INTERNATIONAL MONETARY FUND

Staff Country Reports

October 2004
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Cambodia: 2004 Article IV Consultation—Staff Report; Public Information Notice and Press Release on the Executive Board Discussion; and Statement by the Executive Director for Cambodia

Under Article IV of the IMF's Articles of Agreement, the IMF holds bilateral discussions with members, usually every year. In the context of the 2004 Article IV consultation with Cambodia, the following documents have been released and are included in this package:

- the staff report for the 2004 Article IV consultation, prepared by a staff team of the IMF, following discussions that ended on **July 15, 2004,** with the officials of Cambodia on economic developments and policies. **Based on information available at the time of these discussions, the staff report was completed on August 11, 2004.** The views expressed in the staff report are those of the staff team and do not necessarily reflect the views of the Executive Board of the IMF.

- a Public Information Notice (PIN) and Press Release summarizing the **views of the Executive Board as expressed during its September 13, 2004 discussion** of the staff report that concluded the Article IV consultation.

- a statement by the Executive Director for Cambodia.

The documents listed below have been or will be separately released.

Joint Staff Assessment of the Poverty Reduction Strategy Paper Progress Report
Poverty Reduction Strategy Paper Progress Report
Selected Issues Paper
Statistical Appendix
Ex Post Assessment of Longer-Term Program Engagement

The policy of publication of staff reports and other documents allows for the deletion of market-sensitive information.

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INTERNATIONAL MONETARY FUND

CAMBODIA

Staff Report for the 2004 Article IV Consultation

Prepared by the Asia and Pacific Department
(In collaboration with other Departments)

Approved by David T. Coe and Donal Donovan

August 11, 2004

- The 2004 Article IV Consultation discussions were held in Phnom Penh during April 28-May 11 and July 13-15. The team consisted of Messrs. Lee (Head, APD) and Nakamura (PDR), and Mmes. Abdelati, Muñoz (both APD), Kojo (FAD), and Rendak (LEG). The mission was assisted by Mr. Hagemann (resident representative). Mr. Alowi (OED) attended the policy meetings. Mr. Valdivieso (APD), who led the work on the Ex-Post Assessment (EPA), discussed the EPA report with the authorities during the July 13-15 visit.
- The 2002 Article IV Consultation was completed on February 20, 2003, along with the sixth and final review of a three-year PRGF arrangement.
- Discussions on a new PRGF arrangement have been delayed by the political stalemate in the wake of the July 2003 national elections. Staff visited Phnom Penh in May and September 2003, and March 2004 to maintain the policy dialogue. Formal discussions on an arrangement could take place later this year.
- A power-sharing agreement, which was reached after eleven months of deadlock between the main political parties, paved the way to formation of a new government in mid-July. There were no changes to the economic team, nor are changes expected in economic policy. However, the number of political appointees in the government has doubled, which could compromise the functioning of the government.
- Cambodia accepted the obligations of Article VIII, Sections 2, 3, and 4 in January 2002, and has maintained an exchange system that is free of restrictions on the making of payments and transfers for current international transactions.
- Despite significant shortcomings in some areas, core data are generally adequate for surveillance purposes and are provided on a timely basis.
- The authorities intend to publish the staff report, the selected issues paper, and the Ex-Post Assessment report.
- This report was prepared by a team led by Mr. I. Lee.

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EXECUTIVE SUMMARY

- **Macroeconomic performance in the past few years was generally good, reflecting both favorable external developments and prudent fiscal policy.** Exports soared following a bilateral trade agreement with the U.S., and large aid inflows helped finance domestic investment and spurred construction activities. Prudent fiscal policy has been key to ensuring price stability.

- **These favorable developments, however, have masked underlying structural weaknesses.** Competitiveness has deteriorated on account of poor governance—in part due to lack of progress in legal and judicial reform—which exacerbated uncertainty in the business environment, while rudimentary infrastructure and high wages have kept operating costs high. Slow growth in agriculture, where most of the poor make their living, has pushed Cambodia further from meeting the MDGs.

- **Non-agricultural growth slowed to 3.2 percent in 2003 due to the SARS-related drop in tourism and election-related uncertainties.** Overall GDP growth, however, was robust mainly because of a strong rebound in agricultural production. Prices remained stable reflecting low trading partner inflation and prudent fiscal policy, although some of the earlier gains in fiscal revenue collection were lost in the election year. The pace of reforms stalled in the run-up and aftermath of the July 2003 elections. The 2004 budget law, along with a range of legislation needed to complete WTO accession, still awaits parliament approval.

- **Growth is expected to slow in 2004-05.** While tourism is rebounding, agricultural growth is expected to be lower than the exceptionally high growth of the previous year. A further slowdown, possibly to below 2 percent GDP growth, is expected as Cambodia's garment industry will be exposed to direct competition from China following the elimination of the quota system in January 2005.

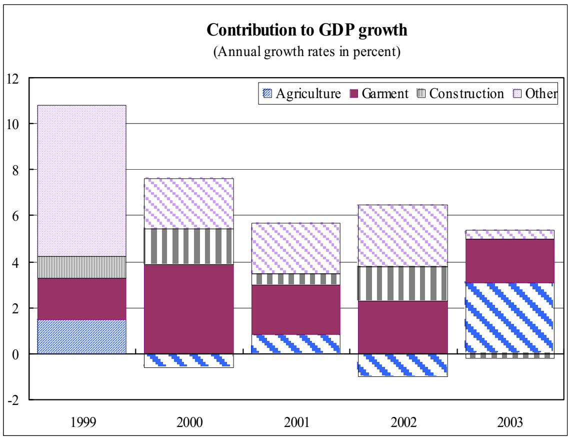
- **A refocus of economic policies is needed to achieve the NPRS targets.** In the medium term, improving competitiveness will require a more forceful approach to addressing the impediments to private sector activities, particularly the regulatory environment and governance problems. In the long run, agricultural reforms through improved use of land and a redirection of foreign aid toward promoting agricultural growth will be essential to reduce poverty and generate employment to absorb the growing labor force.

- **Without stronger political resolve, medium-term economic growth is unlikely to be sufficiently strong to reduce poverty.** Additional revenue mobilization is necessary to meet social spending needs and maintain fiscal sustainability. Effective use of revenue and aid resources and improved service delivery hinge on hitherto resisted comprehensive civil service reforms. Legal and judicial reform, which has been on the government's reform agenda for years, are critical to institute a transparent and accountable economic system.

I. BACKGROUND

1. **Economic growth in the 1990s was robust, albeit from an exceptionally low base given the damage from the 20-year civil war.** UN-sponsored elections in 1993 yielded a coalition government but internal tensions persisted, undermining the rebuilding process. Elections in 1998 produced a more durable coalition government that oversaw a period of generally positive economic performance. More recently, tensions between the former coalition partners in the wake of the July 2003 elections delayed the formation of a new government with sufficient parliamentary support until mid-July 2004.[1] Economic reforms largely came to a halt during the eleven-month stalemate.

2. **Large aid inflows and the boom in the garment and tourism sectors have helped Cambodia develop a formal sector around the main urban areas.** The rural areas, however, where most of the poor live as subsistence farmers with highly volatile incomes, were left behind. The average household expenditure in the rural area has declined from 33 percent of that in Phnom Penh in 1993/94 to 28 percent in 1999, and is estimated to have declined further to about 25 percent in 2002. Moreover, the minimum wage, which is high relative to average wages and increasingly being applied to all industries in the formal sector, reduced employment opportunities for the growing labor force.



3. **Accordingly, only limited progress has been made in alleviating poverty since the beginning of reconstruction efforts.** Cambodia remains one of the poorest countries in the region with 36 percent of the population in poverty as of 1999. Moreover, Cambodia is seriously off-track from the MDGs in several aspects (Box 1).

4. **Cambodia's development program was supported by a three-year PRGF arrangement for SDR 58.5 million (67 percent of quota), approved on October 22, 1999.** The sixth and final review was completed in February 2003, after which a disbursement of SDR 8.4 million raised total Fund credit and loans outstanding to Cambodia to SDR 70 million (80 percent of quota). The National Poverty Reduction Strategy Paper (NPRS), together with a Fund-Bank joint staff assessment, was also endorsed by the Fund

[1] Hun Sen's party solidified its seats in the July 2003 national elections but not by enough to rule. A power-sharing agreement with one of the main opposition parties in June 2004 paved the way to the formation of a new coalition government in mid-July 2004.

Box 1. Poverty in Cambodia

Cambodia is one of the poorest countries in the world, with a per capita gross national income less than half of the East Asia and Pacific average. Based on the World Bank Atlas Method, Cambodia's per capita gross national income is US$300, the lowest in the East Asia region with the exception of Myanmar. It has some of the worst human development indicators in the world, ranking 130th out of 173 countries, with a national poverty level of 36 percent. The population is deprived of basic physical and institutional infrastructure as a result of decades of political and social instability until the early 1990s.

Despite steady growth during the last decade, poverty and inequality have remained stubbornly high. Thirty-six percent of the population had incomes below the poverty line of $0.40-0.63 per day in 1999, only marginally below the 39 percent in 1994.[1] In addition, the GINI index of 40 percent implies a high level of inequality. The 20 percent of households with the lowest (per capita) income only receive 7.5 percent of the total income, while the highest quintile receives 46 percent of total income.

Poverty Indicators

Poverty Headcount Ratio		
Cambodia	**36**	(1999)
Lao PDR	39	(1998)
Malaysia	16	(1989)
Thailand	13	(1992)
Vietnam	29	(2002)
GNI Per Capita, Atlas Method (US$)		
Cambodia	**300**	(2002)
Lao PDR	310	(2002)
Malaysia	3,540	(2002)
Thailand	2,000	(2002)
Vietnam	430	(2002)

Source: *World Development Indicators* , 2004.

Cambodia is off-track in pursuing the Millennium Development Goals:

- *Food security is lagging.* At 36 percent, the proportion of people suffering from hunger is far from the 2015 target of 19.5 percent. Poverty is worse in rural areas. The high proportion of under-weight children under age 5 persists owing to inadequate food intake, lack of health care, and poor sanitation.
- *Child mortality has increased over the past ten years,* particularly post-neonatal mortality. The main causes have been diarrheal diseases, acute respiratory infections, and vaccine-preventable diseases, particularly measles where the coverage rate of immunization is only 59 percent, well-below the 2015 target of 90 percent. Despite progress, the *maternal mortality rate remains extremely high* at around 437 per 100,000 live births.

Rural Social Conditions, 2001

Forest area (% of land area, 2000)	52.9
Arable land (% of land area)	21.0
Irrigated land (% of cropland)	7.1
Permanent cropland (% of land area)	0.6
Rural population (% of total population)	82.6
Poverty headcount (1999)	
Rural	39.2
Urban	17.7
Access to sanitation facilities (% of population)	
Rural	10.0
Urban	56.0
Access to safe driking water (% of population)	
Rural	26.0
Urban	54.0

Source: *World Development Indicators*, 2004.

- *Cambodia could achieve primary education for all by 2015, but is unlikely to reach its secondary education and gender equality targets.* At 20.3 percent in 2001, the youth illiteracy rate was much higher than the 3 percent average in East Asia and the Pacific.

Health and sanitary conditions are very poor: only 30 percent of the population has access to safe drinking water and only 17 percent has access to sanitation facilities. The conditions are especially poor in rural areas where only 10 percent has access to sanitation. More resources are needed to improve basic household amenities, especially in remote areas. Given the rural concentration of the poor, meaningful poverty reduction will require more broad-based growth based on agriculture diversification and higher agricultural productivity.

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[1] Using the poverty line of US$1 per day (based on purchasing power parity exchange rates), the poverty headcount ratio for 1999 was 41.5.

Box 1 (continued). Cambodia: Selected Poverty Indicators

	1985-89	1990-94	1995-01	Latest data	2015 MDG Target
Goal 1 - Eradicate extreme poverty and hunger					
Poverty Headcount[1]	...	39.0	36.0	35.9 (1999)	19.5
Undernourished people (as % of total population)	...	41.0	36.0	36.0 (2000)	20.5
Under-weight children under 5	...	52.4	50.3	45.0 (2001)	26.2
Share of poorest 20 percent in national income	...	7.3	7.2	7.5 (1999)	11
Goal 2 - Achieve universal primary education					
Net school enrollment rate, primary	...	...	93.0	95.4 (2000)	100
Net school enrollment rate, secondary	...	...	17.4	16.7 (2000)	100
Youth illiteracy rate (% of people ages 15-24)	28.5	25.6	22.3	20.3 (2001)	0
Goal 3 - Promote gender equality and empower women					
Ratio of girls to boys in primary education (%)	...	...	90	90 (2001)	100 [2]
Ratio of girls to boys in secondary education (%)	...	...	60	60 (2001)	100 [2]
Ratio of girls to boys in tertiary education (%)	...	...	40	40 (2001)	100
Goal 4 - Reduce child mortality					
Under 5 mortality rate (per 1,000 live births)	152.5	115.0	131.0	138.0 (2002)	38.3
Immunization, measles (% of children under 12 months)	41.2	38.4	57.0	52.0 (2002)	90
Goal 5 - Improve maternal health					
Maternal mortality ratio (per 100,000 live births)	...	900.0	513.5	437.0 (2000)	250
Births attended by skilled health staff (% of total)	...	34.0	34.4	31.8 (2000)	80
Contraceptive prevalence (% of women ages 15-49)	...	...	19.6	23.8 (2000)	100
Goal 6 - Combat HIV/AIDS, malaria, and other diseases					
HIV prevalence ratio among adults (15-49 years) (%)	...	1.0	3.3	2.8 (2000)	1.8
Goal 7 - Ensure environmental sustainability					
Access to sanitation facilities (% of population)	...	...	17.0	17.0 (2000)	
Access to safe drinking water (% of population)	...	...	30.0	30.0 (2000)	
Goal 8 - Develop a global partnership for development					
Fixed line and mobile telephones (per 1,000 people)	0.3	0.8	8.5	30.1 (2002)	
Personal computers (per 1,000 people)	...	...	1.0	2.0 (2002)	
Memorandum Items:					
GDP per capita (U.S. dollars)	237.6	256.5	287.6	296.3 (2002)	
GDP growth	7.7	5.8	6.4	5.5 (2002)	
Population growth	3.2	3.1	2.2	2.6 (2002)	
Aid (% of GDP)	...	13.2	13.3	14.1 (2002)	
Investment (% of GDP)	...	11.5	16.0	22.2 (2002)	
GINI index [3]	...	...	40.4	40.4 (1997)	

Source: *World Development Indicators*, 2003; *Human Development Report*, 2004; *United Nations Development Goals (Cambodia 2001)*; and IMF staff estimates.

[1] The poverty headcount ratio is the proportion of population below the poverty line.

[2] Preferably by 2005.

[3] A value of the GINI index of 100 denotes perfect distribution or equality.

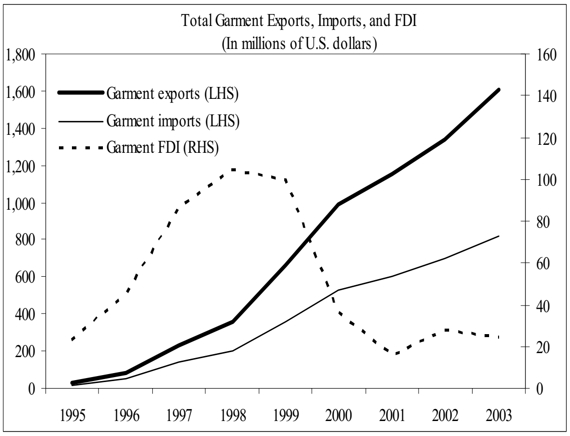
and Bank Boards in February 2003. The National Bank of Cambodia (NBC) prepares its audited financial statements in accordance with International Financial Reporting Standards, as required under the Fund's safeguards policy. An IMF safeguards assessment mission in January 2004 found that progress has been made and proposed measures to strengthen the remaining weaknesses of NBC's control framework.

5. **During the 2002 Article IV Consultation, Directors welcomed progress under the PRGF.** However, they noted the widespread poverty, narrow production base, low revenue to GDP, and pervasive governance concerns. They underscored the need to strengthen government capacity and promote broad-based economic growth through investment and a vibrant private sector. The accompanying Ex-post Assessment report provides a detailed account of the Fund's contribution to Cambodia's recent economic growth.

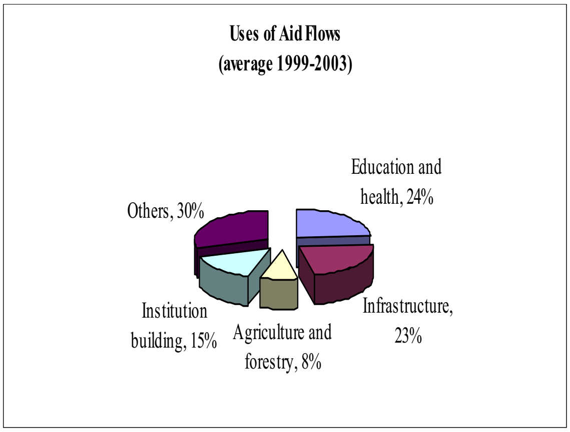
II. Recent Economic Developments and Prospects for 2004

6. **Macroeconomic performance in the past few years was generally good.** With the advent of political stability in 1999, private sector activities, reportedly also in the informal sector, flourished in urban areas. Annual real GDP growth averaged 6-7 percent, reflecting both favorable external developments and prudent macroeconomic policies (Table 1). In particular:

- **Exports soared following a bilateral trade agreement with the United States** that effectively reduced the average U.S. tariff rate for garments produced in Cambodia from 50-70 percent to 10-20 percent. The 1996 trade agreement attracted a large number of foreign investors, which contributed to a sharp increase in garment exports to the U.S. from nearly zero in 1995 to $500 million in 1999 and to more than $1 billion in 2003, which is about 70 percent of total garment exports (Table 2). The benefit to the domestic economy, however, was limited as almost all non-labor inputs were imported.

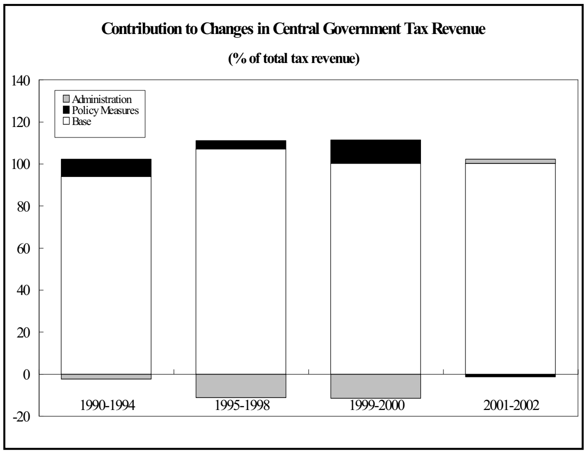


- **Large aid inflows, which averaged 12 percent of GDP, helped finance domestic investment and fueled construction activities.** About half of the inflows were grants in the form of donor-financed projects and technical assistance, all of which were outside the budget. Aid inflows were used to improve health and education, rebuild physical infrastructure, and strengthen economic and social institutions.



- **Prudent fiscal policy has been key to ensuring price stability in Cambodia's highly dollarized economy.** As much as 95 percent of total liquidity, including estimated U.S. dollars in circulation, is in dollars. With few monetary policy instruments, the task of ensuring that aggregate demand does not become a source of inflation necessarily falls to fiscal policy. This task has been made easier in recent years because of low inflation in U.S. dollar terms in trading partners.

7. **Fiscal revenue improved from 8.1 percent of GDP in 1998 to 11.2 percent in 2002 owing in part to strengthened tax and customs administration.** The latter was supported by an extensive technical assistance program under the Technical Cooperation Action Plan (TCAP). Nevertheless, total revenue remains low—about 11 percent of GDP compared with an average of 16 percent of GDP in neighboring low-income countries—severely constraining priority spending. For example, civil service wages remain well below private sector wages, and roads and other public facilities are poorly maintained. Although recourse to domestic bank financing of the fiscal deficit was largely averted, arrears to domestic suppliers have accumulated.



8. **More recently, nonagricultural growth slowed to 3.2 percent in 2003 due to the SARS-related drop in tourism and election-related uncertainties.** However, overall GDP still grew by 5.2 percent, mainly because a lower Mekong river level—due to lower rain fall—exposed a larger area of arable land that allowed a strong rebound in agricultural production. Revenue collection was disappointing, partly reflecting low nonagricultural growth, but more

importantly due to greater tax evasion and smuggling by importers.[2] Election-related spending during the year helped to boost consumption, which, however, required a sharp curtailment of non-priority expenditure toward the end of the year, especially given the poor revenue collection. The external current account deficit (excluding official transfers) widened by 1¼ percent to 10¼ percent of GDP due to buoyant merchandise imports, lower tourism receipts, and higher petroleum prices. The vulnerability of the deposit base of the banking system was apparent during the July elections when foreign currency deposits declined by 20 percent in a matter of 1-2 weeks. They recovered, however, later in the year (Table 3).

9. **Only modest progress on structural reforms has been made since 1999.** Basic institutions were set up and various laws ranging from commercial contracts to accounting were adopted. A Financial Institutions Law was passed that provided the legal basis for successful bank re-licensing. However, progress has been particularly slow in civil service and judicial reform due to political resistance. The pace of structural reforms slowed across all sectors in the run-up to, and aftermath of, the July 2003 election. The 2004 budget and a range of legislation needed to complete WTO accession still await approval by the National Assembly.

10. **More importantly, the reconstruction efforts have not yet been able to establish a strong foundation for sustainable growth, even in urban areas.** In particular, structural weaknesses, complicated by deeply rooted governance problems, remain in the following three inter-related areas:

- **An underlying deterioration of competitiveness has been masked by favorable external developments.** Poor public administration and weak governance—partly due to slow progress in legal and judicial reform—have exacerbated uncertainty in the business environment and allowed the rich to set their own rules. In addition, embryonic and poorly maintained infrastructure and high wages have kept operating costs high (Box 2).[3]

- **Agricultural development has stagnated due to limited access to arable land and markets (Box 3).** Slow growth in agriculture has pushed Cambodia further away from meeting the MDGs and reduced its capacity to absorb the growing number of entrants to the labor market over the medium term.

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[2] Tax collection by the customs department declined from an average 15 percent of retained non-garment imports in 2001-02 to below 13 percent in 2003 (notwithstanding the modest decline in the unweighted average tariff, which is estimated to have negligible revenue implications).

[3] See Chapter 2, "Implications of Removal of Quotas in 2005," in the accompanying Selected Issues paper, which shows Cambodia to be one of the most vulnerable countries among Asian low-income countries to the garment quota elimination.

Box 2. Competitiveness

Cambodia's garment exports have risen rapidly since the late 1990s, mainly reflecting two factors. The first is the 1996 bilateral trade agreement with the United States that substantially reduced the effective tariff rate on garments produced in Cambodia. The second factor is the large economic rent for Cambodian exporters to the U.S. market reflecting the U.S. quotas imposed on Chinese garment exporters. The underlying weaknesses of Cambodia's competitiveness can be gleaned from two key observations.

Main Categories of Garment Exports to the U.S. Subject to U.S. Quota, 2003

	Total Garment Exports to the U.S.	Exports Subject to Quota	Cotton Trousers	Cotton Knit Shirt	M-MF Knit Shirts	Non-Knit Shirts	Coats
Exports to the U.S. by category							
Quota utilization ratio, in percent		63	93	81	50	65	79
Exports, in million US$	1,123	711	386	182	39	40	29

Sources: Ministry of Commerce of Cambodia and U.S. Department of Commerce, Office of Textiles and Apparel.

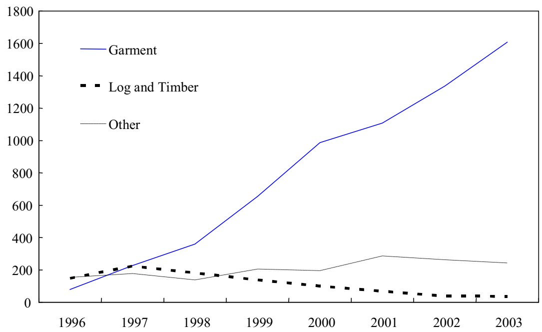
- **Cambodia is unable to fully utilize its allocated quota.** Most of Cambodia's garment exports are in categories that are subject to U.S. quotas on imports from China. However, Cambodia's garment exports are below their quota in the U.S. market, and almost negligible in non-U.S. markets such as in Japan, while Chinese products dominate the market in the same categories.

- **Non-garment exports have remained flat in U.S. dollar terms.** The business community estimates that a 15–30 percent cost reduction is required for Cambodia to remain competitive relative to China. Recent proposals to move garment manufacturers to export processing zones will have limited impact since Cambodia already provides extensive tax incentives.

There are many reasons for Cambodia's weak competitiveness.

Competitiveness is impeded by poor infrastructure, corruption, and red tape. According to the World Bank's recent Investment Climate Survey and Value Chain Analysis, the average cost of starting a business is estimated to be as high as 553 percent of per capita income, compared with 30 percent in Vietnam and 7 percent in Thailand. The "bribe tax" is estimated at 5¼ percent of sales in manufacturing, more than double the rate in Bangladesh, Pakistan, and China. Moreover, it takes an average of 18 days to obtain export customs clearance in Cambodia, compared with 11 days in India and 7 in China.

Cambodia: Exports by Category of Goods
(In millions of U.S. dollars)



High labor cost has been another factor. At a minimum wage of $45 a month and an average of $61 a month in the garment sector, Cambodia's wages are higher than in several neighboring countries, including Vietnam, India, and Sri Lanka. Moreover, foreign investors are subject to a 100 percent wage premium for night shifts, are restricted from operating on weekends or any of the 22 national holidays to meet temporary demand surges, and face frequent labor strikes.

Box 3. Impediments to Agricultural Growth

About 80 percent of the poor depend on agriculture for their livelihood. Agriculture contributes 40 percent to GDP and accounts for 70 percent of employment. During 1994-2003, the sector grew at an annual average of less than 4 percent, contributing very little to employment growth. The average rice yield, estimated at 2.1 tons per hectare in 2001, is the lowest in Southeast Asia, reflecting in part low labor productivity. For example, a worker in Cambodia produces 44 kg of rice compared with 62 kg in Thailand.

Pro-poor growth will depend on addressing key constraints faced by the rural economy in agriculture:

GDP Growth

	Share in		Growth[1]	Poverty
	GDP	Employment	1994-2003	Incidence
	(in 2000)			(in 1999)
Agriculture	0.38	0.70	3.8	78.9
Industry	0.24	0.10	15.0	3.8
Services	0.35	0.20	4.9	11.0
Total	1.00	1.00	6.6	93.7

Sources: NPC Statistics, MOP: A Poverty Profile of Cambodia 1999, and Cambodia Socio-Economic Survey 1999.

[1] Average annual growth rates.

Lack of access to arable land

- *Lack of land availability*. Only 1 percent of land area is used for permanent cropland and only 7 percent of this is irrigated. Cultivated land rose gradually from 1.4 million hectares in the mid-1980s to about 2.4 million hectares in the late 1990s, and has not increased since. Furthermore, most of the new land from de-mining (0.1 million hectares) and forest clearance (2.5 million hectares) has reportedly been allocated to the rich, who do not use the land for cultivation. This is partly corroborated by NGO reports that claim the government has approved 0.8 million hectares as land concessions in the past few years. However, official data show no expansion in cultivated land.
- *Lack of property rights.* Only 10 percent of farmers have formal title to their farming land. With no property rights, most farmers are hesitant to engage in long-term investment and have no access to collateralized lending.

Limited access to economic opportunities

- *Inadequate rural roads* and poor road maintenance impede commercialization. Of the 12,323 km of the existing road network, only 16.20 percent is paved. In comparison, Thailand has 98 percent of its road network paved, Malaysia 76 percent, and Vietnam 25 percent. There are no secondary roads and tertiary roads often feed directly into the primary network. Moreover, the rail system is in need of major rehabilitation.
- *Weak marketing systems*. Only small scale informal trading of surplus rice occurs with Vietnam and Thailand. Cambodian farmers have weak bargaining power due to limited information on market prices. In addition, lack of warehouses contributes to huge price swings between post- and pre-harvest seasons (close to 100 percent sometimes), damaging poor farmers. The absence of agricultural associations and cooperatives also slows agricultural development.
- *Lack of modern farming techniques and advanced technology.* Farmers use traditional seeds that produce low crop yields. Moreover, even though good quality fertilizers are imported from Thailand, these are diluted by middleman before reaching the farmers.
- *Limited access to formal financial services.* The state-owned Rural Development Bank acts as a wholesale bank, mainly in lending to NGO microfinance institutions. So far six micro-finance institutions have been licensed and the largest (Acleda) has recently obtained a commercial bank license. None of the other commercial banks lend to farm households. It is estimated that only 15 percent of the rural population has access to financial institutions. As a result, farmers are under-capitalized and have no means of adopting new technology, improving seeds, or using fertilizers.
- *Barriers to public health.* Due in large part to the low pay of public sector health workers, the public must pay fees to obtain free public health services. This limits farmers access to health care and their ability to earn income.

Limited access to forestry and fisheries

Forest and fisheries resources, which were previously a source of supplementary food and income to farmers, have become increasingly difficult to access. Recent changes in natural resource management policies have left vast areas of the country (30 to 40 percent of total area) with unclear management arrangements.