

**THE EC-CAMBODIA NATIONAL INDICATIVE PROGRAMME  
2005-2006**

<b>Country/Region</b>	<b>:</b>	<b>Cambodia</b>
<b>Budget Years</b>	<b>:</b>	<b>2005–2006</b>
<b>Budget Line</b>	<b>:</b>	<b>19 10 01, 19 10 02,</b>
<b>Legal Base</b>	<b>:</b>	<b>ALA Regulation (Council Regulation 443/92 of 25/02/92)</b>
<b>Cost of Order</b>	<b>:</b>	<b>€29.3 M</b>
<b>Programming Service</b>	<b>:</b>	<b>DG RELEX H/5</b>
<b>Head of Unit</b>	<b>:</b>	<b>Pierre Amilhat</b>
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## 6.1 SUMMARY OF THE NIP PRIORITIES 2005-2006

The EC-Cambodia co-operation strategy will build upon the experience of successful co-operation since the signing of the peace accords in Paris in October 1991, and adapt activities according to changes in the economic and social development of the country. In line with the analysis and the EC response strategy detailed in the CSP 2004-2006, the NIP 2005-2006 will focus on the following priorities within the focal areas for co-operation: **pro-poor economic development and the social sector.**

- **Priority 1: Pro-poor Economic Development.** As part of a socio-economic rehabilitation strategy, crop diversification, small and medium scale irrigation and sub-tertiary roads have traditionally been the main focus areas of the EC strategy to address rural development. Taking into account developments, internally and externally, and building on current or planned EC activities in the rural development sector, the EC focus is now shifting towards achieving sustainable development through: (a) the widening of the product base; and (b) the development of mechanisms to link producers with markets. The EC has identified the need to link trade policy with development policy in order to achieve objectives related to poverty reduction, in effect linking priorities one and three of the last NIP. To this end, TRTA will complement activities in the rural development sector through activities aimed at improving the legal and regulatory framework and the administrative capacities. This would enable Cambodia to comply with WTO requirements and to develop the private sector, specifically in the agro-processing industry.
- **Priority 2: Social Sector Support.** The EC will continue to enhance its support for a SWAP in education through increased allocations to Priority Action Programmes (PAP) which are having a direct impact on the quality and efficiency of basic education.
- **Cross-cutting issue: Governance.** In view of the Commission's objective of moving towards SWAPs, where appropriate conditions exist, support will be given to activities aimed at improving the country's public expenditure and financial management systems. These aims are key criteria for the provision of budgetary support within SWAPs. In addition, governance issues will be taken into consideration in the preparation of all EC programmes.

**Priority 1** will be addressed by allocating resources to support the development of SMEs in the agro-industry and following a value-chain approach. Support to trade sector reforms aimed at achieving Cambodia's full integration into international and regional economic structures is also foreseen. The EC will work in full co-operation with government structures, other donors, the private industry and NGOs active in these fields. **Priority 2** will be addressed through continued support to MoEYS' implementation of the ESSP. **Governance** will be specifically addressed through a particular action targeting public

expenditure and financial management in the Ministry of Economy and Finance (MoEF). This action will be closely coordinated with several donors.

## 6.2 INDICATIVE BUDGET & PLANNING OF ACTIVITIES

During the period covered by the NIP 2005-2006 a total of € 29,3 million can be committed. The breakdown of this grant is as follows:

### Priority 1: Pro-poor Economic Development; €15-17 million

Action 1: The development of SMEs in Agro-Industry Sector; €8-10 million

Action 2: Support to the Trade Sector; €7-8 million

### Priority 2: Social Sector Support; €9-11 million

Action 1: Support to the SWAP in Education

### Cross-cutting theme: Governance; €2,5-3,5 million

Action 1: Support to public financial management reform

Area of co-operation	2005	2006	TOTAL 2005-2006
	€ million	€ million	€million
<b>1: Pro-poor Economic Development</b>			<b>15-18</b>
The development of SMEs in Agro-Industry Sector;		<b>8-10</b>	
Support to the Trade Sector	<b>7-8</b>		
<b>2: Support to the Social Sector</b>			<b>9-11</b>
Support to the Basic Education Sector		<b>9-11</b>	
<b>Cross Cutting Issue: Governance</b>			<b>2,5-3,5</b>
Support to public financial management reform	<b>2,5-3,5</b>		
<b>Total</b>			<b>29,3</b>

## **6.3 PRIORITIES AND ACTIONS**

### **6.3.1 Priority 1: Pro-poor Economic Development**

#### **The strategic context/justification**

In line with the CSP 2004-2006, the NIP 2005-2006 proposes “Pro-poor Economic Development” as the priority strategy with which to reduce poverty in rural areas. Key actions under this strategy include both SME development in rural areas and TRTA.

One of the main objectives for Community support in Cambodia continues to be the improvement of conditions for self-sustainable development in rural communities. Taking into account changes internally and externally, it has now been acknowledged that this objective should also include the achievement of sustainable development through: (a) support to producers to achieve the widening of the product base, (b) the development of mechanisms to link producers with markets, and c) promotion of producer associations, small-scale local agro-industry, and development of SMEs to add value to products through primary and secondary processing wherever possible in rural areas.

The gradual integration of developing countries into the world economy is a major objective of EC development co-operation. The EC has identified the need to link trade policy with development policy in order to achieve objectives related to poverty reduction. Thus, in line with the EC’s position on the DDA, TRTA to developing countries is a high political and operational priority. Clearly, an open trade regime and a business-friendly environment defined by its transparent laws, competitive tax and commercial policy are important pre-requisites for sustainable economic growth. The degree to which a country is integrated into the global trading system provides an indication of how open its economy is. With the recent accession of Cambodia to the WTO<sup>1</sup>, additional TRTA will be needed by Cambodia for it to honour the commitments it made during the accession negotiations. The EC will therefore increase its assistance to the RGC in support of its endeavour to promote and integrate the local economy into regional and international markets. As in the previous TRTA programme, EC activities will be drawn from the recommendations of the Diagnostic Trade Integration and Competitiveness study (DTIS). It is foreseen that the EC programme will include activities in human resource development in the Ministry of Commerce (MoC) as well as specific activities related to the legislative framework needed under WTO rules. The RGC is currently revising the DTIS and a new technical assistance matrix will be presented to development partners. The EC will also support the development of a stronger sector wide coordination on TRTA, including the possibility of pooled funding.

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<sup>1</sup> Cambodia’s accession to the WTO was approved by WTO ministers on 11 September 2003, the agreed terms were ratified by Cambodia’s National Assembly in August 2004

### **6.3.1.1 Action 1. The development of SMEs in Agro-Industry Sector**

#### **(1) Objectives**

This action aims, as a pre-requisite for poverty reduction, to build up Cambodia's capacity to improve and foster basic conditions for sustainable and stable economic growth. The specific objective is to create new job opportunities by assisting the development of SMEs within the agro-industry.

#### **(2) Expected results**

- Creation of job opportunities and subsequent reduction of poverty
- Increased numbers of SMEs operating in rural areas
- Improvement of the business operating environment
- Increased competitiveness of SMEs both in domestic and export production
- Increased number of products available
- Enhanced primary and secondary processing capacity in rural areas
- Increased networking between producers and traders
- Enhanced Business Development Services
- Deepening of the supply chain to add value to products in country and in rural areas.
- Increased co-ordination between the public and private sectors
- Improved access to market information for SMEs in rural areas

#### **(3) Activities**

- Identification of products with potential for value-addition through labour intensive agro-industry operations
- Support to improve production and diversification of rural products with potential for local value addition
- Interventions to deepen the supply chain, by providing training for village populations and developing networking of producers/traders
- Interventions to support the delivery of essential services required to operate SMEs in rural areas
- Support the improvement of Business Development Services
- Identify and implement solutions to increase market access and to marketing information for rural SMEs
- Support labelling and marketing activities for products to be exported
- Support in the area of standards and quality

#### **(4) Implementation**

The implementation of this action, which will be defined during the formulation stage, foresees close co-operation with other donors, particularly the EU Member States, the WB and the ADB (both at central and provincial levels).

## **(5) Cross-cutting issues**

Gender and environmental dimensions will be taken into consideration when designing the intervention. Participation of women in training should be actively pursued. Appropriate technologies will be introduced in order to decrease energy consumption and protect the environment. As highlighted by recent studies, governance issues are a key consideration for SME development in Cambodia, and activities should be included to address concerns identified by the private sector. Coordination between Ministries involved in trade and rural development (including Ministry of Land Management) to obtain a firm cross-the-board commitment will be necessary.

## **(6) Risks and conditions**

### **• Strengths:**

- Availability of skilled labour in agricultural sector
- Strong natural resources base relative to the size of population
- High commitment from the authorities to encourage the development of agro-industry
- Good potential for substitution of many imported products in the domestic market
- Good potential for increased exports of agricultural goods, particularly niche products such as organic and GMO-free vegetables.
- Cambodia's growing tourism industry will need additional agricultural inputs
- The majority of private sector enterprises are in the food sector

### **• Weaknesses**

- Legal and regulatory framework remains weak
- Total factor productivity is low compared to neighbouring countries
- Processing and transaction costs are high
- Low educational attainment
- Lack of functioning market places
- Lack of infrastructure and high costs for electricity
- Shortage of credit in rural areas

### **• Opportunities**

- The Government is currently working on the formulation of a "private sector growth strategy"
- Scope for donor-government-private sector partnerships
- Strong commitment from the Government to introduce new tax and investment regimes
- Commitments made in WTO accession process require swift implementation
- Linkages can be made with production activities under implementation upstream in the agricultural sector

- Good possibilities for joint donor actions with the creation of the “private sector and trade reform working group”
- Agreement among donors on the importance of the sector could enable pooling of funds

- **Threats**

- Return to political instability
- Slow pace of reform in the legal and judicial sector
- Problem with access to land not tackled in an appropriate manner
- Delays in the implementation of trade facilitation and anti-corruption measures
- Increased competition from neighbouring countries
- Delays in the finalisation of the private sector growth strategy

**(7) Main indicators**

The indicators will be identified during the formulation of the action. However, the following indicators should be taken into account:

- Number of new jobs created in agro-production
- Number of new traders in agro-products
- Changes in per capita income for farmers on concerned sectors
- Increase in export value in the concerned sectors
- Decrease in transaction costs for exports

**(8) Estimated EC contribution**

8-10 Million Euro

**(9) Coordination with Member States and other donors**

Both the WB and the ADB are involved in the development of the sector. Synergies will be searched with similar actions proposed by other donors, particularly the EU Member States and the WB–ADB. The consultation in the Government-Donors Technical Working Group on Private Sector and Trade Reform will play a crucial role.

**(10) Indicative timeframe**

The implementation period will be considered at the stage of project identification.

**6.3.1.2 Action 2: Support to the trade sector**

**(1) Objectives**

This action aims to build up Cambodia’s capacity to improve and foster basic conditions for sustainable and stable economic growth as a pre-requisite for reducing poverty. More

specifically, the action would assist Cambodia with its implementation of trade reforms in order to facilitate export growth and to ensure its compliance with commitments undertaken during its WTO accession negotiations.

## **(2) Expected results**

- Improvements in the legal and regulatory framework and the administrative capacities to ensure compliance with WTO requirements
- Improvements in the legislation and the implementation/enforcement of regulations in the areas of sanitary and phyto-sanitary measures (SPS), technical barriers to trade (TBT), trade-related intellectual property rights (TRIPS), trade facilitation and custom valuation
- General improvement of the regulatory framework and public services enabling the development of the private sector, specifically in agro-processing
- Simplified import and export procedures
- Strengthened rule of law
- Improved policy dialogue between the RGC and the donors
- Improved export capacity and conditions for Cambodian SMEs

## **(3) Activities**

Possible activities should be identified among those indicated in the TA matrix prepared under the IF and could include:

- Specific TA on international trade related matters, including the drafting of trade related regulations and legislation and the facilitation of exports and imports. Possible areas where trade-related assistance (TRA) is needed include SPS, TBT, TRIPS, trade facilitation and customs valuation. Actions could include support for skills upgrading through training, seminars, and workshops; and transfer of know-how by European experts. Activities could also be considered to facilitate Cambodia's effective participation in the WTO negotiations under the Doha Development Agenda
- TA expertise for the improvement of the administrative environment to facilitate and enhance exports by SMEs
- Institutional strengthening to ensure the implementation of WTO-related regulations and legislation
- Specific TA for the implementation and the enforcement of the newly adopted legislation/regulations, including TA to the Ministries involved in supporting the development of SMEs in agro-processing and other relevant Ministries and agencies

## **(4) Implementation**

EC activities will need to be co-ordinated with relevant activities of other donors in order to ensure complementarity.

If the necessary conditions are met, preference will be given to delivering assistance using policy dialogue and a SWAP approach. The RGC is currently undertaking a revision of the

DTIS, prepared under the IF. The revision will update the current framework for TRTA and assess the possibility for developing a SWAP approach for delivering TRTA.

**(5) Cross-cutting issues**

The activities proposed should match the priorities identified in the “Pro-poor Trade Strategy”, the NPRS and the SEDP II. Gender and environmental dimensions should be taken into consideration when designing the intervention. Benefits in terms of governance improvement will mainly be derived from actions related to implementation and enforcement.

**(6) Risks and conditions**

The RGC has demonstrated strong commitment towards the Pro-poor Trade Strategy prepared by the Ministry of Commerce (MoC). The MoC is perceived to be reform-oriented and efficient among donors. The DTIS, prepared under the IF provides a good overview of key obstacles and constraints in the trade sector.

Trade sector strategy reform should be addressed through a comprehensive and integrated approach. This will require strong and continued commitment by the RGC and co-operation between major donors and agencies. The government’s success in moving towards SWAP will be crucial to reduce transaction costs, improve sector policy dialogue and increase overall coordination and synergy among donors.

**(7) Main indicators**

- Number and extent of domestic regulations/legislation adopted and applied to implement WTO requirements
- Number of government officials and organisations participating in various activities (e.g., training, seminars, workshops, etc.) and duration of activities
- Number of administrative reforms simplified to facilitate exports
- Number of SMEs with increased capabilities for exports
- Level of increased awareness, understanding and dialogue by participants in various activities (e.g., based on feedback forms)

**(8) Estimated EC contribution**

€7-8 million

**(9) Coordination with Member States and other donors**

The implementation of this action, preferably following the SWAP, will ensure the maximum level of coordination with the other stakeholders involved. Consultation in the Government-Donor Technical Working Group on Private Sector and Trade Reform will play a crucial role.

## **(10) Indicative timeframe**

The implementation period will be considered at the stage of project identification.

### **6.3.2 Priority 2: Social sector support**

#### **The strategic context/justification**

Over the last years, the RGC has shown a genuine commitment to pro-poor reforms in the social sectors. The Ministry of Education, Youth and Sports (MoEYS) has been tasked to accelerate poverty reduction and was selected by the RGC as a pilot ministry for implementing the budget reforms and developing new partnerships with donors.

In terms of SWAPs, the Government has made steady progress in increasing funding for the social sector and in improving the efficiency and effectiveness of priority sector spending, especially in education. In close consultation with donors and the civil society, MoEYS has developed its own sector policy encompassing key reforms to ensure equitable access, quality improvement, adequate management and financing of education services at all levels, with particular attention to pro-poor and gender responsive policies. Despite such progress, however, the educational status of the population remains among the lowest in the region and presents a major obstacle to the country's economic and social development. As a consequence, continued external support will be required.

As a response to MoEYS' sector-wide and policy-driven reforms and to financial reforms in the Ministry of Economy and Finance (MoEF) — and as identified in the NIP 2002-2004 — the EC designed a new programme in 2002 to support MoEYS's priority policies and action programmes in Cambodia's Education Strategic Plan/Education Sector Support Programme (ESP/ESSP). These programmes seek to promote equitable access to, and completion of, quality basic education (Priority Action Programmes [PAP] 2 and 3) and non-formal education (PAP 8), with special attention to the girls and those most vulnerable. The EC programme (2003-2008) consists of budget support combined with institutional support and TA to strengthen policy planning and management in education. It also supports the development of financial and accounting management and audit systems in education.

MoEYS recently started a comprehensive revision of the ESP to consolidate current achievements and to extend and deepen the range of policy and strategic reforms. This action has been guided by the new longer term national Education For All (EFA) Plan 2002-2015 and the recommendations of the recent WB-ADB *Integrated Fiduciary Assessment and Public Expenditure Review* (IFAPER).

In revising the ESP, MoEYS envisages the rationalization of PAPs to optimise strategic focus and planning/management efficiency. The first EC Independent Technical Monitoring Mission recommended that the EC consider broadening its support to other PAPs which have a direct impact on the quality and efficiency of basic education. In particular, support should be lent to strategies which address continuous teacher

development and education service efficiency, scholarships and incentives for equitable access and the sustainable provision of core instruction materials.

In sum, this suggests that, in line with the incentives established within the EC budget support mechanism, the RGC can be in a position to “fast-track” the use of the EC support. **The chief EC intervention strategy is therefore to continue and enhance its support to MoEYS’ implementation of the ESP/ESSP strategies and to produce desired policy outcomes** in line with the objectives of the long-term national EFA Plan.

### **6.3.2.1 Action 1. Support to the SWAP in Education**

#### **(1) Objectives**

Building on the NIP 2002-2004 and in line with the EC-Cambodia CSP 2004-2006, the overall objective of the programme is to contribute to sustained poverty reduction by supporting the RGC’s implementation of ESP/ESSP policies and strategies and PAPs, which seek to promote equitable access to, and the completion of, quality (basic) education, with particular attention to the girls and those most vulnerable.

Specific objectives of the programme include:

- Further assistance to MoEYS in designing, implementing and monitoring rolling strategies that will strengthen the quality and efficiency of education services delivery, in particular in relation to primary and lower secondary education and to non-formal complementary training and education, within the broader context of the national EFA plan
- Further contribute to the ongoing SWAP process in the education sector
- Further build up the capacities of MoEYS in policy planning, budgeting and management in education
- Providing a strong platform on which the EC can continue meaningful policy dialogue with both MoEYS and MoEF, including through existing working groups and coordination mechanisms, and joint annual ESP/ESSP reviews
- Further facilitating inter-ministerial dialogue, between MoEYS and MoEF

#### **(2) Expected results**

- Increasingly effective allocation and use of public finance resources to the education sector
- Effective delivery of agreed educational outcomes, in particular improved access to, and completion of, quality and efficient basic education and improved quality, coverage and impact of non-formal complementary education provision
- Strengthening of MoEYS’ financial management systems, ensuring greater financial planning efficiency, improved cash management, effective and timely disbursement of funding to priority programmes, and transparency and accountability in the flow of funds
- Increased capacity of MoEYS’ staff in planning and implementing reforms.

- Increased inter-ministerial and donor partnerships in support of the ESP/ESSP and EFA

### **(3) Activities**

Relevant activities will have to be further examined at a later stage, in order to take into account the implementation and evolution of educational and financial reforms and of other donor support. Possible activities may include:

- Broadening of EC budget support to follow the rationalisation of the PAP and to cover those strategies that have a direct impact on the quality and efficiency of basic and non-formal education (such as continuous teacher development and education service efficiency, scholarships and incentives for equitable access and sustainable provision of core instructional materials).
- Further capacity building to the MoEYS to strengthen education policy planning and management, and financial and accounting/auditing systems in education.

### **(4) Implementation**

The implementation modalities of the programme will be defined at a later stage, taking into account other donor support modalities. It is however expected that:

- Budget support will be sustained and increased
- Joint funding could be sought for further capacity building for MoEYS, for example with the ADB and UNICEF
- Continuous involvement of NGOs will be favoured through horizontal budget lines to complement EC bilateral assistance to educational reforms and provide operational experiences to feed into policy dialogue on the implementation of the SWAP.

### **(5) Cross-cutting issues**

A guiding principle of MoEYS' education strategies and budgeting policy is to ensure pro-poor and gender responsive reforms. The policy dialogue, undertaken in the periodic consultations between the donors and the MoEYS helps to keep that focus, as will the rationalisation of the PAP. Indicators will to the extent possible be disaggregated by gender.

Governance is a core concept in the ESP revision exercise and more generally in education reforms, which focus on phased improvements in teacher salaries to offset demand for informal payments and to improve teacher performance and school/community accountability mechanisms. Governance is also at the core of MoEYS' efforts to strengthen its financial and accounting/auditing systems, including with EC support.

### **(6) Risks and conditions**

The addition of resources through the budget support will be conditional upon acceptable pro-poor progress in the education sector as verified by the independent EC technical

monitoring missions, and upon the drafting of a revised ESP/ESSP to which education sector donors can agree on.

While the adherence of donors/NGOs to the ESP/ESSP framework is important, the rolling approach in revising strategies, policies and programmes highlights the need for donors to become increasingly flexible in their response to emerging priorities within a sector-wide perspective. Findings and recommendations from recent reviews reveal the need to focus on new areas of policy and strategy development. This may require external assistance to shift from traditional sub-sectors, such as basic education, to support less traditional areas, such as post-basic education and civil service pay reform. The time that donors may require to adjust could constrain MoEYS' strategies and efforts.

Preliminary discussions on the revision of the ESP also highlight the need for increasing overall levels of external funding for education and for reviewing the balance between the provision of performance-related budget support, capital investment and technical assistance.

To achieve agreed educational outcomes, MoEYS will have to strengthen its strategic linkages and partnerships with other Government institutions responsible for the broader reform agenda, in particular MoEF and the institutions responsible for public administrative reform.

#### **(7) Main indicators**

The ESP revision includes the rationalization and simplification of priority sector performance targets, taking into account sector performance reviews and EFA targets. EC indicators will be selected from indicators which have previously been tested, extracted mainly from the ESP/ESSP, EFA, NPRS and MDG. Possible output and outcome indicators would include:

- Pupil-teacher ratio in primary education
- Pupil textbook ratio in primary education
- Average primary teacher salary as a percentage of GDP per capita
- Gross enrolment rate in primary education
- Net enrolment rate in primary education
- Primary completion rate
- Average repetition rate
- ratio of girls to boys in primary, secondary and tertiary education.

#### **(8) Estimated EC contribution**

€9-11 million

## **(9) Coordination with Member States and other donors**

Coordination between donors, including EU Member States, is institutionalised through the monthly Education Sector Working Group meeting (which also includes a representative of the NGO community), of which the EC Delegation is deputy-chair. Coordination with MoEYS is ensured through the monthly MoEYS/Donor/NGO Consultative meeting and, for the ESP/ESSP rolling approach, through the Appraisal and Review Coordination Committee of which the EC Delegation is one of the two representatives nominated by the donor community.

Such mechanisms are firmly established and have ensured increased donor coordination and complementarities within the ESP/ESSP framework, increased ownership and leadership of MoEYS over the reforms, and increased quality in the policy dialogue.

ADB and WB are very present in the education sector. Among the Member States, the education sector is supported by Sweden, which is channelling funds through UNICEF's Expanded Basic Education Programme; France, which mainly supports higher education institutions; Belgium, which supports basic education and teacher training in three provinces; UK, which supports MoEYS' response to HIV/AIDS and co-funds the WB Education Quality Improvement project; and Germany, which supports vocational, small enterprise-type, training and envisages co-funding with the next ADB support. JICA, UNESCO, USAID and WFP are also significantly involved.

## **(10) Indicative timeframe**

EC bilateral support to the education sector is conceived as a rolling programme, to support MoEYS' ESP/ESSP rolling approach. The modality and scheduling of the current EC support has been designed to be flexible and adaptable, so that the support can be targeted at critical emerging issues. The EC programme covered under the NIP 2005-2006 should also bear the same characteristics.

In terms of budget support, resources will be absorbed according to MoEYS/MoEF performances. Necessary revisions to the current Financing Agreement to accommodate increased support to the PAPs will be made according to the absorption rate of the current budget support, but no later than 2006.

Additional needs for capacity building to MoEYS will be assessed and defined on the basis of recommendations from the MTR of the current EC programme, which is expected to take place in 2005. Identification and formulation of such additional support, if required, will be completed by 2006.

### 6.3.3 Cross-cutting theme: Governance

#### The strategic context/justification

Sectoral reforms in education and health, though well advanced, may potentially be constrained by a lack of progress at the macro-level in areas such as public expenditure, financial management and civil service reform. The recent WB-ADB *Integrated Fiduciary Assessment and Public Expenditure Review* (IFAPER) provided the Government with a comprehensive set of priority reform measures to further improve the country's public expenditure and financial management systems.

Drawing on IFAPER recommendations and past reform efforts, the Ministry of Economy and Finance (MoEF) has engaged into a sector-wide approach to Public Finance Management reforms. In the first half of 2004, a multi-donor group (including the WB, ADB, DFID, IMF, UNDP, the EC, France, Australia, JICA and Sida) assisted the MoEF in developing its long term "Vision 2015" for public financial management together with a PFM reform programme based on PEFA's<sup>2</sup> pilot "platform" approach, where each platform constitutes a solid basis for moving on to a subsequent stage of reform. The programme preparation is expected to start in the second half of 2004. **The EC intervention strategy is to support the implementation of this joint programme for public financial management reforms**, in order to reduce the fiduciary risk to public funds and to facilitate the use of budget support, particularly in the social sector.

#### 6.3.3.1 Action 1. Support to public financial management reform

##### (1) Objectives

Improve the governance environment by strengthening the capacity of the Government to allocate and spend public finances more effectively and efficiently for improved service delivery, contributing to poverty reduction.

Specific objectives of the programme include:

- Strengthening the capacity of MoEF to formulate pro-poor macro-economic policies in accordance with IFAPER recommendations, and to lead and implement its public finance management reform agenda.
- Facilitating the adoption of a programme/sector-wide approach to public expenditure management.
- Facilitating the provision of budget support, in particular to the social sector, and the engagement of other donors.
- Providing a strong platform through which the EC can engage in meaningful policy dialogue with MoEF.

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<sup>2</sup> PEFA: Public Expenditure - Financial Accountability

PEFA is a partnership between the WB, the EC, the IMF, DfID, Switzerland, France, Norway to support integrated and harmonized approaches to public expenditure, procurement and financial accountability.

- Facilitating inter-ministerial dialogue between all Government institutions involved in broader reforms.

## **(2) Expected results**

- Increasingly effective allocation and use of public finance resources, primarily in the social sector (education and health).
- Strengthening MoEF financial management systems, ensuring greater financial planning efficiency, improved cash management, effective and timely disbursement of funding to priority sectors, and transparency and accountability in the flow of funds.
- Increased capacity of MoEF staff in planning and implementing reforms.
- Reassurance on robust financial monitoring and accounting provided to other donors, facilitating further budget support.
- Implementation of pro-poor reforms and protection mechanisms (social safety nets, improved access by the poor to basic public services, etc.).

## **(3) Activities**

Activities will be determined at a later stage, when the MoEF public finance management reform programme will be finalised. They may include:

- Capacity building in support of MoEF's development, implementation and monitoring of the PFM successive platforms.
- Support to institutional and organisational changes needed to effectively articulate, manage and coordinate the public financial management reform programme, including relationships between central government agencies, central-line ministries and central-provincial relationships.

## **(4) Implementation**

The implementation modalities of the programme will be finalised at a later stage, though it is expected that EC support will be implemented through a multi-donor Trust Fund managed by the WB, in cooperation with DFID, AusAid and possibly a couple of other donors,.

## **(5) Issues affecting other Cross-cutting themes**

Improving the governance environment and thereby assisting the Government to allocate and spend its own resources more efficiently and effectively for improved service delivery is a central issue to the IFAPER and to the RGC socio-economic development thrust.

## **(6) Risks and conditions**

To facilitate budgetary support, the MoEF will have to strengthen its partnerships with other Ministries, particularly in the social sector, and other government institutions responsible for public administrative reform. While coordination mechanisms have been

established between MoEF and the Ministries of Education and Health, similar partnerships remain to be institutionalised with those in charge of the administrative reform. Donor facilitation will be essential to ensure strategic inter-ministerial policy dialogue.

**(7) Main indicators**

The finalised PFM reform programme will comprise a set of performance indicators, based on and expanding PEFA formulations of indicators, and a management system to monitor the progress of the reform programme in a transparent way. Indicators will be set to measure overall performances of the reform programme as a whole (achievement of the Vision) and to measure achievements within each platform.

**(8) Estimated EC contribution**

€2,5-3,5 million

**(9) Coordination with Member States and other donors**

There is broad consensus to use a sector-wide approach to drive the PFM reform programme. Coordination arrangements are being developed, founded on the Government's ownership and leadership, and aiming to include as many partners as possible, whether they pool funds or not. This mechanism will mainly be based on the public finance management donor/government working group. The Trust Fund will have a specific secretariat, to coordinate pooling donors and liaise with both the MoEF and the non-pooling donors .

**(10) Indicative timeframe**

EC support to MoEF reforms will be determined after finalisation of the Government PFM reform programme and the establishment of a joint funding mechanism for interested donors. The implementation period will be further considered at the stage of project identification.

## NEW EC PRIORITY AREAS

**Justice and Home Affair (JHA) issues**, such as the fight against the trafficking of human beings, drug production and trafficking are dealt with under the ASEAN dialogue processes, under the European Initiative for Democracy and Human Rights, through relevant EC horizontal programmes and on the regional level. The European Community attaches great importance to migration issues, as confirmed by the Conclusions of the GAERC of 18 November 2002 and the Commission's Communication of 3 December 2002 on Migration and Development. It is therefore agreed to launch a policy dialogue on these issues under the ASEAN framework.

**Drugs.** Cambodia remains a major supplier of cannabis to the countries in the region and in other parts of the world. The most worrying development, however, is the sharp increase in the abuse of amphetamine-type stimulants (ATS), particularly methamphetamine, which has been reported in Cambodia as well as most other countries in Southeast Asia. The increase of abuse of methamphetamine among street children is of particular concern in the country and NGO's putting forwards proposals field are eligible for funding under the call for proposals for EIDHR for Cambodia.

Considering the cross-border nature of trafficking in human beings and drugs activities at the regional level funded from regional or horizontal instruments might be foreseen.

Cambodia has not been identified as a pilot country for EU actions against **terrorism**. However, the fight against terrorism is a priority both for ASEAN and the EU, increased dialogue on this issue will therefore take place under the EU-ASEAN dialogue.

**Governance and democratisation** is covered as a cross-cutting area in the CSP. In addition to specific actions foreseen in the NIP 2002-2004, governance issues will be mainstreamed into all EC programmes.

**Trade Related Technical Assistance** was identified as an area for support in the NIP 2002-2004 and is reconfirmed in the CSP 2004-2006 as a complementary sector to focal sector. Additional support to the trade sector is foreseen in the NIP 2005-2006.

## ANNEX 1 CAMBODIA AT A GLANCE

INDICATOR	VALUE	YEAR(S)
<b>POVERTY AND SOCIAL</b>		
Population, (mid-year) millions	14.2	2003
GNI per capita (Atlas method, US\$)	280	2002
GNI (Atlas method, US\$)	3.5 billion	2002
Population growth (average annual growth %)	2.2	1996-2002
Labour force (average annual growth %)	2.6	1996-2002
Life expectancy (years)	54	2002
<b>Specific Indicators – Millennium Development Goals</b>		
Share of Poorest Quintile in National Income / Consumption (%)	6.9	1997
Illiteracy total (% age 15 and above)	30.6	2002
Illiteracy female (% of age 15 and above)	40.7	2002
Gross primary enrolment (%)	110.1	2000
Male	117	2000
Female	103	2000
Net primary enrolment (%)	85.4	2000
Pupils reaching grade 5 (% of cohort)	62.8	2000
Infant mortality rate (per 1,000 live births)	97	2001
Under 5 mortality rate (per 1,000 children)	138	2001
Child malnutrition (% of children under 5)	46	2000
Births attended by skilled health staff (% of total)	34	1998
Prevalence of HIV among 15-24 year old women (high/low estimate, %)	1.99/2.98	2001
Proportion of population with sustainable access to an improved	30	2000

water source (%)		
Rural	26	2000
Urban	54	2000
Urban population with access to improved sanitation	56	2000
<b>INDICATOR</b>	<b>VALUE</b>	<b>YEAR(S)</b>
<b>KEY ECONOMIC and TRADE INDICATORS</b>		
GDP (US \$ billion)	3.9	2003
Real GDP growth (%)	5.0	2003
Consumer price inflation (average %)	1.7	2003
Gross Domestic Investment / GDP (1992; 2001)	9.8 / 17.9	1992, 2001
Exports of goods and services / GDP	53.2	2001
Imports of goods and services / GDP	61.3	2001
Trade in goods as a share of GDP (%)	91.7	2001
Gross Domestic Savings / GDP (1992; 2001)	6.9 / 9.8	1992, 2001
Current account balance (US \$ million)	-218.1	2003
Foreign direct investment (US \$ million)	113	2001
Interest payments / GDP	0.2	2002
Total debt / GDP	79.1	2002
Aid per capita (current US \$)	33.3	2001
<b>STRUCTURE OF THE ECONOMY (% of GDP)</b>		
Agriculture	36.9	2001
Industry	21.9	2001
Services	41.2	2001
Private consumption	84.2	2001
General government consumption	6.0	2001

<b>GOVERNMENT FINANCE</b> <b>(% of GDP, includes current grants)</b>		
Current revenue	12.2	2001
Current budget balance	1.5	2001
Overall surplus / deficit	-6.0	2001
Spending on health	0.9	2000
Spending on defence	3.3	2000
Spending on education	1.3	2000

Sources: EIU Country Report November 2003, ADB Key Indicators 2003, UN Human Development Report 2003, World Bank World Development Indicators 2003

## ANNEX 2 CURRENT DEVELOPMENT STATISTICS FOR CAMBODIA, COMPARED TO MEKONG COUNTRIES

### Current Development Statistics for Cambodia, compared to Mekong countries (except Burma)

#### GNI Per Capita

Figures available for 2002

(World Development Indicators Database, World Bank, July 2003)

Country	(US Dollars)
Cambodia	280
Laos	310
Thailand	1980
Vietnam	430

#### Net Official Development Assistance

(World Development Indicators 2003, Asian Development Bank [ADB] Key Indicators 2003)

Country	(US\$ Million)	
	1996 (ADB)	2001 (ADB)
Cambodia	422 (418.5)	409 (399)
Laos	332 (383.6)	243 (245.8)
Thailand	830 (751.3)	281 (243.4)
Vietnam	939 (616.9)	1435 (1485.6)

#### Education

Figures available for 2002

(EdStats World Bank 2003, UNESCO 2002, ADB Key Indicators 2003)

Indicator	Country			
	Cambodia (ADB)	Laos (ADB)	Thailand (ADB)	Vietnam (ADB)
Literacy Rate 15-24 yrs %				
Male	n/a (85)	n/a (86)	n/a (99)	n/a (95)
Female	n/a (76)	n/a (73)	n/a (99)	n/a (96)

Figures available for 2001

Indicator	Country			
	Cambodia (ADB)	Laos (ADB)	Thailand (ADB)	Vietnam (ADB)
Adult illiteracy rate (age 15+) %	31.3 (n/a)	34.3 (n/a)	4.3 (n/a)	7.3 (n/a)

**Figures available for 2000**

Indicator	Country			
	Cambodia (ADB)	Laos (ADB)	Thailand (ADB)	Vietnam (ADB)
Gross enrolment ratio PRIMARY %	110.1 (117M; 103F)	113.1 (121M; 104F)	94.8 (97M; 93F)	105.6 (109M; 102F)
Net enrolment ratio PRIMARY %	95.4 (n/a)	81.4 (n/a)	95.4 (n/a)	95.4 (n/a)
Gross enrolment ratio SECONDARY %	18.7 (24M; 13F)	37.6 (44M; 31F)	81.9 (84M; 80F)	67.1 (70M; 64F)
Net enrolment ratio SECONDARY %	16.7 (n/a)	30.2 (n/a)	n/a (n/a)	62.5 (n/a)
Gross enrolment ratio TERTIARY %	2.8 (4M; 2F)	3.3 (4M; 2F)	35.3 (39M; 32F)	9.7 (11M; 8F)
Net figures unavailable				
Education spending as % total govt expenditure	10.1 (n/a)	8.8 (n/a)	31 (n/a)	~
Total public spending as % of GDP	1.9 (1.3)	2.3 (1.0)	5.4 (4.5)	~
Trained teachers in PRIMARY education as % of total	95.9 (n/a)	76.2 (n/a)	~	84.9 (n/a)
PRIMARY pupil-teacher ratio	53 (n/a)	30 (n/a)	21 (n/a)	28 (n/a)

**Health****Figures available for 2001**

(World Bank 2003, Asian Development Bank [ADB] 2003, UNAIDS 2002)

Indicator	Country			
	Cambodia (ADB)	Laos (ADB)	Thailand (ADB)	Vietnam (ADB)
Life expectancy at birth, total (M/F), years	54 [2002] (52M; 55F)	54.5 [2002] (54M; 56F)	69.2 [2002] (66M; 72F)	69.7 [2002] (67M; 72F)
Mortality rate, infant (per 1,000 live births)	97 (97)	87 (87)	24 (24)	30 (30)
Mortality rate, under-5 (per 1,000 live births)	138 (n/a)	100 (n/a)	28 (n/a)	38 (n/a)
Child Malnutrition (% of under age 5)	45 (46 [2000])	40 (40 [2000])	n/a (19* [2000])	34 (33 [2000])
Health spending as % of total govt expenditure	n/a (16.9)	n/a (8.1)	n/a (23.4 [2002])	~
Total public spending as % of GDP	2 (0.9 [2000])	1.3 (1.0 [2000])	2.1 (1.3 [2000])	1.3 (n/a)
Adult HIV-1 seroprevalence (% of pop aged 15-49)	2.6 [2002] (n/a)	0.05 [2002] (n/a)	1.8 (n/a)	0.3 (n/a)
Contraceptive Prevalence Rate (% of women aged 15-49)	23.8 (n/a)	n/a (29 [2000])	n/a (72 [1996])	75 (74 [2000])

### **Health (continued)**

#### **Figures available for 2000**

(World Development Indicators Database 2003, Asian Development Bank 2003)

<b>Indicator</b>	<b>Country</b>			
	<b>Cambodia (ADB)</b>	<b>Laos (ADB)</b>	<b>Thailand (ADB)</b>	<b>Vietnam (ADB)</b>
Births attended by skilled health personnel (%)	34 (32)	21 (17)	n/a (98 [2001])	70 (70)
Population with access an <i>improved</i> water source (%)	n/a (Urban 54; Rural 26)	n/a (Urban 61; Rural 29)	n/a (Urban 95; Rural 81)	n/a (Urban 95; Rural 72)
Population with access to <i>improved</i> sanitation (%)	Urban 56; Rural 10	Urban 67; Rural 19	Urban 96; Rural 96	Urban 82; Rural 38

\* Differs from standard definition / pertains to only part of the country

### **Poverty**

#### **Figures available for 2001**

(UNDP 2002, 2003)

<b>Indicator</b>	<b>Country</b>			
	<b>Cambodia</b>	<b>Laos</b>	<b>Thailand</b>	<b>Vietnam</b>
Population living below \$1 a day (%)**	36 [2000]	26.3	<2	17.7
Share of poorest 20% in national income or consumption (%)**	6.9	7.6	6.1	8.0
Human Development Index (HDI) [rank]	0.556 [130/175]	0.525 [135/175]	0.768 [74/175]	0.668 [109/175]

#### **Figures available for 1997-8**

(UN Statistics Division 2003, Asian Development Bank [ADB] 2003)

<b>Indicator</b>	<b>Country</b>			
	<b>Cambodia (ADB)</b>	<b>Laos (ADB)</b>	<b>Thailand (ADB)</b>	<b>Vietnam (ADB)</b>
Percentage of population below national poverty line, rural	40 (40.1)	41 (41)	n/a (17.2)	n/a (45)
Percentage of population below national poverty line, urban	21.2 (25.2 [1999])	26.9 ( 26.9)	n/a (1.5)	n/a (9)

\*\* Refers to data available for year most recent to 2001

### ANNEX 3 CSP NIP LOGFRAME

No.	INTERVENTION LOGIC	OBJECTIVELY VERIFIABLE INDICATORS	SOURCES OF VERIFICATION	RISKS AND ASSUMPTIONS
A	<p><b>OVERALL OBJECTIVES</b></p> <p>Poverty alleviation and Economic Development through a targeted EC-Cambodia Cooperation strategy</p>	INDICATORS OF IMPACT		
B	<p><b>PROJECT PURPOSE (SPECIFIC OBJECTIVES)</b></p> <p><b>B1.</b> Pro-poor economic development through trade related technical assistance that will complement ongoing rural development activities, and encourage private sector investment, specifically in agro-processing.</p> <p><b>B2.</b> Pro-poor economic development through trade related technical assistance that will complement ongoing rural development activities, through support to the Trade Sector with the aim to improve legal and administrative framework impacting the sector, ensure compliance with WTO requirements.</p> <p><b>B3.</b> Social development through increased support to the education SWAP for targeting Priority Action Programmes having a direct impact on the quality and efficiency of (basic) education.</p> <p><b>B4.</b> Support to good governance through development of government capacity for SWAP approaches/budget support by supporting improvement of Public</p>	<ul style="list-style-type: none"> <li>• Increased National GDP</li> <li>• Increased rural and urban incomes</li> <li>• Increased FDI</li> <li>• Increased efficiency, effectiveness and transparency in government expenditure (in particular in the social sectors)</li> <li>• Improved educational outcomes</li> </ul>	<ul style="list-style-type: none"> <li>• International and Government statistics.</li> <li>• Independent monitoring missions.</li> <li>• BWI assessments</li> </ul>	<ul style="list-style-type: none"> <li>• Continued Political Stability.</li> <li>• No major Flood or Drought</li> <li>• No change in EC Development Policy</li> </ul>

	Expenditure and Financial Management systems.			
<b>C</b>	<b>RESULTS</b>	<b>INDICATORS OF EFFECT</b>		
<b>C1</b>	<i>(Development of SMEs in the Agro-industry sector)</i>			
<b>C1.1</b>	Creation of employment opportunity	Number of new jobs created in agro-production	International and Government statistics. Independent monitoring missions.	Return to political instability Slow pace of reform in the legal and judicial sector Problem with access to land not tackled in an appropriate manner Delays in the implementation of anti-corruption measures <b>Increased competition from neighbouring countries</b> Delays in the finalisation of the private sector growth strategy
<b>C1.2</b>	Improvement of business operation environment	Number of new traders in agro-products		
<b>C1.3</b>	Increased competitiveness of SMEs in both domestic and export production.	Changes in per capita income for farmers on concerned sectors		
<b>C1.4</b>	Increased networking of producers and traders	Increase in export value in the concerned sectors		
<b>C1.5</b>	Enhanced business development services	Decrease in transaction costs for exports		
<b>C1.6</b>	Deepening of the supply chain to retain more value added			
<b>C1.7</b>	Increased coordination between public and private sector			
<b>C1.8</b>	Improved access to market information for SMEs in rural areas.			
<b>C2</b>	<i>(Support to the Trade Sector)</i>			
<b>C2.1</b>	Improvements in the legal and regulatory framework and the administrative capacities to ensure compliance with WTO requirements.	Number and extent of WTO regulations/legislation adopted and implemented;		
<b>C2.2</b>	Improvements in the legislation and the implementation / enforcement of regulations in the areas of SPS, TBT, TRIPS, Trade Facilitation and Custom Valuation.	Number of government officials and organisations participating in various activities (e.g., training, seminars, workshops, etc.)		
<b>C2.3</b>	General improvement of the regulatory framework and public services enabling the development of the private sector, specifically in agro-processing.	Level of increased awareness, understanding and dialogue by participants in various activities (e.g., based on feedback forms)		
<b>C2.4</b>	Simplified export procedures.			
<b>C2.5</b>	Strengthen rule of law.			
<b>C2.6</b>	Improved policy dialogue between the RGC and the donors.			

	<p><b>C3</b> <i>(Support to the SWAP in Education)</i></p> <p><b>C3.1</b> Increasingly effective allocation and use of public finance resources to the education sector.</p> <p><b>C3.2</b> Effective delivery of agreed educational outcomes, in particular improved access to, and completion of, quality and efficient basic education and improved quality, coverage and impact of non-formal complementary education provision.</p> <p><b>C3.3</b> Strengthening of MoEYS financial management systems, ensuring greater financial planning efficiency, improved cash management, effective and timely disbursement of funding to priority programmes, and transparency and accountability in the flow of funds.</p> <p><b>C3.4</b> Increased capacity of MoEYS staff in planning and implementing reforms.</p> <p><b>C3.5</b> Increased inter-ministerial and donor partnerships in support of the ESP/ESSP and EFA.</p> <p><b>C4</b> <i>(Support to Public Financial Management Reforms)</i></p> <p><b>C4.1</b> Increasingly effective allocation and use of public finance resources, primarily to the social sector (education and health).</p> <p><b>C4.2</b> Strengthening of MoEF financial management systems, ensuring greater financial planning efficiency, improved cash management, effective and timely disbursement of funding to priority sectors, and transparency and accountability in the flow of</p>	<p>The ESP revision includes the rationalization and simplification of priority sector performance targets, taking account of sector performance reviews and EFA targets. EC indicators will be selected among agreed indicators, based on ESP/ESSP, EFA, NPRS and MDG. It is expected that they will include disbursement rate for Priority Action Programmes (PAPs), completion rates in primary and lower secondary education, literacy rates, net enrolment rates, and progression rates.</p> <p>The finalised PFM reform programme will comprise a set of performance indicators and a management system to monitor progress of the reform programme in a transparent way.</p>	<p>International and Government statistics. ESP/ESSP annual reviews. EC Independent monitoring missions. EC independent audit.</p>	
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<p><b>C4.3</b></p> <p><b>C4.4</b></p>	<p>funds.</p> <p>Increased capacity of MoEF staff in planning and implementing reforms.</p> <p>Reassurance on robust financial monitoring and accounting provided to other donors, facilitating further budget support.</p>			
<p><b>D</b></p> <p><b>D1</b></p> <p><b>D1.1</b></p> <p><b>D1.2</b></p> <p><b>D1.3</b></p> <p><b>D1.4</b></p> <p><b>D1.5</b></p> <p><b>D2</b></p> <p><b>D2.1</b></p>	<p><b>ACTIVITIES</b></p> <p><i>(Development of SMEs in the Agro-industry sector)</i></p> <p>Identification of products with potential for increased value added through labour intensive agro-industry</p> <p>Intervene to deepen the supply chain by providing training to village populations and producing trader/producer networks.</p> <p>Support the improvement of business development services.</p> <p>Identify and implement solutions to increase access to the market and to marketing information for rural SMEs.</p> <p>Support labelling and marketing activities for products to be exported.</p> <p><i>(Support to the Trade Sector)</i></p> <p>Possible activities should be identified among those indicated in the TA matrix prepared under the IF and could include:</p> <p>Specific Technical Assistance on international trade related matters, including the drafting of trade related regulations and legislation. Possible areas where TRA is needed include SPS, TBT, TRIPS, Trade Facilitation and Custom Valuation. Actions could include support for skills upgrading through training, seminars, and workshops; and transfer of know-how by European experts.</p>	<p><b>INPUTS</b></p> <p>8-10 million Euros</p> <p>7-8 million Euros</p>		

<b>D2.2</b>	Institutional strengthening to ensure the implementation of WTO-related regulations and legislation.			
<b>D2.3</b>	Specific Technical Assistance for the implementation and the enforcement of the newly adopted legislation/regulations, including TA to the Ministries involved in supporting the development of SMEs in agro-processing.			
<b>D3</b>	<p><i>(Support to the SWAP in Education)</i></p> <p>Activities will have to be examined further at a later stage, to take account of the implementation and evolution of educational and financial reforms and of other donors support. They may include:</p>	9-11 million Euros		
<b>D3.1</b>	Broadening of the EC budget support to follow the rationalisation of the PAP and to cover those strategies that have a direct impact on the quality and efficiency of basic and non-formal education (such as continuous teacher development and education service efficiency, scholarships and incentives for equitable access and sustainable provision of core instructional materials).			
<b>D3.2</b>	Further capacity building to the MoEYS to strengthen education policy planning and management, and financial and accounting/auditing systems in education.			
<b>D4</b>	<p><i>(Support to Public Financial Management Reform)</i></p> <p>Activities will be determined at a later stage, when the PFM reform programme will be finalised. They may include:</p> <p>Capacity building to the MoEF to develop and</p>	2,5-3,5 million Euros		

<b>D4.1</b>	implement the PFM successive platforms and to monitor progress.			
<b>D4.2</b>	Support to institutional and organisational changes needed to effectively articulate, manage and coordinate the public financial management reform programme, including relationships between central government agencies, central-line ministries and central-provincial relationships.			

#### ANNEX 4 SECTORAL MATRIX/DONOR COORDINATION

Sector	EC	Member States	Other donors	Comments
<b>Rural Development</b>				
Agriculture and water	X	F, B, DK, UK, D	AUS, ADB, CAN, FAO, JAP, WB, WFP	
Forestry	X	UK, B, F, D, S	WB, ADB, JAP, USA, UNDP	
Fisheries	X	UK, D,	ADB, USA, JAP, UNDP	
Land		D, DK, UK, F	ADB, WB, AUS, JAP	
Mine Action	X	S	UNDP, AUS, CAN, JAP, UNICEF	
Nutrition		B, UK, D	WFP, JAP, UNICEF	
<b>Social sector</b>				
Gender issues	X	UK	JAP, UNDP, ADB, WB, UNICEF, WFP	
<b>Health</b>	X	UK, F, B, D	WB, ADB, WHO, UNICEF, UNFPA, USA, JAP, CAN, CHINA, UNESCO, UNDP + Global Fund	
<b>Education</b>	X	S, F, B, D, UK	ADB, WB, UNESCO, JAP, USA, AUS, WFP	
<b>Economy sector</b>				
Private Sector Development	X	F, D, DK, UK,	IMF, ADB, WB, AUS, IFC, JAP, UNDP, USA, NZL, SW, TH, UNCTAD	
Trade Sector Development	X	F, D	ADB, WB, AUS, CAN, IMF, IFC, JAP, NZL, N, SNG, UNCTAD, UNDP	
Infrastructure and regional integration			ADB, JAP, WB, WFP	

Sector	EC	Member States	Other donors	Comments
<b>Good governance, democratisation</b>				
Public Finance Management	X	UK, F, S	IMF, ADB, WB, AUS, JAP, UNDP	
Public Administration Reform	X	F, G, UK	UNDP, ADB, CAN, AUS, JAP, WB	
Decentralisation	X	D, UK, S, F	ADB, WB, AUS, UNDP, UNICEF	
Legal & judicial reform	X	F, DK	WB, AUS, JAP, UNDP, UNICEF, CAN	
<b>Support NGOs</b> including human rights	X	S, UK, F, DK, D, NL	AUS, USA, Nor, JAP, CAN	

## ANNEX 5 ECHO DISBURSEMENTS

### Country Overview: CAMBODIA TOTAL ECHO DISBURSEMENTS, per year

Year	Planned (€)	Paid (€)
1994	2,456,000	1,935,883.54
1995	5,960,000	5,675,118.70
1996	2,490,000	2,403,935.51
1997	5,535,000	5,294,642.88
1998	10,000,000	9,594,797.09
1999	6,500,000	6,363,407.08
2000	8,500,000	7,880,071.17
2001	4,900,000	4,443,523.18
2002	5,500,000	3,650,913.01

# ANNEX 6 MAP OF CAMBODIA



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## **ANNEX 7 CSP-NIP – CONSULTATION WITH CIVIL SOCIETY AND OTHER NON STATE ACTORS**

On 23 December 2003, the Delegation hosted two separate meetings with the representatives of the Civil Society and the Business Community in Cambodia.

The Chargé d’Affaires a.i. summarised the main contents of the CSP-NIP working drafts, pointing out which are the objectives of the EC cooperation with the RGC and explaining the main EC mechanisms to deliver assistance.

The representatives of two NGOs federations (MEDICAM and NEP<sup>3</sup>) agreed with the views and the approach presented by the EC, in particular, they shared the general objective of reducing poverty in Cambodia. They suggested the need to change the system that is currently producing strong inequalities between rich and poor. Ways to develop the private sector (specifically in rural areas) should be explored, in view of granting more opportunities to the farmers. Considerable work is necessary to set up farmers associations that will enable the poor to have an access to the market. This is particularly difficult for the legacy of the Khmer Rouge.

It was also suggested that the focus of development should be put on middle level officials, as, in many instances, they are bottlenecking the process. Capacity building at central level is not sufficient and it should be complemented by the involvement of local authorities. It was also stated that the decentralisation is not yet working as it should and much more needs to be done at this level. Officials with good ideas at mid-level should be given the possibility to find financing for implementing activities in favour of the poor.

It was pointed out that cultural values should be preserved, while promoting behavioural change in the health sector. The Delegation has also been warned that the funds committed for this activity in the current NIP might not be sufficient and should be increased. “Another media campaign would not help”.

The NGOs’ representatives asked to give more funds for developing the capacity of local NGOs, both in education and health sector. They also underlined the importance of setting up clear benchmarks. Funds should not be released when these benchmarks will not be met: this will help to avoid dependency from donor countries. Concerning SWAp, it was suggested that the EC should find the way to give NGOs the possibility to be involved in the use of funds directly granted to the RGC. NGOs could be involved in the implementation of actions at local level. Moreover, the budget contribution should constitute a revolving fund to fill cash flow problems.

On 23 December the EC Delegation presented to the representatives of the business associations (Cambodia Chamber of Commerce, Franco-Khmer Chamber of Commerce, British Business Association, German Business Group, International Business Council) the main features of the draft CSP-NIP.

Also the representatives of the business groups reacted in a positive way to the EC proposal, commenting that it is very relevant for promoting the development of Cambodia’s economy.

In particular, it was pointed out that Cambodia has a good opportunity in next years, with a competitive advantage in agriculture. This sector should constitute the spine of the country’s economy and will represent a long term solution. It has been proven that Cambodia can produce good quality products at lower cost than its neighbours.

The removal of barriers to business would give a big service to Cambodia’s economy that can take off only if competitiveness will be improved. The main problem to address is represented by the “enormous leakages”. It was recommended that the EC should engage the private sector while

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<sup>3</sup> NGO Forum and CCC were also invited but they could not attend the meeting.

providing assistance to the RGC to prepare the laws requested to join the WTO. This process should contribute to improve the system of coordination Government-Private Sector.

It was indicated that there is an urgent need to streamline GSP export licences in order to permit the creation of alternative to the garment industry that will face hard competition from 2005. Without a reform of the licensing system, it is not possible to develop SMEs.

The Cambodia Chamber of Commerce requested financial assistance to expand its network in the provinces. It was also suggested to provide assistance to decrease the corruption and to set up the Commercial Court.

## ANNEX 8 CSP-NIP – SUMMARY ENVIRONMENTAL PROFILE

The CSP for Cambodia (2004-2006) does not contain a Country Environmental Profile (CEP). To overcome this situation, it has been deemed necessary to include an 'interim' CEP describing the current environmental situation in the country. The CEP will represent the basis for a fully-fledged CEP in the subsequent CSP.

**An EC mission to prepare a Country Environmental Profile is foreseen to be undertaken in 2005 as a part of the programming exercise for the Country Strategy Paper 2007-2011.**

The following is a condensed compilation of available and relevant environmental information produced recently on Cambodia by authoritative information sources. This summary environmental profile first lists the principal environmental challenges, then looks at governmental policy, and ends with a short section on international assistance.

### **Introduction**

Cambodia's history of war has had a profound negative impact on the country's environment, directly through the dumping of pesticides and the placing of mines, and indirectly through the legacy of lawlessness and underdevelopment. Furthermore, around 80 percent of Cambodia's poor live in rural areas and are dependent upon agricultural production and natural resource extraction for their livelihoods. This immense dependence on the productivity of the agricultural sector, which contributes over 40 percent of total GDP, has generated great stresses within the rural environmental space. Government policy to address these issues is increasingly effective, in part thanks to substantive international support, yet many challenges remain.

### **Principal environmental challenges**

Amongst the most important environmental challenges in Cambodia are deforestation, over-fishing, siltation, overuse of pesticides, waste management, and environmental problems related to the Mekong River.

**Deforestation** is possibly the most serious environmental problem facing Cambodia. Before 1960, 73 percent of Cambodian land consisted of forest areas, compared to 58 percent in 2000. The percentage change in the area of natural forests between 1990 and 2000 in Cambodia is approximately -6 percent, well above the average of around -1 percent for Asia as a whole. Widespread illegal logging and abuse of government concessions continues to result in rapid deforestation of forest. The World Bank estimated that up to 94% of the total volume of logging is illegal. The wide-scale deforestation has led to soil erosion, successive rice crop failures and the siltation of waterways, in turn harming fresh water fishery. The floods that displaced 2.2 million Cambodians in 2000 and led to a shortage of seeds for the next cultivation period have also partly been attributed to deforestation.

A second salient problem is the **overexploitation of Cambodia's aquatic resources**. Unsustainable fishing is taking place in many areas, notably in Tonle Sap, Cambodia's largest lake which supplies 40 percent of the country's fish protein. Fish stocks are diminishing rapidly. Overfishing is a major concern, since inland fisheries contribute approximately 16 percent to GDP and at least 4 million people in Cambodia depend on inland

fishing for their livelihoods as their primary or secondary source of income and employment. With associated activities, this figure may increase to more than 50% of the entire population. In addition, most rural, many peri-urban and even urban households fish occasionally for household consumption and added income.

Adding to the problem of overfishing, deposits of silt in Cambodia's main river channels are negatively affecting fish migration. The increased **siltation** of the Great Lake has also caused rapid heating of the water, resulting in fish mortalities. The main cause of the heavy siltation is most likely the deforestation in the upper reaches of the Tonle Sap watershed and around the Great Lake, as well as the gem mining in western Battambang.

The **indiscriminate use of fertilisers and pesticides** is another cause for concern in Cambodia. Many dangerous pesticides are banned or restricted in the Western world, but have been exported as remaining stockpiles to Cambodia and other developing countries. The products often arrive in Cambodia from Vietnam or Thailand and are labelled in a language and script incomprehensible to even the minority of Cambodian farmers who are literate. Farmers use these highly toxic pesticides on a large scale, while lacking the appropriate knowledge on the harmful effect of these products for health and the environment. A 1994 Government report revealed that 82 percent of Cambodian farmers believed that pesticides had no effect on human health. Exposure of children to harmful chemicals is also widespread. The potential dangers are considerable: acute poisoning, chronic health effects (e.g. reproductive affectations, cancers), pesticide resistance, pest resurgence, and contamination of water systems and food chains. Even though many dangerous pesticides are officially banned under Cambodian law, there is a lack of control of what is sold and the prohibited goods remain widely available.

A fifth environmental challenge is that Cambodia's major cities have been experiencing a rapid increase in **waste** since 1991. The disposing of wastewater including sewage is also a growing problem. The existing infrastructure to deal with these problems is largely deficient: drainage systems easily become dysfunctional and open garbage dumps, notably in Phnom Penh, damage air quality, soils and surface and groundwater and involve a high risk for the spread of disease.

Finally, several pressing environment issues can be found along the **Mekong River**. Floods, drought and damage from brine in the delta, and large flow fluctuations between wet and dry seasons cause large difference in water level and a deterioration of water quality during parts of the year. In addition, interventions in upstream countries that alter the hydrological cycle of the River Mekong and the annual flooding pattern are the main potential threat to Cambodia's aquatic resources and habitats. Main stream dams in China and over 6,000 dams constructed in the lower Mekong basin since the 1950's reduce mean peak flood levels and change water discharge with cumulative impact on river flow levels and fish migration. Further planned construction of dams in China, Lao PDR and Thailand and the proposed blasting of rapids by China are all factors which could threaten the very existence of the inland fisheries. Pollution of the Mekong River is also expected to aggravate as industrialisation proceeds.

## **Government policy**

### *Legislative and institutional framework*

The first environmental legislation in Cambodia was voted in 1993. In 1996, the National Assembly enacted a framework legal instrument, the Law on Environment Protection and Natural Resource Management, which requires the government to prepare environmental plans and pass sub-decrees. Since then, several strategic plans and legislative acts in the field of environmental management have been passed.

Environmental issues are mainly the responsibility of the Ministry of Environment and the Ministry of Agriculture, Forestry and Fisheries (MAFF), but also in part of the Ministry of Water Resources and Meteorology, the Ministry of Land Use Management, Urbanisation and construction, as well as a number of cross-agency national ministerial committees.

Cambodia has also signed various international and regional agreements related to sustainable development and environmental protection.

### *Approach*

The Cambodian government's environmental policy departs from the observation that environmental and natural resource issues are interrelated with other problems such as poverty and underdevelopment. Consequently, environmental concerns are addressed from a cross-sectoral perspective: the government tackles environmental problems while at the same time targeting closely related problems like poverty, access to land and governance issues, and the other way around. This approach is reflected in a number of strategic programmes, such as the 1994-95 National Program to Rehabilitate and Develop Cambodia (NPRD), the SEDP I (1996-200) and the SEDP II (2001-2005).

With the assistance of UNDP, the government is currently preparing an Environmental Action Plan. An interim programme has been developed for the near future focusing on:

- Human resource development;
- Environmental information and monitoring systems;
- Legal framework and EIA procedures;
- Public information and awareness building;
- Development of national policies for water and land use management;
- Conservation of nationally protected areas;
- Control and enforcement;
- Research activities.

### *Specific policies*

The RGC has attempted to arrest the slow-down in agricultural sector growth in recent years by promoting large-scale **irrigation**, particularly in the northwest region where rainfall is uneven. The irrigation promotion strategy was initiated to improve water control on agricultural land in times of drought and flood, which would boost the volume of Cambodia's commercial production and support supplementary crop production. Whilst this pro-poor measure is in line with the RGC's overall development strategy, such a broad solution to low agricultural output can lead to the overuse of land and the increased use of fertilisers, pesticides, which damages the groundwater table and the inland fishing industry. The pollution caused to the groundwater table may make it more difficult to increase the proportion of the rural population which have access to an improved water source, which currently stands at 26 percent compared with 54 percent for the urban areas.

The slowness of reform within the **forestry** sector has encouraged a most intense period of forest exploitation during the past 15 years. Unsustainable and illegal logging continues, due in part to the suspension of logging concessions in 2002 and the lack of commitment on the part of the RGC to push forward a draft forestry law that bolsters law enforcement and control of the sector. A sub-decree on Community Forestry has been signed in October 2003, but it is highly criticised by environmentalists. There is also regular reporting in the local press of active involvement in illegal logging by the military. In the Aural wildlife/forestry reserve there have also been attacks by the army on staff of the Cardamon Mountains Wildlife Sanctuaries Project. Furthermore, insufficient community participation in the process of forestry reform has led to a situation whereby no incentives exist for those working in and around the land to set up a sustainable land management system.

At present, drafts of a new Fisheries Law and a “Sub-decree on Community **Fisheries Management**” are under review. Both have been subject to stakeholder consultations. There are serious shortcomings and weaknesses in their present form though. Until the new law is enacted, fishery resource management in Cambodia will follow the Fishing Law of 1987 which defines fishery resources and specifies systems of resource allocation and utilisation. Furthermore, in 2000 RGC returned 56 percent of the lot fishing area to open access, for management by fishing communities under the auspices of the Department of Fisheries (DOF). With most of the fishing communities lacking the basic means and requirements for people-based fishery management, and weak DOF structures at provincial and district levels, this created a power vacuum which increased indiscriminate and destructive resource use to levels never experienced before. The present lack of legality and of enforcement efforts has led to a situation where the existing legal framework is virtually ignored by stakeholders. Problems related to the implementation of good governance are a prime constraint to the enforcement of fishing regulations. Governance related deficiencies concern the legal vacuum in which most fishing operations take place, lack of accountability of public institutions and local leaders, insecurity, especially for ethnic minority fishers, and illegal activities of armed police and military.

### **International Assistance**

The following international organisations have funded environmental projects in Cambodia: the GTZ, USAID, the Asian Development Bank, the World Bank, the World Conservation Union, The Wildlife Conservation Society, the World Resources Institute, the World Wildlife Fund (WWF), the WWF Global Network, the Mekong River Commission for Sustainable Development, the UNDP, and the UNEP Environment Assessment Programme for Asia and the Pacific. Another major donor is the Mekong River Commission (MRC) funded largely by Danida.

The EC addresses environmental issues in Cambodia through support to NGO projects based on the relevant horizontal budget lines. The EC financially supports the Cambodia Fuelwood Savings Project and the Integrated Biodiversity Conservation and Development of the Cardamon Mountains project. The project commitments total just under 2.6 million Euros with an annual disbursement of approximately 830,000 Euros in 2003. In the fisheries sector, the EC is funding the substantial PRASAC programme aimed at improved agricultural production, income generation and crop diversification. PRASAC has promoted some small-scale fish culture, and EC also funds NGOs engaged in integrated fish culture extension and provides funds for NGO implemented food security projects which provide some inputs for pond culture. It is also likely that Cambodia will be added to the countries participating in the EU Small Grants Programme for the Promotion of Tropical Forests (PTF) project. At present,

the EC does not have a bilateral programme with Cambodia in the forestry sector. EC interventions in the forestry sector take a non-confrontational approach and intend to encourage and build capacity for better forestry management.

Overall, donor coordination appears to be inefficient. A “Consultative Group” comprising RGC and donor representatives meets annually to review progress, set indicators and pledge development aid and a “Working Group on Natural Resource Management” meets on an ad-hoc basis to discuss forestry, fisheries and land issues. So far, neither group has apparently influenced individual donor agendas. The Cambodian Ministry of Environment has also expressed concern that it has lost control of conservation, because of the presence of so many international agencies that all employ slightly different strategies.

## ANNEX 9 OFFICIAL DEVELOPMENT ASSISTANCE AND OFFICIAL AID DISBURSEMENTS TO CAMBODIA IN 2001

Belgium	2,79
Austria	0,08
Denmark	4,87
Finland	2,75
France	21,44
Germany	18,72
Ireland	0,87
Italy	0,04
Netherlands	8,16
Spain	0,06
Sweden	16,92
UK	11,72
<b>Total EU Member States</b>	<b>88,42</b>
European Commission	24,19
<b>Total EC + EU Member States</b>	<b>112,61</b>
All donors	408,66
Australia	15,75
Canada	7,98
Japan	120,21
USA	22,44
Multilatera Agencies - grants	39,82
Loans	102,8
<b>Total Multilateral Agencies</b>	<b>142,62</b>