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**ECONOMIC REFORM,
STRUCTURAL ADJUSTMENT
AND DEVELOPMENT
IN CAMBODIA**

K.P.KANNAN

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Post Box 622, Toul Kork 315/56
Phnom Penh, Cambodia

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LIST OF ABBREVIATIONS USED

ASEAN	Association of South East Asian Nations
CCC	Co-operation Committee for Cambodia
CDC	Council for the Development of Cambodia
CMEA	Council for Mutual Economic Assistance
CPI	Consumer Price Index
DSR	Debt-Service Ratio
ESCAP	Economic and Social Council for Asia and the Pacific
FAO	Food and Agricultural Organization
FI	Food Index
GDP	Gross Domestic Product
ICORC	International Committee for the Reconstruction of Cambodia
IMF	International Monetary Fund
NBC	National Bank of Cambodia
NIS	National Institute of Statistics
NPRD	National Programme to Rehabilitate and Develop Cambodia
RGC	Royal Government of Cambodia
SAP	Structural Adjustment Programme
SES	Socio-Economic Survey
SOE	State-Owned Enterprise
UNDP	United Nations Development Programme
UNCTAD	United Nations Conference on Trade and Development
WB	World Bank

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ABSTRACT

This paper deals with the nature, content and implications of the Structural Adjustment Programme under implementation in Cambodia as a result of an agreement between the Royal Government of Cambodia and the International Monetary Fund/World Bank. The discussion is set in the context of the legacy of war and devastation during the seventies and eighties on the one hand, and the imperatives of long-term development of a poor agrarian economy on the other. The paper recognizes Cambodia's historic opportunity to break away from a one-sided economic and political dependence. While the programmes of stabilization and adjustment could be considered as successful compared to similarly placed economies, these are limited only to such macro economic indicators as budget deficit, inflation and exchange rate. The crucial role of external assistance in such short-term stabilization needs to be emphasized. The paper argues, however, that the content of adjustment should be judged by its impact on the large majority of the poor people. It cautions against an uncritical acceptance of the power of the market dominated by a private sector in addressing the economic problems as well as the long-term developmental problems of Cambodia. The paper cites evidences of growing inequality between urban and rural areas and between richer and poorer sections. While encouraging the market to operate in areas where it can perform better than the public sector, the paper argues for a new role for the state in terms of regulating the course of economic development as well as mobilizing resources for investment in social and economic infrastructure. Experiences of selected Asian countries are cited to convey the point that both state and market have their respective roles to play in economic development.

1. INTRODUCTION

Cambodia is one of the recent entrants into the long list of developing countries that have formally agreed to implement a programme of structural adjustment of their economies supported by the IMF and the World Bank. Not many countries, however, share the deeply complex and historically-determined conditions within which such a programme is being undertaken. Indeed, there are very few countries where structural adjustment has become part of a long term process of fundamental economic reform aimed at transition to a market-based economy this is accelerated in Cambodia's case by a political transition arising out of long years of war and internal strife and an as yet unfinished peace process. Given the complexity and the exceedingly difficult nature of this overall process, the results achieved are truly remarkable. However, the formidable challenges that lie ahead should not underestimate. There is often the temptation to be impatient with the pace and extent of the transition. Moreover, it could be perceived that a higher priority is attached to mainly economic dimensions of the transition with a narrow focus on short-term macro economic management and performance. This paper is an attempt to discuss some of the main issues in structural adjustment from a broader economic and political perspective emphasising the legacy of the past and identifying the nature of challenges for the future. The main burden of the paper is to focus on the content of the economic reform process and its linkages with the contents of a long term vision of growth and development as laid down in the National Programme to Rehabilitate and Develop Cambodia.¹

2. BACKGROUND

The spread of the Vietnam war into Cambodia, much against the will and interests of Cambodians, resulted in a deep and destabilising economic crisis along with political and social turmoil². The government, led by the then Prime Minister Prince Norodom Sihanouk, was overthrown in 1970 and a new government under Gen. Lon Nol was installed. Apart from its political and military dependence, this government was dependent - perhaps totally - on the support of the United States to finance its balance of payments deficit, supplies of essential commodities including food, and maintenance of basic economic infrastructure. Since it had little control of the countryside compounded by a general lack of credibility, the government's ability to generate revenue was extremely poor. Corruption was reported to be rampant resulting in a generalised loss of confidence of the population in state institutions. Inflation was high and, despite the massive assistance of the US, the Riel depreciated in value from 35 per dollar in 1968 to 804 in 1974, i.e. a 2300 per cent depreciation - much higher than the depreciation of 1300 per cent

¹ See Royal Government of Cambodia (1994 and 1995).

² There are a number of books and articles dealing with this period in Cambodia although the focus is mainly political. Two important books are Shawcross (1980) and Chanda (1986).

between 1989 and 1994/95³. No national statistics are available for the period 1970-75, indicating the severity of the crisis that affected the functioning of the government. This period could therefore be reckoned as the beginning of the collapse of the Cambodian economy: its economic infrastructure, system of governance especially the management of the macro economy, and economic institutions run or supported by the state.

Although in a fundamentally altered political context, the destabilisation and devastation of the economic system was completed by the Khmer Rouge regime during 1975-79. Given the unprecedented and brutal nature of the societal transformation embarked upon by the Khmer Rouge, the hitherto economic system came under the severest of attacks. Money was abolished and therewith any form of financial institutions and transactions; private property was abolished and all the land was brought under the control of the state; agriculture was collectivised; the fragile industrial system was neglected, those that were retained were under state control for essential production; economic infrastructure was neglected; educational institutions beyond the primary level ceased to function as did the remaining but elementary health care system. External support changed hands but dependence continued despite the self-imposed isolation of the country from the rest of the world. Chinese economic help, including military assistance, was crucial to the sustenance of the regime. A limited external trade was conducted by exporting primary commodities such as rice, rubber and timber. As with the preceding five year period, no statistics for this period are available.

From a macro economic point of view, what happened during this period still underlies some of the basic constraints in economic management and development of Cambodia. Although considerable progress has been made in rebuilding the economy since 1979, the levels achieved are still rudimentary. Due to the loss of educated and skilled human resources, the ability of public institutions to manage the varied economic activities, and the rehabilitation of economic and social infrastructure such as transport, power and education are yet to be restored to the pre-1970 levels although one should resist the temptation to view pre-1970 as a high water mark. For purposes of comparison, pre-1970 simply serves as a bench-mark to the pre-conflict period.

The overthrow of the Khmer Rouge regime and the establishment of a new government was also characterised by the one-sided external dependence of the economy. This time the pendulum swung towards the then socialist bloc but principally towards the Soviet Union. Such a total dependence was perhaps reinforced by the international politics of Cold War and manifested in the isolation of the new regime by the Western countries and their regional allies. External trade was almost wholly with the CMEA countries and the deficit was financed largely by assistance from the Soviet Union. Although the regime directed its energy toward rebuilding the economy, it was constrained severely by Western isolation as well as by a prolonged war with the Khmer Rouge and other resistance forces opposed to the (Vietnamese backed) regime.⁴ It is perhaps this single factor which led to a highly distorted pattern of government expenditure where more than half the revenue had to be earmarked for defense. Therefore, from the beginning of the reconstruction

³ 1989 marked the end of significant economic assistance to Cambodia from the CMEA countries (mainly former Soviet Union) and the beginning of a programme of economic liberalization by the government of the then State of Cambodia.

⁴ The international isolation led by western countries was indeed a factor in the slow pace of rebuilding a physically and institutionally devastated economy. This was aptly described as 'punishing the poor'. See, e.g. Mysliwiec (1988).

phase itself, the macro economics of the country was distorted due to factors outside of its control. Despite these crippling constraints, it is indeed remarkable that the basic parameters of the economy were put in place and a system of economic management was organised. The gradual but steady increase in rice output, which exceeded the pre-1970 level only in 1989, the restarting of industrial production though basic in character, the introduction of money and banking along socialist economics, the restoration of systems of education, health and a few other services and, above all, the introduction of a system of social protection of the poor and vulnerable in terms of access to some food and work: these should be evaluated in the context of the devastated and completely destabilised nature of the economy and society in the beginning of 1979, and the diversion of scarce resources for the continued civil war. Apart from the one-sided nature of external dependence, one of the legacies of this period from the perspective of today's transition is not so much the absence of economic institutions but the inappropriateness of these institutions especially in the sphere of macro economic management.

The macro economic crisis of the recent times is directly related to international events upon which Cambodia had little influence. The first signs of the beginning of the end of Cold War since the mid-eighties and the subsequent collapse of the Soviet Union were perhaps instrumental in accelerating the peace process in Cambodia which culminated in the Paris Peace Accords of October 1991. However, the ending of external assistance from the Soviet Union since 1989 and the beginning of the peace process spelt near disaster to macro economic management because there was no foreign assistance to fill the gap until a new government was formed by election in mid-1993. Further, institutions of macro economic management were being transformed so rapidly that they could hardly secure the necessary learning period for performing their new roles in a market-based economy.

The sum and substance of the broader international economic and political context and its subsequent fall out on Cambodia at the time when a process of economic restructuring was beginning were the following:

- 1) A legacy of devastation and destabilisation of the economy and society whose rebuilding was completed only in the basic sense of restoring subsistence production and distribution with some institutional protection to the poor and the vulnerable.
- 2) A legacy of one-sided external dependence which offered very little option for the government to conduct its external economic relations.
- 3) A highly distorted pattern of government expenditure with a major share consumed by military and internal security operations and crucially dependent on external assistance.
- 4) A balance of payments crisis which also resulted in budgetary crisis as a result of the withdrawal of the hitherto external assistance.
- 5) The compounding of these in the context of an externally induced systemic crisis coupled with the challenge of a political transition (from one-party state to

pluralistic democratic politics) based on the reconciliation of hitherto warring political entities.

The transition to a market economy, however, was not without its opportunities. The formation of a democratically elected government in 1993 was followed by an international initiative to support a reconstruction programme for Cambodia. This took concrete shape in the International Committee for Reconstruction of Cambodia, called ICORC, through which several governments⁵ pledged around US dollars 2.3 billion for the period 1992-96. While such a broad-based reconstruction programme was in operation, the Bretton Woods institutions helped to some extent in macro economic stabilisation followed by a standard package of structural adjustment for a three year period beginning from 1994. Perhaps for the first time in the post-independence history of Cambodia, an historic opportunity has come to end its one-sided external dependence - both political and economic. The international agreement on restoring internal peace (notwithstanding its unfinished nature), the commitment to assist a programme of reconstruction, the opportunity to re-enter multilateral institutions to secure economic assistance, the geographic location of the country in one of the fastest growing regions in the world and the forthcoming membership in the regional association - ASEAN - all are favourable factors that could help Cambodia in its quest for, and long awaited, economic development.

3. ECONOMIC REFORMS BEFORE THE POLITICAL TRANSITION

It should not be construed that the process of market-oriented economic reform was an outcome entirely of the peace agreement and the adoption of political democracy. What these events did was accelerate a process of reform which began in earnest in 1985 and hastened since 1989 in response to the withdrawal of external assistance from the former Soviet Union. It is therefore pertinent to keep in mind the fairly long-term process of economic reform (as in the neighbouring countries of Laos and Vietnam under similar external factors) while discussing the current context of structural adjustment. Here we attempt a brief recapture of the main contours of the reform process.

1985-89: When the government of the People's Republic of Kampuchea came into existence in 1979, the strategy was to adopt socialist economic management as practiced in Vietnam and Soviet Union. However, even within this framework there was recognition of ground realities in certain spheres of economic activity. With the exception of large scale plantation agriculture, crop cultivation and fishing and livestock rearing were carried out by families (small holdings) and co-operatives. The state was in direct control of the organised sectors of the economy such as medium and large industry, plantations, transport, finance and external trade. As in the past, forests were also directly controlled by the state. Officially, the private sector of the economy represented by families could carry on, apart from small scale agriculture and related activities: artisanal-type work related to agro-processing; manufacture of simple products; repair work; and much of retail trade.

⁵ The ICORC consisted of 32 governments plus 12 international organisations such as the United Nations, World Bank and the IMF. The principal donors are Japan, USA, France, Sweden, Australia and The Netherlands.

In fact, exchange of goods through retail marketing became a quick-profit venture and was freely allowed because of the absence of such exchange during 1975-79. Border trade was also carried out through the medium of Vietnamese Dong, Thai Bhat, gold and rice. New currency was introduced in 1980 along with the establishment of the National Bank, the apex body in the monobanking system.

Beginning from 1985, an explicit private sector was recognised as another form of economic organisation benefiting the establishment of light industry. Joint ventures between public and private sector were also recognised. Along with these, some price controls were lifted. A dual pricing system was introduced for agriculture whereby the state procured a part of the produce at below market prices. Trade reforms followed in 1987 allowing the private sector to export. Although state controlled the foreign exchange and an official rate was fixed, unrecorded border trade flourished and was reckoned by some as equivalent to recorded trade. It was this kind of situation which has been characterised as "a sort of primitive accumulation of capital via free trade; and state recognition of the necessity of the free market in spite of its violation of socialist ideals" (Vickery 1986:129).

1989-93: This period represents the most critical period in terms of a combination of economic and political crises for Cambodia. The economic crises started with the cessation of external assistance from the former CMEA countries, principally from the Soviet Union. This assistance roughly amounted to an excess of US dollars eighty million per year. This loss almost derailed macro economic management in the country. Budget deficit as a percentage of GDP grew from 2.7 per cent in 1989 to 5.8 percent in 1993. The political crisis arising out of the collapse of the Soviet Union led to the abandonment of socialist ideology. Several market-oriented reforms were initiated both as a political strategy and as one of economic management as well. Fiscal reforms were introduced. However, the abolition of "patriotic contribution" from the agricultural sector meant a substantial reduction in the capacity of the state to subsidise its employees and vulnerable sections in terms of food items. Abolition of "Solidarity Groups" (a sort of group farming system) was followed by the reinstatement of private property in agriculture. In industry, the reform process started in 1989 and ended in the privatization of most State-Owned Enterprises (SOEs). By 1991, when the Paris Peace Accord was signed, the economy had already moved considerably along the road to market-oriented reforms, privatisation and the erosion of state control on much of the economic activities. Foreign investment was welcomed on almost all types of goods and services. The official exchange rate was increasingly following the open market rate and by June 1994 the spread between the two was negligible (around one percent) with the open market forces determining the value of the domestic currency. International trade was permitted for domestic and foreign firms and customs duties were reduced considerably. In the banking sector, the central bank, National Bank of Cambodia, was given more autonomy in monetary policy, foreign exchange management, and supervision and control of the commercial banking system. Private banks were permitted to be established and by the end of 1993 there were more than twenty newly established private commercial banks. In public services such as electricity, communication, railways, health, education, etc. the state continues to maintain a minimal level of services (quite inadequate by current demand except perhaps primary education) faced however with serious resource constraints. In substance, all markets are now 'free' markets. The product market is governed by supply and demand; there are no major restrictions on factor market transactions such

as land and capital. The labour market is completely free with no standards fixed on conditions of work and wages.

4. POLITICAL DEMOCRACY AND OBJECTIVES OF ECONOMIC DEVELOPMENT: THE NATIONAL PROGRAMME TO REHABILITATE AND DEVELOP CAMBODIA

Economic reforms in any country need to be located in the overall political and economic context in general and in a specific statement of intentions in particular. In the case of Cambodia, much of the economic reform took place as part of its transition from a command-type economy to one increasingly driven by market forces. However, with the formal transition to a pluralistic political democracy and the assumption to power of a duly elected government in 1993, the government spelt out its larger objectives in the form of a National Programme to Rehabilitate and Develop Cambodia. This was duly adopted by the National Assembly. The economic reforms in general and the Structural Adjustment Programme in particular need to be viewed, and evaluated, within the framework of this programme [henceforth referred to as NPRD]. The contents of the programme with a time-frame of three years beginning from 1994 is largely, if not solely, economic. The basic objectives of the NPRD are to:

- (i) "establish a society which enjoys equity and social justice, that is, to resolve and eradicate the problems of poverty", and
- (ii) "pursue sustainable development policies" (RGC 1995:2).

In order to achieve these objectives, the Government states that it is "forcefully pursuing three pillars of development policy". These are: sustainable economic growth, sustainable human development, and sustainable management and use of natural resources. Within this overall framework of objectives, the Government outlined specific operational priorities in key areas. These may be grouped into two: one falling within the sphere of economic policy and management and the other on supporting institutional priorities for the successful operation of the former. These are (i) macroeconomic management with special emphasis on private sector development and privatisation; (ii) developing the rural economy; (iii) investment in people; (iv) rebuilding physical infrastructure; and (v) sustaining overall growth in output. The supporting institutional priorities are two-fold. One is the establishment of a specific legal framework for macroeconomic management and development of the private sector such as legislation for privatisation, taxation, environmental regulation, labour and protection of foreign investment. The other is a more broad-based reform of state institutions focusing on the reform of the administration, judicial system to ensure the restoration of the rule of law; and, reform of the security apparatus aimed at enhancing public security and a programme of demobilisation of armed forces.

The NPRD is not a substitute for a medium-term, let alone long-term, development plan.⁶ While it articulates the broad contours of the country's political and economic transition and spells out its development objectives (more in terms of desired goals), it may not be fair to evaluate it in terms of the linkages of its various objectives and their internal consistency. Areas of complementarity can certainly be identified, as can areas of possible conflict while reconciling different objectives. The document was prepared partly in response to the international initiative in assisting a programme of reconstruction for Cambodia. As mentioned earlier, this took the form of an ICORC to secure pledges of assistance including aid, co-ordination of such assistance and, monitoring its implementation. Total pledges of external assistance between 1992 and 1995 amounted to US dollars 2.3 billion. The actual disbursements, however, were only 61 percent of the amount pledged. It would appear that this amount of external assistance is yet to match, in a significant sense and in terms of concrete projects and programmes, the stated objectives of rehabilitation and development as laid down in the NPRD. This could be partly due to the problems of simultaneous transitions, in economy and polity, and partly due to the vulnerable economic situation. Thus, a breakdown of the external assistance reveals that 26 percent was for food aid/emergency and relief assistance; 30 percent was for technical co-operation (both free-standing and investment-related); 16 percent for budgetary aid/balance of payments support; and only 28 percent for investment projects. The compulsions for budgetary aid and emergency assistance are understandable given the vulnerability of the fiscal as well as the general economic situation (especially that of food production). In some areas of technical co-operation assistance is also a pre-requisite for capacity development including macro economic management and design and implementation of development programmes/projects. What all these mean is that the road to rehabilitation and development is a long one; and the imperative is for the steadily, even slow, building up an institutional and investment framework.⁷ Some progress is discernible in this direction with, for example, food aid which in 1995 constituted only 10 percent of what was received in 1992 while investment project assistance increased more than four-fold during this same period.

5. SAP: ITS CONTEXT AND CONTENT

The Structural Adjustment Programme forms part of a formal agreement between IMF and the World Bank on one side, and the Royal Government of Cambodia on the other. It has its own clearly laid down contents, timing and sequencing. SAP basically addresses issues in macro economic management with clear targets for reducing the budget deficit, for monetary and financial reforms, liberalisation of external trade and investment, and for public sector reform. Its long term objectives of economic growth are anchored in the development of the private sector

⁶ The government is now in the process of finalising a socioeconomic development plan for the country covering a period of five years, 1996 to 2000.

⁷ An informative document on external development assistance for the period 1992-95, including a useful analysis of the various issues, has been prepared by the Council for the Development of Cambodia with the support of the UNDO. See CDC/UNDP (1995) for details. This document raises several key issues of long term implications for Cambodia. Some of these issues, from the point of non-governmental organisations, are discussed in a report of a working group constituted by the CCC. See McAndrew (1996).

and in restricting the role of the public sector. A limited role for the public sector is recognised in the sphere of economic infrastructure but in practical terms it is no more than rehabilitation. It is important to bear in mind that much of the SAP policies have already been carried out in Cambodia even before its formal implementation. Therefore, the contents of the SAP as laid down in the Policy Framework Paper is a sequel to the on-going economic reform process. The main areas of reform, as suggested in the Policy Framework Paper, are summarised in Box 1.

6. AN ASSESSMENT OF MACRO ECONOMIC PERFORMANCE IN THE CONTEXT OF ECONOMIC REFORMS AND SAP

One of the immediate objectives of the economic reforms including a stabilisation programme followed by a SAP, was to tide over the macro economic crisis. The crisis manifested in the form of increasing budget deficit, hyper-inflation, erosion of the exchange value of the domestic currency and balance of payments deficit. The situation in these areas is briefly discussed below.

**BOX 1: CAMBODIA: SUMMARY DESCRIPTION AND TIMETABLE OF MACROECONOMIC
AND STRUCTURAL ADJUSTMENT POLICIES, 1994-96**

POLICY AREA/OBJECTIVES AND TARGETS	STRATEGIES AND MEASURES
I. Fiscal policy and administration 1. Revenue Mobilize additional revenue Increase tax elasticity and broaden tax base Improve tax administration	Revenue mobilization: Implement measure to raise revenue/GDP ratio to 7 1/2 percent of GDP Establish agenda and timetable for tax reform Launch first phase of tax reform Initiate second phase of tax reform Unify three separate tax departments into two units Introduce accounting, reporting, audit and certification requirements for all companies above a minimum size Improve the penalty and appeals process streamline, computerize and codify tax procedures Develop treasury cash management and debt management functions
2. Expenditure and budget control Re-orient expenditure priorities Improve expenditure and control management	Decrease military expenditures and increase spending for education and health care Integrate central and provincial budget as well as local and foreign currency accounts into a common budget Improve financial control over provinces and state enterprises Bring-off budget expenditure ministries back within central control Establish transparent and competitive procedures for procurement and contract tendering
3. Administrative reform Restructure civil service Improve public administration	Prepare action plan for civil service reform Establish interministerial civil service reform commission Introduce civil service career and salary structure Establish division of responsibility between central and local administrations
4. Public investment Rationalize and increase public investment	Establish priorities for investment programme

POLICY AREA/OBJECTIVES AND TARGETS	STRATEGIES AND MEASURES
II. <u>Public enterprises Reform</u> 1. Reform Establish a more efficient, streamlined public enterprise sector Strengthen operating efficiency and profitability	Prepare action plan for public enterprise reform Initiate reform of a new local framework for public enterprises Pursue flexible pricing politics, reduce excess manpower, increase management autonomy, reduce accounts receivable and system losses, and set performance targets for enterprises Establish inventory of cross debt of public enterprises
2. Privatization Privatize commercial public enterprises except those with a clear public sector rationale	Formulate strategy for privatization/liquidation of public enterprises Implement privatization strategy
III. <u>Financial sector</u> 1. Financial sector reform Encourage increased use of domestic currency Strengthen National Bank of Cambodia's central banking functions	Maintain stable financial policies Establish annual financial programme Plan banking legislation Consolidate two-tier banking system Transform NBC branches into commercial banks
2. Monetary policy Maintain and strengthen monetary control and management Move to establish market-oriented interest rate determination	Avoid (nonseasonal) bank financing of the budget deficit Establish a formal credit window Introduce Government or central bank securities Issue new circular specifying only minimum deposit rates Maintain positive real interest rates on the new riel deposit scheme
IV. <u>Exchange rate</u> Protect current account and reserve position Simplify exchange arrangements	Maintain market-linked official exchange rate Unify official and parallel exchange rate Introduce new foreign exchange law
V. <u>Trade and exchange reform</u> Improve exports incentives	Remove prohibition on rice exports Review export controls for logs, gems, and timber

POLICY AREA/OBJECTIVES AND TARGETS	STRATEGIES AND MEASURES
Liberalize the trade system	<p>Replace quantitative restrictions in protected industries with tariffs</p> <p>Simplify procedures for registering trading companies</p> <p>Establish a path for regularizing debt with bilateral creditors</p>
<p><u>VI. External debt</u></p> <p>Normalize international financial relations</p> <p>Debt management</p>	<p>Establish debt management unit</p> <p>Limit debt service to prudent range</p>
<p><u>VII. Foreign investment policies</u></p> <p>Facilitate increased foreign investment flows and technology transfer</p>	<p>Review existing foreign investment law and regulations and revise as necessary</p>
<p><u>VIII. Agricultural sector reform</u></p> <p>Increase agricultural productivity</p> <p>Rationalize the role of the state in agricultural production</p>	<p>Design a coherent strategy to increase rice and rubber production</p> <p>Review and modify public sector divestiture programme in the agricultural sector in order to identify subsectors with large infrastructure investment, natural resources conservation and/or research and technology needs requiring state support</p>
<p><u>IX. Transport sector</u></p> <p>Rehabilitate and expand transport infrastructure</p> <p>Prepare the four state-owned enterprises which operate in the transport sector for privatization</p>	<p>Repair and maintain damage national roads</p> <p>Prepare a detailed plan for privatizing the sector</p> <p>Implement privatization plan</p>
<p><u>X. Energy</u></p> <p>Rehabilitate and expand power utilities in increase and provide a reliable power supply in an efficient cost-effective manner</p>	<p>Upgrade obsolete plants</p>
<p><u>XI. Water</u></p> <p>Improve water supply</p>	<p>Rehabilitate water production, treatment and distribution</p>
<p><u>XII. Services</u></p> <p>Develop tourism sector</p>	<p>Develop coherent tourism policy</p>
<p><u>XII. Poverty</u></p> <p>Protect most vulnerable groups from adverse effects of adjustment</p> <p>Improve social services</p>	<p>Design social safety net policies</p> <p>Improve planning, budgetary and monitoring services at the central level</p> <p>Revitalize public health delivery system</p> <p>Undertake education reform</p>
<p><u>XIV. Environment</u></p> <p>Protect environment</p>	<p>Initiate a National Environment Action plan</p>

Budget Deficit: The impact of the reduction and subsequent ending of external assistance from the erstwhile socialist bloc was immediately felt in the form of a deficit in the government budget. Overall deficit, as a percentage of total expenditure, peaked at 54 per cent in 1990 and declined somewhat to 46 per cent in 1995 and is estimated to remain at the same level in 1996. As we can see from Table 1, the level of budget deficit continues to remain high. In terms of the share of GDP, the overall deficit rose from 2.7 percent in 1989 to 8.4 percent in 1995. But in terms of macro economic stabilisation, there is a qualitative difference. Until early 1993, the deficit was largely financed by monetary means (creation of new money) and this resulted, in the absence of diversified financial instruments as well as a compensatory growth in commodity production, in inflation. Only when the deficit was financed by external assistance beginning from 1993 (after the elections) has it been possible to considerably reduce, almost wipe out, financing by monetary means. This was immediately felt in the form of a considerable drop in the rate of inflation. However, what this underlines is the fact that external assistance has become crucial in balancing the government budget. Bank financing of budget deficit exceeded 70 percent in 1989 and 1990 (combined) and peaked to 94 percent in 1991 and 1992 (combined), but, was reduced to less than one percent in 1995. Such a stabilisation of the budget should be welcomed provided the composition of budget expenditure reflects the objectives of sustained economic growth and long term developmental needs. This has not been so mainly because of the need to maintain a high level of defense expenditure which was nearly 39 percent of the current expenditure in 1989 but rose to around one-half since 1991 except for a modest decline in 1993 (which was the election year). This remains at an unsustainable level. Therefore, the structuring of government expenditure towards economic growth and developmental needs, not to speak of social protection of vulnerable groups, remains as a formidable challenge. Viewed from a revenue perspective, the situation needs to be viewed more seriously. While 47 percent of the government revenue was spent on defense in 1989, it rose to 80 percent in 1991, 76 percent in 1993, 73 percent in 1994 and at 66 percent in 1995.

Inflation: Reducing inflation to single digit levels is one of the main objectives of macro economic stabilisation since all other attempts will be critically dependent on this. Monetary financing of the overall deficit was only one - although the main - cause of rapid inflation since 1989. When government lost considerable revenue principally through the loss of surplus from state-owned enterprises and from agricultural tax ("patriotic contribution"), these benefits were passed on to the private sector. This, along with increased income-generating and profit-generating activities enhanced the purchasing power of the private sector without corresponding efforts to tax such incomes. With low supply elasticities for domestic goods, the result was rapid inflation in the absence of external assistance. Political uncertainty seems to have also contributed to the rapidity of inflation as evidenced by sudden rises during 1992 and the first half of 1993 (especially the latter). Both politics and economics got mixed in this period of crisis giving rise to rapid inflation. The annual rate of inflation on a March to March basis was 28 percent in 1989, 129 in 1990, 225 in 1991, 43 in 1992, 341 in 1993 and minus 28 in 1994.⁸ The trend in monthly rate of inflation, shown in Figure 1, makes it clear that the ending of the political uncertainty in mid 1993 with the completion of elections marked a turning point by a decline in the inflationary trend in the economy. Since then, with external assistance contributing to the financing of the budget deficit, the inflation rate has been brought to single digit levels (see Table 2). This is a remarkable

⁸ Based on the Consumer Price Index of the National Bank of Cambodia.

achievement in itself. However, some remarks are called for because the level of prices has an impact on the developmental prospects for the economy.

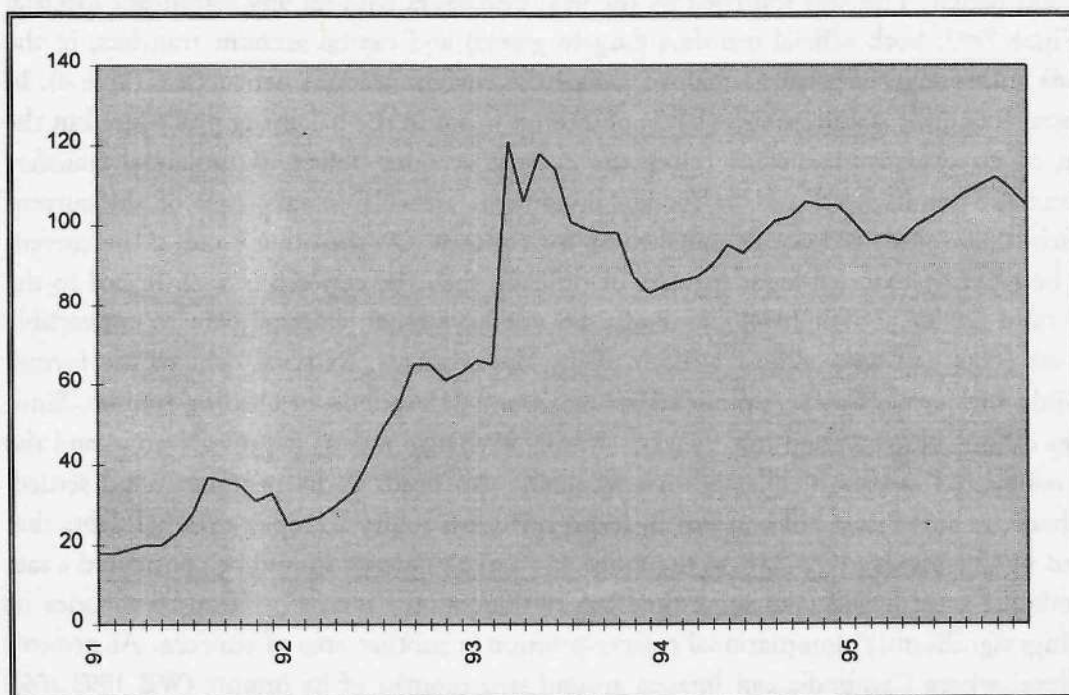
While the rate of inflation has more or less tapered since mid-1993, there was no significant decline in the level of prices. This means prices prevailing now are at a higher level than at any time since 1979. Since there was no matching increase in the income of majority of the people, considerable erosion has already taken place in purchasing power. Secondly, the level of consumer prices in Cambodia, especially in the urban centres, seems to be higher than those in the neighbouring countries.⁹ A comparatively higher cost of living without a correspondingly higher level of labour productivity is likely to act as a deterrent to attracting foreign investment. This is especially so in the case of food prices. Recent trend in food prices (represented by the Food Index in Figure 2) shows a faster growth compared to the consumer prices in general (represented by Consumer Price Index in Figure 2).

Exchange Rate: The foreign exchange market was a controlled one in Cambodia with an official exchange differing widely from the market exchange rate. Although the unofficial border trade was conducted in the currencies of the neighbouring countries and gold, the Riel was used for domestic trade and other transactions. With rapid inflation beginning from 1989, confidence in the domestic currency started declining. The currency depreciated in value continuously and stabilised since mid-1993 when the inflation rate declined to single digit levels (see Table 3). The depreciation in the currency (vis-à-vis the US dollar) was 1700 percent between March 1989 and March 1993 and increased by another 430 percent by May 1993. As a strategy to protect real purchasing power, business and individual transactions were substituted by the US dollar which was made possible by trade and investment liberalisation policies since 1989 and subsequently by the large presence of UN personnel (numbering around 25 to 30 thousand) during 1992-93. Gold has been a store of value in Cambodia, as in many other Asian agrarian economies, for quite some time. During this period gold also came to be used along with hard currency. The dollar continues to be openly used in both retail and wholesale trade. For fear of further erosion of confidence in the domestic currency, the government has permitted the use of the dollar although a programme of 'dedollarisation' has been set in motion¹⁰. The stability of the Riel since mid-1993 is as commendable as the low rate of inflation. But here again, it is being made possible by the quantum of external assistance and the programme of externally supported reconstruction. The use of the dollar as a medium of transaction as well as a store of value could reduce the effectiveness of monetary reforms as a potential instrument for achieving the stated goals of macro economic stability, growth and development of the economy.

⁹ Prices of essential food items such as rice, fish and meat seem to be lower in Hanoi and Bangkok than Phnom Penh. A scientific comparison, however, has to await the results of the International Comparison of Prices project of the World Bank in which Cambodia has recently joined.

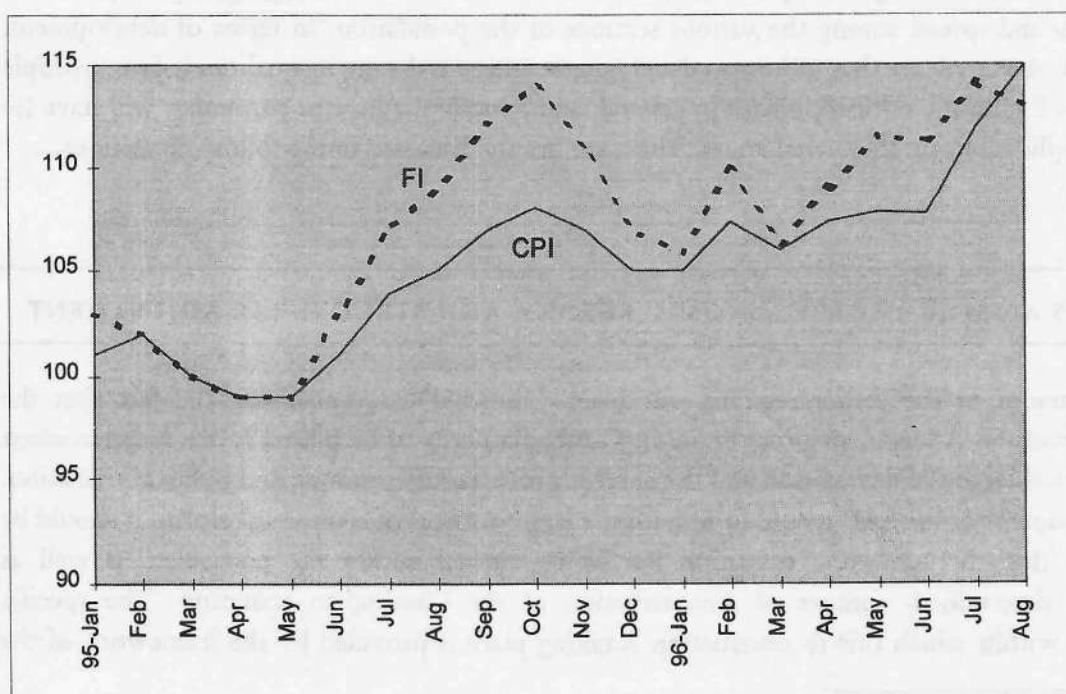
¹⁰ These measures include stabilising the exchange rate, maintaining a low rate of inflation, positive real interest rate, establishing non-cash modes of payment, and high denomination bank notes. See Tola (1996). However, the problem of dedollarisation is far more complicated and perhaps warrants people's confidence in political and economic stability of the country.

FIGURE 1: TREND IN CONSUMER PRICE INDEX
(Base: July - September 1994 = 100)



Note: Based on NBC data

FIGURE 2: TREND IN CONSUMER PRICE INDEX AND FOOD INDEX
(Base July - September = 100)



Note: Based on NIS data

Balance of Payments: Cambodia has been running a trade deficit since its import requirements are greater than receipts from exports. Until 1990 trade credit from CMEA countries helped fill the current account deficit. This was followed by the next two years without any significant external assistance. Since 1993, both official transfers (largely grants) and capital account transfers, in the form of loans and foreign investment, helped reduce the current account deficit (see Table 4). In terms of macro economic stabilisation, what is of interest is not in the balancing procedure but the composition of external assistance for filling the current account deficit. If unilateral transfers (official grants and remittances) and/or foreign investment are able to take care of the current account deficit, then there need not be much room for concern. On the other hand, if the current deficit is to be filled by external loans (private or official), then the concern is with regard to the debt-service ratio (DSR).¹¹ Till 1994, Cambodia did not have much external debt to convertible area since past debts had been almost written off by the creditors. External debt to the former CMEA (mainly the former Soviet Union) stands at around 815 million of clearing roubles. Since these roubles cannot be converted into market-clearing exchange rate as it prevails now, and the loans were contracted as part of bilateral arrangements, this needs to be negotiated and settled. However, there are some issues of concern in terms of future ability to repay external debts that are being and will be incurred. A DSR in the range of 10 to 12 percent should be considered a safe one for Cambodia since it will take some time before the country is in a position to enhance its export earnings significantly. International reserve position is another area of concern. At present, this is at a level where Cambodia can finance around two months of its import (WB 1995:106). This is certainly not a very comfortable position and once again underlines the need for continued external assistance.

Apart from these macro economic performance indicators, there are a number of issues concerning the long-term growth and development of the economy and the respective roles of state and the market. From a growth point of view, the issue is not one of aggregate growth but its composition and spread among the various sections of the population. In terms of development, the ultimate objectives are that of human development and of reducing inequalities between people and regions. Economic reform policies in general, and structural adjust in particular, will have far reaching implications on these vital issues. These are briefly discussed in the following sections.

7. ISSUES ARISING FROM ECONOMIC REFORM AND STRUCTURAL ADJUSTMENT

Our attempt in the earlier sections was mainly directed to emphasising the fact that the ongoing Structural Adjustment Programme in Cambodia needs to be placed in the larger context of its historical legacy of devastation and the current processes of economic and political transition. While the content of the SAP would fit in with the larger process of economic reform, it should be emphasised that the economic transition has to be viewed within the particular, as well as historically determined, context of reconstruction of the Cambodian economy. The specific framework within which this reconstruction is taking place is provided by the framework of the

¹¹ Debt Service Ratio is defined in terms of a country's annual debt repayment obligations (principal plus interest) expressed as a percentage of its total export earnings (goods and services).

International Committee for the Reconstruction of Cambodia (ICORC). ICORC provided a forum for review of a comprehensive reconstruction programme covering humanitarian, rehabilitation / reconstruction, and long-term development assistance. The fact that such a reconstruction programme is the result of an as yet unfinished peace process is both a favourable as well as a constraining development - favourable because it has put an end to the one-sided external dependence of the Cambodian economy and has secured an international mandate to assist Cambodia within a multilateral framework. As mentioned earlier, this favourable external development has presented Cambodia with opportunities which it never before enjoyed. The challenge before Cambodia is how to take full advantage of it to advance the objectives laid down in the NPRD. The constraining side of this development is the unfinished nature of the peace process in the form of continuing internal security problems. In economic terms, this has meant the continued diversion of an unsustainable share of government revenue for defense expenditure (largely for internal security) thereby draining the government of valuable resources to provide effective counterpart support to the externally assisted reconstruction and development programmes. There is also the additional constraint of the incompatibility of and, in some cases, inadequacy of capacity of state institutions to effectively implement the reconstruction and development programmes. Institutional capacity development thus becomes a concomitant objective of the process of reconstruction and development, as has been duly recognised by the NPRD. It is therefore extremely crucial that the design and implementation of a structural adjustment programme is sensitive to this larger context and takes these factors fully into account.

It is doubtful, however, whether the existing SAP reflects these factors. It is a fairly standard package as prescribed by the IMF/World Bank to other poorer developing countries moving from a command-economy to market-economy. Its focus is mainly on macro economic management in the short-term relying on fiscal and monetary reforms and pushing the agenda of privatisation. Some of the basic constraints are recognised but not addressed. But the implementation of the SAP will have important consequences for the reconstruction as well as long-term development process in the country. There is the possibility of the ideology of the market - which the SAP represents in a concentrated and operational form - overshadowing the reconstruction and development programme in general and the overall economic reform in particular. There could be a mistaken identity between political democracy and market liberalisation. Political democracy, at the least, accords equal basic rights in the form of universal adult franchise; but market liberalisation does not operate in the context of equal purchasing power. Recommendation of the market-based approach to growth and development is based on the trickle down theory. The theory is supposed to operate in a free enterprise system where the markets will determine the allocation of resources through competition resulting in increased production and productivity. The surplus generated in the system in the form of profits is supposed to result in investment fueling further growth. The growth process is supposed to trickle down through the generation of employment and income to the workers. SAP is basically a specific manifestation of this theory with such basic objectives as poverty alleviation and environmental protection programmes only as recent adjuncts. But the issues in the Cambodian context, indeed as in the contexts of many other poorer economies, are far more complex than a simplified version of market liberalisation and its tailor-made prescriptions for institutional development.

Before highlighting the main issues, it is important to recognise the role of markets as just one - albeit an important one - of the many institutions which could help the process of economic

growth and development. It needs to be given its due place and prominence in some contexts. The importance of taking advantage of the market mechanism as an incentive for producing and exchanging a variety of goods and services in poorer economies is being recognised only recently. It certainly enhances the opportunities for circulation and exchange. The vibrant emergence and expansion of retail marketing in the last few years is a witness to the advantages that can be reaped by encouraging the market mechanism. However, the important point to remember is that it is only a partial mechanism and a variety of directing / regulating and complementary mechanisms are required not just for equity and social justice but for growth itself. This brings in such issues as state and market or, broadly speaking, public and private action, collective and individual goods, and growth and development.

Of all these issues, the one of state and market, often viewed as state vs. market, has been critical. While the state has its legitimate role to play outside of its strictly economic sphere, we see that the state in a poor developing economy has important roles to play even in terms of economic growth. These may be grouped as (i) market directing / regulating, (ii) market-excluding, and (ii) market-complementing¹².

The market-directing/regulating role of the state has been accepted in practice even in the countries professing laissez-faire. What this means is that the state cannot afford an unrestricted operation of the market in a number of situations because it could lead to acting against the rule of law and could become a danger to the economic interests of both society and individuals. For example, we may take the case of financial sector reforms in Cambodia. In the process of economic transition, the monobanking system gave way to a market-based banking system. This resulted in the establishment of a number of private commercial banks in the country. The speed with which these banks were established was clearly out of line with the state of monetisation of the economy and the public's faith in the banking system. Of the 24 private banks, only six are either branches or subsidiary of a foreign bank. This makes it imperative for the state to direct the establishment and growth of the banking system compatible with current economic conditions and its future growth potential. The state, through its autonomous central bank, has the responsibility to ensure that the banks facilitate the process of production and trade thus facilitating the functioning of the real economy. It also needs to ensure that investable surpluses are properly channeled through the banking system for productive investment within the country thereby supporting a market-based economic growth process. From a longer term point of view of growth, especially for broadening the bases of growth, the state will have to direct the banking system to pay more attention to rural areas for facilitating production and trade located in the primary sector. This might call for a regulatory role in terms of the locating of banks and targeting of groups/sectors with growth potential. A short-term regulation for easy access to credit could bring in long-term benefits both to the banking sector and the economy as a whole. Such a market-directing/regulatory role would be quite consistent with the macro objective of economic growth and its distribution throughout a

¹² This conceptualisation in terms of market-excluding and market-complementing roles is due to Dreze and Sen (1995). We have found it useful to distinguish the market-directing role from the other two to emphasise the policy-oriented nature of this role. For a detailed treatment of the role state and market emphasising the importance of the broader arena of public action for endemic deprivation in developing countries see, Dreze and Sen (1989, 1995) and a number of works of Amartya Sen.

maximum number of regions, sectors and groups. Therefore, the test of market-directing/regulatory role of the state will be in terms of the objectives of long-term development.

The notion of the market-excluding role of the state is perhaps the one which has received most bashing. This has come in various forms, e.g. the 'crowding out' thesis which says the operation of the public sector takes away the opportunities for the private sector which could have done a better job. In some countries, as in the case of former socialist economies, the public sector was the only sector allowed to function in the economy especially in the areas of industry and trade. This critique of the market-excluding role of the state has some validity. The denial of a role for the private sector in many countries was ideologically determined and recent events have confirmed how disastrous such a strategy was. A fiscal crisis of the state quickly transformed itself into a generalised economic crisis knocking down the very survival of public sector enterprises because of the very close linkages of public sector finances with that of the state budget. In many developing countries, the resources of the state were indeed stretched too far by expanding the public sector into areas where the private sector could have done a better job (running restaurants and hotels, producing and distributing consumer items, etc.). Therefore one of the strongest arguments in favour of the operation of the private sector in an environment of fair competition is in terms of its ability to mobilise savings and allocate resources efficiently in a large number of production, distribution and service activities. However, in the context of poor developing economies, this argument can be stretched too far for a number of objective reasons. First of all, there may be a number of areas where the private sector would be either shy or slow to invest because of the long gestation involved and relatively lower rates of profit. This has been the situation in a number of countries where the state had to invest in the basic goods sector. Secondly, in many developing economies, the private sector is not strong enough to enter many areas of production because of initial investment requirements. This has been true in the case of Cambodia where the domestic private sector is too weak to take advantage of the opportunities of economic liberalisation. A survey of industrial establishments carried out by the National Institute of Statistics in 1993 revealed that only 17 percent of the total of 3,640 establishments engaged ten or more workers. In terms of employment, 83 percent was accounted for by small establishments with fewer than ten workers. In terms of legal organisation, 62 percent were single proprietorship, 29 percent partnership, and only 2 percent private corporations. Government industrial establishments accounted for about 5 percent (RGC:1996). The argument then shifts to the need for attracting private foreign investment, an idea that is being aggressively pushed around in countries undergoing structural adjustment programmes. This raises a different set of issues concerning the market-complementary role of the state.

The market-complementary role of the state refers to those economic activities of the state which will make it possible and attractive for the private sector to undertake investment in a number of areas. This mainly refers to the provision of economic infrastructure which are mostly in the nature of collective goods. Some of the important ones are energy, mass transportation, communication, water control systems (such as irrigation and drainage). Although the private sector operates in a number of these areas in many countries, especially in highly industrialised ones, for a variety of reasons developing countries do not have much option except to mobilise resources for public sector investment. One of the considerations here would be that of pricing of goods/services because relatively higher prices would inhibit through higher costs the growth of the private sector in other areas. It would also restrict the market for these goods and services to

high income groups which in most cases comprise only a small fraction of the population. This is already taking place in Cambodia especially in such sectors as transport, communication and health care to name only a few. A developmental perspective is certainly called for here and that has been the case in a number of countries. Even in a number of high income industrialised countries, the share of the public sector in these areas is quite high underlining collective good nature and pricing considerations. Examples of such countries are France, Norway, Sweden, Denmark, Spain, Netherlands, and Germany.

The market-complementing role of the state does not stop at providing economic infrastructure because it takes care of only one, albeit necessary, aspect of long term growth. The other area is that of human resource development involving investment in the social sector. This certainly goes beyond an 'economic argument' because human development is an end in itself not merely a resource development. Conceptually this distinction should be recognised: Human development has both an *intrinsic* value as well as an *instrumental* value.¹³ It is the latter in which some economists and institutions concerned with economic growth are interested. Even using the instrumental argument, the state's role is economically quite significant. The argument is that investment in social development sectors such as health and education provides a qualitatively better labour force and could result in enhancing labour productivity. It could also lead to expanding opportunities, both within and outside the economy, through greater awareness of market opportunities and greater capacity to create opportunities. Both the instrumental value of human development as well as the need for the state to play a significant role in investment are recognised by those propounding market liberalisation. In particular, Structural Adjustment Programmes of the type we are discussing here also recognise the role of the state in this sphere. However, in practice the story has been quite different. One of the first casualties of implementing a stabilisation and structural adjustment programme has been a cut in social sector expenditures including such vital human development sectors as health and education. In the case of Cambodia this was the case when a set of stabilisation measures were introduced in 1992. And this continues to be the case during the period of implementation of a SAP. The argument that a market-led growth process will trickle down and will subsequently contribute to human development does not hold much water. Most of the recent success stories of economic growth, especially in Asia, have been those economies where the initial level of human development indicators has been higher. Therefore, investment in social development sectors often accelerates the process of economic growth, certainly of a long-term nature. In the case of Cambodia, the continuing constraints - political and economic - and the specific programme of SAP make it difficult for concerted action of a long-term nature for substantial investment and development of social sectors such as health and education. Its health indicators are one of the poorest, not just by region, but also by the averages of the group of Least Developed Countries. In terms of education, recent evidence indicates that the level of literacy, especially adult literacy, is not all that low but even higher than many Asian countries. This could be the result of a broad-based rebuilding of the primary school system since the early eighties. But the crucial constraint for Cambodia is the low level of average years of schooling indicating a low level of education. This is certainly the case at the higher levels of education as evidenced by a critical lack of qualified and trained personnel for a whole range of economic as well as human development activities.

¹³ See, Dreze and Sen (1995).

Therefore, the connection between an SAP and market-based economic reform is not so much in the lack of recognition of the need for the state to play a role in social development as in the outcome of such a strategy which results in the relatively low priority in government expenditure. This is likely to constrain the long-term growth potential of the economy which is the stated objective of a SAP and certainly conflicts with the national objective of 'sustainable human development'.

The impact of a SAP on human development via a lower share of public expenditure can also be extended to its consequences of "establishing a society which enjoys equity and social justice, that is, to resolve and eradicate the problems of poverty" which has been laid down as the basic objective of the National Programme for Rehabilitation and Development. Despite a favourable land-man ratio and relative abundance of natural resources, Cambodia has remained one of the poorest countries largely because of the events of the seventies and eighties. The poor are a vulnerable section of the population and their vulnerability increases when they happen to be disabled (e.g. one in 235 persons in Cambodia is an amputee), displaced (more than 10 percent of the population was estimated to be internally displaced), aged, children, women especially the widowed (18 percent of females above 15 years of age are widowed/divorced). One of the first casualties of the market-based reform process was the dismantling of the social protection afforded to these sections of the population through a share in the local production of food, subsidised agricultural inputs, etc. No social protection system has replaced this earlier system which at best offered only a minimal level of protection. Such a state of affairs not only increases the burden of the earning members of the family but also becomes socially counterproductive as their survival strategy could lead them to crime and violence and make them easy prey for monetarily rewarding but socially undesirable activities. From a growth point of view, the burden on the earning or potentially earning family members could lead to lowering of the reserve wage and could lead to practices which intensify labour exploitation. Low wages coupled with low productivity could hinder the expansion of the market and be a binding constraint on growth.

8. WOMEN: VULNERABLE YET VALUABLE

The position of women here becomes a crucial one. There has been concern about the consequences of structural adjustment on women. Because of their role in the family, public expenditure-cutting on social sectors affects them directly. This is particularly true in the case of children's health and their own health status. Girls suffer more than boys in terms of access to education. Withdrawal of support systems in food production often adversely affect the ability of women to enhance their productive role in food production. Intra-household inequality in food intake also adversely affects women more than men. Often reduction in public sector employment involving greater unemployment of men force women to seek employment in whatever comes by, resulting in the expansion of the so-called informal sector more as a strategy for survival than as a manifestation of economic growth in a market economy.

While women find themselves in a relatively more vulnerable position than men, they are economically as valuable - sometimes even more - as men. Women as vulnerable as well as valuable is not a concept which is readily recognised in a large number of situations in Cambodia. One in

five households in Cambodia is headed by a women (and this is more than one in four in Phnom Penh); their adult literacy rate is only 53 compared to that of 80 for men; and average years of schooling are a little more than half of men's 4.7 years. But women's labour force participation and unemployment rates are closer to men (55 percent as against 57 percent for the former and 2.7 percent as against 2.3 percent for the latter (see Table 6). Their participation in agriculture, especially food production, is crucial as they provide much of the work time in such activities. This is also true for a wide range of other primary production and processing activities not to speak of their visible presence in retail marketing and service sectors (especially in such low earning activities as domestic servants, sanitation workers, workers in hotels and restaurants, petty trading, etc.). The question is what kind of opportunities exist in a market-based system for such vulnerable but valuable section of the population to enhance their productivity and earnings and thereby take part in the growth process as both 'givers' and 'takers'? In the Cambodian context, given what we consider as the crucial nature of the role of women in economic activities, it is important to understand the consequences of the market-based economic reform process in general and the SAP in particular on women and their potential for contributing to long-term growth and development.

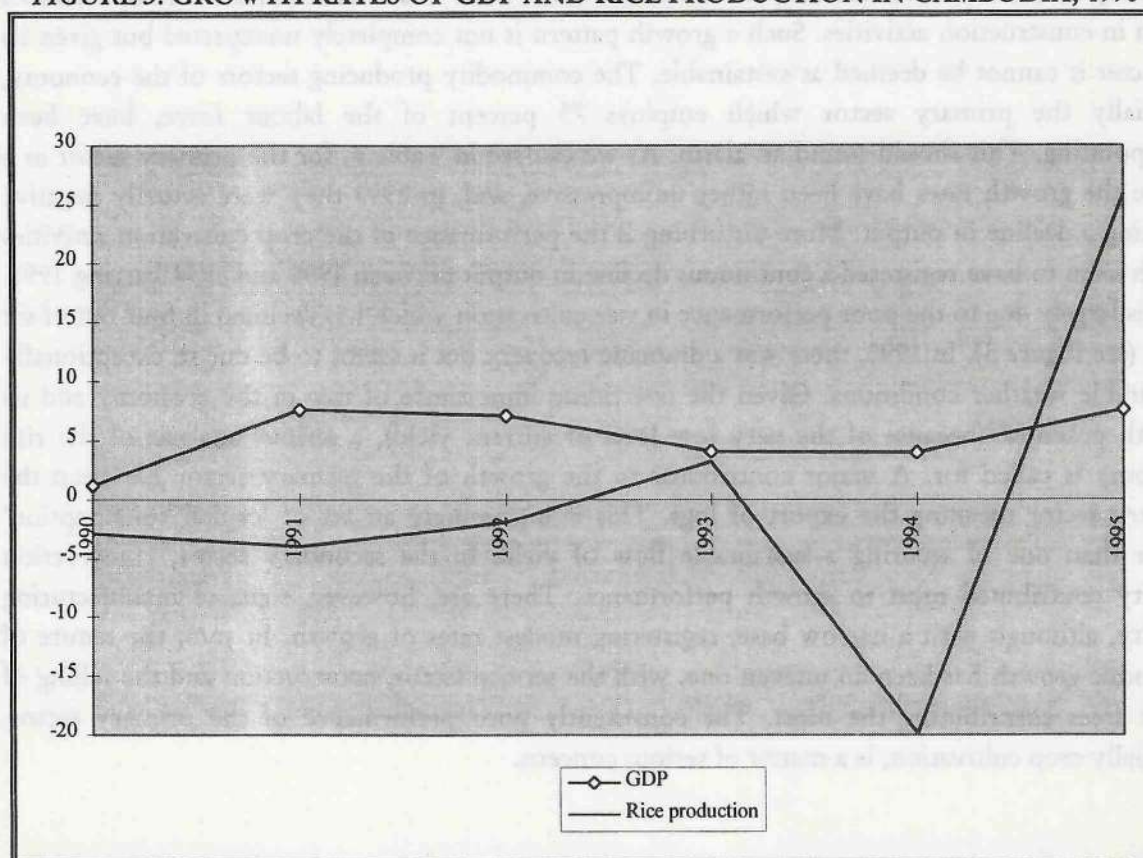
9. IMPLICATIONS OF SAP AND THE ECONOMIC REFORM PROCESS

At this point in time, it is neither feasible nor fair to assess the implications of the SAP in Cambodia mainly because the specific structural adjustment package covers a period of three years beginning from 1994. At the same time, the outcome of the SAP will be quite crucial, both in economic and political terms, in order to evaluate how far it advances the nationally mandated goals of sustainable growth with equity and social justice, especially the eradication of poverty. There are some strong reasons why a review of the implications of the SAP should be attempted right now. One is that the economic reform process, which formed the basis as well as a prospective endorsement of the SAP, has been continuing since 1989. Secondly, several of the specific elements of the SAP were already at an advanced stage of implementation even before its formal start. These are price reforms, fiscal and monetary reforms, trade liberalisation, foreign investment and privatisation. The empirical evidence at our disposal now provides us with sufficient information to capture the directions of change and the implications thereof. It must be pointed out here that the findings of the first ever socio-economic survey of households conducted in Cambodia in 1993 provide valuable information on household expenditure, income, education, etc. for urban and rural areas as well as different income segments of the population. These findings provide a first-hand picture of some of the implications of the wide-ranging economic reforms since 1989 as well as a bench-mark for future evaluations before the formal implementation of the SAP.

Apart from the success (a qualified one in our view) of the macro economic stabilisation programme, one of the positive outcomes, noted by many, of the reform process is the rate of growth of the Cambodian economy. From a mere 1.2 percent in 1990, growth rates exceeded 7 percent in the subsequent two years and then, around 4 percent. This has moved back to 7.6 percent or more in 1995 (see Table 5) and is estimated to maintain the same in 1996. So far the impressive growth performance has been dependent on a very narrow base. The sudden efflorescence of market opportunities witnessed considerable expansion of service sector activities

especially in hotels and restaurants, wholesale and retail trade and related activities. It also led to a boom in construction activities. Such a growth pattern is not completely unexpected but given its character it cannot be deemed as sustainable. The commodity producing sectors of the economy, especially the primary sector which employs 75 percent of the labour force, have been disappointing. This should sound an alarm. As we can see in Table 5, for the primary sector as a whole the growth rates have been rather unimpressive, and, in 1993 they were actually negative meaning a decline in output. More disturbing is the performance of the crop cultivation activities which seem to have registered a continuous decline in output between 1990 and 1994 barring 1991. This is largely due to the poor performance in rice cultivation which has declined in four out of six years (see Figure 3). In 1995, there was a dramatic recovery but it seems to be due to exceptionally favourable weather conditions. Given the overriding importance of rice in the economy and its growth potential (because of the very low level of current yield), a serious analysis of the rice economy is called for. A major contributor to the growth of the primary sector has been the forestry sector meaning the export of logs. This is increasingly an act of 'capital consumption' rather than one of securing a sustainable flow of yield. In the secondary sector, construction activity contributed most to growth performance. There are, however, signs of manufacturing activity, although with a narrow base, registering modest rates of growth. In sum, the nature of economic growth has been an uneven one, with the service sector, construction and the felling of forest trees contributing the most. The consistently poor performance of the primary sector, especially crop cultivation, is a matter of serious concern.

FIGURE 3: GROWTH RATES OF GDP AND RICE PRODUCTION IN CAMBODIA, 1990 - 95



Based on data given in table 5

The need for broad-based growth in a poor economy like Cambodia cannot be more emphasised. The primary sector contributed more than half of the gross domestic output in 1989 and close to 45 percent in 1994 and 1995 and the benefits of growth here will reach 85 percent of the population. Such a growth process is unlikely to be achieved by leaving things to the market alone. Market directing roles such as extending credit facilities to the rural economy, market-complementing interventions such as investment in economic infrastructure, especially water control systems (principally irrigation and drainage) and transport network are necessary conditions. While the state's capacity to invest is severely limited by its fiscal problems, there is need to encourage public action on a variety of fronts and levels including local level resource mobilisation, non-governmental development organisations, and farmers' co-operative organisations (in such areas as rural credit). Growth of the primary sector including such significant sectors as livestock and fishing, which registered modest rates of growth, will provide a far more stable stimulant for the growth of the secondary and tertiary sectors. Given the realities of the Cambodian economic situation, rural development, in our view, holds the key for sustainable growth and development in the country. Given its low share and weak base, the private corporate sector will have only a limited role to play for some time to come.

As discussed earlier, human development is both an end in itself and a means to achieve certain ends. Two basic elements of human development are health and education, both of which have important roles to play even from a limited growth point of view. In the Cambodian context, the initial conditions for both of these are not favourable. The basic health status of the Cambodian population is one of the poorest in the world. In terms of education, it is heartening to note that

levels of adult literacy are not as dismal as they were once thought to be¹⁴. However, low level average years of schooling, lack of higher education, and the resulting lack of scientific, technical and managerial skills pose formidable challenges. When the initial conditions of human development are in such a state, it poses huge challenges for the success of a structural adjustment programme. For one thing, SAP by giving priority to market-based transactions and private sector development assumes that human capacity development aspects will somehow be taken care of. Secondly, SAPs in many countries have resulted in a decline in the share of public expenditure for health and education as part of the tightening of the government budget. In the Cambodian context, it would not be an exaggeration to say that the social sectors of health and education are some of the worst victims of the current structure of the government budget and its inability to enhance its levels.

On the issue of equity and social justice, as envisioned in the NPRD, there are some indicators which call for serious thinking. For analytical purposes we may examine some of the important components of equity and social justice. These may be grouped into (i) eradication of absolute poverty, (ii) reduction of inequality, both in terms of income distribution as well as regional development, and (iii) social protection of vulnerable sections.

Despite its location in an area of rapid economic growth, Cambodia is considered one of the poorest countries. Although no scientific studies on the extent, intensity and other dimensions of poverty have yet been carried out, there are evidences to show that poverty is a basic problem in most parts of the country. Structural adjustment believes in the trickle down theory to take care of poverty but the experience of many countries shows that targeted programmes are required to tackle the problem. Moreover, in situations of fiscal measures leading to cut in government expenditure, there is the likelihood of increasing poverty. Reduced social expenditure, government subsidies and a host of other public welfare and social development programmes hurt the poor more than anyone else. In the Cambodian situation, a matter of serious concern ought to be the situation of food security. The secular decline in agricultural production, especially rice production, points out that the poor might have suffered more than others because of low purchasing power, withdrawal of government subsidies and inflation. The decline in food production, especially rice, despite a relative increase in prices, points to the need for developing agricultural infrastructure as well as supplying agricultural inputs at affordable prices.

The issue of inequality is one of serious concern as market liberalisation and private sector development tend to exclude those without ownership or access to productive assets, credit facilities, access to health and education. The 1993 SES reveals that income inequality is quite sharp. The top ten percent of the expenditure segment has an average household expenditure of US\$ 374 which is more than ten times that of the bottom ten percent. In urban areas, especially in Phnom Penh, this difference is much higher than in the countryside. In the absence of countervailing measures, this is likely to remain so or even increase (see Table 8).

The question of regional inequality is of equal concern. Average monthly household expenditure in the urban area of Phnom Penh is US\$ 312, i.e. three-and-a-half times that of the

¹⁴ The Human Development Report (1994 and 1995) of the UNDP reported only 38 percent literacy in 1993 whereas the Socio-Economic Survey of Cambodia conducted by the National Institute of Statistics reported it to be 65 percent in 1993-94.

rural areas (of US\$96). There are many other indicators of rural/urban inequality. Allocation of development assistance between Phnom Penh and provinces also show that 90 percent has gone to the former while all the other provinces received only 10 percent. This accounts for about 28 percent of total external assistance. The remaining are classified as country-wide programmes for which provincial-wise allocation is not known, but it would be surprising not to find sharp inequalities. Structural adjustment programmes do not address these important national objectives. On the contrary, the economic logic of SAPs is such that it might exacerbate the inequalities. New economic opportunities, mostly through private sector development, favour those with better income and assets in the case of business opportunities and, in the case of employment opportunities, those with better capabilities. Investment takes place in regions which are better endowed with infrastructure and related facilities. Private investment also gets attracted to quick-profit ventures as opposed to long gestation period ventures even when they are productive and crucial to the long-term development of the economy through their linkage effects.

Social protection of the vulnerable overlaps with those who find themselves in situation of poverty but the two are often not the same. Women perform important economic roles but often find themselves as vulnerable. Without social protection in such spheres as right to property, employment, equality in wages, access to health and education, their role gets subordinated and results in lower levels of remuneration and conditions of work. Children are another vulnerable group whose early protection in terms of nutrition, health and education will have far reaching implications on the quality of the labour force and their contribution to the economy not to speak of wider socio-political roles. The elderly are another vulnerable group deserving of social protection. While disabled are considered deserving of social protection, the Cambodian situation has its own special problems due to the legacy of war and internal strife. It is estimated that there is one amputee for every 235 persons and this works out to a sizable number of nearly 43,000. All these call for carefully balanced social protection policies requiring a national perspective and strategy. Part of the society's surplus will have to be harnessed for these activities and such harnessing can hardly be done through the mechanism of the market.

10. LESSONS FROM OTHER COUNTRIES

The current context which propagates the ideology of the market as the only answer for all the economic ills of countries contrasts sharply with an earlier era when the state was seen, by many poorer countries, as the only route for economic salvation. Although developing countries are being blamed for the economic problems of poor countries which compelled them to accept macro economic stabilisation and structural adjustment programmes specifically designed by the Bretton Woods institutions, there is enough evidence which points to the external nature of the causes of macro economic problems in many countries. These are mostly related to the oil price hike and such other crucial imports coupled with a sharp decline in exports - mainly primary commodities - of many of the countries. The experience of most of the African and Latin American countries who have gone through, and continue to go through, stabilisation and structural adjustment programmes is not encouraging, to say the least. External debt has increased, debt service ratios have increased, exports have not picked up sufficiently. Internally, growth has suffered for several years; social expenditure has been cut with negative consequences on human development

indicators and poverty; there has been an erosion of the authority and credibility of the state; public sector has given way to private sector; income and regional disparities have increased. There are very few success stories to draw out from these two continents.

The success stories that are being vigorously debated are those in Asia, especially in East and South East Asia. Many of them have gone through structural adjustment programmes but not under conditions of macro economic vulnerability. East and South East Asian countries have gone through adjustment programmes as part of their long term strategy of economic liberalisation. However, there is ample evidence to show that it was largely a case of state-directed economic growth. While market opportunities were consciously cultivated and developed through private sector development, both internally and externally, the state played an active role through its market-directing/regulating as well as market-complementing roles. In some cases, the market-excluding role was not insignificant. But it was not market-excluding as such because the private sector was not perceived to be strong enough to undertake some of the activities, i.e. was not a case of state vs. market but state and market. Secondly, the initial conditions governing land reforms and food production were favourable as also were the human development indicators especially those of literacy and education. When such favourable conditions were consciously directed by an active state for long term economic growth it provided a greater capacity to respond to external stimuli. In the case of East and South East Asia that external stimuli came in the form of considerably higher levels of foreign investment especially from Japan following the appreciation of the yen in the early eighties. It is significant to note that the fast growing economies of East and South East Asia has been maintaining very high levels of savings and investment - as much as 30 to 40 percent - unprecedented in modern economic history.

The experience of China is a class in itself. Its experiments with the market mechanism have not been accompanied by significant institutional changes with regard to privatisation and dismantling of state/public institutions in several areas of production, credit distribution, social services and social protection. Barriers for the expansion of both internal and external market opportunities have been removed with foreign investment, by way of overseas Chinese investment, playing a leading role in continued economic expansion.

The case of India belongs to another group. It is a late comer to economic liberalisation and structural adjustment. Reforms have been in place for only the last four years arising largely out of a balance of payments crisis exacerbated by the Gulf war and the loss of markets in the former Soviet Union and Eastern Europe. India has been a mixed economy with the public sector providing half of the total investment. The economic reforms related to withdrawal of innumerable controls governing licensing, investment, imports and exports have given a boost in several sectors but not without costs especially for the small scale industrial sector. Privatisation has not been accepted in its entirety but public sector companies have been given more autonomy and the equity base of some of them have been broadened. Agriculture was threatened with withdrawals of subsidies, especially that of fertiliser, but that has been proved to be too risky not only politically but also in terms of boosting agricultural production. Direct subsidies in the public distribution system have been reduced, but enhancement of social and educational expenditure has been set in motion after a lag of three years. Rural development expenditure stagnated in the initial years but the political democracy which depends on the majority of the rural population has ensured its enhancement. The point here is that the case of India demonstrates that economic

reforms cannot be insensitive to the interests of the large majority of the population especially in a political democracy.

What are the lessons of these experiences for Cambodia?

11. CONCLUDING REMARKS

Cambodia needs to make its way carefully in the economic reform process. The opening up of the economy to the outside world as well as the establishment of market institutions internally provide several opportunities. Economic reform policies to develop market institutions is only one of the many steps that need to be taken to realise these opportunities. The state has to play an important developmental role although different from the earlier type of command and control. Both public and private institutions need careful nurturing. A balanced approach is also necessary between economic reforms and political reforms on the one hand and economic institutions and civil institutions on the other.

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TABLE 1: SUMMARY OF BUDGETARY OPERATION, 1989 - 1995
(million \$US)

	1989	1990	1991	1992	1993	1994	1995
Revenue	15.3	23.3	58.9	156.0	290.1	590.4	642.9
Tax Revenue	6.2	13.3	31.1	109.7	234.1	364.6	445.4
Of which: Customs Duties	1.9	8.8	22.0	79.3	172.4	280.9	320.8
Nontax Revenue	9.2	10.0	27.8	46.3	56.0	225.8	197.5
Expenditure	21.9	50.2	104.2	245.6	608.4	1,019.2	1,221.5
Current Expenditure	18.5	43.3	99.0	238.5	373.2	683.7	732.9
Defense	7.2	18.7	46.8	118.6	219.4	431.8	425.7
Other	11.3	24.6	52.2	119.9	153.8	251.9	307.2
Capital Expenditure	3.5	6.9	5.2	7.1	235.2	335.5	488.6
Current Deficit (on accrual basis)	-3.1	-20.0	-40.1	-82.5	-83.1	-93.3	-90.0
Overall Deficit (on accrual basis)	-6.6	-26.9	-45.3	-89.6	-318.3	-428.8	-578.6
Financing	6.6	26.9	45.3	89.6	318.3	428.8	578.6
Foreign Financing	2.0	7.2	6.1	1.5	239.1	432.1	536.8
Domestic Financing	4.6	19.7	39.2	88.1	79.2	-3.2	-1.6
Of which: Bank Financing	4.6	19.7	14.5	112.8	30.7	-14.3	5.5
(In percent of GDP)							
Revenue	6.4	3.9	4.4	6.2	5.2	9.6	8.9
Tax Revenue	2.6	2.2	2.3	4.4	4.2	5.9	6.2
Non-tax Revenue	3.8	1.7	2.1	1.8	1.0	3.7	2.7
Expenditure	9.1	8.4	7.8	9.8	11.0	16.1	17.0
Current Expenditure	7.7	7.2	7.4	9.5	6.7	11.1	10.2
Defense	3.0	3.1	3.5	4.7	4.0	5.3	5.9
Other	4.7	4.1	3.9	4.8	2.8	5.8	4.2
Capital Expenditure	1.4	1.2	0.4	0.3	4.2	5.5	6.8
Current Deficit (on accrual basis)	-1.3	-3.3	-3.0	-3.3	-1.5	-1.5	-1.3
Overall Deficit (on accrual basis)	-2.7	-4.5	-3.4	-3.6	-5.7	-7.0	-8.0
Foreign Financing	0.8	1.2	0.5	0.1	1.4	7.0	7.5
Domestic Financing	1.9	3.3	2.9	3.5	0.6	0.1	0.5
Of which: Bank Financing	1.9	3.3	1.1	4.5	0.1	-0.2	0.1
GDP	240.9	598.6	1,336	2,509	5,546	6,150	7,200
Source: Cambodian authorities and World Bank estimates							

TABLE 2: TREND IN CONSUMER PRICE INDEX

(Base: July - September 1994 = 100)

Y/Month	NBC		Y/Month	NIS	
	CPI	FI		CPI	FI
1991, Jan	18	12	1995, Jan	101	103
Feb	18	12	Feb	102	102
Mar	19	14	Mar	100	100
Apr	20	15	Apr	99	99
May	20	15	May	99	99
Jun	23	18	Jun	101	103
Jul	28	22	Jul	104	107
Aug	37	34	Aug	105	109
Sep	36	32	Sep	107	112
Oct	35	31	Oct	108	114
Nov	31	27	Nov	107	111
Dec	33	17	Dec	105	107
1992, Jan	25	18	1996, Jan	105	106
Feb	26	19	Feb	107	110
Mar	27	21	Mar	106	106
Apr	30	22	Apr	107	109
May	33	28	May	108	111
Jun	40	35	Jun	108	111
Jul	49	45	Jul	112	114
Aug	55	52	Aug	115	113
Sep	65	64			
Oct	65	64			
Nov	61	59			
Dec	63	61			
1993, Jan	66	62			
Feb	65	61			
Mar	121	127			
Apr	106	106			
May	118	121			
Jun	114	116			
Jul	101	100			
Aug	99	98			
Sep	98	98			
Oct	98	100			
Nov	87	86			
Dec	83	82			
1994, Jan	85	84			
Feb	86	82			
Mar	87	83			
Apr	90	87			
May	95	93			
Jun	93	90			
Jul	97	96			
Aug	101	101			
Sep	102	102			
Oct	106	107			
Nov	105	107			
Dec	105	107			
1995, Jan	101	101			
Feb	96	95			
Mar	97	96			
Apr	96	96			
May	100	100			
Jun	102	102			
Jul	105	107			
Aug	108	111			
Sep	110	113			
Oct	112	116			
Nov	109	109			
Dec	105	103			

Note: From 1988 until 1995 the Consumer Price Index (CPI) constructed by the National Bank of Cambodia (NBC) was used officially. This was based on price data collected from three markets in Phnom Penh covering 58 items. As part of the efforts to strengthen the system of socio-economic data collection, the National Institute of Statistics (NIS) of the Ministry of Planning conducted a socio-economic survey of Cambodia in 1993-94. Based on the expenditure weights from this survey and on price data collected from five markets in Phnom Penh, the NIS has constructed and published CPI for a total 207 items divided into eight major groups since January 1995. The CPI published by the NBC since January 1996 has been based on the NIS system.

TABLE 3: TREND IN MARKET AND OFFICIAL FOREIGN EXCHANGE
 (Base: July - September 1994 = 100)

Y/Month	Value		2 as % of 3	Index	
	For. Exchange (Riel/US\$)			Foreign exchange	
	Market	Official		Market	Official
1	2	3	4	5	6
1991, Jan	625	600	104	24	23
Feb	663	600	111	26	23
Mar	691	600	115	27	23
Apr	742	600	124	29	23
May	707	600	118	27	23
Jun	905	800	113	35	31
Jul	1000	800	125	39	31
Aug	1139	1000	114	44	39
Sep	1125	1000	113	44	39
Oct	1195	750	159	46	29
Nov	935	750	125	36	29
Dec	550	520	106	21	20
1992, Jan	803	740	109	31	29
Feb	793	740	107	31	29
Mar	935	800	117	36	31
Apr	952	870	109	37	34
May	1160	1000	116	45	39
Jun	1275	1000	128	49	39
Jul	1670	1190	140	65	46
Aug	2020	1430	141	78	56
Sep	2142	2000	107	83	78
Oct	2120	2000	106	82	78
Nov	2080	2000	104	81	78
Dec	2310	2000	116	89	78
1993, Jan	2387	2018	118	92	79
Feb	2465	2246	110	95	88
Mar	3116	2421	129	121	94
Apr	3748	3397	110	145	133
May	4449	3897	114	172	152
Jun	3217	3153	102	125	123
Jul	2801	2700	104	108	105
Aug	2577	2590	99	100	101
Sep	2659	2580	103	103	101
Oct	2679	2617	102	104	102
Nov	2321	2344	99	90	91
Dec	2356	2308	102	91	90
1994, Jan	2580	2480	104	100	97
Feb	2530	2470	102	98	96
Mar	2535	2480	102	98	97
Apr	2590	2520	103	100	98
May	2605	2520	103	101	98
Jun	2540	2515	101	98	98
Jul	2530	2505	101	98	98
Aug	2600	2580	101	101	101
Sep	2615	2605	100	101	102
Oct	2720	2700	101	105	105
Nov	2620	2605	101	101	102
Dec	2593	2575	101	100	100
1995, Jan	2614	2594	101	101	101
Feb	2616	2596	101	101	101
Mar	2280	2276	100	88	89
Apr	2274	2243	101	88	88
May	2321	2296	101	90	90
Jun	2344	2310	101	91	90
Jul	2418	2383	101	94	93
Aug	2473	2440	101	96	95
Sept	2518	2485	101	98	97
Oct	2544	2511	101	99	98
Nov	2546	2520	101	99	98

Based on NBC data

TABLE 4: BALANCE OF PAYMENTS (\$US MILLION)

	1989	1990	1991	1992	1993	1994	1995
Trade Balance	-96.8	-77.7	-32.5	-86.2	-184.8	-236.1	-332.4
Exports	79.2	85.8	212.5	264.5	219.1	489.8	855.6
Imports	176.0	163.5	245.0	350.7	403.9	725.9	1188.0
Service Balance	-12.2	-16.5	1.3	27.6	44.3	-102.5	-91.7
Receipt	1.5	2.0	14.0	49.7	72.0	54.3	100.8
Payment	13.7	18.5	12.7	22.1	27.7	156.8	192.5
Net Income	.....	.....	.....	.....	.....	-23.6	-22.2
Private transfers	2.5	3.0	3.5	9.0	3.5	20.0	20.0
Current account balance (Excluding official transfers)	-106.5	-91.2	-27.7	-49.6	-137.0	-342.2	-426.3
Official transfers	17.3	41.6	2.5	5.0	95.7	234.8	269.1
Current account balance (Including official transfers)	-89.2	-49.6	-25.2	-44.6	-41.3	-107.4	-157.2
Capital account	109.0	94.2	25.2	38.0	79.7	83.3	112.7
Official sector loans (net)	27.2	11.5	5.2	-2.1	5.1	51.6	60.6
Disbursements	34.6	26.0	5.2	.....	5.1	60.6	72.4
Armortization**	7.4	14.6	.....	2.1	.....	9.0	11.8
private investment (net)			20.0	40.1	74.6	31.7	52.1
CMEA trade credit	81.8	82.7					
Errors and Omissions	-21.7	-34.8	-10.0			60.0	58.7
Overall balance	-1.9	9.8	-10.0	-6.6	38.4	35.9	14.2
Financing	-1.9	9.8	10.0	6.6	-38.4	-35.9	-14.2
Net foreign assets of the NBC	-0.2	-17.6	8.4	3.2	-38.4	-50.9	-31.3
Exceptional financing	-1.7	27.4	-18.4	-9.8	0.0	15.0	17.2

Source: World Bank Report: 1995 and National Bank of Cambodia

Note: ** Accrued interest on external debt and scheduled amortization on the existing stock of debt vis-a-vis official bilateral creditors are excluded.

**TABLE 5: GROWTH RATES OF GDP BY INDUSTRIAL ORIGIN AT 1989 CONSTANT PRICES
 (IN PERCENT)**

Sector	1990	1991	1992	1993	1994	1995
Agriculture	1.2	6.7	1.9	-1.0	0.0	6.9
<i>Crop and Rubber</i>	-5.4	7.2	-0.4	-2.3	-8.0	16.8
Rice	-2.9	-4.0	-1.9	3.2	-19.9	25.9
Other Crops&Rubber	-10.0	29.9	1.9	-10.2	11.7	5.9
Livestock	5.6	1.2	7.0	3.0	3.9	4.1
Fishing	31.9	8.9	-5.9	-5.5	-1.7	3.4
Forestry	15.0	24.6	15.1	0.0	50.5	-30.2
Industry	-2.2	8.8	-5.9	-5.5	-1.7	3.4
Mining and Quarrying	12.0	7.1	6.7	6.3	8.8	8.1
Manufacturing	-4.4	7.0	3.3	7.9	7.8	9.0
Electricity & Water	-16.7	0.0	20.0	16.7	0.0	14.3
Construction	-1.3	11.4	30.1	18.3	7.4	10.0
Services	2.7	8.5	11.2	7.0	7.5	7.4
Transp & Commun	-1.5	9.4	15.7	9.9	9.0	10.3
Wholesale&Retail Trade	-2.2	12.8	16.0	6.0	5.9	7.8
Hotels & Restaurants	75.0	42.9	30.0	7.7	21.4	5.9
Govt admn,edn & health	18.3	0.0	0.0	4.5	7.8	4.0
Home Ownership	2.6	2.5	6.7	8.0	8.0	7.4
Other Services	3.3	10.3	9.9	8.5	8.3	7.2
Gross Domestic Product	1.2	7.6	7.1	4.1	4.0	7.6

Source: World Bank (1995 and 1996)

TABLE 6: EXTERNAL DEBT - CONVERTIBLE AREAS
(\$US Million)

	1989	% of GDP	1993	% of GDP	1995	% of GDP
Total Debt Stock	376.6	30.3%	383.3	17.5%	621.1	21%
Long-Term Debt	238.6	19.2%	239.4	10.9%	427.1	14.5%
Public and Publicly Guaranteed	238.6	19.2%	239.4	10.9%	427.1	14.5%
Official Creditor	238.1	19.2%	239.0	10.9%	401.2	13.7%
Multilateral (Concessional loans)	1.2	0.1%	5.2	0.2%	161.2	5.5%
Bilateral (Concessional loans)	236.9	19.1%	233.8	10.7%	240.0	8.2%
Private Creditor	0.5	0.04%	0.4	0.02%	25.9	0.9%
Bonds			.....	.....
Commercial Banks	0.5	0.04%	0.4	0.02%	0.5	0.02%
Other Privates	.....	.....	.....	.....	25.4	0.9%
Use of IMF Credit	24.6	2.0%	8.6	0.4%	64.0	2.2%
Short-Term Debt	113.4	9.1%	135.3	6.2%	130.0	4.4%
Nominal GDP	1242		2192		2937	

Source: Ministry of Economy and Finance

Note: External debt of non-convertible areas as of December 1993 is estimated around Rubbles 823,891,000

TABLE 7: EXTERNAL ASSISTANCE BY TYPE: 1992-95
(\$US Million)

Type of Assistance	1992	1992	Total (1992-95)	% Allocation	% difference between 1992 and 1995
Technical Cooperation	43.2	125.9	343.9	25	291
Investment -Related technical Cooperation	8.8	34.6	75.4	5	393
Investment Projecct Assistance	32.8	168.9	391.6	28	515
Budgetary Aid\Balance of Payments Support	1.4	77.7	221.7	16	5550
Food aid	39.2	3.7	81.4	6	-91
Evergency and Relief Assistance	128.5	48.7	278.6	20	-62
Total	253.9	459.5	1,392.6	100	

Source: CISC / UNDP (1995)

**TABLE 8: SELECTED INDICATORS OF THE SOCIO-ECONOMIC SITUATION
 IN CAMBODIA : 1993-94**

Indicators	Cambodia (Extrapolated)	Phnom Penh	Rural
A. Population Characteristics			
1. Total Population (million)	9.9		
2. Household Size	5.6	5.9	5.5
3. % of Female-Headed Households	21.2	25.8	20.4
4. Proportion of female pop'n to total population	52.2	50.9	52.5
5. Proportion of adult females to total adults 18 years old or over	55.2	52.7	55.5
6. % of Population 0-14 Years	43.7	39.5	43.9
7. % of Widowed/Divorced/Separated Among Pop'n 15 Years Old & Over			
Male	2.8	2.8	2.9
Female	17.9	18.4	17.8
B. Labour Force Characteristics			
1. Labour Force Participation Rate	56.6	46.5	58.4
Unemployment Rate	2.5	6.1	2.0
2. Female Labour Force Participation Rate	55.4	39.9	59.0
Female Unemployment Rate	2.7	5.9	2.2
3. % Self-employment Without Any Employee	59.9	54.4	60.8
4. % Workers Without Pay in Own Family- Operated Farm or Business			
Male	14.2	2.4	15.4
Female	43.2	10.1	46.2
5. Sectoral Distribution of Employment (in %)			
Agriculture	75.1	12.3	82.5
Industry	4.5	11.9	3.7
Services	20.4	75.8	13.8
C. Literacy/Education			
1. Adult Literacy Rate (15 Years & Over)			
Both Genders	65.3	82.0	63.5
Male	79.7	91.9	78.6
Female	53.4	63.3	51.0
2. Mean Years of Schooling (Ratio of total Years of schooling of population 25 years & over to total population over 25 years old and over)			
Both Genders	3.5	5.7	3.2
Male	4.7	7.2	4.4
Female	2.5	4.3	2.2

3. % of Degree Holders among Population 25 Years and Over			
Both Genders	0.3	2.0	0.1
Male	0.5	3.6	0.2
Female	0.1	0.6	*
E. Income Inequality			
1. Average Household Monthly Expenditure By Decile (inUS\$)			
Lowest 10%	36	64	36
Highest 10%	375	1,061	374
2. Expenditure Distribution by Decile (in %)			
Lowest 10%	3.1	2.0	3.7
Highest 10%	32.2	34.0	23.6
3. Percentage of Expenditure on Food to Total Expenditure by Decile			
Lowest 10%	67.2	57.5	66.9
Highest 10%	35.7	24.0	46.1

Source: Report of the Social-Economic Survey of Cambodia, 1993-94.

Note: Figures for Other Urban Areas are not given in this table

*indicates less than 0.1 percent.