
Outline of the Study and the Report

Background of the Study

Cambodian political disorder and conflicts from the 1970s were finally ceased by the Paris Peace Agreements of 1991. Since then the Kingdom of Cambodia has advanced its efforts on restoration and reconstruction with assistance from various countries and multilateral donors. In 1998 general election was held by Cambodians themselves and the new government of Hun Sen was established. In 1999 it gained a membership status of ASEAN. Such events illustrate that Cambodia has achieved political stability and rejoined the international community. However, damages and losses brought by long period of disorder in economic and social foundation as well as in human resources were so tremendous and profound that serious obstacles still remain in various aspects of their development process. Japan has taken central role in support for Cambodia, based on the recognition that Cambodia's stability is essential for the peace, stability and further development of Asia-Pacific region.

Purpose of the study

As Cambodia has started full-scale nation building and moved into development phase from reconstruction phase, future direction of Japan's assistance need to be reviewed and redirected toward the new goal. With the aim of contributing to Japan's effective assistance to Cambodia, by proposing medium term prospects and direction of Japan's ODA to Cambodia, the Japan International Cooperation Agency (JICA) organized the Study Committee on Country Study for Japan's Official Development Assistance to Cambodia in August 2000.

Organization of the study committee

Professor Yukio Imagawa was assigned as the chairman of the committee, which consisted of ten members with 14 experts, primarily university scholars and researchers recognized as authorities in their fields of expertise (see the list of members). The committee held six sessions of heated discussions, inviting resource persons from various fields, such as those from the NGO community in Japan, namely, "the People's Forum on Cambodia, Japan". The committee members and 14 experts each responsible for their expertise prepared the report, which benefited greatly from the sessions of discussions and input from resource person.

Structure of the report

This report consists of two parts: "Part I: Summary of Current Condition and Recommendation for Japan's Assistance" and "Part II: Current Condition and Prospects" as follows.

<p>Part I Summary of Current Condition and Recommendation for Japan's Assistance</p>

<p>Part II Current Condition and Prospects</p>

<p>Chapter 1 Overview of Present State of Cambodia</p>

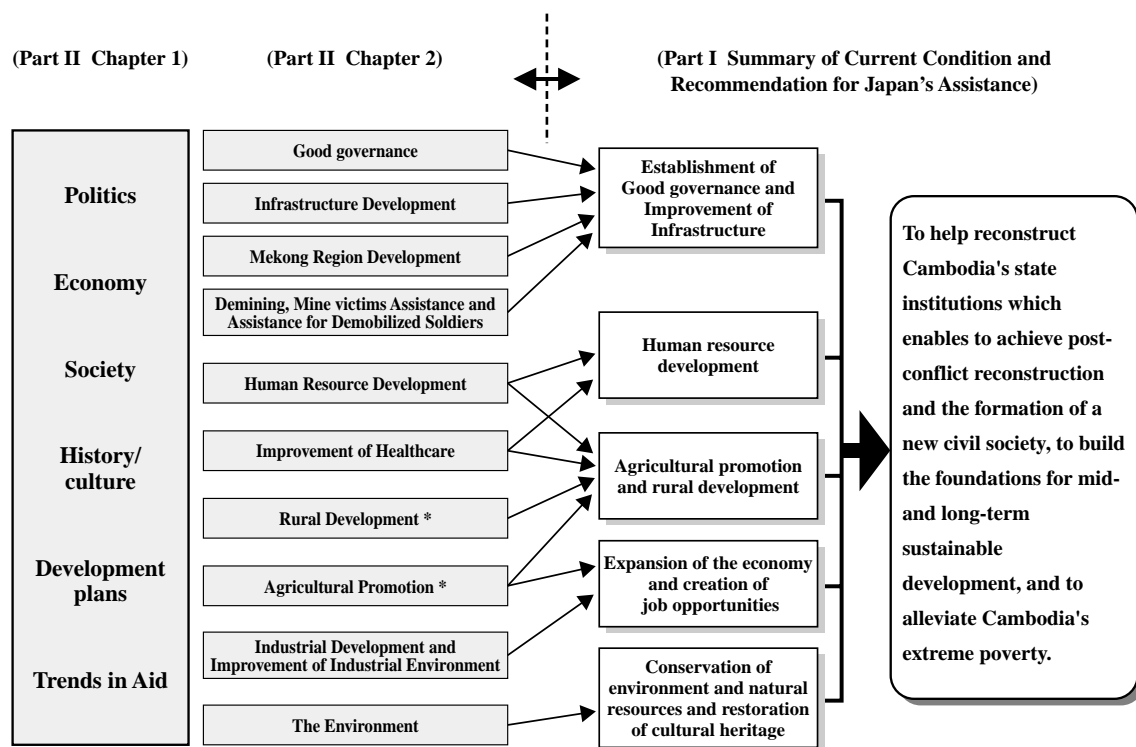
<p>Chapter 2 Sector- and Issue-wise Analyses and Trends in Assistance to Cambodia</p>
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Part I first summarizes the background and the current state of development in Cambodia, which briefly covers the transition from the peace making phase to the reconstruction phase and current development efforts. Then, within the framework of the development assistance, it synthesizes the identified challenges and problems described in Part II. It suggests direction of Japan's basic policy on assistance to Cambodia over the next five years, as well as on the goals and focus of the assistance.

Part II is subdivided into two Chapters: "Chapter 1: Overview of Present State of Cambodia" and "Chapter 2: Sector- and Issue-wise Analyses and Trends in Assistance to Cambodia." Chapter 1 outlines and analyzes the country's politics, economy, society, history and culture, as well as the development policies of the Cambodian government and trends in international assistance to the country. Chapter 2 looks at specific issues such as 'the promotion of good governance' and 'the creation of an environment conducive to industrial development,' to identify challenges and problems related to each issue specifically.

This report also includes appendices. Among them are the perspectives from NGOs, including recommendations from "People's Forum on Cambodia, Japan", a group of NGOs, addressing Cambodia's state of affairs and major development agendas.

Relationship between Part I and Part II is shown in the diagram below.



* These sections are not contained in this report.

Part I Summary of Current Condition and Recommendation for Japan's Assistance

1. Peacemaking, Reconstruction and Development of Cambodia

1-1 From the war in the 1970s to the building of peace

After independence in 1953, Cambodia (now the Kingdom of Cambodia) enjoyed political stability and economic development resulting from advances in healthcare, education and industry under the rule of His Highness Norodom Sihanouk. Towards the end of the 1960s, however, Cambodia was confronted with political disorder and conflicts due to economic crisis, threats from communist in North Vietnam, and air strikes by the United States and South Vietnamese forces in the final stages of the Vietnam War. In 1970, Lon Nol launched a successful coup d'état and deposed Sihanouk as the head of state. Sihanouk found refuge in China, established FUNK (National United Front of Kampuchea) and GRUNK (Royal Government of the National Union of Kampuchea), and let a communist group of the Pol Pot party, the Khmer Rouge join the forces. The Vietnam War was already creating greater chaos, leading to frequent conflicts in Cambodian territory between the North Vietnamese Army allied with the National Liberation Front (NFL) in South Vietnam, and the South Vietnamese government forces allied with those of the United States, also with the Lon Nol government army. The US air force repeatedly raided to push North Vietnamese and the Vietcong forces out of Cambodia. These attacks not only killed many civilians and destroyed many villages, but also ruined huge areas of land due to unexploded bombs, deforestation by Agent Orange, and land mines. During the Lon Nol administration flood of war refugees arose as the result of war and conflict.

In April 1975, the Khmer Rouge expelled Lon Nol, and established the Democratic Kampuchea regime. Angkar (a communist group led by the heads of the Khmer Rouge) implemented radical land reform under the name of Khmer Rouge's particular form of communism. The Khmer Rouge destroyed Cambodia's traditional systems such as social norms, culture, religion, organizations, communities, and families through the pursuit of collectivism. The encouragement of espionage and betrayal resulted in planting distrust and fear among people. The social institutions surviving from the Lon Nol administration were completely destroyed.

During the four years of rule by the Khmer Rouge, 1.7 million people were reportedly killed.

In January 1979, the Vietnamese forces overthrew the Khmer Rouge and supported the establishment of the People's Republic of Kampuchea. Under the Heng Samrin regime as well, continuous battle between Vietnamese forces and the Khmer Rouge caused further waves of refugees and devastating damage to agriculture. Vietnam promoted the collective ownership of farms in order to reconstruct Cambodia through Vietnamese-style communism. In the era of the Cold War, western countries did not recognize the Heng Samrin administration that was entirely supported by Vietnam, and stopped aid to Cambodia. In the latter part of the Heng Samrin administration, Cambodia very slowly returned to stability through increasing national restoration activities.

The conflicts after 1970 are considered to have brought the following impacts on Cambodia.

- (i) Loss of the sense of unity based on royalism and Buddhism
- (ii) Loss of a great many lives and great amount of physical damage and trauma
- (iii) Massive transmigration and relocation of the population, and the virtual collapse of social systems
- (iv) Destruction of public and private infrastructure and facilities, and suspension of various social services
- (v) Collapse of law and order, and intensified distrust of the government
- (vi) Significant changes in the economy including property ownership
- (vii) Loss of confidence in Cambodia's own history and culture

Cambodian peace negotiations started in the late 1980s, rapidly advanced with the end of the Cold War, and finally reached a resolution in the Paris Peace Agreements of October 1991. In March 1992, United Nations Transitional Authority in Cambodia (UNTAC) initiated the Peace Keeping Operation (PKO). UNTAC made great efforts to restore Cambodia through a broad range of activities both in the military and civilian sectors within a limited period of one and a half years. Based on the Fourth Document of the Paris Agreements,

Box 1-1 National Program to Rehabilitate and Develop Cambodia (NPRD)

The National Program to Rehabilitate and Develop Cambodia (NPRD) describes two “principles” and six “action objectives” toward the rehabilitation and development of Cambodia. The first principle is that the Cambodian government should plan and control the development process. The second one is that the government should be a partner of the domestic private sector. The six action objectives are

1. To establish the rule of law
2. To achieve economic stability and structural reform with the aim of doubling GDP by 2004
3. To extend education and healthcare in order to build up human resources and to improve people’s living standards
4. To restore, reestablish and develop the infrastructure and public facilities
5. To reintegrate the Cambodian economy into regional and international economies
6. To emphasize rural development and to manage the environment and natural resources sustainably

The NPRD has the following three pillars supporting this development: (1) continued economic development, (2) sustained development of human capital, (3) sustainable management and use of natural resources. It also emphasizes the following challenges: establishment of good governance; rural development; poverty alleviation; economic reform; development of the private sector; building up human resources; reintegration of veterans into society; improvement of healthcare, education and infrastructure; and Cambodia’s re-integration in the international economy. The program seemed to be widely appreciated and played a role as the precursor to the five-year Socioeconomic Development Plan (SEDP).

the “Declaration on the Restoration and Reconstruction of Cambodia”, the International Committee on the Reconstruction of Cambodia (ICORC) was established. A general election was held in May 1993, followed by inauguration of the Constitution Establishment Assembly, the promulgation of a new constitution of the Kingdom of Cambodia, and the establishment of a new government jointly-headed by Norodom Ranariddh and Hun Sen.

Japan actively contributed to the Cambodian peace negotiations successfully resulting in the Paris Peace Agreements. Japan has also contributed to peacemaking in Cambodia by providing human resources to the PKO in order to help UNTAC’s activities for peacemaking and election support. Despite armed confrontation between Norodom Ranariddh and Hun Sen in July 1997 Cambodia almost recovered peace through the second general election in July 1998 and the formation of a coalition government between Funcinpec and the Peoples’ Party led by Prime Minister Hun Sen in November 1998.

1-2 Development efforts in parallel with the postwar reconstruction

1-2-1 Past development efforts by the Cambodian government

Within a year from the establishment of the new government in 1993, it launched ‘the National Program to Rehabilitate and Develop Cambodia’ (NPRD: 1994), the first full-scale and comprehensive national development program. In 1996, ‘the first Socioeconomic Development Plan 1996-2000’ (SEDP), a five-year national plan was also developed. In this period of postwar restoration and reconstruction, the Cambodian government had severely limited institutional capacity, commitment, human resources and funds. As a result, both the program and the plan were inevitably designed and implemented through the initiative of donors. Throughout the early stage of development efforts, Cambodian ownership remained weak and the programs could not fully attain their objectives. This had a considerable influence on the following stage. Primary points addressed in NPRD and SEDP are summarized in Box 1-1 and Box 1-2.

Box 1-2 Socioeconomic Development Plan (SEDP)

Regarding Cambodia as a nation with a market economy, the SEDP stressed the development of rural infrastructure (especially roads), and proposed the following policy agendas: to introduce a market economy; to improve rural living standards; to promote and attract domestic and international private investment; to privatize state-owned enterprises; and to strengthen administrative services. Focusing on the development of rural districts where 90% of the poor population resides, SEDP intends to allocate 65% of public investment to rural districts (Note: On the completion of SEDP, 35% of public investment was allocated to rural districts, and 65% to urban areas).

SEDP proposed a developmental framework on the assumption that total amount of investment be US\$2.2 billion during the period of 1996 - 2000.

Contents of SEDP**PART ONE: The National Development Objectives and Strategies**

1. Development objectives, strategies, and constraints
2. Employment and poverty
3. Social Reconstruction and Development for the Vulnerable
4. Developing the Rural Areas
5. Managing the Environment and Natural Resources
6. Reforming State Institutions

PART TWO: The Context and Framework of the Plan 1996-2000

7. Economic Performance 1990-1995
8. Macroeconomic, Sectoral and Social Target 1996-2000
9. Public investment and Its Allocation 1996-2000

PART THREE: Sectoral Development Programmes 1996-2000

10. Agriculture
11. Manufacturing and Mining
12. Tourism
13. Transport and Communications
14. Water supply and Electricity
15. Education
16. Healthcare
17. Culture, Religious Affairs and Information.

The objectives of fiscal policy as a part of macro-economic management are i) to reduce external debts, ii) to reduce the aggregate spending for personnel cost for public officials and to increase the wage levels, iii) to expand sources for taxation and to decrease dependence on customs revenue, iv) to shift towards a budget surplus, v) to reduce national defense spending, and vi) to increase spending for physical infrastructure.

For rural development, with respect to the Department of Rural Development and the Rural Development committees, it aims at i) food security centered on rice and grain farming, ii) the introduction of a market economy into rural areas, and iii) an increase in farm profits by fostering small-scale local industries. As a specific measure, it proposes to establish an internal and external marketing (distribution) system by constructing main national roads and rural road networks, and to foster industries by making use of grain, except for rice, livestock industry, forestry (especially rubber), and marine products, taking the environmental impacts into consideration.

In the area of industrial development, the SEDP stressed improvement of the investment environment, through establishing legal and regulatory framework to attract capital investment from domestic and international sources, fostering labor-intensive such as apparel manufacturing and upgrading the level of the work force through education and vocational training. It also gives high priority to creation of job opportunities in rural areas in order to absorb the increasing population entering labor market, such as youth, unemployed public officials and veterans.

Box 1-3 Interim Poverty Reduction Strategy Paper (I-PRSP) (October 2000)

The Interim Poverty Reduction Strategy Paper (I-PRSP) proposes the following three measures to alleviate poverty in Cambodia: i) to accelerate economic growth; ii) to improve the distribution of income and property; and iii) to promote social development. The four basic principles to realize poverty alleviation are also described. The objective, alleviation of poverty will be undertaken by establishing appropriate partnerships with donor organizations and by increasing domestic revenues while paying deliberation to cross-sector issues. The four basic principles for reducing poverty are;

1. Promoting opportunities: fostering macro-economic stability, acceleration of economic growth, facilitating private sector development, improvement of infrastructure, strengthening the energy sector, enhancement of the sustainable development of agriculture, improvement of water resource management, advancement of rural development and decentralization, proper management of natural resources, improvement of living conditions in urban and rural districts, and promotion of land reform.
2. Creating security: establishment of small-scale financial services for the poor, coping with globalization, strengthening of the safety net, environmental conservation, and demining.
3. Strengthening capabilities: improvement of healthcare, securing safe water and sanitation, and enhancement of the quality of education.
4. Protecting human rights: establishment of good governance, the rule of law, and improvement of the conditions for NGO activities.

1-2-2 On-going development efforts by the Cambodian government

The development plans of the Cambodian government which deserve greater attention for the period of next 5 years are 'the Second Socioeconomic Development Plan' (SEDPII, the year 2001-2005) and 'the Poverty Reduction Strategy Paper' (PRSP). In the October 2000, the Interim PRSP (I-PRSP) was completed by the Ministry of Finance and Economy with support of the IMF and World Bank. Thereafter, the SEDP-II and the full PRSP will then be finalized mainly by the Ministry of Planning. Details of both plans are not yet known at this point.

What has been tentatively known about SEDPII as of August of 2001 is that "it sets alleviation of poverty as the primary development goal and elaborates 3 strategies: i) to promote sustainable economic development with equity, ii) to promote social and cultural development, iii) to ensure the sustainable management and the

use of natural resources and the environment"¹. We also should note that the coherence between the full PRSP and the SEDPII is still remained as an unsolved issue.²

I-PRSP released in October of 2000 proposes three measures to alleviate poverty in Cambodia: i) to promote economic growth, ii) to improve the distribution of income and property, and iii) to enhance social policy measures. These three measures are in line with "Three Strategies for Poverty Alleviation" proposed by Prime Minister Hun Sen in May 2000: i) long-term sustainable economic growth at an annual rate of 6-7%; ii) equitable distribution of the benefits of economic growth between the rich and poor, urban and rural areas, and the male and female population; and iii) sustainable management and operation of the environment and natural resources (See Box 1-3 for the outline of the I-PRSP). "The full PRSP" is planned to be finalized after ensuring broad-based participation and coherence with the SEDP II.

As pointed out in the I-PRSP, Cambodian govern-

¹ This information is based on the interview with the Minister of Economy and Finance. The interview was conducted during the field studies conducted in February 2001.

² The Cambodian government has two options. One is to complete the current SEDPII process to gain national approval. In this case, the full PRSP will be treated as a separate document from the SEDP II, but part of the same process. The other option is to make the SEDPII more comprehensive by adding several elements, thereby submitting a more comprehensive SEDPII to the World Bank and the IMF.

Additional work to be added to SEDPII are (i) prioritizing policies and measures to be implemented in three years; (ii) fully costing the public expenditure interventions and programs; (iii) establishing systems for monitoring outcomes; and (iv) undertaking an extensive participatory process, including consultation with the poor.

(Aid-Memoire, Joint World Bank/IMF Mission for PRSP Workshop, April 25-26, 2001)

Box 1-4 Government Action Plan (GAP) (January 2001)

- A. Cross-cutting areas where improvements are fundamental pre-requisites for a functioning government and for the basic rules that underlie a robust economy and society.
1. Judicial and legal reform: establishing basic rules of fairness and predictability
 2. Public administration, Decentralization and Deconcentration: improving effectiveness and efficiency in civil services and government staff
 3. Public finance: improving governance particularly in financial management, customs, tax administration as well as budget management
 4. Anti-corruption: establishing the framework of behavioral rules that set standards probity in economic, social and political life
 5. Gender equity
- B. Specific policy issues
6. Demobilization of the armed forces: maintaining public safety and social peace as well as shifting military spending to development expenditure
 7. Natural resource management (including land, forestry and fisheries management): improving access of the poor to the resources
- The GAP is under the review for identifying priority with World Bank's support.

ment recognizes that establishment of good governance, which will nurture democracy, a liberal market economy, the rule of law, and the protection of human rights is essential to alleviate poverty and to achieve equitable and sustainable development. To show the commitment for various reform plans the Cambodian government announced its Draft Governance Action Plan (GAP) at a CG meeting (May, 2000), then set up the Administrative Reform Committee, and formerly presented GAP in January 2001 (See Box 1-4). This plan is an action plan promoting not only administrative reform but also various reforms widely. The plan highlights that necessity of not just governments' efforts but broad range of cooperative efforts among all the relevant parties including multilateral donors, donor countries, NGOs, and private sector in achieving the objectives. The government seeks to realize concrete target under broad participation among related entities.

2. International Assistance to Cambodia

2-1 Overview

From the collapse of the Pol Pot regime in 1979 through 1982, international assistance to Cambodia was provided with an emphasis on emergency supplies and refugee support. With the United Nations' declaration of the end of the emergency in 1982, international aid agencies and western countries suspended such assistance. Vietnam and the USSR then started to support Cambodia. During the period that western allies ceased provision of assistance, NGOs continued their humanitarian support. Among them, the Cooperation Committee for Cambodia (CCC), the NGO Forum on Cambodia, and Medicam played a major role in coordinating the activities of NGOs. The Japan International Volunteer Center (JVC) has supported Cambodian refugees since February 1980.

After the conclusion of the Paris Peace Agreements in October 1991, international assistance was fully resumed. Accordingly, the International Committee on the Reconstruction of Cambodia (ICORC) has been convened annually since 1993. The Consultative Group Meeting for Cambodia (CG) replaced the ICORC in 1996, and its fourth meeting was held in Paris in May 2000. Japan has led international assistance to Cambodia as the largest donor, and has hosted CG meetings alternately with France. Seventeen nations, including Japan, seven multilateral donors, and representatives of NGOs and the private sector participated in the 4th meeting, and pledged support for macro-economy and reform programs, governance issues, and social sector issues.

The reconstruction and development of Cambodia heavily depends on international assistance. As shown in Table 2-1, the average amount of ODA receipts is around US\$400 million. The net sum ODA in 1998 was US\$337 million, which is 1.38 times the net revenue of US\$245 million in the same year. In 1998, the ratio of the net sum ODA to GNP reached 11.9%. It is much lower than the 23.0% of Laos, but much higher than the 4.3% of Vietnam.

In this section, trends in assistance by each multilateral donors, bilateral donors, and NGO are reviewed.

Table 2-1 Net ODA Receipts by Cambodia

(Unit: million \$)

Donor	1994	1995	1996	1997	1998	1994-98
<DAC Countries>						
Australia	14.3	25.8	28.2	24.0	21.9	114.2
France	28.4	53.4	52.1	27.1	21.4	182.4
Germany	12.2	19.6	14.2	17.0	17.9	80.9
Japan	64.5	152.0	71.3	61.6	81.4	430.8
Netherlands	11.0	11.8	8.4	11.5	9.3	52.0
Sweden	10.1	10.9	16.0	23.0	14.3	74.3
GB	7.0	10.7	12.3	7.4	9.9	47.3
United States	16.0	33.0	28.0	30.0	32.5	139.5
Others	17.5	24.0	22.0	26.8	22.0	112.3
Sub total	181.0	341.2	252.5	228.4	230.6	1,233.7
<Multinational Donors>						
AsDB	16.4	45.4	32.1	10.7	29.3	133.9
EC	11.4	33.0	52.6	32.9	32.9	162.8
IDA	38.2	24.6	45.6	30.4	19.2	158.0
IMF	20.0	42.5	0.0	0.0	0.0	62.5
UNDP	17.8	19.1	18.1	17.5	9.8	82.3
Others	39.6	50.2	20.6	13.6	15.3	139.3
Sub total	143.4	214.8	169.0	105.1	106.5	738.8
Arab Countries	2.2	0.0	0.0	0.0	0.0	2.2
Total	326.6	556.0	421.5	333.5	337.1	1,974.7

Source: OECD (2000)

2-2 Multilateral donors

The major multilateral donors involved with assistance to Cambodia include the International Monetary Fund (IMF), the World Bank, the Asian Development Bank and UN groups. Each of the donors recognizes "alleviation of poverty" as the first priority agenda for Cambodia, and provides support to strengthen governance, reform the economic structure, enhance social development, establish social capital, build up human resources, and promote the private sector development. (See Box 2-1 for each Donor's Activities)

2-3 Donor countries besides Japan

As shown in Table 2-1, while the amount of aid to Cambodia from major multilateral donors and donor countries was at the level of US\$100 million from 1994 through 1998, Japan was the largest donor, providing US\$430 million, followed by France, the US, and Australia.

France is a major ODA donor along with the US and

Box 2-1 Assistance to Cambodia by Major Donors**<IMF>**

The IMF has provided aid to Cambodia since 1994 focusing on reform of the economic structure and state-owned corporations through the Enhanced Structural Adjustment Facility (ESAF) and Poverty Reduction and Growth Facility (PRGF), in order to achieve i) economic growth, ii) a rise in per capita income, and iii) the reduction of poverty.

<The World Bank>

The World Bank has exercised overall leadership in development assistance to Cambodia through activities such as chairmanship of the CG meetings. According to the Country Assistance Strategy (CAS) 2000-2003, the World Bank plans to provide US\$ 270 million over the next four years on the condition that the Cambodian government tackles priority agenda such as management of the macro-economy, public sector reforms, and demobilization. The objectives and priorities are as follows:

<Objectives> To build the foundations for sustainable development and poverty reduction

- <Priorities>
1. To strengthen governance: Enhancement of governance and elimination of corruption, establishment of the rule of law, lifting demobilization and the promotion of the reintegration of veterans into society, administrative reforms, increase in domestic revenues, and reform of the laws and regulation related to land management
 2. To build physical infrastructure: Construction of roads, waterworks and sewerage, electrification, creation of job opportunities in rural areas, and establishment of poverty monitoring systems
 3. To enhance human resources development: Improvement of health services (especially in rural areas), and the quality of education
 4. To facilitate private sector development and to create job opportunities in rural areas: Improvement of the environment for fostering the private sector, reform of civil services, and promotion of investment from the private sector for infrastructure development.

<ADB>

The Asian Development Bank has supported the development of the SEDP and the Mid-term Public Investment Program (PIP) in cooperation with its counterpart, the Ministry of Planning, and has also supported restoration projects for national main roads together with Japan and the World Bank. In addition, it has provided technical support in various fields such as forest restoration, drafting of land laws and support for good governance, and has made efforts to promote SWAP in education in cooperation with the World Bank. The ADB is now developing a Country Assistance Plan (CAP), 2000-2002. Its objectives and priorities are as follows:

<Objectives> Reduction of poverty through economic growth

- <Priorities>
1. Agriculture (development of agriculture, rural areas, forests and natural resources)
 2. Infrastructure (energy, transportation and communications, and finance)
 3. Social infrastructure (healthcare, education, and urban development)
 4. Governance
 5. Gender
 6. Private sector

<UN Group>

Cambodia started its postwar rehabilitation under the supervision of UNTAC and other UN agencies, with the UNDP playing a major role in assistance to Cambodia. The UNDP's principles for assistance to Cambodia are shown in its Country Cooperation Framework (CCF) (2001-2005). Its objectives and priorities are as follows:

<Objectives> To strengthen - both national and local level- through policy dialogue and advocacy, consolidation of the legal framework, enhanced natural resource management, towards the overall goal of poverty reduction.

<Primary priorities>

- Governance (administrative reform, decentralization, the rule of law, and parliamentary reform)
- Poverty Reduction (poverty impacts, human rights, rural and urban poverty)

<Secondary priorities>

- Human capital development (education, HIV/AIDS, women, and land mines)
- Management of natural resources (forests, natural resources management and biodiversity conservation)

Box 2-2 Priority Areas of Assistance to Cambodia by Japan and JICA

Japan places emphasis on implementation of DAC New Initiative, assistance for both hardware-oriented assistance and advisory support in the area of legal system, effective linkage between private and public sector, consideration of development and security from perspective of Indochina region. As with emergency relief assistance such as humanitarian aid, from mid- long- term perspective, i) economic infrastructure ii) basic living area such as health and medical iii) agriculture, iv) human resource development are recognized as priority area.

JICA's Country-specific program implementation plan for Cambodia 2000-2003 identifies eight priority areas based on the following basic recognition:

1. As Cambodian administrative capacity to absorb assistance is limited, not only the transfer of specific technical knowledge but also human resource development that supports institutional building is important.
2. Development of the physical infrastructure that has been damaged over the period of conflicts is essential.

The eight priority areas are

1. Good governance,
2. Creating the environment for economic development,
3. Improvement of the economic and social infrastructure,
4. Extension of healthcare services,
5. Improvement of education,
6. Development of rural areas and agriculture,
7. Removal of land mines and support for land mine victims, and
8. Conservation of natural resources, including forests.

Australia. France regards Cambodia as a special partner due to its former colonial status, and focuses on support for rural development, establishment of a judicial system, and healthcare. It puts weight on cultural support such as the restoration of Angkor Wat. The US considers the democratization of Cambodia as the most important policy issue. Since it does not regard the present government as democratic due to the coup d'état in July 1997, it provides humanitarian assistance not through intergovernmental cooperation, but through NGOs. The US is intending to develop a collaborative agenda in healthcare, such as for HIV/AIDS, as a part of the Japan-US common agenda. Australia contributed to the Paris Peace negotiations, and has provided assistance focusing on agriculture, healthcare, a support for students studying overseas, and removal of land mines, as well as policy proposals in military affairs.

2-4 Japan's assistance to Cambodia and its characteristics

Japan acknowledges that Cambodia's stability is vital for Asia-Pacific region's peace, stability and development. Based on the recognition that a stable government is essential for Cambodia's postwar rehabilitation,

reconstruction and democratization, Japan has supported Cambodia's efforts as the largest donor.

Japan has provided grant aid and technical cooperation through the systematic coordination of various aid schemes. In 1998, the total of Japanese assistance to Cambodia reached 9.67 billion-yen (7.82 billion yen for grant aid, 1.85 billion yen for technical cooperation). Although loan aid had not been provided since 1968 as Cambodia was under the category of an LLDC and politically unstable, it was resumed in 1999 on the basis of a solid trend towards political stability and economic reconstruction by the new government. Grant aid has been provided for transportation infrastructure (roads and bridges), social infrastructure (water supplies and electricity), agriculture, and election support. Technical cooperation has been provided for maternal and child healthcare, tuberculosis control measures, legal reform, demining, resettlement of refugees, and rural development. (See Box 2-2 for priority areas of Japan's and JICA's assistance to Cambodia.)

Japan's assistance to Cambodia has the following characteristics.

- (1) Since the Paris International Conference on Cambodia in July 1989, Japan has contributed to peacemaking, and stabilization as well as recon-

struction of Cambodia. It has actively supported development of Cambodia through activities such as participation in the PKO in September 1992 and hosting CG meetings.

- (2) Japan is the largest donor to Cambodia. The total amount of assistance over the 1994-1998 period reached US\$430.8 million, accounting for 21.3% of the total of US\$1,974.7 million in ODA received by Cambodia for the same period.
- (3) Japan's assistance to Cambodia covers diverse areas ranging from healthcare, education, increase of food production, physical infrastructure improvements, and demining, to legal assistance. It employs most of existing aid schemes, such as grant aid (including non-project grants and grant assistance for grassroots projects), acceptance of trainees, dispatch of experts and study teams, providing equipment and undertaking development studies.
- (4) Although Japan has stressed development of rural areas where 90% of the poor reside, its assistance has been limited to Phnom Penh and its surrounding areas due to security problems.
- (5) Cross-sector approaches in cooperation with NGOs are indispensable to tackle poverty issues including the integration of veterans and land mine victims into society. Since promoting these types of approaches can be accompanied with various constraints, there has been little cumulative experience in this field.
- (6) Although there is trend towards effective and efficient cooperation by strengthening international partnerships to increase Cambodian ownership, the experience of partnership formation has been limited so far due to differences in approaches, aid schemes, and procedures among the donors.

2-5 NGOs

Since the early 1980s, when the relationship between Cambodia and western countries was broken and political and security conditions were unstable in Cambodia, NGOs have provided direct assistance focusing on humanitarian support. The Cambodian government therefore appreciates the role of NGOs, and has given them favorable treatment such as almost the same privileges and exemptions as those accorded to international agencies. Coordination by the Cooperation Committee for

Cambodia (CCC) and other organizations to promote communication among NGOs has successfully led to the publication of periodicals and holdings of meetings for exchange of opinion. The number of NGOs working in Cambodia is between 400 and 600 including international and local ones. Representatives of NGO groups officially participate in CG meetings and local donor meetings through coordinating agencies.

NGOs have actively involved in assistance to Cambodia not only in fields where NGOs have traditionally played major roles such as local healthcare, education and water supplies, but also in highly political fields such as demining (e.g. mapping, removal, education for avoidance, and support for the victims), and good governance (e.g. election monitoring, reviewing various draft laws, corruption countermeasures, and monitoring of illegal logging). The NGO statement for the CG meeting in 2000 identified the priority issues to be addressed by the NGOs as 'agriculture, child's right, commune administration and decentralization, commune elections, disability and rehabilitation, education, fishery, forestry reform, gender and development, good governance, health, HIV/AIDS, human rights, land mines, land reform, microfinance and weapons reduction.

Japanese NGO group, namely "People's Forum on Cambodia, Japan" also recognizes good governance, human resource development, support for the rural poor as priority areas of assistance to Cambodia. (See appendix of the full report)

Japanese NGOs have been involved in activities in various fields including education and healthcare, and have recently started assistance activities in cooperation with ODA through "Grant Assistance for Grassroots Projects", "Community Empowerment Programs" and the "JICA Partnership Program for NGOs, Local Governments and Institutes". Cooperation between NGOs and ODA will be increasingly necessary in fields related to land mines and poverty.

However, generally speaking, NGOs face the following issues: i) the localization of NGOs has been limited by restraints in human resources; ii) the financial base is too weak for NGOs to sustain projects; iii) they are short of human resources. These issues should be surmounted to make their activities more effective.

Box 2-3 A New Development Cooperation Partnership Paradigm for Cambodia (2000)

While this proposal appreciates the substantial contribution of international assistance to the reconstruction and development of Cambodia, it points out various problems such as i) increase in amount of funds beyond the government's control, mainly from capital investments, ii) excessive burden on Cambodia's capacity to receive assistance, iii) a lack of management for aid performance and results assessment through cooperation. In order to resolve these problems, it requires i) promotion of general and comprehensive dialogue and adoption of an focused approach, ii) development of a new means of cooperation, considering the capacity gap, administrative capacity, and constraints of Cambodia, and iii) to reform the management of international assistance. A New Development Cooperation Partnership Paradigm for Cambodia proposes the following six directions towards a desirable partnership:

- (1) To share common visions and objectives: strengthening partnerships by theme, sector, and objectives, specifically to "alleviate poverty"
- (2) To share the recognition on governance and accountability: having a common recognition of desirable forms of governance and accountability, desirable legislative and judicial systems and decision-making procedures and rules to ensure transparency.
- (3) To harmonize targets among partners: adjustment of cooperation targets to maintain a proper relationship with the SEDP and PRSP
- (4) To coordinate cooperation between partners: enabling reliable reporting and monitoring by coordinating fundraising and administrative capacity in order to reduce confusion caused by various projects/program and excessive loads on this capacity
- (5) To consider Cambodia's learning and adapting capacity: Partners need to recognize that a large amount of funds and time are required to achieve the development objectives in Cambodia. Keeping this in mind, partners ought to focus their assistance on technology transfer and the enhancement of human resource development in the field of info-communications where the sector is considerably behind.
- (6) To establish and maintain the reliability of partnerships: In order to form better partnerships, donors should establish systems that make it possible to identify problems and to resolve disagreements by openly coming to decisions based on agreed procedures and rules. As a part of the process, a Sector-wide Approach (SWAP) should be considered in the fields of physical infrastructure, healthcare, education and governance.

2-6 Issues in Cambodia's ownership and international aid coordination

As for consultation between the government of Cambodia and major donors, the CG meeting was held 5 times between the first meeting in 1996 and June of 2001. In addition, the CG monitoring meeting has been held 4 times annually (changed to 2 times at the 4th meeting in 2000) since 1999. At the monitoring meeting current progress of reform efforts required by donors are supposed to be monitored. Furthermore, for the practical discussion 4 sub-working-groups (SWG) have been set up initially for i) forestry, ii) support for demobilized forces, iii) administrative reform, and iv) fiscal reform. Then, SWG for v) social sector (including education, health care, food security and HIV team), and vi) governance have been added.

In terms of already mentioned heavy dependency on international aid, the Cambodian government proposed

"the New Development Cooperation Partnership Paradigm for Cambodia" at the CG meeting in 2000 for the purpose of strengthening its own ownership and making effective use of international assistance to promote development and poverty reduction in Cambodia. The outline of the New Development Cooperation Partnership Paradigm for Cambodia is described in Box 2-3.

There is a remark pointing out that this proposal was developed under the leadership of UNDP, not under the Cambodian government. Such a fact itself shows the current development status of Cambodia.

3. Direction of Further Development in Cambodia

As we reviewed in the previous sections, in Cambodia, i) all social and economic systems were destroyed due to the long period of conflicts, ii) the constitution was revised with every change of ruling regimes, iii) there have been upheavals in economic systems as well due to a series of changes and reversals between capitalism and socialism. In this section, major issue in Cambodia's development and direction for solution are identified based on the current condition of Cambodia.

3-1 Development challenges found in Cambodia

Cambodia lost many lives in two decades of war and conflict. Such prolonged turmoil also produced many refugees forced to migrate in and out of the country. Human resources were significantly impaired and deteriorated due to the breakdown of the workforce and rising levels of illiteracy. Physical infrastructure was destroyed and deteriorated as it was. Similarly, the natural environment was assaulted, and extensive areas of land were ruined by land mines and unexploded bombs.

While Cambodia underwent wars and conflict for 20 years, neighboring countries in the ASEAN region have consolidated the foundation for their development and achieved economic growth by attracting foreign direct investment. This has resulted in hugely disproportionate levels of development between Cambodia and the original ASEAN member states. Although the socialist states of Vietnam and Laos share the same issues for promoting reforms towards a market economy like Cambodia, they do not face the same problems such as the extreme loss of human resources and physical infrastructure. (See Table 3-1 for Comparison of Major Development Indicators between Cambodia and Neighboring Countries)

In addition, it should be noted that Cambodia's population has increased explosively since the 1980s as a secondary impact of the long-term conflicts. Since those aged 15 and under account for almost 50% of the population, school education is now in high demand and a high demand for job opportunities will become apparent in the near future. It is extremely important to enhance the capacity building of young people to create a livelihood and become self-reliant in order to stabilize

the development of Cambodia.

Figure 3-1 shows a summary of the issues for the development of Cambodia. As an overall development issue the committee recognizes i) to reconstruct a state institution destroyed by successive changes of ruling regimes and repeated conflicts, and to recover and develop physical infrastructure; and ii) to develop human resources weakened by long periods of civil war. In addition, to rejoin the international community as well as regional economy and to promote sustainable development, Cambodia must i) take measures for poverty prevalent in rural areas, ii) expand the size of the economy to absorb a rapidly growing population, and iii) recover depleted natural resources and rehabilitate the environment, and restore and conserve the cultural heritage.

3-2 Direction of further development in Cambodia

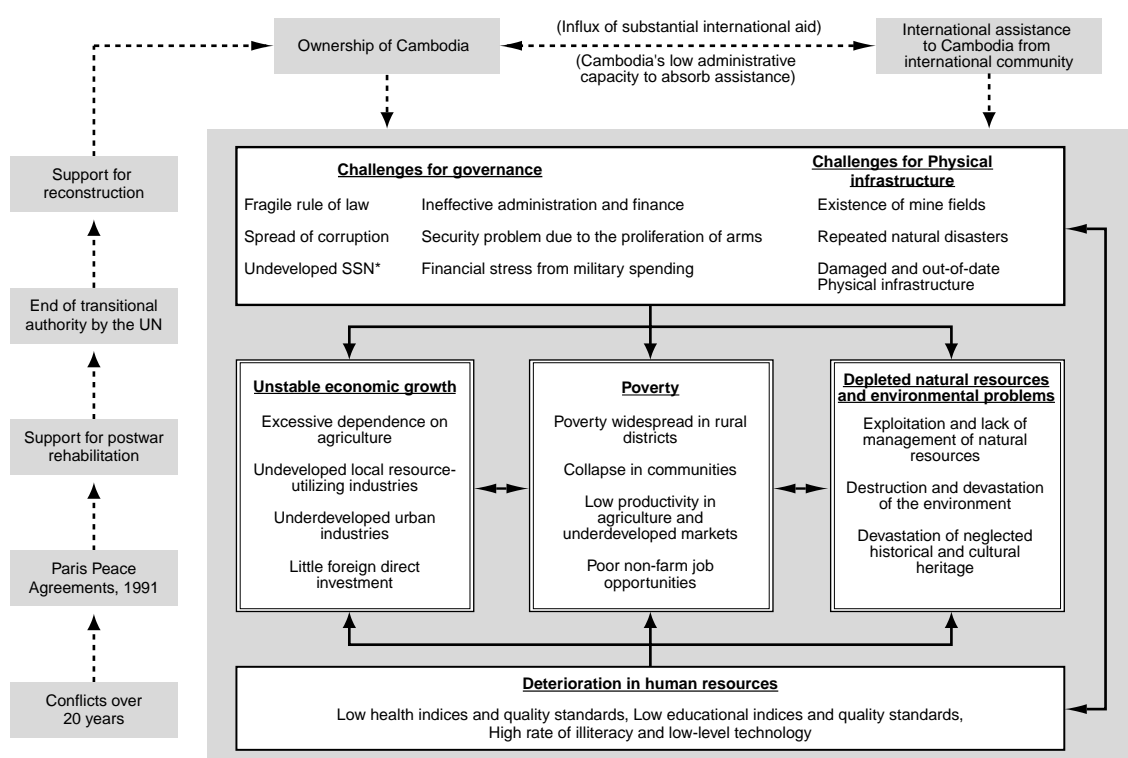
As identified in the previous section, establishment of good-governance, improvement of physical infrastructure and human resource development are fundamental issues for Cambodia. Among issues toward establishment of democratic government, which represents public interest and respects human rights, reform in all aspects in legislature, judiciary and administration are needed. In addition, the fact that prolonged war widened the gap in economic development and created losses and deterioration in quality of human resources weigh crucial importance in development challenges. Such recognition leads to identify the central issue: how to bridge the gap in this serious economic disparity between Cambodia and its neighboring countries. For the time being, in order to work on this central issue, "foundation building" that enables development is vital.

To tackle these development issue as mentioned in 1-2, the Cambodian government has implemented "the National Program to Rehabilitate and Develop Cambodia" (NPRD) and "the Socioeconomic Development Plan" (SEDP) to address the problems. It has also recently developed "the Interim Poverty Reduction Strategy Paper" (I-PRSP), and SEDP II to achieve development objectives. Responding to these efforts by the Cambodian government, substantial international aid

Table 3-1 Comparison of Major Development Indicators between Cambodia and Neighboring Countries

Factors	Cambodia	Lao PDR	Vietnam	Thailand
Surface Area (km ² , 99)	181	237	332	513
Population (1,000, 99)	12,000	5,000	78,000	62,000
Pop. Density (pop./km ² , 99)	67	22	238	121
GNP (bil. US\$, 99)	3.0	1.4	28.2	121.0
GNP per capita (US\$, 99)	260	280	370	1,960
Adult Illiteracy Rate (% , 98)				
male	43	38	5	3
female	80	70	9	7
Pop. Growth Rate (% , 90-99)	2.8	2.6	1.8	1.7
Pop. underage of 15 (% , 99)	49.0	41.1	38.1	31.9
Gini Index (% , 92-98)	40.4	30.4	36.1	41.4
Secondary School Enrollment (% , 97)	39	63	55	48
Access to Improved Water (% , 90-96)	13	39	36	89
Irrigated Land (% , 95-97)	7.1	18.6	31.0	23.9
Arable Land (ha/capita, 95-97)	0.34	0.17	0.08	0.28
Agri. Value Added Growth Rate (% , 90-99)	2.1	4.6	4.9	2.7
Value Added of Industry as of GDP (% , 99)	15	22	33	40
Paved Roads (% of total, 98)	7.5	13.8	25.1	97.5
TV sets per 1,000 people (98)	123	4	47	236
Telephone Mainlines per 1,000 people (98)	2	6	26	84
Mobile Phones per 1,000 people (98)	6	1	2	32
Personal Computers per 1,000 people (98)	0.9	1.1	6.4	21.6
Internet Hosts per 10,000 people (2000)	0.13	0.00	0.02	6.46
Net Private Capital Flow (mil. US\$, 98)	118	46	832	7,825
FDI (mil. US\$, 98)	121	46	1,200	6,941
External Debt Present Value (% of GNP, 98)	62	92	76	79
ODA (US\$ per capita, 98)	29	57	15	11
ODA (% of GNP, 98)	11.9	23.0	4.3	0.6

Source: World Bank (2000b)

Figure 3-1 Challenges in the Development of Cambodia

Note : SSN - Social Safety Net

has been provided through multilateral donors, donor countries and NGOs, and this has led to considerable achievements.

However, it should be noted that donor countries have led the restoration and development of Cambodia, and the Cambodia's ownership of development process has remained very weak. There are several reasons for the weakness of Cambodia's ownership: i) it was only a couple of years ago (November 1998) that a stable government was established after a long period of civil war; ii) balancing the power between the two major parties took precedence over good governance; iii) administrator's knowledge and experience regarding good governance has not been accumulated; and iv) there are not enough qualified civil servants nor incentives to provide the basis for good governance. These factors have complexly created current status of very weak ownership. As we design assistance for Cambodian development these circumstances should be taken into consideration.

As such, not only efforts by Cambodians themselves but also cooperation among multilateral donors are necessary in order to improve Cambodian development issues. Strengthening Cambodian ownership and establishing better partnership are vital agenda as well.

4. Recommendation for Japan's Assistance to Cambodia in Mid-term Perspective

4-1 Viewpoints of Japan's assistance to Cambodia

4-1-1 Significance of assistance

Based on the analyses in the previous section, the significance of Japan's assistance to Cambodia, in other words, basic viewpoints of the assistance are clarified in this section.

(1) Political and economic stability of Cambodia vital for the ASEAN region

Japan, as a leader of economy in the region, it has contributed to development of private sector activities in Asia. In provision of Official Development Assistance (ODA) as well, Japan has given priority to Asian region. In 1998, for instance, Japan provided ASEAN countries with US\$2.36 billion, equivalent to 27.4% of the total amount of Japanese ODA. The top ten recipient countries of Japan's bilateral ODA include five ASEAN countries: Indonesia, Thailand, Vietnam, the Philippines and Malaysia.

While globalization is integrating the economies of the world into one economy, integration within regional economic blocs, such as EU, NAFTA and ASEAN is also being accelerated simultaneously. Among such trends the member states of ASEAN are now focusing their efforts on regional cooperation toward the elimination of tariff and other trade barriers throughout the ASEAN Free Trade Area (AFTA) which comes into effect in 2002. Such further economic development facilitated among ASEAN countries has direct and immediate importance for Japanese economy as well. Japan should, therefore, continue to show strong commitment in supporting the region as it has provided. Since long-term political and economic stability are precondition for promotion of such regional economic development, stabilization of Cambodia is vital as it is considered to be one of the least stable of ASEAN countries. One of the central perspectives of Japan's assistance to Cambodia is therefore to contribute to its political and economic stabilization.

(2) Closing the gap between Cambodia and ASEAN countries

The variations in level of development of ASEAN countries are very large. Whereas Singapore has a per capita GNP of nearly 30,000 dollars, for countries such as Cambodia, Laos, Myanmar and Vietnam it is less than 500 dollars. For AFTA to fulfill its purpose of promoting intra-regional cooperation, the economies of the least developed countries must be helped to overcome this economic gap. In particular, growth of Cambodia, which has suffered tremendous damage over the years from conflicts and chaos, is the key to upgrade the economic status of the region. In other words, the recovery of Cambodia's initial conditions for development is essential not only for the reconstruction and development of the country, including its rural area burdened by extreme poverty, but also for the long-term development of the economy of ASEAN as a whole. Therefore, the second perspective of Japan's assistance is 'foundation building' of Cambodia to catch up with other developed countries in ASEAN.

(3) Model case for realizing sustainable development of post-conflict country

Cambodia has been an important partner for Japan's diplomacy. Historically, Cambodia renounced its right to demand compensation from Japan after World War II, which indirectly helped Japan to recover from the debilitating effects of the war to become a peaceful nation. The Cambodian peace negotiations after 1986 became a turning point for Japan's foreign policy, from the traditional 'passive diplomacy' of postwar compensation to a new 'creative diplomacy' of playing an active role in building peace in Cambodia. Cambodia was also the destination of Japan's first participation in the PKO in 1992 and 1993, where the Japanese contingent worked for the Cambodian restoration and the implementation of a general election.

In order to contribute to the development of Cambodia based on these past diplomatic outcomes, Japan should make every effort to continue its support to Cambodia. If Cambodia can realize the slogan "The end of war, postwar restoration and reconstruction and now to-

wards sustainable development”, it would not only give a great hope to other countries experienced conflicts, but also enrich Japan’s “creative diplomacy” toward peace building. So the third focus of Japan’s perspective regarding Cambodia is to ensure that this assistance experience provides a ‘model case’ of leading a post-conflict country towards sustainable development.

4-1-2 Basic principles of Japan’s assistance

Based on recognition of the aforementioned perspectives and current context in the implementation of assistance to Cambodia, the basic principles of Japan’s assistance for Cambodia in mid-term can be summarized in the following three points.

(1) Defining the next five years as a period of ‘foundation-building’ for Cambodia’s catching up:

As shown in Figure 3-1, Cambodia faces many problems, including the establishment and reinforcement of its ownership of the development process. These problems need to be solved by taking a cross-sector approach as well as an integrated organizational approach extending from the central to local government levels. It is very important to promote the “Three Strategies for Poverty Reduction” (economic growth, equitable distribution of economic benefits and management of the environment and natural resources) advocated by Prime Minister Hun Sen. However, prior to, or in parallel with the implementation of these strategies, the preconditions for reconstruction and development, such as good governance, physical infrastructure and human resources capacity must be reinforced. The committee identifies the next five years as a period of foundation building and recommends that Japan prioritize assistance for foundation building.

(2) The primary objectives of Japan’s assistance in the period of ‘foundation-building’ are as follows:

- *To help reconstruct Cambodia’s state institutions that will enable it to achieve post-conflict reconstruction and the formation of a new civil society, to build the foundation for mid- and long-term sustainable*

development, and to alleviate Cambodia’s extreme poverty.

The key issue in the organization of state institutions is the establishment of good governance and the development of physical infrastructure. In foundation building toward sustainable development, the enhancement of human capital development will be a crucial factor. To alleviate extreme poverty, priority should be given to rural areas where 80% of the national population lives and its population is showing rapid increase. The measures include agricultural and rural development, creation of job opportunities, and the conservation of natural resources and environment. This proposal means that cooperation should be provided in a broad range toward improvement of fundamental issues without placing exclusive focus on particular development issues.

(3) Significance of strengthening Cambodia’s ownership and international aid coordination

Cambodia is confronted with a number of hurdles to overcome on the path toward reconstruction and development, as shown in Figure 3-1. Nevertheless, international assistance is now flowing into Cambodia significantly beyond its absorptive capacity, which is resulting in yet another burden on the Cambodian government. As a consequence, various individual assistance activities without coordination are weakening Cambodia’s ownership. In this context, Japan should lead international aid coordination efforts and help to strengthen ownership of Cambodia.

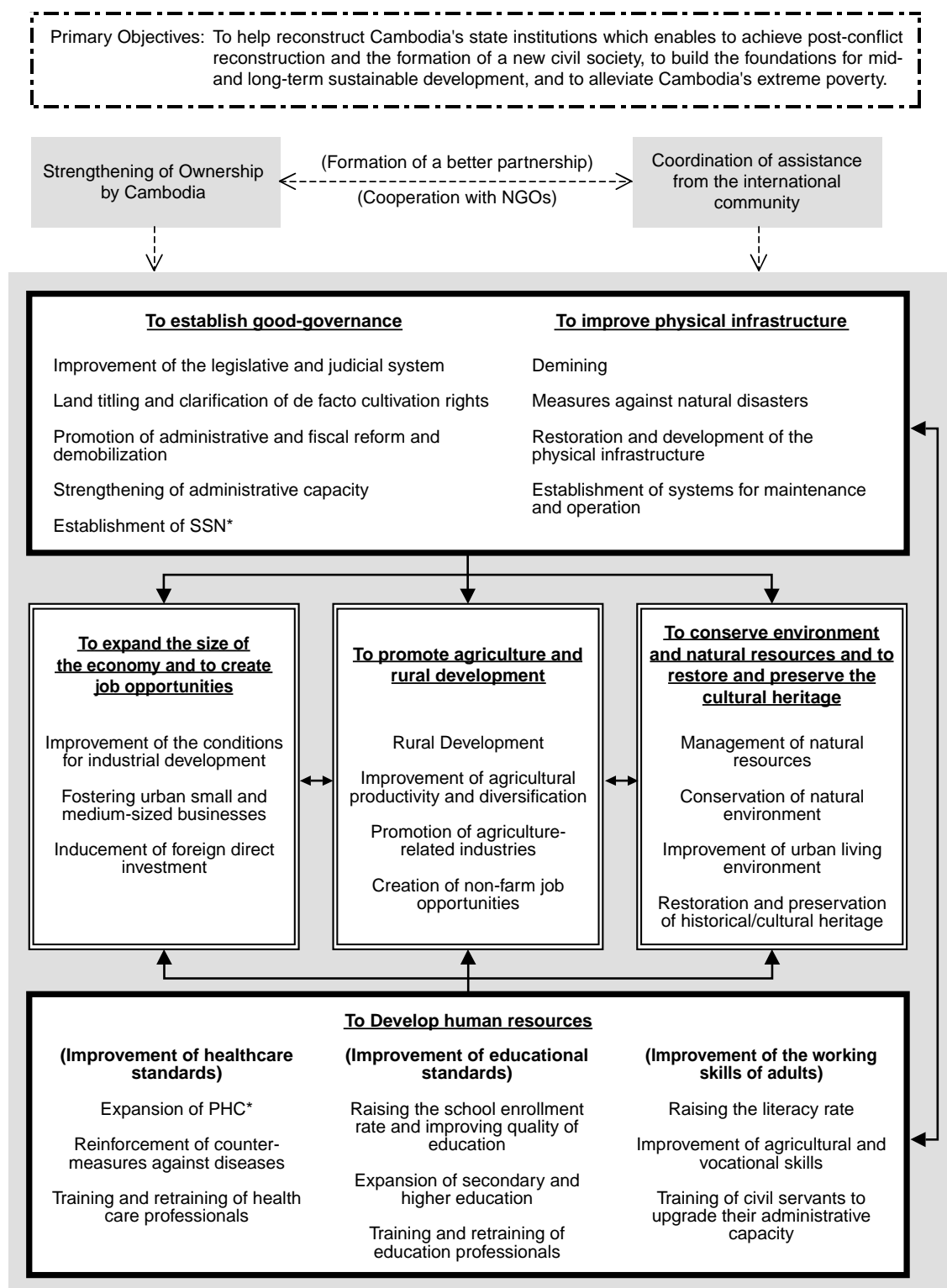
4-2 Basic framework for Japan’s assistance to Cambodia

Based on the perspectives showed in the figure 4-1, Japan’s mid-term basic framework and priority issues of the assistance to Cambodia are specified.

4-2-1 Framework for Japan’s assistance to Cambodia

To achieve the primary objectives the study committee has drawn concrete ‘Framework for Assistance to Cambodia’. As shown in Figure 4-1, the framework

Figure 4-1 Framework of Japan's Cooperation for Cambodia



* SSN : Social Safety Net, PHC : Primary Health Care

consists of five sub-objectives as follows:

- (1) To establish good governance and to develop physical infrastructure
- (2) To develop human resources
- (3) To promote agriculture and rural development,
- (4) To expand the size of the economy and To create job opportunities
- (5) To conserve natural resources and environment, and to restore and preserve the cultural heritage.

The sub-objectives (1) and (2) serve as bases for foundation building and are prerequisites for the achievement of the other sub-objectives. Therefore, the former two sub-objectives (1), (2) are given the highest priorities. As the committee recognizes the importance to alleviate extreme poverty, it stresses foundation building in the latter three sub-objectives (3), (4), (5) as well. Moreover, the restoration and preservation of Cambodia's cultural heritage is significant both for the nation and for all humankind. Japan has expressed its strong commitment to assisting these efforts.

With the framework shown above, in order to elaborate Japan's assistance to Cambodia, additional three elements should be taken into account, such as Cambodian government's next five years development plan, trend in international assistance, and experience of Japan's ODA and activities of NGOs.

- (i) As referred in 1-2-1, SEDPII is basically succeeding the framework presented in SEDP. However, the fact that the poverty map is currently under process of formulation in finalization of PRSP should be noted. Depending upon the outcomes of the mapping, there is a possibility that poverty targeting and regional poverty reduction strategy will be more clarified. If this is the case, methods of assistance implementation could be affected.
- (ii) In comparison with tendency of international cooperation toward Cambodia, Japan's assistance is not concentrated on particular sub-objectives, but rather covers a broad range of needs³. The establishment of "good governance" is unquestionably important for Cambodia, which is moving

toward development stage from reconstruction.

We also need to recognize significance of taking measures for the issues require long-term efforts, such as development of physical infrastructure and economic growth in parallel with the effort for legal and judicial reform, administrative and fiscal reform and the establishment of social safety nets. Therefore, Japan should maintain its style of assistance based on a long-term vision rather than as short-term conditionalities.

- (iii) Since NGOs have involved the communities and local authorities as their counterparts, their experience is essential for the extension of ODA to the local level. In particular, coordination and cooperation with local Cambodian NGOs should be encouraged. When ODA agencies and NGOs cooperate in activities for achieving the same issue, NGO's on infield experiences are complementary rather than overlapping. Therefore, it is desirable for both sides to seek coordination and cooperation in planning with a view that assistance can be grouped by the degree of each role such as i) ones mainly dependent on NGOs, ii) ones complementarily between NGOs and ODA agencies, and iii) ones led by ODA agencies.

4-2-2 Priority development issues of Japan's assistance to Cambodia

Based on aforementioned framework and elements, the committee proposes priority development issues under sub-objectives. (Table 4-1. p.25 shows basic understanding for each priority development issues)

(1) To Establish Good Governance and to Improve Physical Infrastructure (Key issues for foundation building)

1) Establishment of Good Governance

Five priority issues to be focused on for "the establishment of good governance" are i) improvement of the

³ The sectoral allocation of international assistance projects by the number of projects are closely looked by utilizing information from the CAS (2000-2002) of World Bank and JICA's Country Specific Project Implementation Plan 2000. Half of ODA has been devoted to 'establishment of governance', and the second largest portion is for 'human resource development' (18%). The total support for these two issues accounts for almost two thirds of the total number of the projects. The 'development of physical infrastructure' has been given only 12% of assistance. But on the other hand, in Japan's assistance, the biggest portion of assistance (29%) goes to 'developing physical infrastructure', with 26% to establishing good governance and 19% to 'human resource development'.

legislative and judicial systems, ii) land titling and clarification of de facto cultivation rights, iii) promotion of administrative and fiscal reform and demobilization, iv) strengthening of administrative capacity, and v) establishment of social safety nets.

The Cambodian government is trying to cope with these issues mainly through its Governance Action Plan (GAP), while multilateral donors such as UNDP, the World Bank (WB) and the Asian Development Bank (ADB) are concentrating their assistance on this issue. So far, Japan has provided focused assistance in reform of the legal system and the strengthening of administrative capacity.

In the field of the establishment of good governance, it is essential to recognize that ownership of Cambodia has not yet been established. As long as ownership remains weak, the solid establishment of good governance is still difficult even if institutional aspects, such as legal and judicial systems are reformed. Japan should pay close attention to how these efforts are progressing, and prioritize its assistance by selecting urgent themes from the abovementioned five priority issues. In actual assistance operations, the gender aspect should always be considered.

2) Improvement of Physical Infrastructure

For “the development of physical infrastructure”, the following four priority development issues should be stressed: i) demining, ii) measures against natural disasters, iii) restoration and development of physical infrastructure, and iv) establishment of systems for the maintenance and operation.

The Cambodian government has been tackling these issues by setting up a “National Program to Rehabilitate and Develop Cambodia (NPRD)” and the “Socioeconomic Development Plan (SEDP)”, with the focus on post-war restoration and reconstruction. The scope of international assistance led by the WB and the ADB has also been the same. As already mentioned, Japan has given priority to physical infrastructure reconstruction, which the Cambodian government highly appreciates. The government expects Japan to continue this policy.

In every part of Cambodia there is a nationwide need for the development of infrastructure. As development of infrastructure requires a considerable amount of fund, projects should be carried out based on long-term planning. The removal of land mines requires steady con-

tinuous assistance, and natural disaster control necessitates countermeasures against repeated droughts and floods. In the restoration and development of infrastructure, improvements in the transportation network, as well as electricity, communications, schools and health centers are necessary. The transportation network must be developed at various levels, such as international access facilities, the national trunk road network, access to isolated districts and villages, and community routes between farms and markets.

It is obvious that the Cambodian government cannot rely on international assistance for all of these developmental efforts, and that the government should promote self-reliant efforts. As there are various levels of infrastructure building, from nationwide to community levels, the maintenance and operation systems should be organized according to these levels. The active participation of citizens and NGOs is desirable at community-level. For medium-level development, local institutions should establish their own systems for maintenance and operation even though international assistance in terms of funds and technology are required to some extent. The development of nationwide infrastructure development that requires sophisticated technology can mainly be provided through international assistance including the private sector.

(2) To Develop Human Resources (Key issues for foundation building)

The sub-objective “building human resources” consists of three areas: improvement of levels in health, education and vocational skills of work force. Each area has three priority issues. In the area of health, the focus should be on i) expansion of primary health care, ii) reinforcement of countermeasures against diseases, and iii) educating and retraining of healthcare professionals. In the area of education an emphasis should be placed on i) an increase in the school enrollment rate and improvement of the quality of education, ii) expansion of secondary and higher education, and iii) the training and retraining of education professionals. To improve the vocational skill of the workforce, the stress should be on i) increasing the literacy rate, ii) improvement of agricultural and vocational skills, and iii) training of civil servant to upgrade administrative capacity.

Cambodia's long period of civil war destroyed the systems and facilities in health and education. The

damage to and decline in the quality of human resources in these fields are obvious. Since peace has been restored, the rate of increase in the population has accelerated in the 1990s, and the need for education and job opportunities for young people has been growing substantially. The Cambodian government is making efforts to achieve these sub-objectives through the NPRD and SEDP with various assistance by the UN agencies and NGOs. Japan, too, has been providing support in this field through maternal and child health care, school construction and training programs.

The reinforcement of human resources has been given precedence both in international and Japan's assistance. Coordination with other international assistance is therefore indispensable. In order to achieve good results in this field, assistance must coincide with a wide variety of Cambodian needs, and so a substantial assistance menu should be prepared. This includes training programs in developed countries including Japan, programs in the countries of ASEAN to which Cambodia belongs, and internal training to deal with local problems. In the fields of health, education and vocational skill development, in order to contribute to poverty reduction in rural areas, assistance should not be limited to areas in and around Phnom Penh, but operations should be expanded to every district of Cambodia, with a cautious examination of security condition. Coordination and liaison with the UN system and NGOs will be useful both for the development of human resources, and for information exchange of security conditions.

(3) To Promote Agriculture and Rural Development (Reduction of Extreme Poverty)

The sub-objective "to promote agriculture and rural development" aims at "reducing extreme poverty" in rural area where 90% of the poor reside. In this field Japan should stress the following priority development issues in assistance: i) rural development, ii) improvement of agricultural productivity and diversification, iii) promotion of agriculture-related industries, and iv) creation of non-farm job opportunities.

The Cambodian government is prioritizing poverty reduction efforts in the NPRD, the SEDP, "Three Strategies for Poverty Reduction" and the I-PRSP. Multilateral donors such as the UN agencies, WB and ADB,

many donor countries, and NGOs are also cooperating with each other on poverty reduction efforts. Japan has provided assistance for rural development (tripartite cooperation with the participation of ASEAN experts), support measures for the victims of land mines and other assistance through NGO activities. Here again, coordination and liaison with other multilateral donor is important, especially when trying to expand assistance to rural areas. NGOs that are closely involved in the communities are playing an important role in rural development and betterment of the life of socially vulnerable groups. Therefore cooperation with NGOs is crucial.

Much of the international assistance places "rural development" in the core of poverty reduction measure. A model case is the UNDP's SEILA Program, in which assistance is initially provided to areas designated for pilot programs and then expanded to other areas based on the outcome of efforts in the pilot program areas. Japan's assistance has been limited to areas in and around Phnom Penh due to security management problems, but as Cambodia is stabilizing, the assistance area should be enlarged to cover the whole country. Rural development should be placed at the center of poverty reduction in Japan's assistance as well. This assistance should be provided in a comprehensive way, i) to ensure annual household spending of rural inhabitants (through improvement of agricultural productivity and diversification), ii) to mitigate vulnerability of the people against natural disasters and diseases (promotion of agriculture-related industries and the creation of non-farm job opportunities), and iii) to enable to adapt advancement of industrialization and market economy in Cambodia.

(4) To Expand the Size of the Economy and to Create Job Opportunities

As presented in "Three Strategies for Poverty Reduction" it is essential to expand the whole size of the economy as well as to give direct support to the poor in Cambodia, whose population is increasing very rapidly. The committee identifies three priority development issues in the objective "to expand the economy and job opportunities": i) improvement of the conditions for industrial development, ii) fostering urban small and medium-sized businesses, and iii) inducement of foreign direct investment.

The Cambodian government emphasizes economic

growth and industrial development in its NPRD and SEDP, and economic growth in the “Three Strategies for Poverty Reduction”, I-PRSP and SEDPII. Despite such strong needs, Japan and other donor countries have not devoted much assistance to this area. There are two reasons for less assistance have been provided to expansion of the economy: i) the priority for assistance to Cambodia has been given to the establishment of good governance, the improvement in physical infrastructure and human resource development, and ii) in a market economy, expansion of the economy largely depends upon private sector initiative. Possible government role is limited to the improvement of investing environment.

Economic growth through industrial promotion hinges greatly upon the establishment of good governance such as the extent of democratization, legal systems, and property rights, etc., and of the private sector development such as creation of new business, investment and management. Although Japan is considered to have substantial experience in this field from its own postwar restoration, such experience can hardly be applied directly to Cambodia. Such difficulty in applying Japan's experience lays in the fact that Cambodia currently has considerable problems in relation to good governance, economic and social infrastructure and human resources, and does not have a sufficiently clear advantage for attracting private investment compared to neighboring countries such as Vietnam and Laos.

However, it is also true that Cambodia is required to dismantle intra-regional trade barriers in the near future under the framework of AFTA, for which preparations need to start. In the next five years, Japan should emphasize “improvement of condition for industrial development” including human resource development. For “the inducement of foreign direct investment” Japan is expected to support designing an industrial promotion plan regarding the creation of free trade areas (FTA) and export processing zones (EPZ).

(5) To Conserve Natural Resources and the Environment and to Restore and Preserve the Cultural Heritage

Due to the two decades of conflict and the recent overexploitation of forest resources, Cambodian natural resources and environment have been degraded substantially. To make sustainable development possible, the restoration of such resource is essential.

Under the sub-objective “to protect natural resources and the environment” and “to restore and preserve the cultural heritage” the committee has identified four priority issues: i) management of natural resources, ii) conservation of the natural environment, iii) improvement of urban living environment and iv) restoration and preservation of the cultural heritage. The Cambodian government has addressed the conservation of natural resources in NPRD, SEDP, “Three Strategies for Poverty Reduction”, I-PRSP and SEDPII, and the restoration and preservation of the cultural heritage in SEDPII. Although there has been relatively not much international assistance in this field, some efforts have been made in forest management, environment management and personnel training. Japan is initiating the assistance for forest restoration.

Despite the fact that the Japan's experience in assisting this field is very much limited, the natural environment of Tonle Sap Lake and the Mekong River, which many people rely on for their livelihood, requires immediate action for protection. To achieve this sub-objective, coordination is necessary between macro-assistance such as an environmental management plan, and micro-assistance such as improvement in livelihood of local people. The suitable combination of both approaches as well as strengthening ties with NGOs for the micro-assistance are required.

Although it differs viewpoints with conservation of natural resources, restoration and preservation of Cambodian historical and cultural heritage is important not only for Cambodia itself but also for the whole world. Assistance should be given mainly to train those who will take charge of restoration and preservation activities.

Table 4-1 Outlines of the Priority Development Issues under the Five Sub-Objectives (1/6)

1.1 To Establish Good Governance (Key issue of foundation building)
<p>1.1.1 Improvement of the Legislative and Judicial Systems</p> <p>Neither the necessary legal system nor the independence of the judiciary has been established in Cambodia. There is an absolute shortage of specialists practicing in the field of the rule of law. In the belief that the legal and the judicial systems are central to upholding democratization and human rights, Japan has undertaken to focus on:</p> <ul style="list-style-type: none"> • Development of the legal and judicial systems, including establishment of the civil code and the civil procedural law that are now providing support, • Education of legal professions, • Promotion of legal education and studies, and • Education for democratization with the aim of spreading awareness of the rule of law and human rights <p>As many multilateral donors and donor countries are involved in this field, Japan needs to coordinate and cooperate with them. Support for NGO activities should also be considered as part of the promotion of human rights and democratization.</p>
<p>1.1.2 Land Titling and Clarification of de facto Cultivation Rights</p> <p>In Cambodia, few people have a certificate of title for their own land. This is resulting in a rising number of disputes over land and a further increase of landless farmers. The Cambodian government is now initiating land reform to prevent unlawful occupation and to preserve forests. Japan should primarily support land reform by the government, as this issue could also determine the success of poverty reduction efforts. While international assistance is mostly limited to land status surveys, Japan's support for Cambodian government's reform should be based on an clarification of the status of the vested interests of rural inhabitants and systems that protect de facto cultivation rights of these people.</p>
<p>1.1.3 Promotion of Administrative and Fiscal Reform and Demobilization</p> <p>The inefficient and overstaffed administrative organization of Cambodia including the National Army needs to be rationalized and streamlined. Basis for tax collection needs to be reinforced to increase tax revenue. To address these issues, the government is now undertaking a National Administrative Reform Program (1999-2003). Japan should provide support to this program as well as the Veterans' Self-reliance Assistance Program, which is indispensable for peace-building and fiscal restructuring. To encourage veterans to reintegrate into the society, measures to improve the livelihood of socially vulnerable groups should also be supported.</p>
<p>1.1.4 Strengthening of Administrative Capacity</p> <p>The administrative capacity of the national government, which is essential for tackling the challenge of the developmental issues described in 1.1.1-3 above, must be strengthened. At the same time, capacity building of local authorities needs to be addressed since they play an important role in the decentralization now in progress. The Commune Councils are expected to take charge of administrative services in communities, but their capacity is very low at present. Therefore, while bearing in mind that the SEILA Program being carried out by UNDP is expected to expand, emphasis should be placed on capacity building at the local administration level. This includes support for local authorities as well as other organizations that have close relations with local administrations such as the Ministries of Social Welfare, Women, Health, Education, Rural Development and the Environment.</p>
<p>1.1.5 Establishment of Social Safety Nets (SSN)</p> <p>The socially vulnerable population in Cambodia used to consist mainly of returning refugees, war victims, including mine victims, and landless peasants. However, now there are an increasing number of new socially vulnerable groups such as unemployed public sector workers. To address this problem, the I-PRSP emphasizes the importance of the Social Safety Net (SSN). Japan has provided assistance through tripartite cooperation in the resettlement of refugees and rural development and through the Veterans' Self-reliance Support Program. In addition to enhancing this assistance, Japan should also support efforts in strengthening the problem-solving capacity of socially vulnerable groups through related institutions such as the Ministry of Social Welfare. Many NGOs are involved in this field, and Japan should coordinate and cooperate with them.</p>

Table 4-1 Outlines of the Priority Development Issues under the Five Sub-Objectives (2/6)

1.2 To Improve Physical Infrastructure (Key issue of foundation building)
<p>1.2.1 Demining</p> <p>Japan's assistance for the removal of land mines has been conducted by means of support to CMAC. However, since September 2000, when the CMCC was established to supervise both mine removal activities and the provision of support to the victims, there has been systemic confusion. This field of assistance can be divided into (1) land mines removal activities, (2) support and rehabilitation of victims, (3) education to avoid mines, among which Japan should focus on (2). It is also necessary to support capacity building within the Ministry of Social Welfare and to coordinate and cooperate with NGOs in the actual support operations.</p>
<p>1.2.2 Measures against Natural Disasters</p> <p>Cambodia has suffered from repeated floods and drought. Strengthening the capacity to deal with natural disasters is vital. In relation to Mekong river basin development, Japan should provide support to the development of a weather information system, a prioritized protection plan and a disaster recovery plan. After priority projects are identified in these plans, assistance should be provided to them. Irrigation development is expected to be included in these plans, and assistance to this field should be carefully planned from a broad perspective in order to link disaster prevention with strengthening agricultural productivity and promotion of diversification.</p>
<p>1.2.3 Restoration and Development of Physical Infrastructure</p> <p>For the purpose of foundation building for post-conflict reconstruction and future development, physical infrastructure (transportation, communications, electricity, schools, hospitals, etc.) must be restored and improved, at the state level, community level and commune level. Japan should participate in designing plans, organizing maintenance and operation systems, and developing human resources in order to assist priority projects for restoration and development. In relation to poverty reduction, strengthening physical infrastructure at the rural commune level should be promoted as a priority on the basis of community participation and coordination and cooperation with NGOs.</p>
<p>1.2.4 Establishment of Systems for Maintenance and Operation</p> <p>In order that assistance regarding issues 1.2.1-3 above may be highly cost effective and sustainable over the long term, ownership by Cambodia is essential. Except for state level infrastructure that requires large scale funding and highly advanced technology, Cambodia's own human resources and technology should be fully utilized. To make this possible, Japan should provide support in organizing the required systems (human resources, technology, information, hardware, immediate funds, etc.). From the viewpoint of the ownership of operation and maintenance, support for institutional building such as fund raising and management based on community participation and the principle of user fees is also important as well.</p>
2. To Develop Human Resources (Key issue for foundation building)
<p>2.1 Improvement of Health Standards</p> <p>(1) Expansion of PHC</p> <p>Primary Health Care (PHC), a practical strategy of Health for All (HFA), emphasizes the importance of maternal and child healthcare. In reality, Cambodia remains at a very low level in terms of infant mortality, maternal mortality, and basic reproductive health. PHC is also indispensable for the reduction of extreme poverty. Japan should support the improvements for health education, nutrition, safe water, hygiene, health workers, health centers, etc., by developing the institutional capacity, facilities and personnel to maintain them. Assistance should pay particular attention to coordination with rural development policies and the activities of NGOs.</p>
<p>(2) Reinforcement of Countermeasures against Diseases</p> <p>In Cambodia, there are many cases of malaria, parasitic diseases, tuberculosis and HIV/AIDS. The government is directing its efforts at reinforcement of the healthcare system, the integration and improvement of programs at health centers, and the upgrading of medical technology. Undeveloped healthcare systems are closely related to poverty and the heavy burden of medical expenses can lead to the loss of land. Coordination and liaison with NGOs is needed again in this field. Japan should continue and reinforce its assistance for countermeasures against tuberculosis and infectious diseases, and at the same time, should stress assistance for HIV/AIDS treatment in a new cooperative relationship with the United States.</p>

Table 4-1 Outlines of the Priority Development Issues under the Five Sub-Objectives (3/6)

<p>(3) Training and Retraining of Healthcare Professionals</p> <p>Because of the history of genocide of intellectuals by the Pol Pot regime, there is a shortage of doctors, and even illiteracy among healthcare professionals. The government is trying to reform medical schools and nursing schools, but is still at the stage of trial and error. Japan should focus on the education and retraining of health nurses, midwives and district health officers who are at the frontline of PHC. Consideration must also be given to the improvement of medical education and medical technology schools, education for medical practitioners, and the education and retraining of local government workers.</p>
<p>2.2 Improvement of Education Standards</p> <p>(1) Raising the School Enrollment Rate and the Improvement of Quality of Education (primary education)</p> <p>Although the school enrollment rate has risen in Cambodia, regional disparities have become wider. The dropout and failure rates are high, and the disparity between the sexes is obvious. The government is now building a Pro Poor Education System Plan along with SEDPII. Besides the proposals in the Plan, the outcomes from the School Building Plan with Community Participation (overseas development studies) conducted by Japan will provide a basis for assistance towards the improvement of the quantity and quality of elementary education. Such assistance includes the provision of education services to meet local needs and the operation of schools through community participation. It is necessary to pay close attention to the trend towards sector-wide approaches and to the relationship with rural development efforts, while pursuing coordination and establishing liaison with NGOs.</p>
<p>(2) Expansion of Secondary and Higher Education</p> <p>Cambodia urgently needs to train workers with special knowledge and skills in preparation for the market economy. But the enrollment rate for early secondary education is still very low (30% in 1998). As this is mainly because the number of schools is too small, the number of schools for secondary education must be increased though it requires large amount of educational budget. Japan has addressed the improvement of secondary education services through the Secondary Teacher Training Project in Science and Mathematics. In future, assistance should cope with the expansion of secondary and higher education both in terms of quantity and close the disparity between the sexes.</p>
<p>(3) Training and Retraining of Education Professionals</p> <p>In the Pol Pot era, 75% of teachers disappeared and the education system was totally destroyed. Since then, education has been expanded quantitatively employing unqualified teachers, but as a result, the quality of education has dropped significantly. Japan should emphasize the upgrading of professionals for elementary education in rural areas, while improving teacher-training centers for elementary school teachers and regional teacher training centers for junior high school teachers. Also, the retraining of personnel in the Ministry of Education and provincial education offices needs to be supported.</p>
<p>2.3 Improvement of the Working Skills of the Adults</p> <p>(1) Raising the Literacy Rate</p> <p>Only one third of the Cambodian people can read and write. The other two thirds are semi-literate or illiterate. The level of semi-literacy and illiteracy is higher than in neighboring countries, and the disparity is wide between the sexes and in proportion to income. Improvement of literacy rate for women of the poorest groups in rural areas is a key for poverty reduction. Japan should give support to basic education in reading, writing and arithmetic for adults at the commune level. It is also necessary to maintain the relationship with rural development efforts, while pursuing coordination and establishing liaison with NGOs.</p>
<p>(2) Improvement of Agricultural and Vocational Skills</p> <p>To increase agricultural productivity, it is necessary not only to reinforce dissemination activities but also to build the capacity of rural farmers to absorb assistance. Vocational education other than in agriculture is also necessary for the younger generation, which is rapidly growing in number. In Cambodia capacity of the agencies in charge of agricultural and vocational education (including the National Training Committee and the Ministries of Agriculture, Education, Social Welfare and Women) are very low. Japan should start its assistance with capacity building for these agencies, and should reinforce their agriculture extension services for rural development. International cooperation and coordination with NGOs must always be kept in mind.</p>

Table 4-1 Outlines of the Priority Development Issues under the Five Sub-Objectives (4/6)

<p>(3) Training of Civil Servants to Upgrade Administrative Capacity</p> <p>Administrative capacity must be strengthened as mentioned in 1.1.4 above. For this, human resource development for capacity building is necessary at the same time. The need for human resources varies between sectors and the levels from local to central government. Japan should provide a wide variety of training programs including: advanced training in Japan, semi-advanced training in ASEAN countries and local training within Cambodia. Special programs for Cambodia may be prepared in consideration of the fact that human resource capacity in Cambodia generally remains at a very low level.</p>
<p>3. To Promote Agriculture and Rural Development (tackling the reduction of extreme poverty)</p>
<p>3.1 Rural Development</p> <p>Since 90% of Cambodia's poor national population lives in rural areas, rural development is crucial for poverty reduction. The government emphasizes rural development in the Three Strategies for Poverty Reduction, I-PRSP, and other plans. Rural development aims at increasing the welfare level of rural households (as a whole) through comprehensive policies. Cross-sectoral approaches must be adopted to address agricultural and industrial promotion, the development of physical infrastructure, protection of the rights of agricultural laborers and small farmers, protection of the natural environment and the reinforcement of local administration. The strict vertical administrative divisions within Cambodia in fact inhibit such an approach. Therefore, Japan should initiate its assistance operations by limiting them to areas where a cross-sectoral approach can be adopted, and then expand operations based on the outcomes from these areas. This field of assistance has already involved many donors such as UNDP and NGOs, with which Japan should coordinate and cooperate.</p>
<p>3.2 Improvement of Agricultural Productivity and Diversification</p> <p>The productivity of Cambodia's traditional rain-fed agriculture is low. There is too much emphasis on rice cultivation, and the consequent lack of diversification forces them to import food such as vegetables. Through the Agricultural Reform Program, the Cambodian government is making efforts to improve rice productivity and to facilitate crop diversification, while promoting fruit cultivation, livestock raising, fishery and forestry. Japan could provide technical support for irrigation systems, extension services, micro-credit services, and market infrastructure. It is also necessary to raise the market consciousness of small farmers and to organize systems such as agricultural cooperatives. Coordination and cooperation with NGOs must be considered here again.</p>
<p>3.3 Promotion of Agriculture-related Industries</p> <p>Cambodia has practically no agriculture-related industries other than those catering to local consumption. Development of such industries is significant issues. Recognizing this as an important development agenda, the Cambodian government is trying to promote off-farm industries including marketing and distribution, and to facilitate the formation of cooperatives by small farmers. Japan should support the promotion of resource-oriented industries such as food processing, canneries, furniture and flooring production and construction. Japan's experience should also be fully utilized in system establishment and capacity building.</p>
<p>3.4 Creation of non-farm Job Opportunities</p> <p>In the Provinces of Kampong Speu and Kandal, non-farm income is as low as 20% of the total. This means that people have few job opportunities other than cultivation, and that rural households will suffer considerable losses when natural disasters damage agriculture. In order to reduce such risks, to provide jobs to rural youth and to control the population flow to the cities, job opportunities must be created in rural areas. This is not an easy issue, and so Japan should give assistance to selected particular areas first. This assistance includes the institutional building that enables to make the most of local industrial promotion initiatives. An example is "one special product for one village". The assistance should also promote industries that develop local potential such as tourism, and improve the infrastructure through the employment of local people.</p>

Table 4-1 Outlines of the Priority Development Issues under the Five Sub-Objectives (5/6)

4. To Expand the Size of the Economy and to Create Job Opportunities
4.1 Improvement of Condition for Industrial Development <p>Cambodia is in a transition period from war to peace, and from socialism to a market economy. Its conditions for industrial promotion are inadequately prepared, and its private sector is young and weak. The growth of the private sector is essential for long-term economic growth and the expected opening of its market through AFTA in 2008. Along with the development of legislative and judicial systems for industrial promotion mentioned in 1.1.2, Japan should emphasize assistance to the operation of the macro-economy, the development of industrial policies, and the promotion of small and medium-sized businesses. Assistance is also needed for capacity building and personnel education for the Investment Committee, the Ministries of Economy and Finance, Industry and Energy and Commerce, and the National Bank.</p> <p>Since there is not much international assistance available in this field, support should be given to long-term training in Japan using internal arrangements..</p>
4.2 Fostering Urban Small and Medium-sized Businesses <p>In Cambodia, small and medium-sized businesses are not mature enough to support industrial promotion in terms of commerce, distribution, construction, production and services. Their expansion, especially in urban areas, is indispensable for the future economic growth of Cambodia. Japan should start with an understanding of the current condition, and then help build the necessary policy framework. Recently an education services industry developed by the private sector has been flourishing in Phnom Penh, such as teaching business administration, computer literacy and English language. Japan's assistance can seek possibilities to cooperate with these businesses through the personal contribution of specialists and senior volunteers.</p>
4.3 Inducement of Foreign Direct Investment <p>It is hardly possible to find any point in which the market, labor and infrastructure of Cambodia are superior to that of any neighboring country. With domestic industries still undeveloped, foreign direct investment is vital to the maintenance of employment and human resources development. However, the government is now reducing its favored treatment of foreign direct investment. Some alternative measures must be considered. Japan should help with the planning of development projects with high potential such as Free Trade Areas (FTA) and Export Processing Zones (EPZ) around the Port of Sihanoukville or in the Thai-border region, for example. The process of planning must be based on a good understanding of the Cambodian market and the needs of the potential investors such as ASEAN countries, Korea and Japan, and consideration for competition with similar projects planned in neighboring countries.</p>
5. To Conserve Natural Resources and the Environment and to Restore and Preserve the Cultural Heritage
5.1 Management of Natural Resources <p>In Cambodia, forest resources are decreasing, water pollution is damaging marine resources, and biological diversity is being threatened. The conservation of natural resource is an urgent issue. The government has emphasized the importance of this issue in all of its plans since the NPRD, but these plans have not been carried out as expected. It is claimed that illegal logging has not been controlled at all. Japan should support the Ministry of Agriculture, Forestry and Fisheries and the Ministry of the Environment in their efforts to reinforce natural resources management capacity, mainly with regard to system and capacity building. Coordination and cooperation with multilateral donors and NGOs must be maintained.</p>
5.2 Conservation of the Natural Environment <p>In spite of the efforts of the Cambodian government since the NPRD to conserve the natural environment, Cambodia's environment has been degraded. Japan should place a priority on the improvement of the environment of the Tonle Sap Lake and the Mekong River, on which many of the nation's population rely for their livelihood. An environmental improvement plan must be designed after identifying the current state of the environment and related problems. Japan should support the establishment and operation of the plan, in terms of training personnel needed for implementation of the plan, building analytical skill, and construction of information systems. Since many multilateral donors and NGOs are involved in this field, cooperation and coordination with them must be pursued.</p>

Table 4-1 Outlines of the Priority Development Issues under the Five Sub-Objectives (6/6)

<p>5.3 Improvement of the Urban Living Environment</p> <p>Japan should focus on the development of water works and sewerage treatment plant in urban areas. Priority should be considered in the order of firstly the capital, Bat Dambang, and then other cities. The technology to be adopted must be suitably related to the characteristics of each city, should be operated and maintained within local technical capacity, and should not impose a heavy financial burden. Since local administrative capacity is generally low, assistance should be given at the same time to system and human resources development.</p>
<p>5.4 Restoration and Preservation of the Cultural Heritage</p> <p>There are numerous precious cultural heritages in Cambodia, but most of them are neglected and about to collapse. Due to the genocide of intellectuals in the Pol Pot era, the number of skilled workers for restoration is far from enough. The government emphasizes the importance of this issue in its SEDPII. However, the restoration and preservation of the cultural heritage requires full ownership by Cambodia. Japan is required to help educate workers involved in restoration so that the Cambodian people can conduct activities by them.</p>

4-3 Considerations for Japan's assistance to Cambodia

In this section, we identify considerations as Japan plans and implements the assistance based on the framework and priority issues described in 4-2.

4-3-1 Considerations on assistance planning

When Japan, the largest donor, attempts to provide assistance covering all the five sub-objectives for the period of next five years, it must consider the following points: i) strengthening of Cambodia's ownership, ii) better partnership between Cambodia and the donors and iii) coordination and cooperation between Japan and other donors including multilateral donors, donor countries and NGOs.

(1) Strengthening Cambodia's ownership

Since the establishment of the Hun Sen cabinet in November 1998, ownership of development process by Cambodia has been gradually improving. The government announced a Governance Action Plan (GAP) to strengthen its ownership. Just like good governance, the establishment of ownership takes time and can only be achieved when issues such as poverty reduction, economic growth and the reinforcement of fiscal and human resources have made progress. In the next five years, with the recognition that ownership is one of the most important factors for foundation building, Japan should facilitate it through a policy dialogue with the Cambodian government.

(2) Formation of better partnerships between Cambodia and donors

Toward efficient use of the assistance, Cambodian government is attempting to form a good partnership with multilateral donors (See 2-6). However, in fact, affiliation can be observed between certain multilateral donors and particular departments of the Cambodian government. It also has been pointed out that the I-PRSP was prepared with substantial support of multilateral donors and finalized without sufficient domestic discussion in Cambodian side. This resulted from the donors' desire to facilitate procedures and lead the assistance operations, which in the end inhibits the establishment of Cambodia's ownership. Japan should actively involve in the discussions on desirable partnerships from the standpoint of respecting and strengthening ownership.

(3) Coordination and cooperation between Japan and other donors

As Japan wishes to contribute to a variety of development issues in spite of constrain on its ODA resources (know-how, personnel, budget, etc.), coordination and cooperation with multilateral donors, donor countries and NGOs is critical to overcome these difficulties. In the field of 'the establishment of good governance' on which assistance from multilateral donors and bilateral donors is concentrated, Japan should seek coordination and cooperation with other donors, and in the field of 'agricultural promotion and rural development' for the reduction of extreme poverty, cooperation with NGOs

should be sought. Japan should lead assistance operations in the fields of 'the development of physical infrastructure' and 'economic growth and the creation of job opportunities' where Japan has extensive know-how and human resources, while inviting the participation of other groups.

For Japan to make policy dialogue with Cambodia fruitful and actively participate in the discussion of ideal way of partnership, Japan need to engage in the dialogue based on adequate understanding on Cambodia's macro and micro development issues which change constantly along with time. In terms of strengthening coordination and partnerships with other donors and NGOs, it is necessary to exchange information among the related organizations. Here again, the Japanese embassy and overseas offices of JICA are expected to play a leading role.

4-3-2 Consideration on assistance implementation

Aforementioned considerations are suggested in the context of the tripartite relationship among 'Cambodia', 'multilateral donors' and 'Japan'. In the actual operation of assistance, careful attention should be paid to the considerations listed as follows.

(1) Cross-sector approach for designated areas of cooperation

When assistance is provided to achieve specific target for improving development issues closely related development issues should be approached simultaneously. For example, in the area of rural development, several issues can be regarded as a package. Such issues include land titling and clarification of de facto cultivation rights, establishment of SSN, expansion of PHC, increase in the school enrollment rate and improvement in the quality of education, increase in the literacy rate, the reconstruction and development of physical infrastructure and restoration of the natural environment. For another example, in the field of 'demobilization,' the package should include issues such as the establishment of SSN, increase in agricultural and vocational skills, creation of non-farm job opportunities, and reinforcement of administrative capacity and human resources.

The problem is, however, that projects are conducted

under a system of separated sectors both in Cambodian and the Japanese side. Such operational system makes cross-sector approaches difficult to apply. Therefore, when cross-sector approach is implemented, a size of geographical areas ought to be limited in order to understand the relationship between sectors clearly. By doing this, the monitoring of outcomes and effective feedback to subsequent years' operation become easier. If the outcome of a pilot project can be identified and confirmed, diffusion of the outcome becomes possible.

(2) Flexibility of assistance operations

To achieve cross-sector objectives, the areas of operation should be limited at the initial stage as mentioned in (1), and various outside assistance resources should be effectively utilized by enhancing coordination and partnership efforts with NGOs and other donors as mentioned in 4-3-1 (3). Coordination and cooperation with the residents in the communities, local authorities and branch offices of the government are important when operating assistance. As projects operated on the basis of agreement among various stakeholders, the original scale, scheme and timing of assistance are likely to be changed frequently. Cross-sector, results-oriented assistance must correspond flexibly to these changes, and the organization needs to have such flexibility as well.

(3) Monitoring and feedback on outcomes

It is important to monitor how the operation is progressing and to give the feedback for the next stage of cooperation for ensuring the outcome. Although there are established evaluation methods for traditional individual projects such as PCM, there is no established method for evaluating achievement of 'development issues' that consist of multiple individual projects under 'five sub-objectives' that consist of several 'developments issues' along with and even superior 'primary objectives.' Evaluation methods for such integrated approaches are now under development, as indicated in Evaluating Country Programs (1999, OECD DAC). By limiting the operation area, measurement of effectiveness will be easier. It is therefore desirable to establish an effective monitoring and feedback method through trial and error in the field.

(4) Expansion of operation areas

In the assistance targeting poverty alleviation such as 'agricultural promotion and rural development,' 'strengthening of human resources,' 'restoration of the natural environment' and 'reinforcement of institutional capacity,' assistance activities need to be expanded to rural areas. Although assistance operations have been limited to areas in and around Phnom Penh until now for security reasons, these areas ought to be accordingly expanded. As mentioned in (1), cross-sector projects should be planned to gradually extend its subject area from the perspective of disseminating outcomes gained in pilot area. Since security is not stable in the rural areas of Cambodia, it is indispensable to constantly collect and analyze security information for each area to consider the possibility of expansion of assistance activities. Where security condition is not likely to improve in the near future, a possible option would be to select an area with stable security and to start assistance introducing the perspective of comprehensive regional development.

As reiterated in this report, Cambodia is now in the development phase in which many fundamental issues must be approached simultaneously. As the top donor to Cambodia, Japan is expected to provide a range of assistance from the establishment of solid ownership and better partnerships to solution of various development issues organized under the five sub-objectives. For this assistance to be effective, Japan should plan it on the basis of a precise understanding of Cambodia's needs while pursuing coordination and cooperation with multilateral donors and NGOs. "A policy dialogue" with the Cambodian government has fundamental importance. This study proposes promotion of the delegation of authority to the local Japanese embassy and JICA offices in order to strengthen their functions and allow them to play a leading role in such policy dialogue. If this is achieved, assistance to Cambodia can provide a model case.

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