

## **Cambodia**

### **Case Study for the MDG Gap Task Force Report**

*Draft*

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\* Disclaimer: The views presented in this paper are those of the author and do not necessarily represent the views of UN DESA. Contributors to this draft include Jodie Keane, Alberto Lemma, Jane Kennan, Massimiliano Cali, Isabella Massa and Dirk Willem te Velde, with support from the CDRI in Cambodia.

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# 1. Introduction

The United Nations (UN) compiles the Millennium Development Goal (MDG) Gap Report. The 2010 version of the report will emphasise the 'needs gap', which measures the gap between actual delivery on global commitments and 'estimated needs for support' by developing countries. This is an important gap, because it provides an estimate relating to whether the partnership envisaged under MDG8 is effectively helping to address the needs of developing countries.

One way to analyse the needs gap and the way MDG8 commitments could help is through in-depth case studies of individual countries to review where the gaps are and discuss recent trends with respect to development finance. The country studies (Bangladesh, Bolivia, Cambodia and Uganda) focus on the needs gap in official development assistance (ODA), trade and debt relief. They analyse whether the commitments and delivery in these three essential and interrelated areas are meeting the actual needs of these countries over 2000 until 2009, and make a special effort to include information regarding the impact of the economic crisis on these three areas.

This paper discusses these issues in the case of Cambodia. It first reviews Cambodia's policy towards the MDGs and how they are integrated into the country's strategic and development goals; it then reviews actual progress (Section 2). It then provides evidence on how indicators in the areas of aid, trade and debt have been met and have evolved (Section 3). This provides the background for the subsequent discussion on how MDG8 has addressed or is addressing the MDG needs gaps (Section 4). Section 5 concludes.

Cambodia has achieved remarkable progress in recent years. This includes almost double-digit growth over the past decade. Several of the MDGs are on track to be met. However, the impact of the global financial crisis, in 2009, was severe for Cambodia – growth reduced from 6.8% in 2009 to -2.6% in 2010 according to most recent estimates. The current crisis therefore poses a serious challenge for the achievement of some of the MDGs, notably MDG1, and reinforces the relevance of MDG 8 commitments.

Specifically:

- Goal 1 – Eradicating extreme poverty and hunger: The majority of the targets will most likely be met by 2015; however, there is still a degree of uncertainty on whether the poverty rate target will be met.
- Goal 2 – Achieve universal primary education: Mixed results among the different targets that make up this goal make it unlikely that all targets will be met in time.
- Goal 6 – Combat HIV/AIDS, malaria and other diseases: Cambodia has already met its goals on HIV/AIDS and is on track to achieve other targets within this goal by 2015.
- Goal 9 – De-mining, unexploded ordnance (UXO) and victim assistance: The 2012 goals will most likely not be met; however, Cambodia has shown great positive progress in the reduction of UXO and the number of UXO victims per year.
- Cambodia is a major recipient of aid, including Aid for Trade (Aft); a stable and predictable flow will remain important for the future.
- Cambodia's preferences in major developed country markets, such as the US, have been eroded. Given the impact of the crisis on the industry in addition to the changed preference environment, this clearly is of concern. However, non-traditional markets will also be shown to have much scope to be more accommodating to the needs and challenges faced by Cambodia, in its export diversification efforts.

## 2. Context

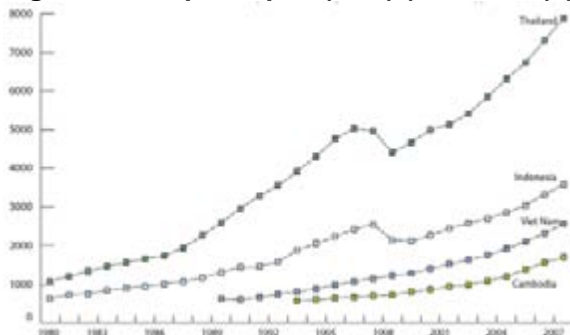
Cambodia's has been one of the world's star growth performers in recent years: it managed to sustain close to double-digit growth over 1998-2008. Unfortunately, as noted by Guimbert (2010) several of these factors are not self-sustaining and the global economic crisis of 2008-2009 exposed these vulnerabilities. Growth in Cambodia has been driven mostly by buoyant demand for labour-intensive manufactures (textiles and clothing), a booming tourism industry, growth in construction and, to a lesser extent, an increase in agricultural exports. These sectors have all been impacted by the global financial crisis. The old prescription of 'industrialisation' has become increasingly difficult for smaller countries following the emergence of China and India as major exporters. New opportunities within the East Asian region are being created as old ones are disappearing. Cambodia needs to diversify its product and market orientation, but its economy is still dependent on a number of key sectors; this means that MDG8 is particularly important for Cambodia.

**Figure 1: Growth and GDP per capita (US\$)**



Source: Guimbert (2010).

**Figure 2: GNI per capita (PPP) (1980-2007) (current international US\$)**



Source: UNDP (2009).

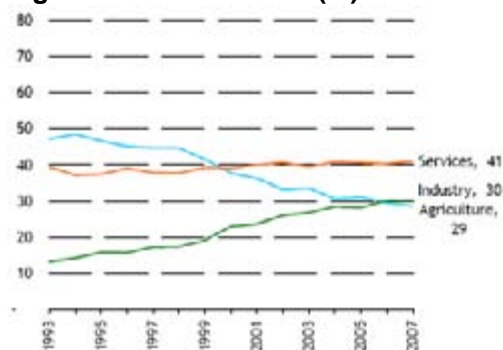
Cambodia has achieved remarkable recent progress in recent years as it continues to recover from civil conflict. As shown by Figures 1 and 2, as growth has accelerated so too the incidence of poverty has reduced – as indicated by increases in income per capita. However, as will be discussed in relation to MDG1, latest estimates suggest that around 30.1% of the population is still defined as poor. Clearly, much work remains to be done. The economic and financial crises are already affecting the country and may require rapid policy responses to avoid regressing on such achievements. Cambodia is one of the only low-income countries in the world in which the economy actually contracted in 2009; it was projected to experience the steepest decline in growth

within the East Asian region (World Bank, 2009); as of March 2009, the International Monetary Fund (IMF) predicted growth of -0.5% in 2009, the actual figure was -2.7%.<sup>1</sup>

Despite new challenges, which are of concern and may threaten Cambodia's future progress on the MDGs, it is important to point out that a considerable degree of structural transformation has been achieved to date. As shown by Figure 3, industry's contribution to gross domestic product (GDP) has been increasing over time, which has been absorbing labour released from the agricultural sector (Figure 4). Despite this, Cambodia is still overwhelmingly an agrarian society: the large majority – just over 80% at the last census in 2008 – of the population lives in rural areas. Most of the rural population depends to some degree on agriculture for livelihoods. Rural areas also present the strongest social challenges. In an already relatively poor country, poverty is concentrated in the countryside, where average incomes are less than half the national average; as much as 39% of the rural population lives in poverty (MoP and UNDP, 2007). With population growth at still more than 1.5% a year, as many as 250,000 persons enter the labour market every year, many of them in rural areas.<sup>2</sup>

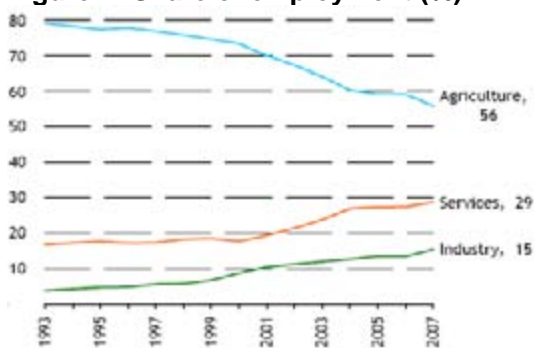
Investments have been made in the educational sector to facilitate this transition; policy developments related to improved delivery mechanisms of higher education and (vocational) training include the establishment of a National Training Board (NTB) to work on accreditation and standard development.<sup>3</sup>

**Figure 3: Share of GDP (%)**



Source: Guimbert (2010).

**Figure 4: Share of employment (%)**



Source: Guimbert (2010).

<sup>1</sup> The Asian Development Bank (ADB) projected 2.5%, while the Royal Government of Cambodia (RGC) estimated 7%. Growth in 2008 was 6.7% according to latest estimates released by the IMF (2010).

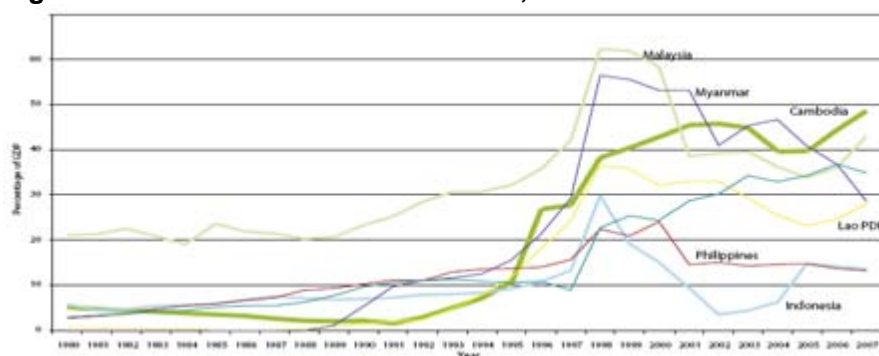
<sup>2</sup> See Wiggins (2009) in UNDP (2009).

<sup>3</sup> The NTB has been given the mandate to support the RGC National Strategic Development Plan (NSDP). The NTB is comprised of both government and private sector actors.

Macroeconomic stability has been achieved in recent years. Cambodia has pursued a tight fiscal policy – the main instrument of macroeconomic management. The government deficit has been kept low to eliminate macroeconomic risks associated with being a highly dollarised economy; this policy has been advocated as a means through which to facilitate an orderly transition to a riel-based economy (Naron, 2008).

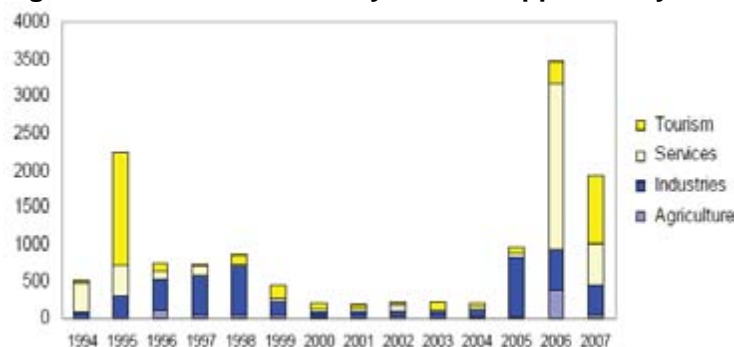
Cambodia is considered to have a competitive advantage in the ‘extent and effect of taxation’. A combination of profit tax, labour tax and ‘other’ taxes are perceived to be low. Foreign direct investment (FDI) has been motivated by such incentive structures and has increased in recent years and is high as a percentage of GDP (Figure 5).<sup>4</sup> However, the destination of FDI has been fairly skewed (see Figure 6). This dependence on foreign capital, as a driver of growth, makes Cambodia particularly vulnerable to the current crisis. Hence, developing partnerships and designing strategies to increase the diversification of the economy and reduce dependency on a limited number of sectors, as well as sources of capital (for example, by increasing domestic savings), remains a priority.

**Figure 5: Inward FDI stock as % of GDP, 1980-2007**



Source: UNDP (2009).

**Figure 6: FDI in Cambodia by sector – approved by CDC (US\$ m)**



Source: UNDP (2009).

Cambodia’s development strategy (which includes many strategies on how it aims achieve its MDGs) is outlined in the NSDP for 2006-2010. However, the plan is not specific to the MDGs themselves. In 2009, the RGC issued an update to the NSDP, covering the period 2009-2013. Country coverage for Cambodia will thus partly include the basic development strategies outlined in the original NSDP, but mostly will be based on the updated strategies produced in the 2009-2013 NSDP.

<sup>4</sup> And to some extent public institutions need to catch up. The establishment of a commercial court in Cambodia will also enhance certainty in commercial transactions and enhance investor confidence, in addition to other supervisory mechanisms planned in preparation for the establishment of an interbank and capital (stock exchange market) in 2009.



The RGC adopted the MDGs in 2003. Given the large number of landmines still hidden within the country, a further MDG was added to the list, specifically addressing the issue of land mines and land mine victim assistance through the implementation of Goal 9: De-mining, UXO (Unexploded Ordnance) and victim assistance.<sup>5</sup> The targets for Cambodia to achieve by 2015 were set within the Cambodian Millennium Development Goals (CMDGs) 2003. In 2007, the Ministry of Planning (MoP) published *Progress in Achieving the Cambodia Millennium Development Goals: Challenges and Opportunities*, which gave an account of the situation of the MDGs in Cambodia. These documents together with updates provided in the 2009 NSDP and other relevant sources of collected data are in used here to paint as clear a picture as possible of what Cambodia's current standing is vis-à-vis its MDGs.

The most current figures and gaps are listed according to individual goals and data availability for Goals 1-7 and Goal 9. Goal 8 (Forge a global partnership for development) will be dealt separately in Section 3. Within each goal, Cambodia's strategy as well as achievements will be looked at by both overall target (as set out by the Cambodian MoP<sup>6</sup>) or by specific sub-indicator, depending on what information is available.

## 2.1 Cambodia's NSDP and the MDGs

The initial strategies set out in the 2003 CMDGs have been further refined through a number of separate national strategies, each dealing with particular parts of the MDGs. Overall, there are clear strategies for the majority of the 2015 targets that Cambodia has set itself, with particular emphasis on economic growth and improvements in national health. Gender equality, education and environmental sustainability targets have also received a great deal of attention, and Cambodia has also set up separate strategies by means of which it wishes to achieve its goals.

The majority of these strategies all receive regular updates (either at five- or three-year intervals), making it easier for Cambodia to identify and tackle problematic areas as they arise. What is missing is a clear updated strategy on how Cambodia will specifically meet its 2015 MDGs targets, as the latest strategy document was written in 2003. As most of the individual national strategies have either changed or have been updated over the past seven years, it would be of great benefit to the country if it were to undertake a review of its individual goal achievements and strategies and to form a coherent national plan on which to base its MDG strategies as it moves towards 2015.

### Goal 1: Eradicate extreme poverty and hunger

A number of macroeconomic strategies have been drawn up to reduce poverty within Cambodia. Beyond the NSDP (and its various updates), the RGC implemented its Vision and Financial Sector Development Plan 2001-2010, which was then merged into the Public Financial Management Reform Program (PFMRP) and the Financial Sector Development Strategy 2006-2015. The initial 2001-2010 Financial Sector Development Plan was created in order to have a long-term strategy for the financial sector in Cambodia and at the same time to allow for the development of market-based financial systems. The updated 2006-2015 plan is based on a number of objectives, such as: the creation of institutions and policy aimed at promoting market-based financial systems; the creation of a competitive banking structure; pro-poor viable microfinance institutions; the creation of an efficient and effective insurance sector; removal of risks from the financial sector; and openness and competitiveness within the sector.

Within the 2003 Cambodia MDG Report (MoP, 2003), a framework was set up in order to reduce poverty within the country. Within this, macroeconomic stability took priority as one of the most

<sup>5</sup> [www.un.org.kh/undp/CMDGs/What-are-the-Cambodia-Millennium-Development-Goals.htm](http://www.un.org.kh/undp/CMDGs/What-are-the-Cambodia-Millennium-Development-Goals.htm) (March 2010).

<sup>6</sup> [www.mop.gov.kh/Default.aspx?tabid=156](http://www.mop.gov.kh/Default.aspx?tabid=156).

important factors necessary to reduce poverty rates. Macroeconomic stability was to be encouraged through 'prudent fiscal policies and the implementation of structural reforms', with the aim of implementing pro-poor changes within the economy. These changes were to be bolstered by improvements in budget management, strategic planning and financial processes within the public sector. Policies to promote macroeconomic stability include promoting the use of advanced technologies in both the manufacturing and agricultural sectors, as well as promoting the growth of the agricultural sector through improved production methods as well as improved market access for farmers within the country. In order to support microenterprise, the expansion of microfinance institutions was to be facilitated, with investments also to be made in pro-poor rural infrastructure (including irrigation systems, electricity networks, roads, etc). Land titling and land security were to be improved and a land dispute resolution system created.

Although economic stability and growth are seen as fundamental to poverty reduction, social protection schemes are seen as equally important. These include the creation of food security programmes and implementation of 'community-based rehabilitation services, vocational training and job placement' (MoP, 2003) to allow for enhanced market participation of vulnerable groups and improved child labour protection laws.

The 2009 NSDP Update recognises the importance of the global financial crisis and its impact on poverty within the country, such as increased costs of fuel and imported food. In order to alleviate the problems caused by the crisis, the RGC has implemented fiscal and monetary policies to help both producers and consumers bolster the economy. In the long term, the RGC plans to increase the competitiveness of its markets, looking specifically at emerging sectors such as information and communication technology (ICT), alternative energy sources, etc.

The 2009 NSDP Update, much like the 2003 Cambodia MDG Report, details private sector development, promotion of small- and medium-sized enterprises (SMEs) and social protection as the principles on which to base poverty reduction. In terms of private sector growth, the RGC wants to increase foreign investments in the country, for example by streamlining investment procedures through a 'single window' mechanism managed by the Cambodia Investment Board (CIB) and the Council for the Development of Cambodia (CDC) and through the guaranteed protection of foreign investment (through bilateral agreements with a number of different investor states). In addition, business registration procedures have been streamlined and a number of chambers of commerce set up at provincial level in order to stimulate local trade. Intellectual property laws are being strengthened and a number of initiatives are being promoted in order to enhance the competitiveness of Cambodia's garment sector and to promote the growing tourism sector.

In order to promote the growth of SMEs, the RGC has decided to implement legislation to streamline import and export procedures for SMEs, has provided financial support to SMEs in order to promote product exportation, has reduced and streamlined SME registration procedures and has reduced the capital required in order to register a SME. In terms of promoting job creation, work security and good labour conditions, employment placement services have been created by the Ministry of Labour and Vocational Training (MLVT), which are also aimed at helping Cambodians find jobs abroad. MLVT has created technical and vocational training programmes and implemented a Special Training Fund for unemployed or laid-off workers. The RGC has also strengthened enforcement of Cambodian labour laws and regulations and in 2008 began to draft trade union and labour court laws.

In terms of social safety nets, the RGC has implemented the Social Security Fund and the National Social Security Fund, both of which are managed by the Ministry of Social Affairs, Veterans and Youth Rehabilitation (MoSAVY). These provided financial support to people who have retired, who are disabled owing to work accidents, who are on maternity leave, etc.

## **Goal 2: Achieve universal primary education**

Education is one of the four pillars of Cambodia's Rectangular Strategy for Growth, Employment, Equity and Efficiency. The RGC sees the importance of enhancing education quality and overall levels of education of the population as part of the overall poverty reduction process. The overall education strategy is covered both in the NSDP and in the Education Strategic Plan (ESP). The ESP was first implemented in 2001-2005, followed by a revised ESP for 2004-2008. The current ESP covers 2006-2010. The RGC has also set up a long-term strategy called the National Plan for Education for All: 2003-2015. To improve education quality, a sector-wide approach (SWAp) involves different stakeholders in the programming and planning of changes in education.

According to the 2009 NSDP Update, the SWAp approach has helped the country make significant progress in terms of the level and quality of education within the country, through 'two important contributions'. The first was to give the Ministry of Education, Youth and Sports (MoEYS) the necessary tools to match international donor contributions and assistance with national educational needs. The second was to reduce transaction costs between MoEYS and donors by reducing the need for bilateral negotiations. However, the NSDP states that international donor funding through direct budget support for education still represents a low proportion of total international donor funding for education, accounting for 3.5% of the total.

The National Plan for Education for All 2003-2015 was prepared by MoEYS in 2003 and was designed to work alongside the Cambodia Socio-Economic Development Plan II (SEDP II), drafted in 2002 as well as the 2002-2005 Cambodian National Poverty Reduction Strategy (NPRS), the country's poverty reduction strategy paper (PRSP). The plan is meant to address long-term concerns in education, whereas the ESP looks at shorter-term educational policies. The main strategy on which the long-term plan is based is the reduction in the cost of education for poor families, as well as increased wages for teachers, with a strategic shift towards performance-related pay. In addition, the plan introduces incentives for teachers to operate in rural areas or areas they would usually shun as well as introducing 'merit-driven promotion and training policies'.

The ESP 2006-2010 has a three-pronged approach to the improvement of education. The first approach is based on allowing equal access to education for all citizens of Cambodia. The second is aimed at improving the 'quality and efficiency of education services' in the country. The third is to increase national educational institutional capabilities and further capacity for the decentralisation of educational institutions. In the 2009 NSDP Update, overall actions to improve education include the introduction of the Child Friendly School (CFS) system, whereby schools are encouraged to look for children who have dropped out, to increase the involvement of families in education and to improve gender equality, with better funding provided by government (MoEYS, 2006). A national curriculum has also been implemented, as well as a standard national assessment system.

More detailed policies have been implemented, along the lines of the three-pronged approach of the ESP 2006-2010. These include plans to: reduce corruption and rent seeking within schools; increase the number of teachers through improved teacher training systems; increase female participation in education by providing accommodation facilities for girls at secondary level; increase the total number of schools; increase accessibility for disabled students; increase the number of teachers operating in disadvantaged areas (such as rural areas); and give accreditation to a number of private schools operating within the country.

## **Goal 3: Promote gender equality and empower women**

Gender equality and female empowerment (Targets 5, 6, 7 and 8) have been promoted through the implementation of the Ministry of Women's Affairs (MoWA) Neary Rattanak ('Women Are Precious Gems) Strategies I, II and III from 1999 up to 2013, also implemented by the Cambodia National Council for Women (CNCW). This is aimed at the promotion of 'gender-responsive' policies within the country as well as support to female economic empowerment, provision of better

legal protection for women subjected to violence or sexual and/or labour exploitation, reduced female discrimination and full participation of women in the labour market (MoWA, 2009). The initiatives below are all highlighted within the Neary Rattanak III programme.

Gender equality in terms of access to education at all levels (Target 5) is promoted through: increasing awareness on the importance of female education (to be undertaken by MoWA); developing community child care and preschool programmes; expanding informal education programmes for women who have dropped out of formal education; and working towards increasing scholarships for women at secondary and tertiary level of education in order to promote increased female participation in higher education.

Elimination of gender disparities in waged employment (Target 6) is to be dealt through: research on the opportunities and needs in promoting gender parity in the workplace; promotion of female entrepreneurs through partnerships with civil society and the private sector; implementation of vocational training (including literacy and numeracy training) for women; provision of employment opportunities for vulnerable women; and a number of other initiatives, including the creation of private sector networks for female entrepreneurs and improved access to finance for women.

Target 7, on increasing female representation in public institutions, is to be attained through a number of initiatives, such as: promotion of female candidates for high-ranking positions in political parties and institutions; raising public awareness on the benefits and importance of female participation in politics and public institutions; and promoting recruitment of women civil servants.

Target 8 deals with the reduction of violence against women and children. Legal protection of females is to be integrated into national policy, following national and international standards. Public awareness campaigns aimed at educating people on the importance of female rights as well as reducing violence against women are also to be undertaken.

#### **Goal 4: Reduce child mortality**

Within the 2002 SEDP II, child mortality is addressed indirectly under addressing the health care needs of poor people as a whole. SEDP II is based on the achievement of five objectives: 1) the improvement of health care services in general; 2) the development of human resources in terms of health care; 3) the promotion of a healthy lifestyle for the Cambodian population; 4) the promotion of children's health and nutrition; and 5) the implementation and promotion of legislation aimed at improving health and health care.

In addition to SEDP II, the Health Sector Strategic Plan 2003-2007 (HSSP) (and its 2008-2015 update) have two particular objectives aimed at increasing the health of children in the country. The first is a reduction in child mortality and morbidity 'from diarrhoea-related diseases, acute respiratory infections, vaccine-preventable diseases, dengue and malaria' (MoP, 2003). The second is the reduction of the 'rates of under-nutrition and malnutrition among children' (ibid).

These objectives are to be achieved through a number of policies, according to Cambodia's 2003 MDG strategy. First of all, there should be improved access to health care for children through increased availability and accessibility of health clinics for the poorest sectors of Cambodian society. Second, treatment of the poorest citizens should be enhanced by improving the 'attitudes of health providers' (MoP, 2003). Third, public sector health care quality needs to be improved. Fourth, increased funding for the health sector and better financial management of health services are to be promoted in order to both improve the effectiveness and the efficiency of the sector as well as to allow the sector to provide better health services. Fifth, capabilities of health care staff as well as the facilities to which they have access need to be improved. Sixth, more medicines need to be provided for public health care facilities, the overall state of public health care facilities needs to be improved and access to more advanced medical tools needs to be enabled. Finally, the last strategy is to 'expand health information to the public' (ibid) to improve overall health in the nation.

In order to implement these strategies and address potential challenges the country faces in its aim to reduce child mortality, the RGC has created a framework that promotes increased focus, both by itself as well as donors, on the reduction of child mortality. This gives more attention to vaccination programmes for children, better access to safe drinking water and improved sanitation systems, particularly in poorer and more remote areas. In addition, it encourages and strengthens the referral of children in poor health to better medical facilities. The RGC will increase public health care expenditure at both national and local (commune) level. In addition, it will undertake more health education campaigns aimed at improving nutrition, promoting proper diets for children and better sanitation and hygiene practices among the population.

The efficiency of public health care will be improved through the implementation of a 'result-based management approach' (MoP, 2003), whereby promotions and management positions will be decided based on results obtained both in health care institutions and by local health care authorities. In addition, further decentralisation will be promoted within the public health sector.

Social inclusion for very poor and disadvantaged children in the health care system will be promoted through experimental schemes such as micro-insurance schemes and fee exemptions. Finally, the government will undertake information campaigns in order to inform people about what health care services and facilities are available for themselves and especially their children.

### **Goal 5: Improve maternal health**

Within SEDP II, there is a focus on the promotion of maternal health care, to be achieved through better postnatal and antenatal care for mothers, by 'promoting birth spacing for high fertility groups' (MoP, 2003). The programme deals with maternal health through provision of basic health services and promotion of healthy living and good nutrition for women, coupled with health legislation and policies to promote maternal health (and good health in general). The HSSP also makes provisions for maternal health: 'expansion of health facilities to effectively reach the poor and under serviced in rural areas' (ibid), along with safe birthing areas for mothers, good postnatal and antenatal health services, obstetric care and safe facilities for abortions and post-abortion counselling.

The RGC will implement a number of further strategies to reach its goal on reducing maternal mortality rates, including guaranteeing financial resources to essential health services in order to provide good quality health care for mothers at both national and local level. In addition, there will be better targeting of financial resources aimed at increasing the effectiveness of health services in remote and rural areas in order to improve maternal health care by improving vaccination, contraception and nutrition information services. More efforts will be made to ensure increased availability of midwives in rural and remote areas, through financial incentives.

Public sector health care management will be improved by moving towards a health sector-wide results-based management system. As in efforts to reduce child mortality, financial services will be provided for poor mothers (again through fee exemptions and micro insurance schemes) in order to guarantee their increased use of better health services. Finally, more efforts will be made to undertake nationwide information campaigns aimed at helping mothers improve their own and their children's health care.

### **Goal 6: Combat HIV/AIDS, malaria and other diseases**

The RGC has implemented its National Strategic Plan on reducing the HIV/AIDS epidemic within the country through the National AIDS Authority (NAA). The National Strategic Plan was initially developed for 2006-2010 and then subsequently revised in 2007 for the 2008-2010 period. The plan is based around seven strategies (NAA, 2009): 1) increased coverage of effective prevention interventions and additional interventions developed; 2) increased coverage of effective interventions for comprehensive care and support and additional interventions developed; 3)

increased coverage of effective interventions for impact mitigation and additional interventions developed; 4) effective leadership by government and non-government sectors for implementation of the national response to HIV and AIDS, at central and local levels; 5) a supportive legal and public policy environment for the national response to HIV and AIDS; 6) increased availability and use of information by policymakers and programme planners through monitoring, evaluation and research; and 7) increased, sustainable and efficiently allocated resources for the national response to HIV and AIDS.

The National Strategic Plan has a number of goals. The most important is an overall reduction in the number of new HIV infections, through specific measures aimed at prevention. The second is to increase the amount and quality of care given to people living with AIDS. The third is to reduce the economic and social impacts of AIDS on Cambodian society. The 2009 NSDP Update reports that further strategies have been enacted to reduce the infection rate. These include increased general education and awareness in the use of contraceptives, especially condoms, as well as specific targeting for sexual workers in order to increase use of condoms.

Cambodia runs the National Malaria Control Programme,<sup>7</sup> operated by the Cambodia National Malaria Centre. The programme is based on four strategies: 1) strengthen institutional capabilities in order to increase programme effectiveness; 2) improve management of people ill with malaria; 3) improve measures to prevent infection; and 4) improve information, education and communication (IEC) aimed at malaria prevention.

Institutional capacity is to be strengthened through the organisation of courses and training on malaria prevention, supplemented by overseas study tours. Malaria disease management is to be improved through the early diagnosis of malaria using both microscopy and dipsticks diagnosis methods, while treatment is to be bolstered through the administration of the appropriate drugs. In order to promote the prevention of infection, there will be increased control of the vectors that promulgate malaria (mosquitoes) through increased distribution of 'impregnated bed nets' as well as increased promotion of personal malarial protection through the 'social marketing' (CNMC, 2010) of nets.<sup>8</sup> IEC will be improved by improving health education by creating appropriate malarial prevention campaigns as well as increased monitoring and evaluation of malaria cases.

Dengue (a disease also transmitted via mosquitoes) is also at epidemic levels within the country, especially the mortal form of the disease, dengue hemorrhagic fever (DHF). Measures taken to reduce DHF are quite similar to those used in malaria, especially in terms of prevention, but include the devotion of more resources to strengthening early diagnosis of the disease and allowing for earlier hospitalisation of patients (especially children) who have been infected. Cambodia has implemented a National Tuberculosis Control Programme (NTP) aimed at increasing use and availability of DOTS (directly observed therapy, short course). The NTP also encourages increased education on the recognition of tuberculosis symptoms as well as free treatment of tuberculosis for infected people.

### **Goal 7: Ensure environmental sustainability**

MDG 7 focuses on allowing Cambodia to embark on environmentally sustainable development. One of the sub-indicators looks specifically at maintaining forest coverage at 60% of total land area, enforced through the use of the Law on Forestry, which aims at proper management of forestry resources and reduced illegal logging within the country. Reforestation and forestry protection schemes have also been established.

On Target 14 (halving the proportion of people without sustainable access to safe drinking water), the 2009 NSDP Update states that a number of initiatives have been undertaken in order to

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<sup>7</sup> [www.cnm.gov.kh/?Programs](http://www.cnm.gov.kh/?Programs).

<sup>8</sup> [www.cnm.gov.kh/index.php](http://www.cnm.gov.kh/index.php).

monitor or improve the quality of water. It is the responsibility of the Ministry of Industry, Mines and Energy (MIME) to safeguard and provide sustainable drinking water in the country. MIME is also in the process of setting up a number of laws and declarations (*prakas*) to improve access to drinking water, including strengthening the regulatory capacity of the Department of Drinking Water and encouraging private sector investment in the supply of drinking water.

Target 15 is concerned with improving sustainable access to improved sanitation in both rural and urban areas, with 30% of the total rural population and 74% of the total urban population to have access to improved sanitation by 2015. Sanitation will be dealt with (together with access to drinking water) through a National Policy on Rural Clean Water Supply and Sanitation and a National Strategy on Rural Clean Water Supply and Sanitation (to be completed by March 2010).

The 2009 NSDP Update states that, in terms of Target 16 (land titles), the RGC has enacted a number of different policies in order to ensure that its target of 32% of all land parcels be properly titled. The RGC has restructured and strengthened its land laws and has included a number of amendments in order to improve the land titling process, including: the Sub-Decree on State Land Management; the Guiding Circular on Illegal Land Occupancy of State Land; the Prakas on Identification, Mapping and Classification of State Land; the Inter-Ministerial Prakas on the Strengthening of the Cadastral Commission; the Joint Prakas on the Mechanism for Agricultural Dissemination Service Delivery for Social Land Concessions Using Farmers; and the Joint Guidelines on Strengthening of Performance of All Levels of Cadastral Commissions. The government has also established the National Authority for the Resolution of Land Disputes (NARLD).

### **Goal 9: De-mining, UXO and victim assistance**

This issue, not addressed in other MDGs across the world, is a critical one in Cambodia. The Cambodian Mine Action and Victim Assistance Authority (CMAA) has been running mine clearing operations since 1992. A key issue that needs to be addressed is capacity building of the armed forces, in order to allow them to independently undertake mine clearing operations.

## **2.2 Current standing, financing gaps and target gaps for the MDG indicators in Cambodia**

As a whole, progress has been fairly positive in Cambodia towards achievements of the 2015 MDG targets, but not uniform. The achievement of a number of key goals, such as those on poverty reduction and maternal health care, still remains doubtful. On the other hand, on a number of other goals, such as gender equality and reducing infectious diseases, Cambodia has made very good progress and is on track to achieve its goals (or has already achieved them in some cases). Certain goals, such as reducing child mortality and improving environmental sustainability, are hard to judge since the data needed to form a complete picture are not available.

A large part of the problem with regard to assessing whether the goals will be met or not and what Cambodia's current standing is vis-à-vis the goals stems from a lack of comprehensive and up-to-date information. Much of the data available are either modelled or from 2005; hence, there is still a five-year gap to account for in terms of progress towards the 2015 targets. Increased efforts need to be undertaken by both the RGC and its international partners in collecting up-to-date information, should they wish to monitor the situation with any degree of effectiveness.

### **Goal 1: Eradicate extreme poverty and hunger**

There is positive progress on the majority of individual targets of Goal 1, and most are likely to be achieved by 2015. However, there remains uncertainty on Cambodia's ability to cut the number of people living below the poverty line by the agreed target by 2015. MoP (2007) estimates place

Cambodia's per capita GDP at \$513 in 2006, revised by the National Institute of Statistics (NIS) in 2008 to \$739 per capita.

In terms of poverty rates, the MoP (2007) reports that in 2004 34.7% of the population was below the poverty line nationwide. The 2009 NSDP Update puts the rate at 30.1%. The target for 2015 is 19.5%, so there is still a 10.6% gap on the achievement of this target. Considering past trends, there is still some uncertainty as to whether Cambodia will achieve its 2015 target.

With regard to increasing the share of the poorest quintile in national consumption, the target for 2015 is 11%. Latest data available place Cambodia at 7.1% in 2007, showing a gap of 3.9%, placing the country on track to achieve the goal.<sup>9</sup>

On nutrition, the prevalence of underweight children under the age of five fell from 45% in 2000 to 35.6% in 2005 (MoP, 2007), thus achieving the 2005 MDG target. For 2015, the target is 22%, but data past 2005 are not available. Considering the gains Cambodia has achieved on this target, the country is on good track to achieve its goals by 2015 with regard to this particular indicator.

Looking at the percentage of households that use iodized salt, the 2015 target was 90% of all households; by 2005 the percentage had reached 73% (MoP, 2007), from 14% in 2000. There has been good progress here: the gap between the 2015 target and 2005 data is around 17%, but Cambodia should achieve the goal by 2015.

Finally, the percentage of the population that is undernourished fell from 38% in 1991 to 26% in 2004 and to 18% in 2008 (RGC, 2009). The target for 2015 was set at 10%, so there is still an 8% gap. Progress has been quite positive on this goal, so it is therefore likely that Cambodia will attain the 2015 target.

## **Goal 2: Achieve universal primary education**

Cambodia has had mixed results on achieving universal primary education by 2015. Enrolment rates have increased and achievement of the 2015 goal on this seems likely, but 100% primary completion rates and 100% literacy rates seems more uncertain, especially the latter, which have not shown any marked improvements over the past few years.

Total primary net enrolment increased from 75.1% in 1991 to 89.4% in 2007.<sup>10</sup> According to the 2009 NSDP Update, primary enrolment rates have increased to 94.4%, with the goal for 2015 set at 100% total net enrolment. Considering past progress, it seems safe to assume that Cambodia will most likely achieve its target by 2015.

The target set for primary school completion for 2015 is 100% of all primary students. In 2001, there was a 51% primary school completion rate (MoP, 2003); by 2006, this had increased to 86.6%.<sup>11</sup> However, this fell to 85.1% by 2007 (the same level as 2005). Hence, despite great progress in achieving the target, especially between 2001 and 2005, between 2005 and 2007 the situation has remained more or less stable, still 14.9% below the 2015 target. Achievement of the target by 2015 is probable but not assured.

A goal has been set of 100% literacy for people aged between 15 and 24. In 1992, the literacy rate was 82%, rising to 83.4% in 2004 (further concrete data are not available). Hence, progress has been quite slow and achievement of the target does not seem to be attainable by 2015.

## **Goal 3: Promote gender equality and empower women**

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<sup>9</sup> <http://unstats.un.org/unsd/mdg/Default.aspx> (April 2010).

<sup>10</sup> <http://unstats.un.org/unsd/mdg/Default.aspx> (April 2010).

<sup>11</sup> Ibid.



Promotion of gender parity in Cambodia shows good overall results, with the country on track to attain the majority of its targets by 2015, except possibly parity of enrolment between males and females in tertiary education. Cambodia has set a target of 100% for 2015 in the ratio of girls to boys in primary education. The ratio was at 87% in 2001 (MoP, 2003) and by 2007 this had increased to 93%,<sup>12</sup> demonstrating very good progress on this target. Hence, we can assume that Cambodia will achieve this goal by 2015. In secondary education, the average target ration was set at 56%.<sup>13</sup> Figures from 2007 show a ratio of 82%, hence this particular target has already been achieved.<sup>14</sup> In tertiary education, the ratio target for 2015 was set at 85%; in 2001 the ratio was 38% (MoP, 2003) and by 2007 it was 56%.<sup>15</sup> Hence, despite positive progress, it is unclear whether Cambodia will reach its 2015 target on this.

The 2015 goal of a 100% literacy parity rate between men and women aged 15 to 24 has nearly been achieved, with 2007 figures showing a 92% parity rate.<sup>16</sup> The 100% literacy parity target will most probably be achieved by 2015.

The goal set for the female share in waged employment in the non-agricultural sector was set to 50% for 2015. The latest concrete data for 2001 show a 43.3% share, making it highly likely that Cambodia will attain its target by 2015.<sup>17</sup>

In 2007, 14.8% of the Cambodian Senate was made up of women and the proportion of elected female members of the National Assembly was 22% in 2008 (up from 5% in 1993). The target for 2015 was set at 30% for both the Senate and the National Assembly, making the achievement of the National Assembly goal quite likely, although more work needs to be done in order to achieve the Senate goal of 30%, as there was still a 15.2% gap in 2007. Elected women in commune councils went up from 8% in 2002 to 14.6% in 2007.

In terms of the proportion of female ministers, the goal for 2015 was for 20% of Secretaries and Under-Secretaries of State to be female. By 2008, the share achieved was 14.6% (RGC, 2009), making the achievement of the goal highly probable by 2015.

#### **Goal 4: Reduce child mortality**

A large part of the information necessary to assess whether Cambodia will achieve its goals of reducing child mortality is not available. However, the data that are available suggest that Cambodia will most likely attain the goals that it has set for 2015.

The 2015 goal for the reduction of the under five-mortality rate was set to 65 per 1000 births. In 1998, the rate was at 124 per 1000 births (MoP, 2003) and by 2005 this had fallen to 83 per 1000 births (MoP, 2007). Thus there has been positive progress with regard to the reduction of the under-five mortality rate and we can expect the country to achieve its 2015 target.

Overall infant mortality rates were 95 per 1000 in 1998 (MoP, 2003), down to 66 per 1000 in 2005 (MoP, 2007). The target set for 2015 was 50 per 1000 births. As with the under-five mortality rate, we can expect Cambodia to achieve this particular goal by 2015.

<sup>12</sup> Ibid.

<sup>13</sup> The Cambodia target was divided between lower secondary education and upper secondary education. An average figure is used since current available data are for secondary education as a whole.

<sup>14</sup> <http://unstats.un.org/unsd/mdg/Default.aspx> (April 2010).

<sup>15</sup> Ibid.

<sup>16</sup> Ibid.

<sup>17</sup> Ibid.

### **Goal 5: Improve maternal health**

Cambodia's goal of improving maternal health by 2015 has not seen very positive progress. Despite good progress on reducing the fertility rate, maternal health care has not shown a very high rate of positive movement and maternal mortality has actually shown negative progress.

The 2015 target for the reduction of maternal mortality rates was placed at 140 per 100,000 live births. In 1997, the maternal mortality rate stood at 437 per 100,000 live births (MoP, 2003) but by 2005 this had gone up to 472 per 100,000 live births, showing that the situation had actually worsened between 1997 and 2005 and signifying that Cambodia will most likely not achieve its 2015 target.

In terms of fertility rates, the MoP (2007) estimates that the population growth rate fell from 2.49% in 1998 to 1.81% in 2004, with fertility rates down from 4 births per woman in 2000 to 3.4 in 2005. The 2015 goal for total fertility rates was set at 3 per woman in 2015. Hence, achievement of this goal looks highly likely. The fall in population growth rates has been attributed to increased family wealth and higher education levels.

The proportion of births attended by skilled personnel in Cambodia in 2000 was 32%; by 2005, 44% of births were attended. The 2015 target was set at 80% of all births. There is still a very large gap between the 2005 data and the 2015 goal (36%) and, looking at the current rate of progress, the achievement of this goal looks highly uncertain.

The 2015 target for the proportion of married women using modern birth spacing methods was set at 60%. In 2000, the proportion was 18.5% (MoP, 2003) and by 2005 this had increased to 27.2% (MoP, 2007). There is still a large disparity (32.8%) between the latest reported rate and the 2015 goal, making the attainment of this goal by 2015 improbable.

### **Goal 6: Combat HIV/AIDS, malaria and other diseases**

There is a large amount of (still incomplete) data on HIV infection and prevention rates but unfortunately no up-to-date data on malaria or tuberculosis, as relevant national institutes and international bodies do not have any significant data sources. Data for HIV/AIDS show that Cambodia has taken great steps in both reducing infection and treating people living with the disease: the country has already reached its targets (where data are available).

In terms of reducing HIV prevalence among adults aged 15-49, the 2015 target was set at a prevalence rate of 1.8%. In 1997, prevalence was at 3% (MoP, 2007). In 2002, it went down to 2.6% (MoP, 2003) and in 2003 to 1.9% (MoP, 2007). By 2006, prevalence was at 0.9% (MoP, 2009), hence achieving the goal of reducing HIV prevalence rates within the country.

Another target was to raise the percentage of commercial sexual workers using condoms during sexual intercourse up to 91% by 2015. By 2003, 94% of commercial sexual workers reported using condoms during sexual intercourse, showing early achievement of the goal.

In terms of the percentage of people with advanced HIV infection receiving antiretroviral treatment, the goal for 2015 was set at 75%. By 2007, the actual rate was 82.6%, hence again the country achieved the goal ahead of time.

### **Goal 7: Ensure environmental sustainability**

Data on the majority of the targets included in Goal 7 are based mostly on estimates, so any predictions on achievement of this particular goal are most likely inaccurate. With data that are actually available (see below), we can see that, although there have been improvements in terms

of access to water and sanitation, where the 2015 targets will most likely be met, the country still needs to increase its efforts to stop deforestation and improve land security for its citizens.

One of Cambodia's MDG targets set in 2003 to ensure environmental sustainability was that total forest coverage would account for 60% of the total land area (based on the forest coverage level in the year 2000) by 2015. In 1990, Cambodia's forests covered 73.3% of the land; by 2005, this had gone down to 59.2%<sup>18</sup> and by 2008 to 59.09% (MoP, 2009). Although Cambodia seems to be very close to achieving its target, progress has only been negative. As such, the possibility of actually reaching this particular target relies on the ability of the Cambodian government to both stop deforestation and undertake substantial reforestation measures. Should these policies be enacted, the Cambodian government should be able to meet its target by 2015.

Looking at land titling, we can see from the 2009 NSDP Update that around 24% of all land parcels have been titled so far. There is thus still an 8% gap against the 2010 target of 32% and a 41% gap against the 2015 target of 65% of all land parcels titled. Unless there is a step up in the actual land titling process, it is unlikely that Cambodia will reach its goal by 2015.

In 1998 (MoP, 2003), 60% of the urban population had access to safe drinking water. By 2005 (MoP, 2007), this figure was at 76%. The 2015 goal was for 80% of the total urban population to have access to safe drinking water, so there was still a small gap of 10% by 2015. Considering progress between 1998 and 2005, we can assume that the 2015 target will be met.

In 1998, 24% of the total rural population had access to safe drinking water (MoP, 2003). By 2005, this figure was at 42% (MoP, 2007). The 2015 target was set at 50% of the total rural population with access to safe drinking water. Considering the good progress seen up to 2015, it is highly likely that Cambodia will meet its 2015 goal.

The 2015 goal for access to improved access to sanitation is 74% of the total urban population and 30% of the total rural population. In 1996 (MoP, 2003), 8.6% of the rural population had access. Data from 2005 (MoP, 2007) show a figure of 16% (a 14% gap against the 2015 goal). As such, we can assume that the 2015 will be met. With regard to urban access to improved sanitation, in 1998 the rate was 49% (MoP, 2003); by 2005, this had gone up to 55% (MoP, 2007). As a result, there is still a 19% gap in terms of the 2015 target. Although progress has been positive, the actual rate of improvement makes it uncertain whether Cambodia will meet this particular target by 2015.

### **Goal 9: De-mining, UXO and victim assistance**

The 2009 NSDP Update reports that by 2008 annual casualties from UXO had fallen to 271 (against 4320 in 1996) and mine-free land had increased from 33,000 hectares in 2005 to 43,000 in 2008. The 2012<sup>19</sup> target for the number of civilian casualties was set at zero, and in terms of cleared land the goal was to 'clear completely all high/medium/low suspected contaminated areas by 2012' (MoP, 2003). Unfortunately, there are no estimates on how much land is suspected to contain UXO, hence the achievement of these targets will depend on Cambodia's efforts both in demining as well as in gathering good information on how much and what land contains UXO. However, progress has been very positive so far: even though the 2012 goal may not be achieved it is highly likely that targets will be met in the near future.

<sup>18</sup> <http://unstats.un.org/unsd/mdg/Default.aspx> (April 2010).

<sup>19</sup> For Goal 9, Cambodia set a 2012 target as opposed to a 2015 target.

### 3. Trends in relation to trade, debt and aid

This section provides a discussion on the trends and context of development finance over the past decade in the areas of trade, debt and aid. This discussion will provide the background needed to understand how MDG 8, partnerships, can help address MDGs 1-7, which is the topic of Section 4.

#### 3.1 Trade analysis

Cambodia has been a star growth performer in the East Asian region for the past decade. However, by 2008 it was clear, given Cambodia's dependence on the US market for its garment exports, that it exhibited a high degree of vulnerability to a collapse in demand. The Cambodian economy is highly dependent on the garment industry, which accounted for around 17% of GDP in 2008 (Jalilian et al., 2009). There is also high dependence on a limited number of products and markets – the US and European Union (EU) together accounted for almost 90% of Cambodia's garment exports in 2008 (see Keane and Ratha, 2009). Despite some diversification in exports and markets over time, garments continue to dominate.<sup>20</sup> A slowdown is apparent in the growth of merchandise exports in 2008 (Table 3), which reflects a steep decline in garment exports during 2008, which has continued in 2009.

**Table 1: Export growth in Cambodia**

	2001	2002	2003	2004	2005	2006	2007	2008
Annual growth of merchandise exports	5.1	27.4	8.3	26.0	4.2	8.7	9.2	2.6
Annual growth of services exports	19.2	14.5	-10.8	38.8	27.3	11.8	14.0	-4.8
Share of export to GDP	52.0	60.5	59.7	72.8	74.9	76.5	79.3	82.3
Per capita export (US\$)	156.5	192.3	197.9	260.2	289.9	321.3	364.4	395.3

Source: CDRI, based on WTO trade database, UNComTrade and NIS.

**Table 2: Cambodia – most important exports,<sup>a</sup> 2008**

HS chapter	Description	Exports to world (US\$ mn)	Share of total exports
	<b>Total in HS Chapters 1–97</b>	<b>4,354</b>	<b>100.0%</b>
61	articles of apparel and clothing accessories, knitted or crocheted	2,829	65.0%
49	printed books, newspapers, pictures and other products of the printing industry; manuscripts, typescripts and plans	903	20.7%
62	articles of apparel and clothing accessories, not knitted or crocheted	179	4.1%
25	salt; sulphur; earths and stone; plastering materials, lime and cement	118	2.7%
64	footwear, gaiters and the like; parts of such articles	88	2.0%
87	vehicles other than railway or tramway rolling-stock, and parts and accessories thereof	64	1.5%

Note:  
(a) All HS chapters accounting for 1% or more of the total value of exports.  
Source: Calculated from data obtained from UN COMTRADE database.

**Table 3: Cambodia – main destination countries<sup>a</sup> – all exports, 2008**

Destination	Value of exports (US\$ mn)	Share of total exports
United States	1,970	45.2%
Hong Kong, China	840	19.3%
EU 27	757	17.4%
Canada	291	6.7%
Vietnam	170	3.9%

<sup>20</sup> See Tables A1 and A2 in the Annex.

Singapore	114	2.6%
<i>Note:</i> (a) All destinations accounting for 1% or more of the total value of exports. <i>Source:</i> Calculated from data obtained from UN COMTRADE database.		

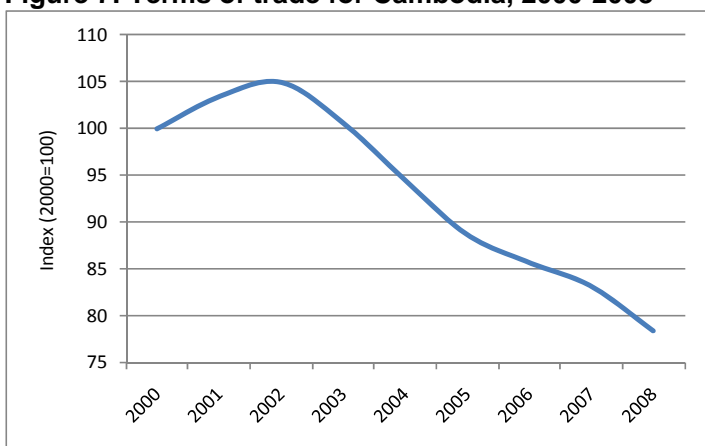
**Table 4: Cambodia – main destination countries<sup>a</sup> – main exports, 2008**

Destination	Value of exports (US\$ mn)	Share of total exports
<b>HS 61: articles of apparel and clothing accessories, knitted or crocheted</b>		
United States	1,893	66.9%
EU27	624	22.1%
Canada	182	6.4%
<b>HS 49: printed books, newspapers, pictures and other products of the printing industry; manuscripts, typescripts and plans</b>		
Hong Kong, China	834	92.3%
Singapore	68	7.5%
<b>HS 62: articles of apparel and clothing accessories, not knitted or crocheted</b>		
Canada	104	58.1%
United States	56	31.5%
EU27	13	7.5%
<b>HS 25: salt; sulphur; earths and stone; plastering materials, lime and cement</b>		
Vietnam	116	98.9%
Singapore	1	1.1%
<b>HS 64: footwear, gaiters and the like; parts of such articles</b>		
EU27	60	68.2%
Japan	18	20.3%
United States	3	3.6%
Panama	1	1.1%
Taiwan, China	1	1.0%
<b>HS 87: vehicles other than railway or tramway rolling-stock, and parts and accessories thereof</b>		
EU27	48	74.5%
Thailand	5	7.6%
Iraq	3	5.4%
Vietnam	3	5.3%
Japan	1	1.4%
Afghanistan	1	1.4%
<i>Note:</i> (b) All destinations accounting for 1% or more of the total value of exports. <i>Source:</i> Calculated from data obtained from UN COMTRADE database.		

It is reported that garment export values were down by 19% for the first nine months of 2009 compared with the same period in 2008; volumes over the same period declined by about 16%. According to Jalilian and Reyes (2010), negative growth in exports (on a month-on-month basis) has been registered consistently since November 2008 and continues to be steep. The deteriorating outlook for Cambodia's major export, garments, also becomes apparent when looking at recent developments in terms of trade. As shown by Figure 7, Cambodia's terms of trade have not been moving in the country's favour.<sup>21</sup> Cambodia is not a net food importer but it is a net fuel importer.<sup>22</sup>

<sup>21</sup> This is an experience shared by other garment exporters such as Bangladesh.

<sup>22</sup> Cambodia was hit by high consumer price inflation in 2008, which reached 26% in May 2008, the highest level ever recorded. It has subsequently eased in line with global commodity prices.

**Figure 7: Terms of trade for Cambodia, 2000-2008**

Note: Calculated based on net barter terms of trade defined as the ratio of the export unit value index to the import unit value index.

Source: UNCTAD Handbook of Statistics 2009 online.

Although the garment industry accounts for most exports, in terms of total employment the share is fairly low: around 4% of the total labour force (Keane and Ratha, 2009). The industry's labour force comprises mostly female migrant labourers who remit part of their income to rural households. The recent slowdown in the garment industry has been estimated to have affected (either permanently or temporarily) around 102,527 jobs, or one-third of the 'pre-crisis' workforce. It is believed that a further 30,000 to 50,000 jobs in the garment industry are also at risk (Jalilian and Reyes, 2010). Exports of agricultural products such as rice paddy (to be milled in Vietnam or elsewhere) have grown fastest in recent years, as well as other types of agriculture.

There are therefore increasing efforts to diversify Cambodia's export base. Priorities identified in the National Export Strategy (2007-2010) include: fisheries and organic agriculture, in addition to the garment, silk and tourism industries. Other 'priority products' identified on the basis of market accessibility and potential for human development include: rice, cassava, rubber, cashew nuts, soybean, corn and beer, in addition to fruits and vegetables and wood products (UNDP, 2007).

On the import side, petroleum and inputs into the garment industry accounted for around 25% of total in 2007 (Table 5). This means that, despite garments comprising a large share of total exports, net exports are actually far lower (almost 50% lower). Most material used in the industry is imported.<sup>23</sup> Hong Kong is Cambodia's largest import partner (Table 6), followed by China, Thailand, Taiwan and the EU.

**Table 5: Cambodia – main imports <sup>a</sup> 2002-2008Q2**

Description	Import value (US\$ million)								Avg. ann. change 2002-7
	Avg. 2006-2Q 2008	2002	2003	2004	2005	2006	2007	2008 Q1&2	
<b>Total import value</b>	<b>5,286</b>	<b>2,361</b>	<b>2,668</b>	<b>3,269</b>	<b>3,928</b>	<b>4,749</b>	<b>5,424</b>	<b>3,042</b>	<b>18.1%</b>
<i>Of which:</i>									
Custom data	1,349	671	692	790	914	1,084	1,429	858	
Duty free data	2,434	1,313	1,567	1,929	2,089	2,449	2,583	1,052	
BOP adjustment	1,430	366	399	538	911	1,200	1,393	982	
Goods procured abroad by res carriers	18	10	10	12	14	16	18	10	
Petroleum	1,362	365	428	610	842	1,123	1,348	934	29.8%
Garments	1,360	701	812	1,010	1,102	1,298	1,377	726	14.4%
Cars, Motorbikes & Other Vehicles	280	71	72	121	160	207	262	230	30.0%

<sup>23</sup> Despite efforts initiated as far back as 2003, backward linkages with a domestic textile industry remain weak and negligible.

Description	Import value (US\$ million)								Avg. ann. change 2002–7
	Avg. 2006–2Q 2008	2002	2003	2004	2005	2006	2007	2008 Q1&2	
Cigarettes	109	68	69	81	80	103	108	61	9.6%
Construction materials (steel and cement)	122	67	60	65	86	105	126	74	13.3%
<b>Total these product groups</b>	<b>3,233</b>	<b>1,273</b>	<b>1,442</b>	<b>1,888</b>	<b>2,269</b>	<b>2,836</b>	<b>3,220</b>	<b>2,026</b>	<b>20.4%</b>
<b>Share of total import value</b>	<b>61.2%</b>	<b>53.9%</b>	<b>54.1%</b>	<b>57.7%</b>	<b>57.8%</b>	<b>59.7%</b>	<b>59.4%</b>	<b>66.6%</b>	<b>2.0%</b>

Note:  
(a) Top five product groups imported, based on 2006–2nd quarter 2008 average import values.

Source: Calculated from data obtained from Cambodian Customs and Excise Department.

**Table 6: Cambodia – main suppliers<sup>a</sup> – all imports**

Supplier	Share of total import value							Avg. ann. change
	Avg. 2005–7	2002	2003	2004	2005	2006	2007	
China,P.R.:Hong Kong	11.9%	15.7%	15.3%	12.6%	11.4%	11.4%	12.6%	-4.4%
China,P.R.: Mainland	11.2%	8.4%	8.4%	10.5%	10.8%	11.0%	11.6%	6.7%
Thailand	8.6%	10.1%	8.1%	7.1%	7.4%	8.7%	9.4%	-1.3%
Taiwan Province of China	7.5%	8.0%	7.0%	7.4%	7.4%	8.0%	7.1%	-2.5%
Vietnam	5.7%	4.2%	4.5%	5.2%	4.6%	5.7%	6.4%	9.0%
European <sup>b</sup>	3.6%	3.2%	1.9%	3.3%	6.0%	2.7%	2.7%	-3.2%
Korea	3.5%	4.0%	3.0%	3.0%	3.8%	3.1%	3.5%	-2.5%
Singapore	3.4%	5.2%	4.5%	4.4%	3.5%	3.3%	3.3%	-8.6%
Japan	2.6%	2.7%	2.8%	2.6%	2.6%	2.7%	2.6%	-0.8%
Malaysia	2.1%	2.5%	2.9%	2.4%	2.4%	1.9%	2.0%	-4.4%
Indonesia	1.8%	3.3%	3.1%	2.4%	2.1%	1.8%	1.6%	-12.9%
<i>Memorandum:</i> Developed countries <sup>c</sup>	33.4%	39.6%	35.2%	34.4%	36.0%	32.0%	32.8%	-3.7%

Notes:  
(a) All suppliers accounting for 1% or more of average 2005–7 total import value.  
(b) The Cambodia data do not state whether this refers to all European countries, or to the European Union.  
(c) The Cambodian data list only 15 suppliers individually (accounting between them for 63.6% of 2005–7 average total import value), so this figure includes only those countries from the IMF list of advanced economies, *World Economic Outlook*, October 2009, which are among the 15.

Source: Calculated from data obtained from Cambodian Customs and Excise Department.

### 3.1.1 Trade policy

As a least-developed country (LDC), Cambodia exports to the EU market under the Everything But Arms (EBA) initiative, which means a simple average tariff of zero is applicable on all goods except arms. In the US market, a simple average tariff rate of 1.9% on 96% of tariff lines is applicable, which rises to 2.3% on agricultural goods (as defined under the World Trade Organization (WTO) Agreement on Agriculture) and 8.5% for textiles and clothing. Exports to Hong Kong enter duty free, given Most Favoured Nation (MFN) status; to Canada, a simple average tariff of 0% is applicable for all goods without a quota (see Table 7).

The Association of Southeast Asian Nations (ASEAN)/China free trade agreement (FTA) signed in 2002 (in Phnom Penh) came into force 1 January 2010. This removes tariffs on 90% of goods with immediate effect from all members except Laos, Cambodia, Burma and Vietnam, which are expected to liberalise by 2015. Cambodia is already a highly liberal and open economy, thus losses in tariff revenues as a result of the integration process are unlikely to be negatively impacted by moves towards the FTA.<sup>24</sup>

A number of agreements signed between ASEAN and third party countries became active in 2010. These include: the ASEAN and Australian and New Zealand (ANZCERTA) FTA; the ASEAN–China FTA; the ASEAN–India FTA; and the ASEAN–Korea FTA. The Japan–ASEAN comprehensive economic partnership entered into force on 1 December 2009.<sup>25</sup> This flurry in

<sup>24</sup> Regional integration has proceeded along fairly loose lines. Cambodia joined the ASEAN FTA in 1999. A common external tariff is not applied but each member country instead uses its national schedules; tariffs applied on members within the region and on the inclusion list fall within a 0–5% band (Cambodia has until 2010 to ensure not more than 5% is applied). Rules of origin are applicable but cumulative and require just 40% fob value to have derived within the region.

<sup>25</sup> A number of other bilateral agreements are in force, which include Cambodia and Korea on the promotion and



activity is timely, since it comes at a period when demand in traditional markets for Cambodia, is declining.

**Table 7: Cambodia – access to major markets for 2008 exports<sup>a</sup>**

	USA		Hong Kong		EU27		Canada	Vietnam	Singapore
Cambodia's share of market's total import value (%)	0.1	0.2	0.01		0.07		0.21		0.04
<b>All products:</b>									
Value of Cambodia's exports (US\$ mn)	1,970	840	757	291	170				114
Share of value for which simple AV tariff known (%) <sup>b</sup>	94.9	100	100	100	99.99				100
Share in value of non-arms exports (for which simple AV tariff known) of products eligible for duty-free entry (%) <sup>c</sup>	0.3	100	99.99	100	73.9				100
Simple average tariff (%) <sup>d</sup>	8.4	0	0	0	6.5				0
Trade-weighted average tariff (%) <sup>d</sup>	17.1	0	0	0	3.0				0
<b>Agricultural products:</b>									
Value of Cambodia's exports (US\$ mn)	0.6	0.06	1	0	5				1
Share of value for which simple AV tariff known (%) <sup>b</sup>	100	100	100		100				100
Simple average tariff (%) <sup>d</sup>	0	0	0		5				0
Trade-weighted average tariff (%) <sup>d</sup>	0	0	0		10.9				0
<b>Textile and clothing products:</b>									
Value of Cambodia's exports (US\$ mn)	1,954	6	638	290	2				3
Share of value for which simple AV tariff known (%) <sup>b</sup>					95.1	100	100	100	100
Simple average tariff (%) <sup>d</sup>					13.3	0	0	0	4.5
Trade-weighted average tariff (%) <sup>d</sup>					17.2	0	0	0	5.0
<b>Notes:</b>									
(a) i.e. items actually exported by Cambodia to the market shown in 2008.									
(b) For some markets not all applicable duties are known because a specific or compound duty applies (for which <i>ad valorem</i> equivalents have not been calculated), or the rate is simply missing from the schedule. The share of the total value of imports of goods to which simple <i>ad valorem</i> tariffs apply and are known is shown here – and it is only the exports accounting for the total representing this share that have been included in the average tariff calculations in this table.									
(c) Because the trade data are at the 6-digit level of the HS and tariffs are set at the more disaggregated national tariff line level, in many cases a range of tariffs applies to different items within an HS 6-digit sub-heading. In calculating this share the <i>maximum</i> rate applicable to any item within the 6-digit sub-heading has been used. The proportion of trade eligible for duty-free entry shown here may, therefore, be understated.									
(d) Again, <i>maximum</i> tariff rates (preferential wherever applicable) have been used in these calculations.									
<i>Sources:</i> Calculated from trade data obtained from UN COMTRADE database, the latest tariff schedules available in UNCTAD's TRAINS database (2009 for USA and Hong Kong, 2008 for EU27 and Singapore, 2007 for Vietnam) and the Canadian Customs Tariff 2010.									

Cambodia is currently lobbying, along with other countries such as Bangladesh, for all LDCs to be afforded duty-free quota-free (DFQF) access in developed country markets, such as the US, both at multilateral and bilateral level. Since the phase-out of the Multi Fibre Arrangement (MFA) in 2005, the explicit link to adherence to labour standards (a non-tariff barrier) in order to benefit from additional quotas in the US market ended. Cambodia no longer has preferential access to the US market relative to Vietnam (as of January 2007) or, as of the end of 2008, China (with the removal of WTO safeguards). If the US Trade Act (2005) is passed – in part a response to the concerns of the LDCs of preference erosion vis-à-vis African exporters under the African Growth and Opportunity Act (AGOA 2000) – this will grant DFQF access to LDCs such as Cambodia, Laos and Bangladesh, but not other ASEAN competitors or China.

Cambodia currently exports under the US Generalized System of Preferences (GSP); certain types of textiles and clothing are prohibited by statute. As noted by Baughman (2010), US GSP benefits in 2009 applied to just 0.4% of Cambodia's total exports, which received GSP duty-free treatment, with 97% being dutiable apparel products. Despite their classification as least-developed beneficiary countries, Bangladesh and Cambodia face trade-weighted tariffs averaging 15% and 17%, it has been estimated that as a result of these high tariff rates, the US collected more duties on imports from Bangladesh (\$563 million) and Cambodia (\$318 million) in 2009 (ibid).

protection of investment (2007) and border trade agreements with Bangladesh, Thailand and Vietnam.



A recent study undertaken by Bouët et al. (2010) explored a number of scenarios related to Doha outcomes within a general equilibrium framework. Estimates are based on the potential export gains from movement from 97% duty-free quota-free (DFQF) access for LDCs to 100% product coverage: what was on the table in the summer of 2008 when the talks collapsed. Results for Cambodia, as well Bangladesh, are summarised in Table 8 below. Cambodia can be seen to gain considerably more from those models that adopt a partial equilibrium approach.

**Table 8: Percentage variation in exports**

	100% OECD DFQF		100% OECD + MICs <sup>b</sup>	
	General Equilibrium	Partial Equilibrium	General Equilibrium	Partial Equilibrium
Bangladesh	4.16	28.96	4.82	38.55
Cambodia	2.52	31.27	2.55	32.96
<i>Clothing</i>	19.49	n.a	19.51	n.a.

*Note:* a Canada, Japan, Norway, Switzerland, United States; the EU is excluded because it provides 100% DFQF to LDCs under the EBA regime. b The CGE model includes South Korea and Mexico in OECD while the partial equilibrium includes them with Brazil, China, and India as middle income countries. c In the CGE model, the results are for the regional aggregate, “rest of South East Asia” which includes Laos and Brunei as well as Cambodia which dominates exports.

It is important to point out that general and, to a lesser extent, partial equilibrium models rely on a number of assumptions as to how economies work. Moreover, estimates are unable to take into account supply-side constraints; they also assume that demand responds positively to increases in supply. The potential benefits for producers in LDCs from the removal of tariffs also depend on the nature of the value chain within which they trade (see Box 1).

#### **Box 1: The potential effects of DFQF for all LDCs**

- The first and most immediate impact would be the transfer of import taxes, formerly levied by more developed trade partners to respective supply chains. If this accrues to producers and exporters, it will make exports more profitable.
- Second, if part of the revenue transfer accrues to importers, it could induce them to buy more from LDC suppliers, leading to an increase in exports. If it accrues to producers/exporters, it may also enable LDC suppliers to increase their supply of competitive products without substantial new investment.
- Third, by removing tariff barriers, DFQF may make it commercially feasible, for LDC suppliers to export new markets where these exports were previously constrained.
- The fourth effect could be greatest, but is hardest to predict. If DFQF means increased supply from LDCs, there could be increases in foreign exchange earning and knock-on effects for the rest of the economy.

*Source:* Adapted from Stevens et al. (2008).

#### **3.1.2 Non-tariff barriers**

In addition, Cambodia must meet a 35% value-added requirement as part of US Rules of Origin (ROO) to obtain DFQF market access. Although imported products (including from within the region) can count towards this requirement, they must be ‘substantially transformed’ in Cambodia into different materials to then produce or manufacture the product: substantially transformed means the US would classify them as different items, i.e. different tariff lines.

Non-tariff barriers in order to access the EU market are also considered fairly stringent. For example, in 2003 it was estimated that only 36% of Cambodia’s garment exports obtained DFQF (Brenton, 2003) status; by 2005, this had risen to 67% (EIC, 2007). In order to export under EBA, Cambodia garment products must satisfy EU ROO. Although the ASEAN culmination method is applicable (this means that imported yarn from the region can be used), Cambodia must fulfil the ‘double transformation’ requirement of EU ROO: yarn should be woven into fabric either in Cambodia or in a country qualifying for culmination and then made up into apparel in Cambodia.<sup>26</sup>

<sup>26</sup> Although the EU had planned to sign an agreement with the EU, it has subsequently changed tact and is now negotiating on a bilateral basis with individual ASEAN members.

Non-tariff barriers faced in other regional markets are not well documented and are an avenue for further research. There is no available Trade Policy Review for Cambodia.

Since 2000 to date, most AfT (AfT) destined for Cambodia is for the productive sector and 'agriculture, forestry and fishing' in particular, followed by 'industry, mining and construction' (Table 9). Over time, AfT disbursements to Cambodia have increased and reached a total of \$386 million in 2008. Relative to total exports, disbursements in some years have also been quite high, almost 14% of the value of total exports in 2005 (Table 10). In fact, AfT disbursements to Cambodia, as a proportion of total disbursements, are considerably higher than those destined for other LDCs such as Bangladesh (see Table 11).

**Table 9: AfT commitments**

Commitments	2000	2001	2002	2003	2004	2005	2006	2007	2008
33110: Trade policy and admin. management	0.00	0.00	0.00	0.34	0.06	10.29	11.67	0.60	1.14
33120: Trade facilitation	0.00	0.00	0.00	0.00	0.00	3.02	0.01	2.62	7.73
33130: Regional trade agreements	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
33140: Multilateral trade negotiations	0.00	0.00	0.04	0.00	2.84	0.00	0.07	0.12	0.00
33150: Trade-related adjustment	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
33181: Trade education/training	0.00	0.00	0.00	0.00	0.00	0.13	0.09	0.06	0.00
33210: Tourism policy and admin. management	0.00	6.39	0.00	21.55	0.06	0.02	0.62	0.70	1.01
200: II. ECONOMIC INFRASTRUCTURE AND SERVICES	48.83	130.38	43.04	163.21	118.80	148.98	129.08	127.12	186.20
300: III. PRODUCTION SECTORS	79.30	33.60	14.49	83.66	88.24	118.83	73.67	57.98	94.96
310: III.1. Agriculture, Forestry, Fishing	75.26	24.64	3.69	54.84	78.69	103.02	41.70	43.08	40.53
320: III.2. Industry, Mining, Construction	4.04	2.58	10.77	6.93	6.59	2.37	19.50	10.81	44.56
331: III.3.a. Trade Policies & Regulations	0.00	0.00	0.04	0.34	2.90	13.43	11.84	3.40	8.86
332: III.3.b. Tourism	0.00	6.39	0.00	21.55	0.06	0.02	0.62	0.70	1.01

Source: OECD.

Note: Commitments in constant 2008 USD millions.

**Table 10: AfT and total exports**

	2002	2003	2004	2005	2006	2007
Total AfT disbursements	72.1	352.4	298.2	400.1	288.9	247.2
Total Exports (USD'000)	1770.0	2087.0	2589.0	2910.0	3694.0	4088.0
AfT as % of total exports	4.1	16.9	11.5	13.7	7.8	6.0

Note: Commitments in constant 2008 US\$ millions.

Source: OECD and Cambodian Customs and Excise Department.

**Table 11: AfT destined for Cambodia and other LDCs**

	2002	2003	2004	2005	2006	2007
Total AfT (broad)	23,753.5	23,405.3	28,584.5	26,984.6	27,383.8	30,777.3
% total AfT destined for Cambodia	4.1	16.9	11.5	13.7	7.8	6.0
% total AfT destined for Bangladesh	2.7	6.8	4.0	2.5	2.9	3.7
% total AfT destined for Uganda	2.4	0.8	2.4	1.2	1.0	2.8
% total AfT destined for Bolivia	1.7	2.3	1.1	1.3	0.9	1.4

Note: Commitments in constant 2008 US\$ millions.

Source: OECD.

We next analyse the extent to which the AfT received by Cambodia is consistent with its trade-related priorities as emerging from the most recent OECD questionnaire on AfT (2009). In order to make the link we analyse specialisation index of different types of AfT. As described in Section 3.3 below, this measures the extent to which a country is receiving more ODA in that sector (within the broader AfT sector) relative to the other developing countries. In particular, an index greater than 1 indicates a relative specialisation in the specific AfT sector controlling for the overall specialisation in AfT, i.e. a measure of the allocation of AfT across sub-sectors, and vice-versa. We also compute

the specialisation index for AfT to measure to what extent AfT has been prioritised in total ODA to the country.

In line with the stated prioritisation of trade in national development plan, aid to Cambodia was always relatively skewed towards AfT between 2000 and 2008 (except in 2002). The value of the AfT specialisation index was well above unity throughout the period, barring 2002, suggesting that Japan's model of assistance (a major Cambodian donor) towards trade-related aid may have played an important role in this clear specialisation pattern. The sectoral allocation of AfT to Cambodia seems to be fairly in line with the priorities emerging from the response to the questionnaire. In particular, trade facilitation has a high value of the index in the last period of data and it is also the top trade-related priority for the country. A similar case can be made also for aid to productive sectors (particularly tourism and industry) in line with the importance of export diversification for Cambodian trade authorities. Accordingly aid to economic infrastructure is relatively neglected (index slightly below 1) and it is not mentioned in the top trade priorities in the questionnaire.

**Table 12: AfT specialisation index in Cambodia (based on 2008 US\$ constant commitments)**

	2000	2001	2002	2003	2004	2005	2006	2007	2008
33110: Trade policy and management	0.0	0.0	0.0	0.1	0.0	1.6	1.7	0.2	0.2
33120: Trade facilitation	0.0	0.0	0.0	0.0	0.0	2.0	0.0	3.2	4.3
33130: RTAs	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
33140: Multilateral trade negotiations		0.0	1.5	0.0	23.1	0.0	0.2	0.5	0.0
33150: Trade-related adj.								0.0	0.0
33181: Trade education		0.0	0.0	0.0	0.0	1.2	0.5	0.3	0.0
33210: Tourism policy	0.0	13.2	0.0	18.7	0.1	0.0	0.2	1.5	2.3
200: II. Econ Infra	0.6	1.2	1.2	1.1	0.8	0.8	1.0	1.0	0.9
300: III. PROD Sectors	1.9	0.6	0.7	0.9	1.3	1.3	1.0	1.0	1.2
310: III.1. Agriculture, Forestry, Fishing	2.6	0.6	0.3	1.0	2.1	1.9	1.0	1.0	0.8
320: III.2. Industry, Mining, Construction	0.4	0.2	1.7	0.3	0.3	0.1	1.2	1.1	2.5
331: III.3.a. Trade Policies & Regulations	0.0	0.0	0.0	0.0	0.5	1.6	1.3	0.6	1.0
332: III.3.b. Tourism	0.0	13.2	0.0	18.7	0.1	0.0	0.2	1.5	2.3
<b>Total AfT (broad)</b>	<b>1.2</b>	<b>1.2</b>	<b>0.4</b>	<b>1.7</b>	<b>1.5</b>	<b>2.4</b>	<b>1.6</b>	<b>1.5</b>	<b>1.4</b>

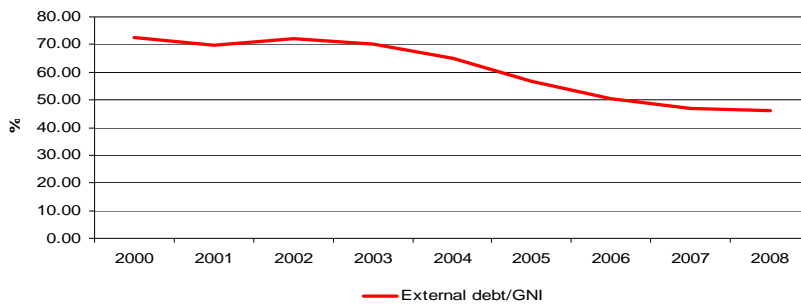
Source: OECD CRS database.

In terms of the modalities through which AfT is provided to Cambodia, the questionnaire notes that the donor community has achieved a good level of coordination in all areas except in the monitoring and evaluation activities, which are only sometimes carried out jointly.

### 3.2 Debt sustainability

The level of external debt in Cambodia experienced a downward trend over the period 2000-2008. Thanks to strong economic growth, the external debt to gross national income (GNI) ratio came down significantly to 47% in 2007 from 73% in 2000 (Figure 8). However, this declining trend slowed down in 2008 because of the growth impact of the global financial crisis in the economy. The external debt to GNI ratio slightly dropped to 46% in 2008.

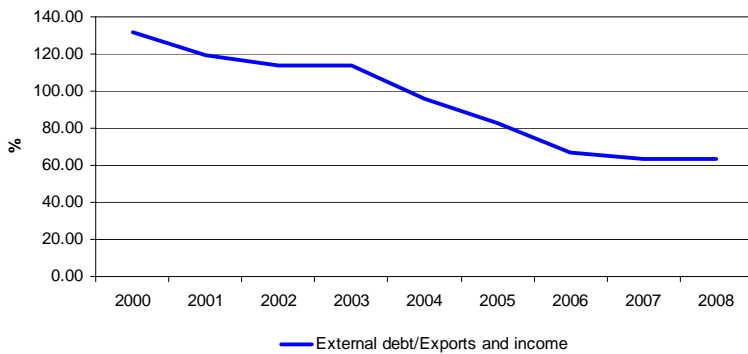
**Figure 8: External debt stocks, 2000-2008 (% of GNI)**



Source: World Bank's GDF.

A similar picture is offered by the external debt to exports and income ratio (Figure 9). After a remarkable decline from 132% in 2000 to 63% in 2007, the ratio remained almost steady up to 2008. This sheds light on how the crisis has affected the level of debt through the exports channel as well.

**Figure 9: External debt stocks, 2000-2008 (% of exports of goods, services and income)**



Source: World Bank's GDF.

Data reported by the IMF in the Debt Sustainability Analysis (DSA) released in October 2009 show that, because of the economic contraction and increased assistance from donors in the face of the global recession, the level of external debt is expected to increase in 2009, going back to about its 2007 values.

Debt forgiveness and reduction in Cambodia were not very significant over the period of analysis. Indeed, debt relief occurred only in 2006 (Figure 10).

**Figure 10: Debt forgiveness or reduction, 2000-2008 (US\$ millions)**



Source: World Bank's GDF.

Total public debt gradually declined to 26% of GDP in 2008 from 33% of GDP in 2006, but it is expected to go up to 30% of GDP in 2009.

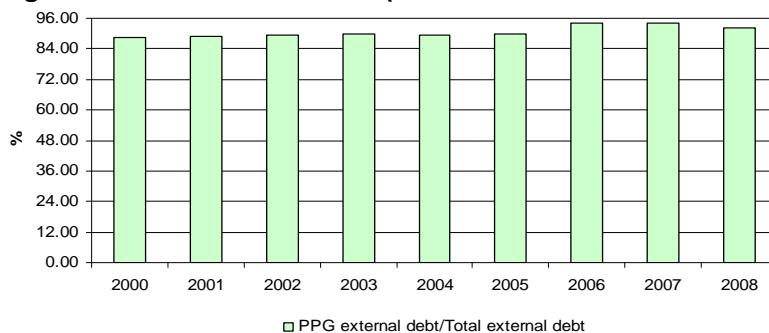
The size of domestic public debt was quite small in 2008, representing less than 1% of GDP.

In terms of composition, over half of external debt in Cambodia is owed to multilateral institutions (i.e. ADB and World Bank's IDA), while China is currently the largest bilateral creditor.

Moreover, it is worth looking at 1) the share of public sector debt; 2) concessional debt; 3) foreign debt; and 4) short-term debt. Some of these indicators may also help assess the vulnerability of the economy to solvency and liquidity risk arising from the external debt position.

Public sector debt represents the largest share of external debt (on average 91%) throughout all the period of analysis (Figure 11). The public and publicly guaranteed (PPG) external debt to total external debt ratio slightly decreased from 94% in 2007 to 92% in 2008.

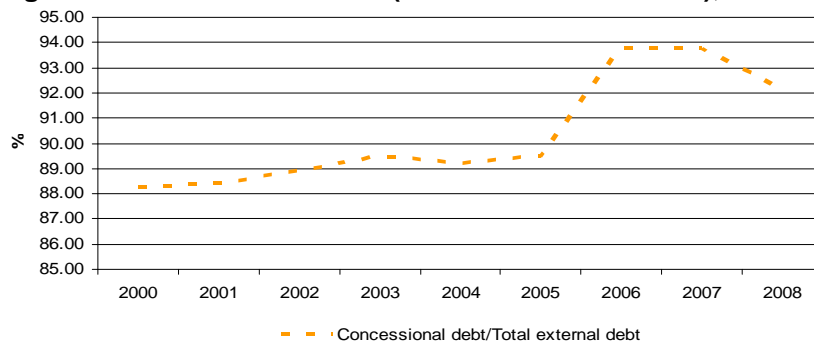
**Figure 11: PPG external debt (% of total external debt stocks)**



Source: World Bank's GDF.

The share of concessional debt in total external debt increased up to 94% in 2006 and then it slightly decreased to 92% in 2008 (Figure 12).

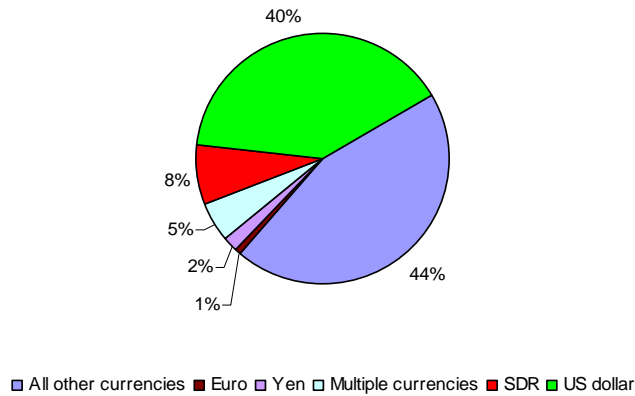
**Figure 12: Concessional debt (% of total external debt), 2000-08**



Source: World Bank's GDF.

If we look at the currency composition of debt, debt payable in US dollars represented the largest share (40%) of PPG foreign debt in 2008 (Figure 13). This implies that the economy is vulnerable to a sudden depreciation of the domestic currency (riel) against the US dollar. However, since 2006 the riel has continuously appreciated against the dollar, going from 4103.2 Riel per US dollar in 2006 to 4054.2 Riel in 2008.

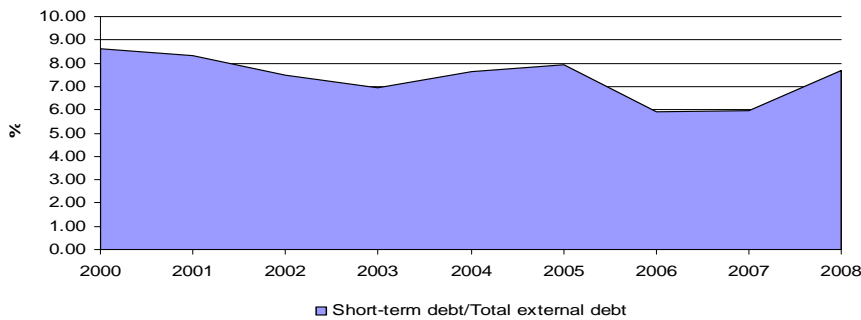
**Figure 13: Currency composition of PPG debt, 2008 (%)**



Source: World Bank's GDF.

The maturity composition of debt shows that in Cambodia the share of short-term debt to total external debt stands at about 7.4% on average over the period of analysis (Figure 14). The ratio of short-term debt to total external debt declined between 2000 and 2006; it started to increase afterwards, reaching a value of 7.7% in 2008. If this trend is going to continue, high levels of short-term debt might make the economy vulnerable to sudden changes in investor sentiment.

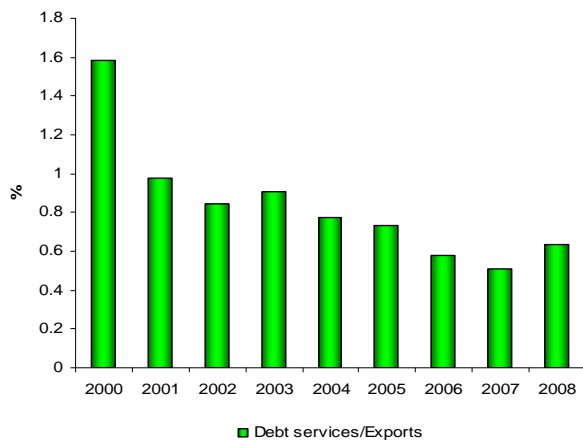
**Figure 14: Short-term debt, 2000-2008 (% total external debt)**



Source: World Bank's GDF.

In the period 2000-2008, some key solvency indicators for Cambodia remained below the debt burden thresholds identified for those countries (such as Cambodia) that are classified as 'weak performers' on the basis of the quality of their policies and institutions as measured by the World Bank's Country Policy and Institutional Assessment (CPIA), while others have breached the policy-dependent thresholds.

On one hand, the debt service to exports ratio fell by more than a half from 1.6% in 2000 to 0.6% in 2008, remaining constantly well below the indicative threshold value of 15% (Figure 15). Note that the ratio increased in 2008 owing to weak performance of exports due to the crisis.

**Figure 15: Debt service, 2000-2008 (% of exports of goods, services and income)**

Source: World Bank's GDF.

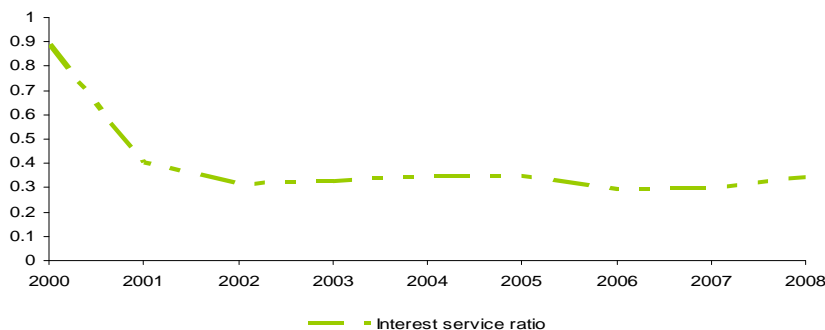
Table 13 reveals that over the period of analysis the government spent less on external debt service than on health and education. In 2007, for example, the RGC had to pay 0.32% of GDP to meet external debt obligations, while the figure was around 1.72% for health services and 1.60% for education.

**Table 13: Public expenditure pattern – essential services vs. external debt service**

Year	Health expenditure (% GDP)	Education expenditure (% GDP)	External debt service (% GDP)
2000		1.67	0.51
2001		1.72	0.14
2002		1.71	0.17
2003	2.35	..	0.24
2004	2.29		0.30
2005	1.53	1.72	0.32
2006	1.54		0.39
2007	1.72	1.60	0.32
2008			0.39

Source: World Bank's World Development Indicators GDF.

On the other hand, if we look at the net present value (NPV) of external debt to exports ratio and the NPV of external debt in percent of GNI, we can see that in 2008 the former was well below the threshold value (57% compared to 100%), while the latter was significantly higher than the indicative threshold (42% compared to 30%). The interest service ratio fell by half between 2000 and 2001 but then it almost stagnated on an average value of 0.3% up to 2008 (Figure 16).

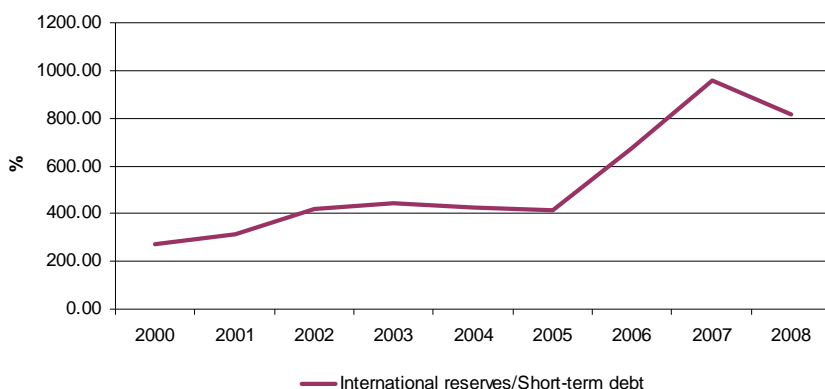
**Figure 16: Interest payments on external debt (% of exports of goods, services and income)**

Source: World Bank's GDF.

Public sector debt appears to have been sustainable over recent years. Indeed, the debt service to revenue ratio remained stable at around 5% between 2006 and 2008, which is well below the 25% threshold. Moreover, the NPV of public sector debt to revenue ratio declined over time reaching a value of 173% in 2008, which again is below the indicative policy-dependent threshold of 200%. However, in 2009 the NPV of public sector debt to revenue ratio is expected to increase to 197% thus getting very close to the threshold level.

Overall, the liquidity situation in Cambodia improved in the period 2000-2008 since the ratio of international reserves to short-term debt, which is the single most important liquidity indicator, increased from 269.87% in 2000 to 817.39% in 2008 (Figure 17). However, if we focus on the last few years of the period of analysis, we can see that the country's reserve adequacy has deteriorated in 2008 compared with 2007.

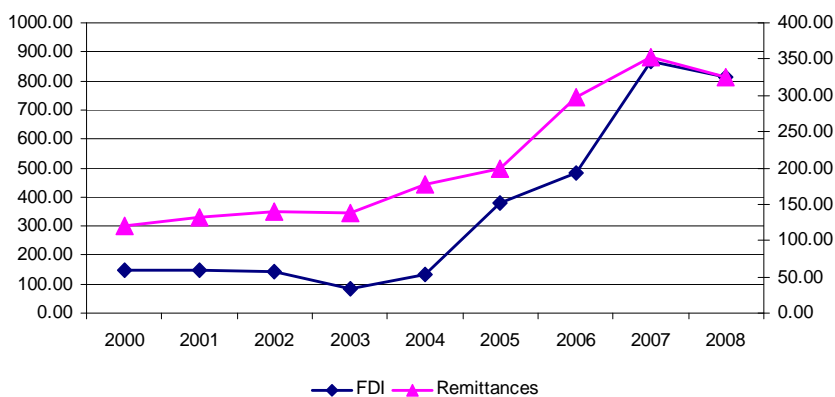
**Figure 17: Ratio of international reserves to short-term debt, 2000-2008 (%)**



Source: World Bank's GDF.

In order to assess the vulnerability of the economy to solvency and liquidity risks arising from the external debt position, it is also worth looking at trends over time of different balance of payments (BOP) flows. Figure 18 reports the trends of FDI and remittances in Cambodia. Both FDI and remittances experienced an upward trend up to 2007. However, they significantly dropped by 6% and 8% respectively in 2008 owing to the global financial crisis. This sudden decline may have significant adverse consequences on the country's ability to service its debt.

**Figure 18: BOP flows, 2000-2008 (US\$ millions)**



Note: Remittances on secondary axis.

Source: World Bank's GDF.



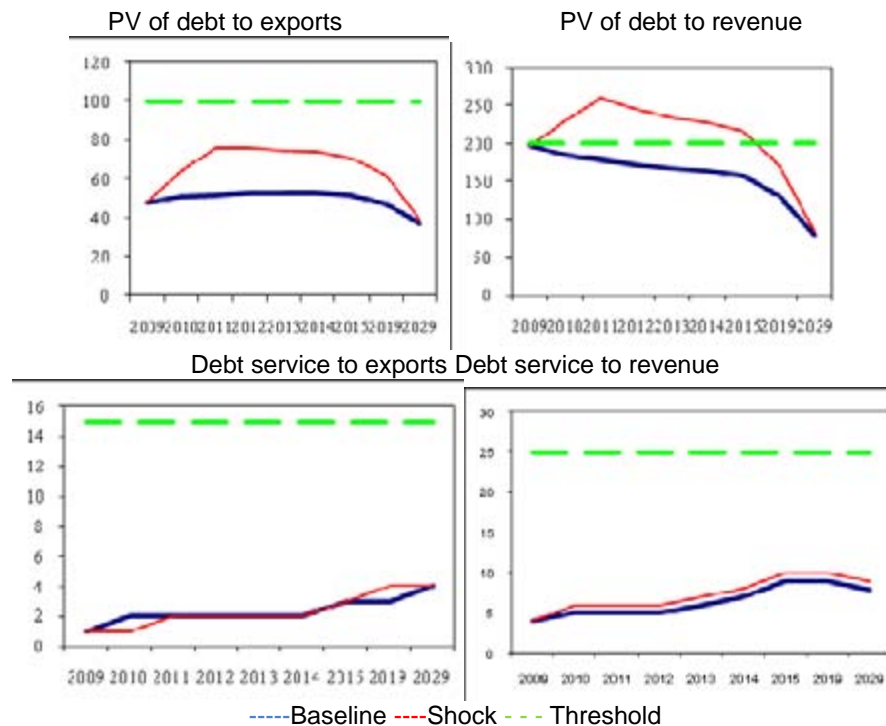
## Box 2: Debt stress tests

Stress tests conducted by the IMF jointly with the World Bank in October 2009 show that Cambodia has a moderate risk of debt distress over the next 20 years.

The main underlying macroeconomic assumptions for the baseline scenario are the following:

- Average real GDP growth is expected to remain significantly below its historical level in the medium term because of the impact of the global recession, and to rebound modestly in the long term.
- - The external current account deficit is projected to improve in 2009 thanks to falling import demand and lower oil prices, and to stabilise around 5-6% of GDP a year in the long term.
- - Grants and loans as a share of GDP are expected to decline gradually.
- - Private capital flows including FDI are projected to rise gradually.
- - An increasing but moderate level of external borrowing is expected to be on less concessional terms.
- - Gross official reserves are projected to decline in the medium term but then to increase progressively in the long run.
- - A more prudent fiscal policy is expected to enhance macroeconomic stability.
- - The overall fiscal deficit is expected to decline gradually in the medium term after a temporary widening in 2009.

If we look at figures below, we can see that although under the baseline scenarios there is no breach of thresholds, once the model is exposed to a number of shocks, the present value (PV) of debt-to-revenue threshold is breached. Furthermore, from a macroeconomic perspective Cambodia is facing serious pressures owing to its weak export performance and its expansionary fiscal policy aggravated by possible reserve losses over the medium term.



*Note:* The shock used varies among graphs. In the first three figures, it corresponds to a net non-debt flows shock; in the fourth it reflects a 30% percent nominal depreciation shock.

*Source:* IMF-World Bank DSA-CAMBODIA (2009) and authors' elaborations.

Things could get even more complicated if actual liabilities arise from contingent obligations. In light of all these uncertainties, the IMF and World Bank urged Cambodia's government to continue pursuing a sound strategy for public debt management. Furthermore, given that Cambodia presents a high dollarisation of its economy, it will be advisable to keep an exchange rate policy consistent with Cambodia's fiscal policy.

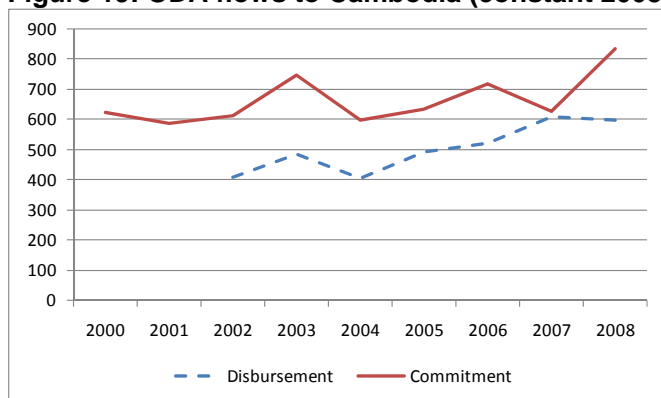
### 3.3 ODA flows and effectiveness

#### Box 3: Commitments vs. disbursements

We mainly use ODA commitments rather than disbursement for the analysis of ODA as the former have better ODA coverage than the latter in the Organisation for Economic Co-operation and Development (OECD) Creditor Reporting Statistic (CRS) dataset, which is our main source of data. This is especially the case for pre-2002 data, where the coverage of disbursements is not sufficient to have reliable data (and this is the reason why OECD CRS data on disbursement are readily available online only from 2002). The use of commitments data should not bias the analysis as commitments are a powerful predictor of disbursements, and this is the case also for our sample of four countries (Bolivia, Bangladesh, Cambodia and Uganda). We do this by running a panel data regression for the four countries over the period 2002-2008 with disbursement as the dependent variable and commitment lagged two years as the regressor (plus country dummies). The coefficient of commitment was not significantly different from one. Moreover, allocation of commitments across sectors and donors in recipient countries mirrors closely that of disbursements. Keeping that in mind, we will also show some of the results using disbursements data as well.

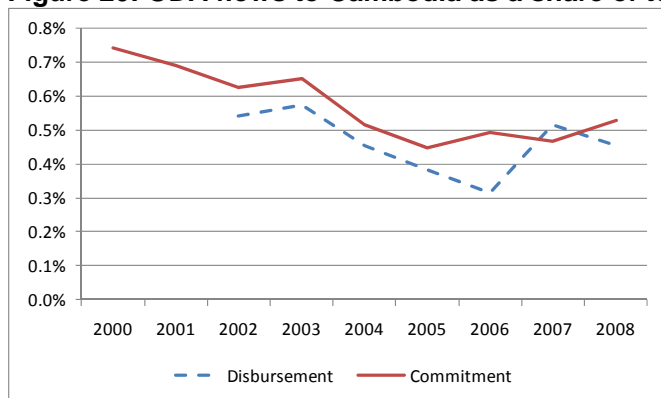
ODA to Cambodia was fairly stable in terms of commitments over the period 2000-2008, with a spike in the last year of data (Figure 19). The trend for disbursements was slightly more upwards although the increase over the period was similar to that of commitments.

**Figure 19: ODA flows to Cambodia (constant 2008 US\$ millions)**



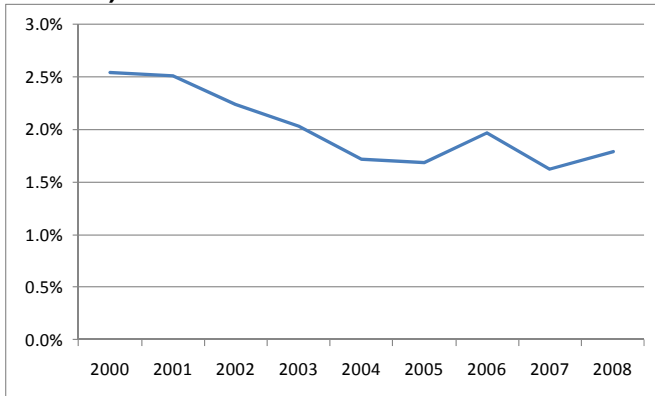
This moderate upward trend of ODA turns downwards once we consider Cambodia's share in total ODA (Figure 20). This is the case for both commitments and disbursements, although the decline halted in 2005, which recorded the same share in total ODA as in 2008. ODA flows to Cambodia have decreased relatively to the general increase in aid.

**Figure 20: ODA flows to Cambodia as a share of total ODA**



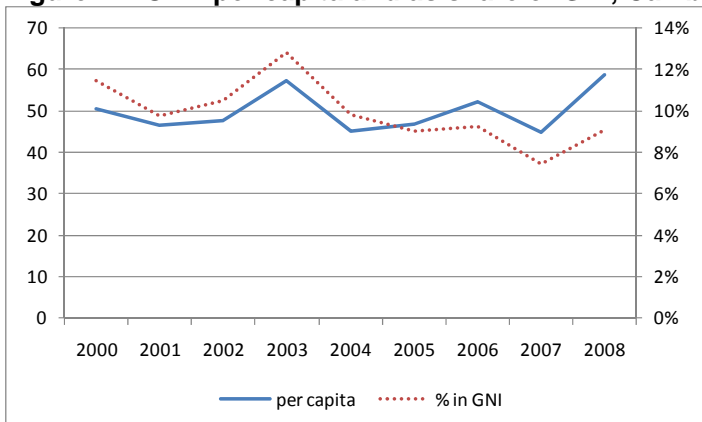
A similar picture is obtained by looking at aid to Cambodia relatively to its relevant income group, i.e. LDC (Figure 21). The share of Cambodia in ODA to LDCs declined from around 2.5% in 2000 to less than 2% in the period 2004-2008.

**Figure 21: ODA share of Cambodia in LDCs (based on commitment constant 2008 US\$ millions)**



Cambodia has a fairly high dependence on development assistance, with a share of ODA in GNI close to 10% in 2008 (Figure 22). However, this is an understatement of the real dependence figure as it does not include China (as a non-OECD country), which reportedly became Cambodia's largest donor in 2008. The country has banked on development assistance to finance most of its national priority requirements, particularly in relation to social interventions and capital expenditures (Jalilian and Reyes, 2010).<sup>27</sup> Both ODA per capita and ODA as a share of GNI remained fairly stable until 2005 (Figure 22), with the former slightly increasing and the latter declining markedly after 2005. The sustained economic growth of Cambodia in this period may explain the reduction in Cambodian dependence on external assistance in a period when ODA per capita has increased (albeit moderately).

**Figure 22: ODA per capita and as share of GNI, Cambodia**



### 3.3.1 Effects of the crisis on aid

According to Jalilian and Reyes (2010), despite the stretch in donors' national budgets caused by the crisis, ODA commitments to Cambodia do not appear to have been negatively affected. The country's official development partners have sought to reaffirm the indicative commitment made at the end of 2008 of nearly \$1 billion in aid for 2009. There has been no known cutback in the total aid commitment to Cambodia for 2009. Rather, total committed aid received a huge boost, with a

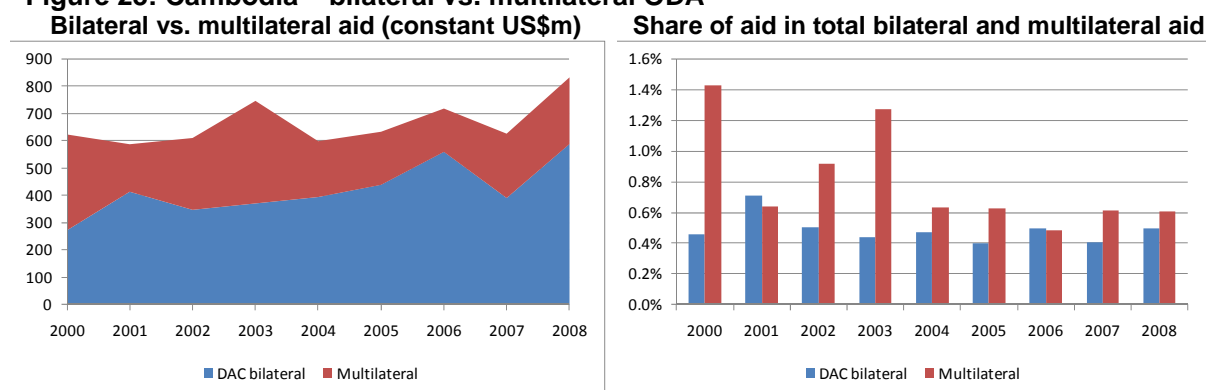
<sup>27</sup> As per the 2008 Cambodia Aid Effectiveness Report (CDC, 2009), development assistance financed 85% of total NSDP requirements in 2006 and 95% in 2007.

reported increase in financing from China, which topped up its aid pledge in 2008 of about \$260 million with an additional \$593 million funding for various government infrastructure projects (to be spread over a number of years).

### 3.3.2 Multilateral vs. bilateral aid

Cambodia received slightly more bilateral than multilateral aid over the period (left-hand side of Figure 23), although its share in total multilateral aid was above that in bilateral aid, indicating an allocation of aid relatively skewed towards multilateral aid (right-hand side of Figure 23). This pro-multilateral skewedness diminished over time and eventually disappeared in more recent years. Major bilateral donors include Japan, the US and Germany, while the ADB and the World Bank are the largest multilateral donors. As noted above, this is an incomplete picture, as China is not included, despite reportedly becoming Cambodia's largest donor in 2008, replacing Japan.

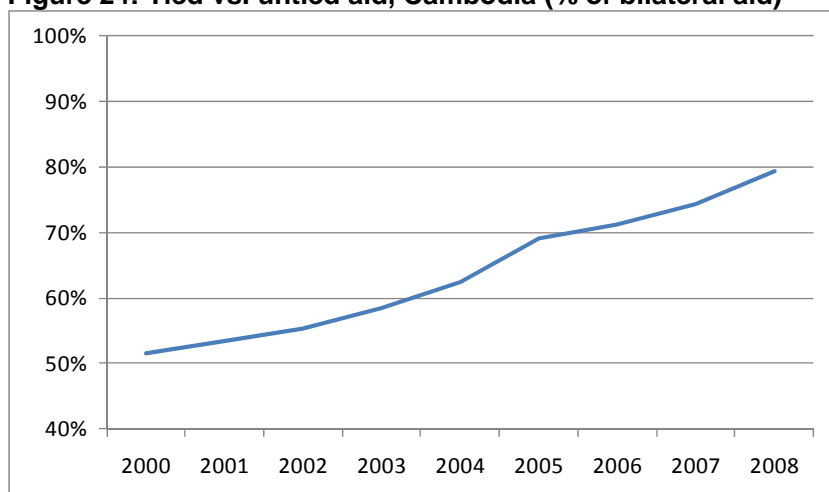
**Figure 23: Cambodia – bilateral vs. multilateral ODA**



**Table 14: Cambodia's major donors (constant 2008 US\$ millions)**

	2000	2001	2002	2003	2004	2005	2006	2007	2008	Total
<b>DAC bilateral</b>	<b>273</b>	<b>414</b>	<b>348</b>	<b>371</b>	<b>395</b>	<b>440</b>	<b>561</b>	<b>391</b>	<b>589</b>	<b>3,781</b>
Japan	48	92	83	63	159	140	140	138	114	977
US	24	34	75	73	77	98	70	75	73	599
Germany	18	48	22	48	16	68	26	36	45	327
France	34	49	31	25	38	21	47	26	35	305
Australia	47	62	17	22	45	27	25	21	34	301
UK	18	9	32	66	2	15	37	15	105	299
<b>Multilateral</b>	<b>352</b>	<b>175</b>	<b>264</b>	<b>376</b>	<b>205</b>	<b>195</b>	<b>159</b>	<b>236</b>	<b>244</b>	<b>2,205</b>
ADB	239	44	113	155	119	108	23	47	82	930
IDA	54	98	84	133	..	44	16	73	97	600
EU	39	22	55	25	70	6	58	35	20	330

In line with the general trend, bilateral aid in Cambodia has quickly become more untied, with a share of 80% of untied aid in total bilateral aid in 2008.

**Figure 24: Tied vs. untied aid, Cambodia (% of bilateral aid)**

### 3.3.3 Allocation across sectors

We analyse the ODA allocation across sectors in two ways. First, we simply examine the sectoral composition of ODA, focusing on the macro sectors (i.e. 2-digit OECD CRS sectors) and on some 3-digit level sectors that should be particularly relevant to reach some of the MDGs (e.g. education and health spending); second, we compute a simple index of relative specialisation for those sectors. The index is the ratio of the share of country  $i$  in total ODA for a specific sector  $s$  and the share of country  $i$  in total ODA:

$$S_{is} = \frac{ODA_{is} / \sum_{j=1}^n ODA_{js}}{ODA_i / (\sum_{j=1}^n ODA_j)}$$

where  $ODA_{is}$  and  $ODA_i$  are ODA in sector  $s$  (in US\$) and total ODA (in US\$) for country  $i$  respectively, and  $n$  is the total number of donors. A value of the index greater than one indicates that country  $i$  is receiving more ODA in that sector relative to the other developing countries.

The social sector accounted for almost half of total ODA commitments to Cambodia in the period 2000-2008 (Table 15), representing a type of expenditure where ODA is relatively concentrated (Table 16). Within the social sector, health is a relatively larger recipient of ODA than education (the average specialisation index for health is almost double than that of education, which is slightly below 1). Aid to economic activities has also been important in the Cambodian ODA allocation, with the specialisation index for both aid economic infrastructure and aid to productive sector above 1 throughout most of the period. On the other hand, commodity aid and budget support have been relatively under-funded areas.

**Table 15: Allocation of commitments across sectors, Cambodia (constant 2008 US\$ millions)**

	2000	2001	2002	2003	2004	2005	2006	2007	2008
<b>All</b>	<b>625</b>	<b>588</b>	<b>612</b>	<b>747</b>	<b>600</b>	<b>634</b>	<b>719</b>	<b>627</b>	<b>834</b>
Social infra & services	177	258	380	425	269	269	398	318	452
Education	20	44	147	25	45	49	73	27	31
Basic Education	3	7	63	2	11	15	53	6	7
Health	23	34	67	97	39	54	51	56	133
Economic infra and services	49	130	43	163	119	149	129	127	186
Production sectors	79	34	14	84	88	119	74	58	95

Multisector / cross-cutting	134	84	101	35	70	54	86	48	38
Commodity aid / general prog. Ass.	35	38	44	5	10	14	8	52	22
General budget support	32	36	19	0	5	..	..	44	14
Action relating to debt	..	..	..	..	..	..	..	1	..

**Table 16: Allocation of commitments across sectors, Cambodia (specialisation index)**

	2000	2001	2002	2003	2004	2005	2006	2007	2008	Avg
Social infra & services	0.78	1.24	1.80	1.66	1.07	1.22	1.46	1.15	1.36	<b>1.31</b>
Education	0.41	0.92	2.81	0.40	0.78	1.27	1.27	0.48	0.50	<b>0.98</b>
Basic Education	0.21	0.42	4.74	0.13	0.52	1.25	2.82	0.55	0.41	<b>1.23</b>
Health	0.71	1.18	2.16	2.77	1.23	1.60	1.16	1.49	3.03	<b>1.70</b>
Economic infra and services	0.47	1.20	0.46	1.71	1.18	1.87	1.47	1.30	1.20	<b>1.20</b>
Production sectors	1.55	0.60	0.27	1.47	1.89	2.89	1.57	1.26	1.53	<b>1.45</b>
Multisector / cross-cutting	2.56	1.78	2.10	0.63	1.91	1.48	1.90	1.10	0.64	<b>1.57</b>
Commodity aid / general prog. Ass.	0.57	0.86	1.07	0.11	0.34	0.51	0.26	1.91	0.40	<b>0.67</b>
General budget support	0.81	1.49	0.87	0.01	0.27			2.29	0.33	<b>0.87</b>
Action relating to debt										

### 3.3.4 Aid volatility

#### Box 4: Measuring aid volatility

Alternative methodologies are available to measure the volatility of aid. We use the most popular measure in the literature (see e.g. Bulir and Hamann (2003), Pallage and Robe (2001), Chauvet and Guillaumont (2009)), which is based on the Hodrick-Prescott filter (Hodrick and Prescott, 1997). The application of this filter allows extracting the trend and cycle components of any flow variable, ODA in this case. The H-P filter decomposes a series,  $x_t$ , (where  $x_t$  is the logarithm of the observed series  $X_t$ ) in a cycle  $x_t^c$  and in a trend  $x_t^g$  by minimising the following function:

$$\sum_t (x_t - x_t^g)^2 + \lambda \sum_t [(x_{t+1}^g - x_t^g) - (x_t^g - x_{t-1}^g)]^2$$

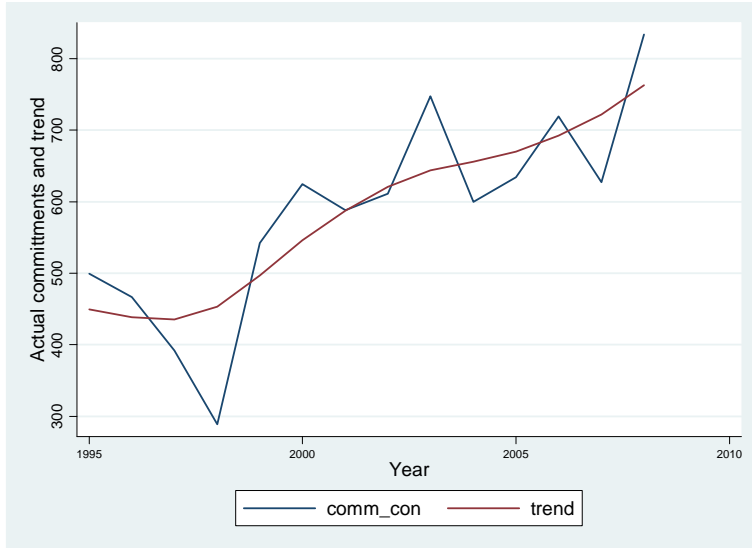
With the cycle component being defined as  $x_t^c = x_t - x_t^g$ . We then define volatility as the share of the cycle

component in total observable commitment over the period, i.e.  $\sigma = \frac{\sum_t x_t^c}{\sum_t x_t}$  and also in each period

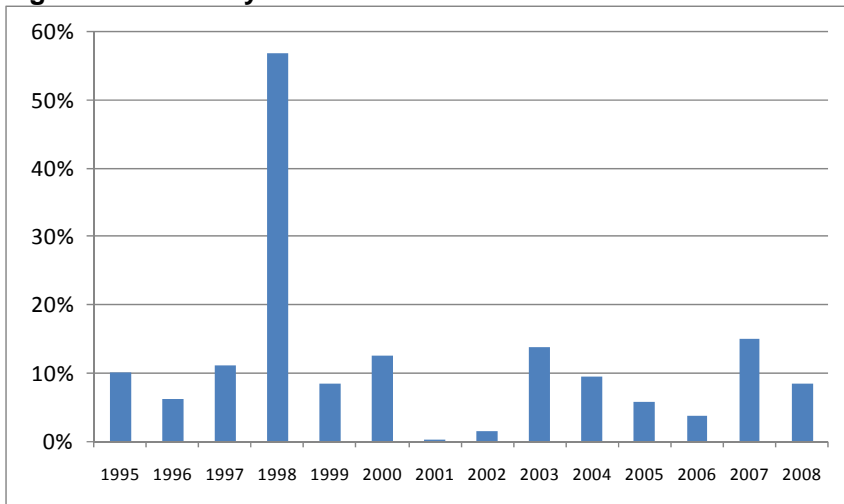
$\sigma_t = x_t^c / x_t$ . A higher indicator is associated with higher volatility of aid. The indicators based on commitments are likely to be more accurate than those based on disbursement data as the former is based on a longer time period (1995-2008 vs. 2002-2008) and on wider coverage of the data.

Figure 25 presents the evolution of actual ODA commitments vis-à-vis its trend (calculated according to the method explained in Box 4) for the period 1995-2008. The implied volatility is fairly low ( $\sigma_t$  around 10%) except in the year 2000, as confirmed in Figure 26, which plots the evolution of  $\sigma_t$  over the period.

**Figure 25: How volatile is aid? Actual commitment vs. trend**



**Figure 26: Volatility over time of ODA commitments**



## **4. Partnerships (MDG 8)**

MDG8 is to establish a global partnership for development. It commits countries and development partners to go beyond aid-related commitments in the Paris and Accra Declarations to cover access to markets, tackling debt sustainability and improving access to affordable drugs and new technologies. The objective to 'Forge a global partnership for development' is based on a number of distinct goals. These goals can be divided into ODA, trade and trade liberalisation, access to new technologies and the reduction in international debt. The following sections have already highlighted a number of areas where further progress is needed, but this section highlights them more explicitly.

### **4.1 Market access**

In relation to international trade and market access, this includes the terms under which LDCs are able to access more developed country markets. It calls for the development of an open, rule-based, predictable and non-discriminatory trading and financial system. Target 8.B specifically addresses the special needs of LDCs and includes the call for duty- and quota-free (DFQF) access for exports from LDCs. The objectives of the MDGs recognise that international trade can serve as a driver of economic growth and therefore contribute to other goals, such as poverty reduction. However, it is also recognised that serious barriers exist for LDCs in being able to harness trade-induced growth so as to achieve a sustainable and dynamic trajectory and route out of poverty. This includes in terms of market access but also relates to supply-side constraints, such as limited levels of education and productive capabilities.

The international community has responded to some of these concerns and demands. At the WTO Ministerial Conference in Hong Kong (2005), a commitment to provide Aft was made. DFQF is provided to LDCs by most major developed countries. However, concerns remain in relation to agricultural subsidies as well as other non-tariff barriers such as standards (related to the private governance of trade). Talks on further liberalisation at the multilateral level – the Doha Development Round (DDR) – have stalled. Moreover, the global financial crisis, which erupted in 2008 and has subsequently affected the real economy across the globe, is threatening to raise the level of protectionism.

Obtaining DFQF at the multilateral level is important for Cambodia, particularly given its overwhelming reliance on a single export – garments. Progress to date shows that it has not been achieved in all of its major markets, notably the US. However, other markets including more regional ones are also shown to be fairly restrictive with much scope for improved terms of access. In terms of Aft, Cambodia is already one of the largest recipients out of the country case studies reviewed (Bangladesh, Uganda and Bolivia). It is important that these levels remain stable and are utilised to support efforts to diversify Cambodia's narrow economic base and expand export opportunities across markets.

Like Uganda, Cambodia has also recently discovered oil. Also such developments are likely to in the future reduce inflationary pressures in Cambodia (a net-fuel importer), it is important that the resource is managed well in order to avoid a resource curse and support, rather than hinder efforts to diversify the export base.

### **4.2 Debt sustainability**

One of the six targets of MDG 8 is to 'Deal comprehensively with the debt problems of developing countries through national and international measures in order to make debt sustainable in the long



term'. The external debt to gross national income (GNI) ratio for Cambodia fell significantly over the period of analysis: from 73% in 2000 to 47% in 2007. However, there are indicators to suggest that this trend may be slowing (and may even reverse) as a result of the financial crisis. Overall, the liquidity situation in Cambodia improved in the period 2000-2008, but the country's reserve adequacy deteriorated in 2008 compared with 2007. Stress test results suggest that Cambodia is facing serious challenges; the magnitude of the shocks experienced in 2008 and into 2009 may have significant adverse consequences on the country's ability to service its debt. This suggests a need for increased monitoring of the situation in Cambodia: the impact of the crisis has the potential to undermine much of the progress made to date.

### **4.3 Aid**

Cambodia has a fairly high dependence on development assistance, with a share of ODA in GNI close to 10% in 2008. But, as has already been pointed out, this is an understatement because these figures do not include China – a non-OECD country. Since the crisis hit Cambodia there have been concerns that aid could also fall, as developed countries GDP decline and with it their aid disbursements (since these are calculated as a percentage of GDP). However, contrary to expectations, total committed aid received a huge boost in 2008 with a reported increase in financing from China, which topped up its aid pledge in 2008 of about \$260 million with an additional \$593 million funding for various government infrastructure projects (to be spread over a number of years). These developments are to be welcomed in view of the achievement of MDG8, since they represent the inclusion of a greater number of partnerships developed, so as to achieve similar objectives. Analysis undertaken for Cambodia suggests that aid is fairly stable and therefore predictable (more so compared to other country case-studies).

### **4.4 Information and communication technology**

With regard to access to new technologies in Cambodia, the 2009 NSDP Update states that a number of different policies will be implemented in order to develop Cambodia's ICT sector. This will be based on six broad actions to be undertaken by the RGC. The first and foremost ICT policy planned is the implementation of Cambodia's Law on Telecommunications, which has been in the planning stages for a number of years, together with the legal and regulatory framework necessary in order to implement it. The second major action will be to increase capacity building within the ICT sector by enhancing education and training. The third action will be an improvement in ICT technology and infrastructure in order to increase efficiency as well as to increase nationwide coverage. The fourth major action will be to improve the competitiveness of the sector as well as competition within the sector. The final two actions revolve around the implementation of e-government (digitalising government services) and enhanced efficiency in the existing ICT infrastructure within the country.

In order to implement these policies, the RGC will undertake a number of different initiatives. First of all, it will provide more information for investors (both local and foreign) in order to incentivise them to invest in the ICT sector. The RGC will also undertake investments in infrastructure projects, such as construction of a submarine fibre optic cable aimed at increasing the maximum internet bandwidth available and of a nationwide fibre optics communication network to connect different regions of the country to high speed broadband. Finally, it will undertake investments to link current fibre optic networks that have already been set up within the country.

Further actions, to be taken by the Ministry of Information (MoInfo), include increasing coverage of national media to 95% of the national population as well as starting to broadcast national media in other countries for cultural purposes. In terms of strengthening regulations, the RGC will continue to 'monitor and to take legal actions against telecommunication operators who are in violation of their contracts' (NSDP, 2009). In addition, it will introduce regulations to incentivise investments in the sector and at the same time continue to 'give priority to stop leakages of revenues from the

telecommunication system' (ibid). A number of different laws have already been implemented or are in the process of being implemented to promote access to ICT technology. Laws include the Cyber Law (to be implemented in 2012), the 2009 National Frequency Plan and a number of laws promoting e-commerce. In addition, laws regarding the freedom of the press will also be strengthened. The RGC is actively encouraging growth in the ICT sector, with the objective to resolve regulatory issues so as to enable a steady output of qualified ICT workers, produce a competitive ICT sector and increase access to ICT services for all its citizens.

In terms of the ICT targets for 2015, targets are quite vague, with only two short outlines: telephone lines per 1000 people and personal computers per 1000 people. In terms of landlines, Cambodia has 2.8 landlines per 1000 inhabitants, although it does have 270 mobile phones per 1000 inhabitants. Cambodia's ICT sector has been growing at a pace of 32% per annum and is the world's first country where the number of mobile phones has overtaken the number of landlines (Jalilian et al., 2009). As shown by Table 17, 87% of the population are covered by a mobile network compared to just 56% for other low income countries. Table 17 summarises Cambodia's progress in this area to date.

**Table 17: ICT indicators in Cambodia from an international perspective**

	Cambodia		Lower-income group	East Asia & Pacific Region
	2000	2008	2008	2008
<b>Access</b>				
Telephone lines (per 100 people)	0.2	0.3	4.6	21.7
Mobile cellular subscriptions (per 100 people)	1	29.1	28.5	52.9
Fixed Internet subscribers (per 100 people)	0	0.1	1	9
Personal computers (per 100 people)	0.1	0.4	1.7	5.6
<b>Usage</b>				
Internet users (per 100 people)	0	0.5	4.6	19.4
<b>Quality</b>				
Population covered by mobile network (%)	80	87	56	93
Fixed broadband subscribers (% of total Internet subscribers)	0	92.2	7.2	41.9
International Internet bandwidth (bits/second/person)	0	19	24	470
<b>Affordability</b>				
Residential fixed line tariff (US\$/month)	-	8	9	4.5
Mobile cellular prepaid tariff (US\$/month)	-	5	10	5
Fixed broadband Internet access tariff (US\$/month)	-	90.6	102.4	21.7

Source: World Bank (2009)

## 4.5 Summary on development finance flows

Table 18 is an overview table on changes in development finance (flows which finance the balance of payments) over 2008 to 2009. Not all the relevant data are available, but some conclusions emerge on the basis of estimates so far.

Development finance flows deteriorated considerably in the case of Cambodia, by about \$0.5 billion. The IMF estimates the decrease in external debt changing inflows is worth 4.3% of GDP (on top of a deterioration of around 10% of GDP over 2007-2008). An extension of DFQF would help Cambodia gain around \$100 million in export revenues, but a decrease in OECD tariffs and subsidies on an MFN basis would harm Cambodia by around \$54 million in revenues. Public debt and external debt increased by around 5% of GDP over 2008-2009.

**Table 18: Cambodia – development finance and other flows over 2008-2009**

	Source	Level in 2008 US\$ millions (unless otherwise stated)	Absolute change 2008-2009 (or closest annualised number), US\$ millions (unless otherwise stated)
Foreign direct investment	Cambodia case study	795	-285
Portfolio flows (balance of payments, portfolio investment)	Cambodia case study		
International bank lending	BIS Sep 2008-Dec 2009	237	96
Trade balance (goods)	ITC trade map using US, EU and BRIC countries	1352	-318
Official development assistance	ODA (Hossein et al., 2010),		
Remittances	Forecast (World Bank)	325	3
<i>Sum above</i>			-504
<b>Memorandum items</b>			
MDG GAP	UNDP 1998 study Annual needs (2009-2015)		
Benefits of DFQF to LDCs by OECD	Bouet et al. (2010)		2.5% increase in exports (around \$100 million)
Preference erosion of a possible Doha round outcome	ODI (2006), Appendix Table 1, upper bound		53.6
Public external debt as % of GDP	IMF's DSA (data as a share of GDP) 2008 data and 2009 forecasts	24.6%	29.2%
Public as % of GDP	IMF's DSA (data as a share of GDP), general government debt excluding state-owned enterprises, 2008 data and 2009 forecasts	25.5%	30.2%
Net debt creating flows (negative is an inflow)	IMF's DSA (data as a share of GDP) 2008 data and 2009 forecasts (2007 = -13.3%)	-3.6%	0.7%

## 5. Conclusions

As a whole, progress has been fairly positive in Cambodia towards achievements of the 2015 MDG targets, but not uniform. The achievement of a number of key goals, such as those on poverty reduction and maternal health care, remains doubtful. On the other hand, on a number of other goals, such as gender equality and reducing infectious diseases, Cambodia has made very good progress and is on track to achieve its goals (or has already achieved them in some cases).

Cambodia has achieved remarkable progress in recent years; this includes almost double-digit growth over the past decade. However, the impact of the global financial crisis, in 2009, was severe for Cambodia. The current crisis therefore poses a serious challenge for the achievement of some of the MDGs, notably MDG1, and reinforces the relevance of MDG8 commitments.

Specifically:

- Goal 1 – Eradicating extreme poverty and hunger: The majority of the targets will most likely be met by 2015; however, there is still a degree of uncertainty on whether the poverty rate target will be met.
- Goal 2 – Achieve universal primary education: Mixed results among the different targets that make up this goal make it unlikely that all targets will be met in time.
- Goal 6 – Combat HIV/AIDS, malaria and other diseases: Cambodia has already met its goals on HIV/AIDS and is on track to achieve other targets within this goal by 2015.
- Goal 9 – De-mining, UXO and victim assistance: The 2012 goals will most likely not be met; however, Cambodia has shown great positive progress in the reduction of UXO and the number of UXO victims per year.
- Cambodia is a major recipient of aid, including AfT; a stable and predictable flow will remain important for the future.
- Cambodia's preferences in major developed country markets, such as the US, have been eroded. Given the impact of the crisis on the industry in addition to the changed preference environment, this clearly is of concern. However, non-traditional markets will also be shown to have much scope to be more accommodating to the needs and challenges faced by Cambodia, in its export diversification efforts.

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## Annex

Table A1: Major exports from Cambodia, <sup>a</sup> 2001-2008Q2

Description	Export value (US\$ million)								Avg. ann. change 2002-7
	Avg. 2006-2Q 2008	2002	2003	2004	2005	2006	2007	2008 Q1&2	
<b>Total export value</b>	<b>4,020</b>	<b>1,770</b>	<b>2,087</b>	<b>2,589</b>	<b>2,910</b>	<b>3,694</b>	<b>4,088</b>	<b>2,269</b>	<b>18.2%</b>
<i>Of which:</i>									
Custom data	2,961	1,441	1,676	2,141	2,375	2,910	3,152	1,341	
BOP adjustment	825	210	286	304	387	614	706	744	
Goods Procured by nr carriers	15	8	8	10	11	14	16	7	
Re-Exports	200	111	117	134	137	156	215	129	
GSP exports (mainly garments)	2,752	1,392	1,628	2,079	2,261	2,727	2,942	1,210	16.2%
Paddy [rice]	511	28	94	114	177	330	411	536	70.6%
Other agriculture	199	40	28	35	94	162	200	136	38.0%
Rubber	186	63	98	115	119	175	157	133	20.1%
Fish	107	73	76	69	76	90	105	72	7.7%
<b>Total these product groups</b>	<b>3,754</b>	<b>1,595</b>	<b>1,924</b>	<b>2,411</b>	<b>2,726</b>	<b>3,484</b>	<b>3,815</b>	<b>2,087</b>	<b>19.1%</b>
<b>Share of total export value</b>	<b>93.4%</b>	<b>90.1%</b>	<b>92.2%</b>	<b>93.1%</b>	<b>93.7%</b>	<b>94.3%</b>	<b>93.3%</b>	<b>92.0%</b>	<b>0.7%</b>

Note:

(a) Top five product groups exported, based on 2006–2nd quarter 2008 average export values.

Source: Calculated from data obtained from Cambodian Customs and Excise Department.

Table A2: Main markets for Cambodian exports <sup>a</sup>

Destination	Share of total export value							Avg. ann. change
	Avg. 2005-7	2002	2003	2004	2005	2006	2007	
United States	50.3%	54.3%	54.0%	50.7%	54.8%	51.4%	46.0%	-3.2%
European <sup>b</sup>	17.4%	16.3%	16.6%	23.3%	17.8%	17.8%	16.6%	0.3%
China,P.R.:Hong Kong	14.5%	0.3%	0.2%	0.2%	18.6%	14.7%	11.3%	101.8%
Canada	3.4%	–	–	3.6%	3.7%	3.1%	3.4%	-2.6%
Singapore	3.2%	1.5%	1.4%	0.4%	2.4%	3.8%	3.2%	16.6%
Vietnam	1.9%	1.8%	1.9%	1.6%	1.6%	2.0%	2.0%	1.4%
Japan	1.2%	1.1%	1.0%	1.0%	2.2%	0.9%	0.8%	-5.1%
<i>Memorandum:</i>								
Developed countries <sup>c</sup>	73.0%	57.5%	56.9%	57.1%	82.0%	74.3%	65.3%	2.6%
BRICs/South Africa <sup>d</sup>	0.1%	0.0%	0.0%	0.1%	0.1%	0.1%	0.2%	15.9%

Notes:

(a) All markets accounting for 1% or more of average 2005–7 total export value.

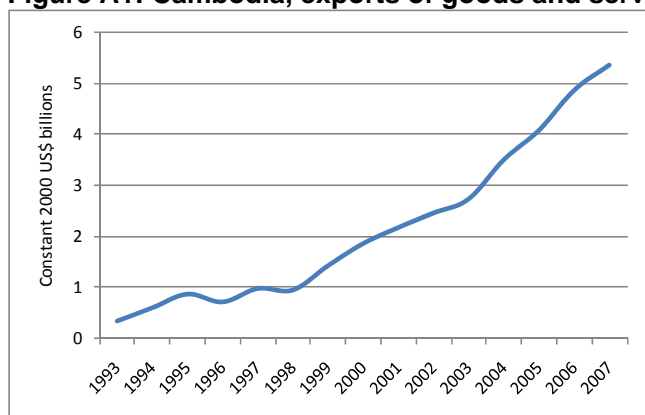
(b) The Cambodian data do not state whether this refers to all European countries, or to the European Union.

(c) The Cambodian data list only 15 destinations individually (accounting between them for 93.6% of 2005–7 average total export value), so this figure includes only those countries from the IMF list of advanced economies, *World Economic Outlook*, October 2009, which are among the 15.

(d) Includes figures only for those countries identified individually in the Cambodian data – in this case, Russia.

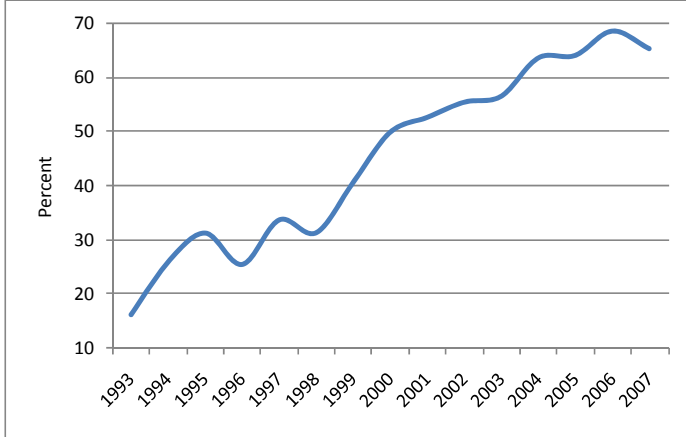
Source: Calculated from data obtained from Cambodian Customs and Excise Department.

Figure A1: Cambodia, exports of goods and services, 1993-2007



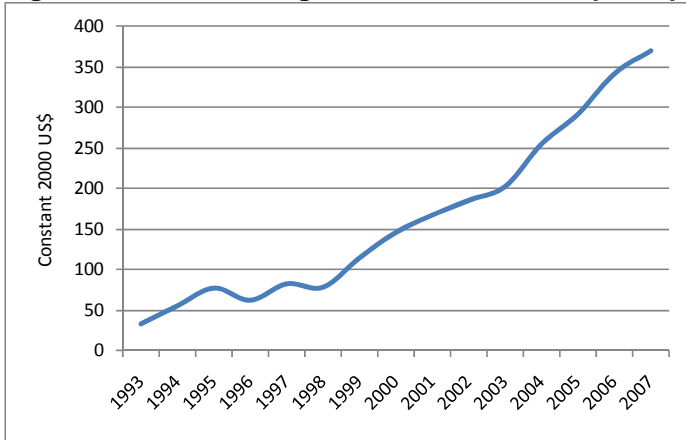
Source: World Development Indicators online.

**Figure A2: Cambodia, exports of goods and services as proportion of GDP, 1993-2007**



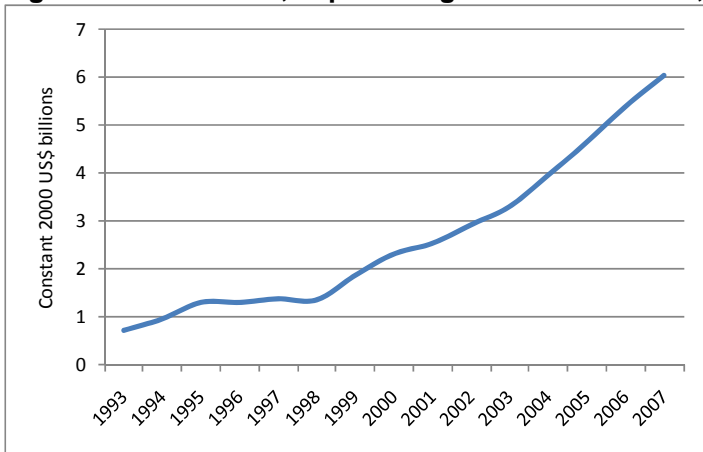
Source: World Development Indicators online.

**Figure A3: Cambodia, goods and services exports per capita, 1993-2007**



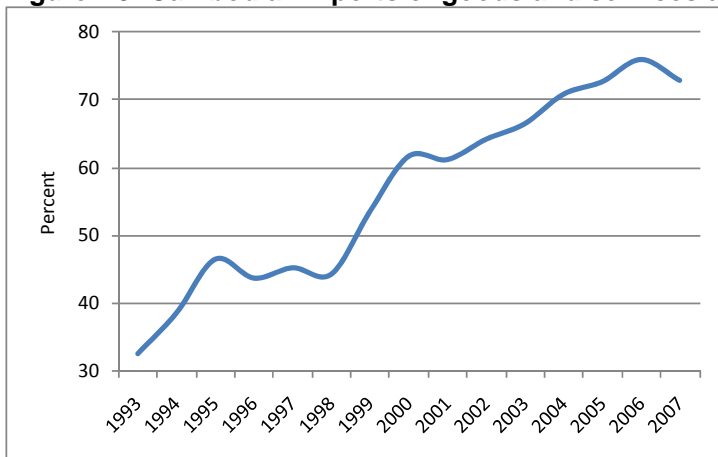
Source: Calculated from World Development Indicators online.

**Figure A4: Cambodia, imports of goods and services, 1993-2007**

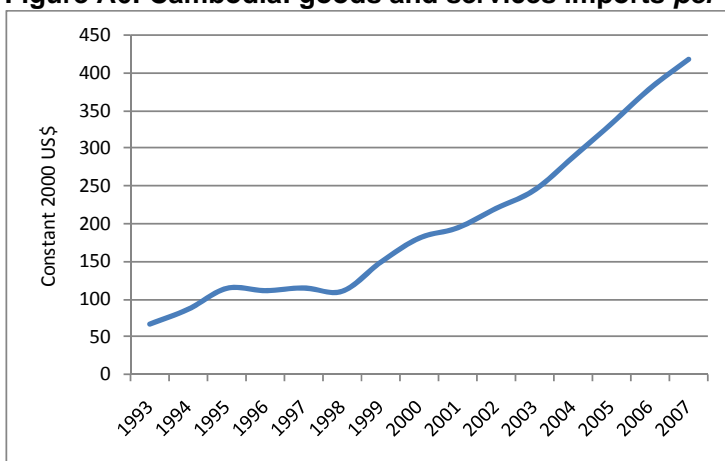


Source: World Development Indicators online.



**Figure A5: Cambodia: imports of goods and services as proportion of GDP, 1993-2007**

Source: World Development Indicators online.

**Figure A6: Cambodia: goods and services imports per capita, 1993–2007**

Source: Calculated from World Development Indicators online.