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

Opening Statement by Co-Chair, Ian C. Porter
Country Director for Cambodia, World Bank

Your Excellency, Prime Minister, Samdech Hun Sen, my co-chair, Excellency Keat Chhon, Senior Minister of Economy and Finance, Excellencies, Ladies and Gentlemen:

It gives me great pleasure to welcome you on behalf of the World Bank to the seventh meeting of the Consultative Group for Cambodia. May I begin by thanking the Royal Government of Cambodia on behalf of all of us for its generous hospitality and for the excellent arrangements for this meeting. We are particularly grateful to Prime Minister Hun Sen for having taken the time from his very busy schedule to be with us this morning.

We meet after a long interregnum. As the new Government recognizes, this has been costly to Cambodia in terms of lost momentum for its development efforts. At the same time, looking at the positive side, a new government has been formed based on a consensus forged during the prolonged negotiations that preceded its formation. This consensus is reflected in the impressive reform agenda the Prime Minister has outlined for us this morning.

Cambodia is in the midst of multiple transitions. But the Prime Minister’s remarks underscore perhaps the one transition that is currently the most relevant to our discussions over the next two days. That is the transition from a society grappling with the aftermath of conflict to one grappling with the challenges of poverty and long term development. This is indeed a big step forward. That we can say with some confidence that Cambodia stands poised to look forward to development instead of being mired in conflict is a remarkable achievement of the people of Cambodia and of the governments they have elected, under the wise guidance of His Majesty the King.

Cambodia is indeed, as the World Bank's brief for this meeting argues, at a crossroads. It is our view Samdech Prime Minister, that your government faces some difficult choices in the weeks and months ahead. If these choices result in a significant improvement in governance, and squarely address the bottlenecks which both the Rectangular Strategy and the World Bank report identify as impeding poverty reduction, then Cambodia stands a very good chance of joining its neighbors in the region who are on the path to sustainable development. This meeting therefore presents a real opportunity to send a powerful signal back to the capitals and headquarters of the countries and institutions represented here. If Cambodia demonstrates unambiguously that it has chosen the road to improved governance and poverty reduction, then I am sure that members of the Consultative Group will be generous in their financial and technical support for its efforts in the years to come.

The alternative, as the Prime Minister has himself said on another occasion, is not an option. In the absence of governance reforms that remove the constraints to diversification and sustainable growth of Cambodia's economy, the hard won gains of recent years stand at risk. Reforms are needed to reverse the likely deceleration in growth in the coming years, due to the country's heavy dependence on garments exports in a post multi fiber agreement (MFA) world. This implies improving the investment climate to attract investments in new activities. It also implies removing the governance and other impediments to accelerated growth in the agricultural sector.

The Agenda for this Meeting

The development agenda facing Cambodia is large and difficult as will be evident from our discussions over the next two days. Since the Prime Minister will leave us at the coffee break, I will take the liberty of giving you a brief preview to our discussions over the next two days, and the work of the various working groups that have done so much for the preparations for this meeting. The agenda which appropriately takes a leaf from the Rectangular Strategy, not only covers the four key goals set out in the Strategy, but has four substantive sessions.

Session I will appropriately focus on the core governance agenda, which as the Rectangular Strategy recognizes, lies at the heart of the development challenge in Cambodia. There are a number of major issues which are on the table: strengthening accountability and fighting corruption; legal and judicial reform, public administration reform, public financial management, decentralization and deconcentration. The American Ambassador's statement for this session rightly stresses that corruption is a cancer that is deeply threatening to Cambodia's future development. An effective *anti-corruption* strategy must address amongst other things the issue of impunity and lack of transparency. A freedom of information law and greater transparency in everything the government does is as important to the success of anti-corruption as progress on a sound anti-corruption law and actual prosecution of a few landmark cases. New laws and the prosecution of offenders require a functional judicial system. The Royal government's action plan for *legal and judicial reform* is an important step forward, and as the French Ambassador's statement notes, it is important now to ensure that no effort is spared to restore the credibility of Cambodia's judicial institutions.

Mr. Gardner, the UN's Resident Coordinator will remind us later this morning that until there is a serious civil service reform that raises government pay to reward skills and performance, the low quality of public administration will likely remain the most critical constraint on moving Cambodia's development agenda forward. Civil service reform that aims at improving service delivery will also entail bringing government closer to the people. The German delegation will note the impressive progress made on decentralization since we last met, and the Government indeed needs to be commended for these achievements. The government is now beginning to think through a longer term vision for decentralization and deconcentration and I believe, Samdech Prime Minister, that we stand ready to support this work and the further steps that are needed to realize the full potential that strengthened and accountable local governments offer.

Another area of progress is the work undertaken to enhance the accountability and transparency of the national budget. As will be stressed by the IMF Delegation, public

financial management is another key cross-cutting policy issue at this time in Cambodia, affecting the Government’s ability to achieve virtually any of its objectives. If the system is not reformed, the outlook for poverty reduction will remain bleak. We are very excited about what might be achieved in the coming year or two in this area. But to succeed, Samdech Prime Minister, the program will need support at the highest level, as emphasized at yesterday’s launch.

Session II will focus on the constraints to accelerating growth and improving rural livelihoods. Here again the principal constraints are governance related: access to land and the effective management of natural resources are the key to unlocking the potential of the agricultural sector. Samdech Prime Minister, we are greatly encouraged, as Mr. Proctor from Australia will note, by your recognition of many of the problems and the leadership you have been providing for change both on the issue of land and the related issue for this session of lowering the current very high cost to the private sector and foreign investors of doing business in Cambodia. As Mr. Bajpai from the ADB will note, the Rectangular Strategy clearly recognizes the private sector’s key role and the governance constraints that impede its healthy development.

Session III will address the human and physical capital constraints to development, the remaining two sides of the Rectangle. The principal challenge in terms of human development is to ensure that adequate resources are allocated to services directed at the poor and help meet Cambodia’s Millennium Development Goals for health and education, and that these resources are delivered in a timely manner. A second challenge is to ensure adequate remuneration for service providers. The one clear message coming out from the working groups on these issues is the need for government and donors to pull together to meet these challenges.

As for infrastructure, the Japanese Ambassador’s statement for this afternoon’s session makes an eloquent case for the centrality of infrastructure to growth and poverty reduction, and indeed to regional integration. Given the severe resource constraints facing the Government, the central challenge in infrastructure is to remove the governance

impediments to attracting and effectively managing privately provided infrastructure, by ensuring a level playing field, by enhancing transparency and reducing the large uncertainties investors face.

Session IV appropriately turns to the role of donors and development agencies. The **delegations represented around** this table, Samdech Prime Minister, are anxious to be part of the solution to Cambodia’s problems. But as the Danish statement for tomorrow morning’s session notes, we are also often part of the problem, making *“matters worse by contributing to and exacerbating a culture of corruption and patronage”*. Recognizing that we have a problem is half the battle. I want to acknowledge the hard work that has gone on this past year both by donors and government towards alignment and harmonization of donor support for a government owned framework for development cooperation. As the Prime Minister has just mentioned, we are pleased to note that the Government approved and adopted the Harmonization Action Plan on November 19th and that last week on December 2nd, the Government and twelve of its development partners signed the Partnership Principles that commit them to implementation of this Action Plan and improving the way that aid is delivered to Cambodia. I believe that this provides a very good foundation for really changing the nature of our partnership in Cambodia.

Monitoring Indicators and the Agenda Going Forward

When the Consultative Group for Cambodia last met more than two years ago, we established certain indicators to monitor performance. A progress report on whether these indicators have been met has been circulated to all of you. The story is a mixed one. We have seen progress in the procurement area, where both indicators relating to implementation of a sub-decree on procurement were met, although actual implementation has thrown up further issues that must now be addressed. There was also a fair amount of progress on most of the indicators on natural resources management. Progress in the social sectors was mixed, with the specific budgetary goals unmet, but some progress towards those goals, and considerable progress on the HIV/AIDs related agenda. However, the big

disappointment was in some crucial areas: legal and judicial reform, and public administration and fiscal management, where the indicators were largely unmet.

I am pleased that government and donors have in advance of this meeting agreed on a set of indicators that this meeting needs to endorse. This is a concrete outcome from the 17 Technical Working Groups which were launched by you, Samdech Prime Minister, at the pre-CG Meeting held on September 10th. These groups have been hard at work since the pre-CG Meeting and are already proving to be a very useful forum for dialogue between the Government and its development partners. We also had a very constructive meeting last week to discuss and agree these joint monitoring indicators with the Government Donor Coordinating Committee (GDCC) which was also launched by you at the pre-CG Meeting in September. We believe that this Committee can play a very useful role by monitoring progress on the indicators on a quarterly basis to ensure that the agreed program is on track.

The agreed indicators represent an ambitious undertaking. Governance looms large over this entire agenda. 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. This will take time, but we need to start now. The necessary changes will be resisted because they will hurt powerful vested interests. Moreover, to effect change, the government perforce must rely on the very same weak, underpaid bureaucracy and the fragile and often easily corrupted institutions that are the object of reforms.

Part of the challenge you face, Samdech Prime Minister, is where to start when there is so much to fix, and when everything is interconnected and progress in one area depends on progress in another. The government will indeed need to move on a broad front, as implied by the indicators. But demonstrated progress and some quick wins in a few strategic areas can help send a powerful signal that the government is indeed serious. And success in a few areas will help build political support and momentum and increase the confidence of reformers to stay the course.

So, Samdech Prime Minister, as you have recognized this morning, what you are facing is indeed a very difficult challenge. Our ability to help you will depend on whether we can together build a stronger relationship, based on trust and mutual understanding. In some countries governments and their international development partners go through a ritual. Governments pretend to reform and their development partners pretend to support such reforms while everyone pursues their own private agenda. Few people are fooled by this, and very few of them are fooled for long. So we must avoid this. As you know well Samdech Prime Minister, we have been frank in our assessments of the situation. We believe that it is the duty of true friends of Cambodia to say what the government may not always like to hear. It is equally important that government is honest with us and clear about what it can and cannot do and what it expects from us. To the extent that you are able to push the reform agenda within the bounds of realism, we in the donor community will be there to support you both financially and with technical assistance.

Tomorrow we will also be going through the normal process that characterizes these meetings of announcing pledges of financial and technical assistance for Cambodia's development program. The outside world pays a lot of attention to this particular outcome, and of course it is something of great importance to the government in preparing its budget and financial plan for next year. Total bilateral donor support announced tomorrow is expected to remain at a level similar to what was announced at the last CG meeting. However, the multilateral development banks, whose support is performance based, will report a decline in the level of their support to Cambodia on account of the poor governance performance. But if this performance were to improve, we would be able to provide substantially higher resources in the future.

Looking beyond this year, however, donor support now needs to better reflect the transition that Cambodia is making from a post-conflict state to one geared to long term development and poverty reduction. This implies first, linking the volume and nature of assistance much more closely to the size of the reform effort, and second, to shift the emphasis of development assistance towards diversification of the Cambodian economy, and particularly its rural economy. It also implies moving away from supply driven

technical assistance as the Prime Minister has just emphasized in his speech As the government clarifies further its reform intentions, we intend to work closely with members of the Consultative Group to ensure that the nature and sectoral composition of development assistance responds adequately to Cambodia’s changing needs.

Last week on November 30, members of civil society organized the first ever Civil Society Forum in Cambodia. This Forum brought together representatives from more than 200 NGOs and civil society groups in order to make recommendations for the CG Meeting that are contained in the comprehensive NGO statement for this meeting. The meeting was also attended by representatives of the Government and donors. We feel that there is now a strong consensus amongst the Government, donors, private sector and members of the civil society on the nature of the challenges facing Cambodia and on the actions needed to tackle these challenges. This represents a unique opportunity for all of us to unite behind the slogan of the Civil Society Forum *“it is time to transform the promises and commitments into actions with concrete outcomes”*.

In sum, Samdech Prime Minister, you will find in this group a strong commitment to the wellbeing of Cambodia’s people and in particular the country’s poor people. We are very pleased that your new government 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. As good friends of Cambodia we stand ready to support you and your government in a genuine reform effort.

Thank you all for your attention and I look forward to two days of open, frank and productive discussions.