

CAMBODIA: 8th CONSULTATIVE GROUP MEETING
Phnom Penh, March 2-3, 2006
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 reached the conclusion of the eighth Consultative Group Meeting for Cambodia. 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 forceful and candid keynote address. I also express thanks to my co-chair, the Senior Minister of Economy and Finance for his warm hospitality. I also want to thank the deputy prime ministers as well as the many ministers and officials who contributed to the discussions. This year, given the activity of the technical working groups (TWGs), much of the hard work was done before the meeting, and this was reflected in the high level of consensus that we attained on most issues on our agenda.

We last met here fifteen months ago for the 2004 CG meeting, which heralded a new approach to our partnership. The last CG meeting anchored the TWGs and gave way to regular Government Donor Coordination Committee meetings. The 2004 meeting also communicated a clear message. Development partners said then that Cambodia was at a crossroads, and that it had to make a decisive choice going forward. Has Cambodia chosen a path? In closing the meeting, I would like to address this question by speaking to three overarching issues: (1) progress on the reform agenda; (2) the critical issues emerging from our discussions; and (3) the state of our partnership.

Excellencies, Ladies and Gentlemen: Cambodia's growth performance continues to be particularly strong. Annual GDP growth averaged 7.1 percent over 1994-2004, and on overall macroeconomic management Cambodia has also continued to outperform other low income economies. At the same time the new household survey data reveal that poverty has fallen by more than was anticipated. Though poverty still remains high at 35%, the story is one of high growth and very respectable poverty reduction in a post-conflict setting. On these important outcomes, Cambodia has performed very well.

There has also been progress on the fiscal front, with revenues reaching 11.7% of GDP in 2005, though Cambodia's revenue to GDP ratio is still quite low. The recent

decision by the Fund to relieve Cambodia of US\$ 82 million in debt—based on its macroeconomic performance, poverty reduction strategy, and public expenditure management system—signals progress. At the same time we are hopeful that Cambodia and its bilateral creditors will agree quickly on debt rescheduling arrangements.

The Government should be congratulated for these major accomplishments, as it has worked tirelessly to promote peace and stability over the past decade, and has astutely taken advantage of the opportunities afforded by the international system. These victories, however, cannot be repeated going forward, and so new measures must be taken. Cambodia will increasingly be exposed to greater international competition, and peace is necessary but not sufficient for growth. Greater economic diversification, improvements in agricultural productivity and profitability, and stronger regional integration will all be necessary for maintaining high growth and poverty reduction.

What this means—and this is certainly the consensus view of Cambodia's development partners—is that the reform program must be accelerated. Fortunately, events over the past months suggest that the Government has come to the same conclusion. It is not surprising that we have reached the same conclusion, given the genuineness of our partnership. Indeed, this has been reflected in the frank tone and transparent proceedings of the CG meeting itself.

When we compare the rate of progress from 2004 to 2006 to the previous CG period of 2002 to 2004, we note a clear acceleration of reform in many TWG areas; and a sense of momentum is being built. That the rate of change has increased in so many areas is heartening. And though the record is still clearly mixed, there is a sense that Cambodia is going down the right path. The momentum is still fragile, and reversals are possible, but the pace is encouraging.

As was obvious from the discussions today and yesterday, a number of reform programs are being successfully implemented and are yielding some improvements in results. If we implement and track Joint Monitoring Indicators (JMIs) that do not lead to results for Cambodian citizens, then we are not doing the right kind of work. Fortunately, we have a strong assurance that our JMIs are anchored in a longer term strategy—the National Strategic Development Plan. The broad agreement on strategy and policy

reflected in the NSDP gives us the confidence that our JMIs for 2006 will be implemented in the context of the Government's overall development program.

Let me start with several of the areas where progress is most notable. The Government launched its Public Financial Management Reform Program in 2005. Progress has been satisfactory and some impact has been noted: cash management has improved, as reflected in better disbursement profiles; tax revenue has increased significantly; the procurement process has been streamlined; and internal audit departments are being established. In addition the first Merit Based Pay Initiative (MBPI) became operational and is now serving as catalyst for reform in other ministries. Challenging next steps include: (1) streamlining the budget execution process, first in the Ministry of Economy and Finance, then in the line ministries, and finally in the provinces and municipalities as well as in communes in the context of the decentralization and deconcentration program; and (2) increasing the use of the banking system instead of cash, and reducing expenditure arrears. All this must be done in the context of improved transparency and accountability of all budget execution agencies.

In private sector development the trade facilitation agenda is moving forward. The risk management strategy sub-decree, a vital measure for reducing the costs of doing business, and the sub-decree creating special economic zones were both recently signed. Trade facilitation has improved with notable reductions in time and costs required to clear both imports and exports. In addition the Law on Concessions was passed and the sub-decree for the amended Law on Investment was issued. The launch last month of the Small and Medium Enterprise Development Framework is also an encouraging sign, as was pointed out by the head of the E.C. delegation. The next important steps are: (1) implementation of the risk management strategy by reducing inspection rates from 100% to 50% by end-2006; (2) design of the 'Single Window' for fulfilling documentary requirements for import or export, and implementation of the pilot in the Port of Sihanoukville; and (3) customs automation to support implementation of the Single Administrative Document.

Human development is another area where the Government has demonstrated resolve as well as results. The decline in the HIV/AIDS prevalence rate is a major achievement. Progress has also been made in increasing the proportion of women

accessing proper ante-natal care. Cambodia has also increased access to basic education. Enactment of the law on domestic violence offers hope for empowering women and creating a more just society. The health and education sectors have also made progress in developing comprehensive sectoral strategies. The next steps in human development focus on improving access to health and education services and implementing the action plan to combat violence against women.

It is thus our view that these three sectors have made considerable progress since the last CG meeting. There has also been an acceleration of reform in other arenas. In Decentralization and Deconcentration the strategic framework, which provides the policy directions for further reform, was approved. In Public Administration Reform the PMG program was expanded, while the MBPI program was designed and made operational; and we expect the Ministry of Health to implement the MBPI shortly. Moreover, the strategy on phasing out salary supplements has been endorsed by Government and donors alike, and each TWG is now tasked with developing an action plan to implement the strategy. We endorse Deputy Prime Minister Sok An's call to accelerate implementation of the salary supplementation reform strategy and to redirect those resources in support of the PMG and MBPI programs.

At the same time, serious challenges remain on pay and employment issues. As the Prime Minister said yesterday, "Cambodia needs civil servants who report to schools, health centers, and offices for a full, productive and effective day of work..." As the Danish Ambassador noted, this will not happen with the current levels of pay, and small, across the board increases in pay will not solve the problem. Rather, a targeted approach that raises up high priority sectors and functions to competitive pay levels is necessary for attacking problems from absenteeism to corruption. And increased pay needs to be accompanied by meritocratic management. In this regard we encourage the Government to allocate more resources to the PMG and MBPI programs so that other ministries may respond to the Prime Minister's hope of expanding the MBPI program. And I should also note our agreement with H.E. Deputy Prime Minister Sok An that the Government-donor partnership in the PAR TWG has been strengthened considerably.

It is important to reiterate that this progress has taken place in the context of the new NSDP, which was finalized in 2005 for presentation to the National Assembly. As

the ADB Country Director emphasized, the NSDP is an overarching document that contains the Government's priority goals and strategies. Donors are encouraged by the Government's focus on improving service delivery. The strong link between the JMIs, which are annual measures, and the NSDP, which provides the longer term strategic framework, is vital for keeping us all focused on our ultimate objective: moving step by step and in a steady and cumulative manner toward improved outcomes for Cambodia's citizens. An important next step is developing detailed sectoral strategies, where needed, to support NSDP implementation.

Let me step back for a moment now from the detailed assessment of progress in each of these five major sectors to consider the bigger picture. Government, with the support of its partners, worked hard to realize these outcomes. As the Prime Minister said yesterday, development is fundamentally about "how to make the hard choices and do the hard work necessary." Let us be fair: some of these reform measures represented hard choices—they were the right thing to do for Cambodia—and they all required hard work. Cambodia's development partners fully intend to give credit where credit is due.

At the same time both Government and donors very much appreciate the intense and *frank* nature of our discussions during this meeting, and more generally. Maintaining an open and honest dialogue is vital for our partnership. Allow me now to turn to some important areas where some hard choices have still to be made. I do this with confidence that the state of our partnership is strong and allows for fair yet frank dialogue.

On anti-corruption development partners recognize that a lot of good work has been done over the past year on the draft anti-corruption law, but are very concerned that the current draft is still not satisfactory. Corruption impairs poverty reduction and undermines the social order, as the Prime Minister said yesterday. A strong law is needed, and the current draft does not meet the mark. We express our appreciation to H.E. Deputy Prime Minister Sok An for his commitment to consider the four recommendations expressed on behalf of the donor community by the U.S. Ambassador and to seek how best to incorporate donors' suggestions into the revised law. Without these four changes, the law would not be worth enforcing. Development partners urge the Government to make the hard choices here by incorporating the four recommendations. Donors also agree with the Deputy Prime Minister that Government and donors should

pursue a comprehensive approach to anti-corruption, and donors should be willing to mobilize funding quickly for implementation of the anti-corruption law, including organizational and capacity development.

In natural resources management, land, and agriculture, the story is one of mixed progress. To be fair, as the German Ambassador noted, good progress was seen with the new sub-decrees on state land management, community forestry, and community fisheries, all of which provide for greater local involvement and transparency in decision making. To be frank, there are a number of serious shortcomings that warrant urgent attention. Greater information availability on economic land concessions is welcome, but more complete disclosure is needed to improve transparency and efficiency. Development partners very much welcome the Government's commitment this morning to providing even greater disclosure of information related to economic land concessions. On forestry, I am sure we are all pleased to hear of the Prime Minister's strong support for independent monitoring in the forestry sector; and there is a consensus on the need to review how the effectiveness of monitoring systems can be improved. Donors also need to provide financial support to the Government in this area without delay. In agriculture the lack of a sector strategy is a major constraint, though some small steps were taken last year. As H.E. Keat Chhon said yesterday that "Speeding up the development of this (agricultural) sector is the highest and most urgent priority..."

In legal and judicial reform, though there was some progress on two laws, it is the view of development partners that progress has been slow in part because of institutional weaknesses regarding the Government's structure in this area. The Council for Legal and Judicial Reform needs the support of a full time secretariat staff to function more effectively. Coordination between the Council and the TWG also needs to be improved. Donors also need to provide additional resources to advance this work.

In these areas then—anti-corruption, natural resources management and agriculture, and legal and judicial reform—progress has been too slow, and in some of these cases—to be frank—it is the view of development partners that Government has not yet made the hard choices or done the hard work. As the Prime Minister said yesterday, sometimes reforms will be "painful" in the short term. In the case of these sectors, however, the long term benefits will greatly outweigh any short term pain reform might

cause. Both the economic and the political situations in 2006 are conducive to reform and it will be very important to make the hard choices and do the hard work on these issues this year.

Excellencies, Ladies and Gentlemen: We do all this work in the context of a partnership, and the state of our partnership is strong. Reflecting international commitments, we have all placed aid effectiveness squarely on the national agenda. The revised Harmonization and Alignment Action Plan is consistent with the Rome and Paris declarations, and Cambodia is ahead of most in advancing this agenda. What we need to see now is concrete progress over the next year. Donors and Governments should prioritize and agree on a subset of actions to be accomplished in 2006. For example, we should expand the number of sector wide approaches and increase the number of PMG/MBPIs in operation. We need to review how to further rationalize the use of technical assistance.

We also need to consider how we can further enhance cooperation with and involvement of civil society. In her intervention today the U.K. representative called for involving “a wider range of non-state actors in policy dialogue.” Finally, we should consider how to improve our annual donor meeting. The CG meeting has evolved, responding to Cambodia’s needs, and will continue to do so. We note with satisfaction the greater ownership Government has taken of the CG process this year, and we look forward to discussions on further improvements, focusing on supporting Government to take additional steps to enhance its ownership. We also note the Prime Minister’s suggestion to review the Government-donor coordination architecture, and would suggest that the Partnership and Alignment TWG report back on this to the next GDCC meeting.

This year, development partners pledged US\$ 601 million in support for Cambodia’s development efforts, as part of the country’s budget and financial plan for 2006, representing a significant increase over pledges for 2005. The increase in pledges reflects our sense that performance has improved, though it also reflects our efforts to improve reporting and classification of ODA. Beyond these pledges, as I mentioned earlier, the IMF is also providing US\$ 82 million in debt relief.

In conclusion I would like to underscore three messages. First, development partners congratulate Cambodia on making hard choices and doing hard work by moving

down the path of reform. As noted, the record is mixed, but the rate of progress has increased. We recognize this gathering momentum and look forward to accelerated implementation during 2006. Second, the CG meeting has led to greater consensus on next steps, even in the more difficult areas such as anti-corruption, natural resources management, and legal and judicial reform. Reform may be painful here, as the Prime Minister noted, but it is vital for Cambodia's economic and social development. Lastly, let me end by reiterating our great satisfaction that the state of our partnership is strong; and that we look forward to a future strengthening of our partnership in the coming year.

Finally, let me thank Senior Minister Keat Chhon. As always it has been a pleasure to co-chair this meeting with him. And thank you all for your very constructive participation in this meeting.