



Embassy of Sweden

Development Cooperation Section

Phnom Penh

COUNTRY STRATEGY

FOR CAMBODIA

2002-2006

COUNTRY STRATEGY FOR CAMBODIA, 2002-2006

1. Executive summary

After three decades of civil war and violence, the situation in Cambodia is now characterised by relative stability and development. Though tension and rivalry still do exist between different centres of power, the agreement reached in 1998 means that all major groupings stand to gain by solving conflicts peacefully. This has made it possible for the political leaders to deal with unresolved issues from the Khmer Rouge era and to prepare much-needed reforms (even though the pace of reform is slow). The planned tribunal for trying former Khmer Rouge leaders for the crimes against humanity that were committed in the 1970s is a necessary step in clearing the way for national reconciliation and the rule of law after years of war and violence. By becoming a member of ASEAN and other international organisations, Cambodia has normalised its relations with other countries in the region and the international community. The inflow of foreign investment has increased slightly, though a continued inflow will depend on further economic and institutional reforms. In spite of increased foreign investment, Cambodia still lags far behind most other countries in the region in terms of development.

In accordance with a Government decision taken on 26 July 2001, the Swedish International Development Cooperation Agency (Sida) was instructed to draw up a country strategy for development cooperation with Cambodia in the period 2002-2006. Building on previous experience, a key point of departure in undertaking this task is to retain the present orientation of cooperation in all essentials and to strive for greater focus rather than diversification. Further, the orientation should be towards continued support in three main areas: poverty-oriented rural development, education, and democracy and human rights. Swedish cooperation should continue to be channelled primarily through the UN system.

Swedish cooperation with Cambodia began in 1979 with humanitarian assistance delivered through UN channels. The present programme encompasses support for rural development, basic education, democracy and human rights, and mine clearance. Swedish aid has mainly been channelled through UNDP, the ILO, UNICEF, UNHCR and NGOs. The results of Swedish development cooperation have been mostly positive. In all SEK 300 million was paid out over the period 1998-2000.

The overall objective of Swedish development cooperation in the new strategy period is to support Cambodia's own anti-poverty efforts, in accordance with the international development objectives (the "Millennium goals").

The following are proposed as the specific objectives of Swedish development cooperation in the period 2002-2006:

- To help put poor women, men and children in rural areas in a position to influence and improve their own living conditions.
- To promote conditions conducive to good governance, with special emphasis on the development of democracy and respect for human rights.

To meet these objectives, three areas of cooperation have been singled out for the strategy period. All these areas represent an extension of established cooperation and are judged to have clear direct and indirect links to poverty reduction.

A. Combating poverty in rural areas

B. Education

C. Democratic governance.

Gender equality, the environment, democracy and human rights, and HIV/AIDS will continue to be integrated into these three main areas as far as possible. In future too, cooperation and co-financing with the UN and other multilateral organisations should remain the principal form taken by Swedish cooperation. Aid will also continue to be channelled through NGOs, but Swedish aid should be used to promote a better balance between civil society and the public sector.

2. Conclusions of the country analysis

Cambodia is one of the poorest countries in the world, with an average per capita income of approximately USD 300. Around 35 per cent of the population lives below the poverty line, with 90 per cent of the poor living in rural areas. In many respects, rural poverty is a legacy from the long period of war and armed conflict that the country has suffered, which has destroyed much of the economic and social infrastructure, led to population displacement and left many areas mined. An additional factor has been the rapid population growth in the 1980s and 1990s and the resulting rise in the number of dependants per household. Income differentials between urban and rural areas have widened. A number of the pillars for growth and development-ranging from purely physical and economic to institutional conditions-have been destroyed and need to be built up again. A couple of generations of educated people have been lost in the conflicts of the past 30 years. Hundreds of thousands of people are members of particularly vulnerable groups, primarily because of injuries caused by war and mines. A large proportion of these are single women.

Membership of ASEAN has led to a partial redefinition of the country's political and economic role in the region. Cambodia is heavily dependent on aid and more than half of public expenditure is funded by external means. This state of affairs, however, should be seen and assessed in the light of the country's history and the process of reform that has now been initiated.

The Government, whose mandate is based on the 1998 parliamentary elections, is considered to have a reasonably strong capacity to act, and is thought to be relatively willing to pursue reforms and more distinctly concerned with development than its predecessors. Cambodian institutions, however, remain weak. The reform programme has been approved in principle by the donor community, though the pace of implementation has been the subject of repeated criticisms. Civil society is active but lacks organisation and a long-term approach. Respect for human rights is still erratic and the judicial system remains underdeveloped. Abuse of power is a major problem, as is the impunity enjoyed by powerful groups in society. Corruption permeates the administration and society as a whole.

Development for the benefit of the poor

Combating poverty was one of the overall objectives of the socio-economic development plan for 1996-2000 (SEDPI). However, the extent to which the objectives were achieved was far from satisfactory. In spite of economic growth too few jobs were created, particularly in rural areas. In all essential respects, the focus was on urban areas.

Investments in social sectors remained inadequate and exploitation of the country's natural resources continued.

In its five-year socio-economic development plan for 2001-2005 (SEDPII), the Cambodian government has pledged to take active steps to reduce poverty. The potential exists for a development that will benefit the poor and improve their access to land and other resources. This development may also include the emergence of small-scale enterprises supported by micro-credits and a favourable legal framework. The implementation of the programme, however, will require a strong commitment on the part of both the government and donors. In the absence of such a commitment, development may take the form of growth that is to the direct disadvantage of the poor, with local power coteries depriving the poor of influence and property, destroying natural resources and offering foreign investments of a highly short-term nature.

Economic development

The growth rate for the duration of Cambodia's first socio-economic development plan (1996-2000) varied between 4 and 5 per cent per year, except during the political crisis in 1997-1998 when investment and aid largely disappeared and growth stagnated. After the Asian crisis, growth picked up again despite the serious floods in 2000. However, the positive growth was not to the advantage of the poor. This is evident from the income data: while the poorest 20 per cent of the population raised their per capita income by 1.7 per cent between 1993-94 and 1997, the richest 20 per cent enjoyed an increase of 17.9 per cent over the same period.

A number of advances can be noted during the period in question: a successful fight against inflation, improved tax and customs administration, expenditure management, trade liberalisation and the restructuring of the banking sector. Progress has also been made in preparing important structural reforms such as new forest legislation, the adoption of a "Government Action Plan" (GAP) on good governance and human rights, and a new land law. There has been some delay in the work on a new investment law.

Cambodia has applied for membership of the WTO and as an applicant country it enjoys observer status in the organisation. Accession negotiations are at an early stage and Cambodia has recently presented its first goods and services offer.

Cambodia is also covered by the Integrated Framework (IF), which is coordinated by the WTO and in which the IMF, ITC, UNCTAD, UNDP and WB all participate. A study has been carried out by the IF aimed at promoting the integration of trade in the development process. The process also incorporates a proposal for the establishment of a trust fund (the IF Trust Fund or IFTF), to be managed by UNDP. Additional IF activities include workshops and further studies.

Rapid growth, increased investment and more jobs are necessary to Cambodia's development. At present about 25 per cent of the population is aged between 10 and 19, which means that the country's labour force is expanding very quickly. According to some calculations, the number of people seeking employment is growing by 200 000 each year. In these circumstances, it is worrying to note that foreign direct investments, domestic and private investments alike are on the decline. One reason for the drop in investment is the absence of a legal framework for private sector development. The ambition does exist to remedy this deficiency as part of the process of reform, one instrument being the government's GAP. The private sector is now regarded as the engine of the Cambodian economy.

The primary locus of growth is the private sector in urban areas, in particular export-oriented textile and clothing industries, whose main market at present is the USA.

Continued growth is also anticipated in the tourist and services sectors, which will help to provide more-though far from sufficient-employment opportunities.

The vital factors for sustainable economic development and poverty alleviation are higher productivity in agriculture and a diversification of the rural economy. Rice cultivation occupies 90 per cent of the farmed land. Only relatively land-rich households are able to produce a surplus over household needs. Because of insufficient access to irrigation, the majority of farmers can only produce a single crop per year. Production is similarly hampered by poor soil and by a lack of knowledge about and financing for more efficient farming methods. There is a shortage of agricultural land. Mines and soil erosion obstruct the establishment of new farms.

During the last 20 years rapid deforestation has taken place. The forest concessions system has come in for heavy criticism in recent years as it fails to guarantee sustainable management and leads to serious environmental problems. Though fishery provides the population with its most important source of protein and a significant number of jobs, productivity is threatened by inappropriate fishing methods and by water management projects that affect fish migration and reproduction patterns. However, a new Fisheries Act has recently been adopted which contains measures to combat these problems.

The greatest threats to growth are persistently high oil prices, the weakening of the US economy, a continuing loss of interest in direct investments, delayed reforms, and, possibly, China's accession to the

WTO. Lower levels of foreign investment are highlighted as the most serious threat for the future, while the sustained slump in neighbouring economies is identified as the main cause of stagnation. Other factors are extensive corruption and an inadequate legal framework.

Mobilisation of resources

The government has taken a number of promising measures to mobilise domestic resources, which have raised their share of GDP from 9 per cent to 11.8 per cent in 2000. Though this figure is still low, the introduction of a sales tax has broadened the tax base, which compensates for lower customs duties. Expenditure on defence and security has fallen from 49 per cent of the total budget in 1996 to 37 per cent in 2000. Spending on defence and security is still high and in absolute terms there was no reduction in the second half of the 1990s. Demobilisation of a total of 31 500 soldiers in 2000-2002 has begun. The objectives set in the Public Investment Plan (PIP) for 1996-2000 were that 65 per cent of investment should go to rural areas and 35 per cent to urban areas. The actual outcome was the reverse.

Foreign development assistance

Given its low level of domestic resource mobilisation, Cambodia depends heavily on foreign development assistance. Grants and credits from donors and International Financial Institutions (IFIs) account for 14 per cent of GDP, which is one-and-a-half times as much as the domestically financed public budget. The bulk of public investment and three-quarters of current expenditure in the social sectors are financed by donors. The scale of these transfers of resources, combined with tendencies towards donor control, has led to financial and mental dependence. Donors have their own interests and objectives, which can often be difficult to reconcile with those of the government. As a means of overcoming this problem, more extensive channelling of assistance through sectoral programmes should be sought.

In recent years, the UN, the World Bank and the ADB have all set out new country strategies that place strong stress on combating poverty, good governance and new cooperation relations oriented towards support to sectoral programmes. In general, donor coordination is considered to be relatively good. The government holds half-yearly follow-up meetings with the donor group.

The EU strategy focuses on rural development, health, education, the environment and natural resources. Institutional development also occupies a central position and is promoted primarily by support for the administrative reform. In addition, targeted support is provided, e.g. to returning internal refugees in the northern and north-eastern provinces. The EU will soon be setting up an office in Phnom Penh, which will facilitate coordination in this area of development cooperation. The largest bilateral donors are Japan, France, Australia, Germany, the USA and Sweden.

Good governance and human rights

Cambodia has taken significant steps towards democratic governance. Nevertheless the public administration is weak and needs to be strengthened, both by constructing a legal framework for development and human rights and by expanding the supply of public services. The government has acknowledged the need for further reforms by drawing up an action plan for good governance, the Governance Action Plan (GAP). This plan comprises a programme for combating corruption, gender equality, decentralised decision-making, improved financial management, the reform of public administration, and demobilisation and defence reform. The plan has also borne in mind the need for a through legal reform.

The political climate has become more stable, with the security of the state less under threat, greater freedom of the press, elections in which competing parties can participate, a growing and better organised civil society and improved understanding of democracy. However, the legal system remains weak, corrupt and highly inadequate when it comes to protecting the rights of the poor. Due to a combination of legal impunity and legal uncertainty, crimes committed by influential people against weak, less well-off groups are seldom prosecuted. The lack of adequate legal protection is particularly harmful to vulnerable groups such as women, who are often exposed to domestic violence and in principle are deprived of inheritance. The rights

of the Vietnamese minority are violated frequently, both by the authorities and by other groups. Legal impunity and legal uncertainty have also been contributory factors in large-scale environmental damage and the squandering of natural resources. The poor will not be able to participate fully in the development of Cambodia until legal impunity gives way to a functioning legal system.

The proportion of landholders with legal title to their land is still tiny. There is also a lack of maps and land registers, and of a functioning land administration. The unclear ownership situation has a damaging impact above all on the economic opportunities of the poor. Reports from both law courts and research on land rights bear witness to the continued expulsion of poor peasants by the military, holders of public power and some actors in the emerging private sector.

Decentralisation

Within the framework of the public service reform, a process of far-reaching decentralisation has been launched, with the emphasis on local self-government. The first elections to just over 1 600 local (“commune”) assemblies are scheduled for February 2002 and may be a challenge for the country’s new-found stability. When elected councils replace appointees an important step will have been taken in the redistribution of power. The second part of the reform entails a delegation of power to provincial and district administrations, whose capacity will be reinforced. These reforms, which are characterised in an unusual degree by national ownership and initiative, have been inspired in part by the Carere/Seila rural programme that Sweden has supported for many years. The new communes will be given far-reaching responsibilities for local development. They will be guaranteed a proportion of the national budget and will have certain powers to levy local taxes and charges.

Gender equality

There are wide gender differentials in terms of literacy, educational level, occupational skills and income. Women are clearly underrepresented in decision-making and managerial positions at central, provincial and commune level. Underlying these differences are traditional norms and values related to female and male roles, which restrict the opportunities for development available to girls and women. The war and the associated disintegration of society have had an adverse effect on the status of women.

HIV/AIDS

Cambodia has the highest proportion of people living with HIV in the region, at almost 3 per cent of the adult population. The disease was long neglected in Cambodia and it was not until the mid-1990s that regular testing began. As a result, it is difficult to ascertain with any certainty when and why the rapid growth of the disease began. However, there can be no doubt that widespread prostitution combined with a limited use of condoms has been a significant factor. Apart from prostitutes, those in the risk zone include a large number of soldiers, police officers and civil servants, as well as women who risk infection by their husbands. The rapid pace at which the disease is spreading will soon affect the economy of the entire country. However, the government is making active efforts to bring about behavioural change, particularly in groups at risk, and certain signs of positive results can now be discerned. The government has established an HIV/AIDS Authority, which has presented a national strategic plan for fighting HIV/AIDS in 2001-2005. At present almost all budget resources used in combating HIV/AIDS come from assistance donors.

Social sectors

All health indicators reflect the difficult health situation experienced by most of the population, with undernourishment and infant mortality, for example, being far above the average in Asia. The education system is characterised by low quality and coverage, with rural areas, poor families in general and women in particular suffering grave discrimination. There is a direct link between poverty and low education. Approximately 40 per cent of households which essentially lack education live below the poverty line, compared with 24 per cent of households with at least five years of education. A further three years of education brings the proportion of those living under the poverty line down to 12 per cent. Social services have, however, been expanding rapidly, particularly as regards enrolment in basic education and other

services such as vaccinations. Spending by the central government on education and health increased sharply during the period in both relative and absolute terms and accounted for about 20 per cent of the budget in 2000. However, these advances have been concentrated in urban regions, a trend that has especially serious consequences for the education of girls in poor regions. In the health sector, high costs and inadequate access result in a de facto exclusion of the poor. As a result infant mortality is rising and maternal mortality remains at a very high level.

The role of civil society

Civil society is weak and underdeveloped. There are few genuine membership organisations and advocacy groups for farmers, entrepreneurs and women, for example. The only area in which there is any real dynamism at present is among trade unions. Having said that, a large number of Cambodian NGOs do exist, some of them established by external impetus, which are active in many different areas. These NGOs grew up in the country after the 1991 peace treaty. Both international NGOs operating in Cambodia and domestic NGOs have increased in number, and current estimates put the tally at over 600. There are more than 40 Cambodian organisations that work on peace issues. The government has a liberal attitude towards NGOs and welcomes their contribution to development. NGOs now provide almost as much funding as the UN. However, the high degree of external funding means that many NGOs are questionable representatives of civil society. In spite of this criticism, the emergence of the NGO sector is considered to have helped provide many Cambodians with the insight and experience they need to be able to serve as a counterbalance to the government by their input in social debate.

The NGOs will continue to be important actors in the development of democratic institutions and culture in Cambodia. Many of the NGOs that focus on human rights cooperate with public institutions, encouraging and supporting reform initiatives and offering competence-enhancing assistance.

There are many advantages to stepping up cooperation between NGOs and public institutions, since after years of international support the NGO sector has great capacity. However, the weakness of public institutions relative to NGOs is a problem. While the support of international donors puts very substantial resources at the disposal of the NGO sector, the NGOs need to improve their strategic thinking, methodology, follow-up, evaluation and leadership. The greatest challenges faced by most of these organisations continue to be ensuring long-term sustainability and identifying approaches and visions for strengthening civil society in the long run.

3. Conclusions of the results analysis (1998-2000)

3.1 Overall results, 1998—2000

The objectives of development cooperation with Cambodia during the strategy period were:

- to help put poor women and men in rural areas in a position to improve their own living conditions;
- to promote the emergence of democracy and the rule of law and of increased respect for human rights.

The original budget of the cooperation agreement was SEK 80 million, which was raised to SEK 100 million as from 2000. Over and above this, the human rights and NGO programmes received some of their funding from outside the country budget. Total Swedish payments to Cambodia in the period 1998-2000 amounted to SEK 300 million, with a payment forecast of SEK 141 million for 2001.

Area, SEK m	1998	1999	2000	Total
1. Rural development				
- CARERE2	34.5	20.5	24.9	79.9
- Roads	12.4	5.0	19.9	37.3
- Water and sanitation	0	3.1	6.6	9.7

2. Basic education	23.7	16.8	28.0	68.5
3. Democracy / HR				
- COHCHR	4.0	0	4.9	8.9
- CDRI	5.6	1.6	4.4	11.6
- NGOs	4.5	5.5	9.9	19.9
- Election support	5.5	0	0	5.5
- Poverty analysis	0	0	2.0	2.0
4. Mine clearance	10.8	0.7	33.9	45.4
5. Consultant fund ¹	1.8	4.1	2.5	8.4
6. Other	0.3	0.05	3.0	3.3
Total	103.2	57.4	140.1	300.4
Of which country agreement	89.0	51.2	125.0	265.2
Support to Swedish NGOs outside country agreement	4.0	5.0	9.4	19.4

1 The consultant fund covers financing of studies, office support, travel costs in Cambodia, etc.
The results analysis shows that the development programme as a whole, with its focus on combating poverty, conformed well to Cambodia's own priorities and to the country strategy that was in effect.

In the course of the period attempts have been made to integrate cross-sectoral issues such as gender equality, democracy and human rights, and the environment, into the different programmes. The Carere/Seila rural programme and education programme have successfully promoted gender equality and democracy issues. HIV/AIDS aspects have been integrated into the education programme, while the environmental dimension, which is partly integrated into Carere/Seila, has a less obvious place in other programmes. Integration of cross-sectoral issues into the programmes has not been consistent.

3.2 Programmes and projects

3.2.1 Rural development

Support for rural development has consisted of three programmes: Carere2/Seila, rural roads and water and sanitation.

Through **Carere/Seila**, a project involving cooperation with **UNDP**, support has been given to investments in rural infrastructure and local institutional development. At the heart of the programme is the ambition to generate and disseminate methods to promote local participation in the planning and implementation of development activities. Successful efforts have been made to boost participation by women in decision-making. Carere/Seila has made development resources and goods and services of public benefit available at the local level. The programme has also played an important role in reintegrating people from former guerrilla areas with the rest of the population, with clear poverty reduction effects.

Carere/Seila is an inspiration and model for both decentralisation and the coming local government reform, and this is one important result of the project. Support from foreign experts has declined considerably. While there may have been some loss in terms of a direct focus on poverty and participatory processes at grass roots level, the potential for long-term effects and long-term sustainability of results has definitely increased. There are some weaknesses related to follow-up and evaluation, maintenance aspects and the environmental dimension.

According to a recently conducted evaluation, the support to **maintenance and rehabilitation of rural roads** channelled through the **ILO** has been implemented effectively. This project has made a major contribution to reducing poverty. One case study shows that the number of road deliveries to the market in a certain area has doubled, transport costs have fallen and travel times have declined by 50 per cent. These results have a positive effect on the local economy. Another project involving cooperation

with the ILO has focused on the designing of a **policy for rural roads** and the establishment of a department for rural roads at central level. One important outcome is that work-based methods and private entrepreneurs will be central to the choice of techniques in future road projects.

An overall assessment of the project for improving the **water supply and sanitation** in rural areas (**WB/UNDP**) draws the conclusion that the original objectives of the project were over-ambitious and that their revision did not go sufficiently far to make them completely realistic. Although performance has been below expectations, the anticipated final results of the project are still acceptable. The key objective of developing a policy and a strategic framework will probably be achieved.

3.2.2 Basic education

Sida's support for basic education, through UNICEF, which has as its general goal to assist the ministry in reforming the education system in the country so as to improve quality, access and administration, has proved to be of great relevance for Cambodia. The tangible performance and results achieved are vital assets for further development of the education system in Cambodia. Low teacher salaries, the shortage of qualified human resources and the great dependence on foreign aid have curbed the implementation and sustainability of the programme. Medium and long-term planning and policy/strategy development have been handicapped by the ministry's preoccupation with administration and project management in the immediate situation and short term.

3.2.3 Democracy / human rights

Support has been delivered for measures aimed at securing the democratic progress made by the country since the 1998 election, reinforcing human rights monitoring and promoting capacity development at institutions dedicated to safeguarding human rights. The programme has been implemented through **COHCHR** (the UN human rights office in Cambodia), **CDRI** (Cambodia Development Resource Institute) and **NGOs**. The impact of this type of initiative is difficult to quantify. One major reason for this is that the programme aims to change attitudes, which takes time and is difficult to measure. Despite these difficulties, the analysis has concluded that the programme has had a positive impact in raising awareness in these areas.

The **COHCHR** project comprises support for the drafting of legislative proposals, legal advice services, expert support for **HR** monitoring and advice to **NGOs** and government authorities, and investigation and reporting of human rights violations. The results analysis shows that tangible measures have been taken to enhance respect for human rights, even if the objectives have been somewhat unclear. During the period **COHCHR**'s role has undergone a transition from monitoring to more education and support.

CDRI operations have shifted from broad education and research to more policy-oriented research focusing on economic issues and conflict resolution. On the whole the reported results can be considered positive. To some extent the results can be regarded as slightly below expectation, mainly as a result of personnel problems but also because of the lack of clear links between anticipated and actual results.

Support to a total of 20 local **NGOs** has been channelled through Forum Syd and Diakonia, for the purposes of human rights monitoring, legal support, election support, women's and children's rights, democratic influence, anti-corruption measures and media development. In many of these organisations women occupy leading positions. The results analysis shows that the results are reasonable and that the cooperation partners have a high implementation capacity. However, a clearer definition of long- and short-term goals is essential.

The objective of the socio-economic studies project has been to build capacity at the Ministry of Planning and the National Institute of Statistics (NIS), with a view to strengthening these institutions so as to enable them in the longer term to carry out socioeconomic studies of their own, analyse the results and propose appropriate anti-poverty measures, and to measure the effectiveness of the efforts made by the government to combat poverty. The project has been relevant and has had great significance for knowledge about poverty and hence for planning and development of national antipoverty action. Reports have been successfully produced for decision-makers in the government, civil society and donor organisations.

3.2.4 Mine clearance

Sweden continued to support mine clearance during the period. The support has been directed to mine clearance by CMAC (Cambodian Mine Action Center), in cooperation with UNDP, and mine clearance by building mine dog capacity at CMAC, in cooperation with the Swedish Armed Forces.

Though there has been great progress in **mine clearance**, only half the original physical target has been reached in the last three years. **CMAC** has been through an institutional and financial crisis, caused by serious administrative and managerial weaknesses that have undermined donor confidence. However, a number of reforms have been initiated at both national and organisational level and national ownership and commitment have been confirmed. After several critical years with poor results, the project for **training mine dogs and dog handlers** became operational in 2000-2001. Practical experience confirms that the use of mine dogs can raise both the pace and effectiveness of certain demining operations. Nevertheless, the sustainability of this project is uncertain and the costs have been very high. The weaknesses reflect shortcomings in the planning, design and implementation of the project.

4. Cambodia's development policy

4.1 Priorities

Cambodia's development strategy is predicated on reduced poverty and with the passage of time, a focus on poverty issues has increasingly come to the fore in national strategy documents. Having said that, it is crucial for real poverty reduction that the government demonstrates political will by allocating the necessary resources to accomplish this task. The political platform of the new coalition government ("the Economic Government") that came into power at the end of 1998 is based on a three-point, 10-year strategy:

- Peace, restoration of stability and maintenance of security for the people
- Ensuring the regional integration of Cambodia and a normalisation of the country's relations with the international community
- Sustainable social and economic development combined with sustained macroeconomic stability, with increased focus on investment in the social sectors and productive investment.

The new government has affirmed its strong commitment to market economy principles, democratic pluralism, human rights and the advancement of democracy and the rule of law. These objectives have been operationalised by a renegotiation of the national agenda for reforms in the following key areas:

- fiscal policy and administration
- public administration including decentralization
- the armed forces and demobilization
- justice
- management of natural resources, especially in the forestry sector.

As mentioned in Chapter 2, the results of the first plan (SEDPI) were far from satisfactory, not least where poverty reduction was concerned. The government has gone some way towards an official acknowledgement of these shortcomings and has begun to change its development policy and priorities in a number of major policy and planning documents that were put together in 2000-2001. These plans and policies will play an important role for Swedish development cooperation in the coming period. One of these documents is the Governance Action Plan (GAP), discussed in Chapter 2. The GAP includes reforms that are already in progress in the above areas. Clearly defined operationalised objectives have been established, with specified time limits. The first steps have been taken towards implementation, including the setting up of a national audit office.

In mid-2000, after four months of work, the government concluded an **Interim Poverty Reduction Strategy Paper (IPRSP)**. In spite of the limited time available for drafting the IPRSP, participation both by government representatives and civil society is considered to have been good. The IPRSP also clarifies the involvement of different stakeholders in the participation process and describes the intended approach to the problem of poverty, namely:

- to promote employment and income opportunities,
- to create security by providing micro credits and expanding safety nets,
- to strengthen capabilities by delivering public services, and
- to generate empowerment by better governance, decentralisation and collaboration with NGOs.
- The IPRSP was well received by the IMF and the World Bank and motivated the IMF to advance funds to the Poverty Reduction and Growth Facility (PRGF) in January 2001, as well as leading to corresponding concessional loans from the World Bank.

The **second development plan (SEDPII)** will be finalised and adopted at the end of 2001 by the Ministry of Planning. The overall objectives of the plan are:

- Broad-based, sustainable and equitable growth at a rate of 6-7 per cent per year,
- Social and cultural development,
- Sustainable management and use of natural resources, and
- Improvements in government authorities and organisations by implementation of the GAP.
- With the assistance of the World Bank, development of a full PRSP will continue during 2001 and 2002, the goal being to produce a high-quality strategy based on participation processes and Cambodian ownership. The government and the World Bank emphasise that the PRSP must be compatible with and build on **SEDPII**.

The government's priorities in the coming period include, in brief:

- Poverty reduction and growth, focusing on rural areas.
Agricultural development and rural infrastructure.
- Education and health
- Sustainable natural resource use
- Completion of key reforms, including broad administrative reform covering province-level structure and the upcoming local government reforms, and decentralization
- Land, forestry and fishery
- Combating corruption
- Judicial reform

4.2 Assessment

In preparation for drawing up its country strategy, Sida commissioned an examination of the draft **SEDPII** and **IPRSP**. The plan received good marks for formulation of objectives and poverty analysis, but effective control will require strong ownership and international financing. In addition, the allocation of resources

needs to be clarified by explicit links to the investment plan. A further major conclusion pointed to the importance of coordinating the elaboration of **SEDPII** and **PRSP** within a single process, which is in fact now being done.

Government capabilities continue to be extremely low and are further weakened by wages and salaries far below the subsistence level. Financially, professionally and at policy level, Cambodia is still very much dependent on foreign donors and the influence they exert. The political scene may be destabilised if vested interests are challenged, whether this happens as a result of elections or is due to the emergence of democracy and the rule of law. Corruption is still widespread and few real measures have been taken against it. Judicial reform is lagging far behind schedule.

Even if the coming strategy period builds on a more solid political and institutional foundation than the last, it will be necessary to monitor political and economic developments closely throughout the period.

It can be assumed that some of the plans for poverty reduction and improved governance will be delayed or will not be implemented at all. Some of the proposed measures are intended as attempts to rectify deep-rooted problems that derive from existing power structures or long traditions. Moreover, it is anticipated that a large proportion of the financing for institutions, policy reforms and investments will come from external sources, via foreign direct investment or donor assistance. While donor assistance has increased and many donors have expressed a willingness to support an anti-poverty development strategy in Cambodia, there has been a sharp fall in new foreign direct investment, chiefly because of the absence of a stable and predictable legal framework for private sector development. The implication is that donor assistance and a convincing legal framework will be the crucial factors in determining whether Cambodia's attempt at an anti-poverty strategy succeeds.

5. Strategic considerations

During the last three decades, Cambodia has experienced war, genocide, stagnation and reconstruction. Conditions in the country have made it difficult for the people to benefit from the dynamism of the South-East Asia region. The country's own growth pattern has excluded large numbers of rural poor from development.

The following considerations should make up the foundation for development cooperation in the coming strategy period:

5.1 Policy level

- Cambodia is one of the poorest countries in Asia. Most of the poor live in rural areas. Growth in the agricultural sector continues to be very slow and the present investment level is insufficient to allow growth capable of benefiting the poorest members of society.
- There are major inadequacies in the education and health care systems and in infrastructure. The political will for development in these areas does exist but the emphasis has so far been on urban areas. Education has a central place in all poverty strategies. Education is also essential for sustainable development and a necessary tool for effective participation and democratic development.
- **HIV** infection is present in all provinces and among all population groups, and this will have an impact on Cambodia's development. It is important to see and to treat **HIV/AIDS** as a broad societal problem and to support the policy that the government has put together, which reflects the range of problems involved.
- The political climate manifests real progress towards a consolidation of democracy and its institutions. Yet there are threats to the existing stability. A breakdown in the development of democracy and the legal system would be capable of undermining both public confidence in elections and the popular legitimacy of the government. An escalation of violence would similarly jeopardise political stability. The ongoing process towards the goal of sustainable democracy is heavily dependent on factors such as

continued political will and political courage, an increasingly outspoken civil society, external dialogue and pressure, and consistent and well-coordinated external support for building up democratic institutions.

- Respect for democracy and the rule of law and for human rights is crucial for social and economic development. To make it possible to establish democracy and the rule of law and to protect individual rights from infringement by officials, the legislative and judicial power must be clearly separated from the executive, as prescribed in the constitution. A legal framework and reinforcement of the legal system are vitally important for the development of the private sector. Strengthening the rule of law has been identified as a key area for the future development of Cambodia. Until now, however, Sweden has made only marginal support available to legal development in the public sector. One problem has been the lack of willingness on the part of the government to undertake reforms in this area and the absence of a well-defined action plan for legal reform.
- Non-governmental organisations (**NGOs**) continue to play an important part in the democratisation of Cambodia. At present, however, there is a lack of balance between the state and NGOs, with the latter possessing greater capacity, expertise and resources, particularly in the human rights area. In order to promote the development of democracy and the rule of law in Cambodia, this imbalance must be corrected, for example by closer cooperation between the state and **NGOs** to enable the state to shoulder its responsibility, and by capacity reinforcement in the public sector.
- Provided the ongoing decentralisation reform is carried out successfully, it has the potential to lead to increased popular participation in decision-making and the development process. It can thereby help boost transparency and confidence in the decision-making process and reduce poverty. Joint efforts on the part of **NGOs** and the state will, however, be necessary if these reforms and the upcoming local government elections are to have the anticipated impact on local democracy and poverty alleviation in rural areas.
- In the following areas there is considerable development cooperation involving other actors, which means there is no obvious reason to make Swedish support available. Some of the major actors in each area are:
 - 1) central governance: all multilateral bodies - ADB, WB and UN - and a number of bilateral donors: Japan, France and Canada.
 - 2) Private sector development: ADB, WB/IFC, France and Germany (GTZ)
 - 3) Health: WHO, WB, ADB, EU, NGOs
 - 4) HIV/AIDS: USAID, UN, DFID
 - 5) Environment and natural resource management: UNDP, ADB, EU, Danida
 - 6) Infrastructure: ADB, WB and Japan.
- The Cambodian economy is very dependent on foreign assistance, particularly in social sectors. Increased coordination is needed, both to make it possible to provide coherent and efficient development cooperation and to encourage Cambodia to mobilise domestic resources and dynamic national ownership.
- A strategic development dialogue and monitoring of national reforms continue to be important and meaningful.
- Ambitions to develop national ownership and partnership arrangements for development programmes must be defined more clearly in order to safeguard long-term development prospects in Cambodia.

5.2 Forms/Channels

Experience confirms that the multilateral form of cooperation, under which Swedish development assistance has been channelled through the UN and other multilateral bodies, has by and large been effective and satisfactory. Contributions to coordinated support via “trust funds” administered by UNDP (rural

development, mine clearance) or as principal financier of UN-managed programmes (rural roads, primary education) have helped foster more concentrated efforts, joint dialogue and collaboration in different sectors. At best, the foundation has been laid for forms of cooperation more closely approximating sectoral programmes, which has promoted coordination, made it easier to gain a clear overall view of the situation and facilitated reporting on Cambodia. However, in many cases there is a considerable gap between the views of Sweden and the UN bodies regarding their respective roles. This gap, to be sure, has spawned opportunities to discuss and modify such differences of opinion. Sweden is engaged in a continuous dialogue with the UN agencies, conducted primarily through the donor group that is led by the World Bank and through the programmes that Sweden supports. The UN has played a key role in the process of reconstruction and stabilisation in Cambodia and represents global expertise, quality and values that are needed in the reconstruction of the country and its institutions. The multilateral system provides familiar and reasonably efficient channels for relatively broad mobilisation of resources and actions involving professional personnel. The UN system can serve as a neutral platform for well-organised external assistance, thereby facilitating coordination between donors. The multilateral model has saved Sida administrative resources, above all in the organisation in the field, which has made it possible to focus on strategic follow-up, policy dialogue and donor coordination.

6. The objectives of development cooperation

The overall objective of Swedish development cooperation with Cambodia is to help Cambodia in its own efforts to fight poverty, in accordance with the Millennium goals.

The specific objectives of Swedish development cooperation in 2002-2006 are:

- To help put poor women, men and children in rural areas in a position to influence and improve their own living conditions and those of their children.
- To promote conditions conducive to good governance, with an emphasis on the development of democracy and respect for human rights.

7. Principal areas for cooperation

On the basis of experience from earlier cooperation and in line with the above strategic considerations, the following cooperation areas are proposed for the next strategy period. Particular exertions will be made in future to mainstream HIV/AIDS and gender equality issues. Support to education has served as a model in this respect.

7.1 Combating rural poverty

Objective: to support anti-poverty development in rural areas, on the basis of democratic governance and social and economic investments at local level.

In the light of the Carere/Seila rural programme and its success to date, long-term, general support will be provided to its successor, the national Seila programme, in cooperation with UNDP and DFID. Seila was launched in 2001 as a development programme closely linked to local government reform, and was intended in time to extend to the whole country. The Seila programme incorporates institutional and capacity development and resource mobilisation, including local development funds. At present the programme operates in about half the country's provinces, focusing on:

- building up the capacity of the new commune councils to plan and implement local development measures;
- strengthening capacity and processes at province and district level, to support and ensure coordination of local development activities;
- enhancing the capabilities of sectoral ministries and their resources at province level, to meet local development needs;
- mobilising and coordinating internal and external resources to support decentralised rural development,

including local development funds.

Important considerations for further policy and methodological development within this programme include poverty issues, gender equality, popular participation and sustainable development. Apart from general budget support to the programme. Sweden also gives specific support to local natural resource planning and management in highland areas. Land and natural resource rights from a local management point of view are examples of other issues that may gradually come to be included in support to Seila.

This principal area also includes humanitarian mine clearance, in the form of continued support to the Cambodian mine clearance authority (CMAC), channelled through UNDP. In addition, support is given to the establishment of mine dog capacity. Both of these measures help improve access to arable land for the poor. This support will be phased out in the course of the country strategy period (see 8.3).

During the first few years of the country strategy period, continued support will be channelled through the ILO to improvement and maintenance of rural roads and to strengthening the road administration by policy development for the rural road network. Throughout the country strategy period, support will be advanced to the rural road network through the national Seila programme.

7.2 Education

Objective: to help achieve the goal of “education for all”, within the framework of a broad human rights and development perspective.

Support will be mainly channelled through UNICEF and will incorporate all administrative levels (national, provincial, district and village) and a number of different areas (education planning, financing, etc.). More specifically, Swedish support should be directed towards the following areas: a) sectoral capacity, institutional development; b) awareness-raising; c) decentralisation; and d) partnership development and assistance coordination. The emphasis will be on development of the whole sector, focusing on the needs of the poor, the marginalised and the disadvantaged. The approach further involves participating in and contributing to development of a sectoral programme (SWAp) in the education sector, focusing on justice, efficacy, quality and access. The possibility of a transition to direct/indirect budget support linked to a sectoral programme of this kind may be considered.

7.3 Democratic governance

Objective: to strengthen the democratic process aiming towards democracy and the rule of law and respect for human rights in Cambodia.

The approach is to provide support to education and capacity-building in civil society and the public sector and to measures aimed directly at promoting human rights.

During the strategy period, Sida will investigate the prospects for augmenting support for reforms and for the building of democratic institutions. The support will be made available primarily through multilateral channels and NGOs. The possibility of contributing direct support to the state sector will be considered during the strategy period. Key questions when identifying new areas to support will be Swedish resources, ongoing and planned action by other donors in the area and appropriate channels for advancing such support. Any decision to augment Swedish support in the area of democratic governance (i.e. direct support channelled through central government) is dependent on the political will in Cambodia to strengthen democracy.

Both the ongoing process of decentralisation and the upcoming commune elections are strategically important for strengthening democracy in Cambodia. Sida will assess how this process can best be supported — whether via NGOs that are active in rural areas or through central government. With a view to ensuring greater impact and additional interaction effects, such measures will be coordinated with support to the national SEILA programme.

There is a lack of balance between the state and NGOs in the human rights and democracy areas. To prevent civil society organisations from taking over the role of the state in certain areas, Swedish support will aim to promote cooperation between the state and NGOs, and the UN. This aim can be achieved by education, dialogue and resource and information sharing. With a view to influencing the political will in Cambodia to deepen democracy, Sida will continue to support NGO-managed attitude-changing activities.

8. Other guiding principles and regional programmes

8.1 Development dialogue

Active Swedish participation in both development dialogue and donor coordination presupposes broad competence in development issues and special expertise in the areas selected. In the dialogue with Cambodia, Sweden will pursue ownership, partnership and coordination issues with particular vigour. Other important areas are a democratic social development including respect for human rights, the process of reform, HIV/AIDS and mobilisation of the country's resources.

8.2 Regional programmes

Sweden also provides support through a number of regional programmes. In the environmental area, Cambodia receives project support for water quality and environmental education, among other things, through the **MRC** (Mekong River Commission). **AIT** (Asian Institute of Technology) has a student grants programme linked to a masters degree in subject areas related to natural resources and the environment, and a programme for studies of highland fishery resources, both of which are financed by Sida. Through **UNDCP** (the United Nations Drug Control Program) support is provided to a secretariat that has been set up to fight drugs and to the national drug control programme. Support for private sector development is channelled through the **World Bank/IFC** Mekong Project Development Facility (MPDF), which fosters the development of small and medium-sized enterprises. A regional project under **UNICEF** management is being prepared. Drawing on the active participation of people living with HIV, it aims to bring down HIV infection rates by improving the efficiency of national, regional and local initiatives.

8.3 Concentration on core activities by support phase-out

During the strategy period some Swedish support will be phased out. This applies to rural roads (ILO), water and sanitation (World Bank) and humanitarian mine clearance (UNDP). The water and sanitation project will in fact come to an end during the present strategy period, in December 2001 according to the plan as originally established.

The support for rural roads, managed by the ILO, will terminate in 2002. The project will have made a successful contribution to the elaboration of a national policy based on the project's fundamental principles, and a solid institutional foundation will have been laid. National ownership has grown strongly. Further development in this sector will require both greater resources and a different experience base, and several high-capacity donors are on their way in (ADB, WB, Japan). Through its involvement in the national Seila programme, Sweden will retain a significant role.

Following final extension, the mine dog project will run until December 2002. The project will be followed closely to ensure that the phase-out proceeds in a satisfactory fashion. Support to the UNDP fund for mine clearance will continue at its present level for the first part of the strategy period. A review will be undertaken in 2004 with a view to terminating support during the latter part of the period.

9. Channels and forms

Most Swedish development assistance will be channelled via UN agencies and other multilateral organisations. Bilateral co-financing and direct bilateral aid may be considered in very select, strategically important cases. NGOs will continue to serve as a channel for Swedish aid in the future too.

Budget support for the process of economic reform should be considered on a recurrent basis, proceeding from an assessment of Cambodia's economic, social and political development.

Participation in Sida's international courses is intended to continue, with an improved gender balance among participants. Humanitarian aid can be considered if the need arises. Cambodia is not eligible for development credits. Aid credit financing may be a possibility, but this must be assessed on a case by case basis. Contract financed technical cooperation is not a current option for cooperation with Cambodia.

10. Volume

For the first two years, the annual country budget (total budget) should be about SEK 140 million, at least SEK 100 million of which should come under the country cooperation agreement. This volume assumes some expansion in the main programmes. Provided that development proceed in the right direction, an increase in annual country allocations can subsequently be considered.

11. Administrative resources

Sida has limited administrative resources at its Phnom Penh office. At present the human resources consist of two Sida employees, one bilateral assistant expert and three locally engaged staff. Additional local appointments are planned. In the longer term, a further administrator should be sent out from Sweden to allow the option of delegating budget responsibility.

The planned phasing out of support to roads, water and sanitation, and mine clearance, along with the new concentration on three principal areas, will bring a substantial decrease in the number of operations, which will lead to retionalisation of Sida's administrative resources. In total, it is estimated that approximately three full-time employees per year will be needed for the first two-three years of the strategy period (Sida-S). Thereafter the requirement should be able to decline to about two full-time staff.

Appendix: Draft cooperation agreement.