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PN-AAX-022

CAMBODIA TERMINATION REPORT

Volume I

PN-AAX-022

ISN-49949

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ACKNOWLEDGEMENTS

The authors of this Report wish to acknowledge the contributions of all those who reviewed the manuscript in draft, in either its entirety or those portions where they had particular expertise. We wish to express appreciation in this regard to the following individuals. In AID: Sarah Jane Littlefield, Acting Deputy Assistant Administrator for the East Asia Bureau; Mary Jane Heyl, East Asia Regional Coordinator in the Bureau for Program and Policy Coordination; Edward Marks, Chief, and other members, of the Social Development Division of the East Asia Bureau's Office of Technical Development; William Doody, of the East Asia Bureau's Office of Development Planning; and Herbert Morris, the Assistant General Counsel for East Asia. In the Department of State; Brian Kirkpatrick, of the Office of Laos and Cambodian Affairs. Lastly, we wish to express particular appreciation for their assistance on research and manuscript preparation to Nan Newman and Darlene Wagner of the East Asia Bureau's Office of Cambodia Affairs.

I. Introduction: The Purpose of the Termination Report

Beginning in February, 1971, and ending on April 17, 1975, with the fall of the Khmer Republic, the United States Government supplied approximately $ 5[illegible] million in economic assistance (AID and PL 480) to the Cambodian Government. ([illegible] in Chapter [illegible] for a breakdown of this assistance).

To date there has been relatively little in the way of a comprehensive review of what was a very large and, in retrospect, very ambitious aid program. Now, before memories fade further and before those AID staff members involved in the program go on to other things, it seems only fitting and proper - as well as of possible help to others in the Agency - that we recount, with as much perspective as can be mustered by those who helped design and carry it out, the program's origins and implementation.

This Termination Report attempts to break down the economic aid program into a handful of discrete categories -- the Commodity Import Program, the Exchange Support Fund, PL 480, Logistics/Transport, and a rather broad section on exchange rate, budgetary, and other economic policy matters. At times, these categories overlap, e.g., discussions on (a) the appropriate exchange rate for CIP, and on (b) the use of local currency generations for use on refugee resettlement activities both appear in the economic policy section.

In one sense the Cambodian aid program was not nearly as multifaceted and complex as many smaller programs which AID operates around the world. The aid program for Cambodia did not involve development loans or capital projects per se. Other than through its

refugee resettlement activities, it had no formal technical assistance activities in country. It had few contractual arrangements - and most of those were for emergency logistical operations. In other words, it did not have the panoply of goods and services often associated with AID.

Rather, the economic aid program to Cambodia consisted at the start solely of financing of imports for a wartime economy - through a Commodity Import Program, and a Public Law 480 agricultural commodity program. Thus when it became apparent that imports from the U.S. could not meet all of Cambodia's needs, we also decided to contribute to a multilaterally - supported Exchange Support Fund. Lastly, after the U.S. economic aid program had been in existence for a year and a half, it had to be significantly modified to accomodate the urgent needs of the vast number of refugees who fled to the cities in what proved to be a vain attempt to escape the ravages of war. Some analysts of our programs might say that joint U.S.-GKR participation in economic planning and stabilization activities was also a major component of our activities, but as will be discussed below, this is a moot point.

No attempt has been made, to evaluate the total accomplishments of the Cambodian economic aid program in terms of the U.S. Government's initial objectives. An overall evaluation should include a critical review of the relationship of U.S. economic aid policies to our political and military objectives in Cambodia. The latter objectives sometimes involved different timing and different short term goals than did the objectives of the economic aid program. AID staff are not in a position to assess such a

balancing of priorities. The authors of this Termination Report leave to others with more scholarly distance and objectivity the task of making ultimate judgments on the overall successes and failures of U.S. economic aid to Cambodia.

Instead, this Report attempts to focus more narrowly on the several components of the economic aid program, describe both their policy framework and their operational mechanisms, and make some very tentative evaluations of one particular AID program born in high optimism some four and a half years ago and ending one spring morning in 1975 with a helicopter evacuation which symbolized not only the termination of AID's activities but also, at least for the time being, the end of any official American presence in Cambodia. Review of both the accomplishments and failures of this particular aid program may be of use for ongoing AID activities as well as for future programs, particularly in situations where economic stabilization needs and a wartime economy are primary features of the assistance framework.

The annex to this Report includes a variety of economic data and charts as well as historical documentation that may be of value to researchers. It also includes as attachments three papers essentially in the economic policy area produced by non-U.S. Government writers under contract to the U.S. Government. Two of these papers - AID and the Budgetary Process and Foreign Exchange Markets - were written by William F. Beazer, a consultant to the Washington-based Institute for Defense Analyses under an AID contract with IDA. The third paper, which gives a Cambodian perspective on U.S. aid

to Cambodia, was written by Taing Lim, former (and last) GKR Minister for Economics, Finance, and Planning.

In the opinion of the authors of the Termination Report, all three of these papers provide valuable insights from a non-U.S. Government perspective on both the Khmer economy and the U.S. economic aid programs for Cambodia. AID does not, however, endorse or agree with all statements and opinions contained in these ~~three~~ ~~documents.~~ The latter are included because of their possible value to both present readers and to future researchers on this subject.

II. The Initiation of U.S. Economic Aid

On March 18, 1970, the National Assembly and the Council of the Kingdom voted unanimously to dismiss Prince Sihanouk as Chief of State. * This action resulted from several factors all, correctly or incorrectly, contributed to Sihanouk's leadership; of a stagnant economy, corruption, and Khmer resentment of the increasing numbers of Vietnamese and Viet Cong operating in Cambodia. Immediately following Sihanouk's dismissal, North Vietnamese and Viet Cong forces, moving out of their sanctuaries along the Vietnamese border, unleashed an attacking force of 65,000 men against the GKR forces defending interior Khmer provincial centers. The Khmer Government Army of 35,000 men was largely ceremonial and was not prepared to defend itself against this aggression. Realizing its military weakness and the need for help the new Cambodian Government in April, 1970 made an urgent appeal for aid to all countries, including the United States, with which it had diplomatic relations.

This appeal set in motion in Washington, D.C., a high-level decision making apparatus which reviewed the political, military, and economic ramifications of the Khmer request for help. Those USG agencies which focused on economic assistance requirements knew that prior to the war, Cambodia's economy had been substantially self-sufficient. While the country did not have sufficient important mineral resources such as coal, oil or iron ore to attain self-sufficiency in terms of the diversified needs of a developing industrial economy, it managed to exploit its principal natural resource, abundant agricultural land, in a fairly successful manner. Approximately 90 percent of Cambodia's prewar population derived its livelihood from agriculture, primarily rice cultivation, and over

* The monarchy was formally abolished and Cambodia proclaimed the Khmer Republic under the leadership of Lon Nol on October 9, 1970.

80 percent of the country's prewar exports were accounted for by three agriculture products: rice, rubber and corn. These agricultural exports had before the war, generated foreign exchange sufficient to pay for the country's essential imports.

However, the overt hostilities against Cambodia by the North Vietnamese beginning in March of 1970 had produced grave economic consequences. The disruption of business, mobilization of manpower, repatriation of skilled Vietnamese, destruction of productive facilities and less of Cambodian territory to the enemy all combined to drastically reduce internal production and government revenues. The occupation of the rubber plantations and certain other crop producing areas and interdiction of internal transportation and tourism reduced export earnings from their normal prewar levels of about $90 million to an estimated $20 million in FY 1971. The rapid expansion of the Cambodian armed forces and the costs of active fighting, drastically increased Cambodian expenditures. The combination of these factors threatened to cause severe inflation by early 1971, if not before, and make it impossible for the government to finance commodity imports essential to the economy and the military effort.

In the face of all these difficulties, military forces were being trained and equipped. Many intellectuals, youth, and significant segments of the countryside rallied to the government in the name of CAmbodian nationalism. Through a series of fiscal measures, inflation was kept from reaching serious proportions, although pressures were building.

A. The Mann-Thomas Report: Realizing their need for further information on which to base a decision about aid requirements, the Washington agencies commissioned a State-AID Economic Survey team to travel to Phnom Penh in the summer of 1970. The report of this team was written by Charles Mann, then AID's Mission Director in Laos and previously AID Director in Saigon, and by William Thomas, a State Department Foreign Service Officer. Both had previously served tours in Phnom Penh. Their report concluded that, a) Cambodia required large amounts of foreign assistance to avoid runaway inflation and disintegration of its economy; b) required budget support alone through December 1971 would amount ot $230 million, with the expectation that even greater aid would be needed in CY 1972; and c) there might also be a need for additional aid for maintenance of public infrastructure as well as economic development. The report assumed that substantial amounts of aid from various donor nations and agencies would be forthcoming.

The Mann-Thomas Report proved to be an extremely valuable first effort, assessing areas of critical need and in pointing out the directions for further concentrated study. Washington, however, did not accept all of its conclusions, particularly that $230 million in budget support would be required for the following 16 months.

B. The IMF Report: In August, 1970, an International Monetary Fund (IMF) study mission, headed by Albert Materra, visited Cambodia. Data contained in the IMF report (a copy of which was given U.S. officials by the GKR) was useful in State-AID calculations of CAmbodia's initial aid requirement. The IMF team also recommended for GKR consideration a number of fiscal and monetary reforms needed to stabilize the economy.

C. The IDA Report: Prior to putting together its request to Congress for

supplemental aid funds, AID/W officials commissioned a team of economists from the Institute for Defense Analyses (IDA) to visit Cambodia. The objective of the IDA team was to add to and refine the economic information about CAmbodia already available, in order to give Washington a clearer picture of the magnitudes and details of aid requirements. As a result of the work done in CAmbodia by this three-man team (Douglas Dacy, William Beazer, and H ry Williams) from October 27 - November 18, 1970, AID/W found it possible to scale down its estimates of the minimum amounts necessary to sustain the Cambodian economy.

Taken together, these reports provided a comprehensive picture of the economic situation in CAmbodia and how the economy had changed as a result of the war.

Armed with these reports and the recommendations of the U.S. Embassy in Phnom Penh, [illegible] a number of U.S. Executive Branch Agencies, including AID, State, NSC, and OMB convened several inter-agency working groups in the fall of 1970 to work out a cohesive assistance framework. The groups reviewed all the available data, including recent import patterns, anticipated military force levels, the extent and impact of hostilities on rubber and other agriculture production levels and transportation systems.

The aid planners decided that the fundamental objective of the U.S. economic aid program should be to enable CAmbodia to withstand the severe dislocations caused by the war so as to maintain political stability. They concluded that $70 million of Supporting Assistance funds and $30 million of PL 480 Title I assistance would be required from the United States to meet Cambodia's minimal economic aid needs in FY 1971 and to

ensure an unbroken supply pipeline during the early part of FY 1972. Commodities purchased with these funds would be used to help offset declines in domestic production and export earnings which could otherwise seriously reduce real income levels in CAmbodia and thus jeopardize the attainment of U.S. goals there. Thus, program levels would be based on import requirements of essential civilian goods, such as food, pharmaceuticals, textiles and processed goods, and not tied to deficit spending by the Cambodian Government.

The United States also [illegible] to commit $20 million of the PL 480 Title I assistance, largely for cotton and cotton products, wheat flour and tobacco. The balances would be made available if and when required later in the fiscal year.* The economic assistance funds requested would support a jointly agreed program, including necessary monetary and fiscal reforms, designed to maintain reasonable price stability and sustain the economy's capacity to support the widespread mobilization already underway. More will be said later in this report on the economic reform program.

These economic aid objectives were discussed with the GKR by the U.S. negotiating team that left for Phnom Penh in February, 1971 to set up a small A.I.D. office within the Embassy and to reach agreement upon the initial framework for the Commodity Import Program. The team also informed the GKR that our aid assured that the Cambodians would bear complete responsibility for managing their fiscal and monetary affairs. The proposed CIP placed maximum reliance on the establishment of a realistic exchange rate system and the use of existing CAmbodian foreign trade institutions.

* Actually, only $8.5 million was committed during FY 1971. Although, because of rice needs, programs in later years were substantially higher.

The foregoing was consistent with our conscious attempts to limit both the U.S. physical presence and the U.S. role in Cambodia - often referred to as the United States "low profile". The aid program, as originally envisaged, was designed to require only minimal U.S. staff by a) reducing end-use checks and audits to a minimum by simplofying other AID requirements as much as we could consistent with sound management, b) deliverately refraining from the range of technical and capital assistance activities often employed by A.I.D. elsewhere in the world, and c) not maintaining a separate A.I.D. Mission. but instead relying on the U.S. Embassy to provide administrative services and on USO or Bangkok and other nearby A.I.D. Mission to supply other support.

U.S. objectives, including the intention to maintain a "low profile", were also outlined by the Department of State and AID/W in hearings held in December 1970 by the appropriate U.S. Congressional Committees. Subsequently in January, 1971, the Congress approved an FY 1971 Supplemental Appropriation request for U.S. economic and military aid to Cambodia - including $70 million in Supporting Assistance funds, the amount sought to initiate the Commodity Import Program, which will be discussed in the following chapter.

III. The Commodity Import Program: Its Impact on the Khmer Economy

A. Introduction: When —in response to a Cambodian Government request—the U.S. resumed its economic assistance to Cambodia in 1971, it believed that the best means to achieve stabilization was the provision of imports. Thus, the FY 1971 program consisted exclusively of PL 480 Title I commodities financed by the U.S. Department of Agriculture, and the much larger Commodity Import Program (CIP). After the first year, assistance activities broadened in FY 1972 - 75 to include a cash grant, a contribution to the Exchange Support Fund (itself largely for imports) as well as a variety of refugee assistance projects. The CIP, however, remained by far the largest part of our activities, both in terms of funds and field personnel requirements.

Following is a listing of all non-project CIP grants for the period covered by this report:

Grant Number	Amount as Amended	Original Signing Date	Final Terminal Disbursement Date
442-K-601	$ 20,000,000	03/02/71	03/31/73
442-K-602	50,000,000	05/31/71	12/31/75
442-K-604	16,502,000	06/23/72	12/31/75
442-I-606	45,000,000	10/14/72	12/31/75
442-I-610	71,600,000	07/07/73	12/31/75
442-I-612	47,100,000	09/17/74	05/31/76
	$250,202,000		

The Commodity Import Program technique has been employed for many years in a wide variety of countries. It was not initially designed to meet the problems of a war economy. The many policy and legislative constraints governing the entire CAmbodia aid program, as well as the regular restrictions and procedures generally employed worldwide for commodity imports, made it very difficult to administer an effective CIP program in CAmbodia. Most significant in this regard were the Congressionaly-imposed personnel ceiling, which limited the numbers of positions which could be devoted to implementing and monitoring the CIP. Using as a pattern, however, some of the expedited procedures developed in connection with the Vietnam commodity import program, AID/W and the Phnom Penh Mission managed to overcome several serious initial obstacles to effective implementation of the CIP. The innovations employed in the Cambodia CIP and discussed below may serve as useful models for other AID-financed import programs.

B. CIP Program Design and the Maintenance of Living Standards: As originally conceived, the purpose of the CAmbodia Commodity Import Program was to offset the loss of resources and export revenues resulting from the war, by providing essential imports needed to sustain domestic production and consumption. Thus, the primary objective was to support the war economy. A by-product was the generation of limited amounts of counterpart in support of the Khmer Government's budget. (Early in the program, A.I.D. decided that it would be best to attribute CIP currency generations (counterpart) to that part of the budget which was abnormally swollen by the war, i.e., the military budget, a perfectly legitimate use of counterpart under the Foreign Assistance Act (FAA) and a traditional one in supporting assistance countries.) At the onset of the program, the

emphasis was on general licensing of capital equipment, raw materials, and spare parts for domestic industries, plus consumer-type finished products. Some commodities were also provided for improving the transportation infrastructure.

The continuing erosion of security in the countryside resulted in the loss of agricultural production and the periodic closure of vital lines of communication. Most of the factories were destroyed, damaged, or unable to operate due to manpower shortages. Accordingly, the character of the CIP was altered to respond to new requirements. Starting in mid-1972, there was a gradual switch from general licensing to a more selective financing of critical commodities and logistic services. Funding constraints accelerated this trend to the point where in the last one and a half years of the program, procurement of gasoline and other petroleum products, transportation of PL 480 rice, and other logistic supports absorbed almost 90 percent of all available CIP funds.

The growing refugee population placed an increasing burden upon the economy. In the final year of the war, almost one half of the friendly population were classified as refugees. In order to help return refugees to productive status, the design of the CIP program was further modified in an attempt to provide for the import of farm tools, tractors, fertilizers, pesticides and seed grains. Refugee resettlement programs were beginning to achieve a degree of success until the final phases of the war when they were overrun by enemy forces.

The CIP program was used, with varying effect, as a counter-inflationary program throughout the war. It was transformed as required to correspond to changing conditions and the requirements of the domestic economy. There is a question, however, as to whether the scope of the program was of sufficient size to effectively counter inflation during and after the middle years, once many of

the domestic factories had been destroyed and much of the riceland lost. During this middle period, there was a rather rapid shift upward in the rate of inflation - and it wasn't until the refugees had been resettled in urban areas and a large scale rice import program had gotten underway that inflation began to abate.

Once inflation had reached a plateau of around 250 percent annually, it stayed at this level and did not drop significantly thereafter, despite the combined inputs of the CIP and ESF import programs. Thus, while it can be stated that the CIP program helped counter inflation, it did not (along with the ESF and PL 480 programs) provide an adequate level of real resources to offset completely the shortfall in domestic production caused by the destruction of the factories and the loss of ricelands. The various aid import programs clearly did not match (1) the loss in domestically produced resources caused by the war, and (2) the extra resources requirements resulting from the war. The result was a general deterioration in the real standard of living - which contributed, along with military weakness and growing official corruption, to the Cambodian Government's inability to continue to fend off the insurrection.

It would be difficult to estimate the level of real resources that was needed in the Cambodian context. Rough estimates of the decline in per capital income during the war years range from 20-60 percent. The decline in the dollar value of imports due to world inflation of some 30-50 percent would also need to be taken in account, as would the extra burden of maintaining an army, which claimed from two-thirds to three-quarters of the national budget.

The impact on inflation of the level of CIP goods actually provided was inhibited by the technical and policy constraints placed upon the program by the agency itself. For example, an "Exchange List" was drawn up to prohibit competitive imports from non-U.S. sources (excluding eventually the Code 941 countries). This meant that for a time the import of certain key commodities was reserved for U.S. -source procurement. THe higher cost and longer delivery times for these goods undoubtedly contributed to some degree to the shortage of real resources.

As noted earlier, new CIP allocations as well as ESF contributions were at various times utilized as leverage in order to induce GKR reforms or adjustments on certain policy matters, such as exchange rate movements, price changes, etc. Thus, the CIP was utilized to obtain two sometimes conflicting objectives - the provision of essential resources to counter inflation on the one hand and as an inducement for economic policy changes by the GKR on the other. The first objective occasionally suffered as a result of trying to achieve the second one.

Despite the provision of essential imports under the aid program, serious deterioration in living standards did occur over the five-year period of the war; however, the impact of the deterioration was widely shared through the mechanism of the extended family system./

During the course of the war, the bulk of the families who had been dispossessed of their land holdings and other forms of wealth by the in-

surgents, moved to Phnom Penh and the major towns where they were in many cases taken in and supported by relatives. This Khmer tradition of sharing with relatives helped to offset the traumatic impact for many of their sudden transition from producer to refugee status.

As the war continued the productive base of the economy declined further. While the population under GKR control decreased by as much as one-fourth, or possibly one-third, of the prewar level (from 6.0 million to 4.0-4.5 million), rice production declined by as much as sixty percent of average prewar production (from 2.5 million to 1.0 million MT), and industrial production declined to some 40-45 percent of prewar production. The greater proportional decline in production compared to population losses caused a real decline in production per capita, which was only partially offset by aid-financed imports and the intensive cultivation of urban areas by refugees.

A large proportion of the population was gradually forced to accommodate to a lower real standard of living than that to which it had become accustomed. In many cases, this meant rather severe privation, and nutritional sustenance below international standards. Being an agricultural economy where neither the standard of living nor the long-term expectations for the bulk of the rural population ever rose much above subsistence levels, the drop in living standards caused by the war was relatively modest, and they were able to adapt to it. By the end of the war, however, serious malnutrition was generally in evidence and approximately one-third of the population was dependent primarily upon daily welfare aid for its survival.

In sum, the CIP program in Cambodia was initially structured to provide essential imports at close to prewar levels. Due to the continuing loss of ricelands and rice production, increases in world petroleum prices and other factors, the composition of the program change dramatically as the war progressed and the refugee population increased. By the end of the war, the program consisted mainly of rice, POL, and pharmaceutical imports. This shift in the composition of aid was a key factor enabling the population to sustain itself in the face of drastic decreases in domestic production.

C. The Initial $70 Million Grants: THe method employed by AID/W to develop the initial aid requirements presented to the Congress was outlined earlier in this paper. ($70 million in FY 1971 and $110 million for FY 1972). The FY 1971 funds were obligated by means of two substantially different mechanisms: (1) a reimbursable agreement, and (2) a regular CIP agreement.

- Grant 442-K-601 ($20,000,000 Reimbursable Agreement): In order to achieve an immediate impact on the economy, AID entered into an agreement in March, 1971, under which $20 million of imports could be purchased on a direct reimbursement basis. This is to say imports financed by the Khmer Government with its own foreign exchange during a specific period (originally set at 3/2/71 through 3/31/72) were eligible for reimbursement by A.I.D. provided the commodity itself was eligible for AID-financing and the provisions of AID Minimum Requirements Commodity Financing Procedure were complied with. By means of this reimbursement

agreement, AID sought to take up the slack of financing goods already in the pipeline, but ordered under the country's own import procedures, ~~thus~~ slowing down the exhaustion of the GKR's foreign exchange reserves as well as identifying the new AID assistance with commodities that would be arriving rapidly. The combination of the reimbursable grant agreement with a follow-on CIP agreement, signed in May of that year, was intended to restore foreign exchange holdings ~~to a~~ respectable ~~minimum~~ level and thereafter provide regular financing for new imports.

The eligible source of procurement was Geographic Code 941 (U.S. and other selected free countries). The eligibility of near-by less developed countries (defined as those with no more than $1,000 per capita income) as a source of procurement was intended to reduce delivery lead time, thus affording an opportunity to prompt replenishment of the Khmer Government's foreign exchange reserves. In practice, however, several impediments surfaced quickly and slowed down implementation. One was that the GKR was required to make payment for the import in the first instance from its own dwindling reserves, and then wait for AID to replenish the reserves after the goods had been received in country. The Cambodians were understandably reluctant to disburse their own foreign exchange without prior assurance that a given transaction would subsequently be eligible for reimbursement by AID. Because of the rather long time lag between Cambodia's payment to the supplier (on shipment) and AID's reimbursement (after arrival and approval of the reimbursement request) --- Cambodia's foreign exchange reserves continued to fall.

To ~~circumvent~~ overcome this obstacle, an officer from AID/Washington ~~SER/COM~~ came to Phnom Penh in mid-1971 for the express purpose of

conducting prior reviews of proposed transactions in order to give preliminary (?) authorizations to the Government's trade organization. Another problem was the unavoidable administrative delay on the Khmer side in collecting, assembling, and submitting supporting documentation for reimbursement, i.e., commercial invoices, bills of lading, etc. Further delays occured due to a shortage of shipping space in those Code 941 countries that served as transshipment points for PL 480 commodities arriving from the U.S., and defaulting by some foreign suppliers who had been awarded contracts under competitive bidding.

The last-it was that terminal dates for shipment and submission of documents for reimbursement originally set for 9/30/71 were extended several times, up to 3/25/73 and 3/31/73 respectively. Major categories of imports financed under Grant 442-K-601 were:

Petroleum Products	$ 9,324,000
Chemical Elements	1,131,000
Paper	1,934,000
Machinery	1,980,000
Transport Equipment	1,046,000
Plastic Material	638,000
Cement	925,000
Rubber Manufactures	860,000

After the prior review technique was authorized, the importing community at large was quite happy with the direct reimbursement procedure. Once prior approval was obtained from AID, importers had to concern themselves only with local importing regulations with which they were fully cognizant. The main burden of compliance with AID regulations was left to the Khmer Government, namely SONEXIM, a semi-public trading company ~~that~~ from that point on was the GKR's arm in implementing the CIP. (SONEXIM's strengths and weaknesses are

described later on in this section.) Despite inevitable drawbacks, Grant 601 did fulfill its objective of giving a quick boost to the Khmer economy by providing raw materials and other essential commodities while the government geared itself to the war effort.

This first injection of U.S. economic assistance also helped the public and private sectors to renew their acquaintance (broken off in 1963) with the intricacies of A.I.D.-financed procurement. However, in the case of Cambodia, a number of specific AID requirements had to be waived by the Agency in order to bring imports into the country on an urgent basis before a regular CIP could be established. As a result, neither the Khmer Government nor the business community were quite prepared for the procedural complications involved in the next, "regular" CIP grant.

- Grant 442-K-602

With the signing of the second Grant Agreement on May 31, 1971, for $50 million, the Cambodia CIP entered another innovative phase. Prior to the actual signing of the agreement in Phnom Penh, the decision had been made by Washington that the General Services Administration (GSA) would be charged with the responsibility for procuring all commodities to be financed under the grant. This represented a major departure from the usual concept of CIP implementation under which private importers dealt directly with suppliers. Although GSA ahd been involved through the years in the procurement of AID-financed project and/or bulk commodities, it was the first time [illegible] that a whole CIP was to be

handled through this particular agency.

In retrospect this experiment did not work out satisfactorily and was drastically curtailed less than a year later.

For the benefit of other ongoing or prospective AID import programs, it may be useful to review at this time some of the seemingly strong and valid arguments which were used to justify taking the GSA route, namely:

1. Due to the war, speed of implementation was essential, and enormous pressure was put on AID to produce quickly a viable program.

2. Cambodia had had no experience with AID-financing since 1963, and almost no familiarity with U.S. sources of supply (in 1970, only 3 percent of CAmbodia's imports came from the United States).

3. Only recently had the new government authorized private importers to procure imports albeit under the control of a state-run organization (SONEXIM).

4. AID/W deemed it important to avoid some problems which had arisen during the Vietnam CIP experience. Procurement has always been a favorite target for collusion. It was felt that use of the GSA channel would break the normal commercial relationship between importer and seller, thus minimizing the potential for irregularities. Also, it seemed that otherwise we would have to employ too many people in CAmbodia and Washington in order to monitor the program.

5. The "low profile" policy that governed the U.S. presence in Cambodia. With respect to economic assistance, in May 1971, there were only fifteen positions authorized for AID personnel attached to the Economic Section of the Embassy, of which four were vacant and the incumbent of one other had not yet arrived at post. Moreover, in the commodity management division, the only one where CIP expertise was readily available, four positions were authorized and two were vacant.

All of this made enormous sense at the time, at least in the Washington sense. The basic concept of GSA's involvement was extensively discussed in inter-agency meetings in April and May 1971. In developing the system under which GSA was to handle the program, it was

established that:

1). PA/PRs issued by AID's East Asia Bureau, would be the authorizing document as the basis for procurement.

2). GSA's procurement staff would perform the purchase function within its authorities and any special authorizations required from AID (such as proprietary purchase).

3). In executing the procurement function, GSA made it clear that it must control the purchase function, particularly awards, but would comply with any special AID requirement.

4). Commodities would receive inspection and/or test services equal to regular GSA procurement activities plus any special AID requirements.

5). Suppliers would be responsible for the export and shipping function. Although GSA is capable of performing this function, for special documentation requirements it was deemed advisable that the supplier be charged with the responsibility.

To its credit, GSA took immediate steps to strengthen its Special Programs Division in the Office of Procurement in order to give the highest priority feasible to CIP requirements. Two GSA officials were designated to visit Cambodia and coordinate the initial phase of the program. Following the signing of the agreement, the first order of the day for the field staff was to obtain compliance by the Khmer Government with prior conditions to grant implementation, and to develop a comprehensive step-by-step import procedure which was followed by orientation sessions with SOMEXIM, the Chamber of Commerce, and private importers. It was not until the middle of August that importers had all the information they needed to decide intelligently

whether it might be profitable to make an import application of SONENIM. The first 33 PA/PR applications for a combined value of $727,000.00 were forwarded to AID/Washington on September 1, 1971, exactly two months after the Grant Agreement was signed. Viewed from the field, this was a substantial achievement given the major change in procurement method from Grant 601 to Grant 602. However, some reservations had already been voiced in AID/Washington about the concept of CIP procurement through GSA. As importers started to file applications, rumors fed by suppliers' agents began to circulate in Phnom Penh that U.S.-source restrictions and GSA procurement might be relaxed in favor of procurement from Code 941 countries. These rumors did cause importers to delay their orders in anticipation of more flexibility.

Major problems that plagued the initial implementation of Grant 602 under the AID/GSA concept for the private sector were as follows:

1. ~~It was frequent for~~ GSA ~~to~~ had difficulties in identifying products specified in the proforma invoices submitted by importers. Some invoices obtained from U.S. suppliers referred only to model numbers, others to protected formula numbers, needed by GSA for competitive bidding. Importers were used to buying recognized brand names which their customers wanted, (e.g., they wanted Sylvania light bulbs, not clear 50 watt bulbs with a life of 400 hours and a tensile strength of .32). GSA had to buy from the lowest bidder who met the specifications, ~~not from any named company~~, unless a sole agency waiver could be justified and obtained. The classic case was textile importers ~~who~~ whether or not the brand produce. & a brand that was familiar to Cambodian buyers.

~~[illegible]~~ bolts of cloth. ~~Importers~~ were used to seeing and feeling patterns provided by the supplier; it proved impossible for the importer to write specifications on, say, a ~~paisley print~~.

2) In AID/Washington, authority for CIP implementation was too diffuse; it took two weeks of processing in AID before the PA/PR reached GSA.

[illegible] with the [illegible] [illegible] [illegible] by GSA

3). For their part, Khmer importers and/or manufacturer's representatives were unhappy to provide proforma invoices which were nothing more than requests for quotations and stood little change of being honored by GSA.

4). Under GSA's price consultation policy, the importer had no advance assurance that he would be receiving what he had ordered.

5). Under Federal Regulations, pricing and vendor's name could not be divulged by GSA to third parties (e.g., SONEXIM or private importer) prior to the award of a purchase contract.

6). Consultation between GSA and SONEXIM was permissible prior to the award only when the cost of the proposed contract exceeded the estimated price of the PA/PR Application by more than 10 percent.

7). The lack of advance knowledge of price and delivery terms made it difficult for the importer to program future sales.

8). On the whole, U.S. suppliers/exporters were not interested in small value orders. A manufacturer's representative in Phnom Penh would have been able to consolidate several small orders. GSA could not.

9). The inability of SONEXIM to secure accurate ocean freight costs for the purpose of calculating landed costs. What freight cost was to be paid by the importer when the GSA contract, the commercial invoice, and the bill of lading showed three different amounts? This problem was not solved until May 1972 when the rule was established that the GSA contract set a maximum value for ocean costs, the supplier invoiced for actual charges, but payment was made only up to the GSA-set maximum.

10/. There were numerous delays in receiving shipping and commercial documents which suppliers had been instructed by GSA to mail directly to the Khmer commercial banks and SONEXIM.

Importers' dissatisfaction with the system can be summed up best by the fact that they tied-up capital for several months without knowing in advance that the commodities procured by GSA would satisfy their customers' requirements.

Corrective measures were applied by AID to encourage private importers to make faster use of grant funds. In early November 1971, the use of $25 million (or half of Grant 602) was authorized for procurement from Code 941 countries. Of this amount, $9 million was earmarked for bulk commodities to be procured through GSA in said countries, but it soon became evident to all parties that this was impractical. Procurement from the U.S. through GSA by private importers did pick-up momentum in the following months.

AID/W decided in the spring of 1972 to review the entire GSA procedure for CIP implementation. A review of public sector procurement showed that GSA was perfectly suited to handle this type of procurement (where AID technicians in the Embassy could help write specifications) and did in fact perform a highly commendable job in procuring $12 million worth of public works equipment and other material (including commodities for upgrading the Port of Phnom Penh; for improving Pochentong and other airports; generators to replace or expand capacities of the Electricite du Cambodge power company; for transmitters for radio stations; and for portable bridges and bridging material to replace war-damaged structures.)

In the private sector, however, AID/Washington decided that the problems outlined above were so great an obstacle to efficient utilization of the CIP that henceforth AID would seek other arrangements for handling imports destined for private use. Accordingly, in April 1972 (after private sector procurement by GSA had reached a total of $8.4 million) AID notified the Khmer Government that the services of GSA would be henceforth retained exclusively for U.S.-source bulk commodities and public sector procurement.

The AID/GSA experiment in Cambodia demonstrated that GSA is not a suitable vehicle for procurement in a commercial import program where direct relationship between private commercial suppliers and private commercial importers is of the essence. In retrospect, it would seem that the surveillance problems which had been encountered in our Vietnam CIP experience weighted too heavily in the decision to use GSA as the intended means to insulate the Cambodian importer from the American supplier. Utilizing GSA did indeed minimize risks of capital flight, falsification of invoice notations on quality and price, and the importation of commodities of questionable utility or practicality. Such an approach, however, was bound to run on a collision course with the immediate purpose of the Cambodia CIP, to wit: support of the war economy with needed imports. Problems encountered in using GSA to implement the CIP frustrated the attainment of these primary objectives. Other means needed to be, and were, found thereafter to protect the integrity of the CIP without sacrificing rapid utilization (see discussion of this subject in section below, on Grant 442-I-612).

The ultimate utilization of the $50 million grant was as follows:

1. US Procurement through GSA

   Public Sector $12.0 million
   Private Sector 8.4 million

2. US Procurement non-GSA

   Private Sector $ 4.1 million

3. Code 941 Procurement non-GSA

   Petroleum Products $ 5.5 million
   General Commodities 16.0 million

GRANT 442-K-604

Signed June 25, 1972, this grant amounted to only $16.5 million, reflecting delays in the utilization of funds under the previous grant. Of the total amount, over half was subobligated for general commodities ($8.7 million). The balance went for petroleum products ($6.5 million), fertilizer ($0.9 million), and transportation costs for PL 480 shipments ($0.4 million).

Procurement of POL was done through the cash barter/letter of commitment method of financing, a device that protects the U.S. balance of payments while permitting financing of offshore procurement. In simple terms, the mechanism works as follows: upon receipt of a Financing Request

from the Khmer Government, AID turns grant funds over to the Commodity Credit Corporation through the issuance of a PA/PR. C.C.C. releases agricultural commodities to a private contractor who agrees in return to make dollars available to AID for the procurement of petroleum products outside the U.S., and is then free to sell the agricultural commodities to the foreign buyer of his choice. In the end, export revenues from agricultural commodities offset the dollar outflow for petroleum products.

GRANT 442-K-605

The Grant Agreement signed October 14, 1972, for $20 million, was increased to $45 million on February 28, 1973. With this grant, there was a definite trend away from a standard commercial import program towards logistic support and selective financing of essential commodities. For illustrative purposes, funds were subobligated as follows:

General Commodities	$14,600,000
Petroleum Products	~~1,000,000~~
Bulk Commodities	~~1,450,000~~
Thai Rice	18,400,000
PL 480 Rice Transportation	8,800,000
USAF Rice Airlift	350,000

Transportation costs for rice shipments included ocean freight from the U.S. as well as transshipment costs in Singapore or Saigon and onward movement to Phnom Penh on coaster vessels via the Mekong River. The purchase of Thai rice in the summer of 1973 under a Presidential Waiver of Section ( ) of the Foreign Assistance Act signaled the

first major decline in Cambodia's rice production caused by the increasing inability of government troops to protect farmland and villagers.

GRANT 442-I-610

This Grant was signed July 7, 1973, for $12.5 million, and increased to $71.6 million on April 4, 1974. Of this total amount, allocations to the private sector for general imports were $11.1 million from the U.S., and $3.3 million from Code 941 countries. The balance of $57.2 million was allocated as follows:

Petroleum Products	$20,000,000
Rice Transportation	35,400,000
Transportation Costs (excluding rice)	1,000,000
Project Commodities	600,000
Public Sector (Construction equipment, bridge material, port material, radio equipment)	200,000

GRANT 442-I-612

This Grant Agreement, the last one under the [illegible] defunct Cambodia program, was signed September 17, 1974, for $5.1 million. It was subsequently increased up to $62.8 million and then reduced to $47.1 million upon termination of the U.S. presence in Cambodia. Amounts subobligated for specific purposes are rounded up as follows:

Private Commercial Procurement	3.1
Petroleum Products	7.0
U.S. Rice Transportation	9.5
Rice and POL Airlift Costs	11.3

Other Transportation Costs	10.7
Project Commodities	0.04
Excess Costs GVN Rice Loan	0.9

The balance of approximately $7 million was suboblig ated upon termination of the program for settlement costs with suppliers, storage costs of vested cargo outside of Cambodia, and late billings on prior year commitment.

From April 1972 when GSA's role was drastically curtailed, that part of the Cambodia CIP involving private commercial procurement was conducted under the normal procedure of AID Regulation I. This is not to say that from that point on, implementation proceeded smoothly and speedily. For one thing, CIP funds were not the sole source of financing available to private importers. The latter, as early as 1972 could utilize financing made available under the Exchange Support Fund (ESF) (discussed elsewhere in this report), which replenished the Khmer Government's own foreign exchange reserves through yearly grant contributions by a group of donor countries lead by the U.S. and Japan. In the first year of the ESF, the simplicity and directness of procedures available to importers wishing to import almost any kind of goods under the ESF, the absence of any significant restriction and/or governmental intermediaries were all factors that served to underline and even accentuate the inherent complexity of the CIP. One major problem for the private importer was to determine what commodities were or were not eligible for AID-financing. To illustrate:

- Most eligible items in AID Schedule B were eligible for procurement.

- Certain ordinarily ineligible items were declared eligible in the case of Cambodia because they represented raw materials needed to keep local production going, e.g., sugars, syrups, molasses, essential oils for the soft drink industry, and ball point pen cartridges for a local assembly plant.

- Certain eligible items were declared ineligible in the case of Cambodia because AID regulations regarding their use could not be implemented, (e.g., synthetic organic chemicals) or there was a risk of diversion to unfriendly end-users, (e.g., medicinal and pharmaceutical products).

- Procurement of some items such as iron and steel, trucks and textiles was restricted to U.S. sources as a result of domestic U.S. pressures from those industries.

- A number of items were reserved for financing under the CIP to the exclusion of any other source of financing, meaning the ESF.

- Other items normally subject to barter under AID rules were eligible for financing under the letter of commitment method.

Up to mid-1974, the need was strongly felt to stimulate demand for CIP funds by providing incentives to potential importers who otherwise would have preferred to go the ESF route, which involves less restrictions, more familiar import sources, shorter distances, etc. This was accomplished by setting a preferential rate of exchange for AID-financed procurement from U.S. sources, and by manipulating the counterpart advance deposit requirement according to the availability of and demand for CIP funds. The fact that a partial deposit was

required of private importers at the time of approval by SONEXIM of the import application was in itself an incentive not available under ESF procurement where 100% advance deposit was mandatory. In the early days of the program the advance deposit was 50% of the CIF cost of the transaction, with the other 50% payable at the time of receipt of the shipping documents. Under the GSA method of procurement, the requirement was modified to 10% on approval of the importer's application, 15% upon notification that a firm contract had been entered into by GSA, and 75% on release of the shipping documents.

In the second half of 1974 the availability of CIP funds for private commercial procurement declined due to the switch to logistic support, and the advance deposit requirement was set at 100 percent by the government on the recommendation of the USAID Mission.

To facilitate a better comprehension of the many problems encountered in the implementation of the CIP, it is necessary to touch on ~~some of the~~ certain aspects of the Cambodia economy. For instance, in the first few years of the US presence the pressure to use CIP funds conflicted in part (to the degree these funds were used to import consumption goods) with the avowed objective of putting a brake on imports in order to stimulate domestic production and encourage imports. On the other hand, the unrealistically low rate of exchange set by the government did for too long a period encourage imports of non-essential goods. Additionally, low prices and profit margins decreed by the government tended to discourage local production, e.g., 20 percent profit margin authorized on imported dry-cell batteries versus 3 percent on local manufacture.

Customs duties were also unrealistic, usually so high as to discourage capital investment (e.g., industrial equipment, raw materials) and encourage illegal imports (e.g., textiles) from neighboring countries enjoying a lower duty structure.

The timing and magnitude of CIP fund commitments by the USAID was determined largely by a) the needs of the economy for CIP-financed goods, b) the degree to which the program was used as a negotiating instrument to achieve certain desired policy adjustments, and c) the availability of funds appropriated by the U.S. Congress.

Until the last months of the war, the Congressional appropriation of CIP funds for Cambodia was reasonably consistent with the amounts requested, although, in terms of timing, the funding grants normally lagged behind requirements. If there were shortfalls in the amounts of funds needed, these were more often than not the consequence of underestimations on the requirements side than a matter of appropriations. At the same time, it can be said that funding requests were generally tailored to conform to expected availabilities.

Regarding the last factor, in almost every year of the program, prolonged delays in Congressional appropriations heightened importer speculation and put undue stresses on the exchange rate and other markets. Moreover, the publicity that attended Congressional review of the Cambodia aid program, specifically the obvious lack of wholehearted support for the program, tended to reduce the authority of the AID representatives in Cambodia, and appreciably reduced the potential for using the CIP as a leverage device. Both would probably have been considerably enhanced had "no year" funds been granted.

Because of the dependence on Congressional action, but also as a result of the way in which the program had to necessarily be managed, the CIP program became a very "lumpy" aid instrument. Funds were not parceled out incrementally - but were normally made available on a "block" basis. Consequently, there were instances when specific reforms (such as KR devaluation) had to be postponed because of a lack of financial "muscle" to induce the GKR to carry them out. Conversely, at those times when the "block" of funds were available, the negotiations over reforms became acutely "intense" and tended to erode the good will essential to a donor-recipicient relationship. This "bunching up" of economic reform requirements engendered potential political pressures both among the civilian population and the military forces. Needed reforms had to be ameliorated accordingly. A more evenly dispersed CIP program would have contributed significantly to less dramatic but probably more effective reform "packages."

The "lumpiness" characteristic also could be applied to the CIP deposit requirements levies. Distinctions among commodities were not based primarily on objective criteria such as "essentiality" or "demand." Rather, they were more often imposed as a substitute for exchange reform, or in response to a lack of credit controls, or in order to augment counterpart funds for budget support purposes. In addition to the lack of discrimination among commodities, the deposit requirements were raised or lowered in "jumps" - like from 100 per cent to 200 per cent, or from 100 per cent to zero. More gradual adjustments would have

facilitated the workings of the CIP import market; although it should be recognized that the "jumps" were often necessitated because of the lack of adequate leverage to get timely adjustments executed. In this regard, the somewhat "erratic" application of deposit requirements was a consequence of the "lumpiness" of fund availabilities.

E. SONEXIM

A word needs to be said about SONEXIM, the state-controlled trading company responsible for the CIP and PL 480 Title I program. It has been alleged and printed in news media that SONEXIM was corrupt, that its President-Director enriched himself through his association with GSA and so forth. Not one of these grave accusations was ever substantiated to our knowledge by either the accusers themselves of the various audit teams responsible for monitoring the whole program.

It is certain, however, that under the pre-war Sihanouk regime SONEXIM enjoyed a total monopoly on all phases of Cambodia's import/export trade, and derived enormous profits from it. As an example, following the custom of the day, SONEXIM was able in December 1969 to present a U.S. $1 million check to the Head of State as a political gesture in support of the government's welfare activities.

The main weakness of SONEXIM in the USAID Mission's view was that its efficiency and integrity were too heavily dependent on the person of its President-Director. With minimal managerial talent available in the lower layers of the organization, it was difficult if not impossible for the top executive to exercise tight supervision over the performance of more than 300 employees. Without question, those members of the SONEXIM's staff in a position to do so were not adverse to

obliging private importers by expediting the processing of import license applications in return for a "small fee". Much of the same was taking place in the re-sale by SONEXIM of certain rationed items such as bags of cement. ~~The single serious incident~~ that came to the attention of the USAID staff involved the local printing and distribution of school notebooks in 1974 for which the raw paper had been AID-financed and imported by SONEXIM for its own account. In this particular case, which did not concern AID directly, a substantial number of finished notebooks ended up in the market place instead of the schools with the connivance of not only SONEXIM's employees but also local printers and school teachers.

Representatives of the USAID Mission were active participants in all important meetings involving CIP implementation such as the Ad Hoc Commission for the allocation of AID funds to individual importers and/or end users, and the Award Committee for purchase contracts under competitive bidding. From such vantage points, the Mission was often able to detect and squelch attempts to manipulate the CIP for illicit purposes. The close working relationship that prevailed from early 1971 through mid-1974 between the USAID Commodity Management staff and the highly competent President-Director of SONEXIM was in fact instrumental not only in speeding-up CIP implementation but also in keeping down corruptive practices at SONEXIM within the realm of the petty extortion endemic in Southeast Asia. Rumors against SONEXIM were fed mainly by two separate groups in Cambodia.

On one hand, private importers were resentful of SONEXIM playing the role of a broker and tacking a service charge on top of other administrative fees. This was their motivation for attempting to

discredit SONEXIM. The Mission was sympathetic to the importers' complaint that SONEXIM's service charge was an unjust penalty. USAID recommended to the Khmer Government as early as April, 1972, that the charges imposed by SONEXIM on CIP transactions be abolished since the functions performed by SONEXIM were of the type normally performed by recipient governments and as such ought to be financed through the national budget. Unfortunately, the Khmer Government never got around to enacting necessary legislation to implement this recommendation.

While SONEXIM may not have been the ideal vehicle to carry out the CIP implementation, there appear to have been no viable alternatives to protect the U.S. interests.

F. Conclusion

Despite delays and obstacles encountered in the implementation phase of the program, the Cambodia CIP stands out as the instrument that for four years supported the ailing economy of this war-torn country. The AID-financing of raw materials, spare parts, equipment, machinery, construction material, and selected consumer's goods at a relatively high level had a two-prong stabilizing effect. It provided additional resources to help meet domestic demand. Due to the extremely low level of foreign exchange reserves and Cambodia's inability to increase export earnings, the economy could not of itself have provided these additional resources. Additionally, the contributions to budget support of the counterpart generated from the sale of AID-financed imports obviated the need for a commensurate level of central bank borrowings, and forestalled the inflationary effects of such borrowings.

From an operational point of view, the lessons of the Cambodia CIP are not peculiar to that country. Indeed they have applications in almost all other countries where AID runs this type of program.

Briefly, it can be said that too frequent procedural changes make it difficult for all parties to settle down to an established trade pattern. When a new relationship is being established between two governments, detailed implementation ought to be agreed in advance. It is erroneous, even dangerous, to assume that a given host government will automatically fall in step with AID procurement rules and regulations. Representatives of the operational branches of the Agency, including those officers designated to go and serve in the field, ought to join and participate actively in macro-discussions affecting the orientation of a future program prior to the finalization of agreements which lock in particular mechanisms and operating procedures. Otherwise, the risk is great that the significance of crucial details will be overlooked during the planning phase, and the subsequent implementation will be rendered more difficult.

G. A Note on POL

After rice, petroleum was the most vital commodity financed by A.I.D. to support the economy of Cambodia during the war years. In the aftermath of the October 1973 Middle East War, repercussions from the worldwide energy crisis were acutely felt in Cambodia for a number of special reasons: the war situation, the dependence on the Mekong waterway, A.I.D.'s funding constraints, and the government's reluctance to enforce a price rationing system.

The following three tables serve to illustrate the situation as it evolved from CY 1972 to CY 1975. Note that one cubic meter equals 264 US gallons.

I. Cambodia Importation/Consumption of all Civilian Petroleum Products

Calendar Year	Cubic Meters	US$(million)
1972	260,800	9.6
1973	245,000	10.0
1974	186,550	19.0
1975 (Projected)	158,200	17.5

II. Cambodia Average Civilian Daily Consumption (cubic meters) of all Petroleum Products

	1972	1973	1974	1975 (Projected)
	712	672	510	406
% Reduction		5.9	32.0	25.5

III. Phnom Penh Civilian Daily Quotas (cubic meters) for all Petroleum Products

Previous	Nov. 73	Apr. 74	Aug. 74	Jan. 75	Feb. 75
520	507	464	445	206	163

The petroleum products used by the civilian sector were: motor gasoline (MO), kerosene (KO), automotive diesel oil (ADO), industrial diesel oil (IDO), fuel oil (FO), and aviation fuels.

Financing of POL by AID was done through the Cash Barter/Letter of Commitment method described earlier in this report. Procurement was initiated and carried out by state-owned TELA KHMER which had the monopoly for imports but not for distribution. The latter was handled by SHELL, ESSO, CALTEX, and TELA KHMER. In effect, the local oil companies were buying from the Khmer Govenrment petroleum products sold to the latter by the parent companies.

A call for bids was issued once a year by the TELA KHMER calling for a delivery schedule running from June to May of the following year. Following the bid deadline, TELA would review all offers received in order to establish the lowest CIF bidders on the basis of FOB foreign supply points prices plus freight rates. Once tentative awards were made by TELA, they required approval by the Khmer Ministry of Commerce as well as by AID/Washington. Deliveries to Cambodia took three different forms. For the Phnom Penh area, supplies were shipped by small tanker vessels via the Mekong River. The Battambang region received its supply from Thailand by road. Finally, for the three Maritime Provinces tanker vessels called at the port of Kompong Som. All tanker

vessels were chartered by TELA KHMER.

The Phnom Penh civilian storage capacity was 35,150 cubic meters, after the enemy destruction in late 1971 of one third of the main fuel depot, and consisted of 23,410 cm at the permanent facilities belonging to the three private oil companies, 5,700 cm on five storage barges and one disabled tanker vessel, 5,420 cm at the two city power plants, and 620 cm at the larger industrial plants.

Kompong Som was the site of the only petroleum refinery in the country where before the war 23 tanks provided 100,000 cm of storage space. However, most of the installations were severely damaged by an enemy attack in 1971, and afterwards all remaining facilities were put in mothball. The only available storage capacity during the war was at the port and consisted of 25 railroad tanker cars for a total of only 1,500 cm. In Battambang, there were no storage facilities per se. Most petroleum products were stored in 55 gallon drums.

Distribution to the civil sector was regulated by two Committees, one for aviation fuel, the other for all other products. A USAID representative attended the weekly meetings of both Committees. His role was to provide advice and guidance in matters of procurement, and to recommend measures to keep consumption in check.

In the area of procurement, a very serious supply problem developed in late 1973 when suppliers advised TELA KHMER they would not be able to keep up with the agreed delivery schedule for the first five months of CY 1975. The shortfall for February through May 1975 was projected at

35,000 cubic meters. USAID had to request the assistance of DAO/Saigon which had been very successful in negotiating POL procurement on behalf of ARVN and FANK. In view of the relatively modest quantities involved in the civilian shortfall, products available to DAO/Saigon were sold to Cambodia beginning in March 1974, to supplement amounts procured by TELA KHMER from regular commercial sources. The PA/PR method was used to transfer AID funds to the appropriate DOD organization for the reimbursement of products procured by DAO/Saigon on behalf of TELA KHMER.

At USAID's ~~instigation~~, the Khmer Government began in late 1973 to take measures to limit civilian consumption of petroleum products. A rationing system based on the issuance of gasoline coupons became fully implemented by mid-1974. However, the system was only partially successful because private automobilists had to present a currently valid motor vehicle registration card in order to obtain gasoline coupons. Too many automobile owners had failed to renew their registration over the years. Rather than pay a substantial fine to have the registration brought up to date, these persons found it more advantageous to meet their requirements with military gasoline sold extensively on the black market.

With respect to diesel oil and fuel oil, the biggest consumers were the utility companies, producing electricity and water. For too long the government kept the utility rates artificially low as a matter of political expediency. It was not until late 1974 that USAID finally succeeded in pressuring the government to adjust rates to a realistic level. The absence of sufficient revenues meant that the utility com-

panies were unable to meet their financial obligations vis a vis the government and supplier TELA KHMER. The latter was compelled to extend credit to the companies indefinitely, and thus was incapable of paying taxes on petroleum products to the government, which in turn suffered a serious loss of revenues. This chaotic situation was finally brought into check in February 1975 when the government agreed to double the rates for electricity and water.

The joint efforts of USAID and the Khmer government to control consumption of aviation fuels by domestic airlines were on the whole quite successful. For one thing, importation and distribution of all aviation fuels were handled by SHELL which was able to pass on to consumers any increase in posted FOB prices without having to wait indefinitely for government approval. Starting in mid-1974 USAID entered into a service contract with SOCIETE GENERALE DE SURVEILLANCE (SGS), an internationally reputable surveying firm, for the purpose of monitoring airlines' fuel consumption as well as type of cargo airfreighted to and from Phnom Penh. The object was to pinpoint excess fuel usage by a given airline, and to insure that essential commodities were transported by the domestic carriers.

In addition, in October 1974, USAID sent for American avaiation experts stationed in Saigon to help in establishing an equitable aviation fuel allocation system to be implemented by the Khmer Government's Avgas Committee. Fuel allocations were based on type of aircraft, estimated flying time between major points within the Khmer Republic, plus a 15% tolerance over U.S. Standard Hourly Avgas Usage Rate to compensate for

possible excess usage under prevailing wartime conditions (above normal circling before landing, steep descents and ascents, etc.). The system worked quite well, although excess consumption as reported by SGS was never completely eliminated.

Military personnel were responsible for the security of airfields and aircraft between the hours of 5:30 p.m. and 6:00 a.m. when no civilians were allowed to remain at or to enter airfields. It was a well known fact that fuel was systematically siphoned from aircraft by the very same military personnel in charge of security. It was also believed that some airlines made unreported and/or unauthorized trips or stops.

The findings of SGS on excess consumption by particular airlines were duly reported by USAID to the Avgas Committee which in turn required the culprits to furnish a detailed written explanation. USAID followed-up each case, and when warranted by inadequate justifications made representation to the government at the ministerial level.

CAMBODIA

Summary of CIP Financed Imports
($000)

	FY 1973	FY 1974 1/
1. Raw Materials for Industry	12,474	2,916
i.e. Iron and Steel	(3,930)	(162)
Chemicals	(1,920)	(737)
Plastic Raw Materials	(2,877)	(546)
Other	(3,747)	(1,470)
2. Raw Materials for Agriculture	701	744
i.e. Fertilizers	(191)	(297)
Pesticides	(10)	(47)
3. Equipment for Agriculture	516	187
i.e. Tractors & Bulldozers for Forestry	(446)	(124)
Sprayers	-	(29)
Pumps	(70)	(34)
4. Raw Materials for Milk Factory	2,937	110
i.e. L.S.D.P.	(1,690)	-
Sugar	(574)	-
Lactose	-	(12)
Vegetable Oil	(103)	(98)
Tinplate	(570)	-
5. Capital Equipment for Industry and Spare Parts	7,923	5,366
i.e. Generators and Motors	(1,562)	(1,287)
Industrial Refrigeration Machinery and Equipment	(786)	(96)
Trucks and Truck Chassis, other Transport	(2,514)	(1,936)
Electrical Machinery and Equipment	(976)	(88)
Industrial Machinery + other	(2,685)	(2,159)
6. Construction Equipment	770	435
i.e. Track-laying Tractors	(155)	(194)
Scrapers, Graders, Dredges, Crushers	(88)	-
Tractor-Shovel Loader	(127)	(24*)
7. Construction Material	6,352	204
i.e. Pipes, Tubes, and Wire	(2,725)	(109)
Bars, Rods, Plates and Sheets	(3,603)	(23)
Construction Glass, Tiles, Refractory Bricks, etc.	(424)	(72)
8. Food Products	8,712	9,899
i.e. Rice	(8,674)	(9,784)
Sugar	-	-
Tea	(81)	(115)

	FY 1973	FY 1974	
9. PL-480 Transport	-	23,700	
PL-480 and Other Rice Transshipped from Saigon	854	7,350	
Other Rice Transport	-	1,011	
10. POL	4,805	21,000	2/
i.e. Power Plants	(1,401)	(7,805)	
Industrial, Commercial and Public Sector	(1,802)	(7,255)	
Private Use, Vehicles	(701)	(2,463)	
Private Use, Cooking and Light	(901)	(3,477)	
11. Other	2,975	2,578	
i.e. Synthetic Textiles	(1,654)	(1,025)	
Paper	(1,001)	(1,105)	
Soaps, Cleansing, Polishing Preparations	(429)	(243)	
Tires	(431)	(108)	
Other small value imports	(460)	(97)	
Sub-Total 1/	49,222	84,100	
12. Infrastructure + Logistical Support	505	2,043	
i.e. Bailey Bridges, Lumber, Airport Improvement			
13. Anticipated Licenses	-	6,457	
Private Sector	-	(4,900)	
Infra + Log Suppt.	-	(1,557)	
GRAND TOTAL 1/ 2/	49,727	93,600	

1/ General licensing through April 1, 1974.

2/ Licensing projected thru end of FY 1974.

3/ Anticipated licensing for balance of FY 74 excluding POL.

Prepared by:

American Embassy
Phnom-Penh
April 27, 1974

IV. ECONOMIC POLICY

A discussion of Cambodian economic policy must per force touch on many subjects, including exchange rate policy, the GKR budget, and the role of the International Monetary Fund (both institutionally and through the on-the-spot advice of its resident representatives). The "low-profile" policy of the United States in Cambodia is also an important element in such discussions as is the impact ~~on the Khmer economy~~ of the U.S. Commodity Import Program and refugee relief and resettlement programs, discussed elsewhere in this Report, ~~as values of~~ the U.S. military assistance program, ~~which~~ is not, ~~except in passing,~~ reviewed in these pages.

This section of the Report attempts, however, to summarize some key aspects of GKR foreign exchange and budget policy, and the attempts of both the USG and the International Monetary Fund to influence them. For other views on this subject, the reader is invited to the Annex to this Report, which includes analyses on ~~these subjects~~ economic policy written at AID's request by a staff economist for the U.S. Institute for Defense Analyses (a private non-profit organization) and by Mr. Khy Taing Lim, a former GKR Minister of Economy, Finance, and Plans.

A. Exchange Rate Policy - Chapter II of this Report discussed the negotiations held in Phnom Penh in early 1971 which resulted in the first US-GKR economic aid agreements. Prior to these negotiations, the Department of State and AID/Washington conducted a number of cable exchanges with the American Embassy in Phnom Penh in which our

proposed economic stance was worked out. Both Washington and the Embassy assumed that Cambodia would most probably soon be facing a significant rate of inflation. This assumption was based on (a) an anticipated loss of revenues due to the expected sharp decreases in exports; (b) a GKR reluctance to adopt a realistic exchange rate in a timely manner - because of the Cambodian's conservative fiscal and monetary policies and because the rate had been relatively stable for some time; and (c) a probable need, as a result of (a) and (b) above to impose some form of import controls since the demand for imports brought about in part by an overvalued exchange rate would exceed the limited availabilities of foreign exchange. The USG also anticipated that, in the absence of a realistic rate, imports would become relatively cheap and that the importing community could be the beneficiary of windfall profits.

For these and a number of other reasons (including a desire for the GKR to maximize counterpart generations from AID-financed imports to help reduce Government budget deficits), there was complete agreement between Washington and the Embassy that a realistic unitary and flexible exchange rate was essential if our aid program was to be effective. Consequently, in our proposed negotiations, with the GKR, the consensus of opinion was that we should (1) urge the Cambodians to adopt a single exchange rate applicable for all Cambodian export transactions and for all imports, certainly all those financed by the USG and other aid donors, and (2) that the system for setting the rate be as flexible and as automatic as possible to allow for a realistic reflection of market forces.

AID/W considered an auction system (i.e., where people seeking foreign exchange freely bid for it) as theoretically the best one in that it would (1) avoid the need for repeated politically distasteful GKR adjustments of the rate, (2) allow and encourage market forces to operate with a minimum of government interference, and (3) make it easier for the [illegible] to maintain a "low profile" in terms of both numbers of people required in the AID staff and the degree to which the U.S. could minimize its involvement in the GKR's exchange rate mechanism. Prior to the GKR's adoption of a new realistic exchange rate system, AID/W was prepared to accept, as a temporary measure, the use of a equilization of "war" tax which would in effect be a step towards balancing the supply and demand of foreign exchange.

Accordingly, in our initial presentations to Congress as well as in the subsequent discussions with the Cambodians prior to formal agreements on initiating the CIP we stressed that the program would place maximum reliance on a realistic exchange rate system as well as on experienced Cambodian foreign trade institutions.

Over the next four years, the problem of setting and maintaining realistic exchange rates continued to be one of the most vital and vexing problems confronting the GKR and its IMF advisors as well as the U.S. Embassy, which, despite attempts to minimize its intervention in domestic economic matters, often felt compelled to press Khmer officials on this subject.

The balance of this section of Chapter IV summarizes the mixed success of the Cambodian Government in dealing with the exchange rate problem. Chapter X of the Annex, prepared by a staff economist

of the Institute for Defense Analyses, sketches in greater detail, and from a somewhat different perspective, the historical developments of GKR, IMF, and USG efforts in this area.

1. The Need to Keep the Exchange Rate Realistic - Great stress was laid throughout the five years of AID assistance on the need to keep the exchange rate realistic. This emphasis reflected the commonly held view that a realistic exchange rate was the most efficient means for rationing Cambodia's scarce foreign exchange resources. Keeping the rate realistic would help curb unnecessary imports, and preclude the need to employ more cumbersome methods, such as prohibitive lists, customs duties, credit restrictions, and taxes. For AID-financed imports, it would insure maximum counterpart revenues and for most of the five-year period counterpart represented a sizeable proportion of government budget receipts.

The income distribution effect of imports was another factor affected by the exchange rate. An overvalued rate would have not only reduced counterpart receipts, but also resulted in underpriced imports and allowed a relatively small group of importers to reap windfall profits at the expense of the general public.

Except for rather limited periods following the enactment of exchange reform measures, and despite the best efforts of U.S. and IMF advisors, the Cambodian exchange rate was often overvalued to some slight extent. This reflected, in large part, a reluctance at the highest levels of the Government to devalue the riel as necessary, particularly during periods of rapid inflation. This reluctance stemmed in part from a

tradition of conservatism in monetary policies and from self-interested political lobbying by influential importers, but it also reflected an apparent inability by the Khmer leadership to deal with the consequences of rapid inflation. The major consequence, of course, was deemed to be the political disaffection by the public who were led to believe that devaluation contributed directly to inflation. In any case, the problem of inducing timely and adequate exchange rate adjustments became one of the most difficult aspects of the aid program in Cambodia throughout the period of assistance. Thus, instead of facilitating a low profile posture by the U.S., as would have been the case had a realistic rate structure been followed, the extended periods of confrontation over exchange rate policies tended to heighten the U.S. role.

2. How to Determine What Rate Was Realistic - The methods most often employed to determine a realistic exchange rate combined analysis, experience and judgment. Perhaps, the most scientific approach involved determining the real purchasing power of the riel in Cambodia compared to that of the baht in Thailand and piasters in South Vietnam. Market price surveys for a fixed basket of goods were undertaken in the three countries, the implicit rate calculated and compared to the existing official and black market rates. In the several instances where this technique was employed in Cambodia, the rate derived was found to be close to the black market rate in each instance, confirming the usefulness of the black market rate as an indicator of exchange rate realism.

Unfortunately, there were occasions when the black market rate itself was distorted by certain short term or extraneous factors such as military reverses, and the soaring price of world gold. However, long-term comparisons of the black market rate and the GKR Working Class Price Index, for example, show the rate adhering quite closely to the upward trend of prices.

Another method employed to determine a realistic exchange rate was the establishment of a foreign exchange auction market called the Nouveau Marche de Changes. The market operated on the basis of importer bids for exchange. The level above which bids were deemed successful was determined "primarily" on the basis of foreign exchange currently available. Constraints on market operations, and certain structural deficiencies, prevented the Nouveau Marche from being a really suitable vehicle for rate determination. At times, an actual or impending dearth of foreign exchange triggered speculative buying which forced the rate higher than it should have been.

In other instances, the government intervened and fixed the rate at a constant level in order to head off possible political repercussions caused by frequent and rapid devaluation of the riel. Between the two extremes, the self-interest of the importers usually prevailed and bidding rates were offered within a narrow range, at or near the level of the overvalued official rate. During one long stretch, accepted bids were well over the overvalued official rate but Nouveau Marche de Changes procedures required that transactions actually take place at the official rate.

Freeing foreign exchange reserves was another device employed

by the GKR to test the market demand for exchange. This method was used only sparingly and then on a limited basis in view of the relative scarcity of GKR reserves

In addition to the above, there were also several concerted attempts to use formal foreign exchange budgeting techniques to ~~determine~~ achieve a realistic or equilibrium rate. These efforts involved the estimation on the one hand of demands for exchange and on the other the expected supply from all sources. Some calculations, but mainly informed judgments, would then be exercised to ascertain what might be a realistic exchange rate. These planning efforts were normally associated with efforts at linking foreign sector operations to budget or fiscal requirements. The complicated nature of the calculations, as well as the uncertainty attached to some of the key variables, combined to undercut the value of this approach to rate setting.

While a good deal of effort was expended trying to determine a realistic rate for official transactions, equal if not greater effort was expended in determining the proper rate for Commodity Import Program goods (see Chapter III on the CIP).

There were two main obstacles to determining an appropriate CIP exchange rate: (1) Whether a discount should be allowed to offset the higher import cost of U.S. goods, and (2) the correct means for applying the discount.

A discounted rate for CIP goods was employed to facilitate the utilization of this line of financing by importers. It was generally agreed that a rate differential of from 20-30 percent was needed to

offset the higher cost of U.S. goods and the higher cost of transporting goods from the U.S. to Cambodia. However, the notion of a differential rate ran counter to the IMF-endorsed policy of a unitary exchange rate. This problem was overcome at least initially by pricing CIP goods in domestic terms at a unitary rate, then adding on a special import tax to cover the differential between the stated price at the unitary rate and the actual cost at a realistic rate.

The problem with this approach soon became evident. As the actual cost of U.S. goods increased through dollar inflation or real depreciation of the riel, the exchange authorities attempted to cover the increased differential through higher import taxes rather than through exchange rate devaluation. While this approach permitted the import cost of CIP goods to remain realistic it also allowed the rate applied to imports from other sources to become overvalued, resulting in underpriced non-CIP imports and a shortfall in expected government revenues.

In addition to a special import tax, there were a variety of other devices employed or suggested to offset the differential in the cost of CIP goods. These included proposed rebates on non-CIP goods, concessional credit terms or free loans to CIP importers; special access to foreign exchange for CIP importers; positive lists for CIP goods.

The appropriate size of the exchange rate discount needed to facilitate the use of CIP goods was mostly a matter of trial-and-error procedures. A differential rate of, say, 30 percent was applied.

If the funds moved, the rate differential was retained; if the funds did not move as expected or desired, the rate differential was reduced. Such adjustments were not done very frequently, so as to minimize market disruption. Moreover, because of the variety of factors impacting on the CIP importing process, the difficulties of estimating market demand, and the fact that the funds were normally profferred through lump-sum grants, it was not easy to gauge either the proper drawdown rate or the proper adjustment to the differential needed to regulate the drawdown as desired.

3. How to Achieve a Realistic Rate - The difficulties of determining a realistic rate coupled with the fragmented nature of Cambodia's foreign exchange markets complicated efforts to achieve a realistic rate. During periods of official enlightenment, when the GKR was generally receptive to advice from the U.S. or IMF Missions, and undertook comprehensive economic reforms, the exchange rate approached realism. But normally these events were preceded by periods of intense and protracted negotiations. In most instances, an aid quid pro quo was necessary, whereby the U.S. would agree to provide additional aid or to stop withholding promised aid in return for GKR agreement to undertake a necessary or long overdue devaluation of the riel.

The rate also approached realism on those occasions when the foreign exchange market was allowed to operate as a free market, but, in retrospect, these occasions were relatively rare and occured only in response to heavy and constant urging by the IMF or U.S. advisors. Such urging by the IMF and U.S. advisors stemmed from a

shared belief that market demand and supply forces operating in the context of a free market would be effectively "equilibrated" through a floating exchange rate that would respond to the interplay of market forces and be kept at a realistic level accordingly. However, the limited availability of exchange relative to demand, along with the unrealistic nature of demand (luxury-oriented) relative to the essential needs of the economy, precluded the effective operation of a free foreign exchange market in Cambodia.

In view of the limited availability of exchange and the consequent need to channel funds to the most essential needs, it would appear in retrospect that the advice rendered in support of "free market" operation, as well as a "floating" exchange rate regime, was misplaced. The Nouveau Marche de Changes failed to develop into a "free market" as had been envisioned, and the ESF was not able to support "free market" operations. It may well be that these mechanisms would have performed as expected had there been an amelioration in the security situation accompanied by a turn-around in the steady deterioration of the economy.[9] But since these hoped-for events did not materialize, perhaps it would have been more appropriate, in retrospect, to institute foreign exchange market controls (cumbersome as they might have been to employ) rather than to endorse liberalization schemes. The effective application of the ESF negative list in mid-1974, and the institution of controls on import credit in late 1974, are indications of GKR recognition of the need to "administer" the foreign exchange market. Unfortunately, these moves were accompanied by GKR reluctance, primarily for political reasons, to devalue

the exchange rate in pace with domestic hyperinflation as economic theory would recommend. The immediate consequence was often an overvalued rate and all of the market abuses that follow from such an economic distortion.

One of the more inventive approaches to achieving a "realistic" exchange rate was the "back door" or budget-requirements approach. Since the counterpart from aid-financed imports accounted for a large part of budget revenues - and the need for budget revenues could be fairly accurately projected on the basis of expenditure requirements, a system was established whereby rate adjustments were linked to the need for additional counterpart to meet an ever-increasing shortfall between projected budget expenditures and receipts. Inasmuch as the bulk of budget expenditures went for salaries which diminished in real terms in response to inflationary increases in the cost of living, the need for counterpart became a function of the rate of inflation and a basis for determining a "realistic" rate of exchange. Unfortunately, political conditions forced the GKR to abandon this approach at a crucial stage in its implementation in mid-1974. As a consequence, the rate became increasingly overvalued and budget counterpart revenue collections continued to lag requirements.

B. <u>The GKR Budget</u>: During the war years, the GKR national budget was drawn up annually in the traditional, legalistic manner of pre-war budgets. Funding decisions were made on the basis of operating ministry requests; funds were allocated by ministry and governmental agency. The Minister of Finance formally presented and defended his

recommendations for expenditures and estimates of revenues before the legislative and executive councils, and was charged with implementing the budget as approved by these councils. Normally, the formal review proceedings produced relatively minor changes in the budget. The more important funding issues were decided informally among the members of the Council of Ministers, who were the key executives in the government.

Three ministries received the bulk of budget funds: Defense, Education and Finance.

The budget funds allocated to the Ministry of Defense consisted, for the most part, of salary payments. The bulk of the remainder went for "material costs" which were primarily maintenance and upkeep expenditures. The funds provided for salaries were normally disbursed by Ministry of Finance representatives through the military payroll system. There were many abuses in this system. Whereas each individual was to be identified and sighted at the time of payment, many inventive excuses were given by unit commanders as to why these verification procedures were not followed; and various techniques employed to intimidate the Ministry of Finance pay representatives.

As a consequence, for a relatively large percentage of the military payroll, funds were transferred directly to unit commanders for their disposal, resulting in many cases of non-payment. Under periodic threats of troop riots and demonstrations, the usual tactic employed by the Ministry of Defense was to forcibly request additional funds from the Ministry of Finance. These requests normally took the

form of brief memos citing the need for a certain sum of funds to pay a certain number of troops. Presidential level endorsement or approval of these requests was generally easily obtained. Despite a variety of delaying tactics by the Minister of Finance, in collaboration with the Governor of the National Bank, the requests were usually honored.

The result of this fairly widespread practice was a situation whereby budget funds were used to pay "phantom" or "flower" troops, while "real" soldiers went unpaid. The funds thus siphoned off by the unit commanders were then expended as they deemed appropriate. Analysis of upward movements in the black market exchange rate and monthly pay periods indicated that some part of the funds were being converted to foreign exchange. The construction of elaborate "villas" in Phnom Penh by military commanders indicated that this was also one of the favored uses to which diverted funds were put. While there is no firm basis for estimating exactly the extent to which military funds were misdirected, reliable intelligence estimates of actual troop strength as opposed to programmed figures indicate that at least 20-40 percent of the total budget funds provided for military salary payments may have been used for non-salary purposes. When confronted with these accusations, many commanders offered the excuse that these funds were needed for "operational" expenses of their units, the "operational" budget of each commander being too small. It proved impossible to determine the degree of validity, if any, of this claim.

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U.S. Military officers understandably appeared reluctant to criticize or undermine the power base of their key counterpart official in the FANK on whom they relied for intelligence and cooperation. ~~This tendency reached its peak in the weeks~~ Just prior to the collapse, ~~when~~ another inflationary pay increase was proposed in an attempt to bolster FANK morale, with no real assurances that the last increase would have a better chance of reaching the troops than had the former, still unpaid increases.

The funds provided to the Ministry of Education were programmed primarily for the payment of teachers' salaries. While there is no clear indication that fund diversions occurred through the guise of "phantom" teachers, as in the case of the military forces, the number of hours worked by teachers (and civil servants) declined substantially through the course of the war, to the point where it was generally acknowledged that a two-hour workday (ten-hour work week) had become the standard throughout the civilian and academic ranks. The explanation for the reduced work-week normally given was the compelling need for civil servants and teachers to "moonlight" extensively in order to meet the higher living expenses wrought by the rapid war-induced inflation. Because of limited capacity to obtain additional budget revenues either from domestic or counterpart sources, the government was unable to rectify this particular problem.

The net effect of the salary fund diversions by the military and the implicit reduction in "actual" work-week by teachers and civil servants, was to create "real" budget flows of funds that differed significantly in amount and purpose from those intended. These

distortions, in turn, effectively undercut the usefulness of the budget as an instrument of governmental authority and funding power.

Whereas established budgetary procedures provided limited legal flexibility in the utilization of funds allocated to the operational ministries (Defense, Education, etc.), there was considerable leeway allowed in the utilization of funds allotted to the Minister of Finance. This was accomplished through the use of various non-specific line item entries which enabled the Minister of Finance to spend funds for the purposes he deemed appropriate or politically expedient. Through this technique, the Finance Minister attempted to reserve a portion of budget funds for "constructive" purposes, such as development projects, rehabilitation activities, and public investments; and to provide "contingency funds" to meet unexpected needs and increased costs due to inflation.

Inevitably, some of the funds were used as "inducements" to various administrative and regional officials to get them to carry out desired programs or to undertake certain desired actions. The authority for making such "payoffs" was apparently invested in the Minister of Finance but, for the most part, he acted under the direction of his superiors. Reliable modern accounting and auditing procedures were practically non-existent in the Khmer Republic, so that there were no effective means for checking on "actual" as opposed to "programmed" budget expenditures. Moreover, spending authority was by tradition "vested" in government officials, and their spending decisions were rarely challenged.

The need to reform and modernize GKR budgeting methods was generally recognized by both Khmer officials and foreign economic advisors; but the talent needed to undertake this arduous task was never effectively mobilized. The key objective of the proposed reform efforts was to shift budgeting operations to a "functional" basis and to review expenditures and revenue requirements in "real" as well as "nominal" terms. The "functional" basis for budgeting would permit funds to be directed in "cash-flow" terms towards specific "activities" or "projects", rather than distributed along administrative lines for "personnel" and "material" costs. A review of budget fund flows in "real" terms would enable the fiscal authorities to take account of differential inflationary rates for material costs and other expenditure "objectives".

Primarily because of the deficiencies of the GKR budgeting system, various controls were placed on the use of U.S. aid counterpart for budget support and other purposes. Counterpart funds for budget support were granted through "Project Agreements" which required that the purposes for which the funds were to be used had to be specified in some detail. Further, the use of these funds were subject to audit and end-use checks as provided under AID regulations. But, as a matter of course, the procedures for using AID funds for "military budget support" became routinized, and the description of intended purposes, standardized. In addition, a genuine shortage of AID personnel on site precluded effective end-use checks. Consequently, a very large proportion of AID funds were dispensed in "block" amounts for ~~relatively obscure~~ "military budget support" purposes. Thus, the use of AID programming instruments to guide the allocation

and expenditure of counterpart funds provided for budget support purposes, had only limited success.

Another means for retaining control over the use of AID counterpart for budget support was to make direct contributions to "extra budgetary" activities, such as refugee relief, and rice transport operations. Normally, these would be classified as budget items and included within the national budget. But, in the case of Cambodia, by 1974, U.S. contributions to extra-budgetary activities exceeded those made to "budgetary" activities. The government's role in supporting refugee relief and rice transport operations was minimized. This had a severe effect on the morale of government workers inasmuch as the salaries paid to "extra-budgetary" functionaries greatly exceeded those of government officials of comparable rank and talent (see discussion of the Khmer Reconstitution and Development Foundation in Chapter VII). Moreover, the government suffered in "public relations" terms from its lack of direct and meaningful links to refugee relief and other "humanitarian aid" programs. These assistance programs reached provincial towns as well as Phonom Penh, but the opportunity for government officials to gain favorable exposure outside Phnom Penh was slim.

Last minute efforts to bring "extra-budgetary" activities under direct government control were superficial and inadequate. Moreover, the government attempted to finance its competitive involvement with additional advances from the National Bank, adding further to the inflationary pressures that were already heavily eroding the purchasing power of government workers' salaries. The two-budget system that emerged in Cambodia over the course of the war became

very costly to the GKR and the Khmer people.

Chapter XI in the Annex to this Report contains the IDA perspective on the GKR's budgetary process.

V. The Exchange Support Fund

The Exchange Support Fund (ESF), which came into being in the spring of 1972, can and should be viewed in several contexts. First it was an important supplementary source of financing for commodity imports whose need was not anticipated when the USG drew up its initial program design for the commodity import. Second, it was considered by some -- certainly by Cambodia's advisors from the International Monetary Fund -- to have played a very significant role in the overall battle to stabilize the Khmer economy and to help promote and maintain a realistic rate for foreign exchange. Lastly, it was by far the most important channel for multilateral aid to Cambodia.

A. The Need for a Supplementary Source of Import Financing: Prior to the March 1971 visit to Phnom Penh of the IMF Study Mission, Fund staff members informally voiced their doubts to AID/W officials that a U.S. commodity import program tied to U.S. source goods would adequately meet Cambodia's import needs in a timely fashion. The Fund staff hinted that during their forthcoming discussions with Khmer Government officials, they would suggest the establishment of a foreign exchange pool, similar to the Foreign Exchange Operations Fund (FEOF) employed in neighboring Laos, as a means of funding imports and certain "invisible" (i.e. non-import) transactions for which USG funding would not be appropriate.

Accordingly, neither Embassy Phnom Penh or AID/W were surprised to learn that the Fund Mission had recommended to the GKR the establishment of a multilaterally-financed pooling of foreign exchange reserves -- which later came to be called the Exchange Support Fund.

After a series of exchanges with the Mission, it was agreed that the USG could support in principle contributing to such a fund because it could assure the GKR of financing for needed imports and provide it a means to maintain reserves at an acceptable level. We also believed that, if the creation of a fund of this type were linked to rate reform, it would provide the GKR with the necessary incentive to proceed with establishing a flexible exchange rate. Our support, in principle, was limited however to a fund that would finance commodity imports only (excluding certain luxury goods), ~~luxuries~~ -- but we stressed that such a fund would probably not be acceptable to the USG and other potential donors unless it excluded financing of "invisible" transactions (e.g., overseas Embassy and student costs, capital transfers, repatriation of capital) and the USG suggested that the most essential of these "invisible" costs be financed out of the GKR's own foreign exchange earnings.

The USG also agreed to support the creation of the ESF because we thought it would maximize the potential of financial support to Cambodia from other countries -- thus reducing the aid burden on the USG. Prior to the creation of the ESF, Cambodia had received modest amounts of economic aid -- from Japan, Australia and New Zealand, plus, of course, technical advice from the IMF - but the proposed new fund would, we thought, provide a channel for more substantial

multilateral support.

Both we and the GKR realized that it would take considerable time and effort to secure adequate multilateral support for the ESF. Meanwhile, Cambodia's foreign exchange reserves continued to be drawn down rapidly to finance import and "invisible" transactions where CIP funding couldn't be utilized. Liquid reserves were down to an estimated $8.3 million, and the GKR could not meet its current payment requirements. Having accepted in principle that the GKR had an urgent additional foreign exchange reserves, The USG was sympathetic to a Khmer request for a bilateral grant to tide the CAmbodian economy over until the ESF could come into being. Accordingly, on October 27, 1971, the USG made available the first $10 million transfer of a total $20 million cash grant. The grant was in recognition of a series of GKR measures recently taken to correct excess demand on the supply of foreign exchange, including a) devaluation of the exchange rate by over 100 percent, b) increased import taxes on all nonessential commodities, and c) restrictions on availability of credit and on money supply .

The ESF was supposed to come into existence on January 1, 1972. But many unanticipated obstacles arose. The USG released the second $10 million portion of its cash grant in March, 1972. Finally, after considerable delays and discussions between the GKR and potential donors to the Fund, - having to do with, inter alia, the total size of the Fund, its purposes, and the method for making policy and operational decisions, the Exchange Support Fund came into being in May, 1972.

Japan, Australia, Great Britain, Thailand, New Zealand, and Malaysia were contributors as well as the United States and the Khmer Republic. The GKR's own contribution to the $35 million fund included its $6.25 million compensatory financing drawing for the IMF (granted in recognition of Cambodia's substantial losses in exchange earnings caused by the war).

Among the more important provisions of the ESF were the following:

- It would finance (a) commodities for which CAmbodian reserves and earnings were insufficient, and (b) services and commodities required in connection with capital projects or technical assistance.

- The Fund was to run for one year, ending on December 31, subject to renewal by the GKR and other donors (for the first year, of course, this meant the Fund would cover only seven months).

- A steering group, comprosed of representatives of the donor nations in Phnon Penh, would meet regularly to supply operational guidance (including commodity and source eligibility) and interpretation of the ESF charter.

- A professional manager - with prior FEOF experience and supplied by the IMF -- was hired to provide day-to-day supervision of Fund operations.

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- Local currency generations created by importer purchases of foreign exchange from the Fund would at the option of the donor, either be sterilized as an anti-inflationary measure, devoted to budget support, or used for local currency costs of development projects.

- ESF funds could not be used to purchase goods reserved exclusively for CIP on PL 480 financing by the U.S.

B. The Working of the ESF: Conceptually, the ESF appeared extremely well suited to the role it was designed to play in helping to stabilize the Khmer economy. It provided a reserve of foreign exchange funds, supplemental to those available from other sources, which could be applied in response to market demand for imports or for certain services. Though market-oriented, it was under the control of an independent manager who was sponsored by the IMF. Objective criteria and rules were established to determine importer eligibility and to provide for the maintenance of an orderly market. Multilateral participation provided an important political and psychological boost for the Khmer Government. ESF funds were distributed among importers on the basis of competitive bids in the Nouveau Marche; when allowed to operate properly, this feature helped to maintain and promote a realistic exchange.

Insofar as the ~~component~~ proceeds from ESF sales were used to finance a part of the budget deficit, there was no inflationary effect from their expenditure inasmuch as they represented a net transfer of riels from the private sector to the government. However, the fact that these funds were known to be available, no doubt,

at times induced the government to provide for additional expenditures in anticipation of their receipt. But, of course, the same could be said for ~~counterpart~~ revenues from other sources; particularly at those times (such as all of 1974) when advances to the budget from the National Bank were by law a fixed proportion of the previous year's borrowings.

The ESF often lived up to its expectations, particularly in its first year. This was the case for a rather lengthy period after its inception when the foreign exchange available was adequate to meet demand. Competitive bidding was then actually the basis for the allocation of funds, and an active interest was taken in the proper management of the Fund both by the GKR, as well as its multinational sponsors and the IMF. This was also the case in late 1974 when, after a prolonged period of prostration, a series of economic reforms took place and the Fund was replenished and restored to an active role in the exchange sector as part of an overall economic revitalization scheme.

The deteriorating economic and military conditions in Cambodia, however, along with exchange market corruption and the steady erosion of multilateral support, eventually reduced the Fund to a near moribund state operation. Donor comtributions badly lagged behind commitments. Coordination among the sponsors was then ~~fatally~~ further undermined by the cessation in early 1974, of the IMF's active ~~support~~ policy-advisory role in the GK and the withdrawal of the Australian and New Zeland governments as active donors. After the IMF withdrew its resident representative from Cambodia, the U.S. was forced to propose more unilateral plans for getting the

ESF to respond meaningfully to the changing requirements of the Khmer economy. The USG was successfull in persuading the Fund Working Group to eliminate the use of ESF funds for non-essential imports. U.S. commitments were partially earmarked to channel funds towards priority requirements, e.g., rice freight costs, tractors and other agricultural inputs.

Growing disinterest by the other donor countries was reinforced by inadequate GKR participation in the ESF and a charter-bound manager, whose interpretation of his responsibilities and the Fund's purposes precluded the Fund from coping with changing conditions.

The GKR's increasing difficulties in maintaining the competitive features of the Fund's operations, as well as donor reluctance to alter its operating provisions in accordance with changing circumstances, were probably the primary immediate causes of the Fund's failure to fulfill its potential. At the same time, the growing donor disinterest (which was reflected mainly in lagging contributions and uninspired participation in Fund activities) had a more devastating impact on the ESF, and the causes of this disinterest were more political than economic in character. The gradual decline of the ESF was but another manifestation of the gradual decline of the Khmer Republic.

VI. Cambodia's ~~Rice~~ Food and Fibre Needs:

The PL 480 Assistance Program to Cambodia for Rice and Other Commodities

One of the major elements of the U.S. economic assistance to Cambodia was the PL 480 program. It started with the CY-71 Agreement with $8.5 million, for wheat flour, vegetable oil, tobacco, cotton fibre and cotton yarn. When wheat, corn and most particularly rice were added to the 1972-1975 Agreements, the grand total of all PL 480 commodities delivered from the U.S. amounted to $250 million. Since by far the largest part of the PL 480 program was rice, most of this section of the Termination Report is on that subject.

A. Rice Production and Supply:

Cambodia's most important foreign exchange earners, both during the French occupation and after Cambodia had gained independence, were rice and rubber. These two crops accounted for some 80 percent of Cambodia's exchange earnings. Rice alone (565 thousand tons exported in 1965) accounted for over 60 percent of total commercial export. Starting in 1966, there was a marked decline in export of rice due to alleged series of poor crops, but principally due to few other factors: illegal sales of rice through black market entrepreneurs to Vietnamese Communist troops (usually paid in US dollars via Hong Kong, at prices higher than the fixed price scale controlled by SONEXIM, the government's trade agency), fixed government purchasing rates not related to world market prices; and almost simultaneous increases up to 40 percent in local taxes on direct sales to the Chinese, all of which discouraged peasants from growing rice for more than minimal needs. Reports on "poor crops" may really have reflected peasant apathy, particularly in the richest rice growing region

in the Northwestern Province of Battambang. The discontent over poor prices they were receiving for their rice facilitated the leftist propaganda and encouraged the peasants to rebel against the hierarchy whom they blamed for their predicament.

1. Paddy, the cornerstone of Cambodia's economy.

The 1969-1970 Cambodian harvest of paddy (unmilled rice) was reported at 3.814 million metric tons, up 52 plus percent over the previous year's crop, which had been adversely affected by weather conditions. CY 1970 milled rice exports more than doubled from 88,000 metric tons in 1969 to 180,000 and accounted for $16.2 million ~~dollars~~ in foreign exchange earnings, 41 percent of the total $39.8 million. This compared to $12.8 million, 19 percent of the total $66.1 million earned in 1969. The two-year segment was fairly representative of the overall production record during the fifties and sixties, characterized by ~~stagnant~~ widely varying export levels. Although rice exports were far and away the major foreign currency earner during the two decades, no significant effort was made to upgrade agricultural practices and yields ranged between eight-tenths and one-and-a-half tons per hectare, among the lowest in Asia. Production swings were wide from year to year with weather the nearly absolute arbiter of final output. World rice price fluctuations made the earning pattern more uneven. Still, except for a few short periods, Cambodian paddy harvests were adequate both for internal consumption requirements and largescale rice exports. Erratic though it was, paddy production and exports were clearly the cornerstone of the Cambodian economy.

2. The production decline between 1970 and 1975.

a. The Causes of Decline

Despite the excellent 1969-1970 crop, signs of trouble in the

cumulative agricultural base had already begun to appear in the previous few years as Vietnamese communist inroads into ~~western~~ eastern Cambodia, especially in the mid and late sixties, took their toll. Cambodia's inability to control or affect world price fluctuations for any of her exportable commodities (principally rice, rubber, corn, livestock, and forestry products) intensified the problem of strengthening and upgrading the sagging agricultural base. Following the political and military upheavals in the first six months of 1970, the difficult became nearly impossible and the nation's productive capacity nosedived toward chaos and complete ruin.

b. Production statistics.

After 1970, statistical reports, except for Battambang and a few nearby provinces, became more and more responsive to political considerations and increasingly less reliable for economic analysis. The situation in Battambang, the major producing area in the country and after 1972 the only area with any surplus production, was regularly studied and surveyed by US and GKR officials, both to encourage and protect what was left of the domestic production base and in an effort to maximize use of domestic supplies before asking Washington for PL 480. As a result, data from that area was considered reasonably reliable and was an important input in estimating and projecting import requirements from 1972 forward.

The GKR published data for the period 1970-1975 indicates the severity of the nationwide paddy production decline.

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Crop Year	Hectarage	(000 Metric Tons) Paddy	Following CY Milled Rice (000 Metric Tons) Exports	Imports
1969-70	2,458	3,814	180	-
1970-71	1,880	2,732	44	-
1971-72	1,549	2,138	18	75
1972-73	782	1,023	11	135
1973-74	554	655	-	302
1974-75	450	556	-	138*

*Through April 15.

c. Evaluation of the statistics.

Although the hectarage and output totals themselves are as much fancy as fact, the trend was correct. If these figures were taken at face value, the decline in production between 1970 and 1975 would have been a staggering 85.4 percent, enough to ensure absolute disaster. But while cases of malnutrition and starvation in the last months of the Republic became more common, they were not on the order implied by an 85 percent drop in rice supplies. It can reasonably be assumed that the overall decline has been overstated by a wide margin and may be closer to or less than 50 percent. Even this, however, would have occasioned far more serious problems than those actually noted. A number of factors contributed to slowing the spread of malnutrition and starvation. Four identifiable ones were an understating of production in GKR-controlled areas, completely ignoring production in insurgent-controlled areas, the growth and use of substitutes (especially sweet potatoes) and the availability of imported U.S. rice.

d. From exports to imports.

1970 and 1971 rice exports totalled 188,000 and 44,000 metric tons (M/T) respectively. In 1972 Cambodia exported only 18,000 tons of rice and imported an estimated 75,000 from Thailand and Japan. 135,000 were imported in 1973. 45,000 tons of this was Thai rice and 90,000 U.S. PL-480 Title I rice. As more and more people fled their fields and homes and took refuge in Phnom Penh and the enclaves during 1973 and 1974, USAID and GKR officials raced to stay a step ahead of one impending rice crisis after another. The USG moved rice to Cambodia at a rapid pace despite a worldwide grain crisis in 1973 and a growing debate at home on PL 480 allocations and the use of local currencies generated by PL 480. Even so, stock levels were seldom adequate for more than a few weeks, and several times in 1973 and 1974 emergency supplies had to be rushed from South Vietnam and once from Korea. The stock level from Phnom Penh city slipped several times to critical levels dropping, at one point in November 1974, to three days supply. 1974 imports totalled 302,000 tons, all PL 480.

The following table shows all PL 480 rice Agreements for Cambodia, the quantities stipulated in the Agreements, quantities shipped, quantities delivered and the arrival periods. (Quantities shipped were higher because the Agreements were denominated in dollar terms, and in each case, slight price decreases subsequent to the Agreements allowed for larger quantities of rice).

	Agreements	Shipped	Delivered	Arrival Period
RICE	CY 72 70,000 M/T	73,400 M/T	73,319 M/T	Dec/72 - July/73
	FY 73 28,000	cancelled	0	-
	FY 74 285,000	285,963	277,339	Dec/73 - Oct/74
	FY 75 209,000	211,623	123,128 *+	Dec/74 - Apr/75
TOTAL	592,000	570,243	473,786	

*+ The difference in FY 75 shipments of 211,332 M/T from the U.S. and 123,128 M/T delivered to Cambodians (both surface and air) is accounted for as follows:

+ For further detail, see the discussion on rice airlift and other means of transport in Chapter VIII, Logistics and Transport.

Arrived in Cambodia (including 696 M/T in U-Tapao)	123,128 M/T
Lost en route (including the S/S Vah-On on the Mekong Convoy)	1,679 M/T
Lost to PRG in Saigon (after repayment of the GVN loan)	43,585 M/T
Estimated recoveries in Singapore, Hong Kong, etc.	43,231 M/T
Total	211,623 M/T

e. Rice Distribution System

The average daily distribution in 1973 out of Phnom Penh's stocks for the city population, FANK, and miscellaneous was 529 M/T, with monthly averages as follows:

January	325 M/T	April 494 M/T	July 444 M/T	October 475 M/T
February	449 M/T	May 551 M/T	August 539 M/T	November 581 M/T
March	596 M/T	June 574 M/T	Sept. 434 M/T	December 652 M/T

Due to the influx into Phnom Penh of larger numbers of refugees in the following year, the average daily distribution in 1974 rose to 694 M/T. Finally, in the first three months of 1975 the average daily distribution level decreased to 543 M/T. During the very short period after PL 480 Title II was approved, (see below) i.e., between March 10 and April 11, an additional average of 100 M/T of Title II rice was distributed daily by the voluntary agencies operating in Phnom Penh.

The government rice quotas for the Phnom Penh area originally set at 770 M/T per day, were gradually decreased to 750 M/T (December, 1974), 600 M/T (January, 1975), 545 M/T (February, 1975), 530 M/T plus 100 M/T Title II (March, 1975). It may be useful to examine in some detail the distribution system put into effect in December, 1973 for the civilian population of Phnom Penh and immediately surrounding areas. This system, which accounted, for instance, for about 350 metric tons of the daily Phnom Penh quota (in 1974)

was administered by the official rice-buying and distribution agency whose acronym was OFFINACO. The distribution scheme administered by OFFINACO replaced an earlier system handled by a paramilitary organization generally considered to be inefficient and inequitable in its allocation patterns.

1. Wards: Civilian population was divided into city precincts and sub-divided into 294 wards. Each ward was forther divided into 50-house groups. The total daily quota was 250 metric tons. Wards received their rice quotas every ten days. For each period, a request was submitted to OFFINACO by the precinct chief listing the number of inhabitants in each ward based on "Carnets de Famille" (a Family Book issued by City Hall listing all members of the family, dates of birth, etc.), and signed by the ward chiefs. After verification by OFFINACO the distribution was authorized and delivery orders issued. Delivery was made from state-owned SONEXIM's warehouses by the two major trucking firms in the city. Payments were made by the consumers to the ward chiefs at the time of distribution, and turned over to the precinct chiefs who deposited the funds in OFFINACO's accounts at the local banks.

2. Civil Servants Associations: These were grouped by ministries and/or government agencies. Their total daily quota was 70 metric tons. According to a pre-arranged delivery schedule, each association obtained its individual quota once a month upon presentation to OFFINACO of a purchase request signed by the Association's President. Lists of members were drawn on the basis of the family books, and were supported by a copy of paylists prepared by each government agency. All documents were verified by OFFINACO. Individual payments were collected by the Association Presidents, who, in turn, deposited full payments in advance in OFFINACO's accounts at the local banks. OFFINACO's trucks delivered rice directly from SONEXIM's warehouses

to the Associations which, in turn, distributed to their members.

3. Refugees: (See Chapter VII for a description of the overall refugee assistance framework and the role of the voluntary agencies -- often called volags for short.) The total daily quota distributed to refugees via the voluntary agencies was 18 metric tons (prior to the establishment of a Title II program). Voluntary agencies submitted monthly requirements to the Ministry of Refugees for approval, and received their quota authorizations. The volags then purchased rice directly from SONEXIM (the State trading organization) and distributed it to refugee camps and/or groups.

4. Retailers: There were 70 government-registered retailers (previously 299) authorized to sell rice in the market place. The total allocation was 7 metric tons per day or 100 kilos per retailer. Rice was sold to the general public in lots of 1 kilo or less. These retail outlets benefitted mostly low-income groups who sometimes could not afford to purchase a 10-day allocation at one time under the ward distribution system.

Every day the National Radio announced the daily amount of rice distributed by OFFINACO to show the public that rice was available on a regular basis. Independently of OFFINACO, a quota of 200 metric tons per day was authorized for the GKR military and dependents. Rice was transferred from SONEXIM's warehouses to military stores from where it was distributed to the various units. Payment was made to SONEXIM's account by the Ministry of Defense.

The problem in devising a well-functioning distribution system was that the official government selling price was significantly lower than the true market price for rice as determined by the balance of supply and demand in the market. The cheaper government-distributed rice was in relation to other commodities, the greater was the demand as rice then became useful for

secondary purposes such as animal feed, rice alcohol, noodles and pastries. Such a situation was bound to provide opportunities for black market sales.

As noted above, individual allocations were based on the "Family Book", a system that was widely abused. The Books had been issued back in 1971 and they did not reflect the true composition of each family. Moreover, the more affluent segment of the population could afford to purchase rice on the free-market, and would let another family use their book.

The best solution would have been to institute a rationing of rice solely by price. However, unless the rice supply was available in sufficient volume price rationing alone would have lead to even greater inequities in distribution because of the probability that the "haves" would bid up the price too high as to prevent the "have-nots" from buying enough rice to meet their minimal needs.

The Government body that regulated the administrative rationing of rice was the National Rice Committee which had overall responsibility for monitoring the rice supply and demand, setting up quotas, controlling the financial management of the distribution system, and the recommending pricing policies to the Government. USAID was represented on the Committee by an American officer who as an active participant presented the views of the Mission, and furnished advice and guidance on policy matters.

In addition to quotas from the Phnom Penh area, strict controls were also set up for the supply of rice to the military, the civilian population and the refugees, in various enclaves, as well as in the maritime provinces. The proportion of the PL 480 rice in the distribution system was adjusted according to the availability of locally harvested paddy. However, when the military situation deteriorated, in many places the PL 480 rice was the only rice that could be relied upon, and airlifts and airdrops

became the sole channel of supply.

f. Estimating rice import requirements

The requirement for rice imports from mid-1972 forward was based on a real need for food supplies to feed the population in Phnom Penh and the enclaves, a growing number of refugees and GKR military and civil service personnel plus their dependents. These people could not produce rice themselves and were mostly dependent on the government for their supplies. No one conversant with the military and production realities in the country doubted the real need for rice imports to avoid serious shortages and hunger. However, while there was considerable concern that the amount of PL 480 rice brought in be adequate to meet minimal deficit requirements, every effort was also made to hold down the total. Responding partly to Congressional questioning at home over the large amounts of PL 480 going to Indochina, but more fundamentally to both U.S. and GKR concerns that the amount of rice brought in be not such as to impede domestic production efforts, the GKR in conjunction with the USAID Mission reviewed all available data several times each year from late 1972 forward. The unreliability of production, supply and population data made it misleading to try to determine the import requirement by the method which multiplied a daily per capita figure times the population, divided that into gross production and obtained a deficit tonnage required. That approach had the further general disadvantages of

ignoring price elasticity considerations, availability of substitutes and alternative uses of paddy and rice, e.g., animal feed or liquor production. The major reason for not using this method was the unreliability of the data base, particularly production, on-farm stocks and population totals. No completely acceptable way to determine the requirement could be found.

The method finally used centered around a trend line analysis of what came to be called the 'deficit requirement'. This method used the known GKR distribution data to obtain a monthly total used to supply the Phnom Penh and enclave markets as well as military men, civil servants, their dependents, and refugee and other needy persons. Estimates of available domestic surplus from Battambang and nearby provinces were subtracted from the total. People in other rural areas were assumed to be producing enough for themselves, but no marketable surpluses. An effort was also made to monitor and interpret the effects of price on consumption with an eye to holding down consumption through official price increases. This of course had important political and humanitarian overtones and was always the most fiercely debated part of policy changes. Periodic checks were made to ensure there was no buildup of domestic rice that could be used instead of imported rice. Reports of crossborder trade in paddy or rice were also reviewed. The GKR generally relied on price incentives to draw out available domestic surpluses. These were subtracted from the estimated 'deficit requirement' total and the consequent remainder was the figure proposed to the senior AID and Embassy officials for submission to Washington as a PL 480 request. This figure was intensely reviewed by AID personnel on a

regular basis. The record shows that Mission requests from 1973 forward stayed on the low side of requirements and that PL 480 rice requested was never more than the basic amount needed to avert serious food supply shortages among the deficit population.

B. Rice and Paddy Price Policy

1. Policy objectives.

GKR rice price policy decisions in Cambodia between 1970 and 1975 attempted to balance out the demands of four different groups. Consumers wanted adequate supplies at low prices, particularly in view of the prevailing low income levels, high unemployment, and runaway inflation. Merchants wanted prices high enough to cover all costs and provide maximum profit. Paddy prices were intended to protect and enhance production incentives for farmers and to minimize paddy rice outflow to the Thai market. The government needed a large amount of rice itself to provide for the needs of military and civil service personnel plus their dependents and a growing number of refugees and other needy people.

2. Introduction of consumer price controls.

By 1973 with domestic production nosediving and high priced rice imports mounting, it became evident that letting normal supply and demand pressures and the landed cost of imported rice determine prices would push the cost to the consumer well above tolerance levels. Price intervention was necessary. This took the form of setting official prices for the sale of imported rice, which by 1973 already accounted for a sizeable percentage of the deficit requirement, perhaps as much as half by mid-year. It was difficult to say exactly how much since accurate data on domestic deliveries to Phnom Penh and the enclaves was not available. The percentage rose steadily from mid-1973 forward and by late 1974 was probably well above

80 percent.

3. Subsidized prices.

Because of the low income levels, high unemployment, and the sharp increases in the cost of US rice during the worldwide grain crisis of 1973, the official selling prices quickly involved a substantial and growing subsidy. Only through massive subsidies and the rapid expansion of imports were rice price increases moderated at all. By the end of 1973 the import of rice was a clear and pressing necessity. No one can say definitively what part - if any - the sale of imported rice at heavily subsidized prices played in the deterioration of the domestic market. While it is true that imported rice rapidly replaced domestic rice in the market stalls of Phnom Penh, there were no build-ups of unsold domestic rice and it seems clear that the breakdown in security, reflected both in reduced production and severely restricted transportation, was the overwhelming factor in market deterioration and the availability of imported rice a minimal one.

4. The rice price spiral and its effects.

Free market rice prices rose from a May 1971 base index of 100 to 133 at the year's end, to 374 by the end of 1972, then leaped to 1,604 in 1973, 4,454 in 1974, and were well above 5,000 by April, 1975. The food side of the cost of living index rose to over 4,000 and the index as a whole to more than 4,400. Wages in the same period fell well behind the cost of living increase. The government was unable to do much to improve the situation as domestic revenues dropped off to only a fraction of what they had been. PL 480 rice arriving at a landed cost ranging from 500 to 700 and more dollars a ton was sold at subsidies that climbed to 75 percent and more of value. Even so, by early 1975 the plight of refugees and unemployed/underemployed persons was so severe that many could not afford even a day or two's subsistence level of rice at controlled prices. A large program of Title II handouts through volunteer agencies had to be started to alleviate mounting malnutrition problems. The subsidized prices, the direct handouts and the decline of the domestic tax base created considerable strain on the budget. The Title II program begun in early 1975, had the U.S. presence continued, would have expanded rapidly and would have eventually eliminated whatever small chance still existed to change or adjust consumer rice price policy to help meet economic goals.

5. Economic and humanitarian considerations: the dilemma. From 1973 forward immediate political and humanitarian considerations tended to overwhelm any economic arguments for consumer rice price increases. Efforts to avoid the bankrupting effects of the policy were perforce deferred or had to be watered down to permit the government to survive more

immediate crises. Still, official selling prices were raised several times in an effort to hold down consumption and as part of comprehensive economic reforms. The most dramatic of these was a tripling of rice prices combined with a doubling of wages in November, 1974. But on every occasion the juggernaut of inflation was only momentarily slowed. In attempting to solve the basic dilemma of rice pricing, the government had opened a virtual Pandora's box. The old phrase 'damned if you do, damned if you don't' comes to mind, to describe the effort to control consumer rice prices.

6. Paddy support prices.

In struggling to keep alive what remained of the paddy/rice economy, supporting paddy prices to maintain producer incentives was a major policy objective. But it is unlikely that any amount of price incentive could have reversed the extensive land abandonment and production decline caused by the continuing breakdown of security between 1970 and 1975. The traditional surpluses of Cambodia came from the northwestern provinces, principally Battambang. The rest of the country had generally been just at or slightly below self-sufficient. From 1973 forward the Battambang surpluses were dwindling rapidly and the rest of the country was a patchwork of mostly abandoned land, some limited insurgent production areas, and a number of enclaves jammed with people dependent on the government for their daily rice ration.

In attempting to estimate what paddy price to pay in Battambang, as much attention - if not more - was placed on the amount necessary to prevent an outflow of paddy to Thailand as on any consideration of costs of production and profits. Reliable production cost data were not available and the implicit assumption was that free market demand for the farmer's paddy would meet his costs and provide adequate profits. While never deliberately tested, this assumption was on the whole probably valid, especially so since the government's purchasing agencies (SORAPA and SATRAR) worked in a competitive framework vis-a-vis the merchants and very seldom engaged in actions designed to force sales to themselves exclusive of merchant and farmer interest. In fact, the limited data available indicates the government buying price was generally good enough to serve as an effective floor price in support of production incentives. However, budget limitations and bureaucratic delays somewhat limited the extent and the timeliness of this floor price function.

7. Reports of crossborder trade.

Persistent reports of paddy and/or rice sales to both Thai and Vietnamese markets were difficult to prove out one way or the other. However, some tentative conclusions can be made. Cambodia did most of its own exporting until 1972. With the introduction of PL 480 imports Cambodia had to agree to halt exports. Price incentives for illegal trade between Battambang and Thailand existed during 1973 and most of 1974, particularly if riels purchased at black market dollar rates were the medium of exchange. With the imposition of import restrictions the desirability of traditional

barter trade was also enhanced. High profit luxury goods were added to farm machinery, repair parts, cloth and medicines. North Vietnamese and Viet Cong forces dominated the borders with Vietnam and Laos, but paddy production in eastern Cambodia was never of a level to support any significant outflow to Vietnam or Laos. It was generally considered a rice deficit area and whatever crossborder trade existed was widely reported to be Cambodian beef for Vietnamese rice, medicines and other products brought in from Saigon. From late 1972 forward the devestation of Cambodia's cattle population was widespread enough to severely reduce any crossborder trade in beef to minimal levels. However, as late as mid-1974 Battambang oranges continued to be available in Saigon. Lacquer extract ~~at ten times the price~~ also continued to move to Lai Thieu and other lacquerware manufacturing towns around Saigon. Today, except for small amounts of gems from Pursat and some rubber and other forestry products (limited by shortages of POL and mechanized equipment), Cambodia has no known sizeable amount of commodities to export. Resumption of rice exports are out of the question for the foreseeable future.

C. The Current Rice Situation in Cambodia and Near-Term Production Prospects.

For CY 1975 nearly 140,000 tons of PL 480 rice were committed by April 15, 1975 and projections for the total CY 1975 requirement ran between 325,000 and 400,000 metric tons. Estimates of the population jammed into Phnom Penh and the enclaves ran, in the last days of the Khmer Republic, as high as three and even three and a half million. More than half of these had fled from the country-side letting their paddy fields go unplanted and became consequently heavily dependent on U.S. provided rice. As of mid-April GKR owned rice stocks to feed the estimated two to three million people who lived in Phnom Penh and the enclaves or served in the FANK (otherwise termed the 'rice deficit population'), were about 65,000 metric tons. The population that was still living in the rural areas can be safely assumed to have had enough on hand to see themselves through to the next harvest. To avert a major food disaster, Cambodia needs from 175,000 to 250,000 metric tons of milled rice to cover the period July 1 to mid-February 1976.

Unlike Vietnam, with which it often is mistakenly compared, Cambodia has no credible amount of HYV (high yielding varieties) paddy which in large parts of the Delta of Vietnam is harvested in late October and November. Except for a negligibly small number of irrigated plots and limited areas in the maritime provinces, the new crop in Cambodia comes in during late December and is not marketable in milled rice form until late January and February. Cambodia slipped in less than five years from a significant exporter of rice to large scale imports, and when these ended in April, 1975, to the brink of starvation. Even with completely

favorable natural conditions, the prospects for a harvest this year good enough to move Cambodia very far back toward rice self-sufficiency are not good. Besides the seed problem already cited above, production efforts will be hampered by a limited supply of seed and a lack of POL and spare parts to run the tractors, trucks and other mechanized equipment available. Cambodia has no known foreign reserves it can use to finance any substantial amounts of needed agricultural imports. Further, the draught animal population has been severely reduced by the war, with some reports ranging as high as 75 percent destruction. Most of the proposed planting program will have to be accomplished by the hand labor of seriously malnourished people. Land not planted for a number of years becomes badly overgrown, making the plowing job difficult even with mechanized equipment. Weed control will also be a serious problem. Without substantial foreign aid the task will be brutally difficult and the food supply crisis can be expected to extend over the next two to three years.

If ever a country needed to beat its swords into plowshares in a race to save itself from hunger, it is Cambodia. The prospects that it can or will do so are poor. Therefore, without large scale external food and equipment assistance there will be widespread starvation between now and next February and probably more of the same next year, though to a lesser degree. Slave labor and starvation rations for almost half the nation's people (probably heaviest among those who supported the GKR) will be a cruel necessity for this year and general deprivation and suffering will stretch over the next two to three years before Cambodia can get back to rice self-sufficiency.

D. Title II Rice

With the exception of the last nine months preceding the fall of the Khmer Republic, the Title II program in that country was a rather modest one. Up through 1974 there was no government-to-government Title II program in Cambodia. Voluntary (volags) and international (IAs) agencies formed the keystone of the humanitarian assistance efforts in the country. These agencies included CRS (Catholic Relief Services), CARE (Cooperative for American Relief Everywhere), WVRO (World Vision Relief Organization), ICRC (International Committee of the Red Cross), and UNICEF (United Nations International Children's Emergency Fund). Since 1973, up through the fall of Cambodia in early 1975, these agencies conducted major emergency relief and resettlement programs throughout Cambodia.

The volags and the IAs concentrated on two basic types of assistance to the most needy--refugees--through programs of emergency relief and resettlement. The emergency programs consisted of feeding, shelter, clothing, medical and nutritional care. In their resettlement activities they concentrated on family housing construction and provision of tools, seeds, fertilizers and pesticides to give the refugees a sense of permanence and, at the same time, increase their self-sufficiency. Title II foods provided for basic and supplemental food needs, while AID dollar funds, local currency generations and their own funds derived from private donations supported other aspects of the relief programs.

In ~~early~~ March 1975, as the situation became desperate in Cambodia, the USG approved Title II grants to the Government of the Khmer Republic (GOKR) of up to 20,000 tons of rice and 4,500 tons of blended fortified foods for emergency feeding of Cambodian children, refugees, displaced persons and the needy poor, including destitute familes, orphans, war widows, invalids and the aged. The approved grants stipulated that the Title II commodities

were to be furnished to the GOKR, which was responsible for receiving the commodities at unloading docks/ports or airports, for internal transport of these commodities in Cambodia and for their storage at central warehouses. Upon request, the GOKR was to release the Title II commodities to the volags, IAs, and participating GOKR organizational units at the central warehouse doors or at end-use sites.

At the time of withdrawal of the U.S. Mission from Cambodia on April 12, 1975, only 5,115 tons of rice had been delivered to Cambodia under these grants. None of the blended foods had reached Cambodia. The rice, however, was used to feed 410,690 recipients for a short period of time.

The following summarizes the Title II support for Cambodia during the period FY 1953 through April 1975. (in millions of dollars)

1953-1969	1970	1971	1972	1973	1974	1975
2.400	.017	.010	.019	.018	.015	2.665

E. Other PL 480 Commodities

Wheat Flour

The first commodity delivered to Cambodia under the PL 480 program was wheat flour. The first shipments arrived in June, 1971. Under the CY-71 Agreement, 18,835 M/T were delivered between June, 1971 and April, 1972. Under the CY-72 Agreement practically the same quantity (18,256 M/T) reached Cambodia between July, 1972 and March, 1973.

Wheat

With the establishment of the Khmer Flour Mill the imports of wheat flour were gradually replaced by imports of wheat. Under the CY-72 Agreement, close to 18,000 M/T were imported between November, 1972 and

October, 1973. The yearly requirements were set at about 35,000 M/T. Under the FY-74 Agreement, close to 25,000 M/T reached Cambodia between November, 1973 and August, 1974.

1972/1974 was the period of tremendous price increases. Wheat purchased in 1972 at $65 per M/T jumped to $220 and $230 in 1974. Freight increased from $53 to $160 per M/T. The cost of the 17,945 M/T delivered to Cambodia in 1972/1973 was only $1,400,000, as compared to the 24,890 M/T delivered in 1973/1974 at $4,317,000. The financing of wheat imports under those circumstances became too strenuous for the newly established Flour Mill. As wheat flour was a critical item in the economy the Mission accepted the principle of deferred local currency payments on the part of the importers for PL 480 wheat imports under the FY 74 Agreement. However, the arrangement for deferral was made directly between the Mill, SONEXIM and GKR, and it was in no way to defer any billings or payments to the U.S. by the Khmer Republic.

Tobacco

There are three tobacco manufacturers in Cambodia: MAC (Manufacture de Cigarettes Cambodge) accounting for about 60 percent of the total production, CKT (Compagnie des Tobacs); and MKT (Manufacture Khmer des Tobacs).

The first shipments of tobacco under the CY-71 Agreement arrived in September, 1971. 992 M/T were delivered within the next 12 months. The CY 72 Agreement supplied 1,367 M/T all delivered prior to October, 1973. The first two year's deliveries consisted solely of bland Virginia-type tobacco leaves. Black tobacco, very popular in some local brands, was still harvested in the provinces. In 1973 and 1974 the supply of black tobacco became quite an issue. Adequate quantities seemed not to be

available in the U.S. It was agreed that if U.S. could not supply black tobacco leaves under the PL 480 program, GKR might be able to use the ESF for purchases in the Philippines. Two purchases were authorized through the ESF channel.

The FY-74 Agreement provided for 750 M/T but only 479 M/T reached Cambodia between June and September, 1974. The balance was lost on the M/S Kabarly, sunk in August, 1974.

Cotton Fiber

The sole end-user of cotton fiber was the SONATEX Spinning Mill, who in turn used 50 percent of the produced yarn in their own weaving mills. The balance was sold to a number of small or medium size weaving establishments.

With a monthly requirement of some 250 M/T, the first PL 480 Agreement (CY-71) provided for 3,048 M/T but only 2,721 were delivered between December, 1971 and February, 1973. There were considerable delays and complications in transshipments. The CY-72 Agreement deliveries of 5,301 M/T started arriving in March and ended in October, 1973. There were no further deliveries of cotton fiber under the PL 480 program.

Cotton Yarn

To compliment the weaving industry's requirements, cotton yarn was included in all PL 480 Agreements. The first 1,610 M/T (under CY-71) were delivered between November 1971 and August 1973. Of the CY-72 Agreement, only 140 M/T were procured. They arrived in September and October, 1973. The last shipments were 807 M/T, under the FY-74 Agreement, which reached Phnom Penh between May and November, 1974.

Vegetable Oil

Vegetable oil was included in three PL 480 (CY-71, CY-72, CY-74) Agreements. 981 M/T arrived between August, 1971 and February, 1972; 986 M/T between March and June, 1973 and 700 M/T between June and September, 1974.

Corn

The last and most recent item to be included in the PL 480 assistance program was corn for animal feed. Under the FY-74 Agreement, 4,432 M/T were delivered in November, 1974.

F. Summary: Cumulative PL 480 Title I Agreements

COMMODITY	AGREEMENTS	QUANTITY DELIVERED (in metric tons or their equivalent)	VALUE (in $000)
Rice	CY-72,FY-74,FY-75	473,786	221,769
Wheat Flour	CY-71, CY-72	37,091	3,199
Wheat	CY-72, FY-74	42,835	5,717
Tobacco	CY-71, FY-72, FY-74	2,838	5,821
Cotton Fiber	CY-71, CY-72	8,022	6,290
Cotton Yarn	CY-71, CY-72, FY-74	2,557	5,840
Vegetable Oil	CY-71, CY-72, FY-74	2,667	1,283
Corn	FY-74	4,432	571
Grand Total			250,430

Note: AID - CIP disbursements through March 31, 1975 for transport of rice and other PL-480 commodities totalled $47, 686,195. Further disbursements are likely particularly for the airlift (transportation is not included in the above figure.

VII. Refugees - Problems and Response

A. The Refugee Plight - 1970-1975

The movement of refugees is a chronicle of the war from its outset to the fall of Phnom Penh in April, 1975. Despite all "refugee figures" proffered by various sources, the real numbers of homeless have never been known and, presumably, never will be. It seems to be a fact that the great majority of refugees fled to GKR areas. Of the numbers who, voluntarily or involuntarily, found themselves refugees outside those areas and living under Khmer Communist rule, we have no estimate. Depending on the circumstances, there were known to be some who, while counted as refugees, managed to continue to return to their homes by day to continue farming, retreating at night to the protection of the GKR.

With the outbreak of general hostilities in May, 1970, large numbers of rural Khmer -- individuals, families or entire villages -- began to abandon their homes and farms. They moved elsewhere either to avoid the fighting or to escape from the control of one or the other of the two opposing sides. Most of those who fled in 1970 and in the ensuing years of war chose to move into the security and relative freedom of the areas controlled by the Government of the Khmer Republic (GKR). Initially, these refugees required little assistance and for the most part were able to resettle and to support themselves. But as the years passed and the fighting intensified, the number of refugees increased and their relief requirements became greater, more complex, and more urgent.

By the end of the war in April, 1975, the number of refugees comprised almost half of the entire population under GKR control. Many

refugees by this time were completely dependent on outside assistance for survival. Concurrently, the social and economic condition of large segments of the Khmer civil population had so deteriorated that it became increasingly difficult to distinguish between the needy refugee and the needy urban worker -- or the needy soldier, for that matter. Thus, paradoxically, as the refugee situation became more and more critical, it was at the same time less and less readily identifiable as a distinct problem. Rather the plight of the refugees became inseparable from the larger social-economic collapse of the whole country.

The Early Years - 1970-1971:

In the beginning years, the war in Cambodia was characterized by small scale fighting, with few dramatic military reversals of the GKR but with a gradual expansion of Khmer Communist control. The abandonment of thousands of hectares of rice land and the interdiction of major lines of communication by enemy forces produced a configuration of isolated provincial enclaves in Cambodia, none of which were self-sufficient in basic foodstuffs. These enclaves (Kompong Thom, Kompong Cham, Svay Rieng, Takeo, Kampot, and Kompong Som) became dependent on Phnom Penh and its scarce resources to supply them by air or water transport with rice and other essentials for survival. The hostilities also caused the uprooting and displacement of a significant percentage of the Khmer populace. Thousands of rural Khmer were forced to abandon their homes and farmlands. Riding on cattle carts and bringing with them their personal possessions and food, they sought safety in and around district and provincial capitals and enclaves. In the early years of the war, these farmers were for the most part absorbed by the Khmer extended family system and were able to resume farming (although on a smaller

scale than before) on unused plots of land on the edge of provincial towns, or were able to find minimal employment as laborers in the towns. There they settled down to wait for the time when they could go home again -- for the general feeling at the time was that the war would be of short duration, ending in a restoration of control by the GKR. Thus, the early Khmer refugees were able -- at least in the beginning years of the war -- to relocate and to again become self-supporting. For the most part, their successful resettlement was possible because of the vigor of the Khmer economy, especially the agricultural sector which produced food cheaply and abundantly, and because of the strength of the Khmer family system. Unfortunately, neither of these two factors continued to operate as effectively during the later years of the war, and the predicament of the refugees grew more difficult.

The Years 1972 and 1973:

During the third and the fourth years of the war, the character of the conflict changed dramatically, and the small-scale localized fighting of the early war inexorably developed into large, set-piece battles which lasted for weeks and even months. Again, the main focus of the fighting centered on Eastern Cambodia. In the spring of 1972, the Khmer Communists launched the first of a series of coordinated military operations which ultimately wrested most of Kampot and Svay ~~Rong~~ RIENG provinces from GKR control. In the wake of these disastrous military reversals, the refugee situation in the GKR controlled areas changed significantly from the pattern set in the previous two years. First, the movement of refugees was much larger, faster, and more localized than before. The battle for Svay ~~Rong~~ RIENG alone generated within a few weeks more than 40,000 new refugees,

25,000 of whom fled into the very small Svay ~~Rang~~ Prieng provincial capital. The rapidity of these later Khmer communist attacks made it impossible for rural Khmer to pack anything before they were forced to flee. Many were able to escape with only the clothes on their backs.

Second, when these new refugees finally did reach the safety of the urban centers, it became quickly apparent that the Khmer society was no longer capable of receiving and supporting them. The once vigorous Khmer economy was slowing down in the face of continuing enemy disruptions and refugees were unemployed or able to find work only two or three days a week. The Khmer family system was also taxed to the fullest, and urban families were no longer able to take in refugee relatives as they had done in the past. In many of the refugee-swollen towns, homeless newcomers were now forced to build patchwork shacks along the side of the roads and in vacant lots.

Third, food, particularly rice, was scarce and getting expensive. Expanding Khmer communist control took more and more farmland out of production. Not enough food was being produced internally to support the country. To make matters worse, the continuing interdiction of key Cambodian roads made it increasingly difficult for the GKR to move what food there was to those areas which needed it most. Several Khmer provincial capitals such as Kompot, Takeo, Svay Rang, and Kompong Thom were by the end of 1972 completely surrounded by the Khmer Communists and were forced to rely heavily on air support to bring in badly needed food.

On the Khmer Communist side, 1972 witnessed the first instances of large-scale population relocation. In Svay ~~Rang,~~ Prieng Kompot, and Takeo

provinces, the Khmer Communists uprooted entire villages and herded all of the inhabitants into the hinterlands for economic exploitation and political indoctrination. Many of these relocated Khmer never survived. After the battles for Svay ~~Rang~~ Rieng and Kompot, the Khmer Communists in the fall of 1972 gained control of large sections of Kondel and Takeo provinces. These massive humanitarian and economic problems created by the enemy offensive were met with less than an adequate effort on the part of the GKR because the latter had neither the financial, institutional or personnel resources to organize an effective refugee relief program. Conditions among the civilian population continued to deteriorate rapidly country-wide, and on August 10, 1972, the GKR made a formal appeal to the United States and other friendly governments to provide assistance for refugees and war victims of the war in Cambodia.

Heavy concentrated Khmer Communist attacks continued in 1973, inevitably followed by the movement of large numbers of destitute Khmer into towns and cities which were already overflowing with refugees and which were unable to support any more. By the end of 1973, the refugee situation in many of the larger Khmer towns was desperate, serious health problems became evident and thousands of Khmer refugees were without housing, without work, and completely dependent on outside assistance for their very survival. Most of the rest were somehow finding a way to struggle by, but with each new Khmer Communist gain, with each new reduction in the food supply, their lives were becoming more and more precarious.

<u>The Years 1974 and 1975:</u>

After several years of steady deterioration, the refugee situation

appeared for a time in 1974 to be improving. The year started off badly for the GKR when the Khmer Communists launched a drive in early January which drove to the very outskirts of Phnom Penh. However, once this attack was checked, the overall military situation throughout the country began to improve. In Kompong Thom province, local GKR units drove into Khmer Communist-controlled territories and freed approximately 30,000 Khmer refugees who voluntarily followed the Government troops back to the provincial capital. This operation also added 10-20,000 hectares of riceland to Government control.

Similar operations took place in Siam Reap, Battambang, Pursat, Kompong Chhnang, and Kompong Speu provinces, and within the first six months of 1974 approximately 100,000 Khmer refugees fled the Communist controlled areas and moved in under GKR control. With the security situation generally better than before, many refugees who had previously moved into the cities began to move back to their abandoned farmlands, with the most significant movements taking place in Kompong Chhnang, Takeo, Neak Loeung, and along Routes 1 and 2 near Phnom Penh. In the cities themselves, the battered Khmer economy began to respond in early 1974 to improved security and continued U.S. economic assistance. Many refugees found life to be a little better than before.

Unfortunately for the refugees, however, many of these improvements were shortlived. In the western part of Cambodia, Khmer Communist pressure increased throughout the rest of 1974, and in the late summer large numbers of new refugees started to move into the cities, especially in Battambang, Thmar Puok, Oddar Meenchey and Siem Reap provinces. Pressure also increased against refugees who had tried to return home and many resettlement efforts in Kompong Chhnang and Kompong

Speu had to be abandoned. Many refugees lacked food, and indications of widespread malnutrition among children became more numerous, particularly in Phnom Penh. Finally, on January 1, 1975, the Khmer Communists launched what was to be their final offensive and the GKR began its inexorable slide toward collapse. From January to April, the military position of the GKR deteriorated steadily and rapidly. Many refugees perished in the fighting or under the increasingly heavy Khmer Communist bombardments of Phnom Penh and the provincial capitals. The Mekong -- the last surface supply line -- soon became useless as a result of enemy mining and heavy artillery and rocket fire on the convoys. Still more and more people fled from the countryside to Phnom Penh. In the west, the Khmer Communists overran most of Battambang province, and an estimated 250,000 new refugees fled in panic to the dwindling enclaves of government control. In Neak Loeung, an estimated 30,000 refugees suffered untold hardships during three months of continuous Communist attacks and bombardment before the town finally fell.

Increasing Communist control also severely disrupted the movement of food and, in provinces like Kompong Thom and Kompong Speu, there was little or no food to be had by anybody, -- refugee, civilian, or soldier. Malnutrition became rampant, especially in Phnom Penh, and spread to all classes of the Khmer society.

Despite the loss of almost all surface communication links, food and medical supplies continued to move by air to areas where refugees were concentrated. In the final weeks of the war the US-funded airlift of food, POL, and medical supplies from Saigon to Phnom Penh demonstrated the feasibility of maintaining that city and other enclaves despite the interdiction of the Mekong. The knowledge that rice continued to be made

available in GKR-held areas, plus strong distaste for the rule of the Khmer Communists prompted refugees to continue to move to the areas under GKR control whenever the occasion presented itself.

Finally, on April 17, 1975, the GKR collapsed, and the solution of the refugee problem fell to the new Communist government.

B. The Evolution of the U.S. Programs for Refugee and Humanitarian Assistance

Until August 1972, the Embassy in Phnom Penh maintained that while there was an influx of refugees into Phnom Penh these refugees were, by and large, being accommodated by friends and relatives in traditional Khmer fashion. The Embassy felt that other donors should handle humanitarian assistance since the U.S. was funding almost completely all military and economic aid. The Embassy also pointed out that the GKR had not formally requested assistance for refugees. However, primarily due to continuing Khmer Communist offensives, particularly in the spring of 1972, by the summer of 1972 the saturation point of the Khmer extended family system had been reached. U.S. Senate sub-committee reports asserted that there were increasing numbers of uncared-for refugees. As a consequence of the changing situation, AID/W and the Embassy began to re-examine the possible need for refugee aid.

On August 10, 1972, the GKR made its first formal worldwide appeal for aid to its war-displaced refugees. Several days before this appeal was issued, an AID/W fact gathering team had departed for Phnom Penh to review the refugee situation. This team verified that there was a need for short-term assistance to refugees in the areas of food, shelter, and health, and also need for a medium-term temporary resettlement program. Such needs were over and above those being met by the Khmers and by

other donors. The team pointed out the lack of coordinated capability on the part of the GKR and recommended that AID grant funds for assistance to refugees be made available to the UNDP, UNICEF and the ICRC, all of which were already operating in Cambodia, rather than directly to the GKR. The U.S. Embassy concurred in these recommendations.

As a consequence of these recommendations, State Department and AID/W officials held a series of informal discussions on this subject with representatives of:

United Nations Childrens Fund (UNICEF), an international organization concerned primarily with assisting children and their mothers.

United Nations High Commission for Refugees (UNHCR), another UN organization whose mandate is generally limited to providing assistance to stateless refugees.

United Nations Development Program (UNDP), a third UN organization focussed on development, rather than relief activities, with whom possible refugee assistance was discussed.

For a variety of reasons, at the time the GKR was requesting refugee aid in late 1972, the three United Nations programs operating in Cambodia were not able to provide any substantial increase in their activities there. The UN High Commission for Refugees could, and did, assist stateless Khmer located in Vietnam as well as Vietnamese living in Cambodia, but stated that, within its mandate, it could not help dislocated Cambodians residing within the Khmer Republic.

UNICEF was operating in 1972 a small child-feeding program in Cambodia. They also built and equipped medical dispensaries and trained personnel. Although the UNICEF program was not immediately expanded

following the initial GKR appeal for aid, that organization did over the next two years play an increasingly energetic assistance role. UNICEF's primary emphasis was placed on child feeding and maternal health programs which they carried out in both Phnom Penh and the provincial capitals. They also fielded numerous medical teams, some of which were stationed in Phnom Penh and the provinces and some of which were mobile.

In the latter days of the GKR, they were most effective in purchasing and bringing to Phnom Penh, powdered milk, high protein foods, and medical supplies (flying in these commodities after surface transportation had been cut off). Their other major accomplishment was to take over the leadership of handling and coordinating the distribution of rice and other commodities under the Title II program.

The UNDP did explore the possibility of revamping (with additional U.S. financial support) some of its existing development activities in Cambodia with the goal of assisting Khmer refugees. UNDP was willing to expand, with special USG financing, its projects for urban housing and sanitation. But AID considered the UNDP's proposals to be too costly and too long range in nature to cope successfully with the short-term emergency relief needs of the quickly expanding number of refugees of Phnom Penh. Ultimately, the prospect of UNDP getting involved in emergency relief needs was ruled out by both the UNDP's New York headquarters and the State Department's Bureau of International Organizations. After all efforts to make an exception to general UNDP policy to permit refugee relief and resettlement had failed, the U.S. turned to the fall-back position recommended in the AID/W report, i.e., bringing in outside voluntary agencies to administer the assistance.

1. <u>The Work of the International and American Voluntary Agencies</u>

Thereafter in late 1972 and early 1973, the U.S. Government explored with a variety of international organizations and voluntary agencies the prospects and potential for these groups to assist Khmer refugees and displaced persons dislocated by the war. The organizations involved in these discussions included:

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The International Committee of the Red Cross (ICRC), a Geneva-based relief group working worldwide on behalf of the various national Red Cross organizations, which had staff in Phnom Penh.

Cooperative for American Relief Everywhere, Inc. (CARE, Inc.), a U.S.-based voluntary agency representing, and financially assisted by, a wide variety of religious and other groups.

Catholic Relief Services (CRS), a U.S. denominational voluntary agency.

World Vision Relief Organization (WVRO), another religious-based U.S. voluntary agency, while not involved in the initial USG discussions, operating on its own in Cambodia since 1970 in the areas of relief and medical services.

Details of the CARE, CRS, and World Vision Relief programs, as well as those of other U.S. voluntary agencies who later agreed to operate in Cambodia are included in the attached January, 1974 TAICH Country Report on "Development Assistance Programs of U.S. Non-Profit Organizations in Khmer Republic (Cambodia)". Other relief programs mentioned in that report are those of the American National Red Cross, Christian and Missionary Alliance, Direct Relief Foundation, Thomas A. Dooley Foundation, Inc., National Council of Catholic Laity, Seventh Day Adventist World Service, Inc., and World Relief Commission, Inc. of the National Association of Evangelicals. Several other volags became involved in Cambodia after the TAICH Report was prepared, including the Asian Christian Service, the British Save the Children Fund, and Lutheran World Relief.

The bulk of the relief efforts, however, were carried on by four organizations -- ICRC, CARE, CRS, and WVRO -- all of whose Cambodian relief activities were either entirely or substantially financed by specific USG grants except for ICRC. Consequently, the balance of this section of the Report is

devoted primarily to the work of those four agencies.

* * * * *

As the American Embassy developed its own small refugee staff, an initial grant of $50,000 was made by the USG to the ICRC on December 1, 1972. The grant was general in purpose, for assistance to refugees and displaced persons in the Khmer Republic. In December and January, discussions were held with CRS and CARE in New York, following which representatives of the latter two agencies traveled to Cambodia where basic agreements were signed with General Lon Nol on February 27 (CRS) and March 3 (CARE). The first grants to CARE and CRS ($500,000 each) were signed May 2, 1973. The first U.S. grant ($25,000) made to World Vision was on August 24, 1973. This was for purchase of a mobile medical clinic.

At the inception of the voluntary agency programming in the Khmer Republic it was thought that CRS and the ICRC would concentrate on meeting immediate refugee needs and CARE and WVRO would handle more long-range resettlement activities. However, the refugee situation steadily deteriorated and the number of refugees generated by the increased fighting, or who left Communist areas for the GKR side, dramatically increased. Food and health problems became more apparent than before, and because the extended family system had reached a saturation point, housing of refugees also became a big problem. The GKR effort continued to be fragmentary, uncoordinated and ineffective, and the voluntary agencies were hard pressed to assuage the immediate relief problems of those refugees in distress. In response to the new nature of the refugee situation, the focus of all voluntary agency programs by necessity turned to emergency relief. Resettlement, with the exception of the small WVRO program which remained resettlement-oriented, was relegated to a secondary aspect of the other agencies' programs.

Although similar to each other in many respects, the voluntary agencies working in the Khmer Republic were also different in some ways, each manifesting a distinct and unique personality of its own. These differences could probably be traced, in large measure, to differing aims and directions of the various agencies' front offices. This paper, however, deals only with actual operational differences in emphasis among the agencies' refugee programs in the Khmer Republic rather than attempting to examine abstract philosophical differences and nuances in their organizational charters. The exploitation of these differences in a manner consonant with individual voluntary agency interests usually resulted in good programs, but friction sometimes developed when circumstances dictated directing an agency into an area contrary to what it saw to be its own best interests. Many of the problems experienced by and among the agencies can be attributed to the absence of an overall plan and guidelines by the GKR.

ICRC

The ICRC correctly perceived its position vis-a-vis the American Embassy to be different from that of the three American voluntary agencies. As an international agency, the ICRC wished to be independent of the Embassy, and was generally successful in remaining so. Except for the original $150,000, the U.S. grants to the ICRC were made as part of our contribution to ICRC's total program for the three Indochina countries. No formal agreement was ever reached on either the specific amount to be allocated to Cambodia within the total program or on the specific activities within the Cambodia program. As a minor contributor to ICRC's budget, we had much less leverage with that group than with the American volags. Its budget was not subject to the review and approval process carried out on the other agency budgets by the Refugee Affairs Office of U.S. AID, nor were its dollar-funded activities subject to USG audit. The ICRC, however, was required to

follow the same reporting requirements, and its programs funded by riels generated under the Commodity Import Program were subject to the same monitoring and audit checks as were the other recipients of U.S. Government funds.

The major focus of the ICRC in the Khmer Republic was its medical program. The Committee fielded both medical and surgical teams in Phnom Penh and in the provinces. These teams were dedicated, skilled, and highly respected by both the Khmer and the foreign community. The ICRC's relief effort was channeled through the Khmer Red Cross (KRC) and consisted of rice distributions and also the distribution of other relief commodities, usually on a one-time emergency basis, averaged over 100,000 refugees per month. The ICRC did not set up permanent camps and distribute rice on a continuing basis, although it did take responsibility for constructing and supporting a few semi-permanent camps, most of which were around Phnom Penh.

The KRC had indigenous personnel stationed in every provincial and in many district headquarters throughout the Republic. It maintained small stockpiles of rice and relief materials in most of these locations, and these supplies were accessible to provincial officials, refugee committees and field-based Ministry of Refugee personnel. Thus, because the ICRC had agents and supplies in the field, it had the best capability of any of the voluntary agencies to react quickly to small-scale refugee requirements country-wide. Within hours after a refugee movement or local emergency, the ICRC, through the KRC, could offer limited relief. The ICRC had its own radio net linking some large provincial centers with Phnom Penh, which also facilitated fast-strike capability, and in most areas local KRC authorities could distribute relief supplies, within

prescribed limits and without prior Phnom Penh approval.

In areas where the KRC representative, Provincial Governor, Refugee Committee, or Ministry of Refugees cadre were strong, this quick-strike capability was very effective. And the presence of the interested voluntary agencies served to dampen corruption.

Overall, the ICRC relief program's strong points were that it provided a small but usually quick stop-gap relief program, accessible to local officials and in operation country-wide, which could assuage refugee needs until a larger and ontinuing program could be set up by one of the other voluntary agencies. The ICRC had its share of problems. Its organizational ties between the agencies were by choice loose and gave the KRC freedom to run its own program. Also, since the KRC was spread over the entire country, communication with Phnom Penh was difficult in most places, and virtually impossible in some; country-wide supervision from Phnom Penh was thereby difficult.

WVRO

WVRO representatives were already present in Phnom Penh in February 1973 -- prior to the first U.S.G. grants to CARE and CRS. WVRO was engaged in the medical field, working through the Khmer Evangelical Church with support provided from private U.S. contributions. After receiving its first U.S. grant in August 1973, WVRO embarked on what was essentially a resettlement program for a small but select segment of the refugee population. It distributed rice to approximately 40,000 refugees per month, and offered a complete range of support, including rice, to another approximately 50,000 benefactors per month in its camps. These services included permanent housing, an agricultural program

utilizing pumps and extensive infrastructure work, a food distribution and a medical program. Because WVRO dealt with small numbers of refugees, it was able to find land sufficient to give each refugee family in its camps a minimum of two hectares of rice land and was able to provide direct technical assistance to them on many aspects of development. WVRO's camps were well planned; drainage ditches, streets, community buildings and plots for growing vegetables were an integral part of the camp layout, and excellent food, commodity and medical support was delivered to the WVRO refugees. A monthly evaluation and feedback system was established by WVRO to determine the relationship between WVRO inputs and refugee progress towards self-sufficiency.

Because of the limited number of refugees it supported, WVRO was able to run a tight and fairly successful program, although its per capita cost was high. In retrospect, WVRO was not able to reach many refugees. WVRO strongly and successfully resisted attempts by the Embassy and the Ministry of Refugees to involve it in more widespread relief efforts. Accusations of proselyting in its camps also became a sore point between WVRO and the Cambodian Government. WVRO denied these charges. In addition to its resettlement program, the WVRO medical teams were deeply involved in the battle against malnutrition in the Phnom Penh area. It was the initial work of WVRO that convinced others that a real nutrition problem existed among children of Phnom Penh.

CARE

The CARE program was also initially more concerned with resettlement than relief, although it expanded its relief aspects considerably in late 1974. By late 1974, CARE was servicing approximately ~~150,000~~ 175,000 refugees per month. The CARE office was more cautious than the other

volags in its approach to dealing with refugee problems. It required detailed plans and commitments from provincial GKR authorities before it would become involved in a project. This concern probably reflected CARE's interest in carrying out well-planned long-range development projects. CARE's internal administrative regulations, however, made it more difficult for it to respond quickly to emergencies. The small CARE staff, however, had good professional experience, and once involved in a project, carried it out in a proficient manner.

CRS

CRS had the largest program in the Khmer Republic, reaching at its peak some 200,000 refugees per month. It concentrated on four aspects of refugee relief:

1. the reception of newly arrived refugees in both Phnom Penh and the provinces - emphasis was ~~[illegible]~~ on giving the refugees enough food, medicines and household items to survive for a week or two while getting settled:

2. small scale repair and improvement of existing camps;

3. emergency feeding on a limited scale supplied by local purchase; and

4. the organization of training programs to ease under-employment among refugees.

The CRS program could best be characterized as full of energy and eager. CRS showed unbelievable speed in setting up a mass-feeding program, temporary resettlement village, making a relief distribution or distributing medical aid in the Phnom Penh areas. It was truly crisis-oriented, and did an excellent job in short-run emergency situations.

CRS, however, wanted to expand its efforts into longer range economic development projects. This was difficult for several reasons: 1.) The CRS staff was good at relief activities but less experienced in longer-range programs. The Resettlement and Development Foundation (RDF) (discussed below) was carrying out successful long-range projects. To allow CRS or other of the volags to expand in that area would, in the USAID's view, have been at the expense of what the USG considered the more important relief program; 2.) CRS didn't have sufficient staff in country to fully supervise its ongoing relief programs, and there was a large segment of the refugee population still in need of basic survival relief who were not being helped; 3.) Constraints on local currency restricted expansion of all programs and manpower; and 4.) Sufficient secure land for development efforts was not available to allow for much food production/economic development expansion over what was already being done by RDF.

CRS provided emergency relief for large numbers of refugees in camps which were for the most part temporary in nature and built to provide minimal shelter for maximum numbers of people. Its child-feeding programs were innovative and its indigenous staff was talented. More than any other voluntary agency, CRS's American staff visited field sites on a regular basis; however, some of these field men were inexperienced and none were language-qualified, so they were not as effective as they could have been. While CARE ran almost all of its programs within the GKR structure, CRS, in its hurry to get the job done, often failed to coordinate properly with the host government and the other voluntary agencies. This was sometimes a source of minor irritation. In many respects, however, the CRS refugee program was the best of any of the

voluntary agency programs in meeting the particularly unique needs of the Khmer refugee situation, and it was successful in giving emergency relief and medical assistance to a significant number of needy Khmer.

General

During the initial phase of the volag operations there were, understandably, delays in moving to the level of action desired. In the absence of any strong leadership from the GKR, the volags and other relief bodies sought "targets of opportunity," each identifying areas and types of obvious need and responding unilaterally to those needs. Informal meetings between volag representatives produced exchanges of information as to what each might be doing or contemplating but did not, in any sense, produce a coordinated program. This situation persisted until early 1974 when a stronger Ministry of Refugees and the creation of the Resettlement and Development Foundation (RDF) (discussed below) provided a basis for delineation of areas of responsibility, both in nature of activity and in a geographical sense, allowing RDF to focus on resettlement while the volags concentrated on emergency relief, feeding and medical aid.

Despite the initial lack of coordination, the volags played an immediate and very active role in refugee relief. In addition to the emergency relief programs intended to provide round-the-clock aid to newly arrived refugees, CRS, WVRO and CARE all initiated temporary housing projects, carried out feeding programs (except for CARE), and provided some medical assistance. IOG/ICRC volunteer medical teams began working in hospitals in various GKR-held cities. VIARR (International Volunteers for Help and Assistance to Refugees) provided aid to the Cambodiana, a major refugee center in Phnom Penh.

Funding of volag activities was initially advanced from their own parent organizations in the U.S. or elsewhere. AID dollar funds were furnished as rapidly as possible and at levels high enough to meet agency requirements (see attached tables for dollar and local currency funding). It became evident in 1974 that operations required substantial local currency support. Purchases of rice on the local market, local transportation, including airlift costs, purchase of building supplies and other substantial local expenditures resulted in the Mission providing ever-increasing sums of riels from CIP and PL 480 generations. This support became more critical to the program as the ability of the GKR to allocate resources diminished in the face of waning revenues, shortages of food and building materials, and period of general inflation. The problem of local currency had, in fact, become so acute that by March 1975, the Mission was encountering problems in providing funds in the amounts proposed by the volags. This problem resulted from the interdiction of the Mekong to all traffic, cutting PL 480 and CIP generations drastically.

In retrospect, the role of the American "volags" is easily summed up: they did the job. Without the expertise and devotion to duty of their personnel who served in Cambodia, the refugee problems would have proven insurmountable. This is a tribute well deserved. It is also a statement of fact. It is due in large measure to the nature and temperament of the kind of individual who gravitates to work in a voluntary agency. The volag staffs were generally composed of people who were concerned, well-motivated, corruption-free, and unusually dedicated to their job.

Furthermore, these agencies stretched their resources considerably to provide services in a country in which their contributing constituents had relatively little interest.

The other side of the coin was of course that the volags, due to their independence and to their particular interests did not always see eye-to-eye with the USG on priorities, focus, timing, etc. There were some areas of duplication and overcentralization in the volags' efforts, some deficiencies in advance planning, some distrust of bureaucratic regulations and attempts to coordinate the various agency activities. But these admitted gaps are probably inevitable when working with small-scale non-bureaucratic agencies whose staffs tend to give somewhat lower priority than do their USAID colleagues to the virtues of efficient administration.

In discussing problems the AID Mission may have had from time to time with one or another of the volags, it should be recalled again that the latter were not contractors. Rather they were recipients of grants, with a fairly broad charter under which they could perform their refugee support activities. At least one (WVRO) had been on the ground before. The others (CRS and CARE) came in at our request, but both by their own desire, and because of the personnel ceiling limitations (e.g., on third country nationals - TCN's), they paid a fair amount of staff expenses -- indeed they paid all salary and allowance costs of their chief of mission and all salary costs of TCN's. They also brought in supplies purchased with their own funds. They were also reasonably flexible in meeting priority needs.

2. <u>The Resettlement and Development Foundation</u>

By the fall of 1973, it was apparent to the AID staff in Phnom Penh that the voluntary agencies were already operating at over-capacity levels

just to handle the emergency relief requirements for refugees, and that their few attempts at resettlement were generally unrealistic for the Khmer situation. The GKR had no viable agency or Ministry capable of launching a resettlement program, and the desire was, even on the part of some leading Khmer officials, to keep the proposed resettlement program outside of the GKR political arena. On the basis of this, the U.S. Mission and the GKR concluded that the best modality for launching a resettlement program would be to establish a new Khmer public corporation or foundation; non-political and free from the restrictions of Khmer Government personnel and budget restraints. The scope of the proposed refugee resettlement program was spelled out in a letter from the Charge d'Affaires, Mr. Enders, to Marshal Lon Nol, which included inter alia the need to establish villages:

"a. Situated in the vicinity of cities and along routes, where the security is assured, and where the inhabitants can combine industrial and commercial employment with agricultural, home industry, animal husbandry, and fishing.

b. Composed of simple dwellings constructed by refugees themselves working with simple materials of local origin.

c. Endowed with austere and minimal public services designed to prepare the terrain and to establish water supply.

d. Built in the middle of prepared agricultural lands and, in certain cases, equipped with fish ponds.

e. Assisted at the start with seeds, farm tools, breeding stock, and the advice of agricultural specialists (adequate outlets for the sale of fertilizer, insecticide, and other necessary products must be organized on an inexpensive and rational basis).

f. Designed not repeat not to serve as permanent communities, but as temporary settlements for the duration of the war."

After considerable discussion with the GKR and other influential Khmers, the concept of a semi-autonomous foundation responsible for resettlement and production was accepted. On February 20, 1974, Marshal Lon Nol signed a decree recognizing the Foundation as having legal status, financial autonomy, and more significantly, not inhibited by GKR legislation and regulations. The RDF was able to utilize its semi-autonomous status to operate largely outside of the regular GKR bureaucracy. It could, for instance, pay higher salaries than did the GKR, so it was able to attract top-notch management and technicians--mostly successful young businessmen, who were well educated and able to draw upon the resources of the upper levels of Cambodian society.[97] On March 9 the U.S. Mission gave approval to the RDF's plans for the balance of FY 1974. The plans included: (a) establishing a headquarters office and staff, (b) resettling 5,000 families within the short time-frame of the remainder of the 1974 dry season, and (c) production schemes to become self-sufficient. To achieve this goal, the GKR authorized the RDF to use, for resettlement purposes, any public or private land not being utilized. The RDF planners realized that for the immediate future the military situation would not permit real progress towards permanent resettlement of refugees in areas from which they had fled, and use of idle land was authorized only until the end of the hostilities, so resettlement for RDF was defined as a temporary measure until the end of the war.[98] The resettlement effort was to consist of providing minimally adequate housing on small plots of land close to the protective security perimeter of towns and enclaves. All basic necessities were structured

into the RDF program, including certain planning and engineering works such as dike construction, road and other temporary infrastructure improvements, housing, mechanized cultivation of the land for planting, provision of tools, equipment, seeds, fertilizer and pesticide, and other ingredients, along with the technical advice necessary to put the refugees back into successful production.

In order to properly coordinate and monitor the expanded refugee program, including the RDF and the build-up in voluntary agency programs, the USAID increased its refugee staff positions from one to seven (including specialists in resettlement, agriculture, engineering, and medical administration).

As the RDF was being formed in early February, 1974, Khmer military operations against targets deep in Khmer Communist territory around Kompong Thom were taking place. As a result of these operations, by the end of March over 35,000 villagers had left the enemy and voluntarily followed the friendly army into Kompong Thom. This major movement of people from the enemy was significant for several reasons. First, it was the first major voluntary movement of people away from Communist control. Second, it showed that the Communists around Kompong Thom were weak, as they could not muster the strength to hold their civilian population in. And third, it put pressure on the GKR to react and extend full support to these recent refugee arrivals in order to preserve government credibility in the area.

The newly organized RDF moved into Kompong Thom and within three months had completed a wet season resettlement and rice production scheme, augmenting the emergency relief and shelter construction work being carried out by the voluntary agencies. RDF plowed and prepared 4,000

hectares of land for planting by 5,500 refugee families, and they provided the seeds, other inputs including technical assistance necessary to make the effort a success. As a result of several serious setbacks, including a severe drought and enemy counter-attacks, the harvest produced only enough rice for the next planting season's seed stock and approximately a two-month supply of rice for refugee consumption. In addition to this rice-growing effort, RDF started five cloth-weaving shops, a fish-processing shop, and a pirogue construction project to provide the refugees with much-needed boats to allow them to gather animal fodder, building material and fish during the rainy season when much of Kompong Thom is under water. In FY 1974, the RDF also successfully resettled 5,500 families near Phnom Penh, at four sites near the village of Chom Chau.

The chief resettlement effort for the 1975 dry season centered on rice production around Phnom Penh. One of the reasons for establishing RDF was to alleviate some of the pressure on Phnom Penh by moving non-productive refugees out of town and putting them back on the land. In 1973 and 1974 continued enemy activity around provincial centers spurred a substantial exodus of refugees from the countryside into the city of Phnom Penh. This movement was accompanied by a general deterioration in the living conditions of not only the refugees, but also the general population of the city. According to the Directorate General for Refugees and War Victims, the number of registered refugees in Phnom Penh increased by 42,000 people between January and March of 1973, and in February of 1975 it had skyrocketed to over 550,000 registered refugees (and probably that many more unregistered ones) in the city of Phnom Penh.

The RDF resettlement and production plan was to cultivate 20,000 hectares of land around Phnom Penh and Neak Loeung, and temporarily relocate 16,000 families on this land. This dry season rice project was seen as an important source of rice for Phnom Penh, and also as a political and psychological booster to the morale of the population of Phnom Penh in terms of enabling them to become productive again. The project had a high priority with all agencies of the GKR and with the humanitarian organizations working in the Khmer Republic. The project was conceived, planned and implemented in close cooperation with all concerned agencies. The GKR Ministry of Refugees was the action agent for choosing the approximately 75,000 refugees that would participate in the project, the voluntary agencies were responsible for shelter construction and relief feeding of the participants, and RDF was responsible for supervising the temporary construction of dikes and irrigation canals, digging and stocking fish ponds, preparing the land and providing the seeds and other inputs necessary for project success. The Khmer Army Commander-in-Chief was contacted and his staff was designated to provide security forces at the various resettlement and production sites.

The plan relied heavily on miracle rice varieties and total production was projected at over 50,000 metric tons of paddy. The ambitious plan depended on timing of vital inputs necessary to support the miracle variety rice and various GKR entities were cooperating to assist in obtaining all of the necessary inputs. The program progressed well. Plowing and transplanting of the projected 20,000 hectares of rice land was going well, especially in the North Dike area. Seedbeds

had already been laid in many areas and land preparation was going on in all project areas. Cooperation from the Ministry of Refugees was good. They were locating and registering unemployed refugees who wanted to participate in the project, and the voluntary agencies were already deeply involved in shelter construction at several project sites. Then in early January 1975, devastating enemy attacks on the defensive perimeters of Phnom Penh disrupted all RDF activity. A particular target of the attacks was refugee resettlement villages and RDF rice production projects. It was apparent that the enemy was not going to allow refugees to return to the soil and become producers again. By keeping refugees non-productive the Communists could continue to demoralize their spirit and also keep the pressure on an already inflation-ridden and weak GKR economy.

RDF quickly realized that most of its work could not be carried to completion. The Khmer military forces did not have the wherewithal to protect the resettlement areas, and the dry season rice production scheme was substantially brought to a halt. Since RDF had been so effective, a decision was made not to phase it out entirely. A great deal of work had gone into setting up the Foundation and recruiting talented and dedicated employees, and despite the fact that over 80 percent of the planned projects were abandoned, the refugee office suggested cutting the RDF budget by only 30 to 50 percent. Wet season plans were made to resettle approximately 10,000 families in areas around Phnom Penh in essentially the same areas as the dry season projects. This was based on the assumption that the Communist forces would pull back as they usually did during the rainy season.

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The RDF continued to work where it could, to the north and south of Phnom Penh. A dry season project at Takeo was started and some small resettlement and agricultural production projects were started on an experimental basis in Kompong Chhnang, Siem Reap, Battambang, Odor Meanchey, and other areas.

Even though the RDF continued to function up until the day when the American Embassy evacuated Phnom Penh, the major thrust of its activity was terminated when the dry season projects around Phnom Penh were curtailed.

Summary

The voluntary agencies would have liked to have handled the resettlement program themselves. When the RDF was formed it was not anticipated that funding would be a problem for either the RDF or the voluntary agencies. However, in the latter half of 1974, there developed a severe scarcity of local currency at a time when the voluntary agency programs were expanding rapidly. Proposed voluntary agency programs, especially those bordering on long-term economic development, were cut though there were significant increases in funds provided. With the scarcity of funds, however, priority was given to the emergency needs of refugees and RDF programs and funds were in fact cut more than those of the voluntary agencies.

Despite these problems, there was no lack of interest and support for the work that RDF was doing. RDF energetically designed and implemented sound programs to increase agricultural production and resettle refugees. The staff elicited the enthusiastic support of all refugee groups that it worked with, and also, because of their professionalism, received cooperation and support from the voluntary agencies and the GKR.

For the most part, RDF resettled people on borrowed land, except in the return-to-village projects where displaced persons were returned to their original farms. Because of a lack of security, no large tracts of government land could be found to resettle refugees, so borrowed land was exploited in a temporary manner by RDF. All infrastructure improvements were of a field expedient nature; no permanent structures were built by RDF.

The quantitative results accomplished by the RDF were limited by the turn of the war. But its potential was great and ever-expanding. Secure land was the key to any resettlement effort, and the key to the success of RDF. Even without this, however, the Foundation managed to execute successful projects. Operating in the midst of battle the RDF, even though losing lives and property, continued its professional work up until the day the Embassy was evacuated. The innovative thinking and dedication to duty of the RDF staff was admired by all who came in contact with them. In most people's judgment, RDF was a successful venture.

C. The U.S. Refugee Program in Retrospect

The refugee program in the Khmer Republic was one of constant change and evolution. The requirements for refugee assistance were never static, but were instead always increasing and becoming more complex. Initially refugee relief was only a matter of distributing food and other emergency assistance to isolated pockets of needy refugees. Later, as the economy faltered and food production dropped, more attention was placed on assisting refugees to get back into some sort of agricultural production. Finally, near the end of the war, the emphasis in relief shifted toward medical care and mass feeding to stave off widespread malnutrition,

especially serious among children. In some cases, it was possible to meet these changing requirements by expanding the ongoing relief programs. In others entirely new concepts had to be developed and a new agency established to implement them. Even as the GKR collapsed in April 1975, the refugee relief program was still changing to keep pace with the changing requirements. Had the relief programs been able to continue, it is probable that they would have evolved into a quite different final configuration.

The aim of the USG-supported refugee program in the Khmer Republic was to prevent deterioration in the health of the most needy refugees and through resettlement and other activities, to assist these same refugees to return to some sort of productive capacity. Several points need to be stressed. First, because of the overall Embassy personnel ceiling laid down by Congress and because of policy decisions made in both Phnom Penh and Washington, the USG was never involved operationally in refugee relief in Cambodia. The USG never directly gave out one bag of rice to the refugees, never built one house for a refugee, never resettled one refugee family during the entire five years of war. Furthermore, the USG never directly controlled any of the refugee relief programs in Cambodia. We only assisted the relief programs of Khmer, American, and international agencies which were involved in refugee relief. These agencies presented their proposals to us and the USG approved them depending on our priorities and on the funding available. The USG's influence on the relief program was obviously important, but at no time could it ever be said that any of the agencies working on refugee relief in the Khmer Republic were working directly for the USG.

Second, the USG assumed no responsibility for the generation of

refugees in Cambodia.

The USG involvement in refugee relief in Cambodia was primarily motivated by the humanitarian concern to help people in need. It should be remembered that the aim of the USG was not to assist in the relief of all Cambodian refugees. Our goal was limited to assisting only those refugees who were in most urgent need of assistance and who, if they did not receive aid, would either die or suffer lasting physical damage.

The financial and personnel resources of the USG and of the relief agencies were limited and were not enough to support all of the refugees. Furthermore, many refugees were able to support themselves and were not in need of assistance -- at least until the very end of the war. In summary, the USG refugee relief program in Cambodia could be characterized as an indirect assistance program -- as opposed to a direct, operational one -- concerned with only the distribution of basic emergency and economic relief to desperately needy refugees.

The refugee relief program in Cambodia as it finally evolved in late 1974 can best be characterized, in retrospect, as a series of individual relief activities bound together by past experience and the very close personal relations of all involved. Basically, there were five groups involved in refugee relief: the GKR Ministry of Community Development and Refugees, the Resettlement and Development Foundation (RDF), the American and international voluntary agencies (the volags and ICPC), UNICEF and the U.S. Embassy. Coordination among all five groups was informal --

but effective, since everybody knew each other. The volags and UNICEF met fairly regularly, and in the closing weeks a medical sub-committee was formed. Coordination was also further improved by a general division of labor developed over the years.

The GKR Ministry, with over 800 cadre spread around the country, handled most of the refugee registrations and much of the groundwork needed to organize distributions of food and other relief commodities. The volags did most of the actual relief work, including the distribution of relief supplies, the construction of emergency housing, the establishment of small scale economic and food production projects, and the treatment of the sick and malnourished. The RDF did do some work with small, self-help economic programs, but for the most part concentrated on large-scale resettlement and food production projects. The Embassy never actually became involved in the operational side of refugee relief and instead limited itself to funding the various relief projects and monitoring their results to insure that all of the agencies concerned with refugee relief were cooperating and that they were all addressing the most urgent of the refugee problems in the most effective manner.

The general pattern for setting general relief policy and for responding to specific refugee problems was as follows: the Ministry would learn of a refugee-related problem from its own cadre or from other branches of the GKR and would call a meeting with the volags, RDF and the Embassy to discuss the problem and to agree on what should be done. If the problem raised concerned emergency relief, one or more of the volags would generally agree to initiate the necessary relief program. On the other hand, if the problem concerned refugee resettlement, the RDF alone or with the assistance of the volags would carry the load.

Most of the time, this system worked well. For example, after the beginning of the January Khmer Communist offensive against Phnom Penh in 1975, the Ministry and the volags held a series of meetings like the one mentioned above and within three days they had drawn up a coordinated relief plan and had started to distribute relief supplies to the approximately 25,000 refugees generated by the initial fighting. In this particular instance, experience learned during the past was again invaluable since the volags were used to dividing up a large relief problem like this along geographic areas with each volag taking full responsibility for one area. Furthermore, all of the volags had faced similar problems before and they knew exactly what had to be done. In those few instances where the system did not work, it was usually the fault of the Ministry for not knowing enough about the particular refugee problem raised or of the volags not being able to fulfill the commitments they made. (Another problem was that no formal follow-up system was ever instituted to report back on what had and had not been done.)

Almost all of the funds for the refugee relief program in Cambodia were supplied by the USG. (For the sake of simplicity, this report makes no substantive distinction between the use of counterpart funds, which are technically GKR funds, but which were generated by USG programs and use of which was controlled by the USG, and the use of AID dollar appropriations.) All three of the major American volags in Cambodia used their own funds to cover personnel and administrative costs, but most of their operational costs were covered by USG funds. (In this regard, special commendation should be given to the Catholic Relief Services (CRS) for the energetic and effective way they dug up additional foreign contributions for their program.)

The Indochina Operations Group (IOG) (which represented in the three Indochina countries the refugee aid interests of both the International Committee of the Red Cross (ICRC) and the League of Red Cross Societies) was traditionally better funded by their parent agency than were the American volags. Even the IOG, however, was forced to rely on the USG for approximately 50% of its operational budget as the war ground into the final months and the requirements for emergency feeding far outstripped its own budget.

On the Khmer side, the USG funded 100 percent of the RDF budget from its inception and 75 percent of the Ministry's budget during late 1974 and early 1975.

Initially, when USG support of the relief programs of the ICRC/IOG and American volags was just beginning, all of the funds used were given to the relief agencies by the means of U.S. dollar grants prepared by AID/Washington. The grants at this time were open-ended, meaning that they could be amended if more funds were needed, and were worded in the most general manner so that the ICRC and the American volags would have the greatest latitude possible in addressing the refugee problem. At this time the Embassy had only one refugee officer, and,consequently, relied completely on the ICRC/IOG and the American volags to analyze the refugee problem and to devise the most suitable relief programs.

Also included in the early grants was a clause directing the relief agencies to exchange their U.S. dollars for riels at the Embassy only. Later on, as the relief programs expanded, it became desirable to change the funding procedures. Thereafter, starting in the spring of 1974, the local currency requirements of the American volags were funded by counterpart funds released in Phnom Penh after the signing of a project agreement between the GKR and the Embassy. As for the U.S. dollar requirements,

they were still funded in the regular manner using grants which were prepared and signed in Washington by volag and USAID representatives. (In the fall of 1974, this system was further refined by incorporating within the grants signed in Washington some of the language of the project agreements signed earlier in Phnom Penh.

With the initiation of a new type of funding arrangement in the spring of 1974, the volags were asked to submit to the Embassy a budget projection which was used by the Embassy as a basis for the necessary project agreements. When the Khmer Resettlement and Development Foundation (RDF) was founded in April, 1974, it too were funded with counterpart funds and it too had to submit a budget proposal which later became the basis of a project agreement. The same counterpart system was also used when the USG started to fund the Refugee Ministry in the fall of 1974. For the most part, the funding procedures outlined above worked well in that through them the USG was able to transfer to the GKR the large amounts of riels needed to support the refugee program.

* * * * *

Looking back, two generally indispensable elements of a successful project were clearly missing in our Cambodia refugee aid program. First -- an obvious one -- it is best to have in advance a carefully thought out program plan. As indicated earlier, it was not AID's initial intention to have a sophisticated refugee project and this, coupled with the rapid growth of the refugee population, put AID and the voluntary agencies in a position of reacting as opposed to acting according to a pre-planned format. Secondly, to be effective, such a large program should have an adequate ministry and American staff to work with it.

The Congressional restrictions on personnel in Cambodia made it virtually impossible (considering competing needs for staff within the Embassy) to have enough Americans to monitor such a program, and the Ministry involved was for most of the project's life not particularly effective.

Since neither of these "indispensable" elements was present in Cambodia, the emergency assistance function was put in the hands of voluntary and international agencies, and the long-term resettlement function was placed in the hands of the RDF.

Experience in Cambodia since the inception of RDF in early 1974 strongly indicates that such an organization can handle the planning and coordination functions in the absence of a strong ministry or adequate American staff. This experience further suggests that an indigenous organization structured along the lines of the RDF might replace, or be an alternative to, the volags in handling and coordinating emergency relief as well as resettlement.

Although the RDF was primarily concerned with resettlement and increased agricultural production, it performed the very important function of identifying and duly registering the displaced population throughout Cambodia, a function which the Ministry of Refugees was completely incapable of performing. Based on this effort, the first hard and accurate refugee statistics reporting system was rapidly taking shape. More importantly, however, the first planning documentation (particularly for rice production) was developed by the RDF. The planning for the dry season of CY 1974 and goals for CY 1975 were extremely sophisticated and included cost/benefit analysis, realistic

production goals, and a very realistic assessment of market requirements in each area. Had the GKR not collapsed and had the economic situation made it viable to provide adequate local currency funding, the role of the RDF could conceivably been expanded to take over many, if not all, of the planning, implementation, and coordination functions for the refugee program in Cambodia. The only inherent danger in such a move might have been that, as the RDF assumed more power, it would have become more vulnerable in competition with other segments of the GKR and the military competing for political power and control.

Attachments:

1. Dollar and Local Currency Funding FY 1973-74
2. Dollar and Local Currency Funding FY 1975
3. Refugee Trends
4. Emergency Assistance Provided to Refugees
5. Medical Assistance - U.S. Supplied Hospitals
6. Foreign Medical Assistance
7. Number of Patients Treated by Voluntary Agencies
8. TAICH Report

CAMBODIA

DOLLAR & LOCAL CURRENCY FUNDING
FOR FISCAL YEARS 1973 and 1974

	FY 73 Actual	FY 74 Actual	
	Dollars (-000-)	Dollars (-000-)	Riels (millions)
CARE	500	-	643
MVRO	25	500	712
CRS	500	1,426	2,822
ICRC	150	1,100	028
RDF	-	-	1,016
USAID	-	1,071	153 2/
TOTALS	1,175	4,097 1/	5,374

1/ Plus FY 1974 funding from C.I.P. as follows:

Rice Airlift	$360,000
MRSH Transport	170,222
Construction Equipment	123,700
Rice and Vaccines	6,200
Total	$660,222

2/ Includes 2,600,000 Riels for Kompong Som hospital.

Prepared by:
PROG OFFICER
February 28, 1975

HUMANITARIAN ASSISTANCE GRANTS

Date	Dollar Grants Amount		ProAg Date	Riel Grants (Equivalent calculated at date of actual release)	Amount
		ICRC			
Dec 1, 72 (FY 73)	$50,000		Apr 12, 74 (FY 74)	28,436,800	$100,000 (Total FY74)
Apr 18, 73 (FY 73)	100,000		Jul 15, 74 (FY 75)	147,000,000	$351,406
Total FY 73	$150,000		Nov 18, 74 (FY 75)	250,000,000	155,280
			Jan 7, 75 (FY 75)	500,000,000	303,030
IOG Share (Total FY 74)	$1,100,000				$809,716 (FY 75)
		IWR			
Jan 1975 (FY 75)	$126,200?				
		RDF	Mar 22, 74 (FY 74)	1,016,000,000	$2,700,000 (Total FY74)
			Dec 12, 74 (FY 75)	2,120,000,000	$1,284,848 (FY75)
		Ministry of Refugee and Community Development			
			Jul 24, 74 (FY 75)	55,000,000	$131,478
			Nov 18, 74 (FY 75)	50,000,000	31,056
					$162,534 (FY 75)
		Program Operations Support (Trust Fund)			
Jun 26, 74 (FY 74)	$165,000 ($600,000)		May 23, 74 (FY 74)	150,000,000	$358,611 (FY 74)
Jun 29, 74 (FY 74)	471,400				
Jan 14, 75 (FY 75)	$6,600,000 ($7,800,000)				
		Kompong Som Hospital			
			May 23, 74 (FY 74)	2,600,000	$6,215 (FY 74)

HUMANITARIAN ASSISTANCE GRANTS

Dollar Grants			Riel Grants (Equivalent calculated at date of actual release)		
Date	Amount		ProAg Date	Amount	
		CARE			
May 2, 73 (Total FY 73)	$500,000		Feb 5, 74 (FY 74)	81,000,000	
			Apr 8, 74 (FY 74)	562,000,000	$1,600,000 (Total FY74)
Dec 11, 74 (FY 75)	$15,451				
Pending	540,000		Sep 8, 74 (FY 75)	1,200,000,000	$937,500
			Nov 18, 74 (FY 75)	500,000,000	303,030
			Jan 13, 75 (FY 75)	200,000,000	121,212
					$1,361,742 (FY 75)
		CRS			
May 2, 73 (Total FY 73)	$500,000		Feb 5, 74 (FY 74)	422,300,000	
			Apr 8, 74 (FY 74)	2,400,000,000	$7,100,000 (Total FY74)
Aug 24, 73 (FY 74)	$300,000				
Sep 28, 73 (FY 74)	500,000		Sep 8, 74 (FY 75)	1,050,000,000	$820,313
Jan 22, 74 (FY 74)	300,000		Nov 18, 74 (FY 75)	1,000,000,000	621,118
Apr 74 (FY 74)	200,000		Dec 26, 74 (FY 75)	600,000,000	363,636
Jun 28, 74 (FY 74)	126,000		Jan 13, 75 (FY 75)	1,400,000,000	848,485
					$2,653,552 (FY 75)
Total FY 74	$1,426,000				
Pending FY 75	$500,000				
		WVRO			
Jun 26, 73 (Total FY 73)	$25,000		Feb 5, 74 (FY 74)	196,700,000	
			Apr 8, 74 (FY 74)	515,300,000	$1,800,000 (Total FY74)
Aug 24, 73 (Total FY 74)	$500,000				
			Sep 8, 74 (FY 75)	750,000,000	$585,938
			Nov 18, 74 (FY 75)	200,000,000	124,224
			Jan 13, 75 (FY 75)	600,000,000	363,636
					$1,073,798 (FY 75)

CAMBODIA

DOLLAR AND LOCAL CURRENCY FUNDING
FOR FISCAL YEAR 1975

	(To Date)		(Programmed Additional)		(Estimated Total For Fiscal Year)	
	Dollars (000)	Riels (Millions)	Dollars (000)	Riels (Millions)	Dollars (000)	Riels (Millions)
CARE	15	2,650	540	3,680	555	6,330
WVRO	-	1,950	250	2,000	250	3,950
CRS	-	5,450	900	6,020	900	11,470
LWR	126	-	-	170	126	170
CARE/MEDICO	-	-	310	-	310	-
ICRC	-	897	-	500	-	1,397
RDF	6,300	1,560	-	3,000 2/	6,300	4,560
MINREFUGEES	-	365	-	160	-	525
SPECIAL NUTRITION PROGRAMS 1/	-	-	-	2,660	-	2,660
USAID	704	-	855	-	1,559	-
TOTALS	$7,145	12,872	2,855	18,190	$10,000	31,062

1/ Aimed at combatting the growing malnutrition programs resulting from food/protein insufficiencies.

2/ Programmed for financing from PL 480 rice sales proceeds.

Prepared by:

CAMBODIA

REFUGEE TRENDS

Refugees Registered with Khmer Government

December 1972	
In Phnom Penh	205,000
In Provinces	240,000
Total	445,000
December 1973	
In Phnom Penh	447,000
In Province	403,000
Total	850,000
May 1974	
In Phnom Penh	446,000
In Provinces	488,000
Total	934,000
January 1975	
In Phnom Penh	544,107
In Provinces	723,573
Total	1,267,680

Khmer Refugees in Laos, Thailand and Vietnam 59,361

Total Number of Refugees - Registered November 1,327,041

Prepared by:
USAID
Phnom Penh
February 24, 1975

CAMBODIA

EMERGENCY ASSISTANCE PROVIDED TO REFUGEES

(NUMBER OF REFUGEES)

Assistance includes the provision of food, clothing, shelter, cooking utensils and medicines

	Oct. 74	Nov. 74	Dec. 74	Jan. 75	Feb. 75	Mar. 75
World Vision Relief Organization	-	32,500	35,000	37,000	70,000	146,142
CARE	-	29,700	25,000	124,000	175,000	152,850
Catholic Relief Services	58,000	224,500	254,000	177,000	276,000	327,431
International Red Cross	150,000	55,000	110,000	0,000	150,000	50,200
Khmer Government	7,000	13,700	N/A	5,000	11,000	6,410
UNHCR (International Community residing in Phnom Penh)	30,000	30,000	30,000	12,000	N/A	N/A
Total	245,000	385,000	479,000	512,000	682,000	763,033

Prepared by:
UNHCR
Phnom Penh
February 24, 1975

DAKOTA

VERTICAL ADJUSTMENT

Placement of [illegible] (DVH) [illegible]

[illegible]	[illegible]	Planned
[illegible]		
[illegible]		
[illegible]		
[illegible]		
[illegible]		
[illegible]		
[illegible]		
[illegible]		
Reserve		

[illegible]
[illegible]
[illegible]
[illegible]

CAMBODIA

NUMBER OF IA TRUCKS SHIPPED BY MONTH AND

INTERNATIONAL CARRIER

	April 72	May 72	October 72	January 73
[illegible]	[illegible]	[illegible]	[illegible]	75,315
MAS	[illegible]	[illegible]	[illegible]	[illegible]
TOS	[illegible]	[illegible]	[illegible]	[illegible]
OTHE	—	—	—	—
Total	[illegible]	[illegible]	[illegible]	[illegible]

Prepared by:
LEAIS
PHNOM PENH
February 28, 1973

CAMBODIA

INTERNATIONAL AGENCY

[illegible]

Presently in Country

Location	[illegible]	[illegible]	[illegible]
Phnom Penh	[illegible]	1	[illegible] Red Cross
Phnom Penh	[illegible]	[illegible]	[illegible] Red Cross
Kampong [illegible]	[illegible]	[illegible]	[illegible] Red Cross
Kompong Cham	[illegible]	[illegible]	[illegible] 1/
Refugee Camps in Phnom Penh	[illegible]		[illegible] ICRC
Refugee Camps in Phnom Penh	[illegible]		[illegible] Memorial [illegible]
Kompong Speu	[illegible]	[illegible]	[illegible] CRS 1/
Neak Loeung	[illegible]	3	[illegible] CRS 1/
Kampong [illegible]	[illegible]	2	[illegible] CRS 1/
Phnom Penh	[illegible]	[illegible]	ICRC 2/

Note: 1/ CRS presently has a total of [illegible] personnel in the country.

2/ The ICRC mobile teams are composed of several [illegible] and are available for deployment [illegible] as emergencies indicate need.

Prepared by:
USAID
PHNOM PENH
February [illegible], 1975

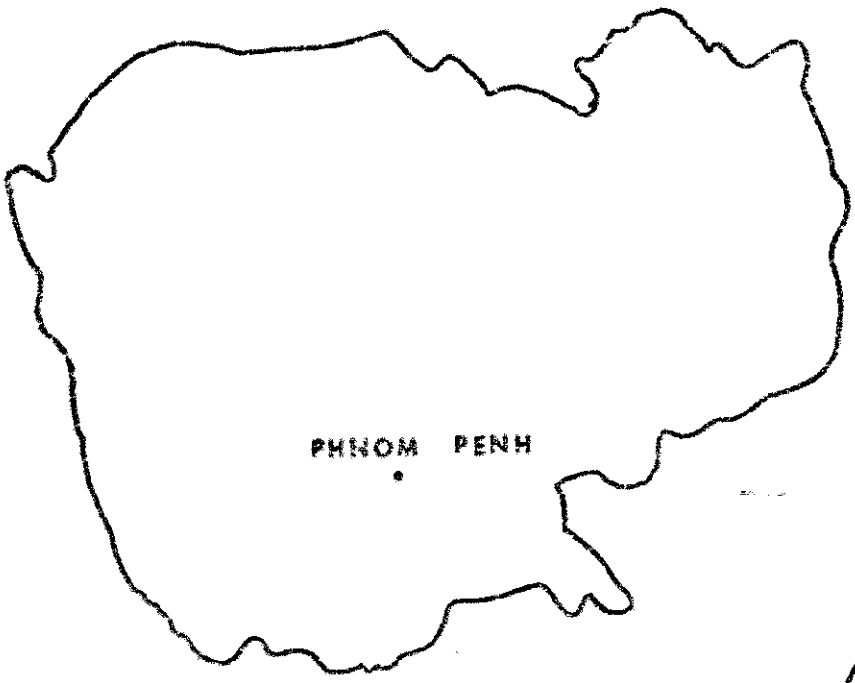
AICD COUNTRY REPORT

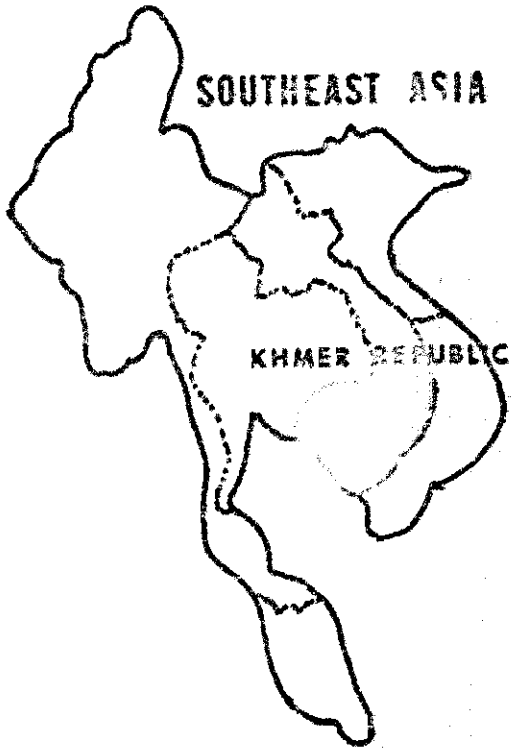
DEVELOPMENT ASSISTANCE PROGRAMS OF U.S. NON-PROFIT ORGANIZATIONS IN

KHMER REPUBLIC

(CAMBODIA)

JANUARY 1974





AMERICAN COUNCIL OF VOLUNTARY AGENCIES FOR FOREIGN SERVICE, INC.
TECHNICAL ASSISTANCE INFORMATION CLEARING HOUSE (TAICH)
200 Park Avenue South
New York, New York 10003

January 1974

DEVELOPMENT ASSISTANCE PROGRAMS FOR KHMER

This report describes the assistance programs for Khmer of 11 U.S. organizations. It includes voluntary agencies, missions, foundations and other non-profit organizations which provide the people of Khmer with material aid and assistance in medicine and public health, education, community development, etc.

This is one of a series of annually revised country reports representing an expansion and updating of Part II of the TAICH 1971 directory, U.S. Non-Profit Organizations in Development Assistance Abroad. Additional and new information on the programs of the organizations listed in these reports may be obtained from TAICH.

Geographical place named have been standardized in accordance with The Atlas of the World (The Times of London). The designation "international" under the heading PERSONNEL refers to personnel other than U.S. or local, or to non-local personnel in general when citizenship information is not available.

Where expenditures are listed they refer only to U.S. contributed funds. In several instances where such a determination has not been possible the notation "Not available" has been made after the heading FINANCIAL DATA. Of the 11 U.S. organizations with programs in Khmer, 9 were able to provide TAICH with financial data for the agency's last fiscal year. These figures indicate that $1,389,870 was expended in financial aid. These figures are approximate owing to differences in fiscal years, methods of financial reporting, and methods of estimating dollar values of commodities, equipment, and material shipped.

Membership in the American Council of Voluntary Agencies for Foreign Service is indicated with a +, and registration with the Advisory Committee on Voluntary Foreign Aid with a *.

The American National Red Cross.....3
The Asia Foundation.....3
*+ CARE, Inc.....3
*+ Catholic Relief Services-USCC.....4
The Christian and Missionary Alliance.....5
* Direct Relief Foundation.....5
* The Thomas A. Dooley Foundation, Inc.....6
National Council of Catholic Laity.....6
*+ Seventh-Day Adventist World Service, Inc.....6
*+ World Relief Commission, Inc. of the National Association of Evangelicals....7
* World Vision Relief Organization, Inc.....7
Summary Chart.....9

THE AMERICAN NATIONAL RED CROSS
17th and D Streets, N.W., Washington, D.C. 20006 -- (202) 737-8300

MEDICINE & PUBLIC HEALTH: In 1973 sent medical supplies valued at $1537 and $500 cash to the Khmer National Red Cross.

(Program information received December 1973)

THE ASIA FOUNDATION
550 Kearney Street, San Francisco, California 94108 -- (415) 982-4640
Mailing address: P.O. Box 3223, San Francisco, California 94119

EDUCATION: Provides graduate fellowships in the U.S. to 4 officials of the Ministry of Education for study in educational administration and curriculum development, and to 10 government ministry officials for graduate work in economic and financial planning. These officials will form the nucleus of planning units for economic and social development within their respective ministries upon completion of study.

FUTURE PLANS: Plans to reestablish office in Phnom Penh and expand program for postwar reconstruction and development with emphasis on the educational system, on working with government ministries involved in economic development and social rehabilitation, and on projects promoting national social integration.

PROGRAM INITIATION: Program reestablished 1973.

FINANCIAL DATA: Expenditures for FY ending 7/31/73: $50,000.
Budget for FY ending 7/31/74: $173,000.

COOPERATING GOVERNMENT: Government of Khmer Republic, Ministry of Education.

(Program information received December 1973)

*+ CARE, INC.
660 First Avenue, New York, New York 10016 -- (212) 686-3110

Address in Khmer: 17 Avenue de France, Phnom Penh
Harold Sillcox, Country Director

CONSTRUCTION, HOUSING & PLANNING: Provided the materials and management for the construction of a barracks for 10 refugee families at O Bek Kaam camp near Phnom Penh. Six additional barracks are under construction.

EDUCATION: Provides basic school supplies for primary schools.

(continued)

(continued)

EQUIPMENT & MATERIAL AID: Provided emergency food and refugee kits including fabric and thread for clothing, cooking utensils, soap, bedding, and medical supplies for approximately 20,000 persons in Phnom Penh.

FOOD PRODUCTION & AGRICULTURE: Provided 25 tons of rice seeds, 15 tons of fertilizers, and 3,000 hoes to farmers to enable 1,000 families to resume rice production in Kirirom Province.

PERSONNEL: 2 U.S.; 5 local.

PROGRAM INITIATION: May 1973.

FINANCIAL DATA: Expenditures for May and June 1973: $22,000. (During FY 1973 CARE received a $500,000 grant from AID of which this $22,000 is a part.)

COOPERATING ORGANIZATION: U.S. Agency for International Development.

(Program information received January 1974)

** CATHOLIC RELIEF SERVICES -- UNITED STATES CATHOLIC CONFERENCE
350 Fifth Avenue, New York, New York 10001 -- (212) 594-9300

Address in Khmer: Hotel Le Phnom, Phnom Penh
Mailing Address: CRS-USCC, American Embassy Box P,
A.P.O. San Francisco 96346
Reverend Philip McNamara, Program Director

EQUIPMENT & MATERIAL AID: In cooperation with the Khmer Government and the U.S. Government responds to the immediate and urgent needs of indigenous refugees. With the help of emergency grants purchases food, medicines, and household items and ships used clothing, medicines, survival biscuits, and carbohydrate supplements.

MEDICINE & PUBLIC HEALTH: Has begun construction of four new wards for the Neak Luong Hospital.

SOCIAL WELFARE: Operates refugee reception centers, temporary shelter, and day-care centers in Phnom Penh.

PERSONNEL: 2 U.S.; 13 local.

PROGRAM INITIATION: 1973.

FINANCIAL DATA: Expenditures for period from 1/1/73 to 6/30/73: $1,064,151.

COOPERATING ORGANIZATIONS AND GOVERNMENTS: Khmer Bureau of Refugees and War Victims; USAID; International Red Cross; Missionaries of Charity; Comite d'Entraide/ Phnom Penh; Khmer Women's Association; International Women's Association; Danchurchaid;

(continued)

(continued)

Caritas Denmark; Help the Aged/London; Thomas Dooley Foundation/Canada; CORSO (Council of Organizations for International Relief, Rehabilitation, and Development), Australian Catholic Relief, and New Zealand Catholic Overseas Aid.

(Program information received November 1973)

THE CHRISTIAN AND MISSIONARY ALLIANCE
260 West 44th Street, New York, New York 10036 -- (212) 524-9282

Address in Khmer: B.P. 54, Phnom Penh
Rev. Merle E. Craven, Board Representative

EDUCATION: Operates one primary school with enrollment of 110.

EQUIPMENT & MATERIAL AID: Distributes relief goods to refugee camps and a hospital. Funds are supplied for the local purchase of salt, fish sauce, blankets, and mosquito netting.

MEDICINE & PUBLIC HEALTH: Provides the services of one doctor and four nurses to government hospitals in Phnom Penh.

PERSONNEL: 13 U.S. (including one doctor and two nurses); 2 international (Canada); 3 local.

PROGRAM INITIATION: 1970.

FINANCIAL DATA: Budget for FY ending 12/31/73: $31,333.

COOPERATING ORGANIZATION: World Vision Relief Organization.

(Program information received September 1973)

* DIRECT RELIEF FOUNDATION
27 East Canon Perdido Street, Santa Barbara, California 93101 -- (805) 966-9149

MEDICINE & PUBLC HEALTH: Ships pharmaceuticals, medical supplies and hospital equipment to hospitals and clinics in Khmer.

(Program information received October 1973)

* THE THOMAS A. DOOLEY FOUNDATION, INC.
442 Post Street, San Francisco, California 94102 -- (415) 397-0244

Address in Khmer: Hotel Le Phnom Penh

MEDICINE & PUBLIC HEALTH: Provides material assistance to the Ministry of Health facilities. In 1973 shipped $226,000 worth of premium drugs, antibiotics, hospital and surgical supplies.

FUTURE PLANS: Currently planning to institute laboratory services for existing Khmer hospitals in Phnom Penh including construction and equipment of major laboratory facilities and technical supervision and training of Khmer technicians.

PERSONNEL: 1 U.S. (administrator).

PROGRAM INITIATION: 1972.

FINANCIAL DATA: Expenditures for CY 1972: $103,822.

COOPERATING GOVERNMENT: Government of Khmer.

(Program information received December 1973)

NATIONAL COUNCIL OF CATHOLIC LAITY
1312 Massachusetts Avenue, N.W., Washington, D.C. 20005 -- (202) 659-6788

(Formerly the National Council of Catholic Women and the National Council of Catholic Men.)

EQUIPMENT & MATERIAL AID: In 1972 provided a grant of $300 to provide food and medicine to war refugees.

(Program information received December 1973)

*+ SEVENTH-DAY ADVENTIST WORLD SERVICE, INC.
6840 Eastern Avenue, N.W., Washington, D.C. 20012 -- (202) 723-0800

Address in Khmer: P.O. Box 376, Phnom Penh
Helton Fisher, Representative

EQUIPMENT & MATERIAL AID: Provided food, blankets, clothing, tools, and shelter for refugee relief.

FINANCIAL DATA: In October 1973 appropriated $4,000 for purchase of relief supplies.

(Program information received November 1973)

*+ WORLD RELIEF COMMISSION, INC. OF THE NATIONAL ASSOCIATION OF EVANGELICALS
649 South Henderson Road, Valley Forge, Pennsylvania 19481 -- (215) 783-0556
Mailing Address: P.O. Box 44, Valley Forge, Pennsylvania 19481

Program in Khmer: Administered from regional office, 167/48 Nare Suan Road
Udorn Thani, Thailand
Reverend James Gustafson, Acting Field Director

EQUIPMENT & MATERIAL AID: Responds to requests from cooperating organizations and independent missionaries located in Khmer, Laos and Thailand with direct cash grants for emergency response to flood, war and migration problems. Also provides supervision of similar emergency needs with some food, clothing, medicines and vitamins.

PERSONNEL: Cooperating organizations donate the services of personnel during emergencies.

PROGRAM INITIATION: 1970.

FINANCIAL DATA: Expenditures for FY ending 12/31/73 not including salaries in Khmer, Laos and Thailand:
$7,000 (approximate figure).
Budget for FY 1974 regional exigency fund for Khmer, Laos, and Thailand: $10,000.

COOPERATING ORGANIZATIONS: Christian and Missionary Alliance; Evangelical Covenant Church; OMS International, Inc.

(Program information received December 1973)

* WORLD VISION RELIEF ORGANIZATION, INC.
919 West Huntington Drive, Monrovia, California 91016 -- (213) 357-1111

Address in Khmer: 271A (2nd Fl.) Vithei Lauk Mey
Phnom Penh
Carl B. Harris

COMMUNITY DEVELOPMENT: Resettled 6,500 refugees in two ten acre sites.

CONSTRUCTION, HOUSING & PLANNING: Built 5 new schools to benefit 1,000 children; remodeled villa into medical clinic; built hospital in Phnom Penh.

EQUIPMENT & MATERIAL AID: Provides food and medicine and other relief supplies to refugees.

MEDICINE & PUBLIC HEALTH: Equipped a mobile medical clinic.

PERSONNEL: 2 U.S.; 1 local.

(continued)

(continued)

PROGRAM INITIATION: 1970.

FINANCIAL DATA: Expenditures for FY ending 6/30/73: $112,727.

COOPERATING ORGANIZATION: Christian and Missionary Alliance.

(Program information received December 1973)

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SUMMARY INDEX

This chart provides a quick reference summary of the development assistance activities in Khmer of the organizations included in this report. "PP" indicates a proposed program, ○ a current program.

	COMMUNITY DEVELOPMENT	CONSTRUCTION, HOUSING & PLANNING	EDUCATION	EQUIPMENT & MATERIAL AID	FOOD PRODUCTION & AGRICULTURE	MEDICINE & PUBLIC HEALTH	PUBLIC & BUSINESS ADMIN.	SOCIAL WELFARE
AMERICAN NATIONAL RED CROSS				○		○		
THE ASIA FOUNDATION	PP		○				○	
CARE, INC.		○	○	○	○	○		
CATHOLIC RELIEF SERVICES		○		○		○		○
THE CHRISTIAN & MISSIONARY ALLIANCE			○	○		○		
DIRECT RELIEF FOUNDATION				○		○		
THOMAS A. DOOLEY FOUNDATION, INC.			PP	○		○		
NATIONAL COUNCIL OF CATHOLIC LAITY				○				
SEVENTH-DAY ADVENTIST WORLD SERVICE, INC.				○				
WORLD RELIEF COMMISSION				○		○		
WORLD VISION RELIEF ORGANIZATION, INC.	○	○		○		○		

VIII. LOGISTICS/TRANSPORT

Starting in 1973, a major responsibility of the USAID Mission was to ensure that the flow of vital goods into Cambodia was not interrupted, and that proper distribution took place once these goods had arrived in-country. Before the war, Cambodia could rely on four main lines of communication (LOC's) linking the country to the outside world: Highway No. 1 between Saigon and Phnom Penh, Highway No. 4 linking the capital with the deep-sea port of Kompong Som, Highway No. 5 which provided access to the vast agricultural resources of the northwestern part of the country, as well as to northern Thailand, and of course the Mekong River which not only connected Cambodia to the South China Sea but also Phnom Penh to Cambodia's northern hinterland. In 1972, several sections of Highway No. 1 were cut off by the enemy. In late 1973, traffic on Highway No. 5 was repeatedly disrupted by enemy action particularly south of Kompong Chhnang, which then became a transit point for transshipment of goods from trucks to river barges on the final leg of the journey to Phnom Penh via the Tonle Sap River. In January 1974, ~~it was the turn of~~ Highway No. 4 ~~to become~~ permanently interdicted by the enemy. Finally, in January/February 1975, the enemy succeeded in closing off all commercial navigation on both the Tonle Sap and the Mekong Rivers. Thus, over a 4-year span the territory under government control became nothing more than a series of enclaves which could only be supplied by air and/or river. The one exception was Battambang which, due to its proximity to the Thai border, was able throughout the war to bring in imports by rail and road. Statistical data on selected commodity movement into Cambodia, mainly Phnom Penh,

compiled by the U.S. Pacific Military Command which had the ultimate responsibility for coordinating the logistical support to the Khmer Republic, illustrate the gradual closure by the enemy of major land and river LOC's that lead to the economic strangulation of the Khmer Republic. (All figures are expressed in metric tons.):

	Airland	Airdrop	Mekong	Road
CY 1973 (12 Months)				
Rice	3,128	3,392	93,237	22,056
POL(Civil & Milit)	332	-0-	250,355	-0-
General Cargo	5,179	-0-	87,777	27,223
Total	8,639	3,392	431,369	49,279
CY 1974 (12 Months)				
Rice	-0-	6,221	284,221	332
POL (Civil & Milit)	-0-	-0-	208,392	2,202
General Cargo	2,683	-0-	89,257	2,192
Total	2,683	6,221	581,870	4,726
CY 1975 (First 3-1/2 Months)				
Rice	22,616	1,462	6,126	-0-
POL (Civil & Milit)	9,573	-0-	4,380	-0-
General Cargo	2,669	-0-	-0-	303
Total	34,858	1,462	10,506	303

Note: In the above table, airland and airdrop figures represent commodity movement into Cambodian enclaves by USAF aircraft positioned in Thailand. They do not include tonnage flown out of Phnom Penh to provincial enclaves in Khmer aircraft.

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Thus it was that from 1973 to the final U.S. pull-out in April 1975, the USAID Mission became heavily involved in the logistics support of Cambodia, both in terms of man-hours and expenditure of CIP funds. Specific activities either conducted or coordinated by USAID were:

1. Transshipment of PL 480 commodities at Saigon.
2. Arrivals/departures and discharging of river convoys at the Port of Phnom Penh.
3. Creation and operation of a GKR Internal Transportation Commission.
4. GKR's rice airlift to provincial enclaves.
5. Re-supply of rice stocks at USAF bases in Thailand for airdrops over Cambodia.
6. Rice distribution system in Phnom Penh.
7. Emergency rice airlift from Saigon to Phnom Penh.

- Transshipment of PL 480 commodities at Saigon for onward movement to Phnom Penh via the Mekong and/or to Kompong Som by sea necessitated the AID-hiring of coaster vessels and tug-pulled barges on a voyage or time charter basis. This was done originally by USAID/VN, but the continuing expansion of logistics activities led to the establishment in late 1973 of a Khmer Support Office in Saigon fully staffed and funded by USAID/KR. In Phnom Penh, Mission officers were responsible for coordinating the arrivals and departures of military-escorted Mekong river convoys, and supervising the discharge of all AID-financed cargo. In this connection, pressure was constantly applied on the Khmer Government to tighten up security at the Port of Phnom Penh in order to minimize losses from pilferage. In calendar

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year 1974, a total of 161 coasters, 196 barges, and 99 tankers sailed up the Mekong to call at the Port of Phnom Penh and discharge over 500,000 metric tons of civilian cargo. By contrast, the first and last civilian convoy to reach Phnom Penh in 1975 arrived January 31 with two coasters (a third one was beached and lost on the way up), two barges, and one tanker carrying a total of approximately 9,000 metric tons of civilian cargo (rice and POL).

- Two major considerations led to the establishment of an Internal Transportation Commission in 1974. One was the potentially explosive situation developing in Phnom Penh where, more than in the rest of the country, the uneven burden of the war was felt by a refugee-swollen population of over 1.5 million people. As the capital became more and more isolated from provincial centers of production as the result of the enemy interdiction of land LOC's, prices of most basic commidities were climbing inexorably while wages and salaries stagnated. In 1973, the cost of living had increased by 280 percent. In the first quarter of 1974 alone, about 20 critical food items registered a 25 percent increase. The other consideration was that available modes of domestic transportation had fallen prey to unscrupulous parties in both the public and private sectors. Due to the interdiction in 1973 of Route 5 by the enemy between Kompong Chhnang and Phnom Penh, foodstuff and other supplies hauled by truck from Battambang/Pursat to Kompong Chhnang had to be transshipped at the latter point for the journey to Phnom Penh via the Tonle Sap River under military protection. This alternate mode of transport gave a tightly-organized and powerful group of profiteers a golden opportunity to extort huge fees from cargo owners. A few figures

will serve to illustrate the extent of the illicit profits made by those who controlled the waterway between Kompong Chhnang and Phnom Penh. (Note that in those days the official rate of exchange was 450 riels to U.S. $1.00.) It was estimated that, under normal circumstances, it should have cost about 8,000 riels to ship one metric ton of cargo by road from Battambang to Phnom Penh. Under the road/river method, the minimum cost was 30,000 riels, a difference of 22,000 riels. Of the 30,000 riels, a cost that applies only to rice, 21,600 riels went for river shipment from Kompong Chhnang to Phnom Penh, one third of the total distance between Battambang and Phnom Penh.

Since it was estimated that a total of 300,000 M/T of various commodities were available per year for shipment to Phnom Penh from Battambang/Pursat/Kompong Chhnang, the difference between road and road/river costs of transportation became highly significant.

30,000 R x 300,000T	=	9 billion riels
8,000 R x 300,000T	=	2.4 billion riels
Difference	=	6.6 billion riels

As mentioned earlier, 30,000 riels per ton was a special rate for rice. In point of fact, private merchants paid much more, i.e. from 36 to 56,000 riels per ton, of which between 28 and 43,000 riels covered the cost of river transportation between Kompong Chhnang and Phnom Penh.

~~Fronting for this~~ extortion racket was the Association of River Carriers which made no bones about the fact that it paid private craft owners 9,000 riels per ton of cargo, with the difference of 12 to 19,000 riels or more used to defray miscellaneous expenses otherwise labeled

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~~by the Association as protection money to the military~~ establishment ~~to~~ insure safe voyages between Kompong Chhnang and Phnom Penh. The Association, ~~whose President was the brother of the~~ Khmer Armed Forces' ~~Chief of Staff,~~ felt it was powerful enough to prevent non-member craft owners from plying the route.

Whereby in early 1974 there were six registered airline companies in Cambodia, the number had jumped to 23 by the end of that year, with a combined strength of 57 commercial aircraft. Despite periodic reminders by the government that illicit increases in air freight rates would be severely punished, it was common knowledge that no domestic private airline adhered to the officially published freight rates. Official freight rates applied only to the air portion of the freight carrying cycle, whereby rates quoted by private airlines were door-to-door rates, i.e., they included land transportation charges from town to airport to town as well as loading and off-loading charges. These unofficial rates were guided by the free-market rate of the dollar on one hand, and the law of supply and demand on the other. The following is an example of how the system worked, based on a free-market rate of 720 riels to U.S. $1.

A foreign-owned DC-3 aircraft was leased to a domestic airline holding the operating license. The lease was dry-wing meaning that the owner of the aircraft paid for pilot, insurance including war risk, maintenance, overhaul, etc. but not for fuel. The airline leasing the plane has to pay for fuel, landing fees, cabin attendants, airport handling, etc. The foreign owner charged $120 per flight hour, block to block, payable in hard currency. Quite often, the practice was for the domestic airline to sub-lease the aircraft to a private "Cargo

Forwarding Agent." For a DC-3 aircraft the fuel consumption per hour is 100 gals, and the carrying capacity 3.5 M/T. Flight time for one round trip Phnom Penh/Battambang/Phnom Penh is 2h.20m. or 2h. 33m. block to block. The airline's cost of leasing the aircraft was $120 X 2.33 = $279.60, equivalent to 125,820 riels. But since it had to purchase the dollars on the free-market, the actual riel cost of the lease was $279.60 X 720 = 201,312 riels, plus fuel, landing fees, etc. Total cost to the airline was about 300,000 riels. (It is worth noting that although a DC-3's fuel consumption is 100 gals per hour, the airline had to base its cost on 120 gals because of theft of fuel at night at the airport.

The Cargo Forwarding Agent sub-leased the aircraft from the domestic airline for a lump sum of 432,000 riels. Gross profit for the airline: 132,000 riels. If lucky, the CFA filled the aircraft with cargo for the Phnom Penh/Battambang trip, although not much cargo was moving that way. He charged customers 50 riels per kilo door-to-door which was less than the official rate. If he has a full load, his revenue was 50 X 3,500 kilo = 175,000 riels.

In Battambang, he fully-loaded the aircraft with no difficulty and charged an average of 135 riels per kilo door-to-door. His gross revenue was 135 X 3,500 kilo = 472,500 riels.

His potential total revenue for the round trip was 175,000 + 472,500 = 647,500 riels. Of that he paid 432,000 riels for the sub-lease of the aircraft, 12,000 riels for trucking charges, 2,000 riels for truck airport access charges, and about 6,000 riels for warehousing. His theoretical gross profit was 195,500 riels per trip, but in fact it was less since little freight moved from Phnom Penh to Battambang.

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However, the real big money was not in air transportation but simply in buying-up quantities of foodstuff in the countryside and selling them in the capital with a 3 to 400 percent mark-up. In fact many of the new airlines were established in 1974 by merchants who used the relatively high cost of air transportation as an excuse to mark-up the wholesale price of the goods they owned.

Faced with this situation, USAID established on April 10, 1974, a 5-member Task Force on Domestic Supply and Transportation whose mandate was to work with the Khmer Government in augmenting movement of domestic commodities by river, air and sea as well as procuring critical commodities for movement to Phnom Penh. The government followed suit by announcing on April 20 the creation of an Internal Transport Commission (ITC) attached to the Office of the Prime Minister. A joint plan of action was immediately drafted, with the two parties agreeing on a step-by-step approach that gave first priority to river transportation. To this end, USAID offered to charter in South Vietnam a fleet of five tugs and eleven barges. On June 26 the Commission established a Provincial Management Committee (PMC) to operate the fleet. As a safeguard against predictable attempts by vested Khmer interests to disrupt its implementation, the project was submitted by the Prime Minister to the High Executive Council, headed by the President of the Republic, which approved it on June 28. The following day the first increment of the USAID river fleet - three tugs and five barges - arrived in Phnom Penh from Saigon. The balance of the fleet - two river tugs (plus a harbor tug) and six barges - were delivered over the following 40 days. Due to failure of the owners to provide permanent crews as

provided in the charter party, qualified Khmer nationals were recruited by ITC (a total of 6 pilots and 43 crew members). The combined capacity of the 11 barges was 6,850 metric tons. The rental cost of the fleet was $207,000.00 a month funded under the Cambodia CIP.

The initial operating budget of ITC amounted to approximately $300,000.00. The exact breakdown was drawn as follows:

Craft Rental	$207,135
Ship's Agent Fee	1,500
Maintenance	3,400
Fuel	9,500
War Risk Insurance (Craft)	66,305
Crew Salaries	8,700
Office Staff	4,800
	$301,340

Note that only craft rental costs represented an AID dollar expenditure. The balance of the ITC budget was actually funded in local currency, in part under the Internal Transportation Project ProAg No. 75-009 signed originally on October 1, 1974, for 400 million riels and increased a month later to 500 million, mostly through booking revenues earned by ITC.

The primary objective of this activity was two-fold: (1) to augment existing river transportation assets on vital runs between Kompong Chhnang and Phnom Penh and Kompong Som-Phnom Penh in order to increase shipments of critical commodities to the capital and (2) to force a decrease in freight rates charged by the Association of River Carriers on the Tonle Sap River in an effort to stabilize market

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prices in the capital.

To attain the objectives, the plan developed jointly by USAID and ITC for the Tonle Sap operation called for a 3-prong approach: (1) reinforcing the trucking fleet operating on Highway 5 between Battambang and Kompong Chhnang, (2) providing adequate warehouse space in Kompong Chhnang in order to achieve a fast turn-around of truck convoys, and (3) operating the USAID fleet in the most efficient and economical manner to force freight rates down to a realistic level.

In the summer of 1974, ITC formulated and executed an ancillary operation that moved 60 trucks and 25 trailers from Kompong Som on the Gulf of Siam (the enemy interdiction of Highway 4 had stranded these vehicles) to Kompong Chhnang by sea and river, with USAID providing once again the transportation assets, plus 20 trucks from Phnom Penh to Kompong Chhnang. At the latter location, ITC was able within a short time to secure warehouse space with a total capacity of 6,700 metric tons, of which two-thirds consisted of new hangars built in july and August 1974 at ITC's instigation by a governmental rice purchasing agency named SORAPA.

The first ITC convoy to Kompong Chhnang left Phnom Penh on July 16, 1974, under Khmer Navy escort, and returned on July 25. From that date through September 30, the USAID-chartered fleet moved approximately 15,000 metric tons of cargo (local rice, animal feed, dried fish, sugar, lumber) to Phnom Penh at an average cost to consignees of 17 riels per kilo. The tonnage moved during that period was about half of what had been projected. Mechanical failures of two tugs, the accidental grounding of another one, the lack of

cooperation on the part of the Khmer Navy in the initial phase of the operation, enemy activity along the banks of the river, were the immediate reasons. On the other hand, the pressure of ITC's competition promptly lead the Association of River Carriers to reduce its freight rate from 40 to 25 riels in September. During the whole month of October, the enemy succeeded in interdicting Highway No. 5 north of Kompong Chhnang to all commercial traffic. Rather than keep the USAID-fleet idle, ITC reacted to this situation by sailing the fleet across the great lakes on the opposite side of Highway No. 5 to the town of Siam Reap which is linked to Battambang by Highway No. 6.

A makeshift loading zone was established near Siam Reap, and truck convoys organized out of Battambang. Needless to say, these steps were not completed overnight considering that never before had a merchant fleet sailed the great lakes between Siam Reap and Kompong Chhnang. By the time Highway No. 5 was re-opened to commercial traffic in early November, 1,600 metric tons of rice had been shipped from Siam Reap to Kompong Khhnang. In the last two months of 1974, the USAID fleet moved another 7,250 metric tons of rice, plus miscellaneous quantities of animal feed and lumber. During that period, enemy activity along the banks of the Tonle Sap River increased considerably with the result that it became more and more difficult for the Khmer Navy to protect commercial navigation. Finally, in early January 1975, the enemy succeeded in stringing steel cables and mines across the river at three points between Kompong Chhnang and Phnom Penh. Since the battle of the Mekong was beginning to take shape at about the same time, the Khmer Navy was forced to cease all clearing

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operations on the Tonle Sap. Part of the USAID fleet (3 tugs and 3 barges) became thus stranded at Kompong Chhnang throughout the balance of the war. In addition to plying the Tonle Sap River, the USAID-chartered fleet was used on two occasions to send emergency shipments of rice from Phnom Penh to the enclave of Kompong Cham on the Upper Mekong. The second shipment took place in November 1975 but never reached its destination. That particular river convoy, carrying POL and military supplies in addition to rice, fell into an enemy ambush south of Kompong Cham and suffered heavy losses and damages.

Because of repeated mechanical failures, the original Tonle Sap fleet never operated at full strength. When a tug was held up for repairs, it was temporarily taken off-hire. For this reason, actual monthly rental costs financed by USAID averaged $151,000.00. On the other hand, back in October it had been deemed necessary to hire additional craft from a contractor in Manila in order to maintain the projected carrying capacity of the USAID fleet. Two more tugs and four barges were thus turned over by USAID to ITC at a monthly rental cost of $150,000 which was also CIP-funded. One of these two tugs was sunk a month later by the enemy in the ambush mentioned above. As it turned out, the remaining five craft were pressed into service on the Lower Mekong between Phnom Penh and Saigon to haul PL 480 rice and other commercial cargo.

In retrospect, the Tonle Sap activity would seem to have been an expensive operation that fell short of its target. ~~But could not the same be said of any effort conducted in pursuit of a war that ended in total defeat.~~ On the positive side, the activity did provide Phnom Penh with an additional supply of 20,000 metric tons of rice

which proved to be ~~highly valuable~~ extremely vital in the final months of the seige of the capital. It did create over 100 jobs, and provided valuable training to otherwise under-employed river pilots and crew members. The publicity given to the operation helped to show the people that the government cared and was doing something about easing their plight. Finally, the viable organization founded and managed by ITC was gearing itself for an expanded stabilizing role in the procurement, transportation and marketing of critical domestic commodities. With the backing of USAID, negotiations were underway in Saigon and Phnom Penh to purchase three tugs and three barges of the original Tonle Sap fleet at a cost of $340,000 that was to be funded under the ESF. Moreover, USAID had an option on four excess USAF C-47 aircraft that were to be turned over to ITC at no cost either to USAID or the Khmer Government.

The work of the USAID Task Force and the Internal Transportation Commission did not begin and end with the Tonle Sap project. Besides the Battambang area, another potential source of surplus domestic commodities were the three Maritime Provinces of Kompong Som, Kampot, and Koh Kong. In addition to domestic products, warehouses at the port of Kompong Som were filled with AID-financed essential commodities off-loaded there prior to the sudden closure of Highway No. 4 by the enemy in January of 1974. In the last six months of that year, USAID-chartered vessels and barges moved approximately 15,000 metric tons of general cargo from Kompong Som to Phnom Penh by sea and up the Mekong River. The cargo consisted for the most part of marine shells (for animal feed), lumber and

roofing material (for refugee relief projects), asphalt, paper, cement, and construction equipment consigned to the Ministry of Public Works. As mentioned earlier, USAID and ITC also undertook to transfer 60 trucks and 25 trailers from Kompong Som to Kompong Chhnang. Additionally, and in response to an urgent appeal by the Khmer Government in June 1974, a special operation was launched to ship a minimum of 15,000 metric tons of salt from the production center of Kampot to Phnom Penh. Salt is a vital commodity in all of Southeast Asia for fish preservation. It was essential that adequate stocks be established in Phnom Penh in time for the main river fishing season that lasts from November through February. One logistics problem was that the center of production in Kampot was linked to the sea by a narrow channel. USAID chartered in South Vietnam light draft barges and tugs to move the salt from Kampot to Kompong Som where it was transshipped into other USAID-chartered coasters for the journey to Phnom Penh. By January 1975, in excess of 16,000 metric tons of salt had been shipped out of Kampot, of which over 10,000 tons had been transshipped at Kompong Som and delivered to Phnom Penh. When the Mekong River was closed to commercial navigation in late January, Phnom Penh had a two month supply on hand. This successful operation had an important impact on food production, and it reduced substantially speculation on salt and salt-preserved fish.

Before leaving the Maritime Provinces, it must be noted that USAID was also responsible for shipping PL 480 rice from Saigon to Kompong Som. The same vessels that carried rice one way were used to move salt to Phnom Penh thus reducing substantially freight costs

per ton under the AID-financed charter parties. During the period August 1974 through February 1975, 21,000 metric tons of U.S. rice were thus delivered to Kompong Som (note: the total average monthly rice consumption for the three Maritime Provinces was about 2,000 metric tons).

Rice airlift to provincial enclaves. Towards the end of 1972, access roads to the provincial centers of Kompong Thom and Svay Rieng were cut-off by the enemy. The task of supplying these enclaves with essential commodities, mainly rice and ammunition, fell at first to the USAF which conducted airdrops out of Thailand. However, by mid-1973 emergency airstrips at these two locations had been either built or restored. ~~The USAID Mission prevailed~~ on the Khmer Government ~~to~~ begin to organize rice airlifts out of Phnom Penh using domestic aircraft. To help defray the cost of such an operation, USAID concurred in the release of counterpart funds. Over the following two years, the domestic airlift was expanded to service other enclaves such as Takeo and Kompong Cham. The total number of sorties fluctuated greatly from month to month, as it was dependent on the availability of DC-3 type aircraft and/or the amount of rice harvested in each of these enclaves. At times of serious shortages, it was necessary for USAID to launch emergency airlifts out of Saigon through an open-end contract between USAID/VN and Air America, with all costs reimbursed to the former by USAID/KR. On the average, approximately 1,200 metric tons per month were airlifted out of Phnom Penh to these various enclaves. When in February 1975, the capital itself became a completely surrounded enclave, the civilian domestic airlift originating point was switched to Kompong Som to serve Kompong Thom

and Svay Rieng. By that time the Khmer Govenrment had to operate concurrently Khmer Air Force rice airdrops from Kompong Som to Takeo, Kampot, Kompong Seila, Dos Kanchor, and from Phnom Penh to Louek and Neak Leoung.

USAF airdrops out of Thailand. USAID was also responsible for keeping an adequate level of rice stocks at U-Tapao, Thailand, the USAF base that was the originating point for airdrops on certain Khmer enclaves. Two techniques were used. One consisted in backhauling to U-Tapao, Battambang rice in Thai truck convoys that carried military supplies to that northwestern provincial capital. The other way was for USAID-chartered vessels to deliver PL 480 rice from Saigon to the Thai sea-port of Sattahip adjacent to the U-tapao airbase.

Emergency rice airlift. By mid-February 1975, the military situation in Cambodia, particularly around Phnom Penh, had deteriorated to the point that serious doubts were raised whether the Mekong River could be re-opened to commercial navigation during the balance of the dry season enemy offensive. As it became clear that the enemy's efforts were bent on strangulating the capital it was decided to revive and finalize an existing contingency plan for a US-conducted airlift operation to deliver daily supplies of rice and petroleum products from Saigon to the beleaguered city of Phnom Penh.

Minimum daily requirements were established at 500 metric tons for rice and 145 metric tons for POL (gasoline, auto diesel, and aviation gas). On a reimbursable basis by USAID, DOD/Saigon undertook to negotiate a contract with two U.S. airlines, World Airways and Airlift International. The operation got underway February 27, 1975, with three DC-8 aircraft flying a maximum of nine daily shuttles between Saigon and Phnom Penh (actual performance in the first few days was nine shuttles on February 27, eleven on February 28, twelve on March 1, fourteen on March 2, and fifteen on March 3). The estimated cost of the Saigon airlift was $5.5 million for 30 days. DC-8 payload was 17 pallets of 52 rice bags of 100 pounds each, i.e., 4013 metric tons. With T.I.A., Flying Tiger and Seaboard World Airways as additional contractors the airlift was expected to average 20 shuttles per day. However, because of labor problems in Saigon, plus occasional reductions of shuttles due to security situation at the Pochenrong Airport in Phnom Penh, the average daily number of sorties, for the 44 days of the Saigon airlift operation, was 13.2 and the average daily rate of rice delivery was 533.5 metric tons.

As part of the DOD arrangement with the contractor one AID-funded DC-8 was used for MAP ammo-airlift in exchange for two C-130 airlifting AID-financed POL products, namely MoGas and Diesel, from Utapao, Thailand. The average delivery rate was 120 cubic meters per day, over a period of 35 days.

VI: FINANCE AND ADMINISTRATION

INTRODUCTION

For readers with particular interest in this area, there are ample records which spell out in considerable detail the resources which were available to the Mission and the manner in which they were employed. Consequently, no attempt will be made here to recount all facets of the Mission operations. However, it may be useful to recap briefly a few of the more significant areas.

Overseas AID Missions are for the most part structured according to the same basic pattern. However, each is molded to suit its particular environment, and thereby becomes unique in its own special way. Cambodia was no exception. Consequently, the wartime conditions which prevailed during the four and a half year life of the Mission resulted in an organization and a modus operandi, perhaps even more notable for its distinctiveness and originality.

Without doubt the factor which influenced most heavily the structure of the Mission was the congressional mandate which limited total U.S. personnel in Cambodia to 200. Of these positions 22 were apportioned to AID by the Embassy. To manage effectively its affairs within this limitation was a constant burden for the USAID. Some relief was afforded through borrowing of unfilled or temporarily vacant positions from other organizations for temporary TDY's; and on the average 5 or 6 badly needed additional staff in Phnom Penh were accommodated in this way.

SUPPORT OFFICES

In 1974 the US AID program to Cambodia expanded dramatically. The reason was partially to cope with rapidly escalating socioeconomic problems, the mounting flood of refugees, increasing logistical obstacles, and steady deterioration of the agrarian economic base as a direct result of military reverses. Additional justification was the felt need to plan for what, in retrospect, were overoptimistic projections of better days ahead. An oversimplified response to these evidently conflicting objectives was the rationale that either development of events required more and broader assistance than the limited staff and program of the initial three years could provide.

As a compromise intended to provide some measure of relief for the hard pressed staff in Phnom Penh but still to remain within the personnel constrictions, two support offices were created. The smaller was in Saigon. Its primary role was to assist Cambodia with logistics. The other, located in Bangkok, was much larger. It was intended to provide overall backstopping assistance to the Phnom Penh "front line"; to provide a base from which to operate for those whose work related to Cambodian affairs but whose physical presence was not required in-country continuously; and to serve as a haven for Phnom Penh based personnel seeking temporary relief from the arduous conditions there while supervising those elements of their purview sited in Bangkok.

USAID had a contract with Continental Air Services which provided, along with other service, for three flights weekly between Bangkok and Phnom Penh; thus,

in theory at least, permitting easy and inexpensive travel and communications between these points. Air America flights from Saigon for in-country charter work in Cambodia where the aircraft could not remain overnight provided a means for similar contact with the Saigon support office. Direct military lines to each of these locations permitted instant telephonic communications.

The usefulness of the support offices and the effectiveness of the staffs based there was the subject of considerable concern and debate. The plan for frequent interchange of personnel between Phnom Penh and Bangkok did not materialize as envisioned, primarily because of the unremitting demands of Phnom Penh for continuity, and the requirement for immediate availability to the decision making core of those officers responsible and most knowledgeable. Another factor was the inherent difficulty of extracting integral elements to be performed at external locations. Aside from largely routine matters, it was found very difficult t. relocate and effectively discharge responsibilities out of immediate touch with the nerve center, away from files and records, and where coordination with other concerned officers could not be readily accomplished.

Given the development of events and the benefit of hindsight, it must finally be concluded that, operationally, the support office concept enjoyed only marginal success. At the time it was created, however, there were no illusions that this was the optimum structure for organizational efficiency. It was born of necessity to address the urgent requirements of the sharp expansion

of the USAID program, yet remain within the congressional mandate on personnel. The establishment of the Support Office was an honest effort to secure additional management expertise for the increased resources made available to Cambodia. The structure was still new at the time of the collapse. Given time, refinements could have been effected and the whole unquestionably improved. Further, the vital role played by the Bangkok Support Office in the evacuation process must not be overlooked. The existence of this organization contributed significantly to the fact that when Phnom Penh was evacuated, all USAID's financial and administrative affairs were fully in order and complete historical files and records presently exist.

PERSONNEL

At the time of the collapse, USAID had a total American personnel strength of 39. Twenty-two of these positions were in Phnom Penh (including one General Services Officer detailed to State), 12 in Bangkok and 5 in Saigon. Within the overall U.S. Mission TCN ceiling of 81, USAID had three, two of whom worked in the Controller's office in Phnom Penh. The third worked at air operations.

Local positions were not included in the legislative restriction. At the time of the collapse there were 42 Cambodian employees on the rolls, 15 Thai and 6 Vietnamese. Additionally there were 10 personal services contract drivers.

Had the personnel ceiling not existed, there is no doubt that USAID -- as well as other elements of the Mission -- would have increased sharply in number during 1974 to parallel approximately the expansion of responsibilities. The fact that it was precluded from doing so chafed considerably at the time. It added

to the already barely supportable workload burden and incredibly long hours of the beleaguered staff. But it must be noted that the results of this mandate were not entirely negative. A very lean organization meant a minimum of bureaucracy; prompt decisions; sharply defined responsibilities; meetings limited and brief; and a minimum of internal paperwork. In other words, discounting the cost to those who did it, the job was done--and well.

For details of the Mission organization and personnel staffing, refer to the attached organization chart and staffing pattern.

FINANCIAL MANAGEMENT

The financial management functions of USAID paralleled those of other Missions to the extent that the major element involved the overall supervision of the fiscal affairs of the program. From this point, however, the operation, like the Mission itself, might be more remarked for its unique facets.

Perhaps the most notable among these was the very heavy involvement of Controller personnel in advising and counselling officials at the ministerial level. There were many reasons for this, including the relative immunity of AID personnel to pressures which could be intolerable to Cambodian officials; the unmanageable, archaic, French-style bureaucracy; the dearth of qualified personnel in the Khmer government; and USAID's own aggressive policies of financial management, arrival accounting and audit surveillance.

The factor which contributed most significantly, however, was the importance and resultant influence of AID's resources on all aspects of the Khmer economy, and the desire of those concerned

to ensure that positive controls existed to preclude misuse. (It should be noted that financial officers were not the only ones heavily involved with GOK affairs. For further details refer to Annex XI written by a former Khmer Cabinet Minister.)

The result of this involvement was to draw from the Controller's already limited time available to contend with USAID internal operations. But it had the positive affect, insofar as the furtherance of AID's programs were concerned, of furnishing an immediate source of information, and allowing considerable leverage to effect desired actions on the part of Khmer officials. This no doubt augmented the effectiveness of the financial and other resources provided by AID.

Although not unique to the Controller's Office, a predominant factor determining the way the office functioned was the bifurcation of the office and staff between Bangkok and Phnom Penh; and the further division of the activities in Bangkok between

those supervised by the resident Deputy Controller. Thus, the activities for which the Controller was responsible included three separate elements, plus another discrete activity in the Phnom Penh --audit. The physical separation of the Controller from the first two of these segments, plus the fact that one in Bangkok did not report directly to him, complicated the management of the office and impeded its general efficiency.

When the AID program in Cambodia was first re-established, staffing was to be limited to five officers including the Controller. It was decided that to the extent possible, accounting and reporting functions could be handled by the USOM Bangkok Controller. This arrangement would reduce the need for Controller staffing and also ensure the security of fiscal records. As events transpired, the Controller was asked to perform as Deputy AID Affairs Officer, and found it increasingly difficult to devote sufficient time to his controller responsibilities. A Deputy Controller position was created and eventually a full-time Controller assigned to Cambodia arrived at post in September, 1974, coinciding roughly with the organization and staffing of the Support Office in Bangkok. Pursuant to the Support Office policy, two of the four American officers

~~by then demanded~~ by the size and complexity of the program. ~~and such financial activities as practicable,~~ were installed in Bangkok. Principle among these were the arrival accounting responsibility, computation of counterpart billings, and preparation of the Mission operations budget. Many special assignments were also added.

As stated earlier, the plan for frequent interchange of personnel intended to facilitate management of the fragmented offices did not materialize. The result for the Controller's Office, which experience to a large extent was also duplicated by other offices, was an imbalance of workload between the two officers in Phnom Penh and those in Bangkok. The latter tended to have relatively little to do, except for brief periods of intense activity while on TDY, whereas the former were swamped. The problem was most pronounced in the final six to nine months. The expansion in the complexity of the program and growth in numbers of personnel in late 1974, together with the assignment of many administrative responsibilities to the Controller, spread the managerial coverage of his purview perilously thin.

Other negative aspects resulting from the fragmented offices included the lack of immediate access to formal accounting records and historical files. This hindered operation of the Phnom Penh control center and too often delayed decision while required background was being assembled. It also added considerably to the correspondence and coordination burden.

Little was actually saved by having the formal accounting and reporting responsibilities left in Bangkok. To ensure positive control over obligations and disbursements, duplicate records had to be maintained in Phnom Penh. And the savings realized from relief from reporting requirements was more than offset by the need to reconcile the two operations. Further, although it served a dual purpose, compilation and forwarding to Bangkok of all documentation originating in Phnom Penh added to the clerical burden.

Another inhibiting factor in the internal efficiency of all USAID offices was the persistent shortage of local personnel of sufficient calibre and skill to deal with the details of a program of that magnitude and complexity. And the management input to the USAID program and management from any office was limited only by the extent to which there was time and talent available therein to address the issues most pressing.

AUDIT COVERAGE

The 1970 reorganization of Controller functions world-wide left missions without in-house audit responsibility -- or capability. However, in view of the limited size of the USAID managerial staff - and considering the program was then almost exclusively an input program, the AID/W Controller recommended that an in-house end-use capability be developed. This potential was finally realized in March 1972 when the Deputy Controller was assigned and began recruiting and training a local staff. This staff also served to assist external audit and investigative personnel.

As the Mission matured, the development of the end-use function involved establishment of a planned program of systematic and balanced end-use coverage of all AID-financed and PL 480 commodities in Cambodia. Although there existed no formal requirement for doing so, reports were published and distributed in much the same manner as audit reports. These end-use reports and/or memoranda included recommendations for corrective action, when appropriate, and follow-up procedures were installed the same as for recommendations emanating from external sources.

In the latter months of the program, although work in progress was continued, efforts were made to direct the work of the section more toward financial analysis rather than strictly end-use monitoring. This involved concentration on current problem areas, and analysis of proposed activities and/or modifications of existing ones. The intent was to provide management with current, usable

data upon which to base decisions.

End-use coverage of the total program was already unusually comprehensive--see the attached summary--but any slack caused by implementation of the modified policy was to be taken up first through a concerted effort to convince GKR authorities that primary responsibility rested with them. USAID would only assist and oversee. Additionally, it was intended to draw more heavily upon external audit organizations.

This policy evolved slowly and its effects were not noticeably evident at the time of the Khmer military defeat. Examples of the changed approach, however, included the organization and overseeing of a system to control precisely rice transported by air, monitoring commercial Avgas consumption at Pochentong, and salt movements from Kampot to Phnom Penh.

Further impetus for the policy change was the need to respond immediately to persistent allegations by the press of waste and diversion. (Investigations almost invariably refuted these charges.) From time to time there were other particular problems which required immediate or specialized investigation, and the end-use section was intended as the vehicle to serve management needs in this regard.

The Agency organization charged with the responsibility for audit coverage of USAID/KR was the Area Audit Office located in Saigon. This office was responsive to the needs of the Cambodian program, as viewed by Mission management, and supplemental examinations were scheduled promptly when requested. The personnel ceiling for Cambodia was always a limiting factor, however, and on

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a few occasions delayed or curtailed audit visits. Other organizations having monitoring responsibility included the IIS Office based in Bangkok; and IGA and GAO operating from Washington and Vietnam. Representatives from each of these groups visited Phnom Penh every few months, and the Mission believed audit surveillance was fully adequate.

A notable feature of the USAID end-use monitoring activities was the extensive use of the Phnom Penh office of the Societe Generale de Surveillance (SGS). This was a reputable local branch of an international organization specializing in on-site surveillance of, usually, commodity handling activities. An example of the effectiveness of SGS services coordinated with USAID backstopping is reflected in the minimal .5% loss factor in the movement of AID-financed U.S. rice from the airport to the GKR warehouses during the emergency airlift. A system of daily reporting by SGS also provided detailed accountability for USAID of the rice and related losses.

The use of SGS not only augmented considerably the USAID monitoring capability, but also produced other peripheral but highly useful benefits. For example they responded to USAID's request with a thoughtful report outlining many of the means and causes of petty rice pilferage together with suggestions for deterring it; they reported attempted bribes; they assisted in curbing the practice of deliberate tearing of rice bags; and perhaps most importantly, their reports served as a source of much needed information covering a wide variety of areas. The cost of the SGS service--including constant surveillance at shell-racked Pochentong--was low. The average

charge per man day was 2,000 riels, or less than $5.

The overall audit/end-use/surveillance coverage of the AID program in Cambodia was probably as thorough as for any in the world, wartime conditions notwithstanding. As detailed on the attached summary, USAID end-use checked 8.7% of the dollar value of CIP during the life of the program; and AAG reviewed 18.4%, for a total coverage of 27.1%. Because (or in spite) of this extensive coverage, no significant deficiencies were found. For this, substantial credit must be given the handful of people who guided this sizeable program during its approximate four years of existence.

Agressive follow-up action on open recommendations was also a basic element of USAID policy. Consequently only three recommendations remained open at the time of the collapse.

FINANCIAL RESOURCES AND PROCEDURES

The dollar funds made available to the Cambodian program were handled according to standard AID procedures. Summary tables of amounts are included in Annex XIII, and their major program uses are narrated in some detail in other sections of this report. However, given the substantial size of the local currency elements and their impact on the program, as well as some distinctive aspects of their management, it may be useful to recap here certain highlights.

There were four major components of local currency: Trust Funds, Counterpart A, Counterpart D, and U.S.-Owned Local Currency generated under early PL 480 Agreements.

Trust Funds

The formal Trust Fund agreement was signed on May 5, 1971. Prior to that date, however, the Mission commenced the use of trust funds, drawing upon 13,101,592 riels remaining from the earlier program. During the life of the second program, the Mission used a total of 681,550,000 riels to pay for in-country operational expenses. (This amount includes 156,263,000 used in direct support of the refugee project and excludes 395,685,000 remaining in the Trust Fund account upon evacuation.) The source of the Trust Funds was Counterpart A, plus a small amount of interest.

Counterpart A

Counterpart A funds were generated from the AID CIP program and from the U.S. contribution to the Exchange Support Fund. In both cases, the requirement was for deposit of local currency at rates established for the sales of the foreign exchange for imports of commodities and related services.

ESF counterpart deposits were calculated by pro-rating local currency receipts among the donor countries. Estimated proceeds were deposited periodically, and a final adjustment was made annually to distribute actual proceeds among the seven participating countries.

The counterpart requirement for CIP was determined by the appropriate rate in effect at the time of licensing for private sector (licensed) imports and at the rate in effect at the time of the Financing Request (Disbursing Authorization, under Grant 612) for public sector imports. (With a flexible exchange rate exchange

system and a high level of inflation, this procedure resulted in a very complicated counterpart billing. Efforts to simplify the basis were cut short by the close of the Mission.)

Initially, private importers were required to make only a small partial deposit of local currency at the time of licensing, with the balance to be deposited upon arrival of the commodities. Transfer of the local currency deposits to the counterpart account were made upon USAID billing. Consequently, there was a substantial lag from the time the dollars were committed and the exchange rate set to the time the counterpart actually became available.

Not only were large sums tied up in the pipeline, but they lost value as the riel depreciated. Therefore, in early 1974 procedures were changed to require 100 percent deposits at the time of licensing, and monthly transfers of all accumulated deposits in the Central Bank to the Counterpart account. Billings continued to be issued upon receipt of AID/W expenditure reports for reconciliation of these advance deposits as well as collection of counterpart on transactions for which advance deposits had not been made. The latter category became particularly significant in the second half of CY 1974 as commercial import licensing dropped and PL 480 freight became the major use of CIP dollars.

During the life of the program, a total of 54,981.7 million riels was generated and deposited.

~~available,~~ As of the date of collapse 53,487.9 had been released for authorized purposes--for the most part refugee programs and military budget support.

U.S.-Owned Local Currency and Counterpart D

Prior to June 30, 1974, all local currency proceeds from PL 480 were U.S.-owned and paid in the form of Currency Use Payments (CUP). Twenty percent of this amount was designated for U.S. uses and was available for purchase by U.S. agencies for in-country administrative costs. The 80% was used for Khmer military budget support. Implementation of Section 40 of the FAA of 1973 precluding continued use of these generations for military budget support after June 30, 1974, effectively stopped payment of the 80 percent portion of PL 480 debts with riels and converted the Sales Agreements to dollar credit instruments--with concurrent requirements for counterpart equivalent deposits (Counterpart D). The use of these counterpart proceeds was then restricted to economic development pruposes.

Proceeds from rice sales were substantially below the equivalent dollar cost, and after June of 1974, even this amount was not available for current counterpart programming since it was channeled to the Central Bank to liquidate a GKR advance to the Counterpart Special Account of approximately 18 billion riels. As a consequence the Counterpart D debt, calculated by converting the dollar disbursements into riel billings using the official selling rate on the date of USDA disbursements, mounted rapidly--to 129 billion riels by the end of February, 1975. GKR expenditures were already well above revenues and the government debt position was steadily worsening. Accordingly, solution required something beyond simple

insistence that the GKR pay.

Efforts were commenced by USAID in October, 1974, to create some form of revolving borrowing authority which could be used to satisfy the debt. Resistance from the Central Bank to any form of additional governmental debt, and the need to obtain National Assembly approval for new legislation caused protracted delays. Finally, after lengthy and difficult negotiations, on March 4, 1975, a system was agreed upon and placed into effect.

The essence of this system was the flow of all PL 480 generations first into the Borrowing Authority Account, then into the Counterpart D Account to satisfy the deposit requirements against USAID billings, then on to the Counterpart A Account where normal programming occurred. Since the deposit requirements exceeded the sales proceeds, the difference was satisfied through releases for "Rice Subsidy", as authorized by the Sales Agreements. Other authorized counterpart uses for economic development purposes, 20 percent CUP payments, etc., were attributed to Counterpart D to the extent such funds were available; beyond this Counterpart A was used. The remainder of Counterpart A was used for military budget support.

To clear the way for deposit of all sales proceeds to the new Advance Account, the balance still outstanding under the old debt was liquidated, using 7.6 billion riels of the total 40 billion authority. This left an effective revolving fund of 32.4 billion.

Two "Rice Subsidy" deposits were made in March, totalling 22 billion riels. Against the net total of 55 billion riels available, transfers to the Counterpart D account totalled 40 billion, leaving a residual borrowing authority of 15 billion. Outstanding

Counterpart D billings covering disbursements through February 21, 1975, totalled 121.8 billion riels.

For details concerning the uses of the local currencies available, refer to the Status of Local Currency Project Funds Report included in Annex XIII.

ADMINISTRATION

Although not a problem at the outset, as the Khmer Republic Mission matured, all elements were affected in varying degrees by the personnel constriction of the Congressional mandate. Not the least of these were the administrative support activities. Logically, all Mission support functions were combined in a JAS operation. Within the limits of the disadvantages common to AID with these agreements, the overall arrangement was reasonably satisfactory and the USAID support needs adequately met. The costs of the JAS operation to AID from the date of the re-establishment of the assistance program in Cambodia are as follows:

FY	Riel Payments	Exchange	Dollar Equivalent
71	2,020,645	55.	$ 36,739
72	22,776,666	147.90	154,000
73	28,797,887	190.63	151,066
74	64,711,160	340.52	190,039
75	93,212,034	416.13	224,000
TOTALS	211,518,392		$755,844

All payments were made in riels using Trust Funds originating from GKR-owned counterpart. In addition to financial and vehicular support, AID also detailed to the Embassy a General Services Officer, and from time to time provided TDY assistance from

Bangkok.

Overall direction of the JAS operation was provided by the Embassy Administrative Officer, while the USAID Controller was assigned the responsibility for USAID administrative matters, including contracting. Weekly meetings with all concerned officers on each of the major areas, e.g., General Services, Personnel, Security, were conducted to ensure effective coordination and to air issues.

As with most JAS operations, functions were arranged to fit the particular requirements of the time and place. Notable among the adjustments made in Phnom Penh was the USAID decision to retain control of its own motorpool. This was considered essential primarily to meet the USAID field transportation requirements, but also for to and from work needs. (POV's were not permitted in Cambodia after June, 1973.) Embassy assets were fewer, but their needs were also less. The USAID fleet was old and for the most part in sorry mechanical condition--consisting largely of surplus vehicles discarded by neighboring Missions.

Statistics reflecting USAID title to 33 vehicles for 23 Phnom Penh based officers were misleading because of the numerous TDY personnel--often as many as 10--these vehicles also served; the fact that several were utility vehicles used by JAS; others were on direct loan to the Embassy; and finally, an average of 5 were deadlined at any given moment because their age and condition

demanded more by way of maintenance and repair than Phnom Penh was equipped to handle.

USAID personnel were allowed use of vehicles after hours for such personal use as might be found in isolated Phnom Penh. This was a logical extension of the policy advocated by USAID of doing everything possible for a staff working under most arduous conditions. Excellent housing under the circumstances was another, and perhaps more basic and important, element of this policy. Without further elaboration, suffice it to say that all those directly involved applauded this approach. It unquestionably contributed to the morale of the Phnom Penh based staff and to their productivity.

COLLAPSE AND EVACUATION

The military thrust which proved to be the coup de grace commenced in the early morning hours of January 1, 1975. The path from that point was steadily down. The already fragile economy began to deteriorate even more noticeably in the face of the steadily worsening military situation and mounting flood of refugees. The end was already in sight when the Mekong was interdicted and the last Khmer outposts dislodged. Morale plunged as repeated efforts by the ragged and battered, but still willing, Khmer troops failed repeatedly in their efforts to reopen this lifeline. As existing stocks of essential supplies disappeared, the lot of the civilian population became even more difficult as frequent power outages and critical shortages of water and POL were added to the burden of indiscriminate terrorist attacks and incessant rocketing.

Probably in large part because the collapse was comparatively gradual and could readily be predicted in the final weeks--although there were those who insisted to the very end that hope remained and business should continue as usual--the Mission was well prepared for the final evacuation when it did come. The result was a close down in very good order and relatively complete evacuation of personnel and records.

The evacuation process, using primarily the USAID charter airplane, began in low key in March. It was accelerated in early April until by April 5 only two or three AID officers remained. These came out by helicopter upon the final evacuation and termination of U.S. presence on April 12, 1975. Phnom Penh did not finally capitulate to Khmer Rouge forces, however, until April 17.

USAID headquarters were transferred to the support office in Bangkok and operations continued from there without break. The main areas of continuing responsibility were financial and personnel administration, and refugee problems. Financial affairs were wound up or continued as appropriate; personnel were housed, paid their appropriate allowances, and eventually transferred; and Cambodian staff and refugees were assisted as appropriate, all in a timely, well-ordered fashion. Except for a few residual functions, all USAID/Khmer Republic personnel and responsibilities were transfered from Bangkok the end of May and the support office was closed.

USAID non-expendable property abandoned in Phnom Penh amounted to $658,301.72, as follows:

Household Furniture & Equipment	$ 292,973.39
Office Furniture & Equipment	62,203.66
Generators (54)	200,740.23
Radios, VHF-FM (45)	33,057.20
Other Equipment	1,850.00
	590,824.48
Vehicles (31)	67,477.24
TOTAL	$ 658,301.72

The above does not include additional losses of some $10,000 of expendable property, nor $1,468.37 of GKR-titled property purchased with Trust Funds. Two additional surplus vehicles with an acquisition cost of $2,850.00 had been picked up by USAID/KR from Saigon but not yet shipped at the time of the collapse. Fifteen surplus generators with an estimated value of $15,000 each were also enroute to Phnom Penh from Vientiane at the time of the collapse, and are now located in Thailand. $26,673.47 of non-expendable property was salvaged from Phnom Penh during the evacuation and later turned over to USOM/Thailand.

It should be noted that the above figures represent for the most part original acquisition cost. Most USAID/KR property was acquired as surplus from neighboring Missions, and actual value at the time of loss would have been considerably less than that recorded in the books.

Because of the lead time and well-ordered evacuation, insofar as is known, all USAID local staff who desired to be evacuated--

and virtually all did--were accommodated. They were moved through a center located at the American air base in Utopao, Thailand, to Camp Pendleton, California, and thence, so far as we know, scattered among various sponsors in the U.S. All pay and allowances, including severance pay, travel vouchers, etc., not already taken care of in Phnom Penh were paid in Utopao.

All debts due for which bills had been received were discharged in Phnom Penh prior to departure, with the exception of a handful where vendors were notified of the fact that monies were being held for them but because of conditions they were unable to get to the Embassy to collect. In a few instances where services were being rendered through the last days, or where payment vouchers were in process, claims were accepted in Bangkok and paid in U.S. dollars to vendors located there.

Phnom Penh staff were individually responsible for satisfying personal debts, discharging servants and the like before leaving. Keys to houses and vehicles were turned over to the Embassy Administrative Officer. Lists of these exist in the files. Affairs of the employees' Commissary and Club were wound up by the USAID Controller, and the cash assets remaining after satisfaction of pending payables, approximately $8,000, will be turned over to the appropriate Department of State account.

Attachments:
1. Operating Expenses by Fiscal Year
2. Senior personnel involved in Cambodia AID program, FY 1971-75
3. USAID/Khmer Republic Staffing Pattern (as of 2/27/75)
4. Status of Project Funds.

R. Berrett, 8/28/75

CAMBODIA
OPERATING EXPENSES BY FISCAL YEAR
(In Thousands)

	FY 71		FY 72		FY 73		FY 74		FY 75		TOTAL	
	DOLLAR	TRUST FUND	DOLLAR	TRUST FUND	DOLLAR	TRUST FUND	DOLLAR	TRUST FUND	DOLLAR	TRUST FUND	DOLLAR	TRUST FUND
Pers. Services	40.8	11.0	294.4	24.1	383.8	29.2	22.0	14.3	57.5	22.6	798.5	101.2
Pers. Benefits	7.3	2.0	40.8	1.9	51.0	3.8	31.0	4.9	65.0	1.0	195.1	13.6
Benefits For Former Pers.									3.0		3.0	
Travel & Trans of Persons.	59.2	.5	89.1	4.6	72.9	1.0	132.8	.4	163.0	.1	517.0	6.6
Trans of Things.	30.7		48.7		43.2		66.2		75.4		264.2	
Rents, Comm. & Utilities.	1.5	22.0	7.5	51.3	15.8	35.0	24.0	42.0	21.8	49.6	70.6	200.8
Misc. Contractual Services.	10.1	30.6	3.0	163.6	29.4	177.4	426.8	188.0	224.2	189.4	693.5	749.0
Supplies & Mat.	5.9	3.0	18.9	6.6	12.7	10.2	45.9	10.6	41.6	35.8	125.0	66.2
Equipments.	131.1	.7	113.8	.2	49.2	.2	85.3	.4	11.4	.3	390.8	1.8
Ins Claims & Indemnity.												
										TOTAL:	3057.7	1139.2
										Grand Total:		1[illegible]6.9

NOTE: Trust Funds are shown in dollar equivalent of riels expended using average exchange rates in effect for each fiscal year.

Senior Personnel Involved in Cambodia Aid Program FY 1971-75

U.S. Ambassador to Cambodia:

9/70 - 9/73	Emory Swank, AEP
9/73 - 3/74	Thomas Enders, Charge d'Affaires
3/74 - 4/75	John Dean, AEP

AID Affairs Officer/AID Mission Director (also serving concurrently as Embassy Economic Counselor)

2/71 - 7/73	Miles Wedeman, AID Affairs Officer
8/73 - 2/75	Thomas Olmsted, AID Affairs Officer, appointed Mission Director in 1974
3/75 - 4/75	Norman Sweet, AID Acting Mission Director
2/71 - 4/75	Donnelly Schlin, Deputy AID Affairs Officer, Deputy Mission Director, Acting Mission Director

Administrator, AID

4/69 - 9/73	John Hannah
10/73 - Present	Daniel Parker

Deputy Administrator, AID

[illegible] - [illegible]	Maurice Williams
5/74 - Present	John Murphy

Assistant Administrator, East Asia/Security Assistance Bureau

[illegible] - 5/72	Roderic O'Connor
9/72 - 10/74	Robert Nooter
11/74 - Present	Arthur Gardiner

Deputy Assistant Administrator

/70 - 7/71	Willard Meinecke
8/71 - 8/72	Robert Nooter (Deputy Coordinator)
3/73 - 8/75	Garnett Zimmerly

Director, Office of Cambodia Affairs

8/70 - 6/71	Victor Morgan (also Laos and Thailand)
7/71 - 6/72	Solomon Silver
7/72 - 7/73	Thomas Olmsted
8/73 - 7/74	Gerald Kamens
7/74 - 4/75	Peter Askin

USAID/KHMER REPUBLIC

U.S. NATIONALS STAFFING PATTERN

AS OF FEBRUARY 27, 197

DIRECTOR
V

DEPUTY DIRECTOR
D.A. Sohlin

Executive Ass't
A. Goodenough

Secretary
T. Kapanis

Support Office (Bangkok)
ADMIN. SERVICES
R.M. Thacher, Adm Off
M. Johnson, Exec Ass't

Support Office (Bangkok)
INFRASTRUCTURE
L.D. Taylor, Genl Engr
S. Krashevski, FAA Off
V , Secy

PROGRAM
C.F. Weden, Prog Off
H.E. Buckley, Ass't Prog Off
J.A. Isaacs, Secy

Support Office (Bangkok)
R. Shafer, Ass't Prog Off
A. Funicello, Anlst

ECONOMIC ANALYSIS
D.E. Dunbaugh, Prog Econ

Support Office (Bangkok)
D.P. Walker, Prog Econ
T. Wood, Ass't Prog Econ

IDA CONTRACT (ECON)
V , Econ Consult
S. Silver, Econ Consult

CONTROLLER
R.L. Lerrett, Ctlr
J.T. Fenda, Accnt-Finl Anlst

Support Office (Bangkok)
H. Pedersen, Dep Ctlr
P. Bisek, Accnt

SUPPLY MGT & LOGISTICS
P. Elissabide, Mgt Spl Off
C. Felbert, Dep Mgt Spl Off
H.D. Germany, Spl Mgt Adv Pro Ass't
L.H. Sparks, Secy

Khmer Support Office, Saigon
J.V. Logar, Log Mgt Off
V.W. Peterson, Ass't Log Mgt Off
R.L. Shepard, Trans Cpns Adv Wtr
A.G. Oakley, Secy

P S C
A. Yuhas, Trans Cpns Adv Wtr

REFUGEE
J. Williamson, RE/RB Adv
J. Millington, Ass't RE/RB Adv
Q. Denbow, Agri Adv
E. Miese, Jr., Gen Engr Adv
J.H. Jacobs PH Adv
P.H. McKenna, Secy

Support Office (Bangkok)
P.E. White, Prog Ass't

REIMBURSABLE DETAIL - STATE
R.H. Johnson, Ass't GSO

STATUS OF PROJECT FUNDS
AS OF APRIL 12, 1975
(Millions of Riels)

Project Title & Number	Committed CYT A	Committed CPT D	Committed U.S. Grant	Committed TOTAL	Releases TOTAL	Balance TOTAL
CY 1971						
1. Military Budget Support 442-11-080-001	1,615.0	-	130.8	1,745.8	1,745.8	-
CY 1972						
1. Military Budget Support 442-11-080-001	4,870.9	-	500.0	5,370.9	5,370.9	-
2. Airfield Upgrading 442-11-010-002	263.0	-	250.0	513.0	513.0	-
TOTAL CY 1972	5,133.9	-	750.0	5,883.9	5,883.9	-
CY 1973						
1. Military Budget Support 442-11-080-001						
a) FANK Military Pay & Allowance	8,978.0	-	8,097.2 1/	17,075.2	17,075.2	-
b) FAF Munitions Area (Kanthsak)	-	-	4.0	4.0	4.0	-
c) Military Dependent Housing	-	-	75.0	75.0	75.0	-
TOTAL	8,978.0	-	8,176.2	17,154.2	17,154.2	-
2. DORAPA 442-25-140-003	500.0 2/	-	-	500.0	500.0	-

1/ Pay and allowance total 7,450.5. Remaining amount pertains to materials and others support items.
2/ Loan repaid in full on 1-11-74.

STATUS OF PROJECT FUNDS
AS OF APRIL 12, 1975
(Millions of Dollars)

Project Title & Number	Completed CY 74	Completed CY 75	Completed Hold Over	Completed TOTAL	Balance Total	Balance 75/76
CY 1973 (Continued)						
3. Auto Defense Support 442-11-090-004	30.0	-	-	30.0	30.0	-
4. Rice Airlift Support 442-11-370-005	140.0	-	-	140.0	140.0	-
5. Repair of Neak Leoung Hospital 442-11-550-006	18.0	-	-	18.0	18.0	-
TOTAL CY 1973	9,665.0	-	8,176.2	17,842.2	17,842.2	-
CY 1974						
1. Military Budget Support 442-11-[illegible]						
a) FANK Military Pay & Allowances	-	-	10,212.0	10,212.0 3/	10,212.0	-
b) Heliport at Pochentong Air Base	115.0	-	-	115.0	115.0	-
c) IBM-France	-	-	6.0	6.0	6.0	-
	115.0	-	10,218.0	10,333.0	10,333.0	-
2. SOMAA 442-25-140-003	1,000.0	-	-	1,000.0 3/	1,000.0	-
3. Rice Airlift Support 442-11-370-005	60.0	-	-	60.0	60.0	-
4. Humanitarian Assistance to War Displaced Persons 442-15-[illegible]-007						
a) Resettlement & Development Foundation	1,016.0	-	-	1,016.0	1,016.0	-
b) Catholic Relief Services	2,022.0	-	-	2,022.0	2,022.0	-
c) C.A.R.E.	663.0	-	-	663.0	663.0	-

3/ Includes material and related items for the military.

4/ Loan repaid in full on 3/13/75.

STATUS OF PROJECT FUNDS
AS OF APRIL 12, 1975
(Millions of Kiels)

Project Title & Number	Committed OPT A	Committed OPT D	Committed U.S. Owned	Committed TOTAL	Reserves TOTAL	Balance TOTAL
CY 1974 (Continued)						
4. Humanitarian Assistance to War Displaced Persons						
d) World Vision Relief Organization	712.0	-	-	712.0	712.0	-
e) Red Cross	20.5	-	-	20.5	20.5	-
f) Kangnung Gun Provincial Hospital	2.6	-	-	2.6	2.6	-
	5,224.4	-	-	5,224.4	5,224.4	-
TOTAL, CY 1974	6,202.4	-	18,218.0	24,617.4	24,617.4	-
FY 1975						
1. Military Budget Support 442-11-080-001						
a) Construction of 10 Helicopter Pads at Pochontong & Other Cost	35.9	-	-	35.9	35.9	-
b) FMK Military Pay & Allowances	10,800.0	-	-	10,800.0	10,800.0	-
c) ITI Services	9.2	-	-	9.2	9.2	-
TOTAL	10,845.1	-	-	10,845.1	10,845.1	-
2. Airfield Upgrading 442-11-010-002	33.0	-	-	33.0	33.0	-
3. DONAPA 442-25-140-003	2,000.0	3,000.0	-	5,000.0 2/	5,000.0	-
4. Rice Airlift Support 442-11-270-005	1,280.0	700.0	-	1,980.0	1,980.0	-
5. Rice Subsidy 442-15-140-012	-	22,500.0	-	22,500.0	22,500.0	-
6. CHEMNCO 442-15-140-011	-	500.0	-	500.0	500.0	-

2/ 1,500.0 repaid on 3-13-75.

STATUS OF PROJECT FUNDS
AS OF APRIL 12, 1975
(Millions of Riels)

Project Title & Number	Committed				Releases	Balance
	CPT A	CPT D	U.S.Owned	TOTAL	TOTAL	TOTAL
7. Humanitarian Assistance to War Displaced Persons 442-11-822-007						
a) International Committed for the Red Cross/Indochina	897.0	150.0	-	1,047.0	1,047.0	-
b) Ministry of Refugee and Community Development	365.0	160.0	-	525.0	525.0	-
c) C.A.R.E.	2,650.0	1,700.0	-	4,350.0	4,350.0	-
d) Catholic Relief	5,450.0	1,500.0	-	6,950.0	6,950.0	-
e) World Vision Relief Organization	1,950.0	821.0	-	2,771.0	2,771.0	-
f) Resettlement & Development Foundation	1,560.0	300.0	-	1,860.0	1,860.0	-
TOTAL	12,872.0	4,631.0	-	17,503.0	17,503.0	-
8. Economic Research & Analysis (Market Basket Survey) 442-15-492-008	8.9	-	-	8.9	8.9	-
9. Internal Transportation 442-15-390-009	400.0	-	-	400.0	400.0	-
10. Civil Budget Support 442-21-599-010	2,200.0	-	-	2,200.0	2,200.0	-
TOTAL FY 1975	29,739.0	31,331.0	-	60,970.0	60,970.0	-
CUP, U.S. Uses (20%)	-	324.0	2,930.8	3,264.8	3,264.8	-
TRUST FUND	1,029.6	-	-	1,029.6	1,029.6	-
GRAND TOTAL	53,437.9	31,665.0	30,205.8	115,358.7	115,358.7	-

BIBLIOGRAPHY

Most post-1971 English-language analyses of Cambodia's economy and/or of U.S. economic aid programs to that country have been done by 1) international organizations - most particularly the International Monetary Fund , 2) the Agency for International Development (including work done under contract to AID such as that of the Institute for Defense Analyses), or 3) various elements of the U.S. Congress. To the best of the knowledge of the working group which prepared this Termination Report, little, if any, analyses of these subjects has been made to date by individuals other than those three sources.

All of the material discussed below is in the files of the now-terminating Office of Cambodia Affairs. If retired, these files can be retrieved through the AID Reference Center.

Chapters I-II, General

Valuable sources of both descriptive and analytical material in this area include the following documents which deal with A.I.D.'s world-wide activities FY 1971-75:

- A.I.D.'s Congressional Presentations, particularly those dealing with Security Assistance and Indochina Postwar Reconstructions.

- A detailed Briefing Book prepared by the Office of Cambodia Affairs, essentially for use by witnesses before Congressional activities, covering all aspects of the economic assistance programs to Cambodia.

- Annual budget submissions prepared in July or August by the AID office, later USAID Phnom Penh, in Cambodia, and variously referred to, depending on the particular fiscal year, as "field budget submission", "country field submission", or some similar title.

- Hearings and reports of the four Congressional Committees concerned with A.I.D.'s legislation -- in the Senate, the Foreign Relations and Appropriations Subcommittees for AID, and, in the House, the Foreign Affairs and Appropriations Subcommittees.

- Special Congressional hearings and reports dealing with the entire assistance program for Cambodia which were conducted by:

1) A subcommittee of the House Government Operations Committee (chaired by Congressman William Moorhead), which issued on June 16, 1972 a report entitled "U.S. Economic Assistance for the Khmer Republic (Cambodia)".

2) A subcommittee (chaired by Senator Daniel Inouye) of the Senate Appropriations Committee, which issued a report entitled Inspection and Review of United States Foreign Assistance to Seven Asian Countries, January 1973.

3) The General Accounting Office which, on October 10, 1973, issued a report entitled "U.S. Assistance to the Khmer Republic (Cambodia)".

- Memorandum on program design from Roderic O'Connor to Maurice Williams, July 30, 1971.

Chapter III. Commodity Import Program

Copies of the various CIP grant agreements and amendments thereto are included in the retired EA/C files under the various agreement numbers. In addition, the following documents may be of interest.

Bennett, Adolph. "CIP in Cambodia", a memorandum to Willard Meinecke, dated March 26, 1971.

McElroy, Francis. "Survey of Import Procedures: Government of the Khmer Republic (Cambodia)", a field study dated November 1, 1970.

Meinecke, Willard. An untitled memorandum to John Hannah dealing with overall program design, dated March 13, 1971.

Meinecke, Willard. Program Assistance Approval Document (PAAD) requesting John Hannah's approval for remaining $20 million in FY 1971 program, dated May 24, 1971.

O'Connor, Roderic. PAAD covering entire $70 million CIP for FY 1971, requesting John Hannah's approval, dated February 5, 1971.

O'Connor, Roderic. Untitled memorandum to John Hannah on overall program design, dated March 19, 1971.

O'Connor, Roderic. "To Expand Code 941 Source Origin Procurement for the Cambodia CIP", a memorandum to John Hannah, dated October 16, 1971.

Olmsted, Thomas, John Jovrotsky, and Gary Larsen. "Cambodia Import and AID Requirements 1972-73, dated April 13, 1972.

Schmeisser, William. "Cambodia", a memorandum on CIP to Robert Nooter, dated February 16, 1971.

_____ "Executed Copy of $50 Million Program Assistance Commodity Financing Arrangement and Exchange of Letters Constituting Economic Assistance Bilateral", dated May 31, 1971 (transmitted by airgram TOAID A-22, of June 11, 1971.)

_____ "Improvement of Airfield Facilities, Memorandum of Understanding between the USA and the Khmer Republic", Phnom Penh, August 12, 1972 (in International Treaties series no. 7491).

Chapter IV. Economic Policy

- The following publications of the International Monetary Fund (IMF) contain a wealth of descriptive and statistical material on Cambodia.

1) Report on the Economic Situation by W.F. Hughes, Pierre de Raet, and Naronkhiri Tith, dated November 22, 1971.

2) Khmer Republic: Recent Economic Developments, a series of reports by various IMF staff members on the following dates:

August 10, 1972	(SM/72/196)
April 6, 1973	(SM/73/62)
September 17, 1973	(SM/73/229)
November 9, 1973	(SM/73/251)
July 1, 1974	(SM/74/156)
December 2, 1974	(SM/74/258)

3) Khmer Republic: Use of Fund Resources

April 4, 1973 (EBS/73/120)

4) "Various papers (on economic policy) prepared by Gunnar Tomasson," the IMF Resident Representative in Cambodia. Transmitted by airgram from Phnom Penh A-80 of April 12, 1972.

- The following papers prepared by Embassy or AID/W staff may be of interest.

Burstein, M.L. "Stopping Inflation," with commentary by Thomas Olmsted, December 17, 1974.

Kamens, Gerald, and Solomon Silver, "Cambodia's Long Range Development Prospects," a memorandum dated January 6, 1972.

Rosenthal, Alek, "Final Report," dated September 24, 1971.

"Memorandum to Lon Nol on Economic Policy," dated April 22, 1972, transmitted by Phnom Penh airgram TOAID A-93 of April 22, 1972.

_____ "Modifications in GKR Economic Reform Package: Effects Upon FANK," in Phnom Penh airgram, A-50 of October 15, 1974.

Chapter V. Exchange Support Fund

O'Connor, Roderic, a memorandum to John Hannah seeking authorization for U.S. participation in the 1972 Exchange Support Fund, dated March 27, 1972.

Brief Book, prepared for ESF Meeting in Paris, November 29, 1971.

Cash Grant Agreement of October 27, 1971.

"Exchange of Notes on U.S. Participation in 1972 Exchange Support Fund." Diplomatic Note No. 281, Phnom Penh, May 13, 1972.

Proceedings and Documents of the Conference to Consider an Exchange Support Fund for the Khmer Republic, Paris, November 29, 1971.

Chapter VI. Rice: PL 480

Clyburn, Lloyd. "The Current Year Rice Supply and the 1972 Forecast" (an unpublished memorandum to Donnelly Sohlin), dated August 31, 1971.

McConville, Donald. "Estimate of the Rice Import Requirement for the Next 15 Months," a memorandum dated September 25, 1972 (transmitted to AID/W by Phnom Penh TOAID A-206 of October 2, 1972).

Owens, T. Richard. "Report of Rice Situation in the Khmer Republic and Recommendations for Action," a memorandum dated February 22, 1972.

Rosenthal, Alek. "Rice Situation and Outlook," a memorandum to Donnelly Sohlin dated August 30, 1971.

See also the various PL 480 Title I and II agreements signed with the GKR as well as the abstracts of these agreements published by the U.S. Department of Agriculture.

Chapter VII. Refugees

General Accounting Office. Problems in the Khmer Republic (Cambodia) Concerning War Victims, Civilian Health, and War-Related Casualties, (a report to the U.S. Senate Committee on the Judiciary, Subcommittee to Investigate Problems Connected with Refugees and Escapees), dated February 2, 1972.

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Millington, Jeffrey. "Refugees in the Khmer Republic" (an unpublished study by a USAID Phnom Penh officer), dated February 10, 1973.

Office of the Inspector General of Foreign Assistance. Cambodia: An Assessment of Humanitarian Needs and Refugee Efforts, dated March 12, 1975.

UNDP (staff in Phnom Penh. "Problems Posed by Displaced Persons Around Phnom Penh" (an informal unpublished study), dated May 5, 1972.