CAMBODIA: 7th CONSULTATIVE GROUP MEETING
Phnom Penh, December 6-7, 2004

Concluding Remarks by Co-Chair, Ian C. Porter
Country Director for Cambodia, World Bank

Excellency, Senior Minister of Economy and Finance Keat Chhon, my co-chair; Excellencies; Ladies and Gentlemen:

We have now come to the conclusion of the seventh Consultative Group Meeting for Cambodia, the second ever to be held in Phnom Penh. On behalf of all of Cambodia's development partners, I would like to express my gratitude to the Prime Minister, Samdech Hun Sen, for opening the meeting with a strong and clear keynote address. I also express thanks to my co-chair, the Senior Minister of Economy and Finance, and to the entire Royal Government for the warm hospitality provided to all the participants at this meeting. I also want to thank the deputy prime ministers as well as the many ministers and officials who took the time to attend this meeting. I wish to express my appreciation to Cambodia's development partners, especially those from far away, who participated in these discussions with enthusiasm and candor. In addition I would like to thank all the hard working government staff, as well as my colleagues in the World Bank and the donor community, who helped to organize, over many weeks and in a very busy period, this gathering. We also thank the interpreters for their hard work as well, and we thank you for the wonderful dinner and presentation of Khmer music and dance last night.

Excellencies, Ladies and Gentlemen:

We last met here over two years ago, as the second mandate of the Royal Government was entering its final year. We very much welcome the reconvening of the Group, after the delay imposed by the political situation, and are pleased that the meeting has taken place so soon after the formation of the government in July. I would like to speak to four topics this afternoon as we close the meeting: developments since the last CG meeting in 2002; the critical issues emerging from our discussions and the joint

monitoring indicators going forward; the challenge of generating a reform momentum; and our new partnership paradigm.

Excellencies, Ladies and Gentlemen:

Let me first look back at developments since 2002, both in terms of what did and did not happen. Overall macroeconomic management continued to be sound and Cambodia continued to perform above average when compared to other low income countries. Growth did begin to weaken in 2003 and is projected to slow further in 2004, due to a slowdown in agriculture coupled with structural weaknesses limiting non-agricultural growth. In 2005 the Cambodian economy will enter a new phase and growth is expected to deteriorate due to the expiration of the Multi Fiber Arrangement. Cambodia's progress on trade and integration, however, shows the way forward. Ratification of membership to the World Trade Organization was a major achievement. The Early Harvest Program with China and potential new trade pacts in ASEAN also offer new links to growth in the increasingly globalized economy.

On the political front we welcomed the 2003 elections, the formation of the new government, and the coronation of the new king, His Royal Highness King Sihamoni, all of which occurred in an environment of peace and stability. The Prime Minister, in July 2004, launched the Royal Government's Rectangular Strategy, the core of which is good governance, and in response the government began to develop specific action plans. At the same time Cambodia's development partners embarked on the development of a new partnership paradigm, which I will discuss in more detail in a moment.

Yet all friends of Cambodia would have to admit that despite these favorable developments, especially robust growth, there has been only a very modest impact on poverty, which remains high and stagnant. Next year's CG meeting will focus on the new five year strategy for growth and poverty reduction, and the results of the ongoing poverty assessment, which will provide new data that will enable us to delve more deeply into the nature and dynamics of poverty in Cambodia five years into the new millennium. But the question has been asked repeatedly here and in capitals and headquarters around the world: why have we all, government and its partners alike, come up short on one of the most critical and essential indicators of performance? After all, as the Australian

representative noted, the taxpayers who finance bilateral and multilateral assistance provide resources on the understanding that they are used to reduce poverty. What would we tell them about Cambodia?

In responding to this question I think it has become increasingly apparent to all of us that improving governance in all areas and sectors is what is necessary to lift Cambodia up to a new level of development. In this context let us take a brief look back at the 2002 benchmarks relative to where we stand now.

On Legal and Judicial Reform and Governance, we find that most of the benchmarks were not met. Though the Strategy for Legal and Judicial Reform was completed in June 2003, the Supreme Council of Magistrates was not restructured. Nor were reported cases of corruption investigated and prosecuted. And the anti-corruption law has not been passed. On public procurement, competitive bidding was extended to all ministries, except the Royal Palace, and, though there are concerns about the quality and enforcement of the legal framework, the government clearly demonstrated some progress.

In Natural Resources Management there was also some progress. Forest concessions have been suspended. Public disclosure has improved, and environment and social impact assessment guidelines have been used for sustainable forestry management plans. These developments have been offset, however, by the continuation of illegal logging and the very visible governance failures associated with the misuse of state resources by the rich and powerful.

In the social sectors there was some notable progress in the coverage of basic services and some improved utilization, as noted by the representative of the United Kingdom. There has also been significant progress in sector wide policy making and planning, and, most importantly, some positive progress on outcomes, including in the area of HIV/AIDS. Benchmarks on social sector disbursements were not met, though there were some positive developments in terms of disbursements. The public administration benchmark—to complete a set of studies—was not met. Nor were the benchmarks on revenue mobilization and transparency of the terms of government contracts met.

One would have to conclude, by any objective measure, that progress was indeed modest.

Thus, Cambodia finds itself at the crossroads. And as we, your development partners, stand with you, we too find ourselves at the crossroads. My co-chair, Senior Minister Keat Chhon, at dinner Sunday night, quoted Montaigne, a 16th century French philosopher, so I should now also make a literary reference as well. An English language poet, Robert Frost, wrote in a well known poem entitled, "The Road Not Taken," of two roads diverging in the woods. In the poem the speaker says that in some way he is sorry that he cannot travel both roads. In some way Cambodia might like to travel both roads as well—take up the reform program with vigor in some areas while being complacent about the governance failures of the system, which result in distressingly high levels of poverty, in others. But Cambodia, like the poet, cannot travel both roads. Moving forward from a crossroads means clearly choosing a road—in a definitive manner. It means decisively rejecting the road of business as usual and *definitively* going forward in the right direction.

Excellencies, Ladies and Gentlemen:

Definitively going forward. What would it look like, a year of two from now, if, the Royal Government moved decisively and clearly forward? What would the Cambodian people observe? I think they would see the Royal Government, with the support of its development partners, tackling the critical issues that have emerged from our discussions over the last two days.

Not surprisingly, we would all expect to see progress on the good governance agenda. For one, reported cases of corruption would be brought before the courts for investigation and hearing. We would see the draft law on anti-corruption brought into compliance with international best practice, as reflected in the UN Convention against Corruption. There was some discussion of this point yesterday, though many of your development partners, represented by the comments of Mr. Gardner in his capacity as the UN Resident Coordinator, felt that retaining the reference to the UN convention was of vital importance, as did the representative of Germany. Another important indicator of progress is the facilitation of access to information held by public authorities. There appears to be full agreement on this point, as noted in Deputy Prime Minister Excellency

Sok An's speech yesterday, in which the Deputy Prime Minister said that "The state must...be more transparent." We welcome this positive development.

As the representatives from Finland and Denmark noted yesterday, there is a remarkable level of consensus around the importance of good governance. More specifically, speaker after speaker stressed the importance of legal and judicial reform as the underpinning for improving governance, increasing growth, and reducing poverty. In particular the representatives of France, Australia, and Japan highlighted the need to move forward clearly and steadily on the adoption of the fundamental legal framework, without which the rule of law in Cambodia will be insufficient to provide the certainty that investors seek for their ventures and the safety that parents seek for their children. The French ambassador also stressed the importance of ensuring the independence of the magistracy.

On public administration reform, one of the areas in which there has been little noteworthy progress, we heard very encouraging words from the Prime Minister, Samdech Hun Sen, who said and I quote: "To systematically resolve the many challenges before us, we need a merit-based civil service system. We clearly need an efficient government that is responsive to the demands of the rapidly changing international environment..." The globalized economy will not wait and Cambodia does not have the luxury of proceeding with civil service reform at a leisurely pace. The Japanese ambassador called for realistic levels of salaries as soon as possible. The Resident Representative of the IMF noted that a merit-based pay reform is needed to generate results in service delivery. The message is clear and the consensus has now been established: Cambodia's future depends on a merit-based pay and employment reform. Looking backward to judge progress, we expect that observers would see the roll out, on a pilot basis, of the merit-based pay initiative, thereby coupling better pay with improved human resource management in the context of developed reform programs. Meritocracy, coupled with improved pay, is the antidote to patronage and corruption.

On decentralization and deconcentration, commune and sangkat officials and their constituents would see the development of the government's national policies, strategies, and strategic framework. Moreover, commune and sangkat officials would note improved service delivery resulting from a more reliable and timely flow of resources from the

Commune Sangkat Fund through commercial bank accounts and directly to the communes and sangkats. On public financial management, Cambodians would see the implementation of the first twelve months of stage one of the reform program, which holds much promise. Core priorities include: (1) a widening of the scope of mandatory payments to and by the government by check or electronic transfer at all times; (2) streamlining procedures to enable line ministries to spend approved budget provisions by increased reliance on phased budget releases; and (3) completing the consolidation of government bank accounts, and implementing fully daily transfer of all collections into the Treasury Single Account.

In addition to the technical aspects of reform, there is also the need to strengthen the demand for transparency, accountability, and ultimately, good governance. The U.S. Ambassador has highlighted the important role that civil society has "to play in supporting the process for achieving good governance" by promoting high standards for official conduct and "drawing public attention" to matters of public interest. Bringing civil society into the picture—through participatory policy dialogue and dissemination of information—would improve transparency, accountability, and therefore good governance. Civil society should be the voice that demands reform and undergirds the system of accountability. We are encouraged to see the constructive participation of several NGOs in this meeting and would like to encourage all NGOs to work in that same constructive manner.

In the area of accelerating growth and improving rural livelihoods, farmers and rural families would see implementation of key measures in agriculture and natural resources management, as well as further private sector development. These indicators of decisive progress include: (1) enacting key laws and subdecrees governing natural resources management, including the fisheries law and the community fisheries subdecree, state land management and economic land concessions subdecrees, and enforcement of Article 18 of the Land Law on the illegality of private sales transactions on state lands; (2) maintaining the moratorium on logging, the transport of logs (except logs already inventoried and for which royalties have already been paid in full), and new economic land concessions pending completion of review processes and/or legal frameworks; and (3) increasing the transparency of state management of natural

resources through immediate public disclosure of existing contracts and the compliance status of contracts governing economic land concessions, mining concessions, and fishing lots.

In the area of private sector development, if a young Cambodian entrepreneur looked back a year or two from now on a solid program of reform, she would see a single entry point, or single window, allowing parties involved in trade to fulfill the documentary requirements for import or export in a single transaction. She would also note a revised process for private participation in infrastructure (PPI) articulated in the law on concessions. Moreover, a small and medium enterprise (SME) development framework would be approved. To paraphrase the Resident Representative of the ADB, the young entrepreneur would see that the government had pressed hard on the accelerator of the private sector growth engine.

In the area of supporting human development, mothers and children would see the adoption of the domestic violence and anti-trafficking laws, as well as continued progress on HIV/AIDS. Moreover, gender, poverty, and HIV/AIDS would have been mainstreamed in the next five year national strategic development plan. In health and education we would expect to see the implementation of reforms in public financial management and the civil service that improved the timeliness and predictability of disbursements and strengthened human resources to deliver better pro-poor services.

These nine broad areas constitute our consensus. Going forward the Royal Government has committed itself to taking the agreed actions in each of these areas and we development partners have committed to providing the necessary support.

Excellencies, Ladies and Gentlemen:

Let me come back to my motivating question about taking reform forward in a definitive manner. What would it look like if the Royal Government moved decisively and clearly forward? We would certainly observe important action on all these fronts.

We would also see, a few years from now, greater prosperity and as a consequence much larger numbers of Cambodians living lives of dignity that enable them to reach their full potential as human beings and citizens. We would see greater accountability: citizens would have the information necessary to hold officials and civil

servants accountable for the stewardship of public resources and the delivery of high quality services. We would also see greater activity in the rural areas, perhaps in the production and export of non-traditional crops, and we would see more and more tourists streaming into Siem Reap, Phnom Penh, and Kampong Som.

And at the same time there are some things we would no longer observe. We would no longer see young children paying bribes to their teachers for schooling. We would no longer see illegal logging in protected areas. And we would no longer see cases of impunity before the law.

But there is something else we *would* see, something greater than the sum of the parts. If we looked up from each of our individual sectors and areas, we would see—and we would sense—something more important than any individual reform measure: we would see momentum; we would see commitment; we would see political will. *We would see words decisively and unequivocably translated into actions.*

As was evident during the discussions these past days, many of Cambodia's development partners see the proverbial glass as half empty. There is concern about the lack of a track record on reform. Many hold the view that in most areas reform has neither gone far enough nor fast enough.

As the Prime Minister Samdech Hun Sen said yesterday, "Doing is much harder than saying. We more than anyone else are acutely aware that there is a long march ahead." Choosing to march down the right road in implementing the Rectangular Strategy would mean demonstrating *steady and cumulative progress.* Too often in Cambodia reform has meant one step forward and then one step backward or sideways.

What is required is building a critical mass of reform measures that would, for example, actually have a significant impact on the quality, quantity, timeliness, and reliability of public services. To move beyond measuring progress by lists of input-oriented measures, to measuring progress by impact for Cambodian citizens, would be one signal that Cambodia had chosen the right path. Another signal would be less disagreement about whether Cambodia had actually made progress or not—the reform would simply speak for itself. When Cambodia's progress is steady, persistent, and sustained there will be no more disagreements about whether there is political will or not.

I hope that when we are back here next year we will all agree that there had been significant progress. And building momentum for reform now will make future reform easier. One of the most important things Cambodia could do right now is establish an indisputable track record on governance reform. Such a track record would ensure that development assistance from those donors using a performance-based allocation system would increase in the years to come.

Excellencies, Ladies and Gentlemen:

Many have noted the growing consensus, among development partners, not just about the centrality of governance for Cambodia's development, but also both in terms of the views expressed at the CG meeting and the daily dialogues we have held over the past several months. This past year has seen significant and notable progress on the part of government and development partners to strengthen their commitment to the partnership principles enshrined in the Rome Declaration on Harmonization and Alignment. Looking back to the 2002 CG meeting, where "strengthening partnerships" was a goal going forward, we can all take pride in recent developments: the strength of our partnership is strong and growing.

Development partners were urged to change the way they provide aid. Senior Minister, Excellency Keat Chhon, you have—repeatedly—urged us to "speak with one voice," and we have endeavored to listen to you. The Prime Minister, Samdech Hun Sen, has strongly welcomed the Sector Wide Approach (SWAp), in particular the one established in public financial management, in part because, as the Prime Minister noted, the approach will provide "ample opportunity for Cambodia to play the role of real owner of development in preparing and implementing" its reform programs. And as the Prime Minister noted the SWAp arrangement will also reduce the transaction costs and increase the effectiveness of providing technical assistance.

Many development partners have now acknowledged the pernicious effects of salary supplementation on the capacity and morale of the Cambodian civil service. Development partners and government have agreed to develop a strategy to phase out salary supplements and redirect them in support of pay reforms in priority areas. This commitment will mean putting our monies where our mouths are and would represent a

sea change in the way development partners have done business in Cambodia. This development is another auspicious sign of a new beginning.

We have also agreed on joint monitoring indicators and a joint reporting process for the upcoming period. With quarterly reporting we will all have a good sense of how the agenda is moving forward, where there has been good progress and where there appear to be bottlenecks of one sort or another.

At the same time we have agreed to harmonize our assistance in terms of national planning. In the past the World Bank and the International Monetary Fund, the Asian Development Bank, and the UN system all supported different plans and initiatives. We have now agreed with government to harmonize our support for the development of the new five year plan next year and we are excited by the prospect of rationalizing our contributions to your planning process.

Excellencies, Ladies and Gentlemen.

I would like to again thank my co-chair, His Excellency Senior Minister Keat Chhon, for his support and to thank you all for your valuable inputs and suggestions during the course of the meeting. The discussion has been constructive and, at times, spirited.

Development partners pledged US$504 million in support for Cambodia's development efforts, as part of the country's budget and financial plan for 2005. In 2002, the pledge amount was US$635 million. However, because of changes in the methodology and coverage, effected recently in order to comply with the official DAC/OECD definition of ODA, the comparable figure for 2002 was recalculated at US$514 million; this is the figure that should be used for comparison. Both the amount and composition of future pledges will be a function of Cambodia's performance on its reform agenda.

The government and development partners also agreed to meet in Phnom Penh for the next CG meeting one year from now.

In conclusion I would like to stress that these three agenda items—specific, concrete critical reform measures, building a reform momentum and track record, and the new partnership paradigm—are all inextricably linked and mutually reinforcing. We end

on a positive note because we all stand at this crossroads with a strong commitment to the well being of Cambodia's people and in particular the poor. We are very pleased that the new government of the third mandate has rededicated itself to reducing poverty, making the best effort to meet Cambodia's Millennium Development Goals, and removing the governance constraints to such an effort. We now have a vision and a consensus, based on the Rectangular Strategy, for going forward. What is now needed is action. As good friends of Cambodia, development partners stand ready to support the Royal Government in a genuine reform effort.

Thank you for your attention. This Consultative Group meeting is now closed.