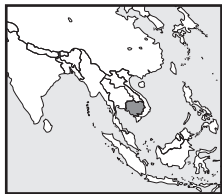


The race to meet the Millennium Development Goals



Despite the heavy flow of foreign aid into the country, only a small portion went into the national budget. Most of the funds were allocated to projects implemented by a third party, either NGOs or private contractors. So far, reform has gone at a snail's pace. Serious administrative and structural reform will have to be implemented in order to meet the Millennium Development Goals (MDGs) by 2015. Strengthening the judiciary and the rule of law should be prerequisites for large loans and Official Development Assistance.

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Twelve years have passed since the 1991 Paris Peace Agreement, and it is 10 years since Cambodia had its first election under the sponsorship of the United Nations, after leaving behind its socialist past. Since then, Cambodia set forth as a democratic country, with a multiparty system and a free market economy. By the end of 2003, the country had conducted three parliamentary elections. The results were unfortunately marred by conflicts after the defeated political parties contested the results, but in each successive election the country has moved away from the violence that characterised the previous one. Disputes were resolved by compromises in which the different parties agreed to share power between them. After the third election however, the opposition parties demanded major reforms before a coalition government could be formed. These changes called for structural reforms in administration and governance, enforcement of the separation of powers between the three branches of government, and the resignation of the current Prime Minister, who had been in power for 20 years. By 31 December 2003 - five months after the election - the political stalemate continues, and the Prime Minister has not resigned.

For the past 11 years, the Royal Cambodian Government (RCG) has successfully made its way into the world economy by joining regional and international organisations. Cambodia has also signed most international conventions. Under the sponsorship of the international community, with an annual aid flow of over half the national budget of USD 409 million in 2001,² the country has opened itself up to globalisation with the influx of regional and international products which have flooded local markets. International aid for Cambodia is USD 32.2 per capita, ranking second highest among South-east Asian countries, after the Lao People's Democratic Republic. From 1996 to 2001, Cambodia received a total of USD 2,672 million in foreign aid,

USD 190 million went to budget support, USD 220 million toward humanitarian assistance, and the rest toward projects implemented by third parties. These projects were aimed at government capacity building on the one hand, and construction of infrastructure such as roads and hospitals, on the other. Most funds were not allocated via the national budget.

The economy and poverty status

Cambodia's annual GDP per capita growth was 2.0% in 1990-1995³ and 1.6% in 1996-2000. These rates have not been sufficient to make much difference to its growing population. Cambodia's poverty rate is the third poorest in Southeast Asia, yet the estimated trend to reduce the poverty rate ranks as the lowest in the region. The prevalence of underweight children⁴ has got worse, 40% to 45% between 1990 and 2001, whereas the population below the minimum level of dietary energy consumption improved from 43% in 1991 to 36% in 1998.

Education

The dropout rate of pupils starting grade 1 who reach grade 5 is the highest in the region, 48.9% in 1998. However, it is only a slight improvement from 49.2% in 1993. The rate of primary school registration has exceeded expectations, but the school retention rate (barely 48.2% by grade 5) is not sustained. The number of literate women compared to men has improved in the last decade. The ratio in 2002 was 0.93, from 0.82 in 1990.⁵

Health

Cambodia's health trend looks very dim, compared to other countries in the region. The under-five mortality rate increased from 115 to 138 per 1,000 live births in 1990-2001.⁶ Cambodia's MDG to reduce the death rate to 40 per 1,000 live births by 2015 is unlikely to be attained and if the current trend continues it is more likely to soar to 165 by 2015.

The HIV/AIDS adult prevalence rate improved from 1999 to 2000. The rate dropped from 4.7% to 2.98% for young females aged 15-24. Seventy-

seven of the 474 people with active tuberculosis died in 2000. The current rate of 474 tuberculosis cases per 100,000 inhabitants⁷ is considered one of the highest in the region.

Government policy responses

During the past 11 years, the Government adopted a number of pro-poor policies. The RCG has successfully attracted the garment industry to invest in the country. Over the past five years the industry has employed over 240,000 young workers, mainly women from rural communities. However, in 2001 the creation of 15,000 new jobs failed to meet the needs of 330,000 people seeking employment. Most of these people entered the informal sectors, mainly in the agricultural sector.

Inflation has been stable and the exchange rate has been kept at KHR 3,980 to the US dollar for the past four years. With the loan from the Asia Development Bank, the RCG has implemented a rural credit scheme to provide small loans to rural families. This, however, has failed to strengthen small enterprises owing to the weakness of the banking sector, a weak legal environment, and the Government's inability to control the influx of foreign products. The low capacity of small and medium enterprises, which prevented them from developing and claiming their part in the market share, has been due to lack of access to capital, high cost of basic services such as electricity, gasoline, telephone, and lack of access to technology. The Government's inability to control corruption and contraband has been damaging to businesses trying to compete in the local market.

The Cambodian Government should be credited with the decision to decentralise the local administration in early 2002, although this has been hindered by the lack of progress made by the central Government. Nevertheless 1,600 Cambodian communes were decentralised for the election of commune councils.⁸ Communes depend on the capacity of the councils and their access to funds in order to operate. The majority of the commune councils only have access to administrative funds. Given the inefficiency of revenue collection, commune funds tend to fall victim to yearly cuts in the

1 The author is grateful to Mr. Chum Phally, ADHOC, for his valuable input.

2 World Bank. *World Bank Indicators* www.worldbank.org/data/wdi2003/pdfs/table%206-10.pdf

3 World Bank, 2002.

4 UNICEF. *The State of the World Children*; United Nations. *Millennium Indicators Database*, April 2003.

5 United Nations, Common Database.

6 UNICEF, 10 April 2003.

7 United Nations. *Millennium Indicators Database* (UNICEF, WHO). April 2003.

8 A commune is a grouping of four to seven villages.

TABLE 1

Treasury expenditure (%)						
FUNCTION	1996	1997	1998	1999	2000	2001
Core Government	62.6	63.2	69.4	54.7	58.9	51.0
General Administration	17.0	15.7	26.0	19.0	29.1	25.7
Defence	32.5	32.7	29.5	25.2	20.2	16.5
Security	12.8	14.6	13.7	10.1	9.3	8.5
Judiciary	0.3	0.3	0.2	0.3	0.4	0.4
Economic Services	10.8	14.1	9.3	14.2	12.6	16.9
Agriculture	2.1	2.6	1.7	1.9	2.3	3.9
Transport	3.1	4.1	1.8	2.6	5.1	6.4
Public Works	2.6	2.6	1.2	2.2	4.7	5.4
Other transport	0.5	1.5	0.5	0.4	0.4	1.0
Other Economic Services	5.5	7.3	5.7	9.5	4.8	6.1
Environmental Protection	0.2	0.2	0.1	0.2	0.3	0.4
Rural Development	0.5	0.4	0.6	1.2	0.8	1.8
Social Services	19.5	21.2	18.8	26.4	24.8	28.1
Health	4.8	5.9	4.2	9.4	6.7	7.9
Recreation, Culture & Religion	0.6	0.8	0.6	0.8	1.8	1.9
Education	9.1	9.1	9.4	11.4	10.7	12.9
Social Protection	5.0	5.5	4.6	4.8	5.7	5.4
Other	6.5	1.0	1.9	3.5	2.9	2.2
Debt	6.5	1.0	1.9	2.5	2.0	1.8
Others	-	-	-	1.11	0.9	0.5
Total	100.0	100.0	100.0	100.0	100.0	100.0

Source: Ministry of Finance.

TABLE 2

Comparison of public expenditure (%)			
COMPARATORS	TOTAL	HEALTH	EDUCATION
East Asia & Pacific	15.0	1.8	4.0
South Asia	16.7	1.2	3.0
Low Income	18.4	1.2	3.8
Vietnam	21.2	1.0	2.8
Lao PDR	-	2.3	2.4
Cambodia, incl. External	25.3	2.9	3.0
Cambodia, Government only	12.8	1.0	1.7

Source: World Development Indicators, 2002.

national budget. The commune councils' accountability to their constituents remains low. Also, the village leaders remain unchanged, leaving the old administrative infrastructure intact, so that district offices, which are dominated by the political party in power, still control the communes.

In 2002, with support from the World Bank, the Government developed its Poverty Reduction Strategy Paper with participation from civil society. However the plan failed to prioritise investment in crucial areas, making implementation unrealistic owing to lack of resources. The process has been judged as short on Government ownership, since the projects were earmarked by the donors from the start.

This has occurred in the implementation of most projects, which tend to deviate largely from the initial plan or contract. The lack of transparency is evident in the management of state affairs of the

central Government, from the Ministry of Finance to the technical ministries. In 2003 the spending of some ministries largely surpassed the budget approved by the National Assembly, whereas disbursement for priority ministries, such as Education, Health, and Rural Development, fell far below the approved level.

Records show that expenditure is concentrated in the central Government, and in the capital and urban areas, much less so in rural areas, where 79% of the population work in agriculture, and where 40% of the population live under the poverty line compared to only 9% in the capital city of Phnom Penh.⁹

Corruption has been repeatedly identified as a major constraint in Cambodia's development and a threat to its poverty reduction and economic growth

agenda. Domestic firms cited corruption as the second most important obstacle to business, while 42% of foreign firms said corruption was the single most important obstacle for the operation and development of business.¹⁰

Irregular disbursement of public funds and lack of transparent and credible data regarding public expenditure are serious obstacles to curbing siphoning of public funds to private pockets. This has created serious problems in the collection of state revenue to support the functioning of basic government operations.

Summary and recommendations

Serious administrative and structural reform must be implemented if the Government is to meet the MDGs by 2015. Despite the heavy flow of foreign aid into the country, only a small portion went into the national budget. Most of the funds were allocated to projects implemented by a third party, either NGOs or private contractors. The Government has benefited from these projects through the capacity building of its institutions and staff; however this effort is not likely to be sustained if the Government does not claim ownership of the project.

Donors have to build in a monitoring and evaluating framework with capacity building components in all projects. Government institutions must be evaluated for organisational capacity before giving grants. Local organisations should be involved in the process to help monitor development, implementation, monitoring and evaluation of all projects. Clear guidelines and policies should be developed for all stages of their implementation and be transparent to the public. All major projects must involve the National Assembly as a means of sharing accountability.

The main focus should be on strengthening the judiciary and the rule of law. These should be the prerequisites for large loans and Official Development Assistance (ODA). So far, reform has gone at a snail's pace. Responsible giving requires close monitoring. It also requires the right conditions to help sustain the efforts involved and make sure that the results of development reach the majority of the population and not just a privilege few. Lastly, access to information on all government policies and guidelines related to contracts will help civil society collaborate in monitoring and evaluating their implementation. ■

10 World Bank. *Cambodia Governance and Corruption Diagnosis: Evidence from Citizen, Enterprise, and Public Official Surveys*. 2000.

9 National Poverty Reduction Plan 2003.