-2003	1,500	251	0	0	251	0	0	251
			Sub-Total On-going:	**102,523**	**17,825**	**20,668**	**22,154**	**60,647**	**7,508**	**39,337**	**13,802**
PIPELINE-HIGH PRIORITY PROJECTS:											
119	Re-education of former sex worker (MoSALVY)	NGOs	2002-2004	2,000	500	750	750	2,000	0	0	2,000
121	Labor Market Information System (MoSALVY)	ILO	2002-2004	238	169	30	39	238	0	0	238
533	Coordination-NCN (M0P)	Donors Sought; Feasibility Study Required	2002-2011	6,500	828	494	444	1,766	0	0	1,766
118	Reintergration of Street People into the Community(MoSALVY)	NGOs	2002-2004	1,734	442	646	646	1,734	0	0	1,734
595	Skill Training For Youth Delinquencies (MoSALVY)	Donors Sought; Feasibility Study Required	2002-2004	500	230	150	120	500	0	0	500
			Sub-Total High Priority:	**10,972**	**2,169**	**2,070**	**1,999**	**6,238**	**0**	**0**	**6,238**
			Total (on going and high priority):	**113,495**	**19,994**	**22,738**	**24,153**	**66,885**	**7,508**	**39,337**	**20,040**

ANNEX-1: ODA/PUBLIC INVESTMENTS RESOURCE MOBILIZATION PROGRAM: 2002-2004

(all amounts in '000 of US$)

PIP No.	Project Name/Title	Funding Status	Implementation Period	Total Project Costs	Planned Investments				Committed Resources		ODA Resource Mobilization Target
					2002	2003	2004	Total 2002-2004	GOVT.	External Partners	
CULTURE & FINE ARTS; RELIGIOUS AFFAIRS - CAPITAL INVESTMENT PROJECTS											
PIPELINE-HIGH PRIORITY PROJECTS:											
212	Restoration-Royal University of Fine Arts (MCFA)	Donors Sought; Feasibility Study Required	2002-2004	1,400	121	600	679	1,400	0	0	1,400
217	Repair of Ancient Temples (MCFA)	Donors Sought; Commitments:UNESCO	2002-2005	3,000	385	110	305	800	0	0	800
341	Development Sambor Prey Kuk to be Cutural Tourism Site(MCFA)	Donors Sought; Feasibility Study Required	2002-2004	800	350	250	200	800	0	0	800
576	Repair of National Museum (MCFA)	Donors Sought; Feasibility Study Required	2002	200	200	0	0	200	0	0	200
578	Renovation of the National Library (MCFA)	Donors Sought; Feasibility Study Required	2002	200	200	0	0	200	0	0	200
			Grant Total (high priority):	**5,600**	**1,256**	**960**	**1,184**	**3,400**	**0**	**0**	**3,400**
DEVELOPMENT ADMINISTRATION/ GOVERNANCE - CAPITAL INVESTMENT PROJECTS											
ON-GOING PROJECTS:											
Land Management & Urbanization											
742	Land Management and Administration Project (MoLMUC)	WB; Germany; Finland; National Budget	2002-2007	33,900	6,791	6,797	6,791	20,379	1,300	19,079	0
			Sub-Total On-going:	**33,900**	**6,791**		**6,791**	**20,379**	**1,300**	**19,079**	**0**
PIPELINE-HIGH PRIORITY PROJECTS:											
Land Management & Urbanization											
422	Laboratory and Equipment (MoLMUC)	Donors Sought; Feasibility Study Required	2002-2004	1,500	772	413	315	1,500	0	0	1,500
573	Master Plan of Kampong Cham City (MoLMUC)	Donors Sought; Feasibility Study Required	2002-2004	1,388	643	497	248	1,388	0	0	1,388
			Sub-Total High Priority:	**2,888**	**1,415**	**910**	**563**	**2,888**	**0**	**0**	**2,888**
			Total (on going and high priority):	**36,788**	**8,206**	**7,707**	**7,354**	**23,267**	**1,300**	**19,079**	**2,888**
DEVELOPMENT ADMINISTRATION/ GOVERNANCE - TECHNICAL ASSISTANCE PROJECTS											
ON-GOING PROJECTS:											
Development Administration											
513	Cambodia Human Dev. Report (MoP)	CIDA;UNFPA	1998-2002	1,489	212	0	0	212	0	212	0
59	Aid Coordination & Partnerships (CDC/CRDB/Sectoral Ministries)	UNDP / Additional Donors Sought for Future Components	2001-2006	3,871	673	644	557	1,874	0	1,574	300
718	Statistical System Development Phase III (MoP)	ADB	2000-2002	1,200	398	0	0	398	0	398	0
706	Improving Data in the National Institute of Statistic (MoP)	AusAID, UNFPA	2001-2005	604	133	197	188	518	0	518	0
653	NRE-National Capacity Development (CDC)	Denmark	2001-2006	4,473	900	900	900	2,700	0	2,700	0
Land Management & Urbanization											
New	Rural Development Project (MRD)	Japan	1994-2003	21,239	5,800	716	0	6,516	0	6,516	0
439	Cadastral Mapping and Land Registration Phase II (MoLMUC)	Finland	1997-2002	1,812	574	0	0	574	0	0	574
442	Land Management Project Phase II (MoLMUC)	GTZ	1995-2002	3,156	938	0	0	938	0	0	938
741	Implementation of Land Legislation	ADB; National Budget	2001-2003	710	397	142	0	539	74	465	0
Committed Projects (MoLMUC)):											
440	Master Plan-Sihanoukville (MoLMUC)	Finland	2002-2004	3,000	1,500	1,000	500	3,000	0	3,000	0
			Sub-Total On-going:	**41,554**	**11,525**	**3,599**	**2,145**	**17,269**	**74**	**15,383**	**1,812**

ANNEX-1: ODA/PUBLIC INVESTMENTS RESOURCE MOBILIZATION PROGRAM: 2002-2004

(all amounts in '000 of US$)

PIP No.	Project Name/Title	Funding Status	Implementation Period	Total Project Costs	Planned Investments				Committed Resources		ODA Resource Mobilization Target
					2002	2003	2004	Total 2002-2004	GOVT.	External Partners	
PIPELINE-HIGH PRIORITY PROJECTS:											
Development Administration											
557	Capacity Building-Audit Inspectorate (MEF)	Donors Sought; Feasibility Study Required	2002-2004	2,400	450	800	1,150	2,400	0	0	2,400
538	Socio-economic Surveys (MoP)	Donors Sought; Feasibility Study Required	2002-2004	576	192	192	192	576	0	0	576
534	Census of Agriculture (MoP)	Donors Sought; Feasibility Study Required	2002-2005	4,975	1,081	1,643	575	3,299	0	0	3,299
503	Capacity-Dev Planning -Phase 3 (MoP)	Donors Sought; Feasibility Study Required	2002-2003	800	261	539	0	800	0	0	800
539	Improvement in Statistical DataBases (MoP)	Donors Sought; Feasibility Study Required	2002-2004	1,200	408	399	393	1,200	0	0	1,200
97	Reform of Judicial Administration (MoJ)	Donors Sought; Feasibility Study Required	2002-2004	4,786	1,746	1,550	1,490	4,786	0	0	4,786
75	Strengthening Sec. Assembly Relationship (MPAI)	Donors Sought; Feasibility Study Required	2002-2004	3,059	834	594	127	1,555	0	0	1,555
732	Training to Commune/Sangkat Councils (MoI)	Donors Sought; Feasibility Study Required	2002-2004	2,100	700	700	700	2,100	0	0	2,100
535	Statistical Data Bank (MoP)	Donors Sought; Feasibility Study Required	2002-2004	890	510	190	190	890	0	0	890
729	Training on Decentralization System (MoI)	Donors Sought; Feasibility Study Required	2002-2004	1,200	400	400	400	1,200	0	0	1,200
733	National Election (MoI)	Donors Sought	2003	15,000	0	15,000	0	15,000	0	0	15,000
Land Management & Urbanization											
507	Review Commune/Sangkat Boundaries (MoI)	Donors Sought; Feasibility Study Required	2002-2004	5,840	840	1,000	1,000	2,840	0	0	2,840
566	Formulation of Regulation for Construction (MoIMUC)	Donors Sought; Feasibility Study Required	2002-2006	838	300	269	269	838	0	0	838
			Sub-Total High Priority:	**43,664**	**7,722**	**23,276**	**6,486**	**37,484**	**0**	**0**	**37,484**
			Total (on going and high priority):	**85,218**	**19,247**	**26,875**	**8,631**	**54,753**	**74**	**15,383**	**39,296**
SPECIAL PROGRAMS: - CAPITAL INVESTMENT PROJECTS											
ON-GOING PROJECTS:											
...	Social Fund	World Bank and OPEC	1999-2004	100,000	20,000	20,000	20,000	60,000	0	20,000	40,000
			Sub-Total On-going:	**100,000**	**0**	**20,000**	**20,000**	**60,000**	**0**	**20,000**	**40,000**
PIPELINE-HIGH PRIORITY PROJECTS:											
506	Administration Reform (MOI)	Donors Sought	2002-2005	22,500	3,700	4,100	4,300	12,100	0	0	12,100
336	Veterans Development Program (MoWA)	Donors Sought	2002-2004	26,140	2,000	3,800	3,800	9,600	0	0	9,600
740	Inspection Training (MPAI)	Donors Sought	2001-2003	1,332	444	444	444	1,332	0	0	1,332
			Sub-Total (high priority):	**49,972**	**6,144**	**8,344**	**8,544**	**23,032**	**0**		**23,032**
			Total (on going and high priority):	**149,972**	**26,144**	**28,344**	**28,544**	**83,032**	**0**	**20,000**	**63,032**
SPECIAL PROGRAMS: - TECHNICAL ASSISTANCE PROJECTS											
PIPELINE-HIGH PRIORITY PROJECTS:											
18	Public Administration Reform (SPS)	Donors Sought	2002-2004	10,270	1,000	1,500	1,500	4,000	0	0	4,000
			Sub-Total (high priority):	**10,270**	**1,000**	**1,500**	**1,500**	**4,000**	**0**	**0**	**4,000**

ANNEX-1: ODA/PUBLIC INVESTMENTS RESOURCE MOBILIZATION PROGRAM: 2002-2004

(all amounts in '000 of US$)

PIP No.	Project Name/Title	Funding Status	Implementation Period	Total Project Costs	Planned Investments				Committed Resources		ODA Resource Mobilization Target
					2002	2003	2004	Total 2002-2004	GOVT.	External Partners	
		SUMMARY OF FINANCIAL REQUIREMENTS (in thousands of US Dollars)									
		Technical assistance			*153,176*	*155,658*	*98,120*	*406,954*	*35,891*	*224,574*	*146,489*
		Capital Investment			*351,579*	*336,665*	*293,201*	*981,445*	*112,278*	*321,214*	*547,953*
		TOTAL: ON-GOING AND NEW PROGRAMS/PROJECTS			***504,755***	***492,323***	***391.321***	***1,388,399***	***148,169***	***545,788***	***694,442***
		LESS: *Estimated Counterpart/Capital Expenditure through RGC Budget (Amount includes Govt. Cash Input + Resource Allocation and Estimated Project Revenue)*						***148,169***			
		ADD: *Budget Support/Project Aid Requirements (Minimum Level):*						***150,000***		***0***	***150,000***
		(*average per year)*						*5,000*			
		NET EXTERNAL ASSISTANCE EQUIREMENTS (for 2002-2004)						***1,390,230***		***545,788***	***844,442***
		(average per year)						*463,410*		*181,929*	*281,481*
		ADD: *IMF – Balance o Payments Support/Stand-by Facility:*						***67,000***		***67,000***	*0*
		(average per year)						*22,333*		*22,333*	*0*
		TOTAL EXTERNAL ASSISTANCE REQUIREMENTS (for 2002 – 2004):						***1,457,230***		***612,788***	***844,442***
		(average per year)						***485,743***		***204,263***	***281,481***

ANNEX II

LIST OF ACRONYMS and ABBREVIATIONS

ACLEDA	..	Association of Local Economic Development Agencies
ADB	..	Asian Development Bank
ADD	..	Accelerated District Development
AFD	..	Agence Francaise pour Developpement, France
ASEAN	..	Association of South-East Asian Nations
AFTA	..	ASEAN Free Trade Area
AICO	..	ASEAN Industrial Cooperation Scheme
AIA	..	ASEAN Investment Area
AusAID	..	Australian Agency for International Development
BOT/BOO	..	Build, Operate and Transfer/Build, Own and Operate
BMC	..	Budget Management Centers
BSEC	..	Budget Strategy and Enforcement Center, MEF
CADF	..	Civil Aviation Development Framework
CAR	..	Council for Administrative Reform, Council of Ministers
CARD	..	Council for Agricultural and Rural Development
CARDI	..	Cambodian Agricultural Research and Development Institute
CDAF	..	Council for the Demobilization of Armed Forces, Council of Ministers
CDRI	..	Cambodian Development Research Institute
CIAP	..	Cambodia-IRRI-Australia-Project
CSOs	..	Civil Society Organizations
CDC	..	Council for the Development of Cambodia
CDC/CRDB	..	Cambodian Rehabilitation and Development Board/CDC
CDF	..	Comprehensive Development Framework, World Bank
CIB	..	Cambodia Investment Board/CDC
CG	..	Consultative Group
CIDA	..	Canadian International Development Agency
CNPA	..	Cambodian National Petroleum Authority
CMAC	..	Cambodia Mine Action Centre
CoM	..	Council of Ministers
CPA	..	Complimentary Package of Activities, Ministry of Health
CTA	..	Cambodian Telecommunications Authority, MPWT
CRDC	..	Commune Rural Development Committees, MRD
CVAP	..	Cambodia Veterans Assistance Program
DCR	..	Development Cooperation Report for Cambodia
DFID	..	Department for International Development, United Kingdom
DHO	..	District Health Office, Ministry of Health
DPWS	..	Department of Provincial Water Supply, MWRM
DTEE	..	Department of Techniques, Economics and Extension, MAFF
EAC	..	Electricity Authority of Cambodia
EIA	..	Environmental Impact Analyses
EDC	..	Electricite du Cambodge
EENT	..	Eye-Ear-Nose-Throat
EU/ EC	..	European Union/ European Commission
FAO	..	Food and Agriculture Organization, United Nations
FDI	..	Foreign Direct Investment
GDP	..	Gross Domestic Product
GMS	..	Greater Mekong Sub-Region
GS-CDAF	..	General Secretariat, Council for the Demobilization of Armed Forces
GSP	..	Generalized System of Preferences
Ha.	..	Hectare
HC	..	Health Centers, Ministry of Health
HCP	..	Health Coverage Plan, Ministry of Health
HRMIS	..	Human Resources Information Management System
ICORC	..	International Committee for Reconstruction of Cambodia
IFAD	..	International Fund for Agricultural Development
IIPP	..	Integrated Investment Priorities Program
ILO	..	International Labour Organization, United Nations
IMF	..	International Monetary Fund
IOs	..	International Organizations
IOM	..	International Organization on Migration
IPP	..	Independent Power Producer
IRRI	..	International Rice Research Institute
ITU	..	International Telecommunications Union, United Nations
JICA	..	Japan International Cooperation Agency
MAFF	..	Ministry of Agriculture, Fisheries and Forestry

MEF	..	Ministry of Economy and Finance
MFN	..	Most Favored Nation
MFIs	..	Micro-finance institutions
MIME	..	Ministry of Industry, Mines and Energy
MLMUPC	..	Ministry of Land Management, Urban Planning and Construction
MoE	..	Ministry of Environment
MoEYS	..	Ministry of Education, Youth and Sports
MoH	..	Ministry of Health
MoH-COCOM	..	Coordinating Committee, Ministry of Health
MoINF	..	Ministry of Information
MoP	..	Ministry of Planning
MoWVA	..	Ministry of Women's and Veterans' Affairs
MPA	..	Minimum Package of Activities, Ministry of Health
MPWT	..	Ministry of Public Works and Transport
MPP	..	Municipality of Phnom Penh
MPTC	..	Ministry of Posts and Telecommunications
MRD	..	Ministry of Rural Development
MT	..	Metric Tonne
MW	..	Megawatt
MWRM	..	Ministry of Water Resources and Meteorology
NAA	..	National Audit Authority
NBC	..	National Bank of Cambodia
NEAP	..	National Environmental Action Plan
NEC	..	National Election Commission
NGOs	..	Non-Government Organizations
NPRD	..	National Program to Rehabilitate and Develop Cambodia
NPAR	..	National Program for Administrative Reform
ODA	..	Official Development Assistance
OD	..	Operational Districts, Ministry of Health
OECD	..	Organization of Economic Cooperation and Development
OECD/ DAC	..	Development Assistance Committee, OECD
PAP	..	Priority Action Programs
PEP	..	Public Expenditure Program
PIP	..	Public Investment Program
PIMS	..	National Public Investment Management System
PPWSA	..	Phnom Penh Water Supply Authority
PSI	..	Pre-Shipment Inspection mechanism
PRDC	..	Provincial Rural Development Committees, Ministry of Rural Development
RDB	..	Rural Development Bank
RCAF	..	Royal Cambodian Armed Forces
RGC	..	Royal Government of Cambodia
RH	..	Referral Hospitals Ministry of Health
RN	..	Route National
SEDP	..	Socio-Economic Development Plan, 1996-2000
SEILA	..	(Khmer word for "foundation"; Government Rural Development Program
SMEs	..	Small-to-Medium sized Enterprises
SOEs	..	State-Owned Enterprises
SWAP	..	Sector-Wide Approach to Programming
TA	..	Technical Assistance
TdC	..	Telecommunications du Cambodge, Ministry of Posts and Telecommunications
TOFE	..	Tableau des Opérations Financières de l'Etat
TVET	..	Technical Vocational Education and Training
TSN	..	Transitional Safety Net
UN	..	United Nations
UNDP	..	United Nations Development Program
UNDAF	..	UN Development Assistance Framework
UNESCO	..	United Nations Educational & Scientific Cultural Organization
UNFPA	..	United Nations Fund for Population Activities
UNICEF	..	United Nations Children's Education Fund
UNAIDS	..	United Nations Fund for Aids Prevention
US$	..	United States Dollar
UXO	..	Un-exploded ordnance
VAT	..	Value-Added Tax
VDC	..	Village Development Committee, Ministry of Rural Development
VHF	..	Very High Frequency
WB	..	World Bank
WTO	..	World Trade Organization
Y2K	..	Year 2000