

The Political Economy of Aid, Governance, and Policy-Making:  
Cambodia in Global, National, and Sectoral Perspectives

by

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The dissertation of Sophal Ear is approved:

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University of California, Berkeley

Spring 2006

## Abstract

The Political Economy of Aid, Governance, and Policy-Making:  
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Doctor of Philosophy in Political Science

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At the intersection of aid, governance, and policy-making lies the prospect of better development outcomes. How these influence one another at the global, national, and sectoral levels in the case of Cambodia is the focus of this dissertation. Good governance is essential for good development outcomes, yet this study finds that aid—an instrument of development—can be linked with worsening quality of governance. Of Kaufmann et al.’s six dimensions of governance Rule of Law is worsened by aid while the effects on the other five (Voice and Accountability, Political Stability, Government Effectiveness, Regulatory Quality, and Control of Corruption) are very weak.

Components of aid such as technical cooperation and average grant element are also explored. Aid can play a positive role when component impacts are considered, but how this happens and under what conditions is unclear from the global perspective. Thus, process tracing is undertaken to examine the case of Cambodia at national and sectoral levels. Donor success in effecting governance varies greatly across dimensions of governance. Poor governance circumscribes the effectiveness of aid and policy-making, as is seen in a case study of livestock policy as it affects the poor.

Methodologically, the dissertation augments quantitative analysis with qualitative analysis drawn from two years of fieldwork in Cambodia, during which time more than 100 interviews and encounters with stakeholders (government, donor, and civil society) took place. Finally, an anonymous online elite survey asked development professionals to rate donor success in effecting change in governance. Nearly 45 individuals responded, averaging almost eight years of development experience in Cambodia.

Overall, the findings cast doubt on the wholly negative impact of aid on various dimensions of governance as the latter term is a blunt concept. At the global level, after instrumenting aid with infant mortality, only the Rule of Law is actually worsened. In Cambodia's case, it is the Rule of Law and Control of Corruption that enjoyed the least donor success, while Political Stability showed the best prospects. However, while stability is necessary for policy-making to work in a post-conflict context, Cambodia's development experience suggests that this is far from sufficient.

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Chair

Date

for my parents and the people of Cambodia

*In memoriam*

Om Radsady, 1952-2003

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Anyone who has written a dissertation knows that you can't get here on your own.

This dissertation was made possible because of my parents, particularly my mother, who played the role of both mom and dad throughout my life after my father's passing under the Khmer Rouge. My family's escape from Cambodia made possible my education in France and the United States. Her story, indeed our family's story "One Way Out", was published in the *New York Times* on the 30<sup>th</sup> Anniversary of the Fall of Phnom Penh, 17 April 2005. It is with great pleasure that this dissertation is dedicated to my parents and to the people of Cambodia.

The late Om Radsady, to whose memory this dissertation is also dedicated, was a dear personal friend. He served as a Member of Parliament and Chairman of the Foreign Affairs and International Cooperation Committee of the National Assembly of the Kingdom of Cambodia (1993-1998). In 1999, Radsady headed to East Timor to monitor the election for independence, as a United Nations Volunteer, serving for four months. I first met him in 1996, and then in 1999 before he headed to East Timor, where I would subsequently be posted with the United Nations Development Programme in 2002. The events following the referendum soon had him sitting in Darwin, Australia, for over a month during which time he grew restless thinking about Cambodia.

He was indefatigably curious and open-minded and was an astute observer of Cambodian politics. He once remarked: "Cambodia is like a play with too few actors, all of whom have to play several roles." At the time of his death, Om Radsady was an Adviser to the President of the National Assembly. He was murdered in broad daylight as he left a restaurant in the Psah Kab Ko area of Phnom Penh on 18 February 2003. His dedication to Cambodia very much inspired

me to return that same year, to refocus my dissertation on Cambodia, and to complete the doctorate.

For how this dissertation could finally come to fruition, I cannot but acknowledge the tireless efforts of my dissertation committee chair David K. Leonard. I found David's webpage on a Spring day in 2001. He was then Dean of International and Area Studies and as often happens with me, I had the temerity to drop him an e-mail, sight unseen. Little did I know then that I would find the single most important advisor for my doctoral studies! He immediately took an interest in me, sending for my feedback a monograph he had written with Scott Straus which would become a book: *Africa's Stalled Development: International Causes and Cures* (Lynne Rienner Publishers). I understood instantly that I had found someone who appreciated my sometimes inexplicable interest in development and its discontents.

For the next four years, David became my professor, a member of my Orals Committee, my dissertation committee chair, my advisor, and above all my mentor. In May 2005, I joined him for a week of intensive work on the dissertation in Bordeaux, France, where he had gone on a year-long sabbatical. I came in with a shaky third of a dissertation and left with two-thirds sent off for review. Of course the other members of my dissertation committee were indispensable. I thank Teh-Wei Hu for his guidance on econometrics and, until Harvard snatched him away, Jim Robinson for his ideas. I am grateful to Bruce Cain for mentoring me for the better part of a decade (not to mention filling-in the slot left vacant by Jim's departure and chairing my Orals Committee examination in January 2003), and A.J. Gregor who, like Bruce, has been a champion and intellectual Godfather since my undergraduate days. I am grateful to Virginia Shih, Southeast Asia Librarian at UC Berkeley, Steve Heder, Chan Sophal, and Will Collins, for rescuing me on

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# Chapter 1

## Introduction: “The Most Noble Endeavour”

These are four words which Mark Malloch Brown, then Administrator of the United Nations Development Programme (UNDP), used to describe “the fight for social and global justice, and for peace and development” and his pride in having worked for “an organization committed to putting these ideals into practice.”<sup>1</sup> As if to underscore the gulf between these ideals and their practice, Malloch Brown’s chief, United Nations Secretary-General Kofi Annan, had warned only a month earlier:

As for being matter-of-fact, I have deliberately spared you any flights of rhetoric. This hall [the UN General Assembly] has heard enough high-sounding declarations to last us for some decades to come. We all know what the problems are, and we all know what we have promised to achieve. What is needed now is not more declarations or promises, but action to fulfill the promises already made.<sup>2</sup>

Plainly and bluntly spoken, these are the stakes in studying the political economy of aid, governance, and policy-making—in brief how ideals like “social and global justice ... peace and development” are put into practice, and why this too often fails even after more than sixty years of post-war development experience (e.g. Mosley, 1987; White, 1992; Kanbur, 2000; and Harms and Lutz, 2004).<sup>3</sup> At their intersection lies the prospect of better development outcomes. Studying how aid

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<sup>1</sup> UNDP (2005: 1).

<sup>2</sup> UNDP (2005: 6). Interestingly, by the time these words were spoken, Malloch Brown had already become Annan’s Chief of Staff while remaining head of UNDP in the interim. Three years earlier Annan had warned that “The United Nations exists, not as a static memorial to the aspirations of an earlier age, but as a work in progress—imperfect, as all human endeavours must be, but capable of adaptation and improvement” (Annan, 2002: 6).

<sup>3</sup> Harms and Lutz (2004) offer an excellent survey of the aid literature. For instance, Kanbur (2000) points to aid management problems because of corruption and poor administration and Mosley (1987) coined the term ‘micro-macro paradox’ to explain how aid’s overall impact is so often less than the sum of its parts. Mosley offers some answers to this paradox: inaccurate measurement in either macro or micro studies; fungibility of aid within the public sector, and “backwash” effects from aid-financed activities that adversely affect the private sector (crowding out if aid is used to increase government spending). White (1992) posits that over aggregation might lead to inconsistency at the micro and macro level; micro evaluations use economic and social data while macro studies use national accounts and/or financial data.

influences and is influenced by governance at a global level, and how these in turn impact policy-making at national and sectoral levels in the context of Cambodia, a highly aid-dependent country, is the aim of this dissertation.

### *Conceptualizing, Defining and Operationalizing Governance*

Billionaire George Soros has proffered that “The main cause of misery and poverty in the world is bad government.”<sup>4</sup> Mr. Soros is by no means the only person to believe as much. Indeed, the idea of good *and* bad government has a long history, as long as there have been governments to rule nations.<sup>5</sup> At a Royal Institute of International Affairs dinner address on the governance of India on 26 April 1927, Sir Stanley remarked:

Without using the language of hyperbole, it seems to me that we are confronted in India, and not only there, in Asia and Africa, with a problem of immense difficulty—the establishment of responsible government, and that based on democratic principles—for I know no other—in a country where, though it has produced individual men of genius in almost every field, the sense of discipline in every unit required for a lasting system of efficient democracy has not been developed to any considerable extent.<sup>6</sup>

Both Mr. Soros and Sir Stanley had similar normative notions of government in mind when they spoke, on the one hand, of “bad government,” and on the other hand, of “responsible government”. Throughout this dissertation the words government and governance will be used almost interchangeably to denote “the traditions and institutions by which authority in a country is exercised.”<sup>7</sup>

The Africanist and comparativist, Goren Hyden, defines governance as “the conscious management of regime structures, with a view to enhancing the public

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<sup>4</sup> As quoted in Bank (2002).

<sup>5</sup> Indeed, even before the Treaty of Westphalia was signed in 1648 (giving birth to the modern-day nation-state), notions of governance reach as far back as Aristotle, Cicero, Machiavelli and Montesquieu.

<sup>6</sup> Reed (1927: 315).

<sup>7</sup> Kaufmann et al. (1999: 1).

realm.”<sup>8</sup> This is one of a series of definitions of governance collected by political economist Joachim Ahrens and shown in Box 1.

#### **Box 1: Definitions of Governance**

- ❑ Governance capacity is defined “as the ability to co-ordinate the aggregation of diverging interests and thus promote policy that can be credibly taken to represent the public interest.” (Frischtak, 1994: vii)
- ❑ Governance is “an interactive process by which state and social actors reciprocally probe for a consensus on the rules of the political game.” (Bratton and van de Walle, 1992: 30)
- ❑ Governance is “the conscious management of regime structures, with a view to enhancing the public realm.” (Hyden, 1992: 7)
- ❑ Governance is the “capacity to establish and sustain workable relations between individuals and institutional actors in order to promote collective goals.” (Chazan, 1992)
- ❑ Governance signifies “the capacity to define and implement policies.” (Kjaer, 1996: 6, emphasis omitted)

*Source:* Adapted from Ahrens (1999: 42).

Frischtak, Hyden and Chazan are all explicit in their definitions that governance relates to the public or the collective good. In fact, they make a distinction between government (which might be wholly centered on the realm of private interests) and governance. Likewise Bratton and van de Walle’s focus on social consensus also implies a collective aspect. Only Kjaer’s definition is truly completely neutral about the content of policies.

The difficulty in conceptualizing and operationalizing governance is evident from these definitions. How can one turn “an interactive process by which state and social actors reciprocally probe for a consensus on the rules of the political game” into a testable and, more importantly, a falsifiable hypothesis? Good indicators are crucial.

The definitions collected by Ahrens demonstrate the “academic” picture, that is, before multilateral institutions like the World Bank and the Asian Development Bank (ADB) began to narrow the term’s meaning to “the manner in which power is exercised in the management of a country’s economic and social

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<sup>8</sup> Hyden (1992: 7).

resources for development.”<sup>9</sup> Subsequent development-oriented conceptualizations (ADB, 1997; IMF 2001; OECD, 2001; UNDP, 1997; and World Bank, 1994b) tend to circumscribe governance because of political limitations rooted in institutional charters (World Bank, 1945 and ADB, 1965). The last six years have seen remarkable progress in this regard. In 1999, Kaufmann et al. proffered their definition of governance and it is the one adopted in this dissertation: “the traditions and institutions by which authority in a country is exercised.”

Tensions exist between the various definitions of governance and the above definition used in this chapter, yet Kaufmann et al.’s operationalization of governance is actually closer to the other definitions than one might notice at first glance. The definition Kaufmann et al. use applies to government. However, it is clear that they envisage a form of governance in which the public is privileged over the purely private. In other words they are looking at “good governance,” a concept which unites a value judgment that governments are designed to protect (some kind of conception of) the public interest and the idea of a government that is effective in executing its intentions. This is what most people actually think when they use the term governance. The mantra of good governance in development action in the 1990s as detailed earlier and more recently (World Bank, 2004f), suggests that it is not merely a passing fad. As Kofi Annan recognized in 1998:

Good governance—ensuring respect for human rights and the rule of law, strengthening democratization and promoting transparency and capability in public administration—is now more than ever the condition for the success of both peace and development.<sup>10</sup>

*The Washington Consensus: Midwife to Good Governance*

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<sup>9</sup> World Bank (1992: 1) and ADB (1995). In fact, the phrase dates back to *Webster’s New Universal Unabridged Dictionary*, as attributed in ADB (1995: 3).

<sup>10</sup> Annan (1998: A21).

It was in the aftermath of the Latin American debt crisis of the 1980s that a consensus emerged in Washington on a set of policy prescriptions for economic development. The “Washington Consensus” (Williamson, 1990) included ten policies, of which five in particular follow: (1) keeping budget deficits small and under control; (2) focusing on health, education, and infrastructure; (3) privatizing State-Owned Enterprises; (4) deregulating with appropriate supervision; and (5) protecting property rights.<sup>11</sup> Protecting property rights as a goal is more restricted than the rule of law, but it belongs in the same concentric circle and is in turn inextricably tied to combating corruption. Combating or controlling corruption and establishing the rule of law came to be seen as critical dimensions of good governance. In its 1989 report, *Sub-Saharan Africa: From Crisis to Sustainable Growth*, the World Bank made an important first step in raising the “c-word” (corruption), and linking it to political renewal, public debate, and the free press (World Bank, 1989: 6).

By the mid-1990s, donors increasingly emphasized governance.<sup>12</sup> In 1996 James Wolfensohn, then president of the World Bank, began to use the c-word. He recounted to an audience at Stanford Graduate School of Business that he had been told: “It’s political; it’s beyond our mandate.”<sup>13</sup> He changed this *modus vivendi* by publicly declaring: “Let’s not mince words: we need to deal with the cancer of corruption... [we] will not tolerate corruption in the programs that we

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<sup>11</sup> Fifteen years later, Williamson reflected as follows: “My view is that [the Washington Consensus] made a lot of sense and are still a good idea ... The weakest point was that governments allowed capital to enter freely ... It didn’t occur to me that [the Consensus would be reduced to a creed by multilateral institutions whose application, it was thought, would automatically solve all problems]. Perhaps I should have realised but I didn’t. I’m not an enthusiast for the minimal state. We all know that the state has to play a role but I don’t see an alternative ideology” (as quoted in Lapper, 2005: 13).

<sup>12</sup> The phenomenal rise of governance as opposed to government, in a normative context, may also have a great deal to do with its more palatable sound—to say “bad government” to a Prime Minister is akin to announcing that he or she is a “bad” person. To say that the PM’s government suffers from bad governance is more diplomatic.

<sup>13</sup> As quoted in Awad (2004).



support... taking steps to ensure that our own activities continue to meet the highest standards of probity.”<sup>14</sup> He continued to earn mileage from this, as a critic opined:

[Wolfensohn] never misses an opportunity to remind audiences around the world how corruption has gone from an unspeakable c-word to top priority since he joined the Bank. The Bank’s previous approach to corruption was described by an ex-Bank staffer as the “three-monkey policy”: see nothing, hear nothing, say nothing.<sup>15</sup>

The rise of the Washington Consensus also signaled the growing importance of responsible and accountable government. Implicitly, the normative term “good governance” came to be assumed by the International Financial Institutions (IFIs) as a goal in and of itself, separate from the positive term “governance” without which one would not have government.<sup>16</sup>

There is still some controversy as to what constitutes good or bad governance. Indeed, “in comparison to economic issues, governance is more culturally-specific, with greater cross-country differences.”<sup>17</sup> Some would argue that there can be no universal fit-all definition—that culture matters and what is considered corrupt in one country may be common courtesy gift-giving in another. Kaufmann et al. found as much in their examination of surveys of governance: “survey questions can be interpreted in context-or culture-specific ways. For example, a response regarding the prevalence of ‘improper practices’ is coloured by

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<sup>14</sup> Wolfensohn (1996).

<sup>15</sup> Bretton Woods Project (2003).

<sup>16</sup> Indeed, as has been pointed out by Fukuyama (2005), weak governance is a problem throughout the developing world. Post-Washington Consensus experience has shown as much. The IMF concluded that “an improved and more strategic role of the state is essential. Corruption and weak governance in Latin America have tended to undermine market activity, with the resulting burden falling heavily on the poor” (as quoted in Lapper, 2005: 13). To use Oliver Williamson’s phrase, ‘institutions matter’ but even privatization and deregulation—major tenets of the Washington Consensus—require state capacity for transparent valuation and auctioning of state assets. However, in post-conflict countries, it is the absence of governance altogether that is most troubling. Ear (1997: 83) explores this in the context of Cambodia, arguing that “it is neither overregulation of private industry nor regulatory failure but the chaos of no regulation at all” that plagues the country.

<sup>17</sup> Wescott (2000: 2).

country-specific perceptions of what ‘improper practices’ are perceived to be.”<sup>18</sup> Moreover, the organs of power may differ in what value they place on such normative concerns as growth, social harmony, and equality. Indeed, Brinkerhoff and Goldsmith (2005) argue that donors such as the World Bank may be mistaken in their approach towards “good governance” because:

[D]emocratic or rational-legal governance does not necessarily represent an improvement over ostensibly improper governance. It is important to bear in mind that certain clientelistic practices have hidden positive functions, such as giving poor people access to resources. Governance institutions are neither bad nor good in themselves; outcomes are what matter.<sup>19</sup>

The rational-legal paradigm had already begun to seep into World Bank thinking as early as 1983. Gould and Amaro-Reyes (1983) both of whom were professors serving as consultants to the Bank published a Staff Working Paper entitled “The Effects of Corruption on Administrative Performance: Illustrations from Developing Countries”. They argued that the particular circumstances of developing countries, such as rapid economic and social change, strong kinship and ethnic ties, new institutions, overlapping and sometimes conflicting views about what is proper public behavior,<sup>20</sup> are reasons for the existence of corruption. This in turn benefits the privileged and powerful few and promotes the use of non-rational criteria in public decisions.

#### *How Governance Can Influence Development*

In the past, International Financial Institutions (IFIs) did not generally discuss the theories or evidence upon which prescriptions of good governance were based. Recently, however, several studies by World Bank economists empirically demonstrate the link between good governance and economic development. Controlling for reverse causality by using instrumental variables, Kaufmann et al.

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<sup>18</sup> Kaufmann et al. (1999: 5).

<sup>19</sup> Brinkerhoff and Goldsmith (2005: 199).

<sup>20</sup> A Cambodian draft anti-corruption law that will likely require politicians to declare their assets was assailed by the head of the Government’s human rights commission who also serves as an

(1999) found that a one-standard-deviation increase in governance leads to “between a 15 and 25 percentage point improvement in literacy” and between a 2.5 and 4 times increase in “per capita income... [and] a strong negative impact on infant mortality, of proportionally the same magnitude as for per capita income.”<sup>21</sup>

The Operations Evaluations Department of the World Bank found, not surprisingly, that Bank projects perform better in countries committed to reform and with higher quality institutions (World Bank, 1997a).

Apart from the emphasis of IFIs on governance, an equally vibrant adjoining academic literature exists. Like the aforementioned World Bank studies, Ahrens and Meurers (2001) found that high quality governance (as measured by factor analysis of 26 indicators ranging from democracy to delayed payments) is positively associated with development outcomes. One can see here that good governance defined by its impact on economic development may be reshaping the concept (through the causal link) itself. Ades and di Tella (1996, 1997) review empirical contributions of the causes and effects of corruption and perform cross section regressions using 32 countries, respectively. Their 1996 study found that corruption negatively affects (1) investment, (2) competition in the product market, and (3) the independence of judicial systems. Their 1997 study used subjective indicators of corruption and industrial policy from the World Competitiveness Yearbook and determined that an active industrial policy is associated with higher corruption, which offsets part of the effects of such a policy in increasing investment rates.

Wei (2001) found that natural openness (determined by a country’s geography and size) leads to good government, such as lack of bureaucratic

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advisor to the Prime Minister. He reportedly claimed that mandatory asset declarations would be a violation of a government official’s human rights (Prak, 2005a).

<sup>21</sup> Kaufmann et al. (1999: 16-17).

corruption for example.<sup>22</sup> Alesina et al. (1996) ran cross-country regressions for 113 countries for the 1950-82 period using annual data. In countries and time periods with more changes in government (peaceful or otherwise), growth is lower. Slow growth in turn increases the likelihood of coups, but not of peaceful changes in government. Barro (1991) studied cross-country growth and investment regressions for 98 countries for the 1960-85 period, and found that coups, revolutions, and political assassinations are associated with slower growth and lower investment rates. Barro (1996) studied growth regressions by examining the impact of democracy (as measured by the Freedom House indexes) on growth. Democracy is positively related to growth through factor accumulation: democracy is not significant when education and investment are included in the regression. A curvilinear relationship best fits the data, with partly democratic countries exhibiting the fastest growth rates.

In cross-sectional research, Gerring and Thacker (2001) show that democracy, constitutional structures, and state capacity all have significant negative effects on infant mortality rates. The limitations of this research, however, are that Gerring's and Thacker's definition of, for example, state capacity as central government revenue (tax revenue as a percentage of GDP) poses an endogeneity problem: a country's development outcome is a result of low tax-base, but a population's willingness to pay taxes is the result of an observable lack of services by the government. Which came first? Burkhart and Lewis-Beck (1994) ran time-series cross-sectional regressions analyzing the relationship between income levels and democracy, as measured by the Freedom House indexes. They

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<sup>22</sup> Here is the logic: "Fighting corruption and investing in good governance is costly. Since international traders and investors are more footloose (i.e., have better outside options) than domestic ones, bad governance and bureaucratic corruption in a country reduces international trade and investment more than domestic trade and investment. A country that is naturally more open—as determined by its size, geography and other factors—would find it optimal to devote more

found that the positive relationship between per capita income levels and democracy is mostly attributable to the effects of income on democratization; democracy in turn has little effect on income levels.

### *How Aid Can Influence Governance*

Foreign aid has long been argued to help development, in the sense that it helps complete and foster missing or incomplete markets in developing countries. The entire field of development economics is one based on the presumption of market failure.<sup>23</sup> How has aid itself influenced governance? Alesina and Weder (2002) performed cross-country regressions for up to 90 countries, exploring the relationships between aid, foreign direct investment, and corruption. Foreign direct investment over the 1970-95 period is reduced by host-country corruption levels, using one corruption indicator, but no relationship is found when using any of six other corruption indicators.

Burnside and Dollar (1997) performed panel regressions measuring the relationships among aid, policies, and growth for 56 countries over six four-year time periods. Aid has a positive impact on growth in developing countries with good fiscal, monetary, and trade policies. Aid does not appear to affect policies systematically either positively or negatively. Burnside and Dollar (1998) showed that a linear relationship exists between the quality of governance and development outcome, and that aid spurs growth and poverty reduction only in a good policy environment. In developing countries with weak economic management, there is no relationship between aid and change in infant mortality. Where

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resources to building good institutions. In equilibrium, such economies may display less corruption and a higher quality of government than naturally less open economies” (Wei, 2001: 1).

<sup>23</sup> This has also sprung critiques of the field itself. Deepak Lal’s (1983) *Poverty of Development Economics* is a *tour de force* against *dirigisme*. He has used the theory of the second best to argue against the idea that more government interventions necessarily lead to better outcomes. Imagine a monopolist producing an output that generates a negative externality. Anti-trust action would *worsen* welfare. In a world with multiple market “failures”, removing one might actually reduce total welfare—a kind of law of unintended consequences for economists. Of course, the opposite can also be argued. Additional intervention could also increase welfare.

economic management is stronger, there is a relationship between aid and change in infant mortality.

William Easterly (1997), a senior researcher at the World Bank estimated that if all the aid to Zambia had gone into productive investment starting in 1961, it would be a rich country today with an implausibly high per capita income of \$20,000 per year.<sup>24</sup> Instead Zambia languishes at a per capita income of \$600 per year. Even if for no other reason, the drive to assess aid (and to pin the blame on poor governance) by the international development agencies themselves is an act of self-preservation. Total official development assistance, i.e., aid from bilateral and multilateral sources, has been on the decline since 1991, when it peaked. The World Bank was so moved as to appeal directly to donor countries to essentially hang-in there and continue funding, when it published *Assessing Aid: What Works, What Doesn't, and Why* in 1998. That report, authored by Dollar and Pritchett (World Bank, 1998), used qualitative *and* quantitative analysis to explain the interaction between government policies and the quality of governance. They found that the impact of aid on growth and infant mortality depends on “sound economic management,” as measured by an index of economic policies and institutional quality. If good governance is needed for good development,<sup>25</sup> but aid dependence leads to bad governance, then what should be done? One idea suggested by Dollar and Pritchett is that ideas *not* money might be shared with aid dependent countries that are not committed to reform. Another would be to focus more resources on improving governance, to improve development outcomes.

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<sup>24</sup> In this chapter and in all subsequent chapters, all dollar (\$) figures are in United States dollars.

<sup>25</sup> Following the failure of Washington Consensus policies in Africa, Young (1996: 58), explains “Influential voices both inside and outside Africa began to argue that political reform was a necessary concomitant of economic liberalization. The African state itself, as historical agent of development, came under challenge. The argument ran that the thorough prebendalization of the public realm had created a state incapable of effective macroeconomic management. Without a remoralization of public institutions, plus minimal accountability, economic liberalization could never endure.”

### *Does Aid Worsen Governance?*

Yet while good governance is essential for good development outcomes (Kaufmann et al., 1999; 2002; 2003; 2005), the primary instrument of donors—aid—is empirically linked with worsening quality of governance. A small but growing empirical literature (Bräutigam, 2000; Knack, 2001; Bräutigam and Knack, 2004; and Heckelman and Knack, 2005) finds aid and aid dependence to be negatively associated with various dimensions of governance when cross-country analysis is undertaken on bureaucratic quality, corruption, and the rule of law. This dissertation thus finds itself squarely in the milieu of this literature as both an extension and a caveat to earlier findings. It essentially advances the debate using Kaufmann et al.'s six dimensions of governance: Voice and Accountability (VA), Political Stability (PS), Government Effectiveness (GE), Regulatory Quality (RQ), Rule of Law (RL), and Control of Corruption (CC)<sup>26</sup> in order to provide a richer conception of governance and undertakes a different, more robust methodology.

To what extent aid impacts governance and how this happens is unclear at the global level. Aid is amorphous and surely even if some *type* of aid hurts governance, not *all* aid hurts governance. Indeed, components of aid like technical cooperation and average grant element need to be examined further because they shape the nature of aid.

Indeed, can aid play a positive role when the impact of its components is considered? How this happens and under what conditions is unclear from this global perspective. Thus, the dissertation undertakes process tracing to examine the case of Cambodia at a national level and confirms that donor impact on the Rule of Law ranks second to last (out of the six Kaufmann et al. dimensions of governance) in terms of donor success, with only Control of Corruption scoring

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<sup>26</sup> These are defined in Chapter 2.

worse. Poor governance circumscribes the effectiveness of aid and policy-making. Finally, the dissertation examines pro-poor livestock policy on a sectoral level to distill the impact of governance on policy-making and the scope for development action.

## **Intellectual Questions**

### *At the Global Level*

From a global perspective, the essential question is: What is the nature of the relationship among aid, its components, and governance? More specifically (and operationally): Does aid *dependence* worsen governance? Does aid itself worsen governance? How do technical cooperation and average grant element (both components of aid), and external debt impact governance? Of course, ultimately, the thrust is not simply to determine *if* aid worsens governance, but *how* aid worsens governance and under what circumstances. To answer this question stretches the limits of large-N analysis and requires peering into individual country case studies. This is because the real effects of aid are almost certainly in individual countries and particular programs—on which process tracing is thus the focus of the Cambodia country case studies.

### *At the National Level*

From a national perspective, the dissertation then turns to questions of aid and governance in the context of Cambodia. The country was chosen because, while it is classified as moderately indebted by the World Bank in the *World Development Indicators 2005*, it is highly aid dependent with nearly half its annual budget derived from aid (RGC, 2004a). Moreover, with a decade of experience researching and publishing on Cambodia (Ear, 1995; Ear, 1997; Fujii and Ear, 2002; Chan and Ear, 2004; and Ear, 2005a) since first returning to the country in 1996, I was privileged to enjoy unprecedented access to policy-makers through professional and social networks allowing relationships of trust to be built and



permitting unusually frank discussions to take place during interviews. Moreover, members of the development community showed unusual willingness to answer sometimes tedious, boring and repetitive surveys.<sup>27</sup>

As a post-conflict country that had only emerged from war following the 1991 Paris Peace Agreements,<sup>28</sup> the intellectual question turned on political legitimacy. Cambodia was (or at least was well on its way to becoming) a failed state by the late 1980s.<sup>29</sup> In the early 1990s, the international donor community faced a dilemma of how to reconstruct the country's state and society. It is suggested by some that the regime was deprived of political legitimacy because of donor assistance (Öjendal and Lilja, Forthcoming). Has Cambodia's extreme dependence upon donor assistance in the post-conflict period aided or hindered reconstruction efforts? Post-conflict reconstruction requires the reestablishment of political stability and legitimacy. Beyond this, it also involves establishing effective state capacity<sup>30</sup> which is a broader concept than political stability and legitimacy alone.

State capacity implies respect for the rule of law, control of corruption, voice and accountability, and other dimensions of governance. Indeed, seen from

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<sup>27</sup> I also received privileged information and documents from friends in the government and the donor community, all of whom shall remain anonymous.

<sup>28</sup> The "Agreements on a Comprehensive Political Settlement of the Cambodia Conflict" were signed on 23 October 1991 in Paris. It was not until 1998, however, that the Khmer Rouge disappeared as a military threat when its leader Pol Pot died and other leaders were either pardoned or imprisoned. A mixed tribunal with UN participation will begin in 2006/07.

<sup>29</sup> Cambodia would qualify for state failure at least from the 1970s onwards because of its considerable civil, revolutionary, and ethnic wars (if one includes genocide) as defined by Esty et al. (1998) as cited by Wallenstein (2000). Using the Government of Canada's (2003) characterization of Colombia as suffering incipient state failure, Cambodia could arguably fall under this category today. Canada defines incipient state failure as the collapse of a state's structure, authority, law and political order. This includes systemic impunity, failure of the justice system, and lack of faith in political structures. These are widely recognizable in the present day context of Cambodia.

<sup>30</sup> As Migdal (1988: xi) asks "Why do some states succeed more and some less in realizing the vision of their leaders? The main issues will be state capabilities or their lack: the ability of state leaders to use the agencies of the state to get people in the society to do what they want them to do." More operationally, it can alternatively be defined as the ability to collect income and other taxes, i.e., to "the extent that state capacity is defined as the capacity to secure compliance with formal legal directives, the corruption of this key principal-agent relationship means that state capacity is

this perspective, the question of what quality of governance has been achieved in the last decade with donor support is paramount.<sup>31</sup> Moreover, explicitly linking quality of governance with development outcomes in the last decade is crucial to understanding the political economy of aid and governance in Cambodia. The inescapable fact of Cambodia's growing infant and child mortality since 1990, stagnating (or possibly increasing) poverty and inequality since the late 1990s,<sup>32</sup> and slippage below Laos in per capita GDP income and infrastructure (ADB et al., 2005), despite five billion dollars of foreign aid in the last decade seems, on the surface, to be a *prima facie* failure of development and governance. But how this failure of development and governance materializes on the ground, beyond the big picture of stagnating or worsening development indicators, necessitates the study of how policy-making is impacted by governance and aid and vice-versa. In other words, does the storyline follow Mosley's (1987) "Macro-Micro Paradox" on aid effectiveness? Indeed, what is really happening on the ground?

#### *At the Sectoral Level*

From a sectoral perspective, an examination of pro-poor livestock policy was made as a case study. The research, commissioned by the United Nations Food and Agriculture Organization (FAO), sought to examine the political scope for pro-poor livestock policy reform. Livestock ranks among the highest priorities in Cambodian agriculture and materially affects the lives of millions of Cambodians. Nearly 88% of the poor come from rural areas and 80% of the population is rural, yet the country does not have a medium-term agricultural sector strategy. Crops and

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undermined. Thus, it is common to speak of states with low rates of tax collection, uneven enforcement of laws and regulations, and high levels of graft as "weak" states" (Darden, 2002).

<sup>31</sup> It has been argued that up until 1994, regulatory quality and government effectiveness were, in practice, far more effective than a decade later. Donors arrived with the preconceived notion that Cambodian civil servants had little or no capacity and could not be trusted with any responsibility. In fact, it is a truism that things got done back then. Today, policies loiter on paper as the quaint aspirations of an earlier age (to borrow Kofi Annan's turn of phrase).

<sup>32</sup> This issue is updated and revisited in the Addendum to this dissertation.

livestock represent 21% and nearly seven percent of Cambodia's economy, respectively (1997-2001) and agriculture's primacy is undeniable, given that it is the only sector capable of absorbing the 150,000-250,000 entrants joining the labor force each year. This represents a tremendous opportunity for agriculture in general and livestock in particular.

Despite a difficult governance environment, tremendous opportunities exist in the area of livestock export both within the ASEAN region and beyond. Total livestock imports for ASEAN were 591,500 heads of cattle in 2002, while the rest of Asia accounted for 91,300 and the Middle East took in 527,756 (FAO, 2004). Cambodia's official exports were only 10,600 of this even though, unofficial trade estimates place cattle exports from Cambodia at up to 150,000 heads (McNaughton, 2004). The livestock sub-sector has considerable potential if tapped properly, as farming continues to shift from subsistence to commercial agriculture over the next decade.

However, a difficult institutional environment manifests itself through a combination of weak state capacity and poor governance that limits the scope for reform. Civil servant salaries are abysmally low, barely above the poverty line. Corruption is pervasive with demands for heavy and frequent informal payments for transport of cattle within the country. There are numerous reasons for this, but three are shown in Chapter 3 to be of particular note: the legacy of the Khmer Rouge's causing the death of a quarter of the population and decimating the country's human resources; patron-client relations and an embedded culture of corruption that prevents pro-poor policies from being implemented; and a donor-government nexus which has produced too many strategies and plans, but too few funded mandates and feasible policies.

## Methodology

Augmenting the aforementioned quantitative analysis used in this dissertation, qualitative analysis is also drawn from two years of fieldwork in Cambodia during which time more than 50 formal interviews were conducted along with at least one hundred encounters and discussions with senior government officials, donor and NGO representatives, and civil society. Furthermore, an anonymous survey was conducted of individuals with at least three years' experience in development work in Cambodia. The elite survey asked respondents to rate donor success in effecting change across the six Kaufmann dimensions of governance. Nearly 45 responses were garnered from individuals averaging almost eight years of development experience in Cambodia.

### **Structure of the Dissertation**

The dissertation is divided into five chapters. The first chapter is this introduction. It aims to explain what the set of intellectual questions addressed by this dissertation are and how the subsequent chapters relate to one another. **Chapter 2** takes a global perspective by conceptualizing, defining, and operationalizing governance, adopting Kaufmann et al.'s definition of "the traditions and institutions by which authority in a country is exercised"<sup>33</sup> and employing their six aforementioned dimensions of governance (VA, PS, GE, RQ, RL, and CC). It describes the data and hypotheses, and presents the results of cross section and pooled time-series cross section analyses on the relationship between aid and governance. The findings are weaker than the empirical literature has previously suggested. Aid is negatively associated with most dimensions of governance under cross section analysis. However, under pooled time series cross section analysis with country effects, only the Rule of Law appears to be hurt by aid. Aid is both lagged and instrumented with infant mortality in order to control

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<sup>33</sup> Kaufmann et al. (1999: 1).

for endogeneity and reverse causality. Components of aid such as technical cooperation, average grant element, are also explored. Findings suggest that aid can play a positive role when their impact is considered.

**Chapter 3** takes a national perspective and offers a case study of the political economy of aid and governance in Cambodia.<sup>34</sup> It focuses on the relationship between aid and governance on the basis of political legitimacy. The findings suggest that in the last decade of development and governance, donors have enjoyed mixed success across six dimensions of governance in effecting change in Cambodia. What is apparent is that the country, on its own, was more than successful in undoing economic central planning by introducing the free market with a vengeance. That donors and the government were aligned on political stability is apparent, and this was clearly the political bargain that was made in Paris, to move Cambodia from a state of war to one of peace.

**Chapter 4** takes a sectoral perspective on pro-poor livestock policy in Cambodia, examining how governance impacts policy-making and aid, and vice-versa. The findings based on political, economic, and policy considerations suggest that failures of governance combined with donor apathy towards agriculture and livestock have cost Cambodia dearly. One of the qualified successes in pro-poor livestock development policy in the past decade has been the acceptance of para-veterinarians or Village Animal Health Workers (VAHWs) by the authorities. Some opportunities do exist for pro-poor livestock policy in the area of forming an agricultural policy that includes appropriate Non-Governmental Organization (NGO) participation; on support to combat Highly Pathogenic Avian Influenza (HPAI) commonly known as bird flu; on livestock exports and the creation of an FMD-Free Zone; and finally on the further regularization of VAHWs through

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<sup>34</sup> This chapter will appear in a volume entitled *Imagining Political Legitimacy in Cambodia*, edited by Öjendal and Lilja (Forthcoming).

contractual agreements with the Government and/or NGOs. However, expectations should be realistic, as political willingness, credibility, and reform have enjoyed limited success in the past decade of governance and economic performance (Ear, 2005).

**Chapter 5** concludes this dissertation by tying together the chapters and drawing general lessons learned for Cambodia and beyond. Along with this introduction, the conclusion puts together this dissertation in context. Although every country is unique in character, history and culture, this should not obviate the possibility for learning from Cambodia's experience in other developing country contexts, where aid dependence is high and post-conflict issues continue to persist. Overall, the dissertation's findings cast doubt on the wholly negative impact of aid on various dimensions of governance, as the latter is a blunt instrument. It finds in the case of Cambodia that while the Rule of Law and Control of Corruption have enjoyed little to no donor success—political stability showed the best prospects. However, while stability is necessary for policy-making to work in a post-conflict country context, Cambodia's development experience suggests that stability alone is far from sufficient.

## Chapter 2

### Does Aid Worsen Governance?

#### Introduction

Foreign aid has the potential to contribute to good governance in several ways: (1) to the extent that aid is conditioned on government actions to improve governance, it can produce positive change; (2) insofar as technical cooperation focused on elements of good governance is provided, it also can induce reform; and (3) more generally, if aid succeeds in increasing per capita income and human development, good governance can be afforded and enabled.<sup>1</sup> However, research based on cross-sectional data examining limited dimensions of governance also suggests that aid dependence can undermine institutional quality, weaken accountability, encourage rent seeking and corruption, foment conflict over control of aid funds, siphon off scarce talent from the bureaucracy, and alleviate pressures to reform inefficient policies and institutions (Knack, 2001).<sup>2</sup>

When discussing empirical findings that aid dependence is associated with corruption, only one of several elements of governance, Collier and Dollar (2004: F262) write “even if aid cannot significantly reduce corruption, corruption can significantly impair aid effectiveness.” Likening good governance to policy reform, they argue that aid can have “a substitution and an income effect working in opposing directions.”<sup>3</sup> On the one hand, aid changes the relative price of good versus bad governance, making it cheaper and more likely that the former will be

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<sup>1</sup> These three reasons are inspired and adapted from Knack (2004) who asked “Does foreign aid promote democracy?”

<sup>2</sup> Regarding the emergence of good governance as a donor issue, Nunnenkamp (1995: 9) presciently warned that “Conditionality is considered unlikely to be more effective than in the past if socio-political conditions are added. This leads to the conclusion that changed donor perspectives [on good governance] will have little impact unless aid recipients are ready to tackle the internal bottlenecks hampering economic and social progress.”

<sup>3</sup> Collier and Dollar (2004: F262).

substituted for the latter. On the other hand, taking a cue from the findings of Feyzioglu et al. (1998), Collier and Dollar add that “Offsetting this, aid directly augments public resources and reduces the need for the government to fund its expenditures through taxation, thereby reducing domestic pressure for accountability, and we can think of this as an adverse income effect.”<sup>4</sup> Typically, this implies a change in the demand for accountability since the latter is linked to taxation which is reduced by aid’s fungibility. They conclude “*A priori*, the net effect [of aid on corruption and thus governance] could be favourable or unfavourable, the question only being resolvable empirically.”<sup>5</sup> Goldsmith (2001: 128) put it another way “More work clearly needs to be done to ascertain the extent to which aid has a destructive effect on the state.”<sup>6</sup>

Part I of this chapter provides an empirical literature review on how aid can influence governance. This review covers the small but growing empirical literature on the relationship between aid and the quality of governance. The main focus is an exploration and critique of the empirical work of Stephen Knack (2001), who found that aid dependence was associated with an increase in corruption, and worsening bureaucratic quality and rule of law, using quality of governance data from the International Country Risk Guide (ICRG), a commercial service.

Part II of the chapter centers on the relationship between aid and quality of governance, and is the empirical portion of the chapter. It begins with a section that describes the hypotheses, data, and methodology used in this chapter. If Knack’s findings are confirmed, this poses a serious conundrum for international development and requires a reexamination of what type of governance is affected

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<sup>4</sup> Collier and Dollar (2004: F263).

<sup>5</sup> Collier and Dollar (2004: F263).

<sup>6</sup> Burnell (2004) argues that while there has been a great deal of research on the economic consequences of aid, aid’s impact on domestic politics, beyond democracy, however construed, needs to be reconnected to the broader aid and politics literature.



by aid and why, and what can be done about it. The chapter investigates this link by asking how aid as a percent of Gross National Income (GNI)<sup>7</sup> affects six dimensions of governance between 1996 and 2004. Box 1 outlines these six dimensions.

<b>Box 1: Governance is the traditions and institutions by which authority in a country is exercised</b>		
<i>Process by which governments are selected, monitored, and replaced</i>	<i>Capacity of the government to effectively formulate and implement sound policies</i>	<i>Respect of citizens and the state for the institutions that govern economic and social interactions among them</i>
<b>1) Voice and Accountability (VA)</b>	<b>3) Government Effectiveness (GE)</b>	<b>5) Rule of Law (RL)</b>
Indicators measuring various aspects of the political process, civil liberties and political rights, and independence of the media	Perceptions of the quality of public service provision, the quality of the bureaucracy, the competence of civil servants, the independence of the civil service from political pressures, and the credibility of the government's commitment to policies	Perceptions of the incidence of both violent and non-violent crime, the effectiveness and predictability of the judiciary, and the enforceability of contracts
<b>2) Political Stability (PS)</b>	<b>4) Regulatory Quality (RQ)</b>	<b>6) Control of Corruption (CC)</b>
Indicators which measure perceptions of the likelihood that the government in power will be destabilized or overthrown by possibly unconstitutional and/or violent means, including terrorism	Measures of the incidence of market-unfriendly policies such as price controls or inadequate bank supervision, as well as perceptions of the burdens imposed by excessive regulation in areas such as foreign trade and business development	Perceptions of corruption, conventionally defined as the exercise of public power for private gain. Despite this straightforward focus, the particular aspect of corruption measured by the various sources differs somewhat, ranging from the frequency of "additional payments to get things done," to the effects of corruption on the business environment, to measuring "grand corruption" in the political arena or in the tendency of elite forms to engage in "state capture"

*Source:* Adapted from Kaufmann et al. (1999).

The major advantage of the Kaufmann et al. data is that it contains 352 governance indicators for 209 countries and territories for its most recent year, 2004. A drawback is the data's relatively short time-span of only eight years (1996-2004) to observe changes in governance.

<sup>7</sup> By definition, GNI is equal to Gross National Product. However, discrepancies arise because there

The findings suggest that while most dimensions of governance are worsened by aid under Cross-Sectional (CS) analysis (when instrumented), aid's negative impact on the Rule of Law is the only finding that survives pooled Time Series Cross-Sectional (TSCS) or panel analysis. Panel studies have fast displaced their cross-sectional counterpart at the heart of social science research and are now "the preeminent form of social research" according to Halaby (2004: 507). Thus, TSCS analysis, when possible, is preferable methodologically to CS. Furthermore, to counter potential endogeneity and reverse causality, infant mortality is used to instrument for aid. Having established the scope of this relationship, the chapter then looks at specific components of aid such as technical cooperation as a percent of total grants and average grant element<sup>8</sup> to see how these interact with and affect governance. The main results and findings are discussed, and a conclusion follows.

## **Part I. Literature Review**

### **Aid, Governance, and Policy**

Foreign aid has long been justified as essential for development on the basis of a two-gap model for developing countries in which investment is missing (hence the need for aid), and in which aid also helps complete missing or imperfect markets.<sup>9</sup> Boone (1996) was the first to consider, empirically, a country's political system in determining aid effectiveness. In this sense, he was a pioneer in analyzing governance and aid.<sup>10</sup> He interacted aid with a proxy for political system and found that "aid does not promote economic development for two reasons: poverty is not caused by capital shortage, and it is not optimal for politicians to adjust

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are different approaches (expenditure, output, and income) to national accounting.

<sup>8</sup> Average grant element measures the concessionality of a loan, in the form of the present value of an interest rate below the market rate (conventionally pegged at 10%) over the life of a loan.

<sup>9</sup> For an excellent and current survey of the macroeconomic effects of foreign aid, see Harms and Lutz (2004).

<sup>10</sup> Bräutigam (1992: 1) had already noted that "Much of the current donor discussion of governance takes place outside of a historical or theoretical context" and was a first attempt to place

distortionary policies when they receive aid flows.”<sup>11</sup> His study is credited with having single-handedly motivated World Bank economists Craig Burnside and David Dollar to perform their own analysis in an attempt to rescue aid from (political) irrelevance.<sup>12</sup> Burnside and Dollar (1997), henceforth B-D, substituted Boone’s political system proxy with a quality of policy proxy and found that money matters in a good policy environment. They did this by performing panel regressions measuring the relationships among aid, policies, and growth for 56 countries over six four-year time periods and showed that a linear relationship exists between the quality of governance and development outcome, and that aid spurs growth and poverty reduction only in a good policy environment. Under weak economic management in developing countries there is no relationship between aid and change in infant mortality, but in countries where economic management is stronger, show the existence of a relationship.

However, subsequent scrutiny of B-D’s analysis has revealed a number of weaknesses. Roodman (2003), Easterly et al. (2003), Easterly (2003), and Jensen and Paldam (2003) all “show that the policy interaction term is no longer significant if an additional four-year period (1994-97) is added to the original B-D data set, and if some ‘newly found’ observations enter the sample.”<sup>13</sup> Furthermore, Hansen and Tarp (1999), henceforth H-T, argued that the B-D findings were the result of diminishing returns to aid. While analyzing the same set of countries as B-D and using the same basic model specification, H-T conclude, in contrast to B-D, that aid does have a positive impact on growth even in countries with a *poor*

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governance “within recent political science, development management, and institutional economics literature.”

<sup>11</sup> Boone (1996: 322).

<sup>12</sup> Harms and Lutz (2004: 16) note that when B-D write “foreign capital has not raised growth rates in the typical poor country” (2000: 847), “they refer alone to Peter Boone’s 1996 article and its 1995 working paper version, but not to any other studies.”

<sup>13</sup> Harms and Lutz (2004: 20).

policy environment. They survey the results of 29 papers published between 1968 and 1998, re-estimate the B-D model, and conclude that “[u]sing past performance as an indicator of future performance is especially dubious in this environment, given the existing limited understanding of the interplay between aid, macroeconomic policy, and political economy variables.”<sup>14</sup> In a veiled reference to the World Bank’s 1998 study *Assessing Aid: What Works, What Doesn’t, and Why*, they write “In sum, the unresolved issue in assessing aid effectiveness is not whether aid works, but how and whether we can make the different kinds of aid instruments at hand work better in varying country circumstances” (1999: 18).

### **How Aid Can Influence Governance: The Knack Hypothesis and Evidence**

Beyond questions of aid effectiveness there emerged concerns of aid dependence being linked with worsening quality of governance. By 1998, Bräutigam and Botchwey argued that pre-existing quality of governance determined the extent to which aid undermined institutions, reporting a correlation of -0.12 between aid/GNP and the ICRG index for 31 African countries, using data for only 1990.<sup>15</sup> Bräutigam (2000) followed-up by focusing specifically on aid dependence and governance, but her study was qualitatively based. Using ICRG’s index of corruption, Svensson (2000) finds that aid (when instrumented with income, terms of trade and population size) raises graft in ethnically fractionalized countries. Using geographic and cultural proximity as his instrumental variables for aid, Tavares (2003) counters that aid does not corrupt. For those who believe in the intrinsic differences in countries, Tavares’ method is more appealing. Either way, looking only at corruption offers a narrow sliver of governance.

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<sup>14</sup> Hansen and Tarp (1999: 17-18). As Harms and Lutz (2004) have subsequently noted, however, many of the 29 papers surveyed were “outdated”.

<sup>15</sup> As cited in Knack (2001: 314, fn 5).

Knack (2001), whose findings are re-examined in this chapter, offers a significant literature review of how aid dependence can worsen governance defined more broadly as corruption, bureaucratic quality, and rule of law.<sup>16</sup> Knack cites Sachs and Warner (1995) in explaining the windfalls from aid, in the context of higher primary product export and lower growth, and offers as an example Zaire. His own cross-sectional analysis finds that a negative relationship exists between aid dependence and quality of governance. The relationships in Table 1 are suggested in his paper.

**Table 1: The More Aid Dependent a Country, the Lower Its Quality of Governance**

Independent Variable	Intervening Variable	Dependent Variable
Aid dependence as measured by Aid/GDP, Aid/Gov't Budget	<ul style="list-style-type: none"> <li>⇒ Weakening institutional capacity</li> <li>⇒ Siphoning off scarce talent from the bureaucracy</li> <li>⇒ Weakening accountability</li> <li>⇒ Encouraging rent seeking and corruption</li> <li>⇒ Fomenting conflict over control of aid funds</li> <li>⇒ Alleviating pressures to reform inefficient policies and institutions</li> </ul>	⇒ Quality of governance as measured by International Country Risk Guide (ICRG)

*Source:* Adapted from Knack (2001).

The implication is that, through intervening variables, aid dependence causes the quality of governance to worsen over time from its initial level.

More recent empirical studies continue to use the same methodology—cross-sectional analysis—but have used different sources of data. Does aid promote democracy? Using the Freedom House Index and the same cross-sectional methodology as his 2001 paper—focused on initial conditions—Knack (2004) finds that little if any of the progress towards democratization in 1975-96 can be

<sup>16</sup> Knack co-authored with Bräutigam a paper on aid and governance in Sub-Saharan Africa, finding that “high levels of aid are associated with declines in the quality of governance” (Bräutigam and Knack, 2004: 277).

attributed to foreign aid. The study however is circumscribed for the same methodological reasons as his earlier one because of his use of cross-sectional data. Finally, does aid hurt market-liberalizing reform? Heckelman and Knack (2005), using Economic Freedom data (and its components) as their dependent variable and the same cross-sectional methodology with initial conditions, find that it does. Clearly the debate on the blunt instrument that is aid is an important one.

No-one doubts that aid dependence potentially can have a pernicious effect on governance based on Knack's evidence. What is up to debate is the magnitude of this effect and which dimensions of governance are impacted. Knack cannot be faulted for not having sufficiently tested his data—it is clear that based on his methodology, the findings he reaches are defensible. Indeed, his cautious interpretation of the results with respect to policy implications is laudable—he writes that they “must be phrased very tentatively, pending additional research.”<sup>17</sup> His cross-sectional results survive a battery of tests and changes to specifications and samples. What is in doubt is whether the data and methodology he uses are any longer optimal given that Kaufmann et al.'s dataset has matured in the last few years, though with a still short time-span of eight years but an extremely valuable disaggregation of governance into six separate dimensions. One can fault Knack only for having too narrow a basis for governance that leads to limitations in methodological choices for analysis.

For example, Knack (2001) uses ICRG data that is disaggregated into three dimensions: (1) corruption in government; (2) bureaucratic quality; and (3) the rule of law. These three dimensions clearly are not all that governance represents. Kaufmann et al.'s concept of governance thus provides a superior instrument for determining which six dimensions of governance (VA, PS, GE, RQ, RL, and CC)

are most affected by aid, as it uses both perceptions-based (subjective) and objective indicators, for which margins of error are assigned that “are not unique to perceptions-based measures of governance, but are an important feature of all efforts to measure governance, including objective indicators.”<sup>18</sup>

Moreover, Knack’s method of analysis, cross-section (or by country) makes no use of the data between the initial and final years being rated. Finally, Knack does not lag his aid variable, using instead a contemporaneous 13 to 15 year stretch of time to examine change (1982-95 and 1982-97). This leaves aid potentially vulnerable to endogeneity and reverse causality (until it is subsequently instrumented). Conceptually, aid disbursed in a given year can hardly have an instantaneous impact on governance. Be that as it may, it is not the messenger with whom there is disagreement, but his methodology for which some modest improvements can be made. The cross-section data runs performed here essentially replicate his findings, it is the time-series cross-section findings that deviate from these findings.

With available data to run additional dimensions of governance, it is only natural that this be done. Knack too recognizes this because he has published individual papers which, when seen together, prove his multi-dimensional understanding of governance. Together, however, one may better see the impact that aid has on governance and also what methodological improvements can be made by pooling data together and using TSCS. This chapter attempts this and should therefore be seen as an extension of and caveat to Knack’s pioneering work. It is a cautionary tale about methods used to reach conclusions. It is part of that “additional research” that attempts to replicate his results on a different dataset (and largely confirms them using his methodology) but then undertakes a different

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<sup>17</sup> Knack (2001: 326).

methodological approach and achieves more nuanced results—namely that aid does not hurt all or even most dimensions of governance, but perhaps only one dimension of governance.

If verified, Knack’s (2001) finding would pose a serious problem for international development. Even if aid hurts governance, what dimension of governance is most affected and how? Beyond this, how do we not throw out the baby with the bathwater? Even if for no other reason, the drive to assess aid (and to pin the blame on poor governance) by IFIs themselves is an act of self-preservation. Worldwide aid levels have been on the decline since 1991, when they peaked. The World Bank was so moved as to appeal directly to donor countries to essentially hang-in there and continue funding. Their *Assessing Aid* (1998) report found that the impact of aid on growth and infant mortality depends on “sound economic management,” as measured by an index of economic policies and institutional quality.<sup>19</sup> If good governance is needed for good development, but aid dependence leads to bad governance, then where does that leave us?<sup>20</sup>

## **Part II: Empirical Evidence**

### **Hypotheses, Data, and Statistical Methodology**

Quality of governance is rooted in several determinants. Among these are income, population, and other invariant factors like culture and history. No-one would suggest that aid alone determines governance in developing countries. This chapter will examine the following questions or hypotheses. First, following in the footsteps of Knack (2001), does aid *dependence* worsen governance? Second, do all dimensions of governance respond to aid in the same way or is there evidence that

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<sup>18</sup> Kaufmann et al. (2005: 1).

<sup>19</sup> This was an outgrowth of B-D’s then working paper released in 1997 since David Dollar was a director in the Bank’s Research Department.

<sup>20</sup> Indeed, a research manager in the Bank’s Research Department questioned the entire basis of this line of research as pointless, given that even if true, no good outcome could come of it.



the concept is best used in a disaggregated fashion? Third, similarly is aid a single concept or best employed in a more disaggregated manner? Thus, how do technical cooperation and average grant element (both components of aid) impact governance?

The purpose of this chapter is *not* to build the best possible model for each and every component of governance. Instead it is focused more narrowly on testing whether or not Knack may be overstating the negative impact of aid and on whether or not aid and its components impact on these components in the same way. Thus the models offered and tested will be based upon the earlier work that Knack has done and will be consistent across governance dimensions.

The innovations in this analysis come from three places. First, a more comprehensive set of governance dimensions is examined. Second, new and more recent data from a much more comprehensive set of sources is examined. Third, instead of using only Cross Sectional (CS) analysis in a two-stage least squares (2SLS) regression model on beginning and ending states of governance, as Knack does, this chapter employs as well a pooled Time Series Cross Sectional (TSCS) model with country effects. The pooled character of the analysis provides more data points and is therefore, *ceteris paribus*, more robust in the original sense of the word. The use of individual country effects as explanatory variables means that each and every invariant aspect of the social, institutional and historical character of a state is controlled for in the model, as La Porta et al. (1998) and Garrett and Mitchell (2001) agree is necessary. Country dummies thus are included to account for the “underlying historical fabric of a country that affects the dependent variable and that is not captured by any of the time and country-varying regressors.”<sup>21</sup> If one were trying to develop a comprehensive explanation of what causes governance, the unspecified character of the country effects model would be

frustrating. But it is a preferable control when one is focusing on another variable, the policy instrument that is aid and its components. Before proceeding to the pooled TSCS specifications, the chapter will replicate Knack's methodology on the new data and show that it generally produces results similar to those he has reported in his articles. The fact, then, that the TSCS specifications produce different results is the cautionary tale in this analysis.

Data Sources. Kaufmann et al. aggregated governance indicators have been updated on average once every two years since they were first launched in 1999. The 2005 dataset is used in this chapter and covers 209 countries and territories for five specific years: 1996, 1998, 2000, 2002 and 2004. Up to 352 individual measures of governance are assigned to categories capturing key dimensions of governance. The Kaufmann et al. countries and territories were matched against the *World Development Indicators* (World Bank, 2005b) resulting in up to 199 common countries and territories (of course, fewer still survived analysis as missing observations were dropped). Countries reporting aid as a percentage of GNI were used, and of these, the few that had negative aid values (i.e. were net givers of aid even though they are classified as recipients) were converted to zero values.<sup>22</sup>

Dependent Variable. As with previous versions of their data, the Kaufmann et al. May 2005 release continues with six broad categories or dimensions of governance: VA/Voice and Accountability; PS/Political Stability (which now has added to it "and Absence of Violence"); GE/Government Effectiveness; RQ/Regulatory Quality; RL/Rule of Law; and CC/Control of Corruption.<sup>23</sup> The composite Governance Index (Gov) is a simple average (without weights) of the six

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<sup>21</sup> Garrett and Mitchell (2001: 163).

<sup>22</sup> The model hypothesized is not symmetric; being a net giver of aid should not improve governance (although it could be argued, certainly, that some countries like South Korea have repaid financial obligations following the 1997 Asian Crisis as a way to signal their commitment to economic reform and good governance).

<sup>23</sup> The idea of using rank orders was considered but rejected because doing so would still vary from a given year to the next.

dimensions of governance, or fewer depending on available dimensions. This is done to allow for as many observations as possible when using Gov. Missing data for countries can be a problem if pairwise correlation coefficients are low, as Heckelman and Knack (2005) warned of their economic freedom data (some pairs had zero and near zero correlation). However, the six dimensions and the Gov index were all moderately to highly correlated and statistically significant.<sup>24</sup>

Independent Variables. Aid is measured by net Official Development Assistance (ODA) and official aid as a percentage of GNI,<sup>25</sup> using data for the years 1991-99 from World Bank (2005b) which reports data provided to it by the Organisation for Economic Co-operation and Development (OECD) and is in turn collected from each donor agency. GNI estimates are from the World Bank and OECD. According to Knack (2001: 315), this “includes grants, and loans with a grant element of more than 25 percent.” Knack and Heckelman add:

This definition excludes most IMF lending, as well as the majority (in most years) of World Bank loan volumes, which goes to middle-income borrowers charged near-market rates of interest. Roughly two-thirds of World Bank structural adjustment lending goes to middle-income countries and does not qualify as aid. About one-fourth of World Bank aid to low-income countries is in the form of structural adjustment loans.<sup>26</sup>

For consistency over time, and to minimize volatility in aid flows for one year or another, a rolling average of aid was used for a five-year period preceding the year in which governance was measured. This provides for a lagged element to aid as well since the impact of aid cannot be instantaneous. Programs take a number of years to get going, and the literature has used a five year lag (Collier and Hoeffler,

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<sup>24</sup> The minimum and maximum  $\rho$  were 0.2598 and 0.7188, respectively, more than half of which exceeded 0.4175 and all pairwise  $\rho$  were statistically significant at well below the 0.01 level.

<sup>25</sup> Ratios are computed using values in U.S. dollars converted at official exchange rates.

<sup>26</sup> Knack and Heckelman (2005: 8).

2002).<sup>27</sup> This lag has the added advantage of controlling for potential reverse causality and endogeneity.<sup>28</sup>

Since the chapter replicates Knack's (2001) findings using the Kaufmann et al. data instead of the ICRG data Knack used, results using his original methodology (CS analysis) will be presented first and the independent variables used for it will circumscribe further analysis for reasons of comparability. Beyond this, pooled TSCS analysis is used to analyze many more observations—and represent this chapter's main contribution.<sup>29</sup> Both analyses follow Knack's precedent in terms of Right Hand Side (RHS) variables. As earlier elaborated two modifications are the introduction of lags and the use of a rolling average for aid. The remaining determinants follow his model: the initial governance dimension value, changes over the period in log of GDP per capita and in log of population (expressed as a fraction of their initial values) for the period 1991-1999. These are later adapted to suit the pooled TSCS analysis by examining levels (as opposed to change) and initial values are not used since they are not compatible with Fixed Effects modeling (due to the fact of their being invariant).

To adapt Knack's reasoning from his original data to the Kaufmann et al. data, inclusion of the initial governance dimension value captures regression-to-the-mean effects. It also captures the "limited opportunity of highly-rated countries to

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<sup>27</sup> Apodaca and Stohl (1999) and Harms and Lutz (2004) used a one period lag, but this is still too brief a time period for aid to have an impact on governance.

<sup>28</sup> With the introduction of a governance discount in PBAs in 1999 and the creation of the United States' Millennium Challenge Account, which rewards those countries that "govern justly, invest in their people and encourage economic freedom" (Bush, 2002), how a country governs can now determine how much it receives in aid. The last year of the aid variable used in any case is 1999, and thus is not affected by this recent development.

<sup>29</sup> Of course, given the margin of error associated with both objective and perceptions-based measures of governance, the Kaufmann et al. data is certainly not immune to this. Thus, changes over time should be interpreted with caution. A rule of thumb Kaufmann et al. (2005: fn 18) suggest is to require 90 percent confidence intervals in the two periods compared not to overlap or the "equivalent to requiring the absolute change in estimated governance to be larger than the sum of the standard errors in the two periods. This sum is always larger than the square root of the sum of the squares of these standard errors."

increase their scores” because of the 2.5 upper bound on the governance data. According to Knack, if there are economies of scale in establishing effective institutions, population increases could be associated with improvements in governance indicators. Likewise, he argues that “increases in per capita income could improve the quality of governance by increasing tax revenues, if government funds are a binding constraint.”<sup>30</sup>

Exogenous instruments<sup>31</sup> for aid used by Knack (2001) are nearly identical to Burnside and Dollar (1997): infant mortality in 1980, initial GDP per capita, initial population, and Franc zone and Central America dummy variables to measure donors’ interest. Because the focus of this chapter is on pooled TSCS results, using common instruments for both cross-section and TSCS is an important consideration. Dummy variables (Franc zone and Central America) cannot be used under Fixed Effects.

These are time-invariant parameters representing the unique characteristics of countries (such as colonial origins) that affect governance independently of aid, income, and population. Their introduction into the TSCS model would violate assumptions of the Fixed Effects model. Again, under the cross-sectional analysis, the goal was to replicate the findings of Knack (2001). This was accomplished with the use of only one instrumental variable: infant mortality 1990 (a year during which data is available for many countries).<sup>32</sup> The instrument for aid under 2SLS / TSCS was infant mortality extrapolated from available years in 1990, 1995, and

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<sup>30</sup> Knack (2001: 316).

<sup>31</sup> Aid is potentially endogenous since, as mentioned earlier, governance has increasingly been tied with aid. Thus, there is some process by which countries with more aid are different from countries with less aid that is not measured in regressions in which aid is not instrumented. Instruments are the variables used in the first stage of 2SLS to create the new variables (called instrumental variables) which replace the problematic (endogenous) causal variables.

<sup>32</sup> In this sense, infant mortality becomes a basis for why aid is given regardless of governance. Of course, infant mortality itself is admittedly not purely exogenous, bad governance leads to bad development outcomes.

2000.<sup>33</sup> Over-identifying tests of restrictions show significant p-values when infant mortality 1990 (or 95), log of GDP per capita 1991, adult illiteracy 1990, and log of population 1991 are used together. Since both GDP per capita and population are among RHS variables, their duplication as instruments would cause them to be dropped. Adult illiteracy (considered as an alternate human development variable in Heckelman and Knack, 2005), when used alone as an instrument, had a first-stage F-statistic of 9.74, and as such was dropped from further consideration in the CS analysis per Staiger’s and Stock’s (1997) rule of thumb that in the case of only one endogenous variable, instruments are considered weak if the first stage F-statistic is less than 10.<sup>34</sup> Thus, only infant mortality is deployed and it serves its purpose in replicating the findings of Knack at the CS level of analysis.

## Results

### Cross-Sectional Model

Results using OLS are presented in Table 2, which provide a first test of the effects of aid dependence on the quality of governance. A very strong regression-to-the-mean effect is found. Save for the overall Governance Index initial value (1996) not being significant and Voice and Accountability’s initial value (1996) being significant at only the five percent level, all Kaufmann et al. initial value indicators are significant at the one percent level. Except for Political Stability and Control of Corruption, changes in population have a significant effect. Aside from Political Stability and Rule of Law, increases in GDP per capita are not associated with improvements in the other dimensions of governance.

**Table 2: Cross-Sectional Model 1996-04 Gov: Aid9991 (average), 5-year lag in RHS Cross**

	GOV	VA	PS	GE	RQ	RL	CC
aid9991	-0.061	0.010	-0.458	-0.589	0.132	0.030	-0.916

<sup>33</sup> The five years for the lagged period 1991-1999 were: 1990, average of 1990-1995, 1995, average of 1995-2000, and 2000.

<sup>34</sup> Adding log of GDP per capita 1991, adult illiteracy, and log of population 1991 resulted in significant p-values in tests of overidentifying restrictions.

	GOV	VA	PS	GE	RQ	RL	CC
Initial DV§	[-0.02] (0.44)	[0.003] (0.07)	[-0.07] (0.86)	[-0.19] (2.47)*	[0.03] (0.53)	[0.01] (0.07)	[-0.19] (2.02)*
pop9991	-0.025 (0.60)	-0.089 (2.38)*	-0.361 (5.26)**	-0.149 (3.54)**	-0.215 (4.25)**	-0.174 (3.36)**	-0.207 (2.73)**
gdp9991	-0.647 (2.15)*	-0.870 (2.95)**	-0.432 (0.80)	-0.690 (1.72)+	-1.352 (3.09)**	-0.734 (1.76)+	0.101 (0.19)
Constant	0.020 (0.41)	-0.005 (0.07)	0.364 (1.67)+	0.066 (1.08)	0.102 (1.34)	0.322 (2.06)*	-0.082 (0.48)
Observations	0.021 (0.664)	0.076 (0.159)	-0.213 (0.012)*	0.082 (0.150)	0.084 (0.278)	-0.044 (0.540)	-0.029 (0.709)
R-squared	145	145	127	142	143	129	116
	0.046	0.063	0.206	0.110	0.171	0.102	0.125
<b>2 Stage Least Squares with aid9991 instrumented by Infant Mortality 1990</b>							
aid9991	-0.747 [-0.29] (1.32)	0.186 [0.06] (0.37)	-2.58 [-0.37] (2.54)*	-2.65 [-0.85] (2.66)**	-1.99 [-0.5] (2.18)*	-1.71 [-0.37] (1.97)+	-3.34 [-0.69] (3.07)**

Notes: § is the initial dependent variable value in 1996: gov96, va96, ps96, ge96, rq96, rl96, and cc96

Beta coefficients are in brackets

t statistic in parentheses, two-tailed test used for these and all subsequent regressions

+ significant at 10%; \* significant at 5%; \*\* significant at 1%

For scaling purposes, aid9991 was divided by 100. Adding log of GDP per capita 1991, adult illiteracy, and log of population 1991 resulted in significant p-values in tests of overidentifying restrictions. With already significant results on the aid coefficient using infant mortality, Knack's (2001) analysis is sufficiently replicated.

Source: Author's own calculations.

Aid coefficients for Government Effectiveness and Control of Corruption are negative and significant at the five percent level. A one standard deviation change in aid is associated with a -0.19 standard deviation change in both GE and CC, respectively. Aid explains a substantial part of the variation in these two dependent variables: omitting aid from GE reduces the  $R^2$  from 0.110 to 0.0817; omitting aid from CC reduces the  $R^2$  from 0.125 to 0.0318. In comparison omitting the change in per capita income from GE and CC instead reduces the  $R^2$  from 0.110 to 0.0965 and 0.125 to 0.1222, respectively. These relatively low  $R^2$  values are consistent with the range Tavares (2003) found in his research and suggest that aid cannot explain much of the variation observed in different dimensions of governance.

Alternative Estimation Procedure. Robust regression estimation is already used for all Cross-Section runs. Since aid is endogenous and worsening governance could lower (or increase) aid, 2SLS was used to counter endogeneity as earlier described. The bottom two rows of Table 2 address these endogeneity issues through 2SLS estimation. Coefficients for aid remain negative and statistically significant. Consistent with Knack (2001), when instrumented the negative relationship between aid and governance “strengthens”. Indeed, three additional dimensions of governance (PS, RQ, and RL) are now negatively impacted by aid beyond the original GE and CC. What is immediately apparent is that it is desirable to disaggregate the concept of governance, as even here at least one dimension of governance (VA) is not negatively affected by aid and the magnitude of the effects varies considerably on the other dimensions. Thus even at this stage of the analysis there is some evidence that different causal dynamics are at work on different dimensions of governance.

#### **Pooled Time Series Cross-Sectional Model**

The above regressions did not employ a geographic dummy to measure donors’ interest as instruments for aid nor initial per capita GDP nor initial population, as the main advance in this chapter is the examination of pooled TSCS data using country effects. This method does not permit the use of invariant regressors. The same effects are captured by the country effects, which offer more extensive controls. Separate runs were made for Fixed Effects and Random Effects (the latter, by its nature, does not include country effects). A Hausman test was then performed to determine which model should be used.<sup>35</sup> Results on all runs are reported, not only those that showed aid to be significant (Gov, RQ, and RL) in

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<sup>35</sup> The Hausman test null hypothesis is that the coefficients estimated by the efficient Random Effects estimator are the same as the ones estimated by the consistent Fixed Effects estimator. If they are (insignificant p-value,  $\text{Prob} > \chi^2$  larger than .05) then it is safe to use Random Effects. If p-value is less than or equal to 0.05, Fixed Effects is used.



Table 3. The Fixed Effects model was chosen in the pre-2SLS runs based on the Hausman test, while the Random Effects model was favored in two out of three 2SLS runs (see this and subsequent tables).<sup>36</sup> The results suggest that the impact of aid is not nearly as negative as when the Cross-Sectional analysis is used. When aid is instrumented with infant mortality lagged five years, it again appears to be significant for RL, but under a Random Effects model.<sup>37</sup>

**Table 3: Lagged Rolling Aid (aidr)**

	GOV	VA	PS	GE	RQ	RL	CC
<b>Effects</b>	<b>Fixed</b>	<b>Fixed</b>	<b>Fixed</b>	<b>Fixed</b>	<b>Fixed</b>	<b>Fixed</b>	<b>Fixed</b>
aidr	-0.005 (2.28)*	0.001 (0.62)	-0.003 (0.63)	-0.001 (0.24)	-0.007 (1.92)+	-0.007 (2.21)*	0.002 (0.70)
lgdp5	-0.015 (0.28)	-0.048 (0.75)	-0.135 (1.19)	-0.006 (0.09)	-0.114 (1.23)	0.093 (1.30)	-0.107 (1.38)
lpop5	-0.809 (6.50)**	-0.421 (2.94)**	-1.098 (4.44)**	-0.682 (4.09)**	-1.250 (5.95)**	-0.885 (5.47)**	-0.288 (1.62)
Constant	12.399 (6.46)**	6.633 (3.01)**	18.060 (4.62)**	10.329 (4.00)**	19.998 (6.16)**	12.848 (5.12)**	4.942 (1.79)+
Observations	750	750	687	743	746	732	717
Number of id	155	155	155	155	155	155	155
R-squared	0.068	0.022	0.043	0.031	0.062	0.051	0.014
Hausman	88.92	N/M	N/M	N/M	75.03	51.34	N/M
Prob> $\chi^2$	0.0000	N/M	N/M	N/M	0.0000	0.0000	N/M
<b>Fixed Effects Regression with Robust Standard Errors</b>							
aidr					-0.007 (1.71)+	-0.007 (1.76)+	
<b>Two-Stage Least Squares with Aid Instrumented by Infant Mortality</b>							
<b>Effects</b>	<b>Fixed</b>	<b>Fixed</b>	<b>Fixed</b>	<b>Random</b>	<b>Fixed</b>	<b>Random</b>	<b>Fixed</b>
aidr	0.118 (0.22)	0.493 (0.24)	0.229 (0.16)	-0.048 (1.58)	-0.215 (0.27)	-0.050 (1.88)+	0.185 (0.28)
Hausman	N/M	20.51	41.51	7.53	32.63	0.22	10.43
Prob> $\chi^2$	N/M	0.0001	0.0000	0.0567	0.0000	0.9750	0.0153

Notes: Absolute value of z statistics in parentheses  
+ significant at 10%; \* significant at 5%; \*\* significant at 1%

<sup>36</sup> Conceptually, the Fixed Effects model is arguably more appropriate than the Random Effects model given the nature of the data (pooled TSCS) and the usefulness of controlling for Country Effects under Fixed Effects. However, the results of the Hausman test suggest that the Random Effects model is more appropriate when aid is instrumented with infant mortality for two specific instances (aid alone and aid with technical cooperation), and are reported as such. The equivalent results under Fixed Effects are not statistically significant and the sign attached to aid is in fact positive.

<sup>37</sup> Kennedy (1998: 227) states “The random effects model has a major drawback, however: it assumes that the random error associated with each cross-section unit is uncorrelated with the other regressors, something that is not likely to be the case.” Although detailed results are not presented here, using rolling averages back to 1987-1991 of not only aid but all right hand side variables under pre-2SLS showed that aid (% GNI) helped RQ and CC and aid (% Gov’t) hurt GE. Nothing else was significant.

N/M = “Not Meaningful” results (negative value obtained) in which case the Fixed Effects results are presented here by default. The equivalent Fixed Effects run for 2SLS Rule of Law had no statistically significant coefficients. 2SLS results do not use Robust Standard Errors.

*Source:* Author’s own calculations.

Why Could Aid Hurt the Rule of Law?<sup>38</sup> While one may be mildly surprised that aid had no impact on Control of Corruption, one may be even more surprised that the Rule of Law is negatively affected by aid. One explanation might be that informant views about the integrity, transparency, reliability, etc. of the local system as a whole is better reflected in this measure than it is in the corruption one—at least in high aid countries. For example, a diplomat based in Cambodia (which receives half its budget from aid) stated that:

It’s the unusually high legal risk that foreign firms face when dealing with Cambodia that has led to the drop off in FDI. My personal hope is that a credible and transparent Commercial Court that would handle contractual and business disputes would give investors the confidence they need to invest in Cambodia’s great potential.<sup>39</sup>

The particulars in Cambodia’s are detailed in Chapters 3 and 4. We are still left of explain the negative effects of aid on RL, however. Four alternative explanations that could conceivably help to explain the negative relationship between official development assistance and the Rule of Law are:

- (a) An increase in aid could lead to a decrease in the need for Foreign Direct Investment (FDI) and consequently the Rule of Law needed to attract FDI. In other words, aid crowds out FDI as a subsidized form of investment. Aid is, if nothing else, fungible.
- (b) Where aid is high, the pernicious effects of rampant corruption are buffered, affording individuals a “So What?” attitude which can migrate to the Rule of Law as well;
- (c) Donors have not put much emphasis on Rule of Law as a variable historically—particularly other than in the form of technical training and it “floats up” as other development constraints are reduced by aid with no counter-force from donors.
- (d) Donor interventions in RL are counterproductive.

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<sup>38</sup> The use of this case study is speculative and hypothetical, but is offered to illustrate what could be going on with respect to aid and the Rule of Law. A further and more detailed exposition is offered in Chapter 3.

<sup>39</sup> Diplomat (2004).

For the last hypothesis, Golub (2003) critiques “Rule of Law Orthodoxy” which he identifies as “most prominently practiced by multilateral development banks” and defines as a “‘top-down,’ state-centered approach [that] concentrates on law reform and government institutions, particularly judiciaries, to build business-friendly legal systems that presumably spur poverty alleviation.”<sup>40</sup> He examines many questionable assumptions and other considerations on which the approach is based. The alternative he proposes is Legal Empowerment, discussed in greater detail towards the end of this section. In thinking specifically about how aid might hurt the rule of law, Golub (2004) contends that:

One example of potentially counterproductive foreign aid concerning the rule of law would be where foreign-funded consultants/lawyers in a given country help to rewrite laws and revise land registration systems. These revisions may be exploited by well-connected persons to engage in de facto land theft, under the color of the law. Such exploitation can take place because the poor lack knowledge of the legal revisions; lack access to legal help to avail of those changes; or are not organized to resist the land theft through the legal or political spheres. And even where such exploitation does not take place, revisions can nevertheless overturn traditional land use systems that had functioned equitably and effectively to the benefit of farmers and the environment, replacing them with less appropriate systems.<sup>41</sup>

A development expert (2003) argued that, if nothing else, local businessmen “only want rule of law when it suits them, when things have gone wrong for them.”

By 2003, the World Bank’s Cambodia office, for instance, decided to hone-in on governance and in particular legal and judicial reform as the *sine qua non* for the country’s development in the next five years. Cambodian laws are often written by donor-funded advisors in French first, then translated to Khmer, then translated into English. The original French meaning is often lost in translation, causing confusion and misinterpretation. If nothing else, what is clear is that when

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<sup>40</sup> Golub (2003: 3).

<sup>41</sup> Golub (2004). He adds: “This is not to argue, however, that revising land laws and registration systems is necessarily counterproductive. Conducted properly in many contexts, such changes can benefit low income farmers and overall productivity. But it is nevertheless crucial to bear in mind how well-intended “reforms” can backfire in the legal sphere as well as in other development endeavors.”

it comes to Rule of Law there is no way around the local system. As Golub has assessed:

In evaluating work with the Cambodian judiciary, I was told by a U.S.-based NGO of its great progress with courts in a particular province, only to have independent Western and Cambodian sources volunteer (without prompting) that those courts were particularly corrupt. Although technical progress can take place even in the face of undue influences, where such influences are widespread they tend to trump the value of the technical change.<sup>42</sup>

Drawing on the experience of NGOs across the globe, Golub's alternative paradigm is legal empowerment, which he defines as "the use of legal services and related development activities to increase disadvantaged populations' control over their lives."<sup>43</sup> Legal empowerment is not just an alternative approach to Rule of Law assistance. Rather, it can be an important part of mainstream socioeconomic development efforts that do not usually provide legal services for the poor.

#### **Disaggregating Aid: Technical Cooperation and Average Grant Element**

To explore how elements of aid might impact governance, technical cooperation as a percentage of grants was examined. TC was added to RHS variables in addition to an interaction term with aid (see Table 4). The findings suggest that technical cooperation has a tendency to hurt Gov, GE, RQ, RL and CC.<sup>44</sup> Conversely, aid may help PS and hurt GE and RQ. Some of these findings disappear, however, under robust standard errors: aid no longer helps PS nor hurts GE, while technical cooperation no longer hurts RQ. The interaction variable  $aid*tc$  hurts Political Stability, but helps Government Effectiveness. When aid is instrumented, a 2SLS finding is that both aid and technical cooperation hurt the

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<sup>42</sup> Golub (2003: 18).

<sup>43</sup> Golub (2003: 5).

<sup>44</sup> Second-order effects were also estimated but the results are not reported here due to lack of space. Introducing technical cooperation squared saw promising results under Regulatory Quality runs. While technical cooperation has a negative effect on RQ when it is low, after a certain point (namely when it exceeds  $0.528=1.806/(2*1.71)$ ), it has a positive effect. What this means is that, if technical cooperation is given in a sufficiently large amount, it is more likely to improve RQ, *ceteris paribus*. Improving Regulatory Quality requires monitoring and enforcement. This is costly. Hence the creation of Project Management and Implementation Units which take over audit, procurement, and other financial management functions.

rule of law but nothing more.<sup>45</sup> This finding is wholly consistent with the earlier findings that aid, by itself, had a negative relationship with Rule of Law when instrumented.

**Table 4: Aid and Technical Cooperation (tcr)**

	GOV	VA	PS	GE	RQ	RL	CC
Effects	Fixed	Fixed	Fixed	Fixed	Fixed	Fixed	Fixed
tcr	-0.345 (3.03)**	-0.164 (1.16)	-0.239 (0.96)	-0.440 (2.73)**	-0.338 (1.67)+	-0.347 (2.31)*	-0.481 (3.03)**
aidr	-0.002 (0.51)	0.002 (0.48)	0.018 (2.01)*	-0.009 (1.72)+	-0.017 (2.50)*	-0.002 (0.33)	-0.002 (0.27)
aidr*tcr	-0.005 (0.49)	-0.001 (0.05)	-0.081 (3.25)**	0.026 (1.85)+	0.026 (1.50)	-0.015 (1.05)	0.010 (0.70)
lgdp5	-0.056 (1.02)	-0.067 (0.98)	-0.153 (1.28)	-0.035 (0.45)	-0.187 (1.92)+	0.061 (0.84)	-0.152 (1.96)*
lpop5	-0.910 (6.96)**	-0.433 (2.67)**	-1.555 (5.66)**	-0.727 (3.97)**	-1.364 (5.87)**	-0.988 (5.76)**	-0.453 (2.47)*
Constant	14.434 (7.04)**	7.002 (2.75)**	25.673 (5.86)**	11.409 (3.96)**	22.518 (6.18)**	14.886 (5.52)**	7.921 (2.75)**
Observations	656	656	604	653	656	643	628
Number of id	133	133	133	133	133	133	133
R-squared	0.106	0.028	0.093	0.052	0.083	0.076	0.045
Hausman	95.36	N/M	56.85	51.83	90.37	50.51	45.41
Prob> $\chi^2$	0.0000	N/M	0.0000	0.0000	0.0000	0.0000	0.0000
<b>Fixed Effects Regression with Robust Standard Errors</b>							
tcr	-0.345 (3.52)**			-0.440 (3.06)**	-0.338 (1.63)	-0.347 (2.41)*	-0.481 (3.03)**
aidr			0.018 (1.62)	-0.009 (1.59)	-0.017 (2.02)*		
aidr*tcr			-0.081 (2.83)**	0.026 (1.78)+			
<b>Two-Stage Least Squares with Aid Instrumented by Infant Mortality</b>							
Effects	Fixed	Fixed	Fixed	Fixed	Fixed	Random	Fixed
tcr	3.451 (0.48)	2.342 (1.02)	0.451 (0.13)	-1.590 (1.02)	-0.694 (0.43)	-1.892 (3.39)**	-1.021 (0.28)
aidr	0.088 (0.88)	0.200 (1.11)	0.074 (0.27)	-0.098 (0.82)	-0.045 (0.36)	-0.140 (3.21)**	-0.046 (0.15)
aidr*tcr	-0.202 (0.92)	-0.434 (1.10)	-0.206 (0.34)	0.222 (0.84)	0.088 (0.32)	0.308 (3.27)**	0.107 (0.16)
Hausman	15.94	N/M	36.94	13.27	33.52	5.56	N/M
Prob> $\chi^2$	0.0070	N/M	0.0000	0.0210	0.0000	0.3519	N/M

Notes: Absolute value of z statistics in parentheses

+ significant at 10%; \* significant at 5%; \*\* significant at 1%

N/M = "Not Meaningful" results (negative value obtained) in which case the Fixed Effects results are presented here by default. The equivalent Fixed Effects run for

<sup>45</sup> When technical cooperation is instead instrumented with infant mortality, and a Hausman test is run, the significant findings under Fixed Effects (that aid continues to help Voice and Accountability and that both aid and technical cooperation help Rule of Law) are superseded by the Random Effects results which show no statistical significance.

2SLS Rule of Law had no statistically significant coefficients. When technical cooperation is instrumented with infant mortality, all Fixed Effects results which are statistically significant are superseded by Random Effects results which are not significant. 2SLS results are not presented using Robust Standard Errors.

*Source:* Author's own calculations.

Another component of aid is the percentage of average grant element (official). When aid is analyzed with average grant element and an interaction term  $ger*aidr$  is introduced, the results indicate that average grant element and aid help Voice and Accountability (see Table 5).<sup>46</sup> The findings that both aid and average grant element help Voice and Accountability are replicated under 2SLS with average grant element instrumented with infant mortality (see lower section).<sup>47</sup> However, while both average grant element and aid appeared to help Rule of Law, this finding was invalidated after the Hausman test found a  $\chi^2$  that was negative.<sup>48</sup>

**Table 5: Aid and Average Grant Element (ger)**

	GOV	VA	PS	GE	RQ	RL	CC
Effects	Fixed	Fixed	Fixed	Fixed	Fixed	Fixed	Fixed
ger	0.015 (1.24)	0.045 (3.10)**	-0.009 (0.33)	0.042 (2.54)*	0.005 (0.24)	-0.004 (0.27)	0.008 (0.47)
aidr	-0.003 (1.00)	0.009 (2.19)*	0.003 (0.24)	0.001 (0.17)	-0.012 (1.95)+	-0.007 (1.62)	0.005 (1.09)
ger*aidr	0.000 (0.12)	-0.002 (2.19)*	-0.001 (0.53)	-0.000 (0.47)	0.001 (0.74)	0.000 (0.40)	-0.001 (0.69)
lgdp5	0.001 (0.01)	-0.005 (0.08)	-0.186 (1.54)	0.068 (0.89)	-0.134 (1.37)	0.089 (1.21)	-0.088 (1.14)
lpop5	-0.867 (6.59)**	-0.486 (3.03)**	-1.192 (4.37)**	-0.819 (4.48)**	-1.408 (6.07)**	-0.892 (5.16)**	-0.459 (2.48)*
Constant	13.162 (6.43)**	7.179 (2.88)**	20.006 (4.62)**	11.791 (4.14)**	22.684 (6.29)**	13.054 (4.83)**	7.365 (2.55)*
Observations	655	655	603	652	655	642	627

<sup>46</sup> Finkel et al. (2005) study USAID's interventions in the area of Democratic Governance and found strikingly positive and strong impacts.

<sup>47</sup> When aid is instead instrumented in 2SLS the Hausman test shows a negative  $\chi^2$ . Unfortunately, based on the currently displayed runs, one cannot conclude anything about "separate" effects of aid and average grant element from a regression that includes an interaction between them. To conclude anything about "separate" (unconditional) effects, one must assume no interaction between them and run that regression.

<sup>48</sup> The role of external debt as percentage of GNI was also examined, but the findings are not reported here due to lack of space. Prior to instrumenting, aid is not statistically significant, while external debt is positively associated with PS, RQ, and RL. However, their net impact on these dimensions of governance indicates that the beta coefficient of the interaction variable causes the net effect to be negative—as originally hypothesized. 2SLS runs with either  $ed5$  or  $aidr$  instrumented with  $mort5$  did not produce usable results because while there was significance in the Random Effects model, the Hausman test overruled RE in favor of FE or had a negative  $\chi^2$  value. When instrumented, no findings were statistically significant.

	GOV	VA	PS	GE	RQ	RL	CC
<b>Effects</b>	<b>Fixed</b>	<b>Fixed</b>	<b>Fixed</b>	<b>Fixed</b>	<b>Fixed</b>	<b>Fixed</b>	<b>Fixed</b>
Number of id	133	133	133	133	133	133	133
R-squared	0.085	0.042	0.054	0.052	0.079	0.055	0.026
Hausman	N/M	61.57	N/M	59.80	102.86	67.05	N/M
Prob> $\chi^2$	N/M	0.0000	N/M	0.0000	0.0000	0.0000	N/M
<b>Fixed Effects Regression with Robust Standard Errors</b>							
ger		0.045 (2.76)**		0.042 (2.54)*			
aidr		0.009 (3.34)**			-0.012 (1.88)+	-0.007 (2.04)*	
ger*aidr		-0.002 (2.82)**					
<b>Two-Stage Least Squares with Average Grant Element Instrumented by Infant Mortality</b>							
<b>Effects</b>	<b>Fixed</b>	<b>Fixed</b>	<b>Fixed</b>	<b>Fixed</b>	<b>Fixed</b>	<b>Fixed</b>	<b>Fixed</b>
ger	0.074 (0.84)	0.218 (1.85)+	-0.029 (0.19)	-0.140 (1.06)	-0.053 (0.35)	0.381 (2.57)*	-0.053 (0.50)
aidr	0.003 (0.31)	0.029 (2.05)*	-0.001 (0.04)	-0.020 (1.26)	-0.019 (1.02)	0.033 (1.97)*	-0.001 (0.07)
ger*aidr	-0.002 (0.63)	-0.007 (1.92)+	-0.000 (0.04)	0.005 (1.24)	0.002 (0.56)	-0.010 (2.42)*	0.001 (0.32)
Hausman	N/M	52.26	N/M	N/M	82.29	N/M	19.34
Prob> $\chi^2$	N/M	0.0000	N/M	N/M	0.0000	N/M	0.0017

Absolute value of z statistics in parentheses

+ significant at 10%; \* significant at 5%; \*\* significant at 1%

Notes: The 2SLS Random Effects runs for VA and RL were also statistically significant. Using robust standard errors, the Fixed Effects run for VA was not statistically significant.

Source: Author's own calculations.

## Conclusion and Discussion

This chapter has focused on the empirical questions arising from Knack and three related hypotheses: As concerns the first hypothesis, aid dependence is statistically significant as a negative explanatory variable for various dimensions of governance (PS, GE, RQ, RL, and CC) when instrumented using cross-sectional analysis, as Knack did. As concerns the second hypothesis, when a more sophisticated method is used the hypothesis is only partly proven, with only one dimension of governance hurt by aid: Rule of Law. And finally, as concerns the third hypothesis, components of aid like technical cooperation and average grant elements are statistically significant when considered with aid. They are typically negative in their impact on those dimensions of governance which they affect. This

suggests that the negative effects of aid dependence found by Knack (2001) and others can be reversed with effort. It is apparent in comparing the CS and TSCS results that Knack's method seems to overstate the negative effects of aid on governance. Pooled analysis, because of its ability to employ country effects (under Fixed Effects) and its use of multiple time periods, is methodologically stronger and gives less negative results.

A recurrent finding under both CS and TSCS is that Rule of Law is hurt by aid (and possibly technical cooperation as well). Are donors' approaches to improving Rule of Law misguided and ineffective? Possibly. Has Rule of Law Orthodoxy been the dominant form of technical cooperation provided? Probably. Golub's alternative paradigm to Rule of Law Orthodoxy, Legal Empowerment, while no panacea, should be examined more carefully in cases where traditional Rule of Law reform programs have failed to improve this aspect of their governance.

Certainly, these findings show that the answers about aid and governance are not uni-dimensional. Aid is both part of the problem and part of the solution. Aid, as a measure, is a blunt instrument, and what is inside aid is what matters most, which brings us to the third question: how do technical cooperation and average grant element impact governance? Under 2SLS estimation, both aid and technical cooperation hurt the Rule of Law. Grants and aid help Voice and Accountability.

What is apparent is that Knack may have been (in 2001) and may be (in 2005) too pessimistic when he concluded that "higher aid levels erode the quality of governance, as measured by indexes of bureaucratic quality, corruption, and the rule of law"<sup>49</sup> and with Heckelman "aid on balance significantly retards rather than

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<sup>49</sup> Knack (2001: 310).



encourages market-oriented policy reform.”<sup>50</sup> Even when a negative impact is found, the  $R^2$  is small even if consistent with the  $R^2$  of Tavares (2003). Clearly, under TSCS, aid explains very little of the variation observed in different dimensions of governance. It may be that the finding of a less prevalent negative effect than Knack reported is due to the earlier described attempts of the Bank and other multilateral donors to use aid to positively affect governance. But it also may be due to the use of more data and the more robust methods possible in the pooled analysis.

Beyond this, one should indeed be concerned that many of the coefficients on aid are negative, even if they are not statistically significant. This much is apparent: aid and/or its components have selective negative impacts on governance. Voice and Accountability is one dimension of governance that may in fact be enjoying positive returns to aid. The ability to turn aid to positive effect on governance remains to be shown. But the real effects are almost certainly in individual countries and particular programs—on which process tracing should now be concentrated. That process tracing is the focus of Chapters 3 and 4 when the political economy of aid and governance, and the political economy of pro-poor livestock policy in Cambodia are studied extensively.

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<sup>50</sup> Heckelman and Knack (2005: 1).

## Chapter 3

# The Political Economy of Aid and Governance in Cambodia

### 1. Introduction

It has been said that economics is the study of choice, while sociology is the study of the absence of choice. In many ways, the post-conflict reconstruction of Cambodia is a case study in the absence of choice on whether or not to engage donors and, in a wider sense, the overall global political economy. The country had been a “pariah” state for the duration of the 1980s; it longed for normal relations and international acceptance. With the fall of the Berlin Wall, indeed with the “end of history”, the Paris Peace Agreement signed on 23 October 1991 signaled the cessation of open warfare, though not the end of conflict itself for Cambodia. Politics is, after all, war by other means.

In the early 1990s, Cambodia was in an economic tailspin. Having lost most of its Soviet Bloc aid, triple digit inflation hit the country in 1990-93. It had an unsustainable budget deficit (circa 4.6% of GDP in 1992) and desperately needed international donor support to prop-up its economy. Cambodia had few alternatives in this early post-conflict phase (1993-1998) but to engage with donors in order to build political legitimacy<sup>1</sup> through a flawed democratic process. It was also at about this time that with the triumph of capitalism over communism and the Latin American debt crisis of the 1980s, a Washington Consensus emerged, one

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<sup>1</sup> Buchanan’s (2003: 145) justice-based conception of political legitimacy defines it as “An entity has political legitimacy if and only if it is morally justified in exercising political power, where the exercise of political power may, in turn, be defined as the (credible) attempt to achieve supremacy in the making, application, and enforcement of laws within a jurisdiction.” He adds that “an entity that exercises political power is morally justified in doing so only if it meets a minimal standard of justice, understood as the protection of basic human rights. The conception of political legitimacy offered is meant to be perfectly general, and applies to any entity that wields political power, whether at the state, regional, or international level ... [Indeed], political legitimacy, rather than political authority, is the more central notion for a theory of the morality of political power. My second main conclusion will be that where democratic authorization of the exercise of political power is possible, only a democratic government can be legitimate.”

that would become neatly prescribed for Cambodia's transition from planned to market economy (Ear, 1997). Technocratic Washington knew best, and Cambodia was only too happy to embrace its policies (implementing them selectively based on political economy conditions). Phnom Penh grew dependent on large annual infusions of aid with increasing strings attached.

Unfortunately for Cambodia, the country was an early test-case for post-conflict reconstruction and the World Bank had little experience with genocide-afflicted, civil war-torn countries.<sup>2</sup> The Bank's Post-Conflict Fund was established in 1997, four years after the United Nations Transitional Authority in Cambodia (UNTAC)-administered elections, and only because of two major events, the establishment of the Holst Fund for West Bank and Gaza in 1994 and the Bank's leadership role with Europe in post-conflict recovery in Bosnia and Herzegovina in 1995.<sup>3</sup> As an NGO commentator pointedly remarked, "so the Bank has discovered peace."<sup>4</sup> And while the donors like the Bank now realize the importance of a "broader approach to good governance"<sup>5</sup> in post-conflict situations, their approach to aid too often leaves countries dependent and lacking political legitimacy.

Indeed, aid dependence<sup>6</sup> and indebtedness have been empirically linked with worsening quality of governance (and by extension political legitimacy). Using

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<sup>2</sup> Even though its first loan ever was to post-war France and its non-concessional loan window is still known to this day as the "International Bank for Reconstruction and Development".

<sup>3</sup> World Bank (2004e). The Post-Conflict Fund is intended to enhance the World Bank's ability to support countries in transition from conflict to sustainable peace and economic growth.

<sup>4</sup> As quoted in World Bank (2004e: 5).

<sup>5</sup> World Bank (2004e: 5).

<sup>6</sup> Aid dependence is a concept that, while broadly understood, has been defined in a variety of ways. Lensink and White (1999) define it as: "A country is aid dependent if it will not achieve objective X in the absence of aid for the foreseeable future." Riddell has called it "that process by which the continued provision of aid appears to be making no significant contribution to the achievement of self-sustaining development" (1996: 24). Rehman Sobhan defines it as "a state of mind, where aid recipients lose their capacity to think for themselves and thereby relinquish control" (1996: 122). Bräutigam (2000) from whom the previous definitions were gathered, envisages aid dependence as "a situation in which a country cannot perform many of the core functions of government, such as operations and maintenance, or the delivery of basic public services, without foreign aid funding and

Kaufmann et al.'s (1999) six dimensions of governance (voice and accountability, political stability, government effectiveness, regulatory quality, rule of law, and control of corruption), this chapter aims to examine whether the donor community has enjoyed success in affecting governance and if so which dimensions of governance. In other words, what kind of governance were donors capable of inducing in the Royal Government of Cambodia (RGC) and how did the RGC cope with aid dependence?

Cambodia was (or at least was well on its way to becoming) a failed state by the late 1980s.<sup>7</sup> In the early 1990s, the international donor community faced a dilemma of how to reconstruct the country's state and society. While it could be argued that the regime was deprived of political legitimacy because of donor assistance, the question posed by this chapter is broader: Has Cambodia's extreme dependence upon donor assistance in the post-conflict period aided or hindered reconstruction efforts? Post-conflict reconstruction requires the reestablishment of political stability and legitimacy. Beyond this, it also involves establishing effective state capacity<sup>8</sup> which is a broader concept than political stability and legitimacy alone. State capacity implies respect for the rule of law, control of corruption, voice and accountability, and other dimensions of governance. Indeed, seen from this

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expertise." In turn she uses aid intensity as a proxy for aid dependence, aid as a percentage of GNP, central government expenditure, current revenue, gross domestic investment, or imports.

<sup>7</sup> Cambodia would qualify for state failure at least in the 1970s onwards because of its considerable experience in civil, revolutionary, and ethnic wars (if one includes genocide) as defined by Esty et al. (1998) and cited by Wallensteen (2000). Using the Government of Canada's (2003) characterization of Colombia as suffering incipient state failure, Cambodia could arguably fall under this category today. Canada defines incipient state failure as the collapse of a state's structure, authority, law and political order. This includes systemic impunity, failure of the justice system, and lack of faith in political structures. These are widely recognizable in the present day context of Cambodia.

<sup>8</sup> As Migdal (1988: xi) asks "Why do some states succeed more and some less in realizing the vision of their leaders? The main issues will be state capabilities or their lack: the ability of state leaders to use the agencies of the state to get people in the society to do what they want them to do." More operationally, it can alternatively be defined as the ability to collect income and other taxes, i.e., to "the extent that state capacity is defined as the capacity to secure compliance with formal legal directives, the corruption of this key principal-agent relationship means that state capacity is undermined. Thus, it is common to speak of states with low rates of tax collection, uneven enforcement of laws and regulations, and high levels of graft as "weak" states" (Darden, 2002).

perspective, the question of what quality of governance has been achieved in the last decade with donor support is paramount.<sup>9</sup> Moreover, explicitly linking quality of governance with development outcomes in the last decade is crucial to understanding the political economy of aid and governance in Cambodia. The inescapable fact of Cambodia's growing infant and child mortality, stagnating (or possibly increasing) poverty and inequality,<sup>10</sup> and slippage below Laos in per capita GDP income and infrastructure, despite five billion dollars of foreign aid in the last decade seems, on the surface, to be a *prima facie* failure of development and governance.

This chapter draws on nearly two years of fieldwork in Cambodia during which time more than 50 formal interviews were conducted along with at least one hundred encounters and discussions with senior government officials, donor and NGO representatives, and civil society. Furthermore, an anonymous survey was conducted of individuals with at least three years' experience in development work in Cambodia. The elite survey asked them to rate donor success in effecting change across the six Kaufmann dimensions of governance. More than 40 individuals chose (i.e. self-selected) to participate and offered detailed views. Their identities are kept anonymous with a number in parenthesis following each quotation. A key to the respondent numeric codes used in this chapter can be found in Table 2 of Appendix A. Respondents are deeply involved in Cambodian development (72% work in donor agencies or NGOs) with considerable experience in the country (averaging eight years), and have a great deal of professional expertise (77% worked in management or as advisors). The survey results suggest that the donor community was most successful in effecting change in the following dimensions of

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<sup>9</sup> Informants argue that up to 1994 regulatory quality and government effectiveness were, in practice, far more effective than today, and that donors arrived with the preconceived notion that civil servants had little or no capacity and could not be trusted with any responsibility. In fact, it is

governance (percent represents donor success rated as medium to very high): political stability (66%); voice and accountability (47%); government effectiveness (31%); regulatory quality (27%); rule of law (12%); and control of corruption (5%). Indeed, for control of corruption, some respondents added that donors had “no real incentive to curb corruption” or “don’t control corruption in their own practices” or even “encourage it and support it at every opportunity.”<sup>11</sup>

The chapter has the following structure: Section 2 discusses structural limitations and potential in the early post-conflict period and delves into the poor development outcomes observed in the last decade—which then beg the question of how and why?; Section 3 presents the results of the elite survey; Section 4 examines how Phnom Penh has coped with aid dependence; Section 5 details the many roles donors have played and continue to play in Cambodia; and Section 6 concludes with some lessons learned from Cambodia for donors in their endeavor to enhance political legitimacy and governance in a post-conflict, aid dependent environment.

## **2. Background: A Decade of Reconstruction and Development**

Cambodia’s structural weakness in the early post-conflict period, both macroeconomic and in terms of state capacity, left the country with few if any choices in dealing with donors—and possibly—few if any choices but for donors to engage Cambodia. As is the case in most LDC economies, macroeconomic statistics on the economy at the time were at best unreliable, if available at all. Statistics on national income gathered from the World Bank were in nominal terms, and therefore could not be used in relation to other years. There arose as well a path-dependent element to this phenomenon as aid dependence set-in. The ruling regime

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a truism that things got done back then. Today, policies loiter on paper as the quaint aspirations of an earlier age.

<sup>10</sup> This issue is updated and revisited in the Addendum to this dissertation.

chose to dissuade donor fears by immediately adopting the language of donors. Unfortunately, the outcome of a decade's worth of post-conflict reconstruction and development suggests that the political economy bargain that was struck resulted in increased infant and child mortality relative to 1990, lagging infrastructure in comparison to Laos, and possibly increased poverty and inequality relative to the mid to late 1990s.<sup>12</sup>

## 2.1 Development Outcomes<sup>13</sup>

### 2.1.1 Increasing Infant and Child Mortality, Lagging Infrastructure

A decade of Cambodian development has proven that technical solutions often fail in the face of political reality. Despite more than five billion dollars of external financial assistance between 1993 and 2003 (an average of about 13% of GDP annually), what we know of development in Cambodia is this: Infant and child mortality have risen despite modest real GDP growth (circa 5% in the last decade). In 1990, 80 infants out of 1,000 died at birth (see Table 1). By 2001, that number had increased to nearly 97 in 1,000. While a jump over the course of a decade may be an anomaly, what gives confidence in this trend is the continuous rise for the years in between: 1992, 1995, 1997, and 2000.

**Table 1: Mortality Rate per 1,000 Live Births for Infants and Children**

	1990	1992	1995	1997	2000	2001
Mortality rate, infant	80	83.2	88	90.8	95	97
Mortality rate, child*	115	..	120	..	135	140

Note: \* Under five years of age

Source: World Bank (2005b).

Moreover, child mortality (under-5) also steadily rose from 115 per 1,000 in 1990 to 120 in 1995, 135 in 2000, and finally 140 in 2001. Together, infant and child mortality rates are the highest in the region, higher than even Timor-Leste which

<sup>11</sup> Survey Respondents 5, 24, and 37, respectively.

<sup>12</sup> This issue is updated and revisited in the Addendum to this dissertation.

<sup>13</sup> This section draws from (Ear, 2005a).

in 2003 had an infant mortality of 87 in 1,000 and a child mortality rate of 124 in 1,000 (more or less the equivalent of 1995 Cambodia).

One clue to this poor human development performance is the state of infrastructure in Cambodia. When compared to Laos, Cambodia lags far behind on paved roads, toilets, electricity, and clean water (see Table 2).

**Table 2: Infrastructure in Laos and Cambodia**

	Clean Water	Toilets*	Electricity	Internet	Paved Roads
Cambodia	44	22	17	0.2	4
Laos	58	30	41	0.3	15

Notes: \* Includes latrines

Percent population, except for paved roads which are in percent of total roads.

Source: ADB et al. (2005).

This prompted the ADB, the Japan Bank for International Cooperation, and the World Bank (all co-authors of the study from which the table originates) to argue that “the mutually supportive relationship between growth, poverty reduction, infrastructure and investment is less in evidence”<sup>14</sup> and that “expenditure on infrastructure appears to have been less than optimal in recent years ... This may have undermined economic growth and poverty reduction, and even long-run fiscal solvency.”<sup>15</sup>

### *2.1.2 Stagnating (or Possibly Increasing) Poverty and Inequality*

Of the hard statistical evidence on poverty in Cambodia, little is known of what has happened since 1999 because surveys have only recently since been undertaken (following problems with the 1999 round) and no analysis is yet available of this data.<sup>16</sup> Indeed, there may have been an increase in the last decade based on estimates of poverty.<sup>17</sup> World Bank (2004c) estimates of \$1-a-day poverty in Cambodia, Vietnam, and Laos (1990-2004) show that only Cambodia observed a

<sup>14</sup> ADB et al. (2005: 4).

<sup>15</sup> ADB et al. (2005: 22).

<sup>16</sup> National poverty (urban and rural), which is based on a caloric formula and stands at circa 55 cents per person per day has remained at around 36% using data from both 1997 and 1999.

<sup>17</sup> This issue is updated and revisited in the Addendum to this dissertation.



steady increase in poverty since 1996, from 36.7% to 45% in 2004.<sup>18</sup> By contrast, poverty has been halved since 1990, in Laos and Vietnam. Indeed ADB et al. (2005: 39) confirms that a larger proportion of people (78% as opposed to 73%), now live on less than \$2-a-day in Cambodia than in Laos.

Among the possible explanations are: (1) problems in measurement; (2) a lag effect between poverty reduction programs and actual poverty reduction; (3) ineffective programs themselves either due to donors or the RGC or both. Increasing income inequality would suggest this third alternative. Aside from anecdotal evidence (landlessness of between 12-15%, inexplicably numerous luxury vehicles in the streets of Phnom Penh, palatial villa construction, etc.), the only measurement of inequality is an official Gini index (ranked by per capita expenditure) of 40.39 in 1997, based on the Cambodia Socio-Economic Survey that year.<sup>19</sup> Changes in the Gini index *since* 1997 could help prove the hypothesis that growth has been inequitable and should help to explain the dynamics, indeed the puzzle, of poverty increase to date.<sup>20</sup> Fortunately, estimates do exist of the Gini index for Cambodia, Vietnam, and Laos, permitting international comparison. These suggest that inequality has increased in Cambodia, from 41.4 in 1998 to 48.1 in 2004.<sup>21</sup> Among the three countries, only Cambodia exhibits a steady and disturbing increase in inequality since 1998. To understand how this could have come about, it is important to examine the economic context the country occupied in the early post-conflict period. Three structural weaknesses in the economy are of particular note and detailed next. These are (1) Cambodia's balance of payments

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<sup>18</sup> It is interesting to note that Narayan and Petesch (2002: 487) provocatively define state failure as "as a failure to serve poor people".

<sup>19</sup> The Gini index is the Gini coefficient expressed in percentage form (i.e., multiplied by 100). A Gini coefficient is an index between 1 (most inequitable outcome possible) and 0 (most equitable outcome possible).

<sup>20</sup> It should be noted that the transition from central planning to market economy also produces inequality, but increasing poverty, illiteracy, infant and child mortality in the presence of moderate real GDP growth is unusual.

<sup>21</sup> This issue is updated and revisited in the Addendum to this dissertation.

crisis in 1992; (2) high inflation and exchange instability in the early 1990s and in 1998; and (3) weak state capacity particularly with respect to domestic revenue collection throughout the last decade.

## **2.2 Economic Context**

### *2.2.1 Balance of Payments Crisis in 1992*

The most significant structural weakness of the Cambodian economy in the early post-conflict period was its inability to meet obligations without printing more money (causing inflation). This gave the country few if any options when it came to receiving aid, and dealing with donors and the International Financial Institutions (IFIs). It gave particular leverage to the International Monetary Fund, whose Enhanced Structural Adjustment Facility (ESAF) provided the government direct budgetary support. While the country met the conditionalities imposed by the ESAF until 1996, problems with non-transparent logging revenues used to fund a parallel military budget came to a head in 1997, and the Fund cut-off the last tranche of the ESAF (worth \$42 million) that year.<sup>22</sup>

The loss of aid from former Soviet Bloc countries (the Council for Mutual Economic Assistance/Comecon in particular) severely affected public sector finances, and caused a macroeconomic imbalance (World Bank, 1994a). Retail price inflation worsened considerably in the late 1980s and monetary emissions rose 20% in 1989, then to 40% in 1990.<sup>23</sup> Cambodia's largest patrons at the time were Vietnam and the Soviet Union, and official development assistance dropped from 2.1% of Gross National Income in 1987 to 1.55% in 1988. Trade as a percentage of GDP, which had been 12.6% in 1988 increased to 18.8% in 1989 only to stagnate at

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<sup>22</sup> From 6 May 1994 until 31 August 1997, the Fund approved \$84 million, but Cambodia was permitted to draw only \$42 million.

<sup>23</sup> It is important to note that while today we have some grasp of the economic situation at the time, it would be unfair to judge performance against what we know now, so I am using the available data from that time and contrasting it to now.

18.9% in 1990.<sup>24</sup> The World Bank reported at the time that the overall budget deficit in 1992 had widened to 4.6% of GDP (normally this should not be more than 2.5%) and that by the end of the third quarter of 1992, the economy was slipping toward hyperinflation (World Bank, 1994a). A later report (World Bank, 1997b) revised that figure downward to 3.3%. Even then external aid financed virtually all capital expenditures and the Bank noted that “The Government is expected to shoulder an increasing share of the cost of reconstruction.”<sup>25</sup>

### 2.2.2 High Inflation and Exchange Rate Instability, 1990-93 and 1998

Because of the budget deficit and the Government’s decision to monetize debt, both inflation and exchange rate instability were very serious problems during this early 1990s and briefly in 1998 (this will be discussed later as the natural experiment of 1997/98).<sup>26</sup> The Riel depreciated against the US dollar from an average of 418 Riels to the dollar in 1990 slipping to 2500 by 1994.<sup>27</sup> Inflation was particularly severe in the early 1990s. Retail price inflation data from Irvin (1993) is shown in Table 3 and is confirmed by inflation measured through the GDP Deflator obtained from World Bank (2003).

**Table 3: Inflation, Then and Now 1989-1994**

	1989	1990	1991	1992	1993	1994
Retail Price Inflation (Then)	70	157	121	200	20*	
Inflation, GDP Deflator (Now)		146	107	75	107	9

Note: \* 1993/Q1

Sources: Then: Irvin (1993: 10). Now: World Bank (2003).

Thanks to massive dollarization, however, inflation was naturally tamed (1996-2004 CPI was 4.64%). The dollarization is largely attributed to a loss of confidence in the local currency and the infusion of US dollars with the arrival of UNTAC. While the Prime Minister has said that UNTAC’s main contribution to Cambodia was

<sup>24</sup> All data cited from World Bank (2005b).

<sup>25</sup> World Bank (1994a: ii).

<sup>26</sup> While Consumer Price Index (CPI) figures are not available prior to 1996, what is available is GDP Deflator (1994-2002 the GDP Deflator averaged 6.45%).

HIV/AIDS (Myers, 2002), it could also be said that UNTAC (aside from ceding Cambodia a measure of international and domestic political legitimacy through elections) gave Cambodia the mighty dollar thus stripping it of any monetary independence and seignorage.<sup>28</sup>

### *2.2.3 Weak State Capacity: Low Domestic Revenue Collection*

Insofar as the regime's ability to collect income and other taxes (state capacity in short), this became increasingly pronounced as year after year domestic revenue performance failed to meet expectations. Domestic revenue collection has always been a sore point, and little progress was made through 1998. Collection had stagnated at 8.1% of GDP. The self-inflicted "events of 5-6 July 1997"<sup>29</sup> and the subsequent suspension of aid by the United States and Germany made the regime realize that it was at the mercy of donors. After aid resumed, an Agreement with IMF started in October 1999 led to an increase in domestic revenue to 10.2% of GDP in 1999, a staggering 2.1 percentage points or 26% increase, due in large part to the introduction of a 10% Value Added Tax.

From 1999 to 2000, domestic revenue grew by only 0.2 percentage point, though by 2001, it was reported to be 11.7% of GDP (with tax revenue of 8.4% of GDP, and direct taxes valued at 1% of GDP). Since then, however, performance has not kept-up, and projections of increases have failed to materialize. Neighboring Vietnam fared much better (20.6%, 15.6% and 5.5%, respectively), while Lao PDR was on par with Cambodia in terms of total revenue (11.4% of

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<sup>27</sup> It has been stable at about 4,000 Riels to the dollar for the last several years.

<sup>28</sup> Seignorage is defined as the difference between the face value and the intrinsic value of money.

<sup>29</sup> On 5-6 July 1997, then First Prime Minister Norodom Ranariddh fled the country when he was ousted from power by Second Prime Minister Hun Sen. This resulted in more than 70 extrajudicial killings of mostly Funcinpec civilian loyalists. The precise details may never come to light, although the general storyline is that in the lead-up to the events, a power struggle between Funcinpec and the CPP emerged in recruiting senior Khmer Rouge defectors. This led, for all intents and purposes, to a *coup d'état*. Forces loyal to the Second Prime Minister launched violent and sustained attacks against forces loyal to the First Prime Minister (claiming that the former was ready to take sole power) in Phnom Penh and the surrounding area (Amnesty International, 1997). To preserve the

GDP), but performed markedly better in the area of tax revenue (9.2%) and direct taxes (2%). Indeed, other comparable countries to Cambodia are sub-Saharan African: Niger (8.9, 8.3, and 1.5), Tanzania (11.8, 10.6, and 2.7), and Togo (13.8, 12.3, and 0.4).<sup>30</sup>

### **2.3 Market Context: Regulation Replaced by Corruption**

While structural weaknesses were (and remain) numerous, there were some bright spots. Indeed, there was significant potential and openness (perhaps excessively so) to change in adopting a market economy. On 14 October 1994, a Circular announced the “adoption of the market economy”:<sup>31</sup>

1. All the prices of goods shall be determined by mutual agreement between buyers and sellers.
2. The State shall allow free competition between traders. In order to foster competition, the State shall encourage the participation of all traders.
3. The state shall guarantee to the traders freedom to move goods.

What has been the outcome of Cambodia’s economic transformation in the post-conflict period? A decade later, the Heritage Foundation (2005) rates Cambodia as “Mostly Free” in terms of economic freedom with an overall score of 2.89 (ranked 63 just above Mexico), and the country ranks higher than Thailand (71), Vietnam (137), and Laos (150) out of 161 countries. While items 1 and 2 were faithfully implemented, it is now abundantly apparent that item 3 leaves much to be desired. In other words, the state reduced its official interference in the economy but proved incapable (or unwilling) to reduce informal interventions by its officials. Illegal checkpoints have made the freedom to move goods very costly, despite occasional pronouncements by senior officials announcing their dismantlement.

#### *2.3.4 Unofficial Payments*

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semblance of normalcy, the Minister of Foreign Affairs and International Cooperation at the time, a member of Funcinpec, was named First Prime Minister.

<sup>30</sup> All revenue and tax figures come from IMF staff country reports cited in World Bank and ADB (2003: ix).

<sup>31</sup> RGC (1994).

Furthermore, while most State-Owned Enterprises have been privatized, the process cannot be said to have been transparent. To be sure, while the Government of Canada (2004) lauds Cambodia’s economy as having a “Liberal investment climate with many incentives” we also know from recent empirical evidence that unofficial payments<sup>32</sup> amount to 5.2% of surveyed firms’ gross revenues (World Bank, 2004d), more than twice that of Bangladesh, Transparency International’s bottom performer on the Corruption Perception Index 2004 (which does not include Cambodia due to a lack of data).<sup>33</sup> An estimate for corruption was proffered at \$120 million (World Bank, 2004d) and between \$300-500 million by Calavan et al. (2004) for USAID which was a descriptive study of corruption in Cambodia. Transparency International’s (2005) *Global Corruption Report* inaugurated Cambodia’s debut as a country chapter in the report.<sup>34</sup>

## 2.4 Political Context: Freedom, the Khmer Rouge, and the Impossible

### Trinity

Alongside endemic corruption has been a decade’s worth post-conflict political development that has seen greater authoritarianism. Based on Freedom House ratings, Cambodia was initially rated as Not Free (NF) in 1993, but by 1994 and 1995 had emerged as Politically Free only to slip back again to NF from then onwards (see Table 4).

**Table 4: Political Rights and Civil Liberties 1993-2004**

1993	1994-1995	1996-1997	1998	1999-2001	2002-2004
6,6, Not Free	4,5, Politically Free	6,6, Not Free	7,6, Not Free	6,6, Not Free	6,5, Not Free

Note: The lower the numeric rating the better the political rights and civil liberties, respectively.

<sup>32</sup> This is the preferred phraseology of the authorities, while it is more commonly known as a bribe tax. While World Bank (2004d) faithfully replaces all instances of “bribe tax” with “unofficial payments” the find-and-replace function missed (perhaps intentionally) one instance in “Annex III: Methodology: Productivity and Investment Climate Survey” on page 110.

<sup>33</sup> Bangladesh is tied with Haiti in last place at 145 out of 145. Available: <http://www.transparency.org/cpi/2004/cpi2004.en.html#cpi2004>

<sup>34</sup> I had the pleasure of refereeing the chapter at the request of Transparency International.

*Source:* Freedom House (2004).

#### *2.4.1 The Khmer Rouge Factor*

On the political front, numerous constraints exist to limit the scope for policy reform. Among them are Cambodia's Khmer Rouge Legacy, the country's embedded culture of patronage and corruption,<sup>35</sup> and the Donor-Government Nexus. These are detailed in Chapter 4.<sup>36</sup> The Khmer Rouge remained a constant threat until their demise in 1999. The Khmer Rouge controlled portions of Cambodia through that time and in 1994 had murdered a number of foreign tourists from England, the U.S., and other countries. It was not until 1996 that the defection of senior Khmer Rouge official Ieng Sary showed the Khmer Rouge unraveling. It was also at about this time that RGC non-transparent revenues began to affect its performance in the eyes of donors. The sale of timber to fund a dry season offensive against the Khmer Rouge resulted in donors crying foul.<sup>37</sup> Irvin's (1993) caution to donor countries that they "need to reflect on such unpleasantries [as the Khmer Rouge] ... to stay the course" would soon prove true as different sides of the coalition wooed defecting Khmer Rouge soldiers. This eventually led to the "events of 5-6 July 1997" the first outbreak of open warfare within the coalition government parties following the signing of the Accords in 1991 and reconfirmed Cambodia's problem child status. I argued in 1995 that "It is imperative that for

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<sup>35</sup> For example, Bettinger (2004) adroitly points out: "it is well known that the roots of each problem are so intertwined with the government that the government could not function without the revenue generated by illegal activities. Furthermore, there is a sense among government officials that such actions are rooted in hundreds of years of tradition and political practice, so that what falls under an official's purview includes the right to exploit, mine and chop; the essence of the idea is that the land is one's to do with what one will. So each conference is followed by statements of intent and promises that are rarely if ever followed through, while the donor community continues to treat Cambodia like a delinquent child that might change his ways if given enough opportunities to reform."

<sup>36</sup> Also see Ear (2005b).

<sup>37</sup> At a pre-CG meeting in 1996, the Minister of Forestry, Fisheries and Forestry showed-up unprepared to disclose a long-awaited list of concessionaires, causing his colleague, the Minister of Economy and Finance, to call him (in French) the devil's prostitute (Ear, 2000).

any serious economic push to take place, the Khmer Rouge security threat must be neutralized.”<sup>38</sup>

#### *2.4.2 The Impossible Trinity? Peace, Democracy, and Political Legitimacy*

An observer of the country has said that “Cambodian democracy often seems like an abstraction.” Coming out of a decade of Vietnamese socialism and isolation,<sup>39</sup> did Cambodia have any choice but to inherit crony capitalism? Bayart (2005: 26) argues that the formation of a dominant political, military, and business elite or “tycoons” under the cover of the free market has arisen in tandem with poverty, but particularly increased peasant landlessness. Up to 15% of Cambodians are now landless. Most tycoons were already established in the 1980s, prior to the cessation of armed conflict. Post-conflict Cambodia, with its lack of political and civil rights, is a construct of that early period. Gottesman<sup>40</sup> (2002) reviewed numerous archives and minutes of internal party and politburo meetings during the 1980s, and discovered that the leadership needed no sensitizing to new and foreign ideas of human rights and rule of law. He writes:

Cambodia’s top leaders were clearly familiar with [these] concepts ... Having thought through their political and legal options and having already made what they felt were informed policy choices, they were unlikely to alter the way they governed the country merely in response to Western advisors.<sup>41</sup>

He concludes that “Cambodia’s leaders have accepted a new level of political discourse, to be sure, but they do so only to the extent that it does not jeopardize their power.”<sup>42</sup> More importantly, he argues that the Cambodian leadership’s commitment to democracy merely represents a veneer, “a new lever of patience and indulgence,” and that foreign advisers and diplomats “find that it is easier simply

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<sup>38</sup> Ear (1995: 83).

<sup>39</sup> And of course, prior to that a Khmer Rouge nightmare that lasted three years, eight months and 20 days of extreme agrocommunism and self-imposed isolation.

<sup>40</sup> Evan Gottesman served as resident liaison and deputy director of the American Bar Association Cambodia Law and Democracy Project for three years in the mid-1990s.

<sup>41</sup> Gottesman (2002: xiii).

<sup>42</sup> Gottesman (2002: 356).



to support the government financially while eliciting a general and superficial allegiance to political and economic principles than it is to influence how the country actually operates.”<sup>43</sup>

It would be a mistake to believe that the great powers responsible for the success in Paris had in mind successful democratization. Indeed, its moniker the “Paris Peace Agreement” was not designed to introduce democracy to Cambodia. Secretary of State James Baker was pessimistic about its outcome from the get go. A diplomat (2004) who served in Paris during the Agreements stated bluntly that the main objective of Paris was not democracy but peace, the resolution of which in the 1980s had become known simply as the “Kampuchea Problem” (White House, 1985). More than a decade later, how does Cambodia view itself? In March 2005, using the language of extreme hyperbole, Hun Sen told an audience of Asian experts in Siem Reap: “Cambodia has undergone a profound transformation, from a region of uncertainty, turmoil, war, civil strife, instability and backwardness to become an epicenter of peace, safety and social order, prosperity, cooperation and development.”<sup>44</sup> In order to place Hun Sen’s assessment in perspective, it is useful to understand the importance of aid and the attendant symptoms its overexposure brings to an economy.

## **2.5 The External Aid Picture: High Dependence and “Dutch” Disease**

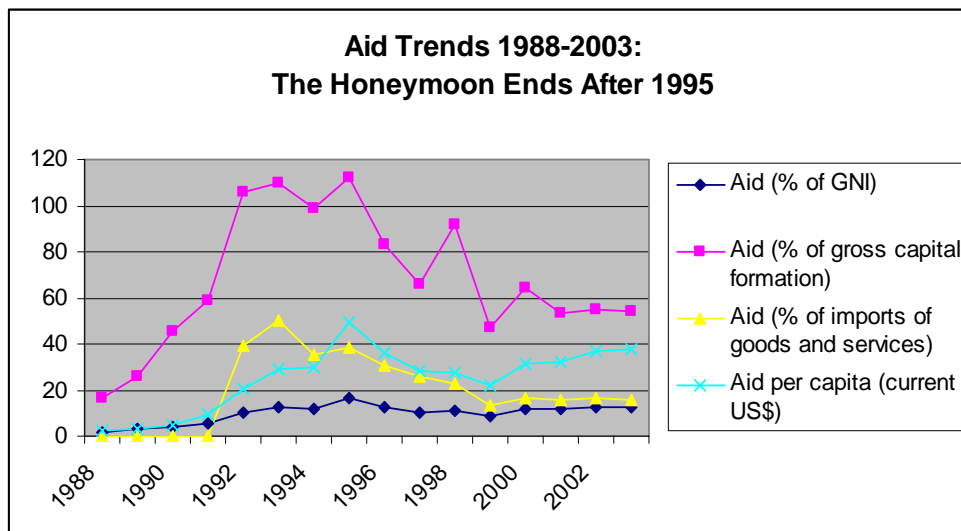
In 1989, when the Vietnamese army began to leave Cambodia, ODA doubled, and in 1991 it tripled. It was that year that then UN Secretary-General Javier Perez de Cuellar appealed to the international community to support Cambodia’s rehabilitation efforts following the signing of the Paris Peace Accords in October 1991. This resulted in pledges and other commitments totaling \$880 million at the first International Conference on the Rehabilitation of Cambodia

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<sup>43</sup> Gottesman (2002: 357).

(ICORC) in Tokyo in June 1992. New pledges of \$119 million were added in September 1993 in Paris. In 1994 the total amount of ODA committed to Cambodia (both in soft and hard loans and transfers) at the second ICORC in Tokyo again garnered over \$800 million through 1996.<sup>45</sup> For several years now the Royal Government of Cambodia (RGC) has relied on aid for about 50% of its budget. Domestic revenues have not kept pace with expenditures.

The graph below shows the trend between 1988 and 2003. It is remarkable to note the explosion in Aid (% of import of goods and services) after 1992, when UNTAC began in earnest. The peak for all aid indicators (except for Aid as % of imports of goods and services, in which case it was 1993 understandably due to UNTAC) was 1995, when aid reached nearly \$50 for every man, woman, and child in Cambodia.



Source: World Bank (2005b).

Aid as a percentage of Gross National Income exceeded 16% that year, but has suffered a secular decline since then with the steepest drop in 1998 following the “events of 5-6 July 1997”. The concomitant secular decline in ODA in the last

<sup>44</sup> As quoted in Vatikiotis (2005).

decade is certainly partly to blame and this has been taken note of by the regime.

Hun Sen himself appealed to the UN General Assembly in 2000:

In this regard, as one of the poorest countries in the world we are concerned about the overall decreasing trends of Official Development Assistance (ODA). We think that in providing financing facilities, more “grant” funds should be provided to poor countries to boost the development till they reach a minimum threshold. In this sense, we fully support the strides to fulfill the yet to be attained internationally agreed upon target of 0.7% of GNP of developed countries for overall ODA as soon as possible.<sup>46</sup>

According to Ohiorhenuan (2003), the decrease in aid combined with increasing calls for aid effectiveness “may be no more than the use of voice to justify exit, to use Hirschman’s terminology.”

Aid itself has also had a dark side. While it was desperately needed to develop the country, its massive infusion has had unintended consequences. Two specific problems are apparent:

The scale of aid is such that it distorts the economy. In an aid-related version of ‘Dutch disease’, a high proportion of Cambodia’s scarcest resource, educated people, is pulled toward employment in donor agencies and international non-governmental organizations or attached to projects as salary-supplemented counterparts. At the same time, donors and NGOs virtually take over the funding of education, health care, social welfare, rural development etc., while government spends most of its funds on defense and security.<sup>47</sup>

The “Dutch disease” effect is particularly pernicious, but it should be said that civil servant salaries are so low that by any standard it would not be possible for a civil servant to survive on the poverty line of circa 55 cents per day per person. Yet civil service reform is not a high priority for the RGC if one examines outcomes. Salaries have increased, but have not kept-up with inflation. The second problem described by Godfrey et al. (2000), without using its moniker, is that of aid “fungibility”.<sup>48</sup> By 2005, the analysis remained the same. A development expert

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<sup>45</sup> Indeed, a perusal of the titles of World Bank reports published in 1994-97 tells the story of transition: *From Rehabilitation to Reconstruction* (1994); *Rehabilitation Program* (1995); *From Recovery to Sustained Development* (1996); and *Progress in Recovery and Reform* (1997).

<sup>46</sup> Hun (2000a).

<sup>47</sup> Godfrey et al. (2000: 123).

<sup>48</sup> According to World Bank (1998: 130), “fungibility” is defined as the possibility for aid recipient countries to reduce their own resources in the sector that receives aid and transfer them to other sectors of the budget.

with 12 years' experience in Cambodia complained that "In some ways, donor projects have stifled government initiative, placing foreign agencies largely in charge of the government's service provision responsibilities" (44). Another expatriate (10) with five years experience in NGOs added: "In some ways NGOs can't avoid working with the government. In some ways they should." Indeed, the failures of development detailed earlier along with the troubling role of aid in Cambodia can best be understood by individuals who have worked on development in the country for some years. How aid relates to governance is the subject of the next section.

### 3. Aid and Governance Survey in Cambodia

On 24 April 2005 an elite survey was launched on aid and governance in Cambodia. The online portion of the survey was open for respondents for a period of 10 days. While total usable responses totaled 44,<sup>49</sup> the survey should be understood as representing only the views of those who responded and not necessarily the views of the hundreds (perhaps thousands) of individuals who have worked at least three years on development in Cambodia and who in theory could have responded.<sup>50</sup> Respondents listed themselves as working for donor agencies (39%), international NGOs (20%), local NGOs (11%), RGC (13%), and other or some combination thereof (16%).<sup>51</sup> Respondents averaged eight years of development experience in Cambodia. Of these, 61% were foreign expatriates, 14% were Cambodian expatriates, and 25% were citizens of Cambodia only.<sup>52</sup> More

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<sup>49</sup> Unusable responses included four that did not contain any answers and one that did not meet the three-year criteria (the respondent reported 1.5 years experience as a foreign expatriate Advisor working for the RGC).

<sup>50</sup> More than 300 e-mails were sent asking recipients to respond, or to refer the author to individuals they might know who met the three-year criteria. Responses online were completely anonymous save for an optional question at the end of the survey requesting an e-mail address for follow-up.

<sup>51</sup> Respondents indicated for instance: National Institution, Parliament, university, and international organization.

<sup>52</sup> Of those respondents, one replied via e-mail sending ratings commented: "My life has ... gone through several regimes and governance styles, I feel frustrated or pessimistic about the current governance system. I could not have much hope that the donors could play more [of a] role in this

respondents classified themselves as advisors (43%) than management (34%), followed by other (23%).<sup>53</sup> Choices were not mutually exclusive so several respondents listed themselves as having worked in both management and advisor capacities.

### 3.1 Survey Background

The survey posited different impacts for aid in moderate to highly indebted, aid dependent countries such as Cambodia and offered three possible hypotheses:

- (a) Some believe that the country's dependence on aid makes it highly responsive to donor demands and therefore prone to reform along international lines.
- (b) Others believe that high indebtedness and a high poverty rate put great pressure on donors to give even when the governance situation is disappointing. In effect this gives the government freedom to ignore donor pressures and perpetuates poor governance.
- (c) Still other observers believe that the picture varies according to the dimension of governance one examines, perhaps because of unevenness in donor priorities.

The literature has identified six dimensions of governance, these are defined as follows:

<b>Governance is defined as “the traditions and institutions by which authority in a country is exercised”</b>		
<i>Process by which governments are selected, monitored, and replaced</i>	<i>Capacity of the government to effectively formulate and implement sound policies</i>	<i>Respect of citizens and the state for the institutions that govern economic and social interactions among them</i>
<b>1) Voice and Accountability</b>	<b>3) Government Effectiveness</b>	<b>5) Rule of Law</b>
Various aspects of the political process, especially civil liberties,	The quality of public service provision, the quality of the	The incidence of both violent and non-violent crime, the effectiveness and

matter for immediate impact, but it may be useful/helpful for building awareness and confidence to our champion citizen or civil servants in a medium term or long term impact. However, we also have to balance our thinking that given the fact that the foreign Aid /assistance has a limited immediate impact on governance matter, and if we deny foreign assistance, how much the poor citizen will suffer/ benefit from the withdrawal of the donors or international communities from our country? In conclusion, the government /political will in making the reform in its governance system determine the achievement of the Aid effectiveness for the quality of governance in Cambodia.” (45)

<sup>53</sup> Respondents described what they did for as, among other things: teacher, researcher, political appointee, donor official, professional staff, development consultant, and head of agency.

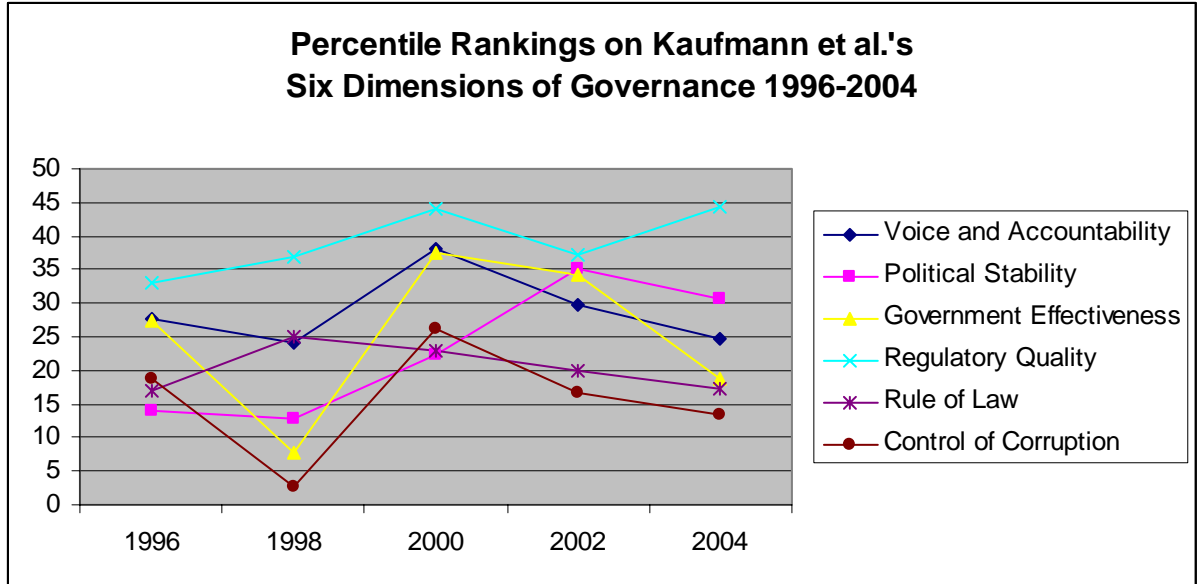
political rights, and independence of the media	bureaucracy, the competence of civil servants, the independence of the civil service from political pressures, and the credibility of the government's commitment to its policies	predictability of the judiciary, and the enforceability of contracts
<b>2) Political Stability</b>	<b>4) Regulatory Quality</b>	<b>6) Control of Corruption</b>
The likelihood that the government in power will be destabilized or overthrown by possibly unconstitutional and/or violent means, including terrorism	The incidence of market-unfriendly policies such as price controls or inadequate bank supervision, as well as burdens imposed by excessive regulation in areas such as foreign trade and business development	Corruption, conventionally defined as the exercise of public power for private gain. This ranges from the frequency of "additional payments to get things done," to the effects of corruption on the business environment, to "grand corruption" in the political arena or in the tendency of elites to engage in "state capture"

*Source:* Adapted from Kaufmann et al. (1999).

### 3.2 How Cambodia Ranks Across Six Dimensions of Governance

Before delving into survey results—how donors succeeded (or not) in effecting change in the six dimensions of governance outlined above—we should examine how Cambodia itself performed across these same dimensions of governance. Survey respondents were not given the below information since it would have been inappropriate to do so (as it could have driven results), nor would it have been available since the data was not available until mid-May by which time the survey had closed. Kaufmann et al. (2005) offers percentile rankings for Cambodia in 1996, 1998, 2000, 2002, and 2004 across all six dimensions of governance. Cambodia's ranking across these dimensions of governance is suggestive of a turbulent eight years. However, some trends are evident (see

Graph).



Source: Kaufmann et al. (2005).

Both regulatory quality and political stability in Cambodia now enjoy markedly higher percentile rankings than they did in 1996. In 2002 and 2004, Cambodia was at the 35.1 and 30.6 percentile among all countries, respectively, while in 1996 and 1998 it languished at the 14 and 12.7 percentile. In 2000, following resumption of donor assistance after the suspension of 1997/98, it was ranked at the 22.4 percentile for political stability. Likewise for Cambodia's ranking for regulatory quality, which were then in the 30s are now in 40s range. This is consistent with the Mostly Free rating the Heritage Foundation has given the economy.

However, the absence of interventions (deemed regulations) should be seen in perspective. Corruption has replaced regulation, and indeed, control of corruption has slipped steadily, from 26.3 in 2000 to 16.8 in 2002 to 13.3 in 2004. Likewise, the rule of law saw little by way of improvement. It languished in the high teens and low twenties. Government effectiveness in contrast saw large fluctuations in rankings throughout the eight year period, but is now ranked below what it was in 1996. This is likely tied to worsening corruption and rule of law.

Finally, voice and accountability has seen mixed performance, peaking in 2000 at the 38.2 percentile, but otherwise remaining in the high to mid 20<sup>th</sup> percentile in all other years.

### 3.3 Survey Findings

Thus the above results which show how Cambodia performed on six dimensions of governance should now be compared and contrasted with donor success in these same dimensions of governance. The survey results which asked for donor success in these dimensions of governance show that aside from political stability and voice and accountability, respondents felt that donors had in fact failed to affect change in the government (with control of corruption being the absolute worst by far with only 5% rating donor success as medium to very high). Summary statistics for respondent ratings concerning donor success across the six Kaufmann dimensions of governance is shown in Table 5 below.

**Table 5: Respondent Ratings on Donor Success<sup>54</sup>**

	None	Poor	Medium	High	Very High	Total	Of which Med. to Very High
Political Stability	10%	24%	31%	31%	5%		67%
	4	10	13	13	2	42	28
Voice and Accountability	9%	43%	34%	14%	0%		48%
	4	19	15	6	0	44	21
Government Effectiveness	16%	53%	28%	2%	0%		30%
	7	23	12	1	0	43	13
Regulatory Quality	20%	51%	22%	7%	0%		29%
	8	21	9	3	0	41	11
Rule of Law	33%	55%	10%	2%	0%		12%
	14	23	4	1	0	42	5
Control of Corruption	58%	37%	2%	2%	0%		5%
	25	16	1	1	0	43	2

Notes: The top percentage indicates total respondent ratio; the bottom number represents actual number of respondents who selected the rating.

Source: Results of author's survey.

<sup>54</sup> The question asked: "For each of the above six dimensions of governance, please indicate whether you believe that the donor community as a whole has succeeded in stimulating positive changes in Cambodia or if aid, in effect, is given despite government refusal to change (for example because of massive poverty or the country's tragic Khmer Rouge legacy). The score below should therefore reflect "donor success" at effecting change in the government."



The dimension of governance is ranked according to most successful to least successful based on percentage of respondents rating donor success as “None” or “Poor”. Favorable ratings (Medium, High, and Very High) for the six dimensions reveal that donors had the most success in promoting political stability (67%), followed by voice and accountability (48%), government effectiveness (30%), regulatory quality (29%), rule of law (12%), and control of corruption (5%).

Table 1 in Appendix A presents a selection of qualitative comments made when respondents qualified their ratings. The comments are fitted into the numeric rating attached to the comment for ease of reference and for categorization. The comments were selected on the basis of their specific reference to donors. Other comments which did not actually refer to donors often referred to the government, which suggested that the respondent might have been rating the RGC’s performance as opposed to donor success as was instructed in the survey.

Survey respondents thought that donors were successful in effecting political stability and to a lesser extent in voice and accountability. This is a reflection of the legacy of the Paris “Peace” Accords and of UNTAC which executed the 1993 election. That government effectiveness and regulatory quality have seen mixed success is troubling but not surprising given the lack of human capital in the country and the need for state-building in the early post-conflict period. Unfortunately, what is most surprising is the near total absence of any progress in control of corruption and to a lesser extent rule of law. Indeed, as can be seen from the comments on ratings of “None” and “Poor” for control of corruption, some respondents suggest that donors have enabled corruption to increase by arguing that donors had “no real incentive to curb corruption” (5) or “don’t control corruption in their own practices” (24) or even “encourage it and support it at

every opportunity” (37). One respondent (48) wanted to rate donor success as a negative 10 if possible. Those who rated donor success as “Poor” did not mince their words either.

Two respondents (42 and 46) converged on the absence of prosecution for corruption while another (47) specifically stressed two recent incidents involving the World Food Programme (on Food-for-Work) and the World Bank (on demobilization). Indeed, six other respondents named the World Bank as unsuccessful in control of corruption, despite four mentions of the Bank being successful by others.<sup>55</sup> Meanwhile two other respondents cited WFP as unsuccessful in controlling corruption. Both cases are studied in greater detail in Section 5. Given this nuanced, multidimensional perspective of donor success towards effecting governance in Cambodia, how Cambodia coped with aid dependence and what roles donors played in Cambodia more generally (and where possible specific dimensions will be addressed) during the last decade is the subject of the next two sections.

#### **4. Coping with and Embracing Aid Dependence**

Cambodia has learned to cope with aid dependence by using it adroitly to acquire a veneer of legitimacy both internally and externally. This section examines three aspects of Cambodia’s handling of external financial flows. Section 4.1 argues that the regime has attempted to transform aid into internal political legitimacy in two ways. Until 1996, Cambodia touted donors’ pledges of “unconditional aid” as a vote of confidence in the regime. Later, despite mounting conditionalities, the regime took as a vote of confidence annual donor pledges that exceeded the regime’s request for aid. Indeed this has been true for the last four years in which Consultative Group (CG) meetings were held. The regime’s continuity and change

in its view of donors is also notable and examined in Section 4.2. At various moments it has embraced monitoring and constructive criticism (especially in the aftermath of the 1998 balance of payments crisis, the subject of Section 4.2.1) and lashed out at unnamed Ambassadors in 2001 for criticizing endemic corruption. Section 4.3 examines a recurring theme for the regime, the use of sovereignty as a proxy for international political legitimacy and Cambodia's tenuous relationship with the United Nations, having been midwife to Cambodian peace and democracy, the UN's legacy runs deep with, until this 2005,<sup>56</sup> an annual holiday for the Paris Peace Agreement every 23 October.

#### 4.1 Transforming Aid Into Internal Political Legitimacy

The RGC's view of donors has evolved over the years, from an asymmetric relationship where Cambodia was at the mercy of donors in the early post-conflict reconstruction phase, to one of seeing itself and donors as "development partners". A 1995 press release by the Royal Embassy of Cambodia in Washington, DC announced proudly "Donors Continue Unconditional Aid to Cambodia". Then First Prime Minister Norodom Ranariddh, on behalf of the RGC, underscored that the aid pledges reflected "the support and confidence of the donors to the RGC's Public Investment Program."<sup>57</sup>

Later, when the conditionalities became unavoidable (or rather undeniable), the regime claimed that if donors met or exceeded the Government's request at annual CG meetings, this was "clearly a vote of confidence in Cambodia" (see Box 1).

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<sup>55</sup> One pointed to the Social Fund, a Bank project that has now closed and another referred to International Financial Institutions in general (which includes the World Bank).

<sup>56</sup> It was announced that Cambodia's 25 existing national holidays would henceforth not include the Paris Peace Agreements day. An outcry ensued and authorities explicitly stated that there was no hidden agenda.

<sup>57</sup> As quoted in REC (1995).

### Box 1: Increased Level of Assistance Is Clearly a Vote of Confidence in Cambodia

The Royal Government of Cambodia presented its achievements for the past year since the 2001 CG meeting, and requested continuing assistance for its development efforts. The Royal Government submitted a request for only about US\$430 million, yet the international community pledged more than US\$600 million in assistance -- excluding the US\$50 million pledged by NGOs!

The increased level of assistance is clearly a vote of confidence in Cambodia. It is an important encouragement for the government efforts in bringing peace and political stability, strengthening the foundations for democracy and human right respect in the society, and especially in promoting sustained economic growth and substantially reducing the poverty.

In this sense, the success of the CG signifies the approval of the appropriateness and success of the government reform policies implemented so far. On behalf of the Royal Government of Cambodia, I would like to state again and again about the government's strong commitment in continuing the necessary reforms in all areas and sectors for development, advancement, and prosperous and bright future for Cambodia and its people.

We, the Cambodian people, have reclaimed our destiny and become a genuine participant and partner in regional and global affairs. Our national unity has strengthened, and we are well and truly on the way toward our destiny as a free, independent nation, blessed with the fruits of sustainable socio-economic growth.

*Source:* Hun (2002).

Certainly, how else could such outcomes be perceived? In what appears to be an annual exercise in collective cognitive dissonance, donors have scolded the government during the CG,<sup>58</sup> only to turn around and give more than the Government asked (see Table 7).

**Table 7: RGC Requests Against Pledges in Millions of US\$**

Consultative Group Meeting	1996	1997	1998	1999	2000	2001	2002	2003	2004
1. RGC Requested Next Year	500*	449	N/A	450	500	500	480 <sup>^</sup>	N/A	500
2. Donors Pledged Next Year	500#	450	N/A	470	548	556	635**	N/A	504
3. Disbursed in Preceding Yr	513	518	383	433	400	467	472	531	546
Location of Meeting	Tokyo	Paris	N/A	Tokyo	Paris	Tokyo	PP	N/A	PP

Notes: \* Upper range was \$550 million, based on \$1.6 billion for three years.

\*\* Revised to \$514 million after redefinition of aid

# UPI reported \$518 million

<sup>^</sup> Deutch press reported \$485 million.

Does not include data for 1998 and 2003, when the since CG Meeting was not held and therefore no pledges were made.

*Source:* 2 and 3: RGC (2004a) and 1: various news sources.

One should keep in mind that commitments differ from actual disbursements (not unlike the credibility of Cambodia's annual Budget Law which bares little

<sup>58</sup> Bettinger (2004) writes that the CG meetings are: "[an] exercise in futility in which donor nations admonish Cambodia to work harder to reign in its epidemic problems in human and drug trafficking, official corruption and environmental piracy. Each time this meeting convenes the donors threaten to stop aid to the country, the term "donor fatigue" is bandied about quite frequently, and at each

resemblance to actual outlays). And almost always disbursements were below commitments because the donors simply had double counted or miscounted or renege (but not because of poor performance by the RGC, at least it was never said publicly). This is a source of anxiety each year on the part of the RGC since this discrepancy is sometimes exploited by critics as evidence of corruption.

#### 4.2 Continuity and Change in the RGC's View of Donors

While one man cannot alone transform a regime, Hun Sen has held power as Prime Minister since 1984. In 1993 he gained the imprimatur of an elected leader, and obtained the modicum of political legitimacy his regime has so long coveted. Hun Sen has spoken at length about Cambodia's relationship with donors. In the immediate aftermath of the events of 5-6 July 1997, when aid was precipitously suspended, Minister of Economy and Finance Keat Chhon remarked at the Annual Meetings of the World Bank and the IMF:

We are somewhat surprised and saddened that, since these events [of July 1997] ... important external partners have ... begun to slow down their support for the rehabilitation and development programs in the country, which are designed to serve the people at large. Development cooperation has to be a long-term commitment and should not be affected by misconceived perception of temporary events of a political nature... [The World Bank and the IMF] should desist from being drawn into a new post cold war economic trap that some countries would like to set up based on misconceived political perceptions. These institutions should continue to provide support to Cambodia as hitherto even as they do in countries which are far less open and transparent even within our region. They should not slow down the process of their support. If they do, their proclaimed goals to reduce poverty would soon start sounding hollow.

I close with a plea that each country be allowed space and time to come up with solutions to its problems, be they political, social or economic as long as the chosen course is within the parameters of the basic principles of democracy, rule of law and human rights which are universally agreed upon and are adhered to as in Cambodia. Let not the preconceived notions about the details of how a recipient country should govern itself be the guiding criteria for development support.<sup>59</sup>

Those "events of a political nature",<sup>60</sup> it is clearly implied, should not interfere with the flow of aid. But the cut-off of aid was so severe that by 1998 the economy had

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meeting the government, perpetually headed by Prime Minister Hun Sen, promises to get tough and crack down on the aforementioned problems."

<sup>59</sup> Keat (1997: 76).

<sup>60</sup> In the Minister of Economy and Finance's own words: "Since the removal of the anarchic elements, which by its nature was violent, and its immediate aftermath, Cambodia has sprung back

deteriorated badly, inflation had spiked (15% that year) and monetary emissions were starting again. The exchange rate slipped from 2500 to the mid 3000 range (more on this in Section 4.2.1).

By the time Cambodia had returned to the good graces of the international community in 1999, the regime's stance transformed to embracing "reform" in words (if not in deed). Hun Sen commented at the time:

In this sense, as I stated on many occasions, reform is the "life-or-death" issue for Cambodia. The goals, policies and programs are not to please anyone in Cambodia or outside or to gain temporary reprieve from criticism. They are truly nationally owned and accepted because we believe in them and we wish to adhere to them for the benefits of Cambodians today and to be born. Therefore, if we fail we cannot blame anyone but ourselves.<sup>61</sup>

While the regime accepted a new measure of responsibility for its own development, little if anything happened during this time to change the way things actually worked in Cambodia. Donors returned to a status quo of continued indulgence while the RGC forestalled reforms. Indeed, the discrepancy between words and actions became so acute that the World Bank's (2004a) background document for the Consultative Group meeting that year put it bluntly: *Cambodia at the Crossroads*. The RGC's rhetoric had reached a fevered pitch only five years earlier (see Box 2) but its resolve appears to have melted in the face political economy considerations.

#### **Box 2: How the RGC Regards Monitoring of Aid in 1999**

As I already stated on many occasions, the RGC does not regard the monitoring of the implementation of the reform programs, constructive criticisms, suggestions and recommendations provided by donors as interference in our internal affairs or conditionalities. We welcome any well-thought suggestions and consider them as common concerns by one partner in development for the difficulties, welfare and progress of another partner. All reform measures designed and currently implemented by us are Cambodia's own needs. Therefore, these are Cambodia's own matters. I told my colleagues and my compatriots that the reforms are a life-and-death problem for Cambodia. Only if we jointly implement the reforms, we will hope to break this vicious circle of poverty and bolster up a once strong and proud nation to get back its place. On the contrary, if we avoid the reforms, we will lose the chance and the opportunity that currently presented to us and continue to be bogged down in poverty, internal strife and prolonged instability. Our proposed reform programs and the improvement actions scrupulously implemented by us are not to please anyone.

quickly to normalcy. Rule of law, as well as law and order, has been fully restored, and security prevails in the country except in remote pockets on external borders where the rebels are active" (Keat, 1997: 76).

<sup>61</sup> Hun (2001c).

They are Cambodia's overriding needs and are designed to benefit Cambodians from all walks of life. We welcome and accept all these suggestions and recommendations, for they respond to our needs for reforms. In other words, both Cambodia and donors have similar concerns and have paid much attention to address them.

Moreover, as an aid recipient country Cambodia should assure donors about its transparency and accountability. In this sense, donors should be able to make their own assessment whether the recipient is merited to receive the assistance. Therefore, donor's monitoring of the implementation of the government's reform programs is an important part of this process.

*Source:* Hun (1999).

By 2001, the RGC's tune had changed. At a conference on "Building a Coalition for Transparency" co-organized by the Asian Development Bank and the Center for Social Development (a local NGO), Hun Sen and members of the RGC acknowledged the presence of corruption in their administration<sup>62</sup> but suggested that it would be best confronted by donors giving more money to combat it. At the same conference, the US Ambassador to Phnom Penh, Kent Wiedemann (2001) and other diplomats invited to speak responded that the government's request for technical assistance or more time to draft corruption laws was inappropriate.<sup>63</sup> Giving a prelude to a speech by the Singapore Ambassador to Phnom Penh, Verghese Mathews (2001), in which the latter spoke of Singapore's asset disclosure rules for civil servants (and confiscation), Wiedemann suggested that Hun Sen and his Council of Ministers could immediately require high-level officials to publish a list of their own personal assets and to account for the sources of their wealth. The Cambodian Ministry of Foreign Affairs and International Cooperation issued an unsigned but official letter to foreign delegations stating that the Ministry "deeply

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<sup>62</sup> Hun Sen said "It takes a long time to build up institutions, drafting laws that are effective. Rome was not built overnight" (Hun, 2001a). This is a theme that was repeated by Deputy Prime Minister Sok An in 2003.

<sup>63</sup> Wiedemann's introduction foretold as much: "In the spirit of transparency, I am going to speak extremely frankly this morning. I am going to use words and say things that frankly are usually not said by diplomats. I am going to speak more directly and with less circumlocution than diplomats are normally used to do" before ending his speech: "As I said, laws are very important and there has been some discussion this morning that Rome cannot be built in a day and that is true. You cannot expect perfection to be brought about, in resolving issues of corruption, immediately. However, with sufficient political will, very important steps can be taken immediately that would have, I think, a very important immediate impact. Without the need to wait for new laws to be developed through donor assistance and technical expertise and capacity building, and without the need for laws to be passed by the National Assembly" (Wiedemann, 2001).

regrets that recently, certain ambassadors have performed their behavior like instructors teaching the Royal Government of Cambodia ... More seriously, the said ambassador has also used inflammatory words inciting revolt against the Royal Government of Cambodia.”<sup>64</sup>

Three case studies are presented next to showcase the complex nature of Cambodian-donor relations. These are (1) budgetary crisis-induced reform in the natural experiment of 1997-98; (2) cognitive dissonance on judicial independence; and (3) logging as “independence”.

#### *4.2.1 Case Study on Crisis-Induced Reform: The Natural Experiment of 1997-8*

After the July 1997 events, the freezing of donor funds and the pull-out of the IMF over governance problems (civil administrative reforms and forestry management), the Royal Government was faced, for the first time, with a hard budget constraint. Whereas before, donor resources were fungible, the curtailment of aid had immediate consequences on budgetary expenditures. According to the United Nations (2000), total donor disbursement decreased from \$520 million in 1996 to \$375 million in 1997, moreover:

This reduction was directly related to the suspension of aid by some donors, notably the United States and Germany (subsequently restored). Other countries took up a wait-and-see attitude - in most cases maintained throughout the national elections in mid-1998 - resulting in long delays in the implementation of many development programs and projects.<sup>65</sup>

During this period of hardship, real belt-tightening took place. In 1998, an advisor to the Ministry of Economy and Finance warned that “In the first six months of 1997, we went through nine months of budgeted expenditure. And with no budget support from the World Bank or IMF, the national bank printed money. I’m afraid if the political situation is not resolved by the end of this year [1998], [the value of

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<sup>64</sup> As quoted in Dittmeier (2001).

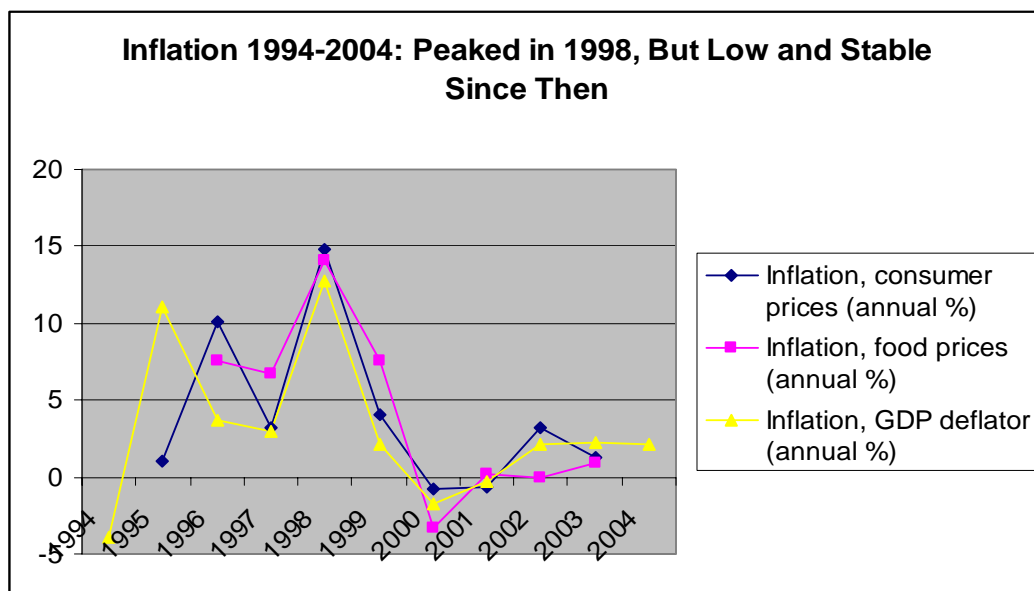
<sup>65</sup> United Nations (2000: 99).



the Riel] will be a big, big problem.”<sup>66</sup> A more colorful unnamed Southeast Asian diplomat astutely commented at the time:

Aid is the key to sustain them and get them going. Right now [October 1998] the government coffers are empty. For three months the military and police have not been paid. This is why crime is up. A businessman told me that an army colonel came to see him, begging for \$200 so his men could eat. The Chinese business community is frightened of kidnapping which are getting down to the small fry a bakery manager kidnapped for \$1000 ransom ... The situation is serious and getting worse. Even investments in entertainment [sic] a cowboy country, cheap wine, women, gambling are suffering.<sup>67</sup>

In the austerity of 1998, a fiscal crisis emerged. The short-term solution was to print more money, which led to an immediate slip in the exchange rate and inflation to spike (23%) in 1998 (see Graph below). Since then however, the country has enjoyed remarkably low and stable inflation rates.



Source: World Bank (2005b).

Its antidote: actionable reform. Reform through crisis is nothing new in much of the developing world (Grindle and Thomas, 1991), but this was the first time since 1994 that a budgetary crisis had left the Royal Government without any choice but to undertake serious reforms. Box 3 describes the discourse between the RGC and the IMF in the run-up to resumption of lending by the Fund.

<sup>66</sup> As quoted in Eckardt (1998).

<sup>67</sup> As quoted in Eckardt (1998).

### Box 3: Cambodia and the IMF, Determined to Break With the Past in 1999

The Article IV Consultations completed on 17 March 1999, following the IMF's return to Cambodia, provided Executive Board Directors an opportunity to lash out at the Royal Government's performance. According to an IMF Public Information Notice:

Directors expressed disappointment that, in 1998, economic growth halted, the Riel depreciated, inflation increased considerably, and there was little tangible progress in addressing key structural reforms. Of particular concern was the continued poor fiscal performance, characterized by extensive ad hoc tax exemptions, overspending on the military budget, and sizeable central bank financing of the government.

Against this background, Directors welcomed the authorities' recently announced commitment to break away from the past record of poor governance and weak economic policies and performance. They urged the authorities to fully carry out this commitment. Directors emphasized in particular that it was critical to increase transparency and accountability, adhere to the rule of law, take decisive actions against corruption and illegal logging, and improve fiscal management. Firm implementation of these reforms, together with prudent macroeconomic policies, would help lay the foundation for sustainable growth over the medium term.

Specifically, on 29 September 1999 a Letter of Intent and Memorandum of Economic and Financial Policies for 1999-2000 was signed by Minister of Economy and Finance Keat Chhon and Governor of the National Bank of Cambodia Chea Chanto to the Managing Director of IMF. It stated that "The new government, formed in November 1998, is determined to break with the past. It has announced measures and taken actions against illegal logging and corruption and to strengthen fiscal management. It intends to reinforce these actions and also resume other structural reforms."

*Source:* IMF (1999) and RGC (1999).

For two years, donors continued to give the regime space to maneuver and took on the view that reform was progressing along, even if slowly. One might even say that the threat of withdrawal lost credibility among donors, as they accepted superficial compliance.

#### 4.2.2 Case Study on Cognitive Dissonance: Judicial Independence

A glaring example of a decade's worth of glacial judicial reform has been the continued lack of independence of the judiciary. Judicial independence is a stated goal of the Royal Government, yet the legal basis of the Supreme Council of the Magistracy in charge of disciplining and appointing judges, which includes among its members the Minister of Justice (a member of the executive branch of government),<sup>68</sup> conflicts with the principle of separation of powers. As has been pointed out by Deputy Prime Minister Sok An, the principle is enshrined in the Constitution (Articles 128 to 134). Article 130- New (Previously Article 111)

specifically states that “Judicial power shall not be granted to the legislative or executive branches.”<sup>69</sup> How can this be reconciled? He explained in 2003: “My government is now in the process of further activating these principles and look[s] forward to donor support to further strengthen the Council and its secretariat, and hope[s] that the Council will ensure the credibility of the judiciary.”<sup>70</sup> More importantly, the speech underscores a truism of the Royal Government:

We realize that as a developing nation we do not have the necessary financial nor technical requirements to travel this long road by ourselves. This is why the government gives every support and cooperation to donor agencies to help us with this task. We are very open in our policies in accepting donor assistance and donor interventions and at all times strive to create an environment that is friendly to donor interventions.<sup>71</sup>

Certainly, “acceptance of donor assistance and donor interventions” indicates a willingness to receive technical assistance and aid, but it does not imply political willingness within a policy framework. Moreover, while the authorities accepted virtually any and all aid, judged against outcomes, this aid has lacked effectiveness.

#### *4.2.3 Case Study: Logging As Independence (1995-2005)*

Logging has long been a sore point of donor-government relations. It all began in the early to mid-1990s when illegal logging had run amok. The logging was partly linked with the need to raise revenues for a parallel military budget to fund offensives against the Khmer Rouge (Global Witness, 1997) but then took a life of its own. By early 1997, Hun Sen had had enough of donors (but in particular, the IMF’s) threats to cut off assistance if the illegal logging continued. He said:

I don’t want to keep going around begging for money... If they [aid donors and lending groups] cut off assistance, it can mean the cutting of more trees. That is the only choice left. There is no reason for the IMF to not continue providing

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<sup>68</sup> Moreover, the head of the Supreme Court is a member of the Cambodian People’s Party powerful Standing, Permanent, Central Committees.

<sup>69</sup> RGC (1993).

<sup>70</sup> Sok (2003). In the same speech, Sok An took the opportunity to repeat Hun Sen’s point from 2001: “[There] is a saying that ‘Rome was not built in a day’. Nor can we build Cambodia in a day. We are a very young state” adding “However, my government is truly committed to the vision of a Cambodia [with] fundamental principles of democracy such as rule of law. We are also equally committed to implementing judicial reform where there is complete judicial independence ...”

<sup>71</sup> Sok (2003).

assistance to ... Cambodia ... Because what the royal government had to do has already been completed ...If they give, let them give; if not, we have to think of the way for self survival.<sup>72</sup>

He added that aid donors and lending groups should “reconsider what economic pressure is all about.”<sup>73</sup> In March 1997, the NGO Global Witness (GW) which would later become the Government’s official forestry monitor in the Second Mandate (only to be forced out in 2002) obtained documents proving that, despite political tensions, the then co-Prime Ministers, Ranariddh and Hun Sen, cooperated to obtain revenues for a parallel military budget for the RCAF. Both Prime Ministers gave written permission to General Ke Kim Yan to sell 30,000m<sup>3</sup> (worth a minimum of \$9 million at world rates) of allegedly already felled timber which had been ‘confiscated’ in Koh Kong Province in order to raise money to fund the 1995-1996 dry season offensive (Global Witness, 1997).

Since 1999, the government has pledged to reduce military spending (officially 20% in 1998 and 14% in 2002) and increase social sector spending, but budget credibility is very weak, and year after year the military exceeds budget allocations while health, education and welfare receive less than their budget allocations (Adams, 2001). Because of non-transparent parallel budgets, no-one really knows how much is spent on defense; one estimate puts it close to \$300 million (Richardson, 2005) or almost half the official government budget, while another puts it at \$112 million in 2001.<sup>74</sup> The IMF pulled-out in 1997 on the pretext of these very same non-transparent forestry revenues (and lack of progress in administrative reform). By 1999, the country wrote to the fund that it was “determined to break away from the past” (as elaborated Section 4.2.1 for more).

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<sup>72</sup> As quoted in AP (1997).

<sup>73</sup> As quoted in AP (1997).

<sup>74</sup> According to official government statistics, overall expenditure on defense and security decreased 2.4% from 417 billion Riels (\$104 million using 4,000 riels/\$ exchange rate) or 2.9% of GDP in 2001 to 407 billion Riels (\$101.8 million) or 2.6% of GDP. Expenditure by Ministry of National Defense

With the passage of a Forestry Law in 2002, the Royal Government announced a ban on logging in January 2002, and a ban on log transport in May 2002, as a means of compelling logging concessionaires to produce sustainable forest management plans (none had yet been produced at the time of this writing). Critics charge that these bans have been grossly violated.<sup>75</sup> By 2003, things had again soured between Global Witness and the RGC. At the 2002 CG meeting, the RGC announced that GW would be expelled from the country. And while great pressure was levied on GW, they remained.<sup>76</sup> In 2003, Hun Sen declared

I think the donors are like relatives and closest friends of Cambodian government, and they do not have intention to force the government which is their blood relative to marry a partner [Global Witness which had been the Government's Official Forestry Monitor up until 2002] that she does not love.<sup>77</sup>

In December 2004, the transport ban was officially lifted and within months the World Bank recommended that the government approve the forest management plans of six companies with dubious histories (Global Witness, 2005). By 2005, a group of Cambodian villagers lodged a complaint with the Bank's Inspection Panel in February. In March the Panel recommended to the Bank's executive directors that it undertake a full investigation. Comparisons of the Bank's experience in Cambodia have been made "given current challenges facing the international donor community in other post-conflict countries" particularly the Democratic Republic of the Congo.<sup>78</sup>

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decreased 4.3% from 277 billion Riels (\$69 million) in 2001 to 265 billion Riels (\$66 million) in 2002 (RGC, 2003).

<sup>75</sup> Which begs the question: Does a policy make a sound if it falls in the forest and no one is there to hear it?

<sup>76</sup> At that time, Global Witness' Representative in Cambodia felt sufficiently unsafe that she left the country.

<sup>77</sup> As quoted in AFP (2003).

<sup>78</sup> Global Witness (2005) notes "DRC possesses the second largest tropical forest in the world and 40 million of its 58 million people depend on it for survival. Indications from the initial stages of the Bank's work in DRC suggest that the lessons of Cambodia have not been learned." Global Witness Director Patrick Alley summed it up this way: "The Bank is over-ambitious in its estimates of potential timber revenues and makes the basic assumption that industrial logging is the best use of DRC's forests. It has an unrealistic expectation that policies and commitments will be matched by political will and good governance, and all this in a vast country just emerging from full-scale civil

### 4.3 A Recurring Theme: Sovereignty as Proxy for International Legitimacy

A goal of the regime post-1997 has been to assert its “sovereignty” or more precisely to ‘Respect Our Sovereignty’ (as quoted in Faulder, 1999). Answering a question about the UN Secretary-General’s Representative office in Cambodia, which was established following the Paris Peace Accords, Hun Sen said:

I have requested the UN Secretary-General [his representative’s] office. We would like relations with the UN to be normal like other countries via our permanent ambassador to the UN. So far, there is no response from him and the continued presence of his representative in Cambodia is without the agreement of the government. But if he so wishes, he can stay by himself like that. You see [UN Secretary-General’s Personal Representative] Lakhan Mehrotra wrote to me here and asked for an extension and I did not reply. In the diplomatic world, some consider that no reply means yes. But to me it’s different. I did not respond to his suggestion. More than that, I requested the UN Secretary-General to close his office. That was in the form of aide memoire as well as in the form of letters. I will wait to see how they treat the sovereignty of Cambodia.<sup>79</sup>

Speaking at a Private Sector Forum in March 2005, Hun Sen quipped: “I request that donor countries give Cambodia back her sovereignty. Because I think that Cambodia loves herself more than others love her” adding “It appears to me that the government of a sovereign country is under pressure from donor countries.”<sup>80</sup> Regarding the Special Representative of the Secretary-General on human rights, Hun Sen said “I know that [he] is a tourist who comes to Cambodia regularly. He can come to see me when he wants.”<sup>81</sup>

While it is as yet unclear whether Cambodia succeeded in obtaining political legitimacy by transforming external financial resources, what it has managed to do over the last decade is at once to be scolded at CG meetings and yet be given more than it requested from donors. An opportunity for donors to actually change the

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war. This is exactly how the Bank approached its work in Cambodia; however it is not too late to salvage the situation in DRC given commitment, the necessary resources and, above all, some original thinking.”

<sup>79</sup> As quoted in Faulder (1999). As it happens, Mehrotra (1999) may have been trying to curry favor when he praised Hun Sen by saying “Very few of us would know ... who have seen you as a champion of human rights” while addressing the Prime Minister at a 14 June 1999 donor’s meeting in Phnom Penh.

<sup>80</sup> As quoted in Kong (2005).

<sup>81</sup> As quoted in Kong (2005).

way Cambodia operates partly succeeded following the events of 5-6 July 1997 during which aid from the USA and Germany was suddenly and unexpectedly suspended (this is explored in considerable detail in the next section).

While Cambodia has enjoyed limited success in enhancing its internal political legitimacy, there is no doubt that it has made significant inroads in improving its external political legitimacy. Cambodia formally joined the WTO in 2004 after an 11 month delay in forming a government following national elections in 2003. Having been denied international recognition as a “pariah” state throughout the 1980s, after Vietnam invaded and occupied the country in 1979, it was in the post-1993 period that Cambodia re-emerged internationally. Until then, Cambodia’s seat at the UN had been held by the Khmer Rouge in a coalition with the non-communist resistance. In 1999, it acceded to the Association of Southeast Asian Nations (ASEAN) which also meant joining the ASEAN Free Trade Area when the latter comes into effect in 2015. Since 2004, the country has aimed for a non-permanent seat on the United Nations Security Council, arguing that its time had come. Cambodia is sending military officers to a UN peacekeeping force in Sudan, just a decade after having hosted what was then the biggest UN peacekeeping operation ever, with 16,000 troops and at a cost of more than \$1.5 billion, to oversee the 1993 elections (Vatikiotis, 2005). While Cambodia’s responsibility for its own development is undeniable, the role donors have played in the last decade has been no less crucial.

## **5. The Role of Donors**

Donors have played the role of doting parent and occasional disciplinarian to Cambodia. The embarrassment of inaction during the Khmer Rouge genocide has lowered their willingness to demand too much of Cambodia, making allowances for the burden of its history. They frequently qualify Cambodia’s lack of progress

with its terrible past and the absence of human capital following the Khmer Rouge period.<sup>82</sup> Donors have worn multiple hats in the early 1990s and onwards. Certainly their role as peacemakers and unintended midwife to democracy amidst reconstruction in the very early 1990s (another \$2 billion through 1996) evolved into that of defenders of the faith (whether stability and/or democracy). They also play the role of cheerleaders, fundraisers, and purveyors of technical assistance for the regime, enablers of legitimacy, and captains of globalization.

## 5.1 Changes and Continuity in Donor Roles

### 5.1.1 *Defenders of the Faith: But of Which Faith? Voice and Accountability vs. Political Stability*

Elections ought to be the culmination of a democratic process. In Cambodia, it seems to “be” the process in the eyes of the International Community. This is an important lesson the regime learned after 1993, one that it has made full use of since then. This may also help to explain why donor success in voice and accountability was perceived by survey respondents as relatively good with 48% rating it as medium to very high. In 1996, the leader of the EU delegation, Italian Ambassador Leopoldo Ferri de Lazara, said: “If Cambodia is able to maintain [the] present political framework until the 1998 national elections, a democratic and normal life will have been achieved after years of war and instability.”<sup>83</sup> With regard to human rights and democracy, the Ambassador said:

E.U. policy [is] to allow sovereign countries to reach democratic status by their own mean. This is a situation where the international community should help the Cambodians rather than condemn them ... Our approach on human rights is that we feel if we continue our development aid we will see results.<sup>84</sup>

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<sup>82</sup> According to Vachon (2005), Robert Hagemann, International Monetary Fund Resident Representative, noted that it has only been since 1998 that Cambodia has been at peace, saying “It’s taken this time to instill an amount of confidence [in peace] for people to begin planning ahead.”

<sup>83</sup> As quoted in REC (1997).

<sup>84</sup> As quoted in REC (1997).



A retired diplomat described “crossing spades” subsequently with the Counsellor for the EU Delegation based in Bangkok:

He challenged my assertion that Cambodia was not yet a democracy and dismissed the Cambodian opposition as “trouble makers” for asking the [National Election Commission] to affect the recounting of votes at some places during the 1998 election.<sup>85</sup>

This was reconfirmed in 2003 by UNDP Representative Dominique McAdams in an interview: “Based on the criteria used to assess a country’s degree of democratic participation, Cambodia is a free and steadily progressing country. This assessment is based on three main indicators: elections, a multiparty parliamentary system and free-media” adding “When it comes to political parties, very frankly, I don’t know any other Asian country that would tolerate the level of strong words used by the MP Sam Rainsy in his media papers or whatever.”<sup>86</sup> Poor outcomes “may be the result of an over ambitious reform agenda.”<sup>87</sup> Box 4 excerpts the memoirs of a retired diplomat.

#### **Box 4: Memoirs of a Retired Diplomat**

[Those] who are interfering with Cambodia’s internal affairs ... are mostly the foreigners that have sided with Hun Sen, whom in their views represent “stability”. This word “stability” is a term invented by the Diplomatic Corps in Phnom Penh to justify their allowances and to disguise the corruption, the lawlessness, the violence and the injustice of the regime. This so-called “stability” is a myth! It belies the resentment and the fear that exists among ordinary Cambodians suffering under this violent regime of Hun Sen. It also belies all the trouble that outsiders cannot gauge, because most of them do not speak Khmer and do not understand Cambodia.

I often pointed out to my Ambassador: How is it possible that a country relying on the international donor community for half its national budget can get away with having the most corrupt and inefficient administration, illiteracy rates at just below 70%, and 80% among women. Infant mortality is 135 per 1,000 births and the most corrupt legal system in Asia? It is highly likely that because the donors countries have different agendas and cannot agree on much and Hun Sen, despite having had only one year of secondary school education manages to exploit these differences and perpetuates his power.

The French claim that Hun Sen brings “stability” to Cambodia and that he is the “counterpart” that France can work with. Similar assurances were given by France regarding infamous leaders in Iraq, Bosnia and many of the African dictatorships. Above all, the French Embassy in Phnom Penh tries to promote a strong anti-Americanism among Cambodians.

<sup>85</sup> Retired Diplomat (2003). I randomly stumbled upon this retired diplomat’s public “memoirs” (published on the internet) and, after some sleuthing, discovered that this retired diplomat is an old friend of mine!

<sup>86</sup> As quoted in Doyle (2003).

<sup>87</sup> As quoted in Doyle (2003).

During my second posting in Phnom Penh, I tried to find out what was France doing for the promotion of human rights in Cambodia, an issue which occupied much of my time in Phnom Penh because of the continuous violations committed by the regime. I was surprised to learn that while the French spoke a lot about human rights they never funded any of the local human rights groups. Their main concern seemed to be to promote “la francophonie” among the Cambodians, who by then had decided that English was the language of the future.

*Source:* Retired Diplomat (2003).

Recall that the respondents to the survey rated donor success in effecting political stability as highest with 66% rating it medium to very high. There is clearly a sense though among survey respondents that a Faustian pact was made to promote stability at the expense of democracy. Among the ratings for high to very high, the comments attached were full of sarcasm like “donor funds have helped prop up an increasingly autocratic, despotic state” (5) or “donors reinforce status quo” (19) or “the international community has and continues to happily underwrite authoritarianism (which in the long run isn’t terribly stable, but donors don’t object to the incremental expressions, such as the murder of MPs, etc.)” (24) or “donors have succeeded at making the current government ministers into some of the richest, most secure officials of any “democracy” in the world” (37). Other respondents were truly genuine in their praise: “Donor assistance to the election process has resulted in 3 relatively successful national elections and the commune election. Violence has decreased in each successive election and processes improved” (38). Finally, one particularly nuanced response was as follows:

Cambodia could not have extracted itself from its civil war without the help of donors, in particular the UNTAC and the governments which supported it. It should be remembered, however, that donors had previously fueled the civil war, and much of the credit for an end to the fighting lies with the actions of the Hun Sen government, and (then) Prince Sihanouk. Donors also contributed to a resolution of the 1997 crisis by pressuring the Hun Sen-controlled government to allow the return of Prince Ranariddh before the 1998 elections.<sup>88</sup>

### *5.1.2 Indispensable Cheerleaders, Fundraisers, and Purveyors of Technical Assistance*

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<sup>88</sup> Respondent (44)

Recently, a senior Western diplomat in Cambodia argued that “Hun Sen has ideas and is capable of playing a wider role in the region; he just lacks the backup and support to do this.”<sup>89</sup> A senior Asian diplomat quipped: “He is one of the few ASEAN leaders with ideas of his own who speaks his mind.”<sup>90</sup> While two individuals do not make a chorus, a retired diplomat remarked:

The problem with these diplomats and UN officials is that by siding with Hun Sen they believe that they are influential and Hun Sen, being the cunning fox that he is, he exploits these differences among the diplomats by making promises to all of them which are never fulfilled. They report back that “oh.. the PM listened to me and promised that he will do this or that”. More assistance is given to Cambodia. This assistance in turn hardly reaches the poor, as it will be funneled through technical assistance.<sup>91</sup>

Dominique McAdams’ predecessor, Paul Mathews, after retiring from UNDP, shrewdly observed that: “There is a triangle: donors, recipients and the development industry. This is a powerful lobby and there is little public scrutiny in donor countries of this.” Indeed, it is likely that by “recipients”, he meant the authorities and not necessarily the people.

Donors behave in ways to legitimize and de-legitimize the regime. For instance, with respect to technical assistance alone, 12% of aid has gone to pay 450 consultants while 6% of aid is given to more than 6,000 local staff (RGC, 2004a). Indeed, as has been noted by an observer of Cambodia:

Many consultants end up as little more than political advisors to ministers. They become cheerleaders for government and indispensable as fund-raisers. Many even write reports on behalf of the government, favorably evaluating their own projects or responding to donor concerns on issues like financial controls, logging or good governance ... Technical assistance often becomes a matter of expediency for donors and government officials in a hurry. It is easier to pay someone an excessive salary than to struggle to find the right people to complete a project.<sup>92</sup>

The trends in technical cooperation (see Graph) suggest that donors have increasingly turned their attention to taking on the job of government, instead of

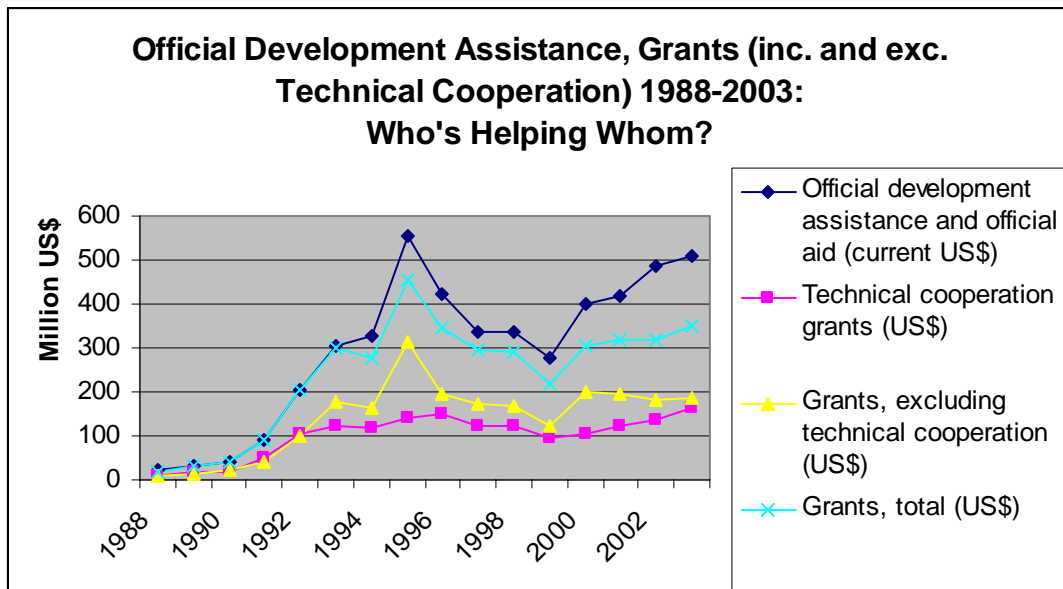
<sup>89</sup> As quoted in Vatikiotis (2005).

<sup>90</sup> As quoted in Vatikiotis (2005).

<sup>91</sup> Retired Diplomat (2003).

<sup>92</sup> Adams (2002).

building capacity. In this sense, they are delegitimizing the government by doing its job.



Source: World Bank (2005b).

If anything, post-1999 Cambodia should be weaning itself off of technical cooperation and assistance, but the trends suggest otherwise. From 1999-2003, technical cooperation grants have steadily increased from \$100 million to close to \$200 million.

Indeed, an emerging complaint from the few in government who have the audacity to speak-up has been the “mountain of reports” and the “cut-and-paste”<sup>93</sup> consultants who offer nothing new in terms of high-level policy advice but whose English is “beautiful”.<sup>94</sup> By overly relying on TA, capacity development is sacrificed at the altar of expediency: “The beleaguered people at the top think short-term and use [Technical Assistance] experts to do the job, rather than for capacity development.”<sup>95</sup> As a result, one trend has been the desire of the Ministry of

<sup>93</sup> This is a facsimile of Leonard’s and Marshall’s (1982) concept of the “international aid merchant” updated for the Digital Age.

<sup>94</sup> Kate (2004) was quoting Secretary of State for the Ministry of Commerce, Sok Siphana, who has been the champion of Cambodia’s entry into WTO.

<sup>95</sup> Godfrey et al. (2002: 365).

Economy and Finance (MEF) to not borrow for technical assistance, and while capacity building is often a long-term goal of TA, the two are often billed (rightly or wrongly) as flipsides of the same coin. These are things MEF considers soft, unlike a bridge or a road which can effectively be used once built. In fact, technical cooperation which would go beyond grants but into loan resources as well accounted for 40-50% of aid in the last decade. The IMF (2004) sounded the alarm recently:

Although weak administrative capacity may have required that about 40-50 percent of all aid flows be used for technical cooperation (of which a large part was spent for payments of salaries of expatriates) until now, such allocation may not be appropriate in the period ahead as Cambodia enters a new phase of reconstruction. Moreover, the enormous investment needs of the agricultural sector argue for sharper focus on building simple infrastructure rather than for more studies and reviews, except where there is clearly a need.<sup>96</sup>

Others realize all too well that donors naturally reach for TA in a poor governance environment where the risk of corruption in procurement is significant. It is easier for donors to pay an international consultant (better yet a national of the donor country) a large salary that can run upwards of \$15,000 per month in order to further “study and review” than to actually bother to build “simple infrastructure” when such infrastructure is rife with lucrative opportunities for misprocurement (i.e., procurement not in line with guidelines).<sup>97</sup> In addition, when it is applied to procurement in project management units and project implementation units, TA promotes “bureaucratic hygiene” and controls corruption by creating a layer of international auditors and public financial management specialists. Thus, donors argue, it is crucial to have in place international TA (or at least local TA) to control disbursement and reduce opportunities for corruption within donor projects.

### *5.1.3 Captains of Globalization and Enablers of Legitimacy*

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<sup>96</sup> IMF (2004).

<sup>97</sup> A bilateral donor official (58) relayed a personal story about a specific loan project of at least \$5 million in which the ministerial staff questioned whether \$500's worth of mosquito nets was “really necessary” because one had to “think of our children’s future in having to repay the loan”.

There is little evidence that donors and the global political economy exhibited hegemonic claims on Cambodia, save for those who believe membership in the World Trade Organization in 2004 was an externally driven event.<sup>98</sup> In fact, it was Cambodia's idea to join, though the IFIs were only too happy to facilitate. For example, the World Bank provided technical assistance through its pro-poor trade initiative. Just as Export Processing Zones (EPZs) represent enclaves of commerce, WTO membership is seen as a way to circumscribe Cambodia's embedded culture of corruption. Indeed, a draft law permitting Industrial Zones (Cambodia's equivalent to EPZs) is now under discussion.

WTO membership is widely seen as a possible straightjacket for further and deeper reform. For example, making laws publicly available has not been a forte of the RGC. While ignorance of the law does not permit one to violate it, the basis of this principle presumes that the law is at least made known to the public. The Government has published for some years now an *Official Gazette*, but following the 2003 elections, publication was reported to have ceased for nearly a year due to a lack of funding.

As we have seen, Cambodia developed its international legitimacy using its sovereignty as leverage, but has met with limited success in promoting its internal political legitimacy. The commune elections of 2002 were internationally heralded.<sup>99</sup> However, the move may have been an act of self-preservation. Knowing that it would be inevitable that commune elections would someday be held, the CPP (having appointed in the 1980s all commune chiefs) decided to take the initiative

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Surprisingly there was no such outcry from these same staffers for the hugely bloated cost of rural infrastructure projects in other budget lines. Indeed the thrust was on keeping those costs sky-high.

<sup>98</sup> It should be noted that joining WTO came at a great price in terms of both generic drugs and agricultural sector concessions according to Oxfam (2003), the details of which will not be detailed here. Debating the pros and cons of joining is moot at this point. Cambodia is now a member, and dozens of laws await passage.

<sup>99</sup> An international development professional has written that a development project CARERE, which became a government project SEILA (massively funded from donors), led to commune elections. Of course, the same American has led the effort for more than a dozen years.

and have control of the process at an opportune time. As such, it wanted to prevent another 1993-style debacle where it was taken totally by surprise when Funcinpec beat it at the polls. While observers agree that the CPP sweep was deeply influenced by the party's advantage in rural areas, an important development towards local governance was that prior to the elections, the CPP replaced a third of the commune chiefs because it learned that they were unpopular.

Until 2002, the CG had always rotated between Tokyo and Paris. From that year onward, Cambodia "graduated" from international custody and all CGs have since been held in Phnom Penh. In deciding to have the CG in Phnom Penh the government sought to enhance its legitimacy. Other initiatives that clearly showed Cambodia's desire to enhance its legitimacy were not blocked or discouraged. For example, Cambodia's chairmanship of ASEAN (by alphabetical order) in 2002 provided the opportunity for the country to prove its ability to safeguard regional leaders.<sup>100</sup> The ASEAN Inter-Parliamentary Organization (AIPO) meeting was held in Cambodia in 2004 and three years earlier the country hosted a meeting of the Association of Asian Parliament for Peace. The only time Cambodia ever risked not joining an international grouping was during the Asia-Europe Meeting (ASEM) 2004, when it declared that if Europe refused to permit Myanmar to join, it would not participate either as a show of solidarity.

#### *5.1.4 Once Upon a Time Disciplinarians*

Donors did not condition aid to de-legitimize the government per se, although invariably, this is what aid tends to do when it is fungible and has "Dutch Disease" effects (earlier discussed). *Prima facie*, the use of salary supplements without which no work could be expected of civil servants assigned to donor projects has been a doubled-edged sword. It incentivized work on the part of

civil servants because of their meager salaries of 150,000 Riels or \$37.50 per month (at the Deputy Director level!), but it also created an unsustainable symbiotic relationship between donors and the government. While this is being phased out, it is unclear what impact this will have on aid effectiveness. The hiring of civil servants into donor agencies themselves contravenes employment rules for the UN agencies. The safeguard is there to prevent brain-drain. However, compliance is unmonitored and left to the operations side of donor agencies, which can turn a blind-eye when headquarters is not stringent.

Generally speaking, conditionality has stayed away from domestic politics.<sup>101</sup> This is true certainly of the International Financial Institutions and Regional Development Banks whose charters (World Bank, 1945 and ADB 1965, respectively) prevent them from interfering in the politics of client members. Bilateral donors like Germany have traditionally shied away but one informant (41) has said it is becoming more “political”. Of course, the CG meetings prior to elections are important opportunities to affirm donor support for the democratic process. When no CG meetings took place in 1998 and 2003 this happened because of the events of 5-6 July 1997, and national elections in July 2003, respectively. Despite the absence of a CG in 2003, donors continued to pour in money<sup>102</sup>. While they did not meet officially under the banner of the World Bank and the RGC, they continued their activities. In this sense the CG is merely a pledging session to help coordinate and direct aid according to the Government’s shopping list.

#### *5.1.5 Why Could Donors Hurt the Rule of Law? Rule of Law Orthodoxy*

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<sup>100</sup> The metal detectors, more than \$200,000 each, were declared “lost” when the meetings ended. They subsequently showed-up again at the AIPO meetings in 2004.

<sup>101</sup> There was talk of the Khmer Rouge tribunal at the 2001 CG in Tokyo and hope was expressed that a law could pass that year. It did not. By 2002, the UN announced that it would back out of further negotiations with Cambodia. It took a vote of the General Assembly to force the Secretariat’s hand and return to the negotiating table. The Khmer Rouge Tribunal is slated to start in 2006 or 2007.

<sup>102</sup> A government was not formed for 11 months, so there was no mandate.



Why donor success on the rule of law in Cambodia is rated by survey respondents as only 12% medium to very high should give us pause. Golub (2003) critiques “Rule of Law Orthodoxy” which he identifies as “most prominently practiced by multilateral development banks” and defines it as a “‘top-down,’ state-centered approach [that] concentrates on law reform and government institutions, particularly judiciaries, to build business-friendly legal systems that presumably spur poverty alleviation.”<sup>103</sup> Golub uses Cambodia as a case-in-point:

A key assumption of ROL orthodoxy is that the judiciary is central to serving society’s legal needs: Unless we fix the courts, many other legal reforms will fail. As the World Bank’s Legal Vice Presidency puts it, “The rule of law is built on the cornerstone of an efficient and effective judicial system.” Applying similar reasoning that many development organizations use in many countries, the Asian Development Bank asserts that “although a daunting task, Cambodia has no alternative other than to overhaul the current judicial system if it is to lay a strong foundation for the nation’s future development.” These claims tie in with related assumptions that neither alternative roads to justice nor dysfunctional judiciaries are usable. This package of assumptions, however, is fatally flawed.<sup>104</sup>

The World Bank’s Cambodia office for instance has decided to hone-in on governance and in particular legal and judicial reform as the *sine qua non* for the country’s development in the next five years. Often Cambodian laws are written by donor-funded advisors in French first, then translated to Khmer, then translated into English. The original French meaning is often lost in translation, causing confusion and misinterpretation. If nothing else, what is clear is that when it comes to Rule of Law there is no way around the local system. One explanation might be that informant views about the integrity, transparency, reliability, etc. of the local system as a whole is better reflected in this measure than it is in the corruption one—at least in high Aid countries. For example, a diplomat based in Cambodia stated that:

[I]t’s the unusually high legal risk that foreign firms face when dealing with Cambodia that has lead [*sic*] to the drop off in FDI. My personal hope is that a credible and transparent Commercial Court that would handle contractual and

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<sup>103</sup> Golub (2003: 3).

<sup>104</sup> Golub (2003: 15).

business disputes would give investors the confidence they need to invest in Cambodia's great potential.<sup>105</sup>

In the face of serious challenges in Cambodia's judicial system (which will see the addition of commercial courts operating in parallel with the current court system), the diplomat's hopes may be dimmed somewhat. As Golub has assessed:

In evaluating work with the Cambodian judiciary, I was told by a U.S.-based NGO of its great progress with courts in a particular province, only to have independent Western and Cambodian sources volunteer (without prompting) that those courts were particularly corrupt. Although technical progress can take place even in the face of undue influences, where such influences are widespread they tend to trump the value of the technical change.<sup>106</sup>

Drawing on the experience of NGOs across the globe, Golub's alternative paradigm is legal empowerment, which he defines as "the use of legal services and related development activities to increase disadvantaged populations' control over their lives."<sup>107</sup> Legal empowerment is not just an alternative approach to Rule of Law assistance. Rather, it can be an important part of mainstream socioeconomic development efforts that do not usually provide legal services for the poor.

### **5.3 Donor Coordination and Credibility: Controlling or Enabling Corruption?**

A coordinated approach involving a secular decrease in aid would imply increasingly hard budget constraints for the RGC. In turn, this would give the right incentive and send the appropriate signal to the RGC to improve domestic revenue performance further well beyond current levels which, by international standards, remain inadequate and insufficient for fiscal sustainability without external assistance.<sup>108</sup>

This has largely been attempted by the introduction of Performance-Based Allocations (PBAs) using Country Policy and Institutional Assessment (CPIA)

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<sup>105</sup> Diplomat (2004).

<sup>106</sup> Golub (2003: 18).

<sup>107</sup> Golub (2003: 5).

<sup>108</sup> This chapter has not addressed the equally important expenditure side, which to date shows few signs of progress. The World Bank has engaged in expenditure tracking for the education and health sectors. Anecdotal evidence in other areas, like Social Protection, suggests that leakage of a non-trivial amount takes place, see Chan and Ear (2004).

scores. Both the PBAs and CPIAs represent a step forward. As of 2005, the World Bank will disclose CPIA scores. Prior to 2005, it was not permitted to disclose scores publicly, even though doing so could have provided an incentive for decision makers to improve performance. In the case of Cambodia, Wolfensohn did reveal

We have reduced our lending to Cambodia—as a response to the poor performance on governance indicators—but we have not reduced our commitment, nor our efforts to push for the kinds of reforms that are needed to bring about a better life for all Cambodians.<sup>109</sup>

What is unstated but should be considered is that the impact of reduced lending can be negated by recourse to alternative financing through bilateral means,<sup>110</sup> which Cambodia quickly developed in the post-1997 period. This is akin to portfolio (or in this case lender) diversification. The more lenders Cambodia has, the less power Cambodia's lender of last resort (International Financial Institutions) will exert over it. To be sure, this was only a natural response to a painful lesson learned. This increases the importance of donor coordination, but also reduces its effectiveness since Cambodia can calibrate any reduction in aid with additional resources from elsewhere to compensate. While the goal of ODA is

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<sup>109</sup> As quoted in World Bank (2005a).

<sup>110</sup> China and Pakistan are but two countries that have made multimillion dollar loans to Cambodia announced in 2004, \$30 million and \$10 million, respectively, but these did not show-up in the pledging sessions of the December 2004 CG meeting. Marks (2000) reports that in February 1999 following an official visit to Beijing by the Prime Minister of Cambodia, the country obtained \$18.3 million in foreign assistance guarantees and \$200 million in no-interest loans for infrastructure projects which China acknowledges is one of the highest aid amounts they provide to any country in the world. China last year became the largest investor in Cambodia. China's commercial influence is spreading beyond Asia. Brazilians have hailed their new working alliance with China in global trade talks as the harbinger of a "multipolar" world, less dominated by the United States. According to Elizabeth Sidiropoulos of the South African Institute of International Affairs in Johannesburg, African countries think it is "great" that Chinese aid and investment come with no strings attached in contrast to "the sometimes onerous conditionality of the West." After his 19 May 2000 meeting with Li Peng, Hun Sen, who had just requested a further \$60 million in aid, heaped praise on China, claiming that "...they never interfere with a country's internal affairs" in contrast to western donors and Japan who have attempted to link aid to good government, respect for human rights, and military and civil service reforms. China's aid "is given with fewer obvious strings attached and includes military aid – [in 2002] US\$2.4 million. At the time of the summit China announced it was forgiving all of Cambodia's foreign debt to China, most of which apparently dated to the Khmer Rouge period" (as quoted in Liu, 2005).

to develop countries, it admittedly also allows governments to forestall reform. This is compounded by a lack of coordination among donors.<sup>111</sup>

### *5.3.2 Corruption Case Studies: WFP, World Bank, and Credibility*

It is also important to keep in mind that to be effective, threats must be credible. As such, donors must engage in an honest and public discourse about expectations concerning the performance of the RGC. The formalities of Joint Monitoring Indicators and Benchmarks at annual CG meetings have been a welcomed addition, but further transparency and accountability is urged among donors, especially in publicly reporting governance related problems. Two recent cases of donor handling of corruption are particularly instructive from a credibility standpoint: (1) the World Food Programme and Food-for-Work and (2) The World Bank and Demobilization.

### *5.3.3 Case Study: The World Food Programme and Food-for-Work*

The case of corruption in the World Food Programme's Food-For-Work (FFW) scheme is particularly interesting. The approach was at first very public, with a front-page article in the *Phnom Penh Post* (Woodd, 2004c) and an interview with the then WFP Representative in Cambodia (Woodd, 2004a). It included prior consultation with Cambodia's largest donor and assurances of support by that donor as leverage on the RGC. At the time, that Representative put her foot down, "If [the government] did not accept anything then we would have to seriously look at our future in Cambodia."<sup>112</sup> The alleged fraud was initially pegged at \$2 million. The RGC quickly accepted the terms of a Memorandum of Understanding (MOU), taking responsibility and agreeing to repay in principle, following its own investigation.

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<sup>111</sup> Think for instance of a non-cooperative Nash equilibrium game in which the players, international donors, move independently of one another even while, to use Easterly's phrase, they have a "cartel of good intentions".

Unfortunately, the \$2 million figure was then disavowed by WFP which made clear to the RGC that the amount in question was negotiable. A year to the day, on 28 February 2005, the RGC agreed to pay only \$900,000.<sup>113</sup> WFP had suspended FFW for the duration, but continued all other activities in order not to hurt the “hungry poor”.<sup>114</sup> The agreement came coincidentally after WFP announced it would distribute 1,500 metric tons of rice to drought affected populations. There was no apparent rallying around WFP by other donors, and no press releases were found either on WFP’s global website<sup>115</sup> or its local one<sup>116</sup> concerning this matter through mid-March 2005. One would hope that the lesson learned from this will be the importance of credibility in issuing ultimatums, and implementing more rigorous monitoring systems.

It is also believed that while the Japanese Ambassador was adamant that Cambodia would lose Japan’s support (more than \$100 million per year) if it did not acquiesce to the terms of the MOU with WFP, the Japanese Ministry of Foreign Affairs apparently got cold feet subsequently.

#### *5.3.4 Case Study: The World Bank and Demobilization*

In contrast, the case of the World Bank saw somewhat better results even though its initial approach was more muted.<sup>117</sup> The Bank initially took a very low-key approach for two years with respect to the declaration of misprocurement in a demobilization project with the RGC. Seeing no progress, it was then reported in

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<sup>112</sup> As quoted in McKenny (2005).

<sup>113</sup> This was complicated by the now dismissed WFP staff’s own complicity in the corruption, which has been used as a foil for criticism of the Royal Government.

<sup>114</sup> As quoted in Cochrane (2005). With less than half the initial amount claimed repaid, the penalty for corruption appears to have gone on sale.

<sup>115</sup> Click on “Press Releases” at <http://www.wfp.org/country/brief/indexcountry.asp?country=116>.

<sup>116</sup> See <http://www.un.org.kh/wfp>.

<sup>117</sup> Prior to 1996, when the “c-word” corruption was seen as off-limits and political, the Bank’s approach to corruption was ridiculed as the three-monkeys policy: see no evil, hear no evil, speak no evil (see Bretton Woods Project, 2003). Unfortunately, the recent news that a number of Bank projects in Cambodia may have accountability problems was reportedly greeted without any comment whatsoever from the local Bank office other than a press release and a referral to the Institutional Integrity department at Bank headquarters.

the media that a letter was sent by the World Bank's Vice President for East Asia and the Pacific which allegedly threatened that if reimbursement did not take place by 15 February 2005, its entire portfolio of more than a dozen Bank-funded development projects would be suspended. This quickly produced results: the immediate repayment of \$2.8 million.

At impromptu press conference on 21 January 2005, the Prime Minister suggested to reporters that the World Bank had brought into the tender process the private firms responsible for the corruption. Keat Chhon was more conciliatory when earlier interviewed by the Associated Press. He said "It is regretful for me that such a problem has occurred. This was because there were loopholes in the implementation ... We must work to build good governance, so others stop suspecting that corruption was committed."<sup>118</sup>

To be sure, the World Bank's large size, its role as lender of last resort, and its stature as co-chair of annual CG meetings gave it more leverage than WFP, but the case also suggests that the World Bank's threat to suspend its entire portfolio was credible while WFP's threat to examine its future in Cambodia lacked credibility.<sup>119</sup>

#### **5.4 Final Squeeze: Debt Service**

Finally, another factor that may help to produce results is Cambodia's debt servicing payments. In May 2004, the media reported that Cambodia would pay an estimated at \$4-5 million or the equivalent of about two percent of total government spending according to Kay (2004) for concessional loans incurred after 1993. The IMF reports on its website that Cambodia is due to pay 6.52 million

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<sup>118</sup> As quoted in AP (2005).

<sup>119</sup> Richardson (2005) quotes a Bank staff member as having said in July 2002: "As long as 60 percent of the money gets where it's supposed to go, that's good enough for me." On this basis, she argues that such staff members should have been made to pay 40% of the \$2.8 million.

Special Drawing Rights (SDRs)<sup>120</sup> to the Fund in 2005. This alone is twice as much as the May 2004 earlier estimate, and does not include any other lenders.

In any case, debt service payments may serve as a similar budgetary constraint that could encourage reform if properly leveraged by Cambodia's creditors. Cambodia's total national debt picture is unclear because negotiations with the United States to whom Cambodia may owe \$500 million and Russia (\$1.6 billion) have not yet been completed. At issue is the discounting of the debt and the exchange rate to be used.<sup>121</sup> Debt sustainability analysis undertaken by the IMF suggests that "the fiscal burden of the debt is heavy (given the low revenue to GDP ratios), with debt service amounting to more than 15-20 percent of revenue over the next ten years."<sup>122</sup> More recent analysis by the World Bank suggests that by 2008, after rescheduling of its pre-1993 obligations, Cambodia's external debt will be nearly half of GDP, and debt service will equal 2.6% of exports of goods and services (World Bank, 2004b: 13). While this is not large in relative terms, given Cambodia's low 11.7% domestic revenue to GDP, the Bank reiterated its concern that the "fiscal burden of the debt is heavy."<sup>123</sup>

If debt-service payments can encourage the regime to undertake reforms that have long been on the drawing board, this would be a blessing for the country. However, based on the evidence presented so far, it is unclear what would happen if donors felt that, despite poor governance, Cambodia's poor would suffer if more

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<sup>120</sup> An SDR is an artificial currency unit that was created by the International Monetary Fund in 1969. It is a basket of currencies that include the Euro, the Pound sterling, the Japanese yen and the United States dollar. Using 1 SDR = 1.52577 exchange rate of 22 March 2005, 6.52 million SDRs are worth about US\$10 million.

<sup>121</sup> In *The Elusive Quest for Growth*, William Easterly (2001) rightly argues that a major test of good governance rests on whether, after receiving debt relief, a Government increases borrowing and returns to its original overburdened and unsustainable debt levels. In the case of Cambodia, this period of uncertainty in its debt outlook should give the authorities pause over how much more (or less) to borrow.

<sup>122</sup> Hang Chuon Naron (2003: 10).

<sup>123</sup> World Bank (2004b: 13).

aid were not given to offset the debt service payment or to even embark the country on the path towards debt forgiveness. Although Cambodia was at one point considered for the World Bank's and IMF's Heavily Indebted Poor Countries Initiative (HIPC) designed to forgive debt, it was later dropped for not being sufficiently indebted. Nonetheless, Hun Sen is aware of debt relief initiatives and of HIPC in particular. He has shared his views to the donor community and the UN General Assembly (see Box 5).

#### **Box 5: Hun Sen on Debt Relief/HIPC**

*Address of Samdech Hun Sen to the Government-Donor Monitoring Meeting (Phnom Penh, 5-6 April 2000)*

An essential ingredient for the future should be to reinstate the sense of "sharing" which has governed human existence from the dawn of history but has somehow got diluted in the race for economic growth in the recent few centuries. In a more development sense this sharing has to extend to more transfer of financial, technical and technological resources and open opportunities to poor countries in the South to participate fully and on equal footing in free trade to developed markets without hidden conditionalities and domestic subsidies. In this sense, a good step has been taken to write-off the heavy burden of outstanding loans to some of the poor countries. I would like to appeal to further develop this initiative by adding extra funds to help the Highly Indebted Poor Countries (HIPC) and this has to extend to many other countries including Cambodia through a global strategy for external debt, consisting of flexible formula for debt reduction and rescheduling. In addition, more "grant" rather than "loan" funds have to flow to them for development till they reach a minimum threshold.

*Address of Samdech Hun Sen to the United Nations General Assembly's Millennium Summit (New York, 8 September 2000)*

[With respect to debt relief and HIPC], a number of countries, including Cambodia, have made utmost efforts to reschedule old debts, especially those contracted in the 1970s. It is regrettable that these debts were contracted during the cold war to finance the hot wars in this country and in many regions. Under those circumstances, most of the loans were not utilized for development. Therefore, there should be political will to write-off these debts. Some countries appear to have shared this vision and adopted this approach by not requiring the payback. At the same time, we highly appreciate the generosity of donor countries and international financial institutions in granting new loans to poor countries, such as Cambodia to promote development and reduce poverty. Indeed, recipient developing countries benefiting from this borrowing shall have the obligation to ensure that the assistance is utilized wisely, with full transparency, accountability and efficiency in order to benefit the economy and the poor, as well as to ensure the sustainability of their future debt servicing capacity.

*Source:* Hun (2000b and 2000a).

## **6. Conclusion**

As we have seen of the last decade of development and governance, donors have overall enjoyed limited success across six dimensions of governance in effecting change in Cambodia. If political legitimacy arose only from political stability, then one would say that donors had been moderately to highly successful



(66%) in ceding Cambodia a measure of political legitimacy. If one added voice and accountability, the picture would be less favorable (with only 48%).

Judged against all other dimensions of governance, donors have failed miserably at effecting change in the government when it comes to control of corruption (5%) and the rule of law (12%). For both regulatory quality and government effectiveness, donors were equally abysmal with moderate to high success ratings of only 29-30%.

What is apparent is that the country, on its own, was more than successful in undoing economic central planning by introducing the free market with a vengeance. The country's ranking in the area of regulatory quality is its best by far, and according to the Heritage Foundation, it is better than most countries in terms of economy freedom. But this of course has masked a huge trade-off, one that has seen regulations replaced with corruption.

Donors and the government were aligned on political stability, this much is apparent, and this was clearly the political bargain that was made in Paris in 1989, to move Cambodia from a state of war to one of peace. While Cambodia has discovered peace, will it find the better development and higher quality of governance needed to secure political legitimacy in the long-run? This question remains to be answered, but the political economy of pro-poor policy in one specific sector, livestock, is examined in the following chapter.

## Chapter 4

# The Political Economy of Pro-Poor Livestock Policy in Cambodia

### 1. Introduction

This chapter addresses the potential for pro-poor livestock policies in the context of a challenging governance environment. It is a case study of Cambodia where nearly 88% of the poor come from rural areas, 80% of the population is rural, and no medium-term agricultural sector strategy currently exists. Cambodia is one of the least developed countries in the world. Between 1975 and 1979 it suffered the loss of an estimated 1.7 million people or one quarter of its population—and much of its livestock as well.

Agriculture and livestock represent 46% and nearly seven percent of Cambodia's economy, respectively (1997-2001). There is a consensus that the development of agriculture is Cambodia's best hope for survival in the global economy (Godfrey, 2003; World Bank, 2004a; IMF, 2004; Hun, 2004; Sciaroni, 2004; NGO Forum, 2002) following the end of the preferential quotas for the export of garments to the United States and the European Union, which had made that industry Cambodia's largest foreign exchange earner. The livestock sub-sector has considerable potential if tapped properly, as farming continues to shift from subsistence to commercial agriculture over the next decade.

Donors have only recently realized that agriculture has been inadequately addressed for a decade, acknowledging the embarrassing fact that only eight percent of aid has gone to the sector. Non-Governmental Organizations (NGOs) have tried, with their modest resources, to obtain results from the livestock sub-sector. Accordingly, a major objective of this chapter is to recommend feasible pro-

poor livestock (and livestock-sector related) policies from the set of options already in existence.

This chapter draws on more than fifty interviews conducted over the course of one year with senior policymakers,<sup>1</sup> owners, middle managers,<sup>2</sup> advisors (both national and international), and staff of public, private, and tertiary (donor and NGO) sectors. These interviews took place without interpreters in the language in which the interviewee felt most comfortable (Khmer, English, or French) and notes were usually typed-up within 24 hours. In addition, this chapter presents a literature review of official documents from the Government, donor, private sector, and NGO community; local newspapers; and recently published research on the livestock sub-sector. Field visits to six provinces<sup>3</sup> were conducted. The interviews were free-flowing, guided initially only by the Terms of Reference provided for this project by FAO, and tended to reflect the subjects' concerns. The field trips allowed the author to obtain access to villagers, including a number of Village Animal Health Workers and commune officials, as well as simply to examine conditions on the ground—in fields, feedlots, agro-industrial facilities, and even a newly built private port where cattle are exported to Malaysia.

The chapter has the following structure: **Section 2** provides the political context of the chapter. It covers political structure and the influence of the military in modern-day Cambodia. It goes briefly over the country's modern political history, the electoral system and political base of the three major parties—the Cambodian People's Party (CPP), Funcinpec (a French acronym for the United National Front for an Independent, Peaceful, and Cooperative Cambodia), and the Sam Rainsy Party. As such it provides the political basis for analysis of pro-poor

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<sup>1</sup> These were at the level of Secretary of State, Secretary-General, and Undersecretary of State.

<sup>2</sup> These were at the level of Team Leaders and Deputy Directors.

livestock policy prospects in subsequent sections. Current political and institutional processes do not lend much voice to the poor beyond what is said in speeches and what is written on paper. There are numerous reasons for this, but the chapter focuses on three: (2.1) the legacy of the Khmer Rouge; (2.2) patron-client relations and an embedded culture of corruption; and (2.3) the Donor-Government Nexus which has produced too many strategies and plans, but too few funded mandates and feasible policies.

**Section 3** delves into the economic context. It examines human development outcomes, livestock, and agriculture. It begins with human development (3.1) and elaboration of projected increases in poverty and inequality since the late 1990s.<sup>4</sup> It goes on to show that illiteracy and child and infant mortality have all increased since 1990. Section 3.2 discusses agriculture's contribution to Gross Domestic Product and posits that it is the only sector capable of absorbing the 150,000-250,000 entrants joining the labor force each year (World Bank, 2005b and Berthiaume, 2005).<sup>5</sup> It ends by highlighting the importance of creating a strategic framework for agriculture. Livestock (3.3) is explored for its role and gender divisions, livestock lending practices are discussed together with a case study of Aceda Bank, Cambodia's largest Microfinance Institution (MFI)-turned commercial bank is examined. The herd is detailed as is current evidence on animal drugs and mortality rates.

**Section 4** examines the policy context. It elaborates on sector challenges, the feasibility of existing pro-poor livestock strategies and presents several strategic entry points. The challenges (4.1) surround markets, access, and land. Pro-poor

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<sup>3</sup> Beyond Phnom Penh, these include Kampong Som (Krong Sihanoukville), Koh Kong, Takeo, Kampong Speu, Kampong Chhnang, and Kandal provinces.

<sup>4</sup> This issue is updated and revisited in the Addendum to this dissertation.

<sup>5</sup> Calculations based on World Development Indicators 2005 data suggest the figure is closer to 150,000. However, the figure of 250,000 is repeatedly mentioned. Most recently, outgoing US Ambassador Charles Ray said "Every effort has to be made to create jobs for as many of those

spending leaves much to be desired as will be shown in this section. Current pro-poor livestock policies (4.2) are described following a brief overview of the major policy documents. The focus is on the basic and smallholder livestock sub-sector strategy introduced four years ago. The Strategic Entry Points (4.3) discussed begin with a medium term strategy for agriculture set as a benchmark in the 2004 Consultative Group meeting Joint Monitoring Indicators. It is argued that the December 2005 completion target date offers an important opportunity to emphasize NGO participation and the need for animal health be regularized within this policy. A related Strategic Entry Point is further donor support to combat Highly Pathogenic Avian Influenza (HPAI) by using subsidized micro-credit for HPAI-impacted breeders (especially single-women heads of households or families without draught labor). Other Strategic Entry Points are the export of livestock and the potential for a Foot-and-Mouth Disease Free Zone (4.3), and the continued improvement of veterinary service through VAHWs (4.4) by regularizing them further through contracting of services either by the Government or NGOs with donor support. Finally **Section 5** concludes the chapter by framing the opportunities in pro-poor livestock policies while underscoring the constraints of day-to-day politics in Cambodia. It recommends specific strategic entry points.

## **2. Political Context: Khmer Rouge Legacy, Corruption and Donor-Government Nexus**

### *Political Structure and Modern History*

Cambodia is a constitutional monarchy with three branches of government (legislative, executive, and judicial) in which the King “shall reign but shall not govern.”<sup>6</sup> In the First Mandate (1993-1998) the legislative branch was unicameral with only a National Assembly but two Prime Ministers serving jointly. By the

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250,000 people as possible... Not only because it will move the country forward if it's done, it will move the country backwards if it's not done” (as quoted in Berthiaume, 2005).

Second Mandate (1999-2003), it became bicameral, adding a Senate<sup>7</sup> to the already existing National Assembly. The Senate is intended to review legislation, but is too often merely a rubberstamp, as is the National Assembly. With the formation of the Third Mandate in 2004, the Heritage Foundation (2005) called the coalition deal “patronage at its worst” with one Prime Minister, seven Deputy Prime Ministers, 15 Senior Ministers, 28 Ministers, 135 Secretaries of State, and at least 146 Under-Secretaries of State. While the main political parties are discussed in subsequent sections, the army is its own power center and merits a brief examination here.

Since the broad strokes of Cambodian contemporary history are well-known, this chapter will not delve into them to any great extent beyond Table 1 below, and in the subsequent pages.

**Table 1: Transition of Legal, Political, and Economic Systems in Cambodia.**

Period	Legal System	Political System	Political Power	Economic System
<b>Before 1953</b>	French-based civil code and judiciary	Under French protectorate	Held by the French	Colonial
<b>1953-1970</b> (The Kingdom of Cambodia)	French-based civil code and judiciary	Constitutional monarchy	Held by King Norodom Sihanouk (until he abdicates in 1955) then as Prince Norodom Sihanouk alternately as Prime Minister or Head of State of an elected government known as the Sangkum Reastr Niyum or People’s Socialist Community (1955-1970)	Market and then nationalization
<b>1970-1975</b> (The Khmer Republic)	French-based civil code and judiciary	Republic	Held by Lon Nol and Sirik Matak with U.S. support	Market, war economy
<b>1975-1979</b> (Democratic Kampuchea)	Legal system destroyed	All previous systems abolished, extreme Maoist agro-communism	Held by Pol Pot and the Khmer Rouge with Chinese and North Korean support	Agrarian, centrally planned

<sup>6</sup> RGC (1993).

<sup>7</sup> The Senate was created because the head of the National Assembly during the First Mandate had to cede his place to the Former First Prime Minister whose party lost the election.

Period	Legal System	Political System	Political Power	Economic System
<b>1979-1989</b> (The People's Republic of Kampuchea)	Vietnamese communist model	Communist party central committee and local committees	Held by the Kampuchean People's Revolutionary Party which picks Hun Sen as Prime Minister beginning in 1985 (Vietnamese backed with 100,000 troops; Soviet support)	Soviet-style central planning
<b>1989-1993</b> (The State of Cambodia)	Greater economic rights	Communist party central committee and local committees	Held by Cambodian People's Party (renamed from KPRP) with Hun Sen as P.M. (Vietnamese backed, all troops withdrawn)	Liberalized central planning
<b>1993-1998</b> (The Kingdom of Cambodia) <i>First Mandate</i>	French-based civil code combined with common law in certain sectors	Constitutional monarchy in which the King reigns but does not rule	Shared between Ranariddh (Funcinpec) and Hun Sen (CPP) in a unique arrangement of co-Prime Ministers with required 2/3 supermajority for ruling coalition	Transition to a market economy
<b>1998-present</b> <i>Second and Third Mandates</i>	As above	As above	Held by Hun Sen as Prime Minister in a CPP-Funcinpec coalition government that continues to require a 2/3 supermajority	Market economy without safety net

Notes: The 1993-1998 period is often seen as an Emergency Phase, while the 1998-present period is seen as a Development Phase. Pol Pot died in 1998, the Khmer Rouge disbanded completely in 1999.

*Source:* Adapted from Wescott (2001) based on Chandler (1991) and MLG and DFDL (1999).

### *Electoral System and Political Base*

Since 1998, Cambodia has used a party list Proportional Representation system<sup>8</sup> that favors large parties.<sup>9</sup> This was a desire of the Cambodian People's Party following the "events of 5-6 July 1997" (more on this later) after which it consolidated control over the country. The trend since then has been the steady aggregation of seats by the CPP despite only modest gains in popular vote.<sup>10</sup> Table

<sup>8</sup> In Party List PR, a seat is awarded for each 1/N of the vote, in an N-seat election. Scheir (1998) offers more detailed analysis in the case of Cambodia.

<sup>9</sup> That year, following the events of 5-6 July 1997 (of which more later), Cambodia began using the Jefferson/d'Hondt formula which favors the biggest party to the detriment of smaller parties because it rounds down in its allocation formula

<sup>10</sup> The Representative of the Konrad Adenauer Foundation quipped that while Nicaraguan dictator Anastasio Somoza once told the opposition: "You won the elections. But I won the count," the statement should be re-phrased in Cambodia's case to "You won the elections, but I won by formula" (Scheir, 1998).

2 shows that while the CPP won 47.3% of the vote in 2003, it now holds 73 (or 59%) out of 123 seats in the National Assembly.

**Table 2: Electoral Shifts 1998-2003**

Party	Votes	%	Change	Seats	Change
CPP	2,441,578	47.3	(+05.9)	73	(+10)
Funcinpec	1,070,601	20.8	(-10.9)	26	(-17)
SRP	1,129,171	21.9	(+07.6)	24	(+08)
Others	481,456	09.9	-		
<b>Total</b>	<b>5,160,939</b>			<b>123</b>	

*Source:* National Election Committee (Undated).

The political base of the three parties elected to the National Assembly since 1998 varies according to the depth of each party's rural political machine (of which the CPP has the most extensive network) and political legacy.

#### *Funcinpec*

Funcinpec is the second largest party in the Third Legislature with 26 seats. Its origins are in the resistance movement against the Vietnamese occupation of Cambodia in the 1980s. It was part of the non-communist resistance, but was in a strategic and military alliance with the Khmer Rouge for strategic reasons. Under United Nations Transitional Authority (UNTAC) election rules in 1993, Funcinpec was prohibited from using the image of His Majesty Norodom Sihanouk because the latter was to be an impartial figure above the political fray. Funcinpec however bypassed this small inconvenience by using the image of Norodom Ranariddh, its party leader. Ranariddh has a remarkable likeness to his father, Sihanouk. "Other parties are offering you gifts," Ranariddh has reportedly said, referring to small donations of scarves and packets of Monosodium Glutamate (MSG) given by the CPP to supporters, "We are not offering you gifts, we are offering you the king."<sup>11</sup> Ranariddh has long stressed the fact that Funcinpec was founded by his father



shortly after the 1979 Vietnamese invasion and that the party has remained steadfastly 'Sihanoukist' even though following the 2003 election in which Funcinpec lost 17 National Assembly seats and almost 11 percentage points of support, Ranariddh suggested a merger with the CPP (which the latter roundly rejected).

### *Sam Rainsy Party*

With 24 seats but more popular votes than Funcinpec, the opposition Sam Rainsy Party which takes its moniker from its leader Sam Rainsy, enjoys popularity among urban dwellers who oppose the ruling coalition. This includes large numbers of Cambodia's nascent labor union movement. In the First Mandate, Sam Rainsy was a Funcinpec Member of Parliament and Finance Minister until his ouster for being too outspoken against the interests of a particular oligarch. Rainsy questioned why oligarchs were not paying taxes. He introduced 50 auditors in the Ministry of Economy and Finance. He took to the streets with a protest for Olympic Market stallholders because of alleged unfair increases in rents by the owner, that same oligarch. He was warned numerous times by his party boss, Prince Ranariddh, but continued. His approach can be caustic in a political environment that values decorum.<sup>12</sup>

Expelled from Funcinpec, Sam Rainsy automatically lost his seat in the National Assembly and subsequently founded the Khmer Nation Party (later renamed the Sam Rainsy Party).<sup>13</sup> Beyond this, there is an ethnic undertone to Sam Rainsy Party (SRP) supporters, for Sam Rainsy's speeches have frequently

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<sup>11</sup> As quoted in Torode (1998).

<sup>12</sup> On 30 March 1997, a protest he led against corruption in the Cambodian judicial system was met with several grenades killing 20 and injuring more than 150 (Smith, 1997).

<sup>13</sup> Attempts were made to hijack the Khmer Nation Party (KNP) name by elements inside the KNP allegedly in coordination with external interests. With a name like the Sam Rainsy Party, it has thus far been impossible for anyone other than Sam Rainsy to claim control of the party.

invoked the word *Yuon*, the xenonym for Vietnamese in Khmer.<sup>14</sup> This is a sensitive issue due to Vietnam's rescue of Cambodia from the Khmer Rouge in 1979 and subsequent decade-long occupation. Due to the CPP's Vietnamese origins attempts to link the CPP and Hun Sen to his former patron, Vietnam (more on this in Section 2.1 on the KR Legacy) are seen by the International Community as racist (see BBC, 2005). One of his major pledges is to stop illegal immigration from Vietnam, something he insists Hun Sen cannot do (Torode, 1998). Without any positions in the current government, the SRP has no means of financing itself other than by raising money from supporters abroad. Sam Rainsy, along with two SRP fellow Members of Parliament were stripped of their immunity on 3 February 2005 to permit a defamation lawsuit lodged against them by National Assembly President, Norodom Ranariddh, to proceed.

#### *Cambodian People's Party (CPP)*

The CPP's political base is generally seen as coming from outside Phnom Penh. In 2003, it came in second in the capital with 150,189 votes to the SRP's 217,663, and Funcinpec's 65,249. Its strength is at the village level, where it exerts greater influence on the people through its network of village, district, and commune chiefs (the latter were, until 2002, entirely appointed by the CPP). An alleged strategy has been intimidation and fear. Politically related killings, almost always of non-CPP candidates, are common, though their numbers have seen a secular decline from one election to the next.<sup>15</sup> In January 1998, just before the elections when Cambodia's membership in the Association of Southeast Asian

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<sup>14</sup> The word took on a negative connotation in the 1970s and was allegedly banned in the 1980s when Cambodia was occupied by Vietnam. Sour Vietnamese soup *samlar machou yuon* became *samlar machou Vietnam*, but reverted to its original name in the 1990s.

<sup>15</sup> In 2002, I calculated the likelihood of random "death" in a Cambodian election based on the likelihood that 18 candidates of SRP and Funcinpec (using an urn model with replacement) would die randomly (assuming authorities were right that there was absolutely nothing politically

Nations (ASEAN) was in limbo, Hun Sen quipped: “In Brunei, power rests with the monarchy. In Indonesia some newspapers that criticized the government were closed. And in Thailand when they have an election, it is corrupt. Other things, like economics, they can teach us, but on the subject of democracy and human rights, they must not teach us.”<sup>16</sup>

The CPP was born of a faction of the Khmer Rouge that defected to Vietnam before the latter invaded Cambodia in 1979. The role and influence of Vietnam in Cambodian politics predates the 1979 invasion. For the past millennium, Vietnam and Cambodia have had land disputes and full-fledged wars because of Vietnamese population pressures. As such, Mosyakov (2000:15) argues that “historically Khmers always disliked Vietnamese, considering them aggressors in relation to their home country.”

Politics in Cambodia is predicated on power and money. The ruling party and Prime Minister Hun Sen have effectively controlled the country for more than two decades, but there is some factionalism. The Prime Minister is not the leader of his own party (a case similar to the Communist Party of Vietnam<sup>17</sup>), but is vice-chairman of the politburo (Standing Committee) and the Central Committee. Hun Sen faction’s consolidation of power within the CPP is nearly complete, with most military forces near Phnom Penh loyal to him. Most observers infer that the military is the fundamental base of Hun Sen’s power. As we shall see this complicates taking measures against the military when it acts in ways that make trade in livestock products by ordinary Cambodians unprofitable.

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motivated about each death and that they were all random) as equal to 1 in 1,478 or a 0.06% probability.

<sup>16</sup> As quoted in PPP (1998-1999).

<sup>17</sup> The General Secretary of the Communist Party of Vietnam is Nong Duc Manh, the head of state of Vietnam is President is Tran Duc Luong, and the Prime Minister of Vietnam is Phan Van Khai. Tran Duc Luong is a member of the Party Central Committee. Unlike Cambodia, Vietnam is a one-

### *The Primacy of the Military*

While Cambodia enjoys a democratic electoral political process, the role of the military in Cambodian politics and the economy should not be underestimated. The military has served to integrate various factions' armies into a national army. Most are old members of the communist armed forces dating from the 1980s. In 2001, there were officially 129,449 Royal Cambodian Armed Forces (RCAF) personnel, of whom 36,052 were commissioned officers including 386 generals RGC (2003: 14).<sup>18</sup> The US Department of State estimates at most 60,000 members of the armed forces,<sup>19</sup> a figure one US Department of State official admitted "was put at the top end of the possible range to avoid embarrassing the Cambodian government."<sup>20</sup> The rest are ghost soldiers or not active, but their salaries are paid (circa \$20/month) and their supplies provided (then resold or never delivered, but invoiced). This suggests that the potential for members of the military's to be involved in illicit activities is high.

Since 1999, the government has pledged to reduce military spending (officially 20% in 1998 and 14% in 2002) and increase social sector spending, but budget credibility is very weak, and year after year the military exceeds budget allocations while health, education and welfare receive less than their budget allocations (Adams, 2001). Because of non-transparent parallel budgets, no-one really knows how much is spent on defense; one estimate puts it close to \$300 million (Richardson, 2005) or almost half the official government budget, while

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party state in *both* theory and practice. According to the amended 1992 Constitution, the Communist Party of Vietnam is the "force leading the State and society."

<sup>18</sup> Commissioned officers include: 386 one to four star generals; 679 colonels; 1,720 lieutenant colonels; and 2,072 were majors. Other commissioned officers (Captains, First Lieutenants, Second Lieutenants, and Sergeant Majors) totaled 31,195. See RGC (2003: 14).

<sup>19</sup> As of 1997, see US DoS (2000: 40).

<sup>20</sup> As quoted in Adams (2001).

another puts it at \$112 million in 2001.<sup>21</sup> The International Monetary Fund (IMF) pulled-out in 1997 on the pretext of non-transparent forestry revenues that were believed to have financed a parallel budget for military spending. While it was not the official reason for the IMF's departure, the events of 5-6 July 1997 were an important factor for subsequently poor economic performance that served as a pretext. The events underscore the importance of the military.

On 5-6 July 1997, then First Prime Minister Norodom Ranariddh was ousted from power by Second Prime Minister Hun Sen. This resulted in more than 70 extrajudicial killings of mostly Funcinpec civilian loyalists. Although the precise details may never come to light, the general storyline is that in the lead-up to the events, a power struggle between Funcinpec and the CPP emerged in recruiting senior Khmer Rouge defectors. This led, for all intents and purposes, to a coup d'état. Forces loyal to the Second Prime Minister launched violent and sustained attacks against forces loyal to the First Prime Minister (claiming that the former was ready to take sole power) in Phnom Penh and the surrounding area (Amnesty International, 1997). To preserve the semblance of normalcy, the Minister of Foreign Affairs and International Cooperation, who belonged to Funcinpec, was named First Prime Minister. In the aftermath of 1997, there was no doubt who called the shots, and the entire military landscape has shifted as a result. The primacy of the military in usurping democratic rule and Hun Sen's consolidation of military power was complete.

### *Political Prospects*

Politically, there is no alternative other than to work within the system if donors insist on dealing with the government. Some have refused. The US Congress

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<sup>21</sup> According to official government statistics, overall expenditure on defense and security decreased 2.4% from 417 billion Riels (\$104 million using 4,000 riels/\$ exchange rate) or 2.9% of GDP in 2001 to 407 billion Riels (\$101.8 million) or 2.6% of GDP. Expenditure by Ministry of National Defense

does not allow any US funds to go directly to the Cambodian government, mandating that funds instead go through NGOs. How Cambodia evolved into its current political arrangement is debatable. Certainly, three factors that feature prominently are: (2.1) the legacy of the Khmer Rouge; (2.2) patron-client relations and an embedded culture of corruption; and (2.3) the evolving relationship between donors and the Government are crucial factors. Each is elaborated in the following three sections.

## 2.1 The Legacy of the Khmer Rouge

The political economy of Cambodia has seen tumultuous changes since the country achieved independence in 1953. Among these, the Khmer Rouge period was the most devastating, killing 1.7 million or a quarter of the population. Coined from the French by Cambodia's then Head of State, Prince Norodom Sihanouk, to describe the *maquis* (originally only leftists intellectuals) as "Red Khmer" or "Red Cambodians," the Khmer Rouge ruled Democratic Kampuchea (DK), a totalitarian regime, from 1975 until 1979 (Ear and Ear, Forthcoming). As Short (2004: 12) has argued, "Individual rights were not curtailed in favor of the collective, but extinguished altogether. Individual creativity, initiative, and originality were condemned *per se*. Individual consciousness was systematically demolished." As will be clear, a large part of this legacy shapes the current regime's thinking and the manner in which it behaves. Indeed, the current regime credits itself with having vanquished the Khmer Rouge threat and brought stability to Cambodia. It is a shadow from which Cambodia has yet to emerge. While an international tribunal will take place, many have argued that impunity will always prevail as long as the Khmer Rouge leaders escape justice.

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decreased 4.3% from 277 billion Riels (\$69 million) in 2001 to 265 billion Riels (\$66 million) in 2002 (RGC, 2003).

In this context, what would become the CPP was a faction of the Khmer Rouge that defected to Vietnam after relentless purges of the Eastern Zone of DK by the Pol Pot faction.<sup>22</sup> In 1978 Hun Sen and Chea Sim (Chairman of the CPP) became founding members of the Vietnamese-sponsored United Front for the National Salvation of Kampuchea (UFNSK) that became the communist Kampuchean People's Revolutionary Party. Heading the UFNSK was Heng Samrin (now Honorary President of the CPP), formerly the fifth highest ranking Khmer Rouge official in the Eastern Zone and among the 14 original founders of UFNSK, the most senior official in the Khmer Rouge military hierarchy (Jennar, 1995: 203-204). The CPP top leadership thus comes from the lower echelons of the pre-1977 Khmer Rouge movement and has yet to reconcile itself with this chapter of its history. Attempts to frame it in terms of divisions (two types of Khmer Rouge: (1) cruel Pol Potist faction; (2) adherents of humane Vietnamese-style socialism) have met with only moderate success. Post-KR Cambodia was reconstructed against this backdrop, a country some would say is at war with its own legacy.

*After the Khmer Rouge: Livestock and the Failure Collectivization*

In the aftermath of the Khmer Rouge when Vietnam invaded Cambodia in 1979, the new government, composed primarily of former Khmer Rouge officers who had defected to Vietnam by 1977, pursued agricultural collectivization. Livestock itself was nearly decimated during the Khmer Rouge period. It is believed to have suffered heavy casualties during the period of US bombings in the early 1970s.<sup>23</sup> In the period immediately after the Khmer Rouge, livestock was so scarce for draught power that it is said that no animal less than three years old

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<sup>22</sup> The Eastern Zone is where many of the original members of the faction first hailed.

<sup>23</sup> Caldwell (1979) wrote that during the Khmer Rouge period "Meat eating was boosted by countering Buddhist reluctance to take life and by encouraging the raising and slaughtering of livestock, particularly pigs (... "pork is allotted on the basis of one pig every two weeks for each production solidarity group of ten people.")" Caldwell was an unabashed supporter of the Khmer Rouge revolution. In 1978, he was invited to visit Democratic Kampuchea and was killed by an unknown assassin in 1978 after interviewing Pol Pot in Phnom Penh.

could be killed for meat according to a livestock professional (52).<sup>24</sup> Extreme agro-communism had been an unmitigated disaster under the Khmer Rouge, and this quickly failed in this period as well (Frings, 1993). The authorities soon relaxed implementation (Chandler, 1991).

The experience of the Khmer Rouge period made vigorous pursuit of such policies unpalatable to a traumatized people and has poisoned their view of collectives to this day. François Ponchaud, whose book *Cambodia: Year Zero* was the first to document Khmer Rouge atrocities, recently remarked “In the early ‘90s, Cambodians reacted negatively to any collective work, because of the Khmer Rouge.”<sup>25</sup> When he attempted to get villagers to rehabilitate old irrigation canals first built by the Khmer Rouge during the 2004 drought, a Village Chief told him “We don’t want them, that’s the work of the Khmer Rouge, the ideology of the past.”<sup>26</sup>

When explaining the need for farmers’ collective action, a senior government official (40) shied away from using the word *Sahakum* (commune) and even the politically correct term *Sahakaw* (cooperative), a word which gained popularity during the People’s Socialist Community period of 1955-1970, for fear of their historical connotations. While he agrees that it will be essential to develop cooperatives to aggregate smallholder power,<sup>27</sup> he also knows that Cambodia has

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<sup>24</sup> Please see Appendix B for informant codes.

<sup>25</sup> As quoted in AFP (2005b).

<sup>26</sup> As quoted in AFP (2005b).

<sup>27</sup> At the 2002 CG, the Government included “Establish Agricultural Cooperatives Donors Sought; Feasibility Study Required; 2002-2004 \$105,000 requested” but was not funded. While this chapter will not delve into details of the current cooperative situation in Cambodia, there is some encouraging news about their progress. On 21 December 2004, the Cambodian Farmer Assembly (CFA), described by members as a kind of “National Assembly for farmers”, was officially formed in Kampong Cham. The CFA arose out of the System of Rice Intensification “movement”. The CFA has 2,000 farmers in 10 provinces and expects to establish 5,000 associations, each with 15-40 members, by 2010. However Vong (2004) noted: “A call to the relevant ministry gives little confidence in top officials helping poor rural communities. Chan Tong Iv, Secretary of State for the Ministry of Agriculture, said he has not heard about the recent formation of the Cambodian Farmer Assembly. ‘I do not know and I do not understand about their target,’ said Tong Iv.”



gone from one extreme—Maoist agro-communism—to another extreme—free-for-all oligarch or “Oknha” capitalism without a safety net of any significance (Chan and Ear, 2004). Collective action, whether through cooperatives or associations, is now more important than ever. It is well-known that grass-roots associations and institutions have been far and few according to a livestock NGO head (33), a livestock professional (35), and a senior government official (40). A livestock project team leader (43) argued that pushing for cooperatives and associations was simply too soon after the Khmer Rouge trauma to be effective: “Farmers are barely able to feed themselves as it is; how can they think of a surplus?”

Cambodia has low social capital as a result of the Vietnam War and the Khmer Rouge period in particular. Colleta and Cullen (2000) argue that the Cambodian genocide destroyed social capital, but that social capital of a familial nature endured during the conflict, providing a basic survival-oriented safety net.<sup>28</sup> They argue that during the Lon Nol regime “traditional sources of social capital were severely eroded throughout Cambodia. Many villages were forced to relocate or split due to warfare, bombings and Lon Nol recruitment.”<sup>29</sup> These traditional sources of social capital would have come from associations with professional or developmental objectives, such as rice banks, funeral associations, and water users groups (Grootaert and van Bastelaer, 2002). Following the period of conflict, associations started to increase in number and intensity but they still are not as common as they once were. Senior government officials (40 & 48) and a multilateral donor official (25) widely acknowledged however that these issues of trust and social capital remain. As Martin and McLeod (1994) have argued,

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<sup>28</sup> One might posit that a continuing symptom of the survival of “social capital of a familial nature” from the Khmer Rouge period is the very familial nature of patronage and corruption now observed in Cambodia. It is not uncommon to see the insertion of family members at all levels of governments, from the driver to the chief of staff. No job is too high or too low to be above familial patronage.

Cambodian society was shattered during the Khmer Rouge period. This may partly explain why corruption and patronage is so often described as systematic in Cambodia.

As the World Trade Organization's newest member,<sup>30</sup> Cambodia has the right to challenge other members if it believes their trade practices violate WTO rules. However, it will need to pick and choose its battles. A WTO Business Guide produced by the Ministry of Commerce and the Mekong Project Development Facility (MPDF) points out:

Complaints made by entire manufacturing or farming sectors will carry the most weight in Phnom Penh. This is one reason why the formation of trade associations will be especially important for the private sector to recognize the full potential of WTO membership.<sup>31</sup>

The process has started, but expectations should be realistic.<sup>32</sup>

### *Landmines and Low Human Capital*

Cambodia remains one of the countries most affected by landmines and unexploded ordnances (UXOs) in the world. It is estimated that one out of every 245 individuals is an amputee (UNPAN, 2003: 26). The consequences to livestock have been severe, though no statistics are available. In 2002, a survey estimated that 2.5% (4,466 square km) of the country's surface area is contaminated by mines or UXOs, reducing arable land. Twelve percent (1,640) of all villages have to

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<sup>29</sup> Colleta and Cullen (2000: 19).

<sup>30</sup> Joining the WTO is only the latest move in a string of moves to integrate Cambodia into the International Community. Cambodia formally joined the WTO in 2004 after an 11 month delay in forming a government following national elections in 2003. Having been denied international recognition as a "pariah state" throughout the 1980s, after Vietnam invaded and occupied the country in 1979, it was in the post-1993 period that Cambodia re-emerged internationally. Until then, Cambodia's seat at the UN had been held by the Khmer Rouge in a coalition with the non-communist resistance. In 1999, it acceded to the Association of Southeast Asian Nations (ASEAN) which also meant joining the ASEAN Free Trade Area when the latter comes into effect in 2015. Since 2004, the country has aimed for a seat on the United Nations Security Council, arguing that its time had come.

<sup>31</sup> MoC and MPDF (2005: 8).

<sup>32</sup> The only time Cambodia ever risked not joining an international grouping was during the Asia-Europe Meeting (ASEM) 2004 when it declared that if Europe refused to permit Myanmar to join, it would not participate either as a show of solidarity. In the end, Myanmar was not barred, and Cambodia was not obliged to exercise its threat.

cope with levels of high contamination by landmines, and more than 5,500 villages have UXOs scattered on their land (RGC, 2004a: 56).

The disastrous consequences of the Khmer Rouge period on the human resources of the country are well known (Fujii and Ear, 2002). Wearing glasses was a sign of bourgeois intellectualism, and reason for death (Ngor with Warner, 2003). Illiteracy stands at 63%, and both infant and child mortality are some of the highest in the region (more in 3.1). One of the few veterinarians who survived through the 1970s to return to Cambodia now serves as a livestock professional (46). He was among the lucky ones who did not come back to Cambodia in 1975, like so many others lured by the Khmer Rouge to rebuild the nation, only to be slaughtered. He was in France in 1974, and stayed there until deciding to come work for FAO in 2003. He estimates that today, competent veterinarians who have received training of an international caliber number less than 10 nationwide.<sup>33</sup>

## 2.2 Patron-Client Relations and Embedded Culture of Corruption

Patron-client systems have ruled social relations in peasant societies since time immemorial, and Cambodia is no exception. The Leninist structure of the governing party and the highly hierarchical cultural traditions of the country make Cambodia particularly susceptible to top-down governance. From at least the time of the Sangkum Reastr Niyum period, his Majesty Norodom Sihanouk took on the French nickname *papa* or in Khmer *Samdech Euv* (Father Lord). The population of Cambodia was considered his children. Corruption, which feeds into patron-clientelism, has a long recorded history. Cambodian folktales from the turn-of-the-century published by the Buddhist Institute tell of a “Judge Rabbit” who took bribes to decide cases. Titles are extremely important, as for example the Prime

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<sup>33</sup> Desvaux (2004: 16) writes that only four DAHP staff members have Master’s degrees from abroad, of whom two are Deputy Directors. Many however hold the degree of Doctor of Veterinary Medicine which would have been acquired at the Royal University of Agriculture, Chamcar Daung.

Minister happens to have been given the royal title *Samdech* (Lord)<sup>34</sup> by then Prince Sihanouk in 1993 and all mid-to-senior level officials are called *Ayadom* (Excellency) while certain oligarchs who have donated at least \$100,000 to public charitable causes may receive the official noble title of *Oknha*, of which there is an elite level that only a few accede to called *Neak Oknha*.<sup>35</sup>

Visualizing politics in Cambodia as a pyramid, in which an all-powerful Prime Minister sits at the top has its allure. As a formal structure, the civil service has been described by a senior member of the government as a “pyramid, with an apex and a base but nothing in between. Because of their low salaries, the crucial middle-level people must work outside in order to survive.”<sup>36</sup> A deputy director of a Ministerial department currently receives 150,000 riels or \$37.50 per month according to a Ministry of Agriculture, Forestry, and Fisheries (MAFF) official (44). Naturally, the politics of patronage has itself made corruption the *sine qua non* of survival in Cambodia. Sath Sophal of government-owned Agence Khmer Press, who admits receiving handouts from his patrons (Government officials) at media events, said “I don’t think it is corruption or bribery; it is a case of understanding each other about difficult living conditions.”<sup>37</sup> Technocrats who propose policies that fail to take into account systemic corruption are likely to be disappointed by their outcomes.

### *Fighting Corruption, Fighting Corruption, Fighting Corruption*

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<sup>34</sup> This appeared to have been an attempt at national reconciliation. Sihanouk also called Hun Sen his “son”. Heng Samrin and Chea Sim, honorary president of the CPP and chairman of the CPP, respectively, were also given Samdech titles.

<sup>35</sup> When a possible Oknha “tax” was floated as a trial balloon by some members of the Ministry of Economy and Finance in late 2003, Oknhas interviewed by the *Cambodia Daily* at the time complained that had they known that the title could carry with it a tax, they would gladly return it. There was soon no further talk of an Oknha tax. A senior member of the Ministry said that it was dead on arrival.

<sup>36</sup> As quoted in Godfrey et al. (2002: 365).

<sup>37</sup> As quoted in PPP (2000-2001).

These are the three problems Cambodia faces according to World Bank President, James Wolfensohn. He visited in February 2005 for an international conference on “Seizing the Global Opportunity”.<sup>38</sup> Cambodia’s business environment has also been characterized as unpredictable and arbitrary because of crippling levels of corruption. A study of 800 private sector firms throughout the country by the World Bank (2004d) revealed that 76% of the firms surveyed identify at least some of the laws and regulations affecting them as “unpredictable”. The report also found that 80% of sampled firms acknowledged having to pay bribes, while 71% of large firms had to make frequent unofficial payments. The report calculated the so-called bribe tax to be 5.2% of total sales revenue, although the term was changed to “unofficial payments” throughout the main text before publication.<sup>39</sup>

No reliable estimates of corruption exist, but the same report (World Bank, 2004d) proffered \$120 million. Calavan et al. (2004) writing for the United States Agency for International Development estimated between \$300-500 million which could be as much 12.5%. Their report was entirely descriptive. As a caveat, the World Bank report acknowledges that “Government officials argue that this unofficial payment is likely to include all the costs of intermediaries/facilitators often employed by the private sector to go through regulatory processes.” This in turn raises “the governance issue both within the public and private sectors” and

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<sup>38</sup> He also said: “If you decide not to move, no one will cry over Cambodia. It is up to you and the world is watching ... If you do not become a credible competitor, it will be because of Cambodians, not because of the international community ... You have confusing bureaucratic practices, you have too many approvals, you have too many steps and every step is an opportunity for corruption ... We need to simplify procedures and we need to make sure there is no illegal payment on the way” (as quoted in Ek, 2005 and BBC, 2005). The cost of shipping a container to the United States from Cambodia, whose major foreign exchange earner by far is garments, was \$1,000 more than from China. It was a sentiment that was echoed by all of the speakers, including the former European Union trade commissioner Pascal Lamy (BBC, 2005). This, along with the frequently expressed concerns of other donors like DFID who commissioned the report by Hughes and Conway (2004) and specifically asked them to think *outside the box*, shows that frustration with Cambodia’s governance situation has hit an all-time high.

necessitates that both “be addressed simultaneously”.<sup>40</sup> This would seem to present a prisoner’s dilemma for reform. What can help explain this? The loss of human and social capital explored earlier is a major factor.

Indeed, corruption and patronage are important because there is very little in the way of other social organization on which to ground coherent political organization.<sup>41</sup> Thus leaders use “direct material inducements” because the post-Khmer Rouge, post-Vietnam occupation has left them with little or no “normative inducements” on which to call and very little in the way of interest group organization either. These would permit indirect material inducements and service to a larger—even if selfish—conception of the public good. The informal networks of patronage identified in Hughes and Conway (2004) have weaved together to form a governing coalition for Cambodia that requires potentially huge sums to operate and remain in power.<sup>42</sup> One former senior government official (8) suggested that donors help the government undertake electoral finance reform to reduce the political party machines’ consumption of cash for elections (gifts of scarves and packets of MSG do add-up). Unfortunately those donors he approached were not interested. According to a bilateral donor official (58), it is well known that donors shy away from all things political, though this is changing.<sup>43</sup>

### *Decentralized Corruption*

Cambodia’s internationally-acclaimed experiment with local governance, which has been called decentralization, although it is in fact administrative

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<sup>39</sup> The find and replace feature missed (perhaps intentionally) one instance on page 110.

<sup>40</sup> See World Bank (2004d: iv, fn 6).

<sup>41</sup> I am grateful to David Leonard for this particular point.

<sup>42</sup> The politics of gift-giving in Cambodia is explored in Hughes (forthcoming).

<sup>43</sup> The former senior government official (8) also told his superiors that the country would benefit from conflict resolution through a provincial network of Ombudsman’s offices. Unfortunately, they were not interested in this suggestion either.

decentralization or deconcentration,<sup>44</sup> bore fruit in 2002, when commune elections were held.<sup>45</sup> While all communes had been controlled by the CPP, now only close to 99% are under its control, and much less than that if counting the number of seats on the councils won by non-CPP parties.

While one would expect bottom-up forces to reach the nodes, elected commune councils are essentially disempowered, with neither the power to make major decisions nor the purse strings to implement them. Indeed “the goals of the government and the international community are not aligned on this. The international community repeats their good governance mantra, but the government, if you are listening carefully, is talking about peace, stability, and *control* (emphasis added).”<sup>46</sup> The warning signs were already there. In “Whatever happened to Deconcentration? Recent Initiatives in Cambodia” Mark Turner warned that:

While it is possible to secure greater participation and partnership with local communities through deconcentration, it will be problematic to make this a reality. Cambodian social structures and history are not conducive to such developments. Relations between government and society have been hierarchical.<sup>47</sup>

Moreover, Cambodian-style decentralization is such that the link between the central government and its local branches is not always clear. Pockets of power, quasi-fiefdoms, exist in which the provincial departments of ministries extract unofficial payments from smallholders and of course pay a share to the provincial governor, police and to their superiors in the central government, according to a

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<sup>44</sup> Ribot (2001) writes: “Deconcentration or administrative decentralization concerns transfers of power to local branches of the central state, such as prefects, administrators, or local technical line ministry agents. These upwardly accountable bodies are appointed local administrative extensions of the central state. They may have some downward accountability built into their functions, but their primary responsibility is to central government. Generally, the powers of deconcentrated units are delegated by the supervising ministries. Deconcentration is a ‘weak’ form of decentralization because the downward accountability relations from which many benefits are expected are not as well-established as in democratic or political forms of decentralization.” See also Leonard (1982).

<sup>45</sup> It was the UN project Cambodia Area Rehabilitation and Regeneration (CARERE) that became the Royal Government’s Seila program (massively funded from donors), which ostensibly led to commune elections. Both have enjoyed the same American Chief Technical Advisor for more than a decade.

<sup>46</sup> Donor professional (18).

private sector manager (1). A team leader (19) who heads an education project called it “decentralized corruption” which he considered more equitable than the centralized variety.

### *Unofficial Payments in Livestock*

Measures that cut into these revenues must be compensated in kind. The only exception is if the Minister or better yet the Prime Minister makes noises, but even this has its limits; his threats can go only so far, since living conditions are very difficult under the political economy of civil wages in Cambodia. Juxtaposed against the grand total of \$120-500 million per year, this petty corruption (which likely accounts for only a fraction) pales in comparison.<sup>48</sup> Moreover, while the army and police may have a monopoly on the legitimate use of force, they are also freelancers when far from the center. Hence, a provincial governor once was asked to stop trucks smuggling cattle out of Cambodia and answered: “What will you give me if I do this? I need to make as much as what I’m getting from that truck.”<sup>49</sup>

According to a private sector manager (1), the unofficial payments breakdown when a cow is sold by the villager which he must then pay as a buyer is reportedly:

- 10,000 riels (\$2.5) for the chief of commune
- 15,000 riels for the veterinarian (government official who clears)
- 10,000 riels for governor of the province
- 3,000 riels for the police
- 3,000 riels for the military police

With a price of 3,500 riels per kilo, that cost 5.8% of a 200kg animal, which is in the upper range of animals purchased, while on the lower range, at 100kg, it would be twice as much or 11.6% per head.

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<sup>47</sup> Turner (2002: 363)

<sup>48</sup> One is reminded of the African proverb: “Fish rots from the head.”



Indeed, the 5.8% figure approximates the 5.2% unofficial payments rate in Cambodia that World Bank (2004d) reported. However, given rural-urban income differences, while the share may be smaller, rural incomes are considerably lower (this is clear from urban-rural poverty figures since most of the poor live in rural areas). Indeed, CSD (2005) finds that urban households spend more than twice as much of their total expenditure on bribery as their rural counterparts while World Bank (2000) found that rural Cambodians spent proportionally more on bribes. How does the process work for the payments? Sellers need a letter (*sambot*) from the authorities proving the provenance of the cattle, its specifics (age, owned by whom, etc.) and permission for the transport/sale. “One trick favored by thieves, particularly in the north and northwest of the country, is to obtain a letter from provincial authorities permitting the transport of livestock for slaughter in Phnom Penh.”<sup>50</sup> Box 1 draws from a Draft Survey Report on the Issues and Recommendations of the Government Private Sector Forum (GPSF) Agro Business & Agro Processing (ABAP) Working Group in 2004. It explains the intricacies of how unofficial fees are collected.

### Box 1: Paying Your Dues

The number of payments made to the authorities indicates unnecessary levels of bureaucracy that, from an agro business and agro processing working group perspective, are costly to maintain.

The private sector identified different authorities collecting toll fees on National Roads. “Many unofficial fees are charged (please refer to the six points below) for buying and transporting cattle from the provinces to Phnom Penh. In addition there are additional charges in Phnom Penh for transporting cattle. In each province transporting costs and administrative charges are paid to the Governors office, veterinarian, economic police (the economic police have many different levels Ministerial level, provincial level, district level), the Livestock office (i.e. in two provinces in Kampong Thom and Ratnankiri), other police (e.g. military police). The military and economic police stand at many points along the roads that are used to transport cattle to Phnom Penh. All police fees are unofficial. There is no receipt given.” Kratie, Transport sector. On a barge leading from Kratie to Phnom Penh, it was noted that at Chhlong “...five different groups: a) provincial economic police, b) ministerial economic police, c) district police, d) military police, and e) veterinarian extracted a fee” To clear the port when this same vessel arrives in Phnom Penh it was estimated that the company has to pay the following, “...veterinarian - Riel 70,000, municipal economic police - Riel 30,000, military police - Riel 50,000, port authority - Riel 70,000.” On leaving

<sup>49</sup> As quoted by a manager (1).

<sup>50</sup> Hunt (2004).

the Port of Phnom Penh it was suggested that a further five payments had to be made before the truck had arrived at the official toll road on Route Number 4. Kratie, Transport sector.

*Source:* GPSF-ABAP (2004).

A private sector manager (1) complained about excessive informal payments. For a 330km stretch of road, he reported having to give his truck drivers carrying livestock \$100 cash (with five to 10 cattle on board, worth \$200 each, the load value would be five to 10%) in order to pass through (mostly) illegal checkpoints manned by military and police authorities. The WTO Business Guide reports that one “consignment of cattle, collected from various locations, was subject to 19 stops by the police and military and a total fee collection of \$250.”<sup>51</sup> When another consignment had too much trouble traveling by road, the buyer used his barge from Kratie province. Police speedboats chased the barge demanding payments according to a bilateral donor official (58).

While outright confiscation is out of the question, knowing the cargo is livestock, the authorities can cause a delay of a few hours in the searing sun which guarantees its expiration. In contrast, So Vitou, the chief of the local Department of Animal Health and Production (DAHP) office in Kampot Province, reported that “[Cattle rustlers] have opened fire at my officials when they attempted to stop the trucks carrying cattle... When they are stopped, the thieves maintain they are royal military officers and intimidate the police into letting them pass.”<sup>52</sup> Rustlers wore RCAF uniforms and their vehicles had military license plates (Hunt, 2004). Consignments, unfortunately, cannot be entrusted to police or military protection since these appear to be involved on both sides of the fence: smuggling or illegal checkpoints. One would need to compare the situation prior to decentralization initiatives, but clearly the lack of resources, the low pay, and the inability or unwillingness of Phnom Penh to project its power and influence over provincial

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<sup>51</sup> MoC and MPDF (2005: 61).

offices suggests that the latter has ceded some measure of control over the provincial offices in exchange for payments. These payments do not have to flow from the provincial level to the center physically, they can merely support the absence or reduction of flows from the center back to the provinces (see Section 4 on Policy Context for suggestive evidence). Thus, a volatile mix of patronage and corruption now permeates the Cambodian economy.<sup>53</sup>

### 2.3 The Donor-Government Nexus in Cambodia

Donors, like governments, have bureaucratic processes which make them behave in less than productive ways, but which make perfect sense in terms of internal organizational logic. And like governments, they also cannot be expected to change their behavior unless it is incentive compatible to do so. While government ownership and commitment is a problem, a multilateral donor official (42) pointed out that donor ownership is itself absent. For a decade, the international community cut Cambodia considerable slack, perhaps feeling sorry for its terrible past. In December 2004, the World Bank and other donors drew the proverbial line. Donors have helped to fund countless government strategies (donors don't call them their own strategies for obvious reasons, unless it really is their own internal strategy), and government has taken-up donor-initiated strategies and made them their own, at least on paper, creating a *mélange* of strategies and plans replete with enough flights of rhetoric to last decades.

#### *Too Many Strategies and Plans, Too Few Funded Mandates and Feasible Policies*

The result has been a welter of plans and strategies which, one by one, fell to the way-side. In the course of the past three years, three national plans and strategies have been introduced for the country's development and poverty

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<sup>52</sup> As quoted in Hunt (2004).

<sup>53</sup> If this is to change, the change itself will have to come from within. A government advisor (45) and a senior government official (54) agree that it may take at least the current generation before things improve. The comparison a government advisor (45) made was to late 19th century America.

reduction: (1) the Socio-Economic Development Plan II (SEDPII), (2) the National Poverty Reduction Strategy (NPRS), and (3) the Rectangular Strategy (RS). All can be said to be the Government's but at least one came from donor requirements and another was more or less completed with donor TA. SEDPII was completed with technical assistance from the Asian Development Bank (ADB) and released in 2002.<sup>54</sup> The NPRS was required by the World Bank and IMF for the country to receive concessional lending and was initiated in 2000 as the Poverty Reduction Strategy Paper. Finally, the RS is the government's own strategic initiative released in 2004. Next is the National Strategic Development Plan (NSDP) which will supersede both SEDPII and NPRS. While the circular announcing its launch calls for "realistic", "government-led and-owned", and "feasible" policies,<sup>55</sup> one bilateral donor official (49) warned that the NSDP was a donor-driven idea from the beginning. The policy process is opaque, as elsewhere, and one may even wonder what policy means in Cambodia.

*In the Realm of Policy: Theory and Practice*

There are at least three types of policy pronouncements in Cambodia. (1) The "policy" speech; (2) The Strategy and/or Plan (of which technically there are two sub-types, funded or unfunded), and (3) an actual Prakas (ministerial declaration), Sarachor (circular), Anukret (sub-decree) issued by the Council of Minister, or Chhbab (law) passed by the National Assembly. One would think that the order of importance might be (3), (2), and (1), but this is not entirely clear. The policy speech has the least significance in terms of the long run. It can stop Karaoke bars for a few weeks or months or even make illegal checkpoints disappear temporarily, but they invariably come back. The Strategy/Plan is more significant

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<sup>54</sup> In 2003-4, I worked with an international consultant in East Timor whose job had been to help Cambodia write the SEDPII. He became so disillusioned by the process that he never finished the work and chose to leave early. He just did not see the point of writing a beautiful document devoid of any political reality, commitment, or acceptance.

admittedly, but it is often times more like a wish list, and certainly the unfunded wish list has much less influence than the funded one.<sup>56</sup> Finally, while actual legislation should mean something, it is not necessarily the case. These are regularly violated or ignored the further one moves from Phnom Penh, as earlier explained. If and when these policies become law, their enforcement is an entirely different matter.

In theory, the general policy process originates in the department of a concerned ministry and moves-up via the Under-Secretary of State in charge (policy maker), then the Secretary of State (policy maker), then the Minister (decision maker), whereupon it can become a Prakas (regulation). If the policy is nationwide and/or impacts policies beyond the Ministry's control, then it must go to the Council of Ministers where it is reviewed and signed by the Prime Minister and countersigned by the relevant line Minister (Oberndorf, 2004: 9).

How livestock policies come about in Cambodia has already been the subject of considerable scrutiny by Sen (2003b). Based on his workflow diagrams, pro-poor livestock policy is highly centralized and top-down. While the conclusion by Sen, who was at the time a Deputy Director in the Department of Animal Health and Production in the Ministry of Agriculture, Fisheries, and Forestry, is that pro-poor stakeholders need to interact at a level beyond the DAHP, say at the policymaker level which would start with an Undersecretary of State, this is an indication of the political reality of his own department and the lack of power he exerts beyond it—

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<sup>55</sup> RGC (2005: 1-2).

<sup>56</sup> The 2004 CG produced the following Pipeline-High Priority Projects on Agricultural Productivity:

(1) Artificial insemination cattle breeding station (MAFF) Donors Sought; Feasibility Study Required 2005-2006 \$91,000 requested; (2) Hemorrhagic septicemia vaccine production (MAFF) Donors Sought; Feasibility Study Required 2005-2007 \$400, 000 requested; (3) Reduce Mortality and Morbidity of Livestock through strengthening veterinary services and disease prevention programs (MAFF) Donors Sought; Feasibility Study Required 2005-2007 \$480,000 requested. Only (3) is new, while (1) and (2) appeared in the 2002 CG and were left unfunded. The 2002 CG also included a Vaccines, Medicines & Equipment Donors Sought; Feasibility Study Required 2002-2003 \$221,000 requested.

meaning while he no doubt supports the policies, he cannot make the necessary changes as a technocrat.<sup>57</sup> As such, it speaks to the impotence of the current policy process and, to some extent, of policies themselves.<sup>58</sup> Despite this sobering assessment, some secular trends have appeared on the horizon, and these may further guide policy options.

### *Donor-Government Trends*

There are two discernable domestic trends which tie into the Donor-Government Nexus: (1) The government and donors have recently realized that up to half of all aid has gone to Technical Assistance (TA) in the last decade, but even before this realization, TA that used loan resources became relatively unwelcome (this ties into capacity development and VAHWs). (2) Bureaucratic sprawl within ministries and inter-ministerial turf-wars have led to strange outcomes even when the Ministers are from the same faction of the ruling party. This is a lesson in never underestimating the potential for increasing informal payments no matter how illogical these may be.

### *Technical Assistance vs. Capacity Development*

An emerging complaint from the few in government who dare to speak-up has been the “mountain of reports” and the “cut-and-paste”<sup>59</sup> consultants who offer nothing new in terms of high-level policy advice but whose English is “beautiful”.<sup>60</sup> By overly relying on TA, capacity development is sacrificed at the altar of expediency: “The beleaguered people at the top think short-term and use [Technical Assistance] experts to do the job, rather than for capacity

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<sup>57</sup> And as we have seen already, even if the changes were made, it would not guarantee any outcomes.

<sup>58</sup> The fact that he has chosen to take an advisor position (one of dozens, perhaps even hundreds) with a particularly powerful Deputy Prime Minister, which will take him outside the department while he concurrently but only nominally holds his job as Deputy Director, shows the constraints (inside) and opportunities (outside) he faces.

<sup>59</sup> This is a facsimile of Leonard’s and Marshall’s (1982) concept of the “international aid merchant” updated for the Digital Age.

development.”<sup>61</sup> As a result, one trend has been the desire of the Ministry of Economy and Finance (MEF) to not borrow for TA, and while capacity building is often a long-term goal of TA, the two are often billed (rightly or wrongly) as flipsides of the same coin. These are things MEF considers soft, unlike a bridge or a road which can effectively be used once built. Thus a livestock professional (21) claimed that the International Fund for Agriculture and Development (IFAD) was dissuaded from further investing in the training of VAHWs as a result of the MEF’s distaste for TA in the form of loans.<sup>62</sup>

This contradicted a multilateral donor official’s (57) view that training was not out as an activity for which the government was willing to borrow. TA proper was out, but training of civil servants was not. Indeed, both individuals may have been right, since VAHWs are *not* civil servants. Alternatively, this could have been a case of throwing the baby out with the bathwater. Training of VAHWs could have been mistaken for yet more TA, something that is not hard to do given that 40-50% of all aid flows to Cambodia is technical cooperation (TA by any other name) as was discussed in Chapter 3.

### *Bureaucratic Politics*

Another trend over the last decade has been the increase in bureaucratic sprawl which is amplified by power sharing between Funcinpec and the CPP.<sup>63</sup> The increase from two to three deputy directors per department has not produced efficiency gains and has left civil servants baffled and dejected, moonlighting at NGOs according to a livestock NGO official (28). Bureaucratic infighting within

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<sup>60</sup> Kate (2004) was quoting Secretary of State for the Ministry of Commerce, Sok Siphana, who has been a champion of Cambodia’s entry into WTO.

<sup>61</sup> Godfrey et al. (2002: 365).

<sup>62</sup> Indeed, there is precious little now taking place in this realm that is not grant-based. Donors involved with DAHP, from FAO (HPAI project), the French Authorities (who fund Advisors), to the European Commission (Livestock project that is starting-up) all undertake grants now.

<sup>63</sup> When the Khmer Rouge took power, the cabinet had less than a dozen members. This was intended to fight *karyalaynyum* or “bureaucratism”.

the departments has pushed out good talent and caused turf-wars between ministries. The lucrative business of controlling inspections has created oddities like the Ministry of Commerce (at one point) appointing itself in charge of sanitary and phytosanitary inspections by virtue of its Minister being in charge of WTO negotiations, while a draft sub-decree on MAFF's website<sup>64</sup> calls on the DAHP as the responsible agency.<sup>65</sup> Both Ministries are controlled by Ministers who are members of the same ruling party *and*, it is believed, the same faction (Hun Sen's).

The prospect for effective pro-poor policy in livestock is thus marginal as the domestic political and institutional processes are aligned against their favorable implementation. The economic backdrop for pro-poor livestock policy, while rife with challenges, is *relatively* more promising because of Cambodia's entry into WTO. Livestock has the potential to be a significant growth sub-sector because of robust regional demand even if agriculture has lagged for a decade due to constraints in markets, access, and land, all of which are discussed next.

### **3. Economic Context: Human Development, Livestock and Agriculture**

Cambodia's economic performance has enjoyed some notable successes in the last decade, especially in the area of macroeconomic stability, as it embraced aspects of the Washington Consensus (Ear, 1997). Inflation has been low for a number of years, and the exchange rate is stable. These are flipsides to the same

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<sup>64</sup> A draft Sub-Decree dated 11 June 2002 on "Sanitary Inspection of Animal and Animal Products" aims to prevent the spread of animal diseases. The draft calls for all checkpoints of sanitary inspection for animal and animal products to be under the direct supervision of the Department of Animal Health and Production, adding "Any person who cheats the duty, penalty fee, regulated misconduct, receives pride [sic], offer pride [sic] or using the authority for own interest, a person shall be subjected to the criminal law."

<sup>65</sup> A multilateral donor official (57) interviewed on 22 February 2005 says the issue, as he understands it, has been settled. Indeed, the same draft Prakas appears on the MoC website, which suggests that the MoC has ceded control to MAFF. However, on that same website, MoC (Undated) states: "Camcontrol, a government agency under the authority of the Ministry of Commerce is responsible for SPS. With the assistance of FAO, Camcontrol has set up a testing facility for chemical analysis and is planning to set up one for microbiology testing. The Ministry of Agriculture keeps the list of pests and plant diseases subjected to plant quarantine in Cambodia and ensures phytosanitary controls at the border and issues phytosanitary certificates upon request



coin thanks to as much as 90% dollarization. These successes are contrasted with a number of shortcomings in key areas of governance in Ear (2005a). Cambodia became the first Least Developed Country to join the WTO in 2004. Despite the serious impact of corruption on Cambodia's economy, the Heritage Foundation rates Cambodia as mostly free in terms of economic freedom with an overall score of 2.89 (ranked 63 just above Mexico), placing it higher than Thailand (71), Vietnam (137), and Laos (150) out of 161 countries. Canada lauds Cambodia's economy as having a "Liberal investment climate with many incentives."<sup>66</sup> From an economic standpoint, Cambodia has made a full transition from command to market economy.<sup>67</sup> Unfortunately, none of the negative side-effects were mitigated.

### 3.1 Human Development

Cambodia's socio-economic and human development, while good in the early 1990s, has slowed or even slipped since the late 1990s. After more than \$5 billion in aid following the 1993 elections, more Cambodians may be poor in 2004 than were poor in 1997. The country is also more unequal. Across human indicators such as illiteracy, infant and child mortality, Cambodia is worse off than it was in 1990.

#### *Poverty, Inequality, and Illiteracy*

Poverty is somewhat of a mystery in Cambodia as data is either missing or admittedly so flawed when collected that a caveat must be made when it is used.<sup>68</sup> What is known however is that poverty in Cambodia is inexorably linked with

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of importers or exporters. Cambodia recognizes phytosanitary certificates of other countries. Under the WTO, Cambodia will need to set up Inquiry Points for SPS."

<sup>66</sup> Government of Canada (2004).

<sup>67</sup> A 1994 circular issued by the Ministry of Commerce made the switch official, see RGC (1994).

<sup>68</sup> The case is of Round Two of the 1999 Cambodia Socio-Economic Survey, which had problems during the collection process. National poverty (urban and rural) is based on a caloric formula and stands at circa 55 cents per person per day. This issue is updated and revisited in the Addendum to this dissertation.

rural areas. Nearly 88% of the poor come from rural areas and 80% of the population is rural (see Table 3).

**Table 3: Rural and Urban Poverty in Cambodia**

	1994	1997
Rural	43.1	40.1
Urban	24.8	21.1
National	39	36.1
Rural Pop (% of total population)	77.6	78.9
% of total poverty that is rural	85.8	87.7

Note: Percent of population unless otherwise stated.

Source: World Bank (2005b), author's calculations for rural population and % of total poverty that is rural.

As can be seen from the above poverty data, there was a modest impact on national poverty reduction from 1994 to 1997. After 1997 however, there may have been an increase due to the dramatic investor loss of confidence following the events of 5-6 July that year.<sup>69</sup>

Since the Government has not endorsed more recent poverty figures, the World Bank has had to extrapolate estimates which show growing poverty and inequality. In a regional update last year, the World Bank's estimates of \$1-a-day poverty in Cambodia, Vietnam, and Laos (1990-2004) show that only Cambodia has observed a steady increase in poverty since 1996, from 36.7% to 45% in 2004.<sup>70</sup> Likewise only Cambodia's estimated Gini index has increased from 41.4 in 1998 to 48.1 in 2004.<sup>71</sup>

*The Paradox of Increasing Infant Mortality and Consumption*

<sup>69</sup> This issue is updated and revisited in the Addendum to this dissertation.

<sup>70</sup> This issue is updated and revisited in the Addendum to this dissertation.

<sup>71</sup> The Gini index is the Gini coefficient expressed in percentage form, and is equal to the Gini coefficient multiplied by 100. A Gini coefficient is an index between 1 (most inequitable outcome possible) and 0 (most equitable outcome possible). This issue is updated and revisited in the Addendum to this dissertation.

Further evidence of slippage can be observed with respect to the mortality rates of both infants and children under-5 years of age in Cambodia in Table 4 below.

**Table 4: Mortality Rate per 1,000 Live Births for Infants and Under-5 (1990-2001)**

	1990	1992	1995	1997	2000	2001
Infant	80	83.2	88	90.8	95	97
Under-5	115	..	120	..	135	138

*Source:* World Bank (2005b).

In 1990, eight infants out of 100 died at birth. By 2001, that number had increased to nearly 10. While 11.5% of children who were under five years of age died in 1990, by 2001 that figure had increased to 13.8%, making Cambodia the country with the highest child mortality in the region. Stunting in children under five is prevalent, UNICEF (2004: 110) reports that 45% of under-fives suffer from moderate and severe from stunting (1995-2003).<sup>72</sup> Malnutrition remains a problem in 2005, as the World Food Programme (WFP) recently announced 1,500 metric tons of rice for distribution to 150,000 people due to drought conditions. According to an MAFF official (44), while rice figures prominently in Cambodian diets, taking 67% of calories, meat does not.

In the pre-war period, meat consumption was not significant, as rice and fish were the main staples of a Cambodian diet according to a senior government official (54). With the Tonle Sap, Southeast Asia's largest inland lake, protein came in large part from fish. It was believed that beef was an "energetic" food, sapping one's strength, according to a livestock professional (52). While consumption has grown in the decades that have passed, FAO (2002) reports that Cambodia (along with Laos and Myanmar) had the lowest levels of protein from livestock products, at less than 10g per person per day in 1999. However, the report suggests that as incomes increase, so will consumption. The domestic market

offers considerable potential and resourceful entrepreneurs have not lost sight of this (see Box 2).

### **Box 2: An Entrepreneur's Perspective**

#### **The Domestic Market**

“Some back of the envelope calculations. Meat: \$1.8 billion spent on food, \$1.4 billion on gasoline. For pork: 20% domestic, 80% international. 3000 pigs (this is slightly off from CEDAC interview, but not so off). 30 tons of pork, \$12.5 million/month, \$150 million per year... look at the importation of vegetables: 800 riels/kilo vegetable or say 1000 riels. [Government Advisor (45) estimates 90 tons.] We're talking millions of dollars. You need only be watching at 9PM the trucks bringing in fish from Vietnam. Clearly there's money to be made from local production. [The entrepreneur's wants to be there to provide it, but his main problem is liquidity and credit, he needs millions more to exploit these opportunities, but he can't borrow it]. At kilometer 9, 12AM, where are the trucks coming from? Vietnam. Each man woman and child eats 30 kilos of fish, multiply that by 13 million. 50% of this is imported. Bean and corn can be produced, and these can then be used as feed.”

#### **The Role of Government**

Regarding government's role, he believes that only the government can make the needed changes. International agencies can advise, but they are not the government, nor are NGOs. His take on the government is fascinating. He calls ministers “takay” which literally means “boss” and the PM is a “bong thom” or “big brother” which is slang for gangster or gang member. He does not consider what is known as the government in Cambodia to be a government. In fact, he thinks it's a private corporation out there to extract resources and is absolutely not ready to make the necessary reforms so long as it hurts their personal bottom lines. He considers international actors such as Mekong Project Development Facility and the International Finance Corporation to be important players, they are there to give ideas. Politicians need money for their politics and if they don't need it they won't make any changes.

*Source:* Interview with a private sector entrepreneur (29).

## **3.2 Agriculture**

### *Macroeconomic Performance*

A decade ago, if anyone asked what Cambodia's main growth sectors would be, the answer likely would have been Agriculture and Tourism (Sciaroni, 2004). While Tourism became Cambodia's second most important source of foreign exchange, with the famed Angkor Wat temples being an international draw and more than one million tourists arriving in 2004, agriculture failed to deliver on its promise. Instead, garments became Cambodia's most important foreign exchange earner because of the Multi-Fiber Agreement which allowed Cambodia to export

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<sup>72</sup> NGO Forum (2002: 11).

garments to the US and Europe.<sup>73</sup> Today, Cambodia has one of the narrowest growth bases in the world (World Bank, 2005a) because of its astonishing reliance on garments manufacturing, an industry that employs less than 3% of the labor force. What ended-up happening in agriculture in the last decade?

Agriculture shrank 9.7% as a relative share of GDP (1993-1997 compared to 1997-2001) and its sub-sectors saw anemic growth (see Table). Much of this can be attributed to the Forestry sub-sector (-25.8%) which collapsed as a direct result of donor pressure for reform, and led to a complete moratorium on log transportation in 2002.<sup>74</sup> Between 1993-97 and 1997-2001, livestock's share of agriculture grew 5.9%.<sup>75</sup> Table 5 below shows sub-sector growth between 1994 and 2002.

**Table 5: Shared contribution in GDP by Sectors and Sub-sectors (in %)**

Sectors/Year/Period		1993-1997	1997-2001	1993-2001	Period Change from 1993-97 to 1997-2001
	Agriculture	49.0	44.2	46.4	-9.7
	Industry	13.5	19.2	16.4	42.2
	Service	37.5	36.6	37.2	-2.4
Shares of Sub-sectors in Agriculture GDP	Crop	44.3	46.5	45.3	5
	Livestock	13.6	14.4	14.1	5.9
	Fisheries	29.8	29.8	30.1	No change
	Forestry	12.4	9.2	10.4	-25.8

*Source:* Sen (2003a).

If nurtured effectively, the livestock sub-sector has the potential to reduce poverty in Cambodia. Its importance in the lives of poor smallholders is recognized by the numerous of NGOs that work on livestock and the relatively few donors (French Cooperation, IFAD, World Bank, GTZ, and EC) who have projects or project components that include livestock. And while livestock represents almost seven

<sup>73</sup> Indeed, in 1996, the phenomenon had only started and one could read stories in the local English-language newspapers of re-exported garments (made in neighboring Vietnam, for example, but exported with a "Made in Cambodia" label).

<sup>74</sup> The three-year moratorium on log transportation in Cambodia was lifted in December 2004.

<sup>75</sup> Due to Cambodia's growing reliance during that same period on the garments industry, economy-wide, livestock shrank by 4.5% between these same periods as an overall share of GDP.

percent of the economy (GDP is about \$4 billion)<sup>76</sup> or circa \$250 million, the government allocated only about \$200,000 or less than 0.03% of total government expenditures (\$734.8 million estimated in 2003) to activities in the sector (non-inclusive of wage bill of department staff) according to a livestock official (47).

### *Youth and Rural Unemployment: Unleashing Agriculture's Potential*

While agriculture has not been a growth sector in recent years, there exists an opportunity for development of the sector in the next few years to absorb the rural unemployed joining the labor force each year. With a labor force that grows by 150,000-250,000 workers each year, potential for “social unrest” was intimated by a major donor<sup>77</sup> and the outgoing US Ambassador. More than half of these are women. No credible statistics exist to estimate unemployment in Cambodia. Demographically, more than half the population is less than 20-years old, 42% is under 15.<sup>78</sup>

Only 30,000 to 40,000 jobs have been created annually over the last ten years, mostly in the garment industry which employed 300,000 workers in December 2004.<sup>79</sup> With the end of the quota system in the garment industry effective on 31 December 2004, retrenchment in the sector is expected as China swallows most of the world textile market because of its low production costs and economies of scale, despite announcing the implementation of an export tax on its textiles. According to government and industry sources, 70 out of 290 garment factories registered since 1996 have been forced to close down (Prak, 2005b), and 47,670 workers have lost their jobs since the end of the quota system.

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<sup>76</sup> This is generally regarded as underestimated because of the extent of the informal economy in Cambodia.

<sup>77</sup> When interviewed, the donor said that press reports blew his “civil unrest” comment out of proportion.

<sup>78</sup> This unusually young population can be partly explained by the tragedy of the Democratic Kampuchea period. The need for replacement was strong.

<sup>79</sup> The figure is from Reuters (2004) and Jang (2004).

Even if up to 30,000 jobs were created annually from the anticipated growth of tourism and some other industries such as trade and construction, this is only a small fraction of the 150,000-250,000 entrants. Therefore, joblessness (and the problems it entails) is expected to increase dramatically in the years to come. The Government's first action upon formation of the new government for the Third Mandate was to approve a sub-decree requiring mandatory military service for 18-30 year old males (MLG and DF DL, 2004).<sup>80</sup> This is widely seen as a pretext to contain members of that age group, believed to support the opposition party, even though no resources exist to fund this policy. The real hope, in fact, as Godfrey (2003) has pointed out, with the end of garments and the unpredictability of tourism (due to Severe Acute Respiratory Syndrome, which caused a 10% drop in Tourism in 2003), is agriculture.

### **3.3 Livestock**

#### *The Herd*

The 2002 animal census published by the DAHP shows a total bovine population of approximately 3.55 million animals (including 625,930 buffalos), pigs numbering 2.1 million, and poultry of approximately 16.65 million animals of which approximately half are ducks. As with much of the data in Cambodia, Desvaux (2004: 7) warns that these figures are only indicative. She also notes that few records are kept and the significant illegal traffic of animals between Cambodia and neighboring countries, in particular Thailand and Vietnam, makes it very difficult to pin down.

Except for buffalos, all other populations of livestock are thought to have risen annually. Milk production from dairy cattle is negligible, and what little was

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<sup>80</sup> During the People's Republic of Kampuchea (1979-1989) period three years of military service was required (most of which was on the frontlines against the Khmer Rouge and the noncommunist resistance that included Funcinpec) up until 1985. Afterwards, it became five years of mandatory service.

produced by Nestlé's \$2 million dairy project in the outskirts of Phnom Penh was shutdown three years ago due to excessive smuggling of counterfeit cans and competitors' products according to a multilateral donor official (57) and Hayes (2002), respectively.<sup>81</sup> Box 3 below takes an agribusiness perspective to livestock, suggesting that exports may have major potential. If this involved large numbers of poor people, the impact of exporting cattle, for example, would present itself in higher prices and thus be incentive compatible. The regional market for cattle is explored as a strategic entry in section 4.3, which focuses on the export potential for cattle.

### **Box 3: Export of Livestock**

Various studies, and experience, suggest that there may be considerable opportunities for Cambodia to export livestock, notably, cattle, buffalo, pigs, and poultry. Currently, the cattle trade is primarily through smuggling. Properly fattened, Cambodian cattle could be sold into regional markets, and perhaps meet increasing demand in the Middle East. Limited exports have been sold to Malaysia. Recently, animal diseases have made global trade in livestock precarious; meeting health standards is vital. This can be achieved by developing veterinary services and access to veterinary medicines.

Trade conditions for livestock are otherwise relatively open. To develop as a significant exporter the Cambodian cattle sector needs (1) organization; (2) to meet local demand for animal feed, at competitive prices, to fatten livestock (the constituents of which all exist in Cambodia); (3) continued improvement of veterinary services and the enhanced availability of veterinary medicines and vaccines without which endemic diseases like foot-and-mouth will not be controlled; and (4) the reduction of informal domestic payments required to transport cattle and move them through the ports.

*Source:* Adapted from MoC and MPDF (2005).

According to a senior government official (53), total commercial poultry regulated stood at 736,172 birds (in 2005) or only 4.4% of the total poultry population (using the 2002 population which has no doubt grown since then). This is indicative of how underdeveloped commercial operations are in Cambodia. The vast majority of poultry production does not involve any regulation by DAHP and suggests the

<sup>81</sup> According to Desvaux (2004: 9), from 1968 to 1972, there was a dairy facility in Stung Meanchey that produced between 500 and 700 liters per day. Some of the milk was sold fresh, while the remainder was used to produce yogurt and cheese. It was supported by the French government with dairy cattle raised by farmers (about 500) in the Kien Svay district, Kandal province near Phnom Penh. This is also where Nestlé began operations in 1998 (resumed from 1970) to introduce dairy breeds by artificial insemination with local breeds. Today, milk is not produced in any consequential quantities and what is available in Cambodia is imported. Consumption is among the lowest in the



huge untapped potential in the sector. More than 95% is thus smallholder-owned, a figure confirmed by DAHP (2001). Thus, the potential for development of smallholder livestock is tremendous as commercial operations are still insignificant compared to smallholders.

This also suggests that livestock touches the lives of the poor in so many ways formal institutions like banks and micro-credit institutions cannot (or have not). Livestock is widely recognized as a form of savings. Chickens are sold for small expenses like schooling, while pigs represent bigger ticket items, and cattle and buffalos are sold for major expenses like a funeral or a wedding. Animals constitute an important source of family income. As such, their loss can be disastrous.

### *Animal Mortality*

The Rectangular Strategy that became the Government's background document for the 2004 Consultative Group (CG) Meeting includes a request for donors to help fund a project to decrease the morbidity and mortality of livestock, both of which are severe. An estimate of 10,000 cows with FMD and 5,000 with pasteurellosis was offered by MAFF Secretary of State Yim Vanthoeun, who is himself a veterinarian (Wasson and Lor, 2005). Other livestock professionals have estimated overall poultry mortality rates of 30% (livestock professional, 35) and 50-100% for Newcastle (livestock official, 47). For pigs the range was 30-40% (livestock official, 47) and for piglet mortality of 40% (livestock professional, 21, see also DAHP, 2000). With such high mortality figures, the returns to preventive veterinary care are significant. Normally it is hard to get farmers to pay for preventive medicine for their animals (as opposed to curative interventions for those already sick). But death rates such as these probably mean that farmers

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world, at an estimated 3kg/year. Thailand is a net importer of at least some milk, but it is the main exporter of milk to Cambodia according to an NGO professional (55).

would indeed pay all or much of the price of effective preventive measures, if they were made available to them--and if they could recover the cash paid out through sales on an adequately functioning market.<sup>82</sup>

Animal mortality and disease are systemically linked to other crises that impact upon rural Cambodians (Murshid, 1998: 54). The loss of livestock due to illness or theft or abnormally high market transaction costs means that many rural households have no way to meet the expenditure necessary for crises associated with natural disasters, and the illness or death of household members. Feed improvements introduced also have ameliorated animal health conditions. Necessary conditions for Cambodia to become a significant exporter of livestock have yet to be met, as the country depends on imported livestock even though it has the raw materials needed for feed but cannot process them (see earlier box). A reason for the failure of livestock to take-off has been that agriculture itself has not been a growth sector in recent years.

### *Role and Gender Divisions*

Livestock has a long and venerated history in Cambodian agriculture. Each year the coming harvest is foretold at the Royal plowing ceremony in which six royal oxen are offered various items to consume, including grain and alcohol placed on gilded trays. If they choose alcohol, it portends inadequate rain and a disastrous harvest. The Royal Oxen's aversion to alcohol in recent years unfortunately did

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<sup>82</sup> The crucial importance of animal drugs is worth mentioning. While import licenses have been abolished for most items, some remain in effect for pharmaceuticals. Agrovvet, a French-Cambodian company and representative for Merial which targets medium to large producers, and Medivet a Cambodian company operated by a former school teacher, are both companies that sell pharmaceuticals in Cambodia. A livestock professional (35) tried to legitimately import pharmaceuticals, by bringing in cases through the airport (as luggage) and ended-up paying 2.5 times more in taxes. He then attempted to import legally from Thailand via Sihanoukville port. He was again taxed heavily. He is now importing from Vietnam but with official drug representatives who ensure a deliverable price (so he never sees the actual details of bribes etc). What matters is that he can still make money despite their fees. When prompted with "But aren't you evading the system?" his response was yes, but he would be more than happy to pay if everyone else was made to pay too (an issue of unfair competition). Animal mortality and morbidity both remain significant problems in Cambodia.

little to prevent catastrophic floods (2000 and 2001) and drought (2004, which has extended into 2005).

According to UNICEF, during the 1980s, most families kept livestock, their numbers mainly determined by the availability of animal feed and land for foraging. Pigs, chickens and ducks as well as eggs were normally sold for cash to purchase goods rather than being eaten regularly. Larger livestock like cows and buffaloes were rarely consumed for meat, but used as draught animals in the fields.<sup>83</sup> Therefore as is true today, a family's stock of animals represented its savings and reserve resources and not its main source of supplementary food (UNICEF, 1990 as cited in FAO, Undated).

The gender division of labor in livestock management is quite rigid. Men care for and utilize draught animals, like oxen, cows and buffaloes. Women care for, manage and sell small livestock like pigs, chickens and ducks. Nowadays, women who head their household and lack sufficient male labor utilize draught animals to plough (SAWA, 1995 as cited in FAO, Undated). Such animals are costly, and so women will try to raise pigs and poultry. This suggests that pro-poor targeting could encompass women heads of households or families which own only limited pigs and poultry. Interventions that aim to increase pigs and poultry production may make sense.<sup>84</sup> While microfinance has not been exclusively the domain of women, its origins focusing on women's groups lend important insights into the credit market for livestock and could be a key to at least one strategic entry proposed—subsidized lending for women breeders affected by culling due to HPAI (see Section 4.3).

#### *Lending for Livestock*

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<sup>83</sup> Today, when consumed, such animals tend to be slaughtered at a terminal stage (having worked their productive lives in the field).

There are few commercial banks in rural areas, and in many areas the only options for credit are either family or the local moneylender.<sup>85</sup> The Economist Intelligence Unit notes that “a well-developed informal credit market...provides an important, if expensive, source of funding for small businesses and farmers.”<sup>86</sup> The local moneylender rates are extremely high, frequently 20% per month (EC, 2002). During the last eight to ten years a number of NGOs and donor projects have provided credit in the rural areas, including the European Commission’s PRASAC program which ended recently according to a multilateral donor official (12). There are more than 70 licensed or registered MFIs in Cambodia, many of which are dependent on donations or subsidies (In, 2004). Despite this, less than 50% of demand is met.<sup>87</sup> Because of the prevalence of dollarization in Cambodia (as much as 90% of the economy is not in Riels), and the Riel’s virtual peg to the dollar,<sup>88</sup> the real interest follows the nominal interest rate closely (because inflation is low, averaging 4.37% between 1995-2002).

Moreover, to use the language of Scott (1976), the moral economy of the peasant has been replaced by the exchange economy in Cambodia. According to AusAID, the emergency phase of Cambodia which most would agree ended in 1998 still haunts the country. Relief-type assistance has, in some instances, established a handout mentality. “One district leader warned the team against supporting any form of credit that was not solidly entrenched within a bank. If locals thought there was government involvement, this official noted, they would refuse to repay

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<sup>84</sup> A senior government official (53) reports that CEDAC funded the purchase of poultry for a community with loans of up to 20,000 riels (\$5) per family. An outbreak of Newcastle disease however destroyed all 900 chicken in that community.

<sup>85</sup> Another possible credit delivery mechanism for rapid rural development is the provision of loans to farmers by private companies against a contract to purchase production and fixed prices (EC, 2002).

<sup>86</sup> As quoted in Heritage Foundation (2005).

<sup>87</sup> In (2004).

<sup>88</sup> The Riel has been stable at around 4,000 Riels to the dollar for several years, 3,795 in 1998, 3,831 in 1999, 3,868 in 2000, 3,918 in 2001, and 3,923 in 2002.

any loans.”<sup>89</sup> This has been true as well for WFP’s Food-for-Work Scheme. According to Aschmoneit (1998: 5), Achar (Abott) Chun Chin of Wat Botum explained with some bitterness that in former times it had not been difficult to mobilize villagers to repair roads and ponds after the rainy season. But since WFP had been remunerating all community work with rice on a food-for-work basis, people had been asking the Achar: “How much rice will you pay for that?” They were no longer willing to perform unpaid labor as before. Many Achars have had similar experiences in their own villages.

In rural areas, delivery costs can be even higher, and this is reflected in the typical interest rates of 3-4% per month (EC, 2002). One senior government official (48) asked why MFI rates were so high and viewed them as usurious. While MFI interest rates are indeed high, they are the prevailing market interest rates and are highly competitive in comparison to informal money lenders.<sup>90</sup> Indeed, a prevalent practice in Cambodia is to work at a Bank and obtain loans from it. Cambodia’s high capitalization ratio and requirement that each Bank keep \$13 million with the National Bank of Cambodia have subdued lending. With respect to MFIs, it is reasonable to subsidize their administrative costs, as these are very high. This has been done by Grameen in Bangladesh. The important thing is that the loan should carry an interest rate that is at least as high as what a bank in the capital would charge to a businessman. The literature on this is very well-developed and the practice well established (see Peterson, 1982).

#### *The Case of Aceda Bank*

Started as a project of the International Labor Organisation and later registered as an NGO, Aceda Bank was until recently Cambodia’s largest MFI

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<sup>89</sup> AusAID (2004: 4).

until it converted to a full-fledged bank in 2004, with continued emphasis on microfinance. Aceda has argued that lending at artificial or subsidized rates only prevents the determination of ‘fair price’ which in turn leads to unreal expectations, discourages further investment, distorts performance measurement and undermines those it is intended to help by creating ongoing donor dependency. Indeed, Aceda’s distribution network required to reach nearly 110,000 borrowers spans 114 offices spread around rural areas in 21 provinces (In, 2004).

On 20 December 2004, Aceda became Cambodia’s first institution to obtain a credit rating of any kind. Moody’s gave Aceda’s Bank Financial Strength Rating a D with a stable outlook and Deposit and Debt Rating (in local currency loans) of Ba1/B3. It has superior ratings to a weighted average of institutions in Indonesia, India, the Philippines and Morocco (Moody’s, 2004). Animal-related loans accounted for 0.42% of their \$50 million portfolio in July 2004. While this constraint can be met effectively with a government policy favoring livestock-related lending, it is politically unrealistic to expect that the government, which has refused compensation for Highly Pathogenic Avian Influenza-impacted producers, to step in with resources. It is however possible that donors interested in helping the government meet its needs in combating HPAI could establish a lending activity in conjunction with Aceda or another MFI (of which there many) to subsidize loans to HPAI-impacted producers (more on this when strategic entries are discussed).

#### **4. Policy Context: Sector Challenges, Pro-Poor Livestock Policies and Strategic Entries**

##### **4.1 Sector Challenges**

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<sup>90</sup> I thank David Leonard for pointing out that it is not unusual for the well-connected to make such comments because they are the ones who can use their influence to get below market rate loans – so they want such loans to exist.

According to EC (2002), the constraints to designing effective rural development programs can be summed up as shortages of key inputs, inaccessibility, insecurity, limited technical capacity at ministry level, limited skill base at village level, and disinclination towards community or group actions due to low social capital following the Khmer Rouge period. While these challenges have been discussed in some way or another already, specific challenges have been identified by Woodd (2004b) and during interviews (see Table 6). The eight challenges suggest that the problems of livestock are much wider than just the sub-sector alone, they are agriculture-wide and economy-wide. These have been set under three thematic categories: (A) Markets; (B) Access; and (C) Land.

**Table 6: Challenges in Agriculture: Markets, Access, and Land**

A. Markets	Analysis
1. Widespread corruption in supply chains	<b>Pros:</b> Donors have recently demanded change to business as usual. <b>Cons:</b> Deeply embedded now, part of the culture itself Low probability of success in combating the problem
2. Lack of confidence in investment	<b>Pros:</b> WTO membership will mean some guaranteed progress (a kind of straightjacket) <b>Cons:</b> “Laws are not important” (Livestock professional, 52) Moderate probability of success since legal framework must be developed for WTO
3. Lack of an established trading infrastructure	<b>Pros:</b> Rational farmers can be expected to be responsive to better prices, and they are <b>Cons:</b> Pervasive corruption means they won’t produce as much for the market Low to moderate probability of success since tied-in with 1 & 2.
B. Access	
4. Lack of irrigation/roads	<b>Pros:</b> Government recognizes these problems <b>Cons:</b> It doesn’t have the political will to commit resources Low probability of success without increased donor support
5. Cost of energy	<b>Pros:</b> Private sector has complained loudly, as have urban population (a few protests) <b>Cons:</b> Government relies heavily on fuel excise tax for revenues since it is unwilling or unable to expand tax base for obvious political economy reasons Low probability of success, especially since donors want the government to increase tax revenues, but care less about how it does so
6. Cross-border barriers	<b>Pros:</b> Cambodia is well positioned regionally to take advantage of the cattle trade <b>Cons:</b> Foot-and-Mouth Disease and SPS Agreement might lock Cambodia out Moderate probability of success for same reason as 2, plus private sector interest
C. Land	

7. Misuse of large-scale land concessions	<p><b>Pros:</b> Donors have demanded change, and increasing protests concern authorities</p> <p><b>Cons:</b> Powerful interests involved, including senior members of government Low probability of success</p>
8. Insecurity of land tenure	<p><b>Pros:</b> Donors have worked to introduce land registration</p> <p><b>Cons:</b> Authorities see this as yet another opportunity for informal revenues Low probability of success</p>

*Source:* Challenges adapted from Woodd (2004b), analysis is the author's.

Some of these challenges have been touched upon earlier already (A1/Markets and Corruption for example), revealing the Government's lack of political commitment due to a variety of factors including an embedded culture of corruption, the legacy of the Khmer Rouge, and the Donor-Government Nexus. The prospect for significant progress in overcoming these challenges is unlikely.

*The Feasible Set: Investment Confidence, Trading Infrastructure, and Cross-Border Issues*

The factors and forces which might permit some challenges to be overcome in Cambodia requires that powerful vested interests, far from being opposed to them, could actually benefit in some way by their implementation. Such is the case of membership in WTO and the introduction of Export-Processing Zones (EPZs).<sup>91</sup> Many of these challenges to agriculture will not be solved in the short-to-medium term, and may not be solved in the long-term. But let us begin. Areas in which moderate political feasibility exists include A2 (lack of confidence in investment), A3 (lack of an established trading infrastructure), and B6 (cross-border barriers). They hinge on Cambodia's membership in the WTO and rational price responsiveness by farmers. While the rule of law has not had a distinguished record in Cambodia, and corruption is embedded, it has been argued that Cambodia's

<sup>91</sup> During 2005 the Cambodian government is expected to debate a draft Law on Industrial Zones that will lead to the formation of EPZs in Cambodia. These will likely be located in the port city of Sihanoukville and on the Thai-Cambodian border province of Koh Kong.



membership in the WTO is the straightjacket the country needs to reform (which speaks volumes of its commitment to reform in the absence of WTO).

With respect to both A2 and A3 specifically, livestock markets are limited or nonexistent because production was for too many years subsistence-based (the meat market is seen as a terminal, at the end of the life of the animal), but if you build it, will they come? The EC plans to build a demonstration abattoir in the north of the country. A senior government official (40) says that checkpoints on rural roads are not prevalent (of course he is defending the roads his Ministry is building), which is probably true, but the Prime Minister felt obliged to announce an end to illegal checkpoints recently, the N-th time he has done so in as many years.

Finally, with respect to B6, the low Sanitary and Phytosanitary Standards in Cambodia make the country ineligible to export legally anywhere with higher standards (which, with the exception of Malaysia, means nowhere). This ties-in with the OIE (World Organization for Animal Health) as the agency designated by the WTO to oversee livestock exports. Cambodia, being a small country, cannot affect world prices.<sup>92</sup> SPS Agreement enforcement is required as of 2008, per Cambodia's WTO terms of accession. It will mean that Cambodia has until then to establish a production base or else be decimated by imports which are cheaper, of higher standard, and cannot be blocked, unless it proves that its domestic products are of a higher standard. Furthermore, no producer subsidies in agriculture are permitted on the Cambodian side. The political feasibility of an intervention in this area has mostly to do with the confluence of private and public sector interest, which could be a driver for an FMD-free zone, discussed in greater detail later.

*Remaining Issues of Accessibility: Lack of Irrigation/Roads and Cost of Energy*

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<sup>92</sup> Under standard trade theory, a small country's best trade policy is to remain open.

With respect to B4, only 19.5% of cultivated land is irrigated (as opposed to rain-fed). The Government's goal is to bring this to 24% by 2007 (RGC, 2002). Even though the country enjoys the region's largest inland freshwater lake, the Tonle Sap (Great Lake), the odds are not great that this target will be achieved given that some 30,000 ha/per year of irrigated land would need to be added (NGO Forum, 2003) and the current drought situation is the government's current pre-occupation. Non-foraging livestock needs water and feed at a minimum (the import of which is costly). The husk and hay that result from rice milling and harvesting is used as feed and cannot be produced without water. Without roads, farmers are unable to bring their products to markets. The supply chain is thus disrupted with the absence of either water or roads as Godfrey (2003) has argued and implored Cambodia to consider as complementary prerequisites to growth.<sup>93</sup>

With respect to B5, Cambodia's energy prices are very high compared to international averages. Fuel prices due, to Cambodia's heavy reliance on excise taxes as a source of revenue for the domestic treasury, represent one third of fuel prices and reduce Cambodia's competitiveness. As it happens, both Thailand and Vietnam gasoline prices are reported one third less than in Cambodia (Vietnam subsidizes its fuel). This is a major factor in the smuggling of fuel itself. Fuel costs go into the transport costs of livestock. The situation with electricity is similar. The World Bank claims that "Where electricity is available, firms and individual consumers face some of the highest energy costs in the world."<sup>94</sup>

### *Land Problems*

Addressing the issue of large-scale land concessions (C7) and the insecurity of land tenure (C8) was a major donor demand at the December 2004 CG, but this

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<sup>93</sup> The Prime Minister recognized this twin relationship between water and roads as well in his speeches (Hun, 2001b).

issue has festered since at least 1999 when it was recognized that land disputes caused the biggest backlog of court cases. At that time, Prime Minister Hun Sen told Provincial Governors that they would lose their jobs if this problem was not resolved. By 2004, the World Bank Country Manager said that up to 80% of Cambodian court cases involving the poor involve land disputes. She added “If we care about the poor, if we care about rural economic growth, and if we care about justice, we must care greatly about land.”<sup>95</sup>

The strength of interest groups behind the large-scale land concessions is so enormous, however, that to address them would have to begin with senior members of the RCAF and oligarch business interests, both of whom are untouchable. Indeed, a major cause of conflicts has been land, especially land grabbing by the rich and powerful. Landlessness is now prevalent in 12-15% of the rural population and landholdings per household appear to be declining (Murray, 2005). Without land, farmers have “little incentive to make long-term plans to improve their family’s livelihood such as investing in infrastructure.”<sup>96</sup> While there have been protests in front of the National Assembly, these have been put down with minimal force until recently. In March 2005, military and civilian police shot dead five people in order to clear 218 families from an area in Kbal Spean village, Banteay Meanchey province. Human rights activists monitoring the carnage were threatened with arrest.<sup>97</sup>

### *Pro-Poor Policy, Spending, and Reality*

Existing pro-poor policies take a technocratic approach that invariably fails. If these policies do not invite patronage politics, they will be left unimplemented. The political constraints have been enumerated in Section 2. Needless to say, the

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<sup>94</sup> World Bank (2004d: 26).

<sup>95</sup> As quoted in Leitsinger (2005).

<sup>96</sup> Murray (2005).

<sup>97</sup> See AFP (2005a).

transaction costs of corruption create negative incentives for producers, but while hopes have risen each year that some action will take place, these have invariably been dashed. Cambodia still has no anti-corruption law, although the idea was first discussed in 1994. The current draft is so watered-down that it fails to meet United Nations Convention against Corruption standards. Speaking of the 1998 elections, two UNTAC officials who returned to the country to observe highlighted not only a lack of commitment to good governance, liberal democracy and rule of law “but [the CPP’s] desire to work against those objectives.”<sup>98</sup>

Understanding the sectoral challenges outlined above in the context of political reality can aid in framing the scope for pro-poor policy, and pro-poor livestock policy in particular. FAO (2000) defined the most important strength of pro-poor policy as “the allocation of public expenditure to those populations and areas in which the poor predominate” and concluded that “In practice, this almost invariably means devoting greater amounts of public resources to rural areas and leaving more activities to the private sector in the higher-potential areas and sectors.” The constellation of interests preventing the redistribution of wealth is strong. For the sake of profitability, the private sector knows well enough to accommodate power.

Phnom Penh has had limited success in sharing the wealth. In 2003, the Ministry of Economy and Finance (MEF) confirmed that it had distributed to the provinces only 39% of total MAFF spending, while the central level consumed the

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<sup>98</sup> They further added: “It is entirely appropriate to make allowances for the unavoidable difficulties faced by developing countries, such a poor infrastructure, a limited skill base, or random events such as bad weather ... The deficiencies of the 1998 election which we have identified, however, were not of that character. They were rather a direct result of conscious political decisions, taken by members of the ruling clique for their own benefit, in full knowledge of what they were doing ... The actions in question defied the spirit of the country’s Constitution, and it would be wrong to treat them... as if they are somehow an inevitable feature of life in the third world” (as quoted in Grainger, 1998). In contrast, Margaret Slocombe argues that: “The main problem with politics in

remaining 61%. The MEF conceded “This is a serious problem.”<sup>99</sup> This inequitable distribution of resources between the central and provincial levels hampers the implementation of pro-poor policies. Given the extent of rural poverty, reversing this resource flow has been strongly advocated by donors.

Current political and institutional processes are profoundly anti-poor. Feasible pro-poor policy has been elusive in the context of Cambodian development. As a bilateral donor official (26) argued, the focus should be on shifting the government from a pro-rich to a neutral policy environment before we can even discuss pro-poor policy. Poverty reduction is an abstraction; repeating it over and over will not make it a reality. To adapt Sadako Ogata’s (2005) notion that there are “no humanitarian solutions to humanitarian problems”—only the convergence of political interest can solve them,<sup>100</sup> one could argue that, likewise, there are no pro-poor solutions to poverty problems in Cambodia—only political will and a the convergence of a constellation of interests can solve them. And while William Easterly rightly argues that “development is too important to leave to the politicians” wishing it were so will not make the problem (i.e., the politicians) go away. Prospects for the short-to-medium term are dim and expectations should be limited.

#### **4.2 Current Pro-Poor Livestock Policies**

Current livestock policies are guided somewhat by the three strategy/policy documents earlier described: SEDPII, NPRS, and Rectangular Strategy. The SEDPII contains cursory treatment of livestock. The NPRS was released in 2002 and, unlike the PRSPs of many countries (see Blench et al., 2003), it has more than passing mention of livestock (20 instances). It also includes a section under its

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Cambodia is having a Lexus Constitution when what is really needed is a secondhand Toyota” (as quoted in PPP, 2004-2005).

<sup>99</sup> MEF (2004).

financing matrix for livestock activities. Like the Consultative Group “Donor Appeals” (the government’s wish list) in 2002 and 2004, these are unlikely to be funded.

The most recent strategy, the government’s own Rectangular Strategy, was released in 2004 following the formation of the Third Mandate government. It contains the least coverage of livestock specifically but its overall ideas are similar to SEDPII and NPRS and it has one rectangle dedicated to agriculture. The RS does not contain any performance indicators or benchmarks, only vague commitments to increase expenditures. Beyond this, the MAFF has on its website a prioritization of its sub-sectors and lists livestock as the top priority in four provinces: Svay Rieng, Preah Vihear, Kampot, and Kampong Thom, while it is the second priority in 10 provinces, and the third priority in six provinces. The remaining three provinces have it as 4<sup>th</sup> or 5<sup>th</sup> or not applicable. Of the 23 provinces and districts, two have multiple first priorities (Svay Rieng has two, Kampong Thom has four).<sup>101</sup>

The main document for livestock policy, “Linear Animal Health Strategy and Policy Development,” was published in 2001 and forms a set of pro-poor livestock policies issued in a Strategy and Policy document for the sub-sector that was adopted by the DAHP under the Agricultural Productivity Improvement Project (APIP) funded by the World Bank and IFAD.<sup>102</sup> Both a Basic Strategy and a Smallholder Strategy were proposed, with a number of cross-cutting policies. Every item under these policies is shown verbatim in the Table 7 below and has been further aggregated under five thematic categories: (D) Income, Investment,

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<sup>100</sup> Conant (2005).

<sup>101</sup> A constant complaint of donors has been the Government’s inability to prioritize, leading a French Cooperation representative to quip that he wanted a list of “priorities of priorities” at a Donor-Government meeting according to a donor official (59).

and Production; (E) Risk Alleviation, Trade, and Commerce; (F) Promoting Market Access; (G) Production at the Village Level; and (H) Role of Animal Production Services (APS).

**Table 7: Basic Strategy and Strategy for the Smallholder Sector**

I. Basic Strategy
<p><b><i>D. Income, Investment, and Production</i></b></p> <ol style="list-style-type: none"><li>1. Use livestock to improve rural incomes and as a means of exiting from poverty.</li><li>2. The general strategy however remains to encourage private investment in livestock production in line with government policy and provide the right investment environment for both commercial and small producer levels.</li><li>3. Animal Production Services (APS) will be expected to develop strategies and policies that target small and disadvantaged producers who hold the majority of livestock (95%+) to allow them to compete with commercial production and partake equitably in the increasing demand for livestock products.</li></ol>
<p><b><i>E. Risk Alleviation, Trade, and Commerce</i></b></p> <ol style="list-style-type: none"><li>1. Promote risk alleviation by providing ready access to animal health services, disease control programs that contains endemic disease and access to essential inputs.</li><li>2. Support programs that establish quality assurance programs that have the potential to expand domestic and regional markets for livestock and livestock products.</li><li>3. Promote sustainable livestock production at the small holder level in order to promote low input and high output production systems to compete with the commercial production</li></ol>
II. Smallholder Strategy
<p><b><i>F. Promoting Market Access</i></b></p> <ol style="list-style-type: none"><li>1. Promote a free market strategy that widens marketing options and equitable farm gate prices.</li><li>2. The strategy will be to establish sustainable livestock production technology at the village level that focuses on limiting cash inputs in the production cycle while maximising production and profitability to enable small producers to compete in a free market environment.</li></ol>
<p><b><i>G. Production at the Village Level</i></b></p> <ol style="list-style-type: none"><li>1. Reduce production risk by the involvement of the Village Animal Health System (VAHS) in animal health programs for small producers and for Village Animal Health Workers (VAHWs) to provide the ready availability of essential inputs (pharmaceutical and nutritional) at the village level.</li><li>2. Use the information and technical support of the National Animal Health and Production Investigation Centre (NAHPIC) and the National Animal Health and Production Diagnostic and Information Storage System (NAHPIS) to identify and target specific production constraints at the village level.</li></ol>
<p><b><i>H. Role of Animal Production Services</i></b></p> <ol style="list-style-type: none"><li>1. Targeting the smallholder producers will be the main task of the APS. The strategy will be that of assistance and access to inputs on the premise of full cost recovery.</li><li>2. APS and AP staff of the OAH [DAHP] will receive training in Sustainable Livestock Production (SLP) at the University of Tropical Agriculture (UTA) and its assistance in the transference of the technology as SLP demonstrations and feed development programs to the 4 target provinces of APIP.</li><li>3. Each APS staff member will compliment the SLP training by a specialist orientation to a specific technical aspect that will provide specialist assistance for small producers to be competitive in a free market environment.</li><li>4. The initial specialisation focus of APS will be in the area s of animal breeding, ruminant and monogastric production, animal nutrition, animal feeds production, marketing and economics. A targeted HRD program will build on Specialist skills with further technical training over time.</li></ol>

*Source:* DAHP (2001).

<sup>102</sup> An earlier “National Strategy for Animal Health and Production” had been released in December 2000, see DAHP (2000).

While the desirability of these policies is not in question, their political feasibility is questionable. It should be noted that for all market (and by extension production)-related policies, such as F1 and F2, to function properly the *sine qua non* assumption is that prices (which derive from markets) be right. Thus the political difficulties in addressing many of the forces distorting Cambodia's livestock markets renders many otherwise laudable policy proposals unfeasible by virtue of market distortions. Farmers still respond to better prices, including the presence of significant informal taxes, as they are rational actors (Popkin, 1979). It may therefore be worthwhile to consider interventions that address market constraints notwithstanding a difficult governance environment.

With respect to the remaining strategies, DAHP's behavior is typical of most departments within the government since informal revenue generation whether for oneself or the party effectively negates the effectiveness of pro-poor policies. A livestock professional (52) noted that to date, there is "no linkage between services and payments," which contradicts the principle of full cost recovery explained in E1.

Even self-initiated, externally financed training abroad comes at a price, since authorization from superiors is needed reported, as a livestock official (5) reported. Capacity building of department staff had been among the smallholder strategies proposed (H2, H3, H4), but refusal by key players to play by the rules of the game doomed its fate. A livestock professional (7) summed-up the situation: "I think you understand that in the Cambodian context."

However, while there is a discrepancy between what the government says and what it does, the authorities are not a monolithic predatory block. The experience of NGOs and donors when they collaborate, as in the case of VAHWs, is instructive. It took Vétérinaires Sans Frontières (VSF) five years and the help of



the World Bank and IFAD to have a sub-decree recognizing VAHWs done, but it is one example of partnership that led to a desirable outcome and is discussed in detail in the next section.

While the above can characterize donors' (through APIP) and the Ministry's (through DAHP up to the level of the Deputy Director/APIP National Coordinator) view of basic livestock and smallholder strategies, the RGC's view (as seen through the actions of the Council of Ministers and the passage of sub-decrees) is much more focused on encouraging "private investment in livestock production" which translates into investment incentives for commercial operations and opportunities for rent-seeking.

Senior government officials' bias in livestock is towards high technology, large commercial enterprises,<sup>103</sup> and exports. Where Cambodia's regulatory course of things is allowed to progress, the focus has been on investment and how to promote large-scale operations. While there are certainly ties to smallholders the view seems to be more of a laissez-faire nature.

While the prospect of significant progress is slim, some options discussed above are politically feasible, and have an underlying relation to each other. The hold that corruption has on the country makes it very unlikely that changes needed to reduce the transaction costs in livestock marketing will be made. As such, improving preventive animal health is one avenue to reduce production costs and benefit the poor. Strategic entry points such as HPAI interventions (4.3), the creation of an FMD-free zone (4.3), and gearing up to meet WTO standards all concentrate on aspects of animal health which have high externalities. Doing so

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<sup>103</sup> There has been an emphasis on foreign direct investment in agriculture, and livestock in particular, for at least seven years. Sub-Decree 88 on the "Implementation of the Law on Investment of the Kingdom of Cambodia" dated 28 December 1997 suggests such areas of investment as: 2. Livestock Production; 2.1 Livestock more than 1,000 heads; 2.2 Dairy farming

could also be made to build on the success of regularizing VAHWs (4.4), for these workers could be given government or NGO contracts funded by donors to carry out the necessary preventive medicine measures while doing curative, fee-for-service work on the side.

### 4.3 Strategic Entry Points

#### *(1) Developing a Strategic Framework for Agriculture*

While this chapter has argued that the Donor-Government Nexus has produced too many Strategies and Plans, but too few funded mandates and feasible policies, it is surprising that donor and government attention towards agriculture has not been more focused. There does not exist, as yet, a medium-term sector strategy for agriculture nor an overall policy and strategic framework. Donors reached a consensus at the December 2004 CG. In the Joint Monitoring Indicators, they agreed with the Rectangular Strategy's recommendation that:

It is necessary to enhance and broaden the base for economic growth by opening and utilizing the potentials in other sectors, especially in the high potential agricultural and agroindustrial sectors, so that the nation will obtain larger positive windfall gains in the improvement of the livelihoods of the rural people.<sup>104</sup>

Based on the Joint Monitoring Indicators agreed upon at the 2004 Consultative Group meeting between Cambodia and donors, the benchmark stated: "Joint development of a medium term sector strategy for agriculture, including irrigated agriculture, has been commenced by March 2005, with an overall policy and strategic framework completed by December 2005."<sup>105</sup> Recognizing the problem of youth unemployment, the 65 page-long NGO Statement to the June 2002 CG Meeting had already recommended that:

Resources and efforts should go to develop a system of rural education, especially training for the rural youth in agriculture and agriculture related business. This training should be combined with loan program so that they can invest to start-up

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more than 100 heads; 2.3 Poultry & eggs 10,000 heads. This was again repeated in Annex 1 to Sub-Decree 88 updated according to Sub-decree No.53 dated 11 June 1999.

<sup>104</sup> RGC (2004b).

<sup>105</sup> RGC (2004b).

small enterprises in agriculture and agriculture related sector or other rural enterprises.<sup>106</sup>

While it is not known precisely if any donors took-up this suggestion, it is worth repeating. NGO participation represents an opportunity for livestock and its related sectors to gain support. At the same time, it underscores the crucial need for a clear and focused agricultural policy for the country—as opposed to a wish list of projects for donors. Animal health needs to be regularized within this policy.

### *(2) Strategic Entry: Highly Pathogenic Avian Influenza*

Highly Pathogenic Avian Influenza has been of considerable concern in Cambodia. Frequent articles now appear daily about HPAI in newspapers and other news media. The popularity of poultry plummets invariably when this happens. In response to the report of a potential HPAI outbreak, each province dispatches three taskforce teams: one to investigate and take samples, another to collect information and communicate back to the government, and one more to disinfect the area and control movement of poultry between farms and markets (Hamilton and Vong, 2005). “We only have three people in [the National Animal Health and Production Investigation Centre], not enough people to keep up with [testing] the chickens coming in.”<sup>107</sup>

There have been 14 outbreaks and one human infection to date (Hamilton and Vong, 2005). Donors gave \$1 million in 2004 through FAO’s “Emergency Regional Support for Post Avian Influenza Rehabilitation” Project to help coordinate activities funding for which has nearly been exhausted. “Donors said they were waiting on an official request from the government for more funding.”<sup>108</sup> Sorn San, Head of National Animal Health and Production Investigation Centre reported that five thousand VAHWs had been trained in detection and

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<sup>106</sup> NGO Forum (2002: 12).

<sup>107</sup> As quoted in Hamilton and Vong (2005).

identification of bird flu through the Agricultural Productivity Improvement Project funded by the World Bank and IFAD. The lessons learned from APIP are shown in Box 4 and are particularly germane to future development of pro-poor livestock policy.

**Box 4: IFAD's Lessons Learned from the Agricultural Productivity Improvement Project**

The livestock component of the IFAD loan offers four lessons learned which should be heeded for future activities in the sector. It is an excellent opportunity to examine the lessons learned from that multi-year project.

Functional grass-roots associations and institutions capable of delivering veterinary supplies, animal feeds and artificial insemination equipment are crucial to the sustainability of project components.

Farmers will only benefit from the project if the technical knowledge developed reaches them and takes account of their views. This requires mechanisms for transfer and continuous feedback among central and provincial government departments and among districts, communes and farms.

The enthusiasm and commitment of project staff are important factors in successful project implementation, especially when external conditions are difficult.

Privatization of animal health services depends on government commitment and acceptance on a user-pays basis by farmers and animal-health workers.

*Source:* IFAD (Undated).

While the lessons learned are couched in diplomatic language, as was explored earlier, Cambodia's KR Legacy is primarily responsible for the erosion of the trust needed for grass-roots associations and institutions (cooperatives) to emerge. Overcoming this legacy will take time.

Second, there is essentially no mechanism for transfer and continuous feedback among authorities because of the centralized nature of the system and the hierarchical social relations (Turner, 2002), but NGOs have tried to bridge this gap as best they can, sometimes drawing scorn from authorities according to a livestock professional (21) and a senior government official (40). Finally, as in all development work and previously seen in the section on the Donor-Government Nexus, one of the key lessons is that government commitment and acceptance are needed before embarking on any project.

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<sup>108</sup> Hamilton and Vong (2005).

A study conducted during July and August 2004 by VSF at the request of DAHP and FAO found that the severe losses incurred by smallholders during HPAI were partly compensated by very high prices for poultry following the crisis by consumers whose willingness to pay was high. VSF recommends financial compensation to producers officially HPAI-infected (to recover for their losses and to encourage disease reporting by producers in the future) and urges the design and implementation of a comprehensive national policy to develop and secure poultry production in Cambodia (VSF, 2004: 2). These recommendations are further reinforced by the findings of an FAO-organized Regional Workshop on HPAI that took place in Ayutthaya, Thailand (see Box 5).

**Box 5: Recommendations for the Region on HPAI**

Smallholders have been the most vulnerable group during the Highly Pathogenic Avian Influenza outbreaks in most countries, and they are hardly recovering; support to this poorest group will help to secure their incomes as well as having them on board for surveillance and reporting systems. The following options will contribute to improve poultry production in this sector:

Improving Animal Health Services at village level needs to include support from Animal Health Workers (paravets), including reporting systems and access to information and training. Government extension staff cannot bring the appropriate support in all villages.

Improving the general farmers' awareness through appropriate and translated simple biosecurity guidelines on A.I.

Use of credit or microfinance as a tool for rehabilitation and as an alternative to direct compensation for countries that can not afford to compensate.

Access to appropriate long term credit.

Development of farmer groups and associations will help to strengthen the farmers activities and the dissemination of information

*Source:* Dolberg (2005: 29).

Unfortunately, the Government has no financial compensation to owners when animals are culled (VSF, 2004). Certainly, it is not clear how much one would compensate nor how since the Government consistently maintains it has no financial means. While continuation of the current FAO HPAI project is important in that it entails recommendations one and two, option five will encounter the aforementioned problems of low social cohesion/social capital earlier discussed.

If donors wished to target the lowest quintile, requiring that the smallholder be a female head of household or those individuals who owned poultry and at most pigs, would certainly be one possibility (although the feasibility of this would need to be studied). Most village chiefs have detailed household records, and family books (*bann krousa*) clearly show all residents living under the same roof. This information could be related to an MFI with necessary financial controls and auditing. Another idea raised in discussions: training of breeders (in excess of 500 heads) was proffered by a livestock professional (52) and may be feasible within the scope of additional donor resources.

### (3) *Export of Livestock and FMD-Free Zone*

Cambodia's terms of accession to WTO were not ideal for the country's level of development (Oxfam, 2003).<sup>109</sup> In 2002, NGO Forum took the opportunity to comment on the NPRS to state that "NGOs are concerned with ... the lack of public consultation and debate about the possible impact on small farmers of WTO membership and the Agreement on Agriculture."<sup>110</sup> While concessions on agricultural products may have been too harshly negotiated, the livestock sub-sector offers good potential for cross-border trade. Combined with strong and growing regional demand (see Table 8), the export of Cambodian livestock could be a golden opportunity for the country, if properly exploited.

**Table 8: ASEAN, Rest of Asia and Middle East Cattle Imports in 2002**

Importer 2002 (head)					
<i>ASEAN</i>		<i>Rest of Asia</i>		<i>Middle East</i>	
Brunei Darussalam	23,300	China	11,500	Bahrain	8,146
Indonesia	171,100	Hong Kong	48,000	Israel	52,730
Malaysia	97,000	Japan	14,500	Jordan	40,200
Philippines	117,100	Macao	5,300	Kuwait	7,400

<sup>109</sup> Oxfam reports that the country acceded to a maximum tariff on agricultural products of only 60% (see table). In comparison, this rate is half Canada's (120%) and the USA (121%), and many times less than the European Union (252%). Moreover, Cambodia also agreed not to use export subsidies in agriculture.

<sup>110</sup> NGO Forum (2002).

Thailand	183,000	Nepal	12,000	Lebanon	222,680
				Saudi Arabia	39,000
				United Arab Emirates	4,600
				Egypt	153,000

*Source:* FAO (2004) from MoC and MPDF (2005).

Total imports for ASEAN were 591,500 heads of cattle in 2002, while the rest of Asia accounted for only 91,300 and the Middle East took in 527,756.

#### *Trade Regime and Tariffs<sup>111</sup>*

While trade in beef meat is dominated by tariffs, quotas, and special access conditions – especially those negotiated in the main Asian markets by the US and Australia – the trade in livestock is more open. All major importing countries, however, have often complicated and demanding SPS measures in place. ASEAN markets are largely duty-free. That is the case for Malaysia and Indonesia, while the Philippines imposes a three percent duty and Thailand imposes five percent (apart from pure-bred breeding animals which are zero rated). The official duty on the Vietnamese border is five percent. Cambodia enjoys duty-free access to the Chinese market through an arrangement called “Early Harvest”. Cambodia’s own border conditions for the entry of live cattle entail a Most Favored Nation tariff of 15% with an ASEAN Free Trade Area Common Effective Preferential Tariff rate of 10% in 2004. Middle Eastern markets are also largely open although several countries have bound high tariffs in the WTO.

<b>Bahrain</b>	35% bound tariff in the WTO; currently applied rate at 5%
<b>Israel</b>	128% bound tariff (43% for pure-bred breeding cattle) in the WTO; currently applied rate within a 120,000 head quota is zero
<b>Jordan</b>	Applied and WTO bound rate is: 5% plus 10JD/head
<b>Kuwait</b>	100% plus 15% stamp duty bound in the WTO; applied rate is 5%

<sup>111</sup> This section is drawn from MoC and MPDF (2005).

<b>Lebanon</b>	Applied rate of 0% (Negotiating WTO accession)
<b>Saudi Arabia</b>	Applied rate of 0% (Negotiating WTO accession)
<b>United Arab Emirates</b>	15% bound tariff in the WTO; 5% applied
<b>Egypt</b>	10% bound tariff in the WTO; applied rates less but uncertain

### *Livestock Exports*

Based on earlier detailed animal population statistics (section 3.2, sub-section *The Herd*) of 3.55 million animals (including 625,930 buffalos), the local market has been met largely from spent draft animals and surplus young animals (MoC and MPDF, 2005). There is a large exportable surplus of cattle. Cambodia has a comparative advantage in the production of large ruminants because of its abundance in grazing land; and the country's livestock production, following traditional raising method and using natural fodders, could be labeled organic should an accredited national organic certification system exist for this purpose (Srey, 2005). This is reportedly why Malaysians desire Cambodian cattle according to a private sector manager (1).<sup>112</sup> Furthermore, if organic certification were implemented, this could produce a premium of 20-50% over current prices (Srey, 2005).

RGC (2005) reports that trade in cattle is already significant for Cambodia's neighbors though it warns that "Official figures certainly

<sup>112</sup> Cambodia has been exporting to Malaysia legally through a special arrangement Se Sovann (DAHP) made with his counterpart in Malaysia. Heavy informal transactions costs (\$250, 19 illegal checkpoints, speed-boats chase) and an outbreak of FMD on a 2003 shipment (2 animals tested positive) stopped shipments for three to four months. The firm has ceased livestock operation to Malaysia as of May 2005. A livestock professional (60), asked for reasons why this happened had this to say: "Rent seeking is a singular but not ... overriding if stock is in good quality as it is based on a per head basis. The yield of the stock they were shipping was not good due to age factors etc and there was a cost of feeding even if they owned it and cheap as they back loaded it [the barge returned with palm feed for the feedlot]. The rumor was that as the margin shrank so the arguments started. They lost a lot of money when they had an FMD break-down last year as they had to buy feed locally. The supply of stock is getting smaller and the price is rising. This was not helped by Vietnam seeking cows as part of their demobilization program that put cow prices over \$500 for Haryana types and dragged the price for the rest with them. The failure had nothing to do with FMD per se and the concept of the Disease Free Zone remains inviolate."



underestimate the true picture.”<sup>113</sup> The reality is that Cambodian animals are taken across the Vietnam and Thai borders in small numbers and on an informal basis primarily because formal imports of Cambodian cattle have been affected in recent years by Foot-and-Mouth disease fears in the two markets (MoC and MPDF, 2005). McNaughton (2004) estimates that Cambodia’s live cattle export to Vietnam, Thailand, and Malaysia in 2002 was in the range of 80,000-150,000 heads (McNaughton, 2004).<sup>114</sup> Apart from lost revenue to the Cambodian government, cattle producers also lose the value added through fattening, which takes place across the border.

### *Sanitary and Phytosanitary Measures*

With respect to SPS measures, Cambodia secured a delay until 2008 as part of its WTO package. A livestock professional (21) with half a decade’s worth of experience in Cambodia was critical of the OIE for not showing sufficient flexibility for Cambodia’s circumstances. A livestock NGO head (33) said that his organization’s headquarters had attempted to mollify OIE with respect to Cambodia (the suggestion was, again that standards were too high for a developing country like Cambodia). Finally another livestock professional (52) argued that the assumption on meeting such requirements by the authorities was that rules had no importance in Cambodia, but that they would be sorely surprised when standards are applied. WTO/OIE will not allow agreements to be violated. For its part, OIE Regional Representation for Asia and the Pacific was more circumspect:

The OIE has worked together with Cambodia to improve animal health conditions in various fields under OIE mandates. Securing the disease-free status is one of the most critical aspects ... For example, [Cambodia] is one of the active members of the OIE Foot and Mouth Disease Control Campaign in Southeast Asia. The [Royal Government of Cambodia] and the OIE are working together for a purpose of the

<sup>113</sup> FAO (2004) reports Myanmar exporting 113,000 head in 2002, China 58,000, Lao PDR 35,300 and Cambodia 10,600.

<sup>114</sup> Just as an indication, a 1997 animal movement management Conference estimated 52,000 cattle quarantined in Thailand from Cambodia (since official import from Cambodia is illegal, this number is its proxy) according to a livestock official (47).

effective control of FMD. Of course, we have many other important diseases to tackle, such as avian influenza ...<sup>115</sup>

SPS measures have become the new non-tariff trade barriers that will impact Cambodia for years to come, and the country needs to ready itself for the challenge. The principle of trade in livestock is simple, no country would want to legally import anything it deems of lower sanitary and phytosanitary standards than what it produces (for obvious public health reasons). A livestock professional (35) said that the reality was that Cambodia could not ignore OIE now that it had become a WTO member and so, despite unrealistic demands on the country, it needed to do something to placate their demands. Otherwise, Cambodia could be flooded by livestock products of low SPS standards. His bottom line was that while OIE's demands are unrealistic, they cannot be ignored, and it does not mean they were wrong either.

#### *Foot-and-Mouth Disease Free Zone*

Cambodia's active participation in the Southeast Asia Foot and Mouth Disease (SEAFMD) program is welcomed news. It is evident that the influence of international processes such as Cambodia's accession to WTO and SPS Agreement (2008), while difficult now, may prove rewarding in the future as well. Furthermore, the emergence, likely sooner than 2008, of a Foot-and-Mouth Disease Free status for the legal importation of cattle from Cambodia into Malaysia and other regional neighbors means that unless Cambodia takes concrete steps to create an FMD-free zone, the country will never be able to legally export cattle to these countries. This highlights the challenge that an open trade policy has presented to Cambodia. It also presents an opportunity to meet this challenge directly by creating an FMD-free zone.

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<sup>115</sup> Informant 32.

Within Cambodia, types O and Asia 1 have appeared regularly during FMD outbreaks (ACIAR, 2003). The disease is endemic throughout the country. Suan and Siveth (1993) noted that the disease has been most often observed in ruminants and most cases are seen in May–December. During this time the demand for animals as a source of draught power is greatest, and the resulting inability of buffalo and cattle to assist in preparation of fields for crop establishment inflicts substantial costs on farming communities.

FMD diagnostic capability was established with FAO assistance in 1996-1997 according an FAO professional (23) in Cambodian laboratories using techniques developed in ACIAR-funded projects. At present, there is limited vaccination of livestock in Cambodia, although a feedlot industry in the south is growing and requires appropriate FMD management. Vaccination primarily occurs in the border areas of Vietnam and it is likely that enhanced diagnostic capability has had some impact (ACIAR, 2003).

#### *Political and Economic Feasibility of an FMD-Free Zone*

Since it may take numerous years before the entire country can achieve FMD-free status, creating an FMD-free zone in Kampong Som, where the port city of Sihanoukville is located or elsewhere in order to legally export cattle and buffalo and other ruminants in consequential quantities would make sense according to a livestock professional (21). This would align the country's senior leadership, which has a bias towards agro-business exports, and key players in the private sector, to produce a win-win situation. The Kampong Som/Sihanoukville region has a mountain range separating it from the rest of the country, which OIE regulations require (physical or geographical barriers) and would be ideal.

As the Southeast Asian region moves towards FMD-free status, and Malaysia adopts the standard in 2006, that market too will be closed off to Cambodia, according to a private sector manager (1). While smuggling of

Cambodian cattle into neighboring countries will no doubt continue, when those neighboring countries implement higher sanitary standards, the price of Cambodian cattle, traveling by hoof to cross borders, according to a multilateral donor official (57), and losing weight on the way, will be significantly lower. Serious consideration should be given to attract public-private partnership in developing this market potential further in light of Cambodia's accession to WTO. One of the crucial elements to developing Cambodia's livestock export market rests on the improvement of veterinary services.

#### *(4) Continued Improvement of Veterinary Services through VAHWs*

It was in the absence of animal health services in rural areas that Vétérinaires Sans Frontières introduced Village Animal Health Workers in 1996. VAHWs are trained villagers in animal health and production who are then deployed in their villages and communes.

In 2004, MAFF reported that the development of animal health and production services at commune and village levels had reached 4,449 VAHWs or 75% of a planned 5,906 needed (MAFF, 2004).<sup>116</sup> It was not entirely clear how the number 5,906 was arrived at, as there are circa 1,600 communes and tens of thousands of villages. Assuming even spread (which is not the case), this would produce about three to four VAHWs per commune. Of course, this "stock" figure does not take into account drop-outs or newly trained, but unrecognized, VAHWs. AusAID (2004) reports that government-donor sponsored VAHW activities in a specific locality studied have faced resistance for payment of services, with up to 25% of the VAHWs ceasing practice because fellow villagers have balked at payment. The report recommends that "steps toward sustainability will often be

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<sup>116</sup> It is not certain how the MAFF is counting VAHWs. These are likely the ones it recognizes. NGOs working on their own are producing hundreds of VAHWs. For example, PADEK, a local

difficult but any temptation to continue with unsustainable handouts must be resisted in market-focused activities.”<sup>117</sup> Another issue that is evident is the problematic relationship of VAHWs (who only recently gained any kind of official recognition) with the establishment, namely State veterinarians.<sup>118</sup>

A livestock professional (51) viewed VAHWs as de-linked from the rest of the official veterinary infrastructure. Indeed, VSF confirms this:

Although this is not specific to Cambodia, the poor linkage between poultry producers and service providers is an aspect that should be dealt with more attention: 80% of poultry smallholders do not use any animal health service; links between private veterinarians/companies or Village Animal Health Workers, on one hand, and State Veterinary services, on the other hand are limited.<sup>119</sup>

Veterinarian and MAFF Secretary of State Yim Vanthoeun claims “We have enough human resources, about 10,000 veterinarians, but we don’t have money for vaccines.”<sup>120</sup>

#### *Official Recognition of VAHWs in Theory*

While the privatization of animal health services was a goal of APIP, this was already true in practice from 1996 onwards, and became *de jure* in 2001. That year, Anukret (sub-decree) No. 26 on the Creation and Regulation of Village Animal Health Workers on 2 March 2001 was adopted by the Council of Ministers and signed by the Prime Minister. Anukret No. 26 states that VAHWs are not government workers, they are chosen among local people or students who are trained and/or provided with technical refresher training by the MAFF. The

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NGO, has trained two VAHWs, one man and one woman (for gender equity reasons), in 268 villages since 1996.

<sup>117</sup> AusAID (2004: 4).

<sup>118</sup> In the context of Africa, Leonard (2003) discusses the changing markets for health and veterinary services, and argues (1) for the need to retain a central role for paraprofessionals in any new delivery system; (2) the important and problematic relationship between professional veterinarians and VAHWs; (3) the importance of developing state contracting procedures for assisting the private delivery of preventive animal health services with high externalities and to minimize problems of local monopoly; and (4) the central role that professionalism will have to play in this area if collective goods and the public interest are to be served. As will become evident, many of these issues are ones with which Cambodia is now grappling.

<sup>119</sup> VSF (2004: 2).

<sup>120</sup> As quoted in Wasson and Lor (2005). MAFF reports 4,449 VAHWs so Yim Vanthoeun’s number suggests that the remainder must be professional veterinarians or a grossly exaggerated figure. The

Anukret is intended to allow for the training of VAHWs in a bid to offer jobs for people and to increase animal productivity and quality in line with the RGC's policy on the privatization of agricultural and animal health sectors aimed at contributing to poverty reduction in rural areas.<sup>121</sup>

In practice, VAHWs have been allowed to operate in peace for some years. According to an livestock professional (52) one organization, Vétérinaires Ruraux du Cambodge (VRC), has been recognized by the government to provide training (aside from itself). VRC, a local NGO, is a VSF spin-off. The same livestock professional (52) also complained that some NGOs continue to train without knowing the regulatory framework now in place or do not *want* to know about the rules of the game. An NGO director (55) interviewed that has trained hundreds of VAHWs since 1996 was surprised to learn of the sub-decree's existence, and requested copies of the sub-decree.

#### *Regularizing VAHWs in Practice Through HPAI and FMD Preventive Campaigns*

VAHWs represent a vast, mostly untapped potential in preventative animal health care. Effective interventions against both HPAI and FMD offer significant externalities. The role of both Government and NGOs, to provide public goods, could engage VAHWs in contracts to vaccinate, inform, and train smallholders. The contracts would put them in contact with many more of the poor than they currently reach. In fact, given the high dangers associated with HPAI and the high mortalities in Cambodia with various poultry and swine diseases it is possible that some livestock producers would be prepared to pay a portion of the costs of inoculations themselves.<sup>122</sup> Putting donor money either through the Government or NGOs into contracts to private providers to do preventive animal health is

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actual staffers in DAHP cannot be but a fraction of the 9,128 staff of MAFF (of whom 3,633 worked at the central level) in 2001.

<sup>121</sup> All legal documents cited in this section were informally translated courtesy of Sok Dara (VSF).

consistent with the World Bank's neo-liberal stance and analysis (see Leonard, 2003). This stance, combined with the HPAI emergency, increases the likelihood of successful donor funding.

## 5. Conclusion and Recommendations

To use the metaphor of the late senior United Nations official Sergio Viera de Mello when speaking about East Timor, governing Cambodia is like “sailing a ship while building it.”<sup>123</sup> This chapter has presented some of the constraints and opportunities in implementing feasible pro-poor livestock policies “when external conditions are difficult” to use the language of IFAD. Failures of governance combined with donor apathy towards agriculture and livestock have cost Cambodia dearly. To be fair, it can be said that Cambodia emerged from decades of warfare with, understandably, more important priorities. These priorities, like meeting basic food security through the production of rice, have not produced the results for which so many had hoped either.<sup>124</sup> There is no agricultural policy, or rather, as a bilateral donor official (49) pointedly said, there are *too many* strategies. Every donor has “helped” the Government write its own strategy.

The end result has been an uncoordinated *ad hoc* emergency approach that created more papers and committees than results. Within the legislative context, other priorities also took precedent over livestock—forestry and fisheries being chief among them, which led to the passage of a Forestry Law and work on a new Fisheries Law. However, while the Government has done the donors bidding on the legislative front, it remains to be seen whether the letter, not to speak of the spirit, of these laws will be respected. Thanks to momentum built from the December

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<sup>122</sup> In fact, one did offer, but was refused access when authorities realized they would receive no direct financial inducements.

<sup>123</sup> As quoted in Guéhenno (2004).

<sup>124</sup> One senior Government official (54) even argued that the goal of donors is merely to help Cambodia achieve subsistence and nothing more.

2004 CG, a Phnom Penh consensus has emerged that agriculture should receive more attention. Many will agree and this chapter has argued that it is Cambodia's best hope for survival in the global economy following the end of garment quotas to the United States. If nothing else, the 150,000-250,000 new entrants into the labor market per year should give the government and donors pause. As such, the agricultural sector and the livestock sub-sector have an important role to play if their considerable potential is tapped properly as farming continues to shift from subsistence to commercial agriculture over the next decade. The prospect for increased donor attention and coordination with the government in this area is better than it has ever been in recent years. This should be cause for optimism in a country where 88% of the poor come from rural areas, and in which 80% of the population is rural. Livestock can and should take its rightful role in the forthcoming medium-term sector strategy on agriculture.

A major objective of this chapter has been to recommend *feasible* pro-poor livestock (and livestock-sector related) policies from the set already in existence. This proved difficult. These policies, four years on, are still collecting dust. After more than fifty interviews with senior policymakers, middle managers, and staff in the public, private, and tertiary sectors, few pro-poor policies for livestock are realizable. Despite this, there have been the occasional successes and there are opportunities ahead.

### *The Glass is Still Half Full*

One of the qualified successes in pro-poor livestock development policy in the past decade has been the acceptance of VAHWs by the authorities. While 80% of poultry breeders have not been exposed to VAHWs in 2004, it is a remarkable feat that 20% have, and that prior to 1996, none would have been serviced. That in eight years two million smallholders have interacted at some point with VAHWs is a remarkable achievement.



VAHWs are allowed to work in relative peace and are indeed even praised. Going forward, it would appear that having built the regulatory foundation, what is still needed is for donors, NGOs, and DAHP/MAFF to keep growing the current “stock” of 4,449 VAHWs so that they can continue to directly intervene in the basic health care of smallholder animals. Donors, together with NGOs and the private sector, should continue to engage the government in a discourse about pro-poor policy development in this context.

Based on the constraints and opportunities detailed in this chapter, and from which strategies and resources can be drawn, three sets of suitable entry points for pro-poor livestock policy can be summarized. These recommendations are by no means exhaustive, but it is believed that they offer politically feasible opportunities for pro-poor engagement in livestock and livestock-sector related activities:

**5.1 Coat-tailing on the development of an agricultural policy that includes proper emphasis on livestock and Highly Pathogenic Avian Influenza support strategic entry points for donors and the Government include:**

*Agricultural Policy.* The Consultative Group meeting in December 2004 called upon the start of a medium-term sector strategy for agriculture in March 2005, with an overall policy and strategic framework completed by December 2005. Donors concluded that “it is necessary to enhance and broaden ... agricultural and agroindustrial sectors, so that the nation will obtain larger positive windfall gains in the improvement of the livelihoods of the rural people.”<sup>125</sup> In this regard, the role of NGOs has not been defined in the Technical Working Groups even though their representative at the 2004 CG explicitly requested, and the World Bank acknowledged inclusion. Given the *ad hoc* history of NGO involvement in previous Thematic Working Groups, this role should be formalized. The record of their

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<sup>125</sup> RGC (2004b).

efforts on VAHWs is an important one, and the pro-poor perspective they will bring to the table is invaluable. Further, the targeting of widows or single women heads of households and families that own no draught animals should be given consideration, as these are likely to be among the poorest.

*Highly Pathogenic Avian Influenza support:* Donors may be interested in supporting efforts to combat the HPAI regional public health threat. Cambodia's overextended surveillance system contained in NAHPIC, with funding from donors through FAO, at the time of this writing was slated to run out. Donors awaited a government request for support. While it is likely that the approach taken will be a repeat of the earlier project with continued emphasis on training of VAHWs, it should also consider training of poultry breeders. The Government has also made clear, contrary to the recommendations of VSF (2004) that no compensation will be given. This is financially damaging to breeders, and naturally makes them less than willing to declare their problems to the authorities.<sup>126</sup> Another possibility for action would be to provide credit through a Microfinance Institution with wide reach to those individuals whose animals have been culled. As above, pro-poor targeting of livestock smallholders could focus on widows or single women heads of households or families without draught animals. Otherwise the poor will be unwilling to raise significant numbers of poultry, for the risks will be too great. They would revert to a few back-yard animals, if that, where the costs of loss would be manageable. Well-to-do producers can hope to ride out the loss of a flock and make the money back with higher prices on a subsequent lot, but the poor would lack the capital – or access to loans – to do this. Finally, since VAHWs are unpaid, they cannot be expected to serve an effective public service function unless government embraces them as full partners by proceeding with provincial-level

licensing and training, working in good faith not only with donors but NGOs as well.

## **5.2 Exploit Cambodia's Comparative Advantage in Livestock Exports and Create an FMD-Free Zone**

Cambodia is poised to take advantage of booming demand for livestock, and it should not fail to do so because the window of opportunity is narrowing with FMD-free status required by 2006 and SPS Agreement in 2008. The private sector and/or Donors (AusAID's follow-up steps on the options paper states that it is willing "to contribute to a range of studies or small value contracts to enhance and inform policy/strategy discussions through the [Thematic Working Group on Agriculture and Water]"<sup>127</sup>) may be interested in funding additional research on the impact of WTO on agricultural smallholders with a view to the livestock sub-sector, risks and prospects, and to give serious consideration to the establishment of an FMD-free zone, whether in Sihanoukville or elsewhere, in order to secure a foothold for Cambodian cattle trade regionally. Livestock has been shown to hold vast, mostly untapped potential for the economy (80,000-150,000 heads were exported *unofficially*) that could be critical to Cambodia's overall prosperity. Its development can be a major contribution to poverty reduction.

## **5.3 Regularization of VAHWs through contractual agreements with the Government and/or NGOs**

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<sup>126</sup> Hamilton and Vong (2005) report that one farmer, Ouch You, who unknowingly had AI-infected poultry, said: "I found two or three dead chickens every morning. I buried them and took the healthy looking ones to the markets."

<sup>127</sup> AusAID (2005). It further notes: "We also propose to explore the livestock value chain, but as a secondary item and most likely in partnership with another donor (such as the EC). Next step: Begin discussions with other donors and stakeholders with an interest in livestock and give consideration to a joint feasibility/design study in late 2005/early 2006. There may be an opportunity to discuss these options further with Government and donors at the agribusiness workshop planned for late March-early April 2005. AusAID's past experience and strengths lie more at the production end of the value chain but we are interested in exploring other possible areas for engagement."

While poverty reduction has been the mantra of the government for a number of years, the results have not been encouraging. Poverty and inequality may have increased, based on projections, since the mid-1990s.<sup>128</sup> Illiteracy, and both infant and under-five infant mortality have increased since 1990. This may be linked with underinvestment in agriculture by donors, compounded by issues in markets, access, and land, but it is also a clear failure of governance by the authorities. The official recognition of VAHWs is a relative success story that should be regularized by examining the potential for contractual agreement between VAHWs and the Government. However, if the political status quo remains, donors may wish to by-pass the government altogether, as they have clearly voted with their pocket-books to do so in refusing to fund any of the items on the Government's wish list for livestock since 2002, and to work directly with the poor on their own or through NGOs which have been effective in promoting vaccination and animal health services in rural areas, especially as it relates to HPAI and FMD prevention.

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<sup>128</sup> This issue is updated and revisited in the Addendum to this dissertation.

## Chapter 5

### Conclusion: Endeavoring To Do Better

This dissertation has explored the interaction of aid, governance, and policy-making at the global, national, and sectoral levels. From a global perspective, the dissertation's findings cast doubt on the wholly negative impact of aid on various dimensions of governance as the latter is a blunt instrument. Of Kaufmann et al.'s six dimensions of governance Rule of Law is worsened by aid while the effects on the other five (Voice and Accountability, Political Stability, Government Effectiveness, Regulatory Quality, and Control of Corruption) are very weak. Certainly, these findings show that the answer is not uni-dimensional. Aid is both part of the problem and part of the solution. This suggests that the negative effects of aid dependence found by Knack (2001) and others can be reversed with effort. It is apparent in comparing the Cross-Sectional and Time Series Cross-Sectional (TSCS) results that Knack's method seems to overstate the negative effects of aid on governance. The TSCS pooled analysis used in this dissertation, because of its ability to employ country effects and its use of multiple time periods, is methodologically more desirable, *ceteris paribus*, and gives fewer negative results.

Beyond this, a decade of aid and governance in Cambodia has been explored from a national perspective. Cambodia's experience with aid suggests that the Rule of Law and Control of Corruption have enjoyed little to no donor success, garnering 12% and 5% successful ratings, respectively. Political stability showed the best prospects with 68% successful ratings. However, while stability is necessary for policy-making to work in a post-conflict country context, Cambodia's development experience suggests that stability alone is far from sufficient. Policies for which there is political will, such as foreign exchange stability and control of inflation,

have the best chance of succeeding. Policies that negatively impact patronage politics, such as control of corruption and promoting judicial independence, have shown the least likelihood of success.

From a sectoral perspective, a difficult institutional environment manifests itself through a combination of weak state capacity and poor governance that limits the scope for reform. Everywhere in Cambodia, civil servant salaries are abysmally low (barely above the poverty line) for political economy and patronage reasons. In the livestock sector, ‘illegal taxation’ is pervasive with demands for heavy and frequent informal payments for transport of cattle within the country. There are numerous reasons for this, but three are of particular note: the legacy of the Khmer Rouge causing the death of a quarter of the population and decimating the country’s human resources; patron-client relations with an embedded culture of corruption that prevents pro-poor policies from being implemented; and a donor-government nexus which has produced too many strategies and plans, but too few funded mandates and feasible policies.

Agriculture is paramount to the Cambodian economy, accounting for almost half of GDP (1997-2001). Nearly 88% of the poor come from rural areas and 80% of the population is rural, yet the country does not have a medium-term agricultural sector strategy. The livestock sub-sector ranks among the highest ‘potentials’ and priorities for future development in Cambodia according to the Ministry of Agriculture, Forestry, and Fisheries (MAFF), contributing 14% to the agricultural economy (1997-2001). It materially affects the lives of millions of Cambodians. Agriculture’s primacy is undeniable, given that it is the only sector capable of absorbing the 150,000-250,000 entrants joining the labor force each year. This represents a tremendous opportunity for agriculture in general and livestock in particular. However, the last decade of development action has also shown donors

(with the implicit consent of the government) unwilling or unable to contribute to agriculture, with only eight percent of aid going to that sector. Aid coordination, while a stated goal, remains elusive. Three lessons learned for Cambodia's political economy of development are apparent.

First, the politically-induced "natural experiment" of 1997-98 suggests that external pressure to force reform, while initially successful at increasing domestic revenue collection, have floundered. Policy and political commitment were not concomitant. Furthermore, the recurrence of a fiscal crisis in the short to medium term is unlikely. The feasible set of options is small given external conditions. Among the factors that should be considered are Cambodia's accession to the WTO, the RGC's distaste for borrowing for Technical Assistance (TA) and desire to invest in infrastructure, and the impact of future debt-service payments. Membership in the WTO requires changes in the country's legal and policy framework and their implementation may need to be credible. This is a reason for hope. The RGC's desire not to borrow for TA is laudable, but its embrace of infrastructure may increase the risk of corruption because of inherent vulnerabilities in procurement. Finally, as regrettable as it may be, the burden of debt-service payments will likely send increasingly strong signals about the need for effective reform. In order to qualify for debt-relief from the World Bank, Cambodia will reportedly need to increase its domestic revenue collection from its current 11.7% of GDP to a minimum of 15% of GDP. This is achievable if necessary governance reforms are undertaken. The conversion of bribe taxes and corruption into official revenues alone would suffice given that, at \$120-500 million, they account for 3% to 12.5% of GDP.<sup>1</sup>

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<sup>1</sup> This assumes a GDP of \$4 billion.

A second lesson is that donors should examine policies in light of political reality, since a decade of governance and development has now taken place to permit a careful evaluation. It is clear that the RGC has fully adapted the language of development and governance, but in its practice, development administration is still subservient to political considerations. Poor development outcomes in the 1990s make this evident. Since the RGC's posture is one of openness to donor interventions and to receiving aid in particular, this should not be confused with political willingness to undertake necessary reforms. Donor interventions steeped in technical solutions to specific problems seldom take this reality into account.

A third and final lesson learned is that the three Cs (Corruption, Credibility, and Coordination) are clearly linked. To fight corruption, as was shown in the two case studies presented in Chapter 3, requires credible threats. In the longer run, the credibility of donors in the face of governance failures requires that they coordinate their actions to send a clear message and provide the right incentives for change. While Performance-Based Allocations are a step forward, their efficacy is limited when the borrower can access alternative (particularly Chinese) sources of financing to compensate for reductions in Consultative Group-coordinated Official Development Assistance. Paradoxically, this should underscore the importance of donor coordination to provide an effective donor coordination mechanism, despite the implication that the impact of such coordination will, inevitably, be diminished. While the scope for reform is narrow, it is not set in stone. Where there is political will, there is a way.



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## Appendix A: Selected Comments and Respondents' Codes for Chapter 3

Table 1: Selected Comments Cross-Tabulated Against Ratings From Elite Survey\*

Dimension	None (1)	Poor (2)	Medium (3)	High (4)	Very High (5)
<b>1. Voice and Accountability</b>	<p>Donor's lack of insistence on compliance is now the single greatest cause of Cambodia's current unfortunate situation. Year after year the international community of donors can be counted on to ignore the failure of last year's government promises. Hun Sen and his cronies must laugh and laugh all the way to the bank. Don't the donors ever get out of their SUV to look around? (37)</p>	<p>Donor success is ranked poor, because despite limited results they keep pouring aid in no matter what (26)</p> <p>Despite the resources thrown at the problem, donors have had little effect on improving civil / political rights for the most vulnerable poor and minorities. I give a poor rather than none score because there probably is a small urban elite whose access to power has improved over the last ten years. (5)</p> <p>There are some voices (in the media and in some form of political opposition), but none accountability. The "voice" variable is there, but it has to do more with a trend of political openness started as early 1991, less so with donor's effectiveness (but it contribute somehow). (21)</p>	<p>Good donor support to NA, elected commune councils etc. Impact moderate to date in terms of V&amp;A. (22)</p> <p>Only in the sense that elections, NGOs, etc. would I think be fully suppressed in the absence of donor pressure -- however, these mediums of voice and accountability are still relatively weak. (24)</p> <p>In fact it is understood that from various meetings and discussion, formal and information, increasing voice and promoting accountability are the two common subjects that many donors put in the agenda of their discussions related to government performance and dealing with corruption. This is</p>	<p>Many Cambodian NGOs have been able to operate as a result of support from the donor community. Many of these C-NGOs have encouraged civil liberties and political rights even if in very subtle ways. (42)</p> <p>Work on laws (Decentralization and Deconcentration), human rights (NGOs), working with Civil Society (41)</p>	

Dimension	None (1)	Poor (2)	Medium (3)	High (4)	Very High (5)
		While there are instances that the government may have attempted to improve accountability, the impact of the donor community in the undersigned view on voice and accountability is poor. (47)	especially true when they are concerned with miss financial management and flow of fund. In addition promoting civil liberties, political rights, and ensuring independence of the media are the challenges many donors try to push for reform of the government while little has been accomplished. (46)  I think the government would like to gut down more on civil liberalities, but is afraid of donors to some extent. (40)		
<b>2. Political Stability</b>	Which donor can support HS to be power than HS himself? (21)  The large amount of Aid available has in my opinion, allowed the government to maintain its power even though it is not always following its own laws and constitution. (42)	People in power are very insecure with the current situation. Because of this fear of looking power, they hang on to it without building institution and environment for long term security for all citizens. (6)  The government appears to be very stable controlling all aspects of the government system to the extent that it does not answer to any state	Pol stability is pretty impervious to donor influence: factional struggle within CPP & between CPP & Func/SRP determines stability. Insofar as CPP benefits from aid flows, donors indirectly strengthen it & therefore political stability. (22)  I think that the strong presence of the international donor community put the	Donor funds have helped prop up an increasingly autocratic, despotic state. (5)  Cambodia could not have extracted itself from its civil war without the help of donors, in particular the UNTAC and the governments which supported it. It should be remembered, however, that donors had previously fueled the civil war, and much of the credit for an end to the fighting lies with the	I think donors have been very successful in contributing to Cambodia's political stability -- in the sense that the international community has and continues to happily underwrite authoritarianism (which in the long run isn't terribly stable, but donors don't object to the incremental expressions, such as the murder of MPs, etc.). (24)

Dimension	None (1)	Poor (2)	Medium (3)	High (4)	Very High (5)
		<p>institution for any thing. It is an inevitable invitation to another popular uprising. (15)</p> <p>Donors are not supposed to interfere in internal part politics although (German) Technical Cooperation is becoming more “political” (41)</p> <p>Donors have little effect on this dimension. (40)</p>	<p>spotlight on Cambodia and keep a lid on potential outbreaks of violence. (43)</p> <p>this case is a little bit sensitive with regard to the political dead lock and failure to form a new government after almost one year from the national election. Some donors were waiting to see while putting conditions of giving aids only when there is new legitimate government. Other donor such as Japan did not voice this concern at all. However, if there were really pressures from all donors with a spirited partnership, and coordinated assistance to help and lead the process from the beginning then once could have assumed that the political dead lock would not have lasted for almost 12 months which created high public concerns and instabilities. (46)</p>	<p>actions of the Hun Sen government, and (then) Prince Sihanouk. Donors also contributed to a resolution of the 1997 crisis by pressuring the Hun Sen-controlled government to allow the return of Prince Ranariddh before the 1998 elections. (44)</p> <p>By dealing mainly with government of the day and funding significant portion of budget, donors reinforce status quo (19)</p> <p>Donor assistance to the election process has resulted in 3 relatively successful national elections and the commune election. Violence has decreased in each successive election and processes improved (38)</p>	<p>The donors have succeeded at making the current government ministers into some of the richest, most secure officials of any “democracy” in the world. The irresponsible donors have given them a contract-for-life and an allowance. Sometimes I almost sympathise with the corrupt officials -- the donors are such amazing fools and suckers that they DESERVE to be taken advantage of. (37)</p>
<b>3. Government</b>	Donor support has been	If it benefits the	In some ways NGOs	A lot of technical	

Dimension	None (1)	Poor (2)	Medium (3)	High (4)	Very High (5)
Effectiveness	<p>skillfully manipulated by the state to increase the power of the elite, with minimal professionalization of the civil service. The bureaucracy is an instrument of tyranny in Cambodia. (5)</p> <p>I don't think the RCG is any more effective or responsive than it was pre-donor. (24)</p>	<p>government officials then it gets done. If not, forget it. (37)</p> <p>Donors have contributed many projects that have addressed various problems. They have provided extensive training opportunities to government staff. However, the public service is still grossly underpaid, inefficient, and dominated by political patronage. In some ways, donor projects have stifled government initiative, placing foreign agencies largely in charge of the government's service provision responsibilities. (44)</p> <p>In fact ineffectiveness and irresponsiveness of government institutions related to public services delivery and its quality have been agenda for both government and donors to push for reform. This may related to nature view of government being monopoly. In Cambodia, public is aware of the</p>	<p>can't avoid working with the government. In some ways they should. -10</p> <p>Through the support of donors the public services are greatly improved, when the government has work to do it increases the capacity of civil servants who otherwise may have little work to do. There is little improvement in the political independence of civil servants as the money is controlled by one party and not necessarily the government. (42)</p> <p>Donors trying, but not succeeding to stimulate positive changes. (40)</p>	<p>capacity building, the impact is limited due to lack of admin reform and hierarchical system (41)</p>	

Dimension	None (1)	Poor (2)	Medium (3)	High (4)	Very High (5)
		<p>bureaucratic institutions and incompetence of public civil servants which give them very little hope and confidence on creditability of government political will and decision to effectively enforce its policies. “ if one has to say anything related to law enforcement in Cambodia one will most likely say there is no law in this country which explicitly means no law enforcement” (46)</p> <p>Although donors may have had some positive impact I consider the impact on government effectiveness in general as poor. Perhaps an exception is in the area decentralization where some significant progress is made relative to other state reforms. (47)</p>			
<b>4. Regulatory Quality</b>		<p>Minimal - most notably in forest exploitation; abuse of women, child labour etc, despite significant donor inputs. (22)</p> <p>Progress on paper only. (24)</p>	<p>Donors have assisted Cambodia's transition to a market economy, and provided technical assistance for creating a market-friendly regulatory environment. The business environment,</p>	<p>Cambodia's accession to the WTO has encouraged the govt. to formulate policy and laws of international standard. (38)</p> <p>The donor driven PSD [Private Sector</p>	

Dimension	None (1)	Poor (2)	Medium (3)	High (4)	Very High (5)
		<p>I don't know of any case where donors impose unfavorable market and/or trade conditions (41)</p> <p>Donors are, again, trying, but corruption and lack of long-term interest in Cambodia on the part of government make it hard. (40)</p>	<p>however, is greatly hindered by corruption-related red tape. It could be argued that some of Cambodia's inducements to foreign business (tax-free holidays, etc) are not in the public interest. Government agreements with private companies on agricultural concessions, forest concessions and land-for-construction projects lack transparency and often violate human rights. (44)</p>	<p>Development] agenda is probably the most high profile success in the development arena. (43)</p>	
<b>5. Rule of Law</b>	<p>Given the investment - almost no return. (4)</p> <p>The state, including the army and the privileged elite are responsible for most of the crimes, both violent (eg land-grabbing) and non-violent (eg corruption, resource exploitation). Donor support has enhanced the state's impunity. The absolute inability of donor support to affect positive change in the justice system is a case in point. (5)</p> <p>it has become a failure for</p>	<p>Little donor input to date because initial conditions and political will seen to be so adverse. Hence little impact. (22)</p> <p>still pretty bad, one has to ask what donors are really doing in this area...(43)</p>	<p>Quite a few efforts from donors, but limited impact? The issue is clearly identified as a priority concern, German TA quite actively involved (41)</p>	<p>USAID Cambodian Human rights program is the only thing like it and it IS making a difference. It pushes rights and laws forward by helping people, organizations, lawyers and communities through a legal clinic, high-impact legal cases, advocacy assistance, grant making, technical assistance and legal training. The have taken on the city of Phnom Penh in a case where they were going to bulldoze 100s of houses to widen a road – presumably at the</p>	

Dimension	None (1)	Poor (2)	Medium (3)	High (4)	Very High (5)
	<p>donors as the judicial system remains the same for the past 11 years. (6)</p> <p>Millions of dollars spent and still only the poor or opposition-aligned go to jail? (24)</p> <p>Only once a year does anyone above the rank of peasant get convicted of anything. I don't see any donor effectiveness in this field at all. Don't the donors ever get out of their SUV to talk to the common folk? Maybe if they read a newspaper every now and then ... (37)</p>			<p>request of a wealthy landowner or factory owner who needed it to improve his business. I don't have the details but I am sure you can get it and talk to them...</p> <p>Things like this would have been unthinkable a few years ago. USAID grantees have also had successes in land-grabbing cases where the indigenous people have actually won their land back from a general.</p> <p>The successes are through NGO advocacy assistance means success in influencing government policy and public opinion through legal and policy development, issue education campaigns and technical/training support. East West is also using a more focused approach in trying to have an impact by using High Impact litigation....High impact litigation means improved human rights through court cases that challenge or expand the law beyond the test case's participants to impact the rights of other</p>	

Dimension	None (1)	Poor (2)	Medium (3)	High (4)	Very High (5)
				<p>individuals and communities. The Human Rights in Cambodia Project will increase the capacity of legal and human rights professionals and provide legal services or grants to pursue important cases.</p> <p>USAID is also protecting the rights of workers by supporting labor unions. Workers in hotels, airports, casinos, and service companies have now built Cambodia's strongest and most democratic new unions in the last year with support from USAID and the Solidarity Center. These three thousand workers in one of Cambodia's most important economic sectors leapt past the long-established garment worker unions to begin bargaining about wages, hours, and working conditions last July. These new unions have bravely battled the Raffles and other major hotels to collect the service charge that is being illegally withheld from the workers – resulting in millions of dollars of wage loss. (48)</p>	



Dimension	None (1)	Poor (2)	Medium (3)	High (4)	Very High (5)
<b>6. Control of Corruption</b>	<p>I am a proponent of option “b” above. Donors have no real incentive to curb corruption, because they are not held accountable, nor are their activities very transparent. Donors are part of the problem of corruption in Cambodia. (5)</p> <p>Arguably the most disappointing, particularly when donors themselves don’t control corruption in their own practices. (24)</p> <p>The donors have complete control of the corruption, and they encourage it and support it at every opportunity. Their track record is almost perfect. (37)</p> <p>There does not appear to be any success in terms of corruption in Cambodia in spite of donor emphasis on reform, transparency, and accountability. (38)</p> <p>-10 (less than zero if possible!!!!!!) Please see USAID report. It sums everything up far more eloquently than I can write now. (48)</p>	<p>Minimal progress - a source of growing concern within the donor community - eg 200[4] CG Meeting (22)</p> <p>Money given with out requiring public audits and reports are extremely damaging to those trying to control corruption. In some cases the government has been required to repay funds unaccounted for but little is done by the government to prosecute those who benefited from the deal. (42)</p> <p>Despite there are well documented and blatant corruption practices and complaints, angers and disappointment from public and international communities including donors, there has been no action or official punishment taken against any government officials related to corruption or briberies. Some even said and unconsciously accept it as normal way of life and doing business with government now.</p>		<p>It is still a big problem but would probably be even worse if donors were not vigilant and articulate about it. (43)</p>	

Dimension	None (1)	Poor (2)	Medium (3)	High (4)	Very High (5)
		<p>(46)</p> <p>Recently, the corruption topic has become quite dominant on the agenda and public media, probably partly (or largely) due to donor pressure! I feel much more could be done from the donor side. There is also issue of donor differentiation between grants and loans on this. (41)</p> <p>I do not think the donor community has had any significant influence over controlling corruption in Cambodia. If at all donors through their projects are even victims of the pervasive corruption in the country – e.g. diversion World Food Program aid in collusion with some government official; over-pricing of equipment under the WB funded Demobilization Project, to name a few. While there are attempts to address corruption through various governance reforms and systems improvement, e.g. various elements of</p>			

Dimension	None (1)	Poor (2)	Medium (3)	High (4)	Very High (5)
		<p>the Public Financial Management system, the road to controlling corruption is a long and a difficult one. There are observations through audit findings of projects that indeed corruption has in fact worsened over the years. We need see through the financial audits of our project and feedback from the field.</p> <p>I think that unless the donor community is not able to face up and back up its words with actions for example by reducing aid corruption will continue. Donor assistance should be linked to clear and measurable performance and results that the government commit to. The practice by some donors of lending governments to enable them to implement reforms that they have committed to implement creates disincentive and weaken political commitment. It sends the wrong signal to the government and weakens the credibility</p>			

Dimension	None (1)	Poor (2)	Medium (3)	High (4)	Very High (5)
		<p>of the donors that the donors will take appropriate action. The donor community should stop adopting the so-called pragmatic approach of continuing its lending and assistance in the face on government's unwillingness and lack of commitment to reforms. Aid flows should be tied to positive and measurable progress. Government's accountability to their citizens can be enhanced if they are not propped up by donors aid. (Notice how many countries under various and continuous donor support have been able to successfully develop. Very few. Most of the few who have made the transition are those countries which have done it with little support from the donor community but following a more enlightened policy- the most notably example is Malaysia!) Governments should be made to face up to their responsibility even</p>			

Dimension	None (1)	Poor (2)	Medium (3)	High (4)	Very High (5)
		if that means some difficult and serious adjustments. Aid cutback will hurt the poor. But in Cambodia there is probably very little pain that can be further inflicted on the poor since donor resources end up mostly on pockets of government officials and their network of contractors, suppliers and in the pockets of consulting firms and advisers. (47)			

Notes: \* Comments were chosen because they referred specifically to donors as opposed to authorities' success across various dimensions of governance. Comments are reproduced verbatim except for spelling errors and errata which have been corrected.

*Source:* Results of author's survey.

Table 2: Respondents' Codes for Elite Survey

CODE	YEARS	CATEGORY	TYPE	EMPLOYER
1	11	C	M, A	LNGO
2	10	FX	A	Donor
3	5	C	Econ & Management Analysis	Donor
4	4	FX	M, A	Donor & INGO
5	6	FX	M, A, Teacher, researcher	Donor & LNGO
6	12	CX	M	LNGO
7	7	CX	M	ING & National Institution
8	3	CX	A	Donor
9	9	C	M	Donor
10	5	FX	M, A	INGO & LNGO
11	7	FX	M, A	RGC
12	15	C	A	Donor, LNGO, & RGC
13	12	FX	A	Parliament
14	12	FX	M, A (different periods)	INGO & LNGO (different periods)
15	10	CX	M	Declined to state
16	6	C	Political Appointee	RGC
17	8	C	M	RGC
18	5	FX	M, A	Donor
19	6	FX	Donor Official	Donor
20	8	FX	A	INGO
21	7	C	Professional Staff	Donor
22	3	FX	A	Donor & RGC
23	3	FX	A	Donor
24	10	FX	M, A, Research, Advocacy	Donor, LNGO, & INGO (for several different employers)
25	5	FX	M, A	Donor
26	10	C	Development Consultant	Donor, INGO, & RGC
27	Invalid			
28	13	C	M, A	Donor, INGO, LNGO, & RGC

CODE	YEARS	CATEGORY	TYPE	EMPLOYER
29	Invalid			
30	Invalid			
31	10	C	“scientist” mostly research	RGC, University
32	7	FX	M, A	Donor, Multi (5 yrs) plus inter-Gov (2 yrs)
33	3+	FX	A [Response came after end of survey]	International Organization
34	Invalid			
35	14	FX	changed over time: Head of agency, Excom, advisor	INGO & LNGO (worked in different settings)
36	8	FX	Advisor, teaching	Donor & INGO
37	11	FX	M	INGO
38	6	FX	A	Donor
39	4	C	Programme Assistant	INGO
40	14	FX	A	INGO
41	5	FX	A	Donor
42	7	FX	M, A	INGO
43	3.5	FX	M, A	Donor
44	12	FX	M (7 yrs) O (5 yrs)	Membership organization for local and international NGOs
45	9	C	Specialist	Donor
46	4	C	M	Donor
47	4	FX	A	Donor
48	3.3	FX	M	Donor

Notes: FX is Foreign Expatriate; C is Cambodian Only; CX is Cambodian Expatriate; M is Management; A is Advisor; INGO is International NGO; and LNGO is Local NGO.

Source: Results of author’s survey.

## Appendix B: Informants' Codes for Chapter 4

Code	Descriptor	Location	Date
1	Private sector manager	Phnom Penh	15 July 2004
2	Local independent consultant	Phnom Penh	16 July 2004
3	Local independent consultant	Phnom Penh	19 July 2004
4	Private sector manager	Sihanoukville & Sre Ambil, Koh Kong	27 July 2004
5	Livestock official	Phnom Penh	30 July 2004
6	Bilateral donor official	Phnom Penh	2 August 2004
7	Livestock professional	Phnom Penh	2 August 2004
8	Former senior government official	Phnom Penh	3 August 2004
9	Livestock official	Phnom Penh	3 August 2004
10	Multilateral donor official	Phnom Penh	4 August 2004
11	Livestock educator	Kampong Cham	4 August 2004
12	Multilateral donor official	Phnom Penh	6 August 2004
13	Multilateral Donor official	Phnom Penh	9 August 2004
14	Livestock official	Phnom Penh	11 August 2004
15	Livestock educator	Kandal	14 August 2004
16	Local independent consultant	Phnom Penh	16 August 2004
17	FAO official	Phnom Penh International Airport	19 August 2004
18	Development professional	Phnom Penh	20 August 2004
19	Donor project team leader	Phnom Penh	20 August 2004
20	Member of School Committee	Kampong Chhnang	24 August 2004
21	Livestock professional	Phnom Penh	26 August 2004
22	Government official	Phnom Penh	30 August 2004
23	FAO professional	Phnom Penh	31 August 2004
24	MFI head of public relations	Phnom Penh	31 August 2004
25	Multilateral donor official	Phnom Penh	2 September 2004



Code	Descriptor	Location	Date
26	Bilateral donor official	Phnom Penh	4 September 2004
27	Multilateral donor official	Phnom Penh	6 September 2004
28	Livestock NGO official	Phnom Penh	7 September 2004
29	Private sector entrepreneur	Kampong Speu Province	7 September 2004
30	MFI Credit Department Manager	Phnom Penh	16 September 2004
31	FAO official	Denmark	5 November 2004
32	OIE official	Japan	12 November 2004
33	Livestock NGO head	Phnom Penh	23 November 2004
34	Villagers and Commune Chief	Takeo Province	3 December 2004
35	Livestock professional	Phnom Penh	7 December 2004
36	Livestock professional	Phnom Penh	11 December 2004
37	Village Animal Health Worker	Takeo Province	21 December 2004
38	Livestock professional	Phnom Penh	28 December 2004
39	Private sector official	Phnom Penh	10 January 2005
40	Senior government official	Phnom Penh	3 February 2005
41	FAO official	Phnom Penh	4 February 2005
42	Multilateral donor official	Phnom Penh	7 February 2005
43	Livestock project team leader	Phnom Penh	11 February 2005
44	MAFF official	Phnom Penh	14 February 2005
45	Government Advisor	Phnom Penh	15 February 2005
46	Livestock professional	Phnom Penh	15 February 2005
47	Livestock official	Phnom Penh	16 February 2005
48	Senior Government official	Phnom Penh	17 February 2005
49	Bilateral donor official	Phnom Penh	17 February 2005
50	Extension official	Phnom Penh	17 February 2005
51	Livestock professional	Kandal Province	18 February 2005
52	Livestock professional	Phnom Penh	18 February 2005
53	Senior government official	Phnom Penh	21 February 2005
54	Senior government official	Phnom Penh	21 February 2005
55	NGO Director and NGO professional	Phnom Penh	21 February 2005
56	Livestock education	Chamcar Daung	22 February 2005

Code	Descriptor	Location	Date
	professional	(outskirts of Phnom Penh)	
57	Multilateral donor official	Phnom Penh	22 February 2005
58	Bilateral donor official	Phnom Penh	26 April 2005
59	Multilateral donor official	Phnom Penh	1 May 2005
60	Livestock professional	Phnom Penh	16 May 2005

Note: Senior government official indicates political appointee.

Source: Author's interview notes.

## Addendum

### The Slow Pace of Poverty Reduction in 1993-2004 Revisited

Subsequent to the completion of this dissertation in early October 2005, World Bank (2006b) announced a significant 12 percentage point decrease in poverty over the last decade based on household consumption data collected in 2004. The Bank recalculated the national poverty rate in 1993/94<sup>1</sup> from 39% (Prescott and Pradhan, 1997 and World Bank, 1999) to 47% using backward projection. Thus, instead of announcing that poverty had decreased very modestly from 39% to 35% in 1993-2004, the Bank announced that poverty had decreased from 47% to 35%.

In 1993/94, only 56% of Cambodian villages and only 65% of rural areas were accessible. The backward projection assumes that the remainder of the country, largely controlled by the Khmer Rouge (known officially as the Democratic Party of Kampuchea or DPK), was much poorer than its non-DPK counterpart.<sup>2</sup>

However, contrary to the Bank's assumption that the DPK areas were poorer than the non-DPK areas, it is generally known that the DPK areas were thinly-populated and had significant natural resources, including abundant fish, forests, and gem mines (especially in Pailin). The close proximity of some DPK areas to Thailand also enabled unofficial trade. According to notes taken during UNTAC senior staff meetings on 27-28 April 1992, UNTAC's impression of DPK zones was that they were "prosperous".<sup>3</sup>

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<sup>1</sup> Although the shorthand 1993, it properly covers 1993/94 and should be interpreted as such.

<sup>2</sup> To compare apples to apples, the Bank took the accessible part of the country in 1993, ascribing to it the original 39% national poverty rate, and derived a 28% poverty rate for the same area in 2004.

<sup>3</sup> As quoted in Heder (2006). The notes were taken by Tim Carney a senior staff member and Director of the Information/Education Division of UNTAC.

Moreover, sensitivity analysis reveals the lack of robustness in the World Bank (2006b) findings. If the 2004 national poverty line (1,826 Riels or \$0.45 per person per day) is increased by only 10%, or 183 Riels (\$0.045), the national poverty rate jumps to 41.6% from 35%. This 6.1 percentage point difference represents a 17.4% increase in poverty. Caution should thus be exercised in interpreting the gains made in reducing poverty in 1993-2004. While this dissertation has used the World Bank's April 2005 *East Asia Update* referred to in Box 1 and superseded since then, it was the best available data at the time of writing.

#### **Box 1: The World Bank Revisits Its Forward Poverty Projections**

**Q10: Why did the World Bank revise down its estimate of dollar-a-day poverty for Cambodia in 2004 from 42 percent in April to 18.5 percent in October?**

In April 2005 the Bank included an estimate of 42 percent dollar-a-day poverty in Cambodia for 2004 in a publication called the *East Asia Update*. In October 2005, in the *East Asia Update*, the Bank revised this 2004 dollar-a-day estimate significantly down, to 19 percent. Although dramatic, this revision is simply an attempt to improve the accuracy of the dollar-a-day estimates on the basis of new and better information. The critical factor that underpins the revision is that in April 2004 we were still working on projections of Cambodian household consumption based on the last available year (1997) in which there was a household survey. By October we had new data on actual household consumption from the 2004 CSES (entering, checking, and analyzing the survey data took time, so the information was only available in June). The October estimates were based on this actual (surveyed) consumption data; the previous estimate was based on a forward projection of the 1997 data.

*Source:* World Bank (2006a).

More worrisome, inequality was found to have increased significantly. In non-DPK parts of Cambodia that were surveyed in 1993/94, the Gini coefficient for real per capita consumption was 0.35. This increased to 0.40 in 2004. The Gini coefficient for all of Cambodia was 0.42 in 2004, making the country one of the most unequal in the region. The Bank noted that this was "somewhat unusual in that most countries in Southeast and East Asia saw levels of inequality start widen

only at later stages of development, when levels of average income and consumption were higher (and poverty headcounts lower).”<sup>4</sup>

Finally, in what could be a turning point for a decade-long trend, infant and under-5 child mortality may have finally started to decrease (instead of increasing every few years since 1990) according to preliminary estimates. Unfortunately, however, as of 7 April 2006, no changes have yet been reflected in the World Bank’s (2006c) *World Development Indicators*.

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<sup>4</sup> World Bank (2006a: vi).