



**Cambodia Development Resource Institute**

## **Donors in Disarray**

**Prospects for External Assistance to Cambodia**

**SPECIAL REPORT**

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**Donors in Disarray: Prospects for External Assistance to Cambodia (Special Report)**  
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## Acronyms

ADB	Asian Development Bank
CAPE	Consortium for Assistance to Primary Education
CARERE	Cambodia Area Rehabilitation and Regeneration
CDC	Council for the Development of Cambodia
CG	Consultative Group
CRDB	Cambodian Rehabilitation and Development Board
ETAP	Environment Technical Assistance Programme
EU	European Union
FAO	Food and Agriculture Organisation
ICORC	International Committee on the Reconstruction of Cambodia
IMF	International Monetary Fund
MCRRC	Ministerial Conference on the Rehabilitation and Reconstruction of Cambodia
NGO	non-governmental organisation
OECD	Organisation for Economic Cooperation and Development
UN	United Nations
UNCHR	United Nations Centre for Human Rights
UNFPA	United Nations Population Fund
UNHCR	United Nations High Commissioner for Refugees
UNICEF	United Nations Children's Fund
UNDP	United Nations Development Programme
UNESCO	United Nations Educational, Scientific and Cultural Organisation
UNTAC	United Nations Transitional Authority in Cambodia
UNV	United Nations Volunteers
WFP	World Food Programme
WHO	World Health Organisation

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This report examines recent developments affecting assistance to Cambodia and assesses their implications for both the Cambodian government and donors. The study was undertaken in December 1997 and January 1998 in an attempt to clarify the often contradictory and confusing accounts about the assistance situation in Cambodia.<sup>1</sup>

Press reports and comments from government officials and donors have suggested that a substantial amount of assistance to Cambodia has been cancelled since fighting broke out in Phnom Penh in July between forces loyal to the rival political parties in the government; that national budget deficits are the direct result of reductions in assistance; and that assistance will probably resume following national elections scheduled for July 1998, unless human rights violations and corruption continue. Such reports are interspersed with announcements of new assistance agreements and of pledges being made for future assistance.

This report shows that a number of converging factors, and not the July events alone, contribute to the changing patterns of development assistance evident in Cambodia today. It also highlights areas of concern and the potential impact of current development assistance trends on Cambodia.

### *Method*

Information for the report was obtained from interviews and a review of available documents. About 40 individuals in Phnom Penh from the government, donors, development projects and NGOs were interviewed.<sup>2</sup> The interviews were structured around broad topics and were open ended to make it possible to pursue unexpected topics or issues as they arose.

### **Effect of Fighting on Assistance**

The fighting in Phnom Penh in July resulted in the ousting of then First Prime Minister Prince Norodom Ranariddh. This is often credited with having resulted in the cancellation or suspension of a substantial number of ongoing assistance projects and activities.

### *Continuity of Assistance*

Contrary to popular belief, very few ongoing projects were cancelled or suspended in 1997. The multilateral donors—the European Union (EU), the World Bank, the Asian Development Bank (ADB) and the UN agencies—continued ongoing assistance and started previously approved projects and activities. The UN agencies, in a letter to the government dated 18 August, stated that they would proceed with work which already had been approved, within the constraints of existing resources.

The UN agencies, while explaining their intention to continue with the implementation of agreed programmes, also noted that they had fewer core financial resources, and thus were more dependent

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<sup>1</sup> The time frame of the study did not allow for an examination of the experiences, responses and plans of NGOs providing assistance to Cambodia.

<sup>2</sup> A list of the people interviewed is given in the appendix. It must be emphasised that the views reported here are based on information from a variety of sources. Thus, a specific comment or observation should not be attributed to any single individual.

on bilateral donors for the supplementary support needed to implement programmes.<sup>3</sup> They also noted that each UN agency had its own governing body which could change existing priorities.

Most bilateral donors pursued the same approach, i.e. continuing with projects and activities already under way. Of the 29 bilateral donors listed in the *Development Cooperation Report*,<sup>4</sup> only five cancelled or suspended their assistance to Cambodia as a direct result of the events of July—Australia, Germany, Japan, Norway and the United States. Four of these five specifically allowed humanitarian assistance, which accounts for most of their assistance, to continue. Japan suspended all assistance, including humanitarian assistance, for one month, but then resumed activities.

### 1. Summary of Assistance Cancellations and Suspensions

Country	Cancellations / Suspensions	Other Actions
Australia	Cancelled non-lethal military cooperation assistance	Continued other projects
Germany	Suspended selected projects and activities for one year	Continued humanitarian projects
Japan	Suspended all assistance activities for one month	Continued assistance programmes (There is some question about whether assistance has been fully resumed; the continued absence of some personnel; and questions about disbursement of funds)
Norway	Officially cancelled projects which strengthened the government or in which the assistance was not being received by the intended beneficiaries	Continued humanitarian projects and activities (Most activities in fact continued)
United States	Cancelled existing projects: Management of environmental resources project Training of the business school faculty Legal training programme Training programme in democracy and human rights for the military Narcotics control programme Cancelled new projects: Rural infrastructure project Road construction Suspended: Cambodian Assistance to Primary Education (CAPE)	Continued humanitarian, democracy and human rights projects (Assistance to Cambodia through regional projects continued)

While cancellation or suspension of assistance was limited, development projects were disrupted for a short time following 5 and 6 July. This was primarily the result of logistical difficulties and temporary absences of staff due to concerns about security. The disruption was not the result of deliberate decisions to reduce levels of assistance, though it had the effect of reducing assistance disbursements.

#### *Assistance Preparation and Approval*

The major immediate result of the July events was the suspension of approvals of new assistance. Since July 1997, most donors have stopped approving new assistance projects for Cambodia. The ADB, the World Bank and the EU, as well as the United States, Japan, Australia, Germany, Norway and others, have stated that they will not approve new projects for the foreseeable future. Some donors have formally announced this suspension, while others have simply slowed or halted their

<sup>3</sup> Core funds are those which come from an organisation's own funds for basic administrative purposes. These funds typically are insufficient to cover programme costs. UN agencies therefore seek supplementary funding from donor governments, and in some instances from private sources, for programme activities.

<sup>4</sup> The Council for the Development of Cambodia (CDC) each year collects aid disbursement figures from donors and publishes an annual *Development Cooperation Report*.

project preparation. Although it has made no formal statement, the French government has indicated that it may proceed with new projects.

One clear indication of the slowdown in the assistance approval process is the fact that few missions from the ADB, the World Bank and other donors have visited Cambodia since July 1997. Moreover, those missions which have come have been engaged in fact-finding instead of reviewing new projects.

The real effects of this will be felt in several years time, and will result in a significant gap in assistance activities. For many multilateral and bilateral donors it can take up to two years to move assistance projects from the conception to the implementation stage. The process involves donor studies and missions, as well as extensive discussions between the government and donors. Cambodia will therefore face a period in one or two year's time during which assistance projects are not likely to be started.

### **Main Assistance**

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The amount of assistance provided to Cambodia has levelled off, and even declined slightly, since the early 1990s. Following the elections in 1993, assistance to Cambodia increased dramatically in terms both of money and of the number and range of donors. Initial assistance to Cambodia was principally for emergency relief. From 1993 and 1994, there was a shift in the nature of assistance, with the emphasis moving towards rehabilitation and the development of the physical, social and political infrastructure of the country.

Assistance disbursements reached a peak in 1995 before levelling off (see Table 2).<sup>6</sup> Assistance disbursements in 1997 were down, probably as a result of the events of July and the subsequent disruption. Some government officials believe that disbursements in 1997 would have shown a significant decrease even without the impact of the fighting in July, as assistance activities assumed a more normal pattern.

The reduction in the level of assistance to Cambodia is not surprising. Before the 1993 elections, the country was receiving little assistance. Following the elections, it was a couple of years before several of the larger donors established and implemented projects, which resulted in an initial high level of disbursements. But continual increases in assistance disbursements could not be expected indefinitely. There is also a limit to Cambodia's capacity to absorb and effectively use ever-increasing amounts of assistance. Even now, some donors are concerned about Cambodia's ability to manage effectively the assistance which has so far been provided.

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<sup>5</sup> Summaries of external assistance to Cambodia include: *External Assistance to the Royal Government of Cambodia: Issues and Actions for Progress*, prepared for the July 1996 Consultative Group Meeting in Tokyo, Japan (UNDP, Phnom Penh, April 1996); McAndrew, John P., *Aid Infusions, Aid Illusions: Bilateral and Multilateral Emergency and Development Assistance in Cambodia, 1992-1995*, CDRI Working Paper No. 2 (CDRI, Phnom Penh, January 1996); Royal Government of Cambodia, *Development Cooperation Report (1996/1997)*; *Main Report, July 1997*, CDC (prepared with the support of UNDP), (CDC, Phnom Penh, May 1997)

<sup>6</sup> Royal Government of Cambodia. *Development Cooperation Report (1996/1997)*; *Main Report, July 1997*.

## 2. Assistance Disbursements to Cambodia 1992-96 (in millions of dollars)

Type of Assistance	Terms	Values					Percentage Change				
		1992	1993	1994	1995	1996	1993	1994	1995	1996	
Free Standing Technical Cooperation	Grants			105.9	170.7	184.7					
	Loans			0.3	2.0	2.3			566.7	15.0	
	Total	39.4	77.9	106.2	172.7	187.0	97.7	36.3	62.6	8.3	
Investment Related Technical Cooperation	Grants			15.4	34.1	49.8			121.4	46.0	
	Loans			0.6	0.5	0.9			-16.7	80.0	
	Total	8.9	7.3	16.0	34.6	50.7	-18.0	119.2	116.3	46.5	
Investment Project Assistance	Grants			110.6	128.9	108.3			16.5	-16.0	
	Loans			11.9	45.5	50.8			282.4	11.6	
	Total	32.8	67.5	122.5	174.4	159.1	105.8	81.5	42.4	-8.8	
Budgetary Aid/Balance of Payments Support	Grants			10.7	20.9	41.6			95.3	99.0	
	Loans			58.4	57.0	24.9			-2.4	-56.3	
	Total	1.4	73.5	69.1	77.9	66.5	5150.0	-6.0	12.7	-14.6	
Food Aid	Grants	39.2	26.0	12.4	4.0	0.0	-33.7	-52.3	-67.7	-100.0	
Emergency and Relief Assistance	Grants	128.5	69.6	31.8	49.7	54.8	-45.8	-54.3	56.3	10.3	
Subtotal	Grants	250.2	321.8	286.8	408.3	439.2	28.6	-10.9	42.4	7.6	
	Loans	0.0	0.0	71.2	105.0	78.9	476.1	-24.9			
Total Disbursements		250.2	321.8	358.0	513.3	518.1	28.6	11.3	43.4	0.9	

Source: CDC & CRDB, Development Cooperation Report (1996-97); Main Report (July 1997)

### *Loss of Balance of Payments Support<sup>7</sup>*

In January 1996, the International Monetary Fund (IMF)<sup>8</sup> withheld, and subsequently cancelled, balance of payments support to Cambodia. This IMF loan programme had been established in 1994 to provide \$120 million in six payments over a three-year period. The funds went to the National Bank of Cambodia to help ensure Cambodia had the foreign currency reserves needed for imports and international transactions. By late 1996, the IMF had disbursed three payments of \$20 million, a total of \$60 million. In late 1996, and again in 1997, the IMF postponed and then cancelled two scheduled loan payments of \$20 million. In the middle of 1997, the IMF officially terminated its loan agreement with Cambodia and closed its office in Phnom Penh. As a result, Cambodia was denied \$60 million in foreign currency reserves.

The IMF action was based on dissatisfaction with aspects of the management of the economy, including: failure to collect revenues from logging; inequitable enforcement of the investment tax law (specifically the granting of tax exemptions); and lack of progress in supporting a demobilisation programme and reducing the size of the civil service.

### *Loss of Budget Support*

At the same time, the amount of direct budget support provided to Cambodia was cut. The World Bank had given Cambodia direct budget support amounting to about \$20 million each year from 1994 to 1996 to help the government meet budget deficits. When its budget support agreement expired in 1996, it was not replaced with another one. This decision was a direct response to IMF assessments of Cambodia during 1996.

Bilateral donors were also cutting their balance of payments support for Cambodia. Between 1992 and 1996, France, Japan, Germany, the United Kingdom and Sweden had all provided such assistance. While details of these programmes differed, each involved about \$10–\$15 million per year.

The balance of payments programmes involved providing Cambodia with a commodity which was then sold, and the proceeds of the sale used to finance specific approved projects. In 1997, several donor countries indicated that they were considering future balance of payments support. However, no decisions or commitments were made for 1997, and none was anticipated for 1998. It is unlikely that any major balance of payments programmes will be started in the near future.

### *Donor Attitudes*

A shift was emerging in 1996 and 1997 in the attitudes of donors towards assistance to Cambodia. Donors were increasingly expressing disapproval of conditions within the country. Of particular concern were:

- Economic conditions and practices within Cambodia, particularly the lack of revenue being generated by the government as a result of the failure to collect taxes on logging, the granting of exemptions to the investment tax law, and the ineffective collection of customs duties and taxes.

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<sup>7</sup> Confusion can arise with respect to budgetary and balance of payments programmes. The *Development Cooperation Report* definition reads: “Programme/Budgetary Aid or Balance of Payments Support: The provision of financial resources in the context of a broader development programme and macro-economic objectives and/or which is provided for the specific purpose of supporting the recipient’s balance of payments position and for making available foreign exchange. This category includes non-food commodity input assistance in kind and financial grants and loans to pay for commodity inputs. It may also include resources ascribed to public debt forgiveness.”

Such programmes are typically based on the provision of a commodity which is then sold, with the proceeds being available for development purchases. Some donor programmes are viewed as “commodity assistance” rather than balance of payments programmes. Commodity assistance is “financial assistance provided in the form of commodities and goods which are monetarized to generate local currency proceeds that will finance development projects” (*DCR*, annex 1, page 3).

<sup>8</sup> IMF is a financial rather than an aid institution. Since its activities are so closely associated with assistance programmes and activities, it is treated in this report alongside the multilateral assistance organisations.



- Political conditions, particularly a lack of progress in reducing the size of the civil service and the military, which constitute a major drain on the limited financial resources of the government. The issue of free and fair elections now preoccupies a number of bilateral donors.
- Social conditions, particularly human rights violations by the government and political parties, and slowness in promoting the rule of law and supporting democratic practices and institutions.

This shift was reflected in expressions of donor concern at the Consultative Group (CG) meetings in Tokyo in 1996 and in Paris in 1997. The Consultative Group is a meeting between donors and the government to review progress and problems and to obtain pledges of financial support for Cambodia.<sup>9</sup> The government presents a report on the country's developments, priorities and financial assistance needs for the coming year. Donors present statements on developments within Cambodia or issues that they wish to emphasise. During the two-day meeting, government and donor representatives engage in wide-ranging discussions. One major part of the meeting is a session in which donors make pledges of financial support to Cambodia for the following year.

The atmosphere of the Ministerial Conference on the Rehabilitation and Reconstruction of Cambodia (MCRRC) in 1992 and that of the CG meeting in 1997 were very different and reflect diminishing donor support for Cambodia. At the 1992 meeting, donor pledges of \$880 million were received. This exceeded the \$595 million requested by the UN Secretary-General in an April 1992 appeal for Cambodia.<sup>10</sup> In 1997, on the other hand, some donors went so far as to propose that the session for pledges be cancelled, i.e. that no pledges be made. The pledging session was held, however, and about \$450 million in pledges was received. However, many donors felt that the significance of the 1997 meeting was not the pledges but the message conveyed to the government regarding donor concerns with conditions in Cambodia.

#### *Conditions for Assistance*

Most multilateral and bilateral donors now seem to have identified conditions to be met before normal assistance can resume. These conditions can be grouped under three broad, and not mutually exclusive, headings:

- 1) Reform of economic and fiscal management. The re-establishment of an IMF programme is critical for the World Bank and some other donors. A new IMF programme would indicate that significant progress had been made by the government in terms of addressing the IMF's concerns.
- 2) Creation of a stable climate within Cambodia. For some donors this means a climate conducive to the successful implementation of projects rather than specific events such as the elections. The ADB and the World Bank emphasise a stable political, economic and social climate.
- 3) Elections, democracy and human rights. The third set of conditions is more specific and includes: conducting free and fair elections; promoting or supporting the development of democratic practices and institutions; protecting human rights; adhering to the Paris Peace Accords; maintaining the constitution and the rule of law; and vigorously investigating human rights violations such as the grenade attack in March and the politically motivated killings following the events of July.

Setting conditions presents difficulties for both the donors and Cambodia. One arises from the lack of a clear definition of terms and concepts such as "free and fair" elections, or determining what connotes "progress" towards meeting some of the other conditions. Each donor will have its own interpretation of actions taken by the government. The government is left with the dilemma of having to determine which actions might satisfy specific donors.

<sup>9</sup> The framework and provisions for the CG meetings arose out of the International Committee on the Reconstruction of Cambodia (ICORC), which had met in September 1993, March 1994 and March 1995.

<sup>10</sup> *External Assistance to the Royal Government of Cambodia: Issues and Actions for Progress*, UNDP, April 1996, p. 1.

### 3. Disbursements by UN Agencies, 1995–96 (in millions of dollars)

UN Agency	Core Disbursements			Non-Core Disbursements			Total Disbursements		
	1995	1996	% change	1995	1996	% change	1995	1996	% change
FAO	1.4	2.3	64.3	2.8	n.a.		4.2	2.3	-45.2
UNCHR	1.2	1.0	-16.7	0.5	0.4	-20.0	1.6	1.4	-12.5
UNDP	19.2	18.1	-5.7	11.3	19.1	69.0	30.5	37.2	22.0
UNFPA	1.4	2.3	64.3	0.2	0.1	-50.0	1.5	2.4	60.0
UNHCR	0.9	0.5	-44.4	0.0	0.0		0.9	0.5	-44.4
UNICEF	2.4	2.2	-8.3	8.1	6.4	-21.0	10.4	8.6	-17.3
UNV	0.2	0.1	-50.0	0.0	0.0		0.2	0.1	-50.0
WFP	0.0	0.0		29.2	31.5	7.9	29.2	31.5	7.9
WHO	1.3	1.7	30.8	3.3	2.6	-21.2	4.6	4.3	-6.5
Total	28.0	28.2	0.7	55.4	60.1	8.5	83.1	88.3	6.3

Source: Figures obtained from UNDP (December 1997)

#### *Programme Evaluation and Review*

In 1996 and 1997, UNDP/Cambodia assessed its programmes and developed plans for the next five years. This review resulted in the cancellation or substantial reduction of projects such as the National Public Administration Reform Programme, for which the government had demonstrated little commitment, and the Environment Technical Assistance Programme (ETAP). The UNDP contribution to the Strengthening Health Systems Project also was significantly reduced.

The UNDP assessment was initiated in response to two financial problems. First, worldwide UNDP core funds were reduced.<sup>11</sup> The effect of this reduction was reflected in the UNDP Country Cooperation Framework for Cambodia for the period 1997-2000, which was completed in April 1997 and approved at the September meeting of the UNDP Executive Board in New York. The framework provided for about \$44.5 million of core UNDP funding for a five-year period. This amount, about \$8 million per year, was about *half* of the annual average available for Cambodia during the previous five years.

Secondly, UNDP/Cambodia faced a major reduction in funds for Cambodia. Until 1997, UNDP had a pool of funds—approximately \$55 million—specifically for use in Cambodia. These funds had accumulated during the 1980s when UNDP, along with most other UN agencies were not working in the country because of an aid embargo. By 1997, this pool of funds had been expended or committed. As a result, fewer financial resources were available, and UNDP/Cambodia had to revise its programmes and future commitments.

The EU in 1997 likewise was preparing a major programme review and evaluation to be undertaken during 1998. During this review, the EU's PRASAC project will be examined and consolidated. The EU anticipates that PRASAC will continue, but in an altered form and with an as-yet-undetermined level of funding. The project will continue during this consolidation phase, but with significantly reduced resources. The EU budget for this period, for example, is expected to be about 20 percent of its previous annual budget. In addition, technical assistance to ministries will be reduced from 11 to four individuals.

While the EU was temporarily reducing part of its programme in 1997, it also began a \$12-million multi-dimensional humanitarian programme providing assistance for the control of malaria, demining, and the CARERE project.

The main question with respect to EU assistance is what will happen at the end of 1998. No new agreement with Cambodia was finalised following the events of July. If no agreement is reached in

<sup>11</sup> See footnote no. 3.

1998, it is possible that the consolidation period will be extended for an additional year, still with reduced resources and activities.

#### *Worldwide Assistance Reductions*

Bilateral donors in Cambodia report that they expect reductions of five to 10 percent in their own financial resources for the next year or two. These reductions are due to domestic economic or political considerations, and are not targeted specifically at Cambodia. Such reductions do mean, however, that there will be fewer funds from which to provide assistance to Cambodia.

Similarly, multilateral donors, particularly the UN agencies, are likewise experiencing reductions in their core resources. In Cambodia, it is estimated that the core funds of the UN agencies will account for between 10 and 20 percent of their expenses. To implement their programmes, these organisations therefore will need to raise supplementary contributions of up to 80 to 90 percent of their costs. The major source for supplementary funding is the same governments which are now questioning the extent and form of the assistance that they are willing to provide to Cambodia.

UNICEF estimates that for 1998 it will have approximately \$2.2 million of core funds, and will need supplementary funding of about \$10 million. UNICEF does not see this as a major problem, because most of the funds needed are already pledged or are in hand. Yet UNICEF recognises the risk that the bilateral donors could decide to reduce their supplementary funding, particularly for 1999 and beyond.

## **Implications**

#### *Loss of the IMF and World Bank Programmes*

The loss of the IMF loan programme is viewed by many donors and government officials as the single most significant assistance related action of 1997. Two reasons are given for this assessment.

First, an IMF programme represents a form of *de facto* certification without which some donors cannot provide assistance. Some bilateral cooperation agreements stipulate that an IMF programme must exist as a condition for receiving assistance. Thus, in principle, the loss of the IMF programme can result in the withdrawal of assistance. Whether a donor would decide to invoke this condition and withdraw assistance is not clear. In any case, the absence of an IMF programme can certainly make it more difficult for a donor to approve new assistance.

Second, the loss of the foreign currency reserves provided through the loan programme will at some point affect Cambodia's ability to import goods and to engage in other international trade and investment activities. It is not clear whether this point has been reached. Government officials and donors have pointed out that while the loss of the foreign currency reserves is important, the symbolic impact of the loss of the IMF programme is far more significant.

The IMF has been firm in its position that it will not establish another programme in Cambodia until significant progress has been made in addressing the problems which it has identified. There is no indication that the IMF is moving to re-establish a programme in Cambodia, though it continues to monitor the situation and to send routine fact-finding missions.

The loss of the World Bank's budget support has both a symbolic and a financial impact. The fact that no new World Bank programme began when the previous one ended symbolises a loss of confidence by a major international financial institution. Furthermore, the absence of the programme means that Cambodia has about \$20 million less in 1997 and 1998, compared to previous years, to make up deficits in the national budget.

Some government officials and advisers view the loss of the World Bank loan as a relatively minor event in terms of its budget implications. The loan had not been included in the budget law, and thus was not formally a regular budget item. Yet they note that, as with the IMF programme, the

symbolic impact of the loss of the programme is substantial. The prospects for reinstating a World Bank budget support programme are slim.

#### *Suspension of Project Preparation and Approval*

Donor refusal to approve new projects has important implications for Cambodia's development over the next few years. Existing assistance is continuing, with a few exceptions, and can be expected to continue until the scheduled completion of the projects. For most large projects this means through 1998 and into 1999. But by the year 2000, most existing projects will be reaching their conclusion, and may well end altogether. It is possible that follow-up assistance may be provided for some projects, but there is no guarantee of this given the current assistance environment. Moreover, even these efforts would require additional reviews and negotiations, none of which are happening at present.

The fact that new projects are not currently being approved means that, at best, new projects will not begin for several years, simply because the preparation and approval of assistance projects needs substantial time. Under ideal circumstances, the large bilateral and multilateral donors can take two or more years to move a project from the conception and design stage to the approval and implementation stage. Even "pipeline" projects, i.e. projects which have undergone much of the approval process, can require a further year for completion of final updates and approvals. Few, if any, projects were approved during 1997. It is likely that few projects will be approved in 1998. Thus, the initial development of new projects can at best be expected in late 1998 or early 1999. Within this time frame, approval and implementation cannot be expected until the year 2000 or 2001.

#### *Reduced Resources for Assistance*

The worldwide reduction of financial resources available for assistance has several implications for Cambodia. Other countries throughout the world are in effect competing for funds which might have gone to Cambodia. Delays in processing new projects can mean a loss of resources, since unused funds are not held in reserve for a particular country or project indefinitely. Instead, the funds are likely to be re-allocated for use elsewhere.

When projects are proposed or approved for Cambodia in the future, one major question will be whether funding is still available at that particular time. As an illustration, the final processing of two ADB loans was not completed in 1997. The projects are, in principle, held over until 1998. But it is not even certain that the projects can now proceed. Even if it approved them, the ADB and the government would need to decide whether the projects still have the same priority as they did a year ago. Furthermore, the ADB would need to determine whether adequate funds were still available for the projects.

#### *Impact on the National Budget, Employment and Other Projects*

It has often been suggested that a reduction in assistance has had a major negative impact upon the national budget, and particularly upon the ability of the government to pay salaries and other operating expenses.

There is no doubt that government ministries experience difficulties meeting operating expenses. Ministries report that often they do not receive budgeted operating funds. Yet the shortfalls in meeting operating expenses are not directly linked to reductions in assistance.

There are two reasons for this. The national budget is comprised of two parts: operations and capital. The operations component includes day-to-day activities—the cost of keeping government offices open and engaged in normal, routine functions. Costs such as salaries, petrol, office supplies, electricity and transportation are included in this component of the national budget. These expenses are expected to be met with revenue which the government collects in the form of taxes and fees.

The capital part of the budget is essentially development projects and the building or improvement of infrastructure. In Cambodia, the capital portion of the budget is directly linked to foreign financing, i.e. external assistance.

**Royal Government of Cambodia: Budget Summary, 1989-97 (in billions of riels)**

Year	1989	1990	1991	1992	1993	1994	1995	1996	1997
<b>Revenue</b>									
Tax Revenue	15.3	23.3	58.9	156.0	290.1	590.4	644.0	746.4	896.6
Customs Duty	6.2	13.3	31.1	109.7	234.1	364.6	445.5	534.5	673.5
Non Tax Revenue	0.0	0.0	22.0	79.3	172.4	280.9	320.8	344.1	437.8
Capital Revenue	9.2	10.0	27.8	46.3	56.0	225.8	196.8	172.7	211.7
	-	-	-	-	-	-	0.0	39.2	11.4
<b>Expenditure</b>									
Current Expenditure	21.9	50.2	104.2	245.6	608.4	1019.2	1200.6	1280.0	1480.9
Defence	18.5	43.3	99.0	238.5	373.2	683.7	689.5	797.3	870.1
Other	7.2	18.7	46.8	118.6	219.4	431.8	425.7	410.5	390.8
Capital Expenditure	11.3	24.6	52.2	119.9	153.8	251.9	261.9	373.9	479.3
			3.5	5.2	7.1	335.5	511.1	482.7	610.8
Current Deficit (On Accrual Basis)	-3.1	-20.0	-40.0	-82.5	-83.1	-93.3	-45.5	-50.9	26.5
Overall Deficit (On Accrual Basis)	-6.6	-26.9	-45.3	-89.6	-318.3	-428.8	-556.6	-533.6	-584.3
<b>Financing</b>									
Foreign Financing	-	-	45.3	89.6	318.3	428.8	560.1	557.9	673.1
Domestic Financing	2.0	7.2	6.1	1.5	239.1	432.1	559.3	553.4	668.6
o/w Bank Financing	4.6	19.7	38.2	88.1	79.2	-3.3	0.8	4.5	4.5
	-	-	14.5	112.8	30.7	-14.3	5.5	7.0	7.0

Source: Ministry of Economy and Finance

While there is no direct official relationship between the operating expenses of the government and assistance, an important unofficial relationship is reported. Donors, ministry officials and project staff observe that many projects do pay some of the operating expenses for ministries.<sup>12</sup> Reductions or delays in project disbursements therefore can create difficulties for ministries in meeting basic operating expenses.

Cancellation and suspension of projects has resulted in job losses for staff. Between the EU consolidation and USAID actions following the events of July 5 and 6, at least 1,000 people were estimated to have lost their jobs. The total number of jobs lost is probably significantly higher, since other projects, e.g. UNDP-sponsored projects also were closed, and when the multiplier effects, such as job losses in other sectors, are taken into account.

Cancellation and suspension of assistance affects other projects. The suspension of the Consortium for Assistance to Primary Education (CAPE) project, for instance, created a gap in government plans for the improvement of primary education. Other projects and the Ministry of Education were counting on CAPE for training as well as for school buildings. The activities of UNICEF as well as the EU also have been affected by the suspension of CAPE, in this case by a reduction in the availability of CAPE-trained primary school teachers.

## **Annex**

### *Continuity in the Short Term*

In the short term, multilateral and bilateral projects can be expected to continue until the scheduled end of their project dates, or until the end of their funding. By the end of 1999, or at the latest by the year 2001, all existing programmes listed in the CDC's *Development Cooperation Report* will have reached their scheduled completion dates.

Continuity of assistance is based on an assumption that tensions within the country will not worsen and that fighting will not escalate. Given the attitudes expressed by donors during the past two years, it is unlikely that assistance could continue in the face of increased violence.

It is unlikely that all assistance will simply stop in a few years. It is possible, through project extensions and other means, to continue some activities. Furthermore, much of the assistance provided to Cambodia is classified as humanitarian aid, and therefore is not likely to be cut off. Yet activities such as infrastructure development could be significantly disrupted if new assistance arrangements are not concluded in sufficient time.

### *Threats to Multilateral Programmes*

Multilateral programmes face a potential reduction of funding during the next few years because many multilateral agencies increasingly rely on supplementary funding from bilateral donors. The general donor attitude towards assistance to Cambodia, coupled with reduced financial resources, could result in substantially reduced support for multilateral organisations. While the multilateral organisations have not yet experienced a major reduction in supplementary funding, the loss of this support is recognised as a real possibility if the general assistance atmosphere for Cambodia were to deteriorate.

### *Election Assistance*

Assistance for the national elections scheduled for July is widely expected and needed. The EU and several bilateral donors have expressed a willingness, in principle, to assist with financial and techni-

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<sup>12</sup> It is difficult to obtain specific amounts for these expenses, but there is widespread agreement that projects do in effect contribute significantly to the operating expenses of ministries.

cal support for the elections. Some technical assistance is being provided, even as negotiations continue within Cambodia on the specific legal and organisational arrangements for the elections.

Yet donors continue to assess whether it is reasonable to expect that credible elections can and will be conducted. Commitments of election assistance are dependent upon these evaluations of the situation within Cambodia. How much, in what form and under what conditions substantial election assistance will be provided was not clear at the time of this study.

#### *Domestic Pressures on Donors*

Bilateral donors in particular face political pressures within their own countries with respect to assistance to Cambodia. For many this is a key factor determining when or whether it is possible to resume negotiations on new projects. The domestic pressures within donor countries are one of the most difficult factors to assess, but they are likely to have a great effect on assistance to Cambodia.

#### *Contingency Planning*

Given the uncertainties surrounding future assistance to Cambodia, it is worrying that neither the Cambodian government nor the donors seems to be preparing contingency plans. A fundamental question for both donors and the government is what will happen if the conditions set by the donors are not met. A second, and possibly even more significant question, is what options exist if the IMF's conditions, which affect so much external assistance, are not met.

The Cambodian government will in any case need to determine how to meet its financial needs in the short term in a manner which is acceptable to the donors. The government also needs to decide how to respond to its current economic and financial problems, and particularly to its budget deficits. Government ministries have been instructed to take measures to reduce expenditures, such as eliminating travel allowances unless these are paid for by a donor. These are temporary measures which do not address the problem of a long-term loss of assistance.

A significant concern of both donors and government officials is the economic impact of prolonged fighting in the northwest, which is draining the resources of the government and the country as a whole. Continued high expenditures for the military are incompatible with IMF and other donors' conditions, and are therefore set to have a further adverse effect on the likelihood of assistance being made available.

The donors likewise face difficult questions with respect to Cambodia. Among these is how long and in what form humanitarian assistance will be provided, and whether other assistance will be reduced or eliminated. A related option is the use of alternative channels for providing assistance, including, but not limited to, an increased role for NGOs.

Donors noted that decisions regarding assistance to Cambodia involved major policy issues and required high-level political and legislative action from their governments. Thus, it was not possible for them, nor prudent, to speculate about what might occur under different sets of conditions.

The fact that both the government and donors have options and are facing an uncertain situation suggests that contingency planning by both parties now could be helpful. Yet there is little evidence that this is happening. One reason for this lack of action is the belief that assistance will be made available once national elections have been held. This belief underestimates the range of factors which will affect the resumption of normal assistance activities. It also ignores that fact that there will be significant delays before funds for projects become available in Cambodia.

## **Conclusions**

Assistance for Cambodia has undergone substantial change in the past two years. There was no immediate and extensive reduction in assistance following the events of 5 and 6 July. The donors' response to the fighting—curtailing preparation and approval of assistance—coupled with the loss of the IMF balance of payments programme, may be the most significant development of the past two years. The ramifications of these actions can be expected to last for several years, even if donors' concerns are addressed in the immediate future.

Donor actions following the events of July to a large degree compounded developments which had been emerging in the previous two years. Donor concern with conditions in Cambodia was increasing throughout 1996 and 1997. But even in 1997, donors showed a readiness to continue to provide (particularly humanitarian) support for Cambodia. How long this readiness will continue is uncertain.

Without improvements to the situation in Cambodia, it is quite possible that the reduction of economic assistance evident in 1996 and 1997 will become more severe. There could be a parallel reduction in assistance for continued infrastructure development.

Cambodia and the donors are facing a complex situation and an uncertain future. Currently there does not appear to be significant attention devoted by either side to possible alternative options. Both would benefit by examining such options and considering whether the conditions for assistance defined by the donors are acceptable to the government, and are then addressed by the government in a way which is acceptable to the donors.

One obstacle for many government officials is a belief that the national elections will resolve the current problem. The government does not appear to be giving enough attention to other donor concerns and conditions, such as the reform of economic and fiscal management, the creation of a stable political climate and the protection of human rights. This apparent lack of attention to the range of factors affecting external assistance to Cambodia could lead to a severe shortage of funds over the next few years.



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## APPENDIX

### Individuals Interviewed

#### *Donor Representatives*

West, Gordon	Country Director	USAID
Suos Sameth	Resident Representative	Asian Development Bank
Nataraja, Ramanathan	Liaison Officer	World Bank
Arai, Hiroyuki	Director	Japan Int'l Cooperation Agency
Wilson, John	Secretary for Int'l Cooperation	AusAID
Matthews, Paul	Resident Representative	UNDP
Van Roosbroeck, Pierre	Head of Programmes	European Commission
Lieper, Scott	Programme Manager	UNDP/OPS/CARERE
Pickup, Lawrence	Deputy Head of Mission	Embassy of the United Kingdom
Bauman, Susanne	First Secretary	Embassy of Fed. Republic of Germany
De Vos, Leonard	Representative	UNICEF
Cassus, Dominique	Commercial Attaché	Embassy of the French Republic
McNamara, Vin	Adviser	Ministry of Education and Agriculture

#### *Government Representatives and Advisers*

Sum Sanniseth	Head, Planning Section	Ministry of Planning
Mam Bun Heng	Under-Secretary of State	Ministry of Health
Tram Iv Tec	Secretary of State	Ministry of Public Works and Transport
Sokhim, Chea	Deputy Chief, Int'l Relations	Ministry of Health
Chhien, Yanara	Secretary-General	CRDB/CDC
Khus Chiev	IT Adviser	CDC/UNDP/UNOPS
Ngy Chanphal	Under-Secretary of State	Ministry of Rural Development
Chem Vidhya	Permanent Secretary	Ministry of Foreign Affairs
Vongsey Vissoth	Deputy of External Finance	Ministry of Economy and Finance
Sok Hach	Adviser to the Minister	Ministry of Economy and Finance
Seng Kan	Manager, PMMU	Ministry of Education
Carranceja, Gerry	Economist/Adviser	CDC: AID Coordination
Bullen, Darryl	NGO Coordination Consultant	CDC
Duncan, Andrew	NGO Coordination Consultant	CDC
Lee, James	PMMU	Ministry of Education

#### *NGO Representatives*

Strickler, Carol	Director	CCC
Khou, Somatheavy	Assistant Executive Director	CCC
Rosseau, Stephane	Director	MEDICAM
Miller, Graham	Country Director	CARE

#### *Project Representatives*

Nauta, Richard	Chief Technical Adviser	PRASAC (European Union)
Wienrawee, Pawana	Country Programme Adviser	HIV/AIDs Project
Ressegué, Bob	Chief Technical Adviser	CAPE