

CAMBODIA CONSULTATIVE GROUP MEETING

Phnom Penh, March 2-3, 2006

**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 all on behalf of the World Bank to the eighth meeting of the Consultative Group for Cambodia. I would like to begin by thanking the Royal Government of Cambodia, on behalf of all of us assembled here today, for its hospitality and the very efficient arrangements for this meeting. We are also as always very grateful to Prime Minister Hun Sen for taking time from his schedule to be with us here this morning.

Let me start, as we usually do, by taking stock of what has been achieved since we last met. Over the last fifteen months, there has been some important progress in a number of areas. On the economic front as we have just heard from Sr. Minister Keat Chhon, overall growth in 2005 was good — and much the same as previous years — at around 7 percent. Unlike what we expected when we met 15 months ago, the high rate of growth in Cambodia was not affected in a major way by the end of the Multi-Fiber Arrangement and the higher oil prices.

On the poverty front as well there has been good news. As the Cambodia Poverty Assessment documents, poverty has come down considerably during the last decade, from about 47 percent in 1993/94, to 35 percent in 2004. The fall in the poverty rate is corroborated by other indicators of improved welfare of poor people in Cambodia. These findings finally lay to rest the impression that had taken hold, that Cambodia had somehow experienced a decade of rapid growth with little or no poverty reduction.

There has also been progress in the last year in the institutional and policy reforms needed to create the foundations for inclusive, diversified growth and development — the progress that we attempt to measure with the Joint Monitoring Indicators or JMIs. The record is certainly mixed,

but in overall terms, progress between the 2004 CG meeting and this one has been considerably better than the progress made between the meetings in 2002 and 2004.

And in recent months, we have also seen an improvement in the broader political and social climate that inevitably affects development outcomes. We applaud the recent political reconciliation and welcome the Prime Minister's comments regarding the need to decriminalize defamation and create a more open atmosphere for debate and dialogue. It is important now to lock in the progress that has been made with concrete actions that bring the Government and civil society together in the pursuit of commonly agreed developmental objectives. Providing citizens, particularly the poor, with the opportunities and tools to raise concerns and ask for change can significantly improve the prospects of successful reform.

We are now standing at an interesting juncture. Looking back at not just the last year but also the last decade - the first decade of peace — gives us a rounded perspective on what has been achieved — and what still remains to be achieved. I believe the proposed agenda for the next two days will provide us with a good opportunity to discuss in detail both the progress and the major challenges that lie ahead.

Following Prime Minister Samdech Hun Sen's keynote address, in *Session I*, we will take stock in detail of recent economic and social developments. The Representative of the IMF will also look at the challenges ahead. While the overall growth rate has been resilient, the Cambodian economy remains heavily dependent upon a few sectors, and the primary benefits of this growth are highly concentrated amongst the richer urban segments of the population, which has resulted in a rapid increase in inequality between the rich and the poor. There remains a pressing need to diversify the economy to enable the rural poor to contribute to and benefit from economic growth. Achieving more broad-based growth — and in particular, higher rates of agricultural growth — over the medium term will require improvements in the access of poor smallholder farmers to secure land titles, to markets and market information, to irrigation and other rural infrastructure, and to good schooling and affordable, quality healthcare. It will also require economy-wide actions to lift the barriers that hold back investment, profitability and growth.

In *Session II* after lunch today the Government will formally present the new five-year development plan — the National Strategic Development Plan, or NSDP - for the years 2006 to 2010. The Government has invested considerable effort in developing this plan since we last met a little over a year ago. It has also made strenuous efforts to produce a three-year rolling Public Investment Program - the PIP - which takes the targets and policies of the NSDP and translates them into a clear expression of the areas — geographical, sectoral and thematic - in which the Royal Government wishes to focus capital investment for growth and poverty reduction.

As the representative of the Asian Development Bank will note, the production of the NSDP marks a very considerable achievement. Based around the vision outlined in the Rectangular Strategy and the Cambodia Millennium Development Goal (CMDG) targets, it was developed very much by the Government, with donors providing advice that the Government took, as and when it found appropriate. Ownership, in other words, appears to be pronounced. The Government has also made strenuous efforts to align the PIP to the priorities outlined in the NSDP, and has placed the onus on development partners to respect their commitments to harmonization, alignment and aid effectiveness and align their allocations of ODA in accordance with the PIP. In particular, the NSDP sets a concrete target for shifting more public investment to the countryside, on the grounds that while over 90 percent of the poor live in the countryside, public spending overwhelmingly favors the towns.

After a break for coffee this afternoon we will proceed in *Session III* to review progress made against the Joint Monitoring Indicators for 2005 established at the last CG meeting; and to begin the process of agreeing JMIs for the coming year. This exercise will continue tomorrow morning, concluding in the formal adoption of the 2006 JMIs.

The first of the JMIs to be discussed focuses upon actions in the *fight against corruption*. As the US Ambassador will note, corruption in Cambodia has been described variously as “a disease, a plague and a cancer”. Since December 2004, progress has been made towards drafting an anti-corruption law that aims to meet international best-practice standards. The revised draft law represents a significant improvement over the first, 2003 draft. However, the current draft law does not yet provide for an anti-corruption body that is independent, empowered and effective.

It is hoped that during the next six months, a law that meets international best practice standards will have been finalized and approved, along with an action plan for implementation and periodic dissemination of information on reported cases of corruption. Although passage of the law is urgent — and, in the opinion of Cambodia’s development partners, achievable within the next six months — it is important that urgency does not lead to acceptance of a poor quality law. As the Ambassador will argue, “it is time to do it; bin it is also time to do it right”.

The second set of JMIs to be discussed concerns *legal and judicial reform*. The French Ambassador will draw attention to the progress that has been made in reconstructing the rule of law since 1979. He will proceed to note, however, that the eight “fundamental laws” upon which so much depends, and which were set as JMIs in December 2004, have yet to be passed (although progress has been made on several). As the Ambassador will point out, the increasing complexity of economic and social challenges facing Cambodia “only strengthens the need for an urgent adoption of the fundamental laws which will fix the general framework of the state of law.” And, to return to the theme of social accountability, it is critical that there is a clear policy framework on the right of citizens to obtain access to information on Government policies and programs.

Most of the 2004 JMIs for *public administration reform* - paying civil servants enough to keep them motivated and honest, and managing them effectively to reward (and thus encourage) performance — have been achieved in part rather than in full. Nonetheless, progress *has* been made. In particular, the groundwork has been laid for targeted pilot initiatives in merit-based pay and employment reform in three sectors, and a strategy for phasing out salary supplements has been drafted and discussed. As the Danish Ambassador will conclude, the 2006 JMIs are clearly focused on the right challenges but remain a tall order. If the Council for Administrative Reform is to meet these goals by the next CG meeting, it will require engagement with and cooperation from both line ministries and the development partners — as well as high-level political commitment.

As the Swedish representative will note, the agenda for *decentralization and deconcentration* has evolved considerably over the course of 2005. This agenda is of critical importance for the

effective realization of the NSDP's goal of allocating 60 percent of public resources to rural areas. A key objective established in December 2004 — the finalization of a Government Strategic Framework for Decentralization and Deconcentration (or D&D) — has been successfully achieved. While the first draft of the corresponding organic laws have not as yet been completed, drafting is under way and is expected be completed by the end of the first quarter of 2006. The new Technical Working Group for D&D now needs to meet regularly and provide inputs into the emerging policy and regulatory framework on decentralization and deconcentration and also to help develop a Government program to replace the Seila program which ends in 2006. If a replacement is not in place by September, there is a serious risk of disruption to the flow of resources to Communes and Province management structures, with attendant decline in service provision.

Reform of *public financial management* is, as the World Bank will describe, the foundation for sustainable development, and the heart of the NSDP. The transparent and effective management of public money will become even more critical if, as seems likely, large-scale revenue flows from oil and gas come on-line within a few years. Over the last year, the Government has put in place a solid foundation with the implementation of the first stage of the Public Financial Management Reform Program. Despite some initial delays in getting started, progress is satisfactory and some impact is already noted. However, key challenges remain if the rate of progress is to be accelerated. The IMF's Poverty Reduction and Growth Facility (PRGF) and the proposed Poverty Reduction Support Operation (PRSO) to be supported by the World Bank and a number of other external partners, identify a number of outstanding actions which need to be completed as a matter of priority.

The NSDP, along with other recent documents such as the *Cambodia Millennium Development Goals (CMDG) update* and the *Poverty Assessment*, note significant gains in some aspects of *human development*--for example, continuing rise in net primary school enrolment, and falling HIV prevalence and child mortality rates--while other indicators lag behind. To sustain recent improvements and address persistent gaps depends, in the first instance, upon the reforms of public financial management I have just described. In addition, the Government and its donor partners have also, through the relevant sectoral TWGs, agreed on a series of indicators of

improved service delivery to be tracked over the following year. These are aligned with and derived from the indicators that are to be used in tracking implementation and outcomes of the NSDP. Two final JMIs for human development build upon significant advances achieved in 2005. The new law on domestic violence needs to be implemented through a National Action Plan, while the success in reducing HIV transmission and treating AIDS is to be built upon with further improvements in the coverage of both preventative and palliative services.

Sustainable and equitable *natural resource management* and a stronger performance of the *agriculture sector* remain critical for reducing rural poverty. Development partners are pleased to note that the much delayed work on an Agricultural and Water Resources Management Strategy has finally started and we look forward to the completion and the start of implementation of this strategy by the next CG Meeting. Progress has been made over the past year in strengthening the legal framework for the management of land and natural resources and in increasing participation and transparency in these processes. The development partners welcome the Prime Minister's recent commitment to convert non-performing economic land concessions into social concessions, for distribution to the landless poor. We also welcome the information released on economic land concessions on the website of the Ministry of Agriculture, Forestry and Fisheries (MAFF). However, the newly-signed sub-decree on economic land concessions makes no requirement for disclosure beyond the initial phase; and the information made available on existing concessions does not yet meet the needs for efficient and transparent land management. As the representative of the German Government will highlight, there are also concerns that the JMIs currently proposed for adoption at this meeting miss some important issues, dropping key indicators — notably on disclosure of mining concessions and military development zones — that were agreed in 2004. Similarly, a JMI on independent forest monitoring must be retained if illegal logging, encroachment, land grabbing and corruption are finally to be brought under control and replaced by sustainable use of resources in the national interest.

The NSDP recognizes that further rehabilitation and development of infrastructure is necessary to achieve sustainable socio-economic development and poverty reduction goals. This year, therefore, we have also included some JMIs on the improved management of the road

maintenance fund, and the completion and adoption of the Road Law and the Telecommunications Law.

Finally, the representative of the EC delegation will address progress made and still needed in creating an enabling environment for **private sector-led economic growth**. Improvements here are required to sustain the growth seen in the last decade and to ensure that in future the poor are better able to benefit from — and contribute to — this growth. Progress in this area has been good. Following the Prime Minister's Order in December 2005, significant progress has been made in trade facilitation reforms and we understand that just yesterday the Prime Minister signed the sub-decree on Risk Management, which will reduce the rate of inspections and will lead to a significant lowering in the cost of doing business in Cambodia. The adoption of a framework for the development of SMEs - a goal set in the 2004 JMIs — also marks a significant advance in creating a more favorable environment for SME development. And we congratulate the Government on passing the amended Law on Investment and the implementing sub-decrees, which will provide a clear and transparent process for investors.

Session IV, tomorrow afternoon - will focus upon how to increase *aid effectiveness*, before closing statements from my Co-chair Excellency Keat Chhon and myself in Session V conclude this CG meeting. Cambodia has made significant progress in laying out principles and an action plan for harmonization and alignment following the Paris Declaration. With the NSDP and PIP in place, it is time to put these commitments into practice. The representative of DFID of the United Kingdom will summarize the considerable advances made in 2005. To consolidate these advances over the next year, the various Technical Working Groups - the basic building blocks for harmonization and alignment - will need to be strengthened and to focus more attention on the further development and implementation of sector-wide programs. The quarterly GDCC meetings—which have played a valuable role in monitoring the JMIs and in helping to keep the reform program on track-- could also be reviewed and made more efficient by only taking up 2-3 policy issues each time that need resolution, rather than discussing progress on the whole range of JMIs.

Further embedding the harmonization and alignment agenda also requires expanding the scope and improving the depth of country ownership: increasingly, non-state actors as well as the Government should feel they know about and agree with the national development agenda. Openness to alternative opinions, as I mentioned earlier, is an essential part of this more inclusive approach. The Prime Minister recently welcomed the role of civil society in contributing to policy dialogue and monitoring its implementation, likening this feedback function to that of a reflection by which the Government can better understand its own strengths and weaknesses. We believe that there is now a genuine opportunity to build a stronger consensus between the Royal Government, Cambodian civil society, the private sector and external development partners on the priorities for Cambodian development, and for all of us to engage in a constructive and informed discussion on how to achieve these priorities. The NGO statement to this CG meeting, released this week, states that the NGO community welcomes the production of the NSDP and the opportunity to engage with Government and donors on these issues of substance.

To conclude, Samdech Prime Minister, we open this CG meeting with positive findings about achievements over the last ten years and, with some important qualifications and remaining concerns, on progress since the last CG meeting. There are thus grounds for optimism, reflecting the fact that the NSDP and PIP open up space for significant improvements in governance and aid effectiveness in the coming year and beyond. These documents provide Cambodia's development partners with a clear set of overall priorities. Working together to refine and implement these commitments, we stand a good chance of helping Cambodia consolidate the progress it has made to date, address the very important issues and challenges that still remain, and achieve the targets set in the Cambodian Millennium Development Goals.

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