Consultative Group Meeting on Cambodia
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GOVERNMENT OF CAMBODIA, DONORS RESOLVE TO TACKLE CORRUPTION AND GOVERNANCE REFORM AS THE CENTRAL IMPEDIMENT TO GROWTH AND POVERTY REDUCTION

Contacts: in Phnom Penh Saroeun Bou: 855-2173-01
sbou@worldbank.org
In Bangkok: Kimberly Versak: 66-1-875-5064
kversak@worldbank.org

December 7, 2004 — The 7th Consultative Group (CG) Meeting on Cambodia ended today in Phnom Penh with Government and Donors agreeing that Cambodia is indeed, as Prime Minister Samdech Hun Sen stated, at a *"crossroads in its difficult journey towards sustainable development and poverty reduction."* The time has come, all agreed, to move beyond action plans and strategies to decisive implementation of a comprehensive reform program.

The CG Meeting, held December 6-7 in Phnom Penh, was attended by members of the donor community, including 18 partner countries and 5 international development organizations, and the Government of Cambodia. Civil society and private sector representatives attended as well. Delegates noted that all — government, donors, civil society, private sector — were united behind the message that it is time to transform the promises and commitments into actions with concrete Outcomes.

The Prime Minister noted that Cambodia's last decade had seen signs of progress, including restoring peace and macroeconomic stability; consolidating government institutions and an emerging democracy, civil society, and media; and a resumption of growth and foreign investment.

"However, we are living in a tough and challenging time," Prime Minister Hun Sen continued, citing the changing regional and world dynamics and economic landscape, increasing uncertainty, and increasing competition for Foreign Direct Investment (FDI) and ODA (Official Development Assistance) resources, leading him to conclude, *"the prosperity of our country depends on our ability to implement reforms at all levels. In this context, the biggest challenge for us is to strengthen government institutions and improve governance."*

Senior Minister Mr. Keat Chhon, Minister of Economy and Finance and Co-Chair of the meeting, updated the group on actions taken since the last meeting of the Consultative Group in June 2002, noting progress in, *"implementing pro-poor development policies, achieving macro economic stability, public finance management reforms, strengthening democracy and rule of law, mobilizing technical and financial resources, and improving the delivery of public services to meet the needs and expectations of the poor people."* He cautioned however, *"there are many challenges facing us, the most formidable one is the reduction of poverty and improving the livelihoods and quality of life of a rapidly growing population."*

Delegates congratulated the Government for their achievements of the past decade and more recent reforms — including WTO accession, progress in the fight against the spread of HIV/AIDs, improved literacy rates and increased school enrolments, particularly among girls. The Rectangular Strategy — whose core is governance — and recent initiatives on public financial management, decentralization, and private sector development are all positive developments. However, donors stressed that some of these reforms are in preliminary stages and that much more remained to be done to break the hold of poverty that grips the bulk of the population —with reports showing that income poverty remains stagnant, at around 40 percent, and that Cambodia is unlikely to meet most of its Millennium Development Goals (MDGs)

More specifically, Government progress in meeting the set of performance indicators established at the last CG Meeting in June 2002 was mixed. While there have been improvements in procurement, implementation has raised new issues. Progress in natural resources management —suspension of forest concession and improvements in public disclosure — was offset by continuation of illegal logging and visible governance failures associated with the misuse of state resources. Progress in the social sectors was mixed, with specific budgetary goals unmet but some progress towards those goals and on HIV/AIDs. And progress on legal and judicial reform and public administration and fiscal management was weak, donors agreed.

Donors underscored the urgency of governance reform in all areas and sectors as essential for Cambodia to move ahead, increase growth, and reduce poverty. Government confirmed their commitment to implementing their reform agenda through the Rectangular Strategy and to improving the effectiveness of development aid in order to reduce poverty and maximize the benefits of aid, but stressed that reforms would take time. As Prime Minister Hun Sen commented in his speech, *"Doing is much harder than saying. We more than anyone else are acutely aware there is a long march ahead... Nevertheless, we have the horizon firmly in our sights and we will spare no measures to take Cambodia forward for the betterment of its people."*

The governance theme ran through each of the discussion sessions, with the first session focusing solely on issues related to governance and corruption. The sessions included discussions on:

- *Promoting Good Governance* including fighting corruption and increasing accountability; legal and judicial reform and protection of human rights; public administration reform; decentralization and deconcentration; and public financial management.
- *Accelerating Growth and Improving Rural Livelihoods*, including enhancing the agricultural sector; promoting private sector development; and further rehabilitation and construction of infrastructure.
- *Supporting Human Development* including improving education, health, HIV/AIDs, and mainstreaming gender equity in social and economic development.
- *Increasing Aid Effectiveness* including harmonization and donor alignment and external financing requirements.

In each session, a series of common indicators were agreed upon, to help Government and development partners alike monitor performance in the coming year. A sample of these actions include: passing a draft anti-corruption law in compliance with international best practice; trials

on the key reported corruption cases; adoption of a fundamental legal framework that establishes rule of law for all; civil service reform founded on merit-based pay and employment reform; passing of key laws and sub-decrees on natural resources management and increased access to information in particular concerning land, forests, and other forms of concessions; establishing a single entry point, or Single Window, for import-export activities; and passing domestic violence and anti-trafficking laws. Actions were identified in each of the key areas of good governance; rural development; human development and health and education; and increasing aid effectiveness.

On aid effectiveness, donors were urged to change the way they provided aid. In particular, they were urged to provide technical assistance in a manner that builds Cambodia's capacity and to rely less on foreign technical assistance (TA); to phase out and replace the ad hoc salary supplements they provide to civil servants to work on their projects with support for merit-based pay initiatives; and to work in sector wide approaches (SWAPs) wherever appropriate. While supportive of these general directions, donors stressed the need for better and more transparent systems in the country to underpin effective aid harmonization efforts.

The NGO civil society representatives expressed an interest in participating in joint monitoring of progress and reforms through the Technical Working Groups (TWGs) and are committed to abide by the principles of the TWGs. They stressed the importance of community involvement in order to bring the people's voice to influence the government's decision-making process.

The actions identified in each of the key areas are summarized in the Chairman's Concluding Remarks. The newly-established Government Donor Coordinating Committee (GDCC), chaired by Senior Minister Keat Chhon, would play an important role in monitoring progress on a quarterly basis, delegates agreed.

"These performance indicators represent an ambitious undertaking," said Mr. Ian Porter, World Bank Country Director for Cambodia and Co-Chair of the Meeting. *"What is being attempted here is to strengthen and in some cases build from scratch the systems of accountability of government to the people of Cambodia. To move forward on this agenda, we would need to see momentum, commitment, political will — and most importantly, to see words decisively translated into actions. This will take time, but we need to start now."* He continued, *"Cambodia faces some difficult choices in the weeks and months ahead. It needs to demonstrate that it has chosen this road to improved governance and poverty reduction — and members of the Consultative Group stand ready to support, both financially and technically, this reform agenda."*

Donors 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. Both the amount and composition of future pledges will be a function of Cambodia's performance on its reform agenda.

The Royal Government of Cambodia and its development partners agreed to meet in Phnom Penh for the next CG Meeting one year from now.

For more on the Consultative Group on Cambodia, please see: www.worldbank.org/kh.

The Consultative Group meeting, hosted by the Government of Cambodia in Phnom Penh on December 6-7, 2004, was attended by delegations from 18 countries and 5 international organizations. It was co-chaired by Senior Minister Mr. Keat Chhon, Minister of Economy and Finance, who led the Cambodian delegation, and Mr. Ian Porter, World Bank Country Director for Cambodia. Countries and international organizations present were: Australia, Belgium, Canada, Denmark, Finland, France, Germany, Ireland, Japan, Korea, New Zealand, Norway, Poland, the Russian Federation, Singapore, Sweden, the United Kingdom, the United States; Asian Development Bank (ADB), the European Commission (EC); International Monetary Fund (IMF), the United Nations Development System (UNDS), and the World Bank. NGOs from MEDiCAM, Cambodian Defenders Project, and Oxfam Great Britain attended the meeting, as did private sector representatives from the Phnom Penh Chamber of Commerce.