



**Kingdom of Cambodia**  
*Nation – Religion – King*

**Cambodia:**  
**The *Rectangular Strategy* for**  
**Growth, Employment, Equity and Efficiency,**  
**2003 - 2008**

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## Part 1:

### The Logic of the *Rectangular Strategy*

#### 1.1. The Main Objective of the 3rd Mandate of the Royal Government of Cambodia, 2003-2008

*The People of the Kingdom of Cambodia expressed their collective will through the fair, free and Democratic national elections of 27 July 2003. The Royal Government of Cambodia enters into its third mandate, humbled by the people's will and fully committed to the cause of peace, development and prosperity for all.*

The Royal Government of Cambodia shall endeavor to build the Cambodian society marked by sustained prosperity and a firm democracy, gained through solidarity, progressive education, respect for moral values and social justice. Cambodians must take control of their own destiny and be liberated from illiteracy, disease and poverty.

The Royal Government of Cambodia stands fully committed to the *Millennium Declaration* adopted on 8 September 2000 by the General Assembly of the United Nations. The Leaders of the UN member states have agreed on the strategic targets and timetables in their common cause to combat poverty, hunger, disease, illiteracy, inequity, gender bias and environmental destruction. The Royal Government shall, with full determination, exert its utmost efforts to bridge the gaps between universally-held goals and national progress, and between the national development and regional disparities.

In its second term from 1998 - 2003, the Royal Government of Cambodia seriously implemented the *Triangular Strategy*, and successfully created the supporting conditions and favorable environment, both internally and internationally, for Cambodians to move forward, with strong confidence and renewed hope, on the path of reform and development.

The success of the Royal Government in implementing its "win-win" policy has enabled the profound transformation of Cambodia from a region of uncertainty, civil strife, instability and backwardness into an epicenter of peace, stability, social order, respect for human rights and human dignity, cooperation and shared development. Over a very short period relative to international history, the Royal Government has demonstrated to the world at large that Cambodia is fully capable of engagement, on an equal footing in regional and international affairs. The positive gains so far achieved have bolstered the confidence of all citizens and development partners in Cambodia's bright future, shoring up the foundations for dynamic enterprise, increased trade, investment flows and tourism that will generate employment and incomes for Cambodians, and at last enabling the long-delayed improvement of the well-being of our people.

At the forefront of the political and economic agenda of the Royal Government in its third term 2003-2008 are: (a) promotion of economic growth; (b) generation of employment for Cambodian workers; (c) implementation of its Governance Action Plan (GAP) and thereby ensuring equity, social justice and enhanced efficiency and effectivity of the RGC; and (d) implementation of broad reforms in all sectors to reduce poverty and accelerate sustainable development. To achieve its agenda, the Royal Government sets out its *Rectangular Strategy* which embodies the development vision of the Cambodian Peoples Party and its deep aspirations of success in poverty reduction, development, progress, prosperity, national harmony and happiness of the Cambodian people.

## 1.2. The Foundations of the *Rectangular Strategy*

The *Rectangular Strategy* has been prepared by the Royal Government of Cambodia in its third term to pursue its program, building on the achievements attained in its second mandate (1998-2003) through the implementation of the *Triangular Strategy*. The *Rectangular Strategy* selects key elements from the current *Cambodia Socio-Economic Development Program 2001-2005 (SEDP2)*, the *Cambodia National Poverty Reduction Strategy 2003-2005 (NPRS)*, and the various official sectoral development plans such as the *Governance Action Plan (GAP2)*, *Legal and Judicial Reform Strategy*,<sup>1</sup> *Financial Sector Blueprint*, *Pro-Poor International Trade Development Strategy*, *Medium Term Economic Framework (MTEF)*, *National Transport Master Plan*, *Agriculture Sector Development Program (ASDP)*, *Private Sector Development Program*, as well as the original *National Program to Rehabilitate and Develop Cambodia (NPRDC, 1974)*.

The *Rectangular Strategy 2003-2008* builds on the predecessor *Triangular Strategy 1998-2003*. The sides of both strategies represent the key development thrusts of the Royal Government that enable the Cambodian economy's take-off into a sustainable development trajectory. Indeed, geometrically, the *Triangular Strategy* has demonstrated its capacity to withstand challenge and adversity and remain unbowed, as seen in the timeless pyramids of Egypt. It is envisioned that the *Rectangular Strategy* will serve as the stable, firm and strong foundation for sustainable development for many years to come, much in the same manner as well-crafted pillars and homes.

The *Rectangular Strategy 2003-2008* aims to enhance economic growth, employment for Cambodian workers and equity and social justice through the implementation of the Governance Action Plan. Therefore, the third mandate of the Royal Government of Cambodia shall be the **Government of Growth, Employment, Equity and Efficiency**.

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<sup>1</sup> Other relevant sectoral strategies and documents include the Health Sector Development Plan, Education Sector Strategy, Land Policy Framework, Integrated Fiduciary Assessment and Public Sector Review, National Environmental Action Program, Legal Reform Strategy and National Water Master Plan.

### 1.3. The Structure of the *Rectangular Strategy 2003-2008*

The *Rectangular Strategy* may be visualized as an integrated structure of interlocking rectangles, as follows:

**First**, the core of the *Rectangular Strategy* is **good governance** focused at four reform areas: (1) anti-corruption, (2) legal and judicial reform, (3) public administration reform including decentralization and deconcentration, and (4) reform of armed forces, especially demobilization;

**Second**, the environment for the implementation of *Rectangular Strategy* consists of four elements: (1) peace, political stability and social order; (2) partnership in development with all stakeholders, including the private sector, donor community and civil society; (3) favorable macroeconomic and financial environment; and (4) integration of Cambodia into the region and the world.

**Third**, the four strategic “growth rectangles” are: (1) agricultural productivity, diversification and competitiveness; (2) private sector growth and employment; (3) continued rehabilitation and construction of physical infrastructure; and (4) capacity building and human resource development.

**Fourth**, each strategic “growth rectangle” has four sides:

- *Rectangle 1: Agricultural Productivity, Diversification and Competitiveness* includes: (1) improved productivity and diversification; (2) land reform and mines clearance; (3) fisheries reform; and (4) forestry reform;
- *Rectangle 2: Continued Rehabilitation and Construction of Physical Infrastructure*, involving: (1) continued restoration transport infrastructure (inland, marine and air transport); (2) management of water resources and irrigation; (3) development of energy and power grids, and (4) development of Information and Communication Technology;
- *Rectangle 3: Private Sector Growth and Employment* covers: (1) strengthened private sector and attraction of investments for the six priority sectors identified by the Prime Minister; (2) promotion of SMEs; (3) creation of jobs and ensuring improved working conditions; and (iv) establishment of social safety nets for workers; and
- *Rectangle 4: Capacity Building and Human Resource Development*, including: (1) enhanced quality of education; (2) improvement in health services; (3) fostering gender equity, and (4) rational population policy.

## Part 2

### The *Rectangular Strategy*: Economic Policy Priorities

#### 2.1. Good Governance: Cornerstone of the *Rectangular Strategy*

Good governance is essential to sustainable socio-economic development and social justice. Governance is the process of decision-making, and the formal as well as informal processes through which decisions are implemented. Good governance is participatory, enhances the sharing of information, accountability, transparency, equity, inclusiveness and the rule of law. Good governance discourages corruption, consideration of the views of minorities and attention to the voices of the most vulnerable in society. Good governance not only responds to the present but also to the future needs of society.

The Royal Government of Cambodia will focus on the effective implementation of its *Governance Action Plan* (GAP2), which covers four crosscutting areas of reforms: (i) fighting corruption, (ii) judicial and legal reform, (iii) public finance and civil service reform, and (iv) reform of the armed forces, especially demobilization.

##### i. Fighting Corruption

The Royal Government shall implement a broad, holistic anti-corruption approach with measures that address the root causes of corruption. The strategy shall incorporate comprehensive means and resources to prevent as well as crack down on corrupt practices, realizing that codes, rules and laws are inadequate for success. Effective yet fair enforcement is a necessary complement to any legal framework.

The Royal Government has made significant progress in fighting corruption in sectors such as forestry, fisheries, land management, education and health. Much effort and time has been devoted to the attainment of these advances. To accelerate progress in anti-corruption, the Royal Government envisages the following actions:

- Establish the legal framework, measures and procedures in anti-corruption according to the best practices of good governance particularly in the management of public funds and the delivery of public services;
- Ensure that the general public and all clients of public services know and understand anti-corruption laws, procedures and their rights and obligations;
- Implement measures so that civil servants know and understand anti-corruption laws and regulations, as are equipped with the skills and means to implement these laws and regulations effectively and fairly;
- Install, empower and operationalize anti-corruption and oversight institutions and mechanisms; and
- Ensure that mechanisms to prosecute and implement sanctions on wrongdoers are fair, consistent and effective.

## **ii. Legal and Judicial Reforms**

Legal and judicial reforms shall aim at success in two crucial activities: (1) laws to ensure the development and promotion of people's rights and freedoms; and (2) the strengthening of the judiciary's capacity to ensure transparency and social justice. Moreover, it is urgent to streamline the courts system, install civil and penal codes and establish the legal framework for the coordinated integration of Cambodia into the regional and world economy.

## **iii. Public Administration Reform**

The Royal Government recognizes that institutions are key to the effective management of development. Administration and public functions must be effective, efficient, neutral, transparent and responsive and well as responsible. The Royal Government has adopted the *National Program for Administrative Reform* (NPAR) to transform the bureaucracy into a dynamic force in the implementation of the *Rectangular Strategy*.

The NPAR is to be implemented in three phases: (I) setting the foundations to sustain the course, (II) reorganization and redeployment, and (III) strengthening capacity and developing human resources. The NPAR's initiatives are grouped into four axes: (a) strengthening institutions and their legal framework, (b) good governance and service delivery, (c) enhancing the management of human resources, and (d) change management. These axes have been launched to adapt the administration and public functions to the needs of the nation. Efforts shall be exerted to ensure that the bureaucracy is manned by staff of adequate number and skills. Focus will be directed to the continuous enhancement of quality in the delivery of public services through institutional strengthening, training, wages reform and other incentive mechanisms.

The Royal Government will continue the implementation of rationalization of public functions, covering the composition, number, deployment and remuneration for civil servants. Studies shall be conducted on the labor market and service delivery including deconcentration. The operations of ministries will be analyzed to inform the formulation of a sustainable pay system.

## **iv. Reform of the Royal Cambodian Armed Forces**

An important agenda of the Royal Government from 2003 to 2008 is to continue the collection of loose weapons and armaments for transformation into tools of peace. This agenda implements the *White Book of National Defense* which has set out the principles of national defense and security and laid out the strategy of RCAF reforms. The reform process shall demobilizing excess manpower to restrain the number of military officers and soldiers to about 70,000 to 80,000 -- a size which enables the RCAF to perform its role effectively as stipulated in the Constitution and is appropriate to regional and international conditions in the 21st century. This strategy

shall transform demobilized soldiers into citizens who shall productively participate in the national economy and help reduce poverty among the Cambodian people.

The prompt reduction in the size of the RCAF is crucial, since it enables the Royal Government to shift significant resources from defense expenditures to other social and economic investments and expenditures, including physical infrastructure, education, health, agriculture and rural development. Demobilization will thus help the Royal Government reorienting public expenditures from lower-priority sectors to higher-priority sectors. Such expenditure reforms will enable the Government to improve the quality of basic public services, especially primary health and education services that shall create a socially-connected, highly-educated and culturally-vibrant society that frees the Cambodian people from poverty, illiteracy and disease.

## **2.2. The Environment for Implementation of the *Rectangular Strategy***

### **i. Peace, Political Stability and Social Order**

One of the most important achievements of the Royal Government over the recent decade is the establishment of peace, security and safety for all. For a country such as Cambodia which suffered prolonged civil war and genocide, peace and security is indeed invaluable. Without peace and security, the Government's efforts to promote social and economic development and poverty reduction will remain on paper and Democracy and respect for human rights will only be a dream. Peace and security at the very foundations of nation-building and state reform. The Royal Government of Cambodia secured full peace by implementing its "win-win" strategy. Henceforth, the main task of the Royal Government is to strengthen the fabric of peace that has already been won.

The strengthening of national internal security is crucial as the entire world faces the threat of terrorism. Peace and security will establish a strong and stable image of Cambodia, increasing the confidence of investors, tourists and all Cambodians who above desire lives in peace and satisfactory quality of life.

The Royal Government will further strengthen the fabric and culture of peace, security, social safety and Democracy in the Kingdom of Cambodia. Peace is the sine qua non essential condition for the establishment of macroeconomic stability necessary for sustainable development and poverty reduction. Thus the Royal Government will continue its work as a "Government of Peace" to further ensure full peace for all Cambodians, enabling the country to overcome the devastating consequences of war, genocide and internal conflicts and move forward on the path of development and progress.

### **ii. Partnership in Development**

The Royal Government considers as top priority the strengthening of partnership with all stakeholders in national development. Strengthened partnership will help ensure effective coordination with donors, international financial institutions and civil society

organizations. The parameters of partnership shall be based on the resolutions of the UN General Assembly, principles adopted by the Development Assistance Committee of the Organization for Economic Cooperation and Development (DAC OECD). The roles of donors and multilateral institutions in Cambodia's development process shall be determined on the basis of capacity and comparative advantage of each partner. Such partnerships will require the nurturing of mutual trust, respect and flexibility in accordance with the exigencies of the cooperation process.

The Royal Government shall further strengthen the partnership mechanisms embedded in the RGC-development partner working groups, including those on: Public Finance Reform, Administrative Reform, Demobilization, Management of Natural Resources, Social Development, Land Management, and Partnership and Coordination. Ownership by the Royal Government of the working group mechanism is crucial to the further promotion and progress of reforms. It is also crucial that all donors and multilateral institutions strive to be better organized and coordinated among themselves in order to streamline their partnership with Cambodia.

### **iii. Favorable Macroeconomic and Financial Environment**

The core of the Royal Government's development thrust is the promotion of broad-based sustainable economic growth with equity, with the private sector playing the leading role. Thus, the Royal Government's recipe for sound economic management blends macroeconomic stabilization policies with microeconomic structural reforms. The Royal Government aims to achieve equitable, long-term economic growth and sustainable development while maintaining macroeconomic stability, strengthening banking and financial institutions, implementing fiscal reforms, ensuring the sound management of public property, and increasing public investment to develop human resources as well as physical and social infrastructure.

In setting up the enabling macroeconomic environment for sustainable and equitable growth, in its third Mandate the Royal Government shall continue to be prudent in its fiscal management. Over the short to medium term, the Royal Government will exert its best to strengthen the collection of revenues. Such will require the strict implementation of fiscal laws, anti-corruption and anti-tax evasion, elimination of unlawful tax exemptions, appropriate management of state assets and sustainable management and exploitation of natural resources -- especially forest products and rubber. Official rules and regulations will govern all budget operations, whether related to revenues or expenditures.

The Royal Government shall maintain currency stability as a key component of macroeconomic policy, enabling exchange rates to float in tune with market forces. While most Asian countries experienced significant currency instability in recent years, the Cambodian Riel has been kept stable at market rates, experiencing only a slight fall in early 2003 due to isolated psychological and political factors.

The building of a sound banking system shall continue to be a top priority of the Royal Government. Guided by the recently-passed Law on the National Bank of

Cambodia (NBC) and the Law on Commercial Banks, the regulatory and monitoring role and capacity of the NBC will continue to be strengthened.

The Royal Government will promote free trade. Licenses for imports and exports are no longer required, except for exports of timber and rice. Cambodia's participation in AFTA and the unprecedented accession to the World Trade Organization (WTO) are of strategic and historical significance.

The Royal Government recognizes that the current legal framework still constrains the flow of capital. Thus laws and regulations are being prepared to ensure effective yet efficient management of capital flows and thereby maximize their flows through the economy. The Royal Government shall further strengthen the management of Foreign Direct Investments, beginning with a careful review of the current system of investment incentives.

Cambodia's trade balance has been about -12% of GDP in recent years, with current account around -13% or -14% of GDP, reflecting continuing weakness in exports. The current account deficit has been financed by the surplus in the capital account arising from capital inflows in terms of loans, grants and FDI. The rise in the current account deficit over the short to medium-term is not of major concern since most imports have been made for the purpose of building the domestic production base for increased exports in the future. Indeed, as reflected in the amended Law on Investment, export promotion is a priority of the Royal Government.

To increase savings required for economic development, Cambodia cannot long rely on foreign aid. The Royal Government shall mobilize increased FDI and domestic savings by establishing the legal framework and institutional arrangements for the mobilization of domestic resources, including the reform of the tax system and the further development of commercial banking and the capital market. Resource mobilization is crucial, since the Royal Government estimates that to spark rapid and continuous economic growth, some 30% of annual GDP must be mobilized through at least the medium-term in the form of US\$500 million in public investments and US\$500 million in private investments.

#### **iv. Cambodia's Integration into the Region and the World**

Through its third term, the Royal Government shall pursue the further integration of Cambodia into the regional and international community, especially by ensuring the fulfillment of Cambodia's obligations as member of the WTO. The WTO is the most important forum for the establishment for a rules-based world trade regime. Cambodia's accession to the WTO has required much effort such as the adoption and implementation of a host of trade-related laws and regulations, procedures and analyses, including studies on: impacts of trade protection, competitiveness of Cambodian agriculture, market access for agricultural products, Cambodia's agronomy, water resources, fisheries, manufacturing, tourism and labor.

The Royal Government is strongly committed to ensure full benefit from the reforms advanced by membership in the WTO. To gain the benefits in full, Cambodia must

strengthen its cooperation with its neighbors through mechanisms such as *"Four Countries, One Economy"*, and the establishment of *Growth Triangles* and joint Export Processing Zones (EPZs).

The Royal Government shall focus on improvement of product quality as a part of its trade promotion efforts. Enhanced technology transfer for the improvement of product quality requires a control system for exports that enforce international standards. The orderly transfer of technology shall also require the development of an appropriate regulatory framework including intellectual property rights and trademarks.

### **2.3. The Strategic Rectangles: Four Strategies to Accelerate Growth**

#### ***Rectangle I: Enhancement of Agricultural Productivity, Diversification and Competitiveness***

##### ***Side 1: Improved Productivity and Diversification***

The agriculture sector is a key priority in the growth strategy of the Royal Government of Cambodia. The agriculture sector strategy shall tap its enormous potentials and thereby generate employment, enhance household incomes and ensure sufficient food production. To modernize the agriculture sector, the Royal Government shall extend support that will enable farmers' access and appropriate use of technology that enhances their productivity, expands their choices and enables optimal use of the natural environment.

Accelerated agriculture sector growth shall be achieved by: (1) accelerating use of small-scale, private and immediately-functioning irrigation systems such as shallow tube wells and small pumps; (2) increasing rice productivity, (3) implementing farming systems that combine crop intensification and diversification, (4) improving livestock production, (5) use of appropriate technologies in rice-fish and fishery culture; and (6) developing community agro-forestry. Small-scale irrigation systems, owned and operated by farmers, offer the best opportunity for the expansion of cultivated areas to enable diversification and cover Cambodia's 4.8 million hectares where water supplies are abundant. The Royal Government will improve its services for farmers in the use of small-scale irrigation systems and the overall management of aquifers.

##### ***Side 2: Land Reform and De-mining***

Land and water are the two fundamental natural resources that serve as the basis for socio-economic development and poverty reduction, especially in the rural areas. Due to the history of the Khmer Rouge, the subsequent collective system of agriculture and protracted civil war, in recent years land grabbing and disputes over access to and ownership of land have increased. This is a major issue particularly for the poor Cambodians in the rural areas where up to 15 percent of farm households

do not have agricultural land, and many of which are headed by women. The land policy of the Royal Government shall promote sustainable socio-economic development through decentralized yet effective and efficient land management. The vision of land policy has three main aspects: (1) land administration will ensure that property rights are legally clear and secure, (2) social land concessions shall be allocated from vacant State land to poor households, and (3) land management shall be environmentally -sustainable, yet provides the poor with access to natural resources, secure housing, credit for investment and employment. Thus the Royal Government shall focus priority attention on land administration, management and distribution.

Mines constrain the productive use of natural resources, especially in the rural areas. Mine infestation has encouraged migration from rural to urban areas causing many social, economic and environmental problems therein. The rural poor often have no choice but to risk life and limb in working in the mined areas. De-mining is thus not only a security issue but also a concern of socio-economic development in general. The Royal Government has identified Mine Action as a top priority in national rehabilitation and development and especially in poverty reduction. Over the short- to medium-term, the Cambodian Mine Action and Victim Assistance Authority shall implement a comprehensive program of demining and related activities, and serve as the overall coordinator of ministries and counterpart of development partners in mine action operations. Through a participatory and consultative process, the CMAA shall prepare the mine action Management Development Plan consistent with accepted standards of appropriate corporate governance and financial and human resource management in order to maximize the productive use assistance provided by development partners.

### ***Side 3: Fishery and Aquaculture Reform***

Fish is crucial to the lives of Cambodians in providing food, income and livelihood. Fish and rice enable food security, contributing three-quarters of protein supplies. Therefore, the Royal Government of Cambodia has enabled the community-based development of the fishery sector by empowering local communities so that farmers can participate directly, actively and equitably in fishery plans, programs and management.

The Royal Government shall continue to enhance the efficiency of community fishing by improving community management capacities and adopting and implementing appropriate management regulations. Moreover, Royal Government will implement the laws and regulations that prohibit use of destructive and inappropriate fishing methods and equipment, including the excessive use of highly toxic pesticides. The inundated forests which are major fish sanctuaries will also be protected. The establishment of fishponds, community fisheries arrangements, conservation of fish sanctuaries and rice-fish cropping systems will be encouraged to expand supplies and reduce exploitation while improving the livelihoods of the rural poor.

#### **Side 4: Forestry Reform**

The forest sector strategy of the Royal Government shall ensure sustainable forestry management based on the three pillars as follows:

- 4.1. sustainable management of forest concessions, to ensure the rational and accurate control of forest exploitation according to the best regional and international standards;
- 4.2. natural resource protection system to conserve diverse, rare and endangered species; and
- 4.3. establishment of a strong program of community forestry.

To enhancing the legal framework for the forestry sector, the National Assembly adopted on 30 July 2002 the *Law on Forestry Management* after extensive consultations with all partners, and following the RGC's declaration of forestry policy on the 26 July 2002. The Royal Government is now preparing sub-decrees and other regulations to effectively implement the law, including the sub-decree on community forestry, with participation from civil society in a broad consultative process.

The establishment of protected areas is an important strategy in Royal Government's forestry policy. Protected areas and the conservation of forest resources have been declared in those areas where the Royal Government has cancelled the forest concession agreements, covering a total of 1,300,000 hectares in the provinces of Mondulkiri, Preah Vihear and Kratie as well as the Phnom Kravanh central area.

The success of forest sector reform is due to the establishment of institutions to monitor and control exploitation in forest concessions supplemented by information sharing, coordination and cooperation among government institutions and all forest communities and development partners. Reporting and investigation on forest crimes are important for the effective management of forest concessions. All parties to forest concession agreements must be responsible and accountable for their conduct.

Forest sector policy must also be shaped so that all parties shall attend to institutional capacity building and coordination to ensure smooth implementation. The Royal Government shall exert the utmost efforts to strengthen reliable and sustainable monitoring mechanisms on forest crimes and thereby enable effective enforcement. An independent forestry observer equipped with specialized expertise in forestry, good communication and coordination skills with all stakeholders, particularly the Royal Government, is also an important feature of forest management policy and strategy.

The Royal Government will continue its ban on all logging activities, including log transport, in forest concessions until the concession's Sustainable Forest Management Plan and the Social and Environmental Impact Assessment have been reviewed and approved by the Royal Government.

**Rectangle II:  
Further Rehabilitation and Construction  
of Physical Infrastructure**

Infrastructure serves as the foundation for economic growth and enhances the access by the poor in economic activities. Infrastructure development is vital in the context of trade liberalization since it facilitates access to markets, especially by enabling the efficient transport of goods and inputs. Infrastructure also supports the provision of basic health and education services to the poor. Furthermore, infrastructure support to agriculture such as market access roads and irrigation systems are central to economic growth and development.

The infrastructure priorities of the Royal Government in 2003-2008 are: (a) an efficient energy sector; (b) rural electrification; (c) repairing and maintenance of road networks; (d) water and sanitation; (e) telecommunications; (f) city and town master plans, including specialized mapping and geographical information systems; and (g) housing and settlements.

**Side 1: Further Rehabilitation and Construction of Transportation Network**

The Royal Government aims to install safe, effective, efficient and low use-cost means of transportation between and within the cities, markets and rural centers. The roads investment strategy of the RGC focuses on maintenance and repair, while improving management of the transport sector and establishing a funding mechanism via collection of user fees and private sector contributions. The Royal Government's rural transport strategy shall focus on maintenance and rehabilitation of rural roads, encouraging the use of appropriate technology, local labor and small and medium-sized private contractors.

The Royal Government will strengthen the links between the three broad economic triangles of transport planning: (1) **Tourism** zone, formed by the triangle of Siem Reap - Preah Vihear and Kompong Thom; (2) **Industrial** zone, defined by the entire Southern coastal zone; and (3) **Agro-Industrial and eco-tourism** zone, covering the region East of the Mekong River, including Ratanakiri and Mondulkiri.

The first priority is to develop and maintain the roads sub-sector, which is the principal transport sub-system of Cambodia and the transport mode most directly linked to the lives of the poor. The roads strategy requires the following:

- Adequate, steady financing with clear allocations for roads maintenance;
- Transparency in the management of public transport sector funds;
- Rational allocations for the repair and maintenance of rural, provincial and national roads;
- Competitive bidding for all contracts, whether financed from the national budget or by foreign loans or grants;
- Institutional strengthening and capacity building at every level of the transport agencies;

- Strengthening of the transport links with the region (ASEAN and Asia), to facilitate cross-border trade, particularly with Lao PDR, Viet Nam and Thailand; and
- Encourage private sector participation in ports and railways investment and management.

### ***Side 2: Water Resources and Irrigation Systems Management***

The Royal Government's strategy on water resources and irrigation is a part of broad program to protect, manage and productively exploit both fresh and salt water resources while enhancing bio-diversity and sustainability for equitable benefit to the public. The strategy anticipates and prepares for growing issues and problems in water resources management over the long-term. The Royal Government's vision is to: (1) provide the nation with clean and safe water; (2) free the nation from water-related diseases; (3) provide adequate water support for food security, economic activities and appropriate living standards; and (4) ensure that the nation's waters support fisheries and other water-dependent life.

The Royal Government's water strategy shall:

- enable the equitable distribution of limited water resources across various zones;
- expand irrigated lands while using irrigation water more efficiently and productively;
- control flooding; and
- generate hydroelectric power to reduce costs of energy to the nations while improving the quality of the environment.

The Royal Government will expand irrigated lands from the current 20% or 400,000 hectares, to 24% or 700,000 ha. of total farmlands by 2007. Thus each year some 300,000 ha. must be brought under irrigation. The investment cost of rehabilitation of irrigation structures, including support for irrigators' associations, is estimated to be US\$880 per ha., thereby total investment is about \$52 million per year.

### ***Side 3: Development of the Energy Sector and Electricity Network***

Cambodia's energy sector strategy (2001-2005) has identified priorities and an investment plan to reduce electricity cost and gain customer confidence, covering: (1) installation of a nationwide power generation and distribution grid; (2) provincial power generation and distribution sub-systems, and (3) a rural electrification program. The rehabilitation and expansion of electricity generation and distribution in Phnom Penh has been partly achieved. Progress has also been gained in the import of electricity from Thailand. A thermal power plant is being planned for the coastal zone.

The Royal Government plans to install power generating plants in Komchay, Stung Battambang, Stung Atay and Stung Russeykrom. In hydro-power development, the Royal Government shall analyze all aspects aside from economic benefit, including environmental and social impacts.

#### ***Side 4: Development of Information and Communications Technology***

The Royal Government aims to increase the effectiveness and efficiency of telecommunications services while keeping costs low through the implementation of the following programs:

- Establish comprehensive telecommunications networks in the cities of Phnom Penh, Sihanouk Ville and Siem Reap while also expanding telecommunications services in the smaller cities and towns;
- Implement national regulations and standards for telecommunications facilities and services;
- Establish and strengthening the postal network, with emphasis on the improvement of services of the responsible government Ministry;
- Expand radio and TV broadcast networks to improve the efficiency and effectivity of information sharing and transmission.

The Royal Government shall expand the telephone network in Phnom Penh and install microwave or FIO systems to connect: (1) Kompong Cham-Phnom Penh, Takeo-Kampot and Sihanouk Ville; (2) Kompong Cham, Kompong Thom, Siem Reap and Sisophon; (3) Kompong Cham-Krocheas and Stung Treng; and (4) Mondulkiri, Pailin, Preah Vihear and Oddar Meanchey.

### ***Rectangle III: Private Sector Growth and Employment***

#### ***Side 1: Strengthening the Private Sector and Attraction of Investments into Priority Sectors***

The Government considers the private sector as the engine of economic growth, while the government serves as the strategic manager and creator of the economic environment conducive to growth of private business. A healthy private sector is the key to robust economic development. Thus the government should ensure the installation of a legal framework for productivity, fair competition, transparency, accountability and useful relations among stakeholders. The overall environment for enterprise will also be strengthened by good governance and attention to the development of human resources.

The action program for private sector-led growth of Cambodia will address the following challenges: (i) improvement of the environment for business through good governance; (ii) strengthening supply chains by improving the competitiveness of infrastructure; and (iii) improving firm and farm productivity. Success in meeting these challenges will lead market and corporate competitiveness. Stronger, more transparent partnership between the public and private sectors will also be required to systematically deal with market distortions that constrain the growth and competitiveness of the economy.

The Royal Government recognizes its obligations to enhance the legal and regulatory frameworks and institutions that facilitate business activities and private investment in Cambodia. A dynamic private sector catalyzes economic growth and by making productive use of public investments, absorbing the growing supply of labor. However, private sector development is hampered by an incomplete legal and regulatory framework. Financing is also very limited. The Royal Government has worked hard to improve the environment for business and ensure fair, open transactions including the harmonization of laws and regulations, the adoption of a comprehensive commercial code, strengthening of the rule of law to enhance and sustain Cambodia's competitiveness.

The Royal Government has institutionalized a government-private sector forum that meets every six months to review the status of private enterprise and work to eliminate obstacles to increased private investment, including: (1) underdeveloped infrastructure – which is the principal challenge, (2) weak security for investors in remote areas, (3) loopholes in the legal and regulatory systems, (4) high interest rates and difficult access to credit, (5) inadequate information on markets, (6) shortages of competent managers and skilled labor. Cambodia shall strive to maintain its competitive advantage as a low-cost production center by reviewing and tackling the issue of high transaction costs, including transport, utilities and port handling fees.

Finally, diversification of products and markets is crucial to the maintenance of long-term competitiveness and growth of Cambodia. In the short-run, Cambodia must achieve the expansion of its garments exports into products outside of the quotas. Over the medium to long haul, Cambodia must move beyond the narrow base of garments and textiles and tourism.

### ***Side 2: Promotion of Small and Medium Enterprises***

The Royal Government shall promote SMEs by implementing the following policies: (i) facilitate the provision of medium and long term financing; (ii) suppress smuggling; (iii) reduce barriers to exports such as export duties and unnecessary regulation; (iv) reduce barriers to imports; (v) temporary protection for key infant industries; (vi) promote linkages between SMEs and big industries; (vii) establish a national center for productivity to assist SMEs improve their productivity and reduce their production costs; (viii) establish a national products standards institution consistent with regional and international standards; (ix) establish a national laboratory for physical, chemical, micro-biological and mechanical testing of product quality; (x) establish a bureau for intellectual property rights; (xi) arrange for vocational or skills training, both domestically and abroad; (xii) accelerate the implementation of the "one village, one product" program; and (xiii) further strengthen the legal framework with laws on factories, industrial zones, patents, measurements and industrial safety.

### ***Side 3: Employment and Better Working Conditions***

The generation of jobs is an urgent priority. Jobs are needed for 140,000 entrants into the labor force each year, in addition to those seeking alternative employment with the implementation of demobilization and public administration reform. The Royal Government's employment policy includes the provision of opportunities for retraining and job mobility. Vocational training shall be linked to general education policy.

The overseas deployment of labor is an important option for poverty reduction. The Royal Government shall encourage official exports of labor to ensure the well-being of Cambodian workers overseas while reducing domestic unemployment and increasing state revenue. The constraints to labor exports are the low level of education and limited language skills of Cambodian workers, combined with intense competition in the international labor market and complex regulatory and administrative requirements of receiving countries. The Royal Government shall draw from the experiences of neighbors in further pursuing this strategy.

Investments in urban areas are important where these create productive employment that would absorb the inflow of labor from rural areas. Growth in labor-intensive industries such as garments reduce poverty in two ways: (1) increased competition among garment factories and exporters will lead to increased per capita incomes; and (2) absorb rural labor, helping increase agricultural productivity and income, thereby helping reduce poverty at its origin.

Employment in agriculture has increased faster relative to other sectors, contributing to a decline in labor productivity. Rapid population growth may lead to shrinking farm sizes, increasing the danger of food insecurity among farm households. The Royal Government and development partners have introduced programs to improve agricultural productivity and increase the supply of farm products. Farm diversification, rather than mechanization is being encouraged to maximize rural employment and avoid migration to the cities.

### ***Side 4: Social Safety Nets for Civil Servants, Employees and Workers***

The Royal Government's current social safety program is still quite limited, since the public budget, institutions and resources for interventions are clearly inadequate to meet ever-increasing demands. Most of the budgets currently available are used to support civil servants. The Ministry of Social Affairs, Vocational Training and Youth Rehabilitation, which is responsible for assistance to the vulnerable, has allocated its limited resources to finance pensions. Some political parties and individual politicians have given donations in the wake of natural calamities.

Funds provided by the Cambodian Red Cross, NGOs and donors represent part of the social safety net for the Cambodian poor. In addition, the World Food Program and the Royal Government through the Ministry of Rural Development have implemented "food for work" programs that target assistance to the most vulnerable people at the

commune level, in varied areas including basic education, non-formal education, vocational training and health care.

## ***Rectangle IV: Capacity Building and Human Resources Development***

### ***Side 1: Strengthening the Quality of Education***

The Royal Government has a comprehensive strategy on education in place, clearly set out in the Education Sector Support Program (ESSP) 2001-2005. Subject to annual review by the Royal Government and its partners, the ESSP is geared towards poverty reduction through systems that ensure that public resources ultimately increase the relevance of education and training and thereby help accelerate economic growth.

The long-term goal of the ESSP is to achieve *Education for All* by 2015. The medium-term goal is to provide nine years of quality basic education for all by 2010, in addition to improving the relevance of post-basic education. In 2000-2001, the RGC abolished the start-of-year financial contributions from parents of students in grades 1 to 9. This policy has resulted in increased enrolment, averaging 18% nationally with higher increases in the remote areas. The Royal Government shall increase the share of education in recurrent budgets to 21% by 2006-2007.

The education policy is expected to increase enrolment rate in basic education, as well as increased schooling for the poor, girls, disadvantaged groups, children of the minorities and disabled children. Additional facilities will be provided in under-served areas, and poverty-indexed incentives and scholarships will be organized for primary and secondary students to address access and retention issues. Efforts will also be exerted to deploy more and better trained teachers and distribute core teaching materials more widely across the country.

In post-basic education, Royal Government shall expand opportunities for secondary and post-secondary education through growing public and private provision and increase participation of the poor and girls. User charges will be implemented while providing performance-based scholarships and dormitories, ensuring greater allocations for the poor, girls and other disadvantaged groups.

Another important target is to attain at least 95% progression and transition rates by 2005-2010 at all levels, and reduce drop-out rates to fewer than 5% at the primary and secondary levels. Other efficiency targets are to reduce the proportion of non-teaching staff to 15%, and increase pupil/teacher ratios to 35:1 at the secondary level and 25:1 at the post-secondary level.

The Royal Government has underlined the need to improve tertiary education by strengthening management and financial control, linked to quality improvements and increasing autonomy. The Priority Action Program for tertiary education shall promptly provide budgets for the functioning of academic institutions and the means

to improve governance, management and financial planning. To provide for the strengthening of higher education institutions, the Royal Decree on the Accreditation of Quality in Tertiary Education, NS/RKT/0303/129 was signed on 31 March 2003.

### **Side 2:      *Enhancing Health Services***

The Royal Government adopted a sector-wide strategic plan for 2003-2007 that set the overall policies for health sector development, covering resource mobilization, improvement in quality, equity and non-discrimination in services and focus on the rural areas, ultimately leading to the achievement of the Millennium Development Goals. The RGC is committed to increase the share of current budget for health to 15% by 2007.

The Royal Government shall: (1) carefully locate health facilities to effectively reach the poor and the underserved in rural and remote areas; (2) provide immunization, minimize preventable diseases, combat acute respiratory infections, diarrhea and dengue; (3) promote breastfeeding and appropriate feeding practices and thereby prevent micronutrient deficiencies; (4) provide maternal health services including birth-spacing, ante and postnatal care, safe deliveries and emergency obstetric care, safe abortions and post-abortion counseling. Sexually transmitted infections will be controlled by ensuring adequate services at community level; and (5) prevention and control of communicable diseases and other diseases which disproportionately affect the poor including HIV/AIDS, TB, malaria and dengue, through extension of services including home and centre-based care and distribution of prevention aids such as bed-nets, water jar lids, abate and condoms.

To enhance access to and affordability of low-cost, high-impact services for the poor, the Royal Government has set the following measures: (1) regulatory mechanisms for price control through official user fee schemes with community participation in setting prices, identifying the poor for exemptions and monitoring quality; (2) equity funds to finance access to priority services such as emergency obstetric care, and help protect against catastrophic expenditures especially at referral hospitals will be established; (3) NGOs will be contracted to provide primary and secondary care services for poor, remote areas, as in ongoing initiatives in Takeo, Kompong Cham, Prey Veng, Mondulhiri, Ratanakiri, Preah Vihear and Koh Kong, and (4) performance-based incentives for staff to work in remote areas.

### **Side 3:      *Implementation of Gender Policy***

Women are the backbone of the economy and our society. The Royal Government has exerted its utmost efforts to improve the status of women through the implementation of the Strategic Plan of "Nary Ratanak" or "women are precious stones", aimed at providing Cambodian women with value. The RGC will focus on the mainstreaming of gender issues in the process of national development, aiming to build the capacity of women and change social values and behavior that discriminate against women. The Royal Government is determined to eliminate family violence and the trafficking of children and women and promote legal protection for women. Opportunities shall be provided for women to participate as equals in nation-building.

The Royal Government will focus on the provision of training for women, facilitation of women's access to education, and improvement in public services aimed at women's well-being, especially health services. Women will also be encouraged to participate in all political and social activities in Cambodia.

**Side 4:      *Implementation of Population Policy***

Cambodia's population has grown by 2.4% annually, a rate which food production and job creation has barely matched. High fertility rates also adversely affect the health and nutrition status of mothers and children. While rapid population growth results in a large labor force, such is limited in skills for modern employment. The Royal Government realizes that rapid population growth: (i) worsens under-employment, unemployment, and poverty; (ii) intensifies gender disparities as women have little choice on reproduction, and (iii) adds pressure on public services, which are the financial burden of the government and thereby adversely impacts on the macroeconomic environment. Moreover, rapid rural population growth has contributed to the destruction of forests, deterioration of water resources and the decrease of biodiversity. Rapid population growth increases demands on water and sanitation and decreases air quality. Finally, rapid population growth worsens conflicts related to land ownership and use, urban overcrowding and increased spread of disease and incidence of crimes.

The Royal Government has thus decided to implement a broad program to encourage birth spacing to protect maternal and child health and reduce the rate of population growth. Accordingly the following measures have been set:

- Support for all parents with regard to their free, responsible decisions on their desired number of children and birth spacing, and to provide access to information, education and other services to implement their decisions;
- Moderate the birth rate and promote birth spacing;
- Reducing morbidity and mortality among mothers and newborns;
- Promote gender equity;
- Reduce the adverse impacts of population pressure on the environment and natural resources;
- Aid the prevention of the HIV/AIDS epidemics; and
- Consideration of population factors in all economic and social policies, plans and programs.

## Conclusion

The Royal Government of Cambodia has spent significant time and tremendous effort over the past decades to rehabilitate and develop the nation, from total destruction in the wake of the Khmer Rouge regime and prolonged civil war. Within the 1990s the nation has attained peace, political stability, law and order, Democracy, respect of human rights as well as economic stability. Cambodia's achievements are widely recognized, nationally and internationally.

The Royal Government has implemented structural reforms in all aspects, encountering enormous challenges, difficulties and obstacles. In the mid-1980s the nation launched reforms away from central planning toward the market system, along with sincere efforts to create the enabling environment for Cambodia's rapid integration into the regional and world economic structure. Such broad integration, highlighted by the recent membership of Cambodia in the WTO reflects the determination of the Royal Government since its second term in 1998-2003, to follow the correct course of socio-economic development – launching structural adjustments, modernization of the legal system, enhancing the capacity of government institutions, strengthening of the nation's economic infrastructure and implementation of trade liberalization and an open investment regime.

Indeed, the ***Rectangular Strategy 2003-2008***, builds upon and continues the ***Triangular Strategy 1998-2003***. The strategy has been proven and it is now strengthened and further enhanced based on successful experience, under the leadership of **Samdech Prime Minister Hun Sen**. The ***Rectangular Strategy*** is a comprehensive strategy to effectively resolve the imbalances within Cambodian society as highlighted by the Samdech Prime Minister.

To ensure rapid economic growth and sustained poverty reduction in Cambodia, the ***Rectangular Strategy*** shall foster:

1. High economic growth over the long run averaging 6% - 7% per annum;
2. Effective redistribution of benefits from economic growth; and
3. Sustainable environmental management and use of natural resources.

The ***Rectangular Strategy*** comprehensively represents the framework of the Royal Government's development strategies to be implemented in its third term from 2003 to 2008. The successful implementation of the strategy will require the adoption of the **economic policy priorities** stated herein for implementation in specific activities according to an agreed timetable. All Ministers and officials of the Royal Government of Cambodia, as well as all Cambodian citizens and development partners are called upon to take the ***Rectangular Strategy*** to heart as a guide for our shared aspirations and actions for national socio-economic development.