

FOR IMMEDIATE RELEASE: Consultative Group Meeting on Cambodia

CAMBODIA: GOVERNMENT AND DONORS AGREE OPPORTUNITY TO BENEFIT FROM DEEPER REFORMS IS NOW -

Joint Meeting Concludes with New Agreement on Next Steps for Better Future

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PHNOM PENH March 3, 2006— The 8th Consultative Group (CG) Meeting on Cambodia ended today in Phnom Penh with Government and development partners agreeing with Prime Minister Samdech Hun Sen's statement that Cambodia has chosen to be "*firmly on the path to progress and realization of its true potential*", but that "*every step shows us new challenges ahead.*" For Cambodia to benefit from the vast opportunities of the next decade, delegates agreed that the country needs to act now to consolidate the progress it has made to date and accelerate its reform efforts in order to address remaining challenges.

Delegates agreed that there was reason for optimism — given the past decade's progress and the last year's accomplishments on growth and reform. However, to sustain the progress over the last decade made possible in large part by the transition from war to peace, the Government and development partners will need to redouble their efforts to implement reforms and improve aid effectiveness.

These include reforms to reduce corruption and make government more responsive, responsible, effective, transparent, accountable; continued commitment to macroeconomic stability and promoting broad-based and more equitable growth; investing in infrastructure and private sector led growth; and improving services for human development and to improve the lives of poor people. Efforts to create a more open atmosphere for debate and dialogue and providing citizens, particularly the poor, with the opportunities and tools to raise concerns and ask for change, need to be continued, as they can significantly improve the prospects of successful reform, delegates agreed.

"To achieve the Cambodian Millennium Development Goals (CMDGs) Cambodia needs to intensify its efforts to tackle emerging issues and daunting challenges," declared the Prime Minister.

The CG Meeting, held March 2-3 in Phnom Penh, was attended by members of the donor community, including 12 partner countries, 6 observer countries, 5 international development organizations, and the Government of Cambodia. Civil society and private sector representatives attended as well.

Country Context: Cambodia's Achievements

The Prime Minister noted the positive impact of peace and stability over the past decade on improving people's living standards and opening up tremendous opportunities. He commented, "*Cambodia is moving from war to peace; from a culture of conflict to a culture of compromise; and from a culture of confrontation to a culture of dialogue and reconciliation. As we march further into the 21st century, the next ten years represent a decade of opportunity to realize our development goals — defined through the CMDGs — and uplift the poor and vulnerable.*" Referring to the important progress made by putting in place the Government's new Five-year development plan — the National Strategic Development Plan (NSDP) and its corresponding work outlining priority government expenditures, the Public Investment Program (PIP), he said, "*Setting down strategies and targets on paper is the first step. Far more important is to plan and pursue practical actions to achieve them.... We need to work hard on further improvements in governance if we are to make more than a dent in poverty.*"

Delegates welcomed the NSDP and PIP as a key sign of Government ownership of the development agenda, and commended the NSDP's approach of providing a road map, prioritization, and resource requirements to help the Government achieve the vision laid out in the Rectangular Strategy. As detailed sectoral plans for NSDP are developed and implemented, delegates agreed to work together to focus on diversifying the sources of growth, accelerating better land management, developing rural infrastructure, and investing in basic human development in order to increase the impact and effectiveness of the Five-year plan. Government and donors agreed to increasingly align all public resources including aid with the NSDP and PIP.

Delegates agreed that since the last meeting of the Consultative Group in December 2004, there has been important progress — with growth maintaining its earlier average of 7 percent a year, in spite of higher oil prices and the ending of the Multi Fiber Agreement (MFA) — and other economic and social indicators improving as well, including a reduction in maternal and child mortality rates, dramatic decrease in infectious diseases, and improved supply of clean water in urban areas. The fight against poverty is also showing some results, with a new Poverty Assessment released last week showing that poverty rate fell from about 47 percent in 1993-4 to 35 percent in 2004. *“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,”* said Mr. Ian Porter, World Bank Country Director for Cambodia and Co-chair of the CO Meeting.

He continued, *“But it’s important to remember that while growth and stability has helped to drive down poverty, the economy remains heavily dependent upon a few sectors, and the primary benefits of this growth are highly concentrated among the richer urban segments of the population, which has resulted in a rapid increase in inequality between the rich and the poor.”*

Senior Minister Mr. Keat Chhon, Minister of Economy and Finance and Co-Chair of the meeting commented, *“Notwithstanding this significant progress, we still face many challenges to combat poverty. Improving living standards and the equitable distribution of growth among the population remains a high priority for the Royal Government. The agriculture sector is the source of livelihood of more than 70 percent of the labor force — therefore speeding up the development of this sector is the highest and most important urgent priority. Sustainable development, poverty reduction and the CMDGs cannot be achieved without further improvements in rice productivity and diversification of crops as well as promoting agro-industry development.”*

Progress has also been made on some key institutional and policy reforms — which is measured through the Joint Monitoring Indicators or JMIs — with key initiatives made in both formulating and adopting a strategy and in carrying out specific actions in the areas of public financial management, private sector development, human development and infrastructure made over the last 15 months. Reforms in public administration and on better aid harmonization and alignment have also deepened, donors noted. *“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 most areas. In these areas a sense of momentum is being built — which is heartening. And though the record is still clearly mixed, there is a sense that Cambodia is going down the right path,”* said Mr. Porter during his Closing Remarks today.

Looking Forward: Serious Challenges Remain

Delegates stressed that key reforms in natural resource management, on the legal and judicial framework, and on anti-corruption need to be accelerated, and urged immediate steps to move forward on these important action items which would have both immediate impacts in terms of solidly positioning the Government on the path to reform and more long-term benefits in terms of growing confidence in the country, increased growth, and ultimately, accelerated poverty reduction.

Delegates called for accelerated efforts to address some shortcomings in *natural resource management*, noting that while greater information availability on economic land concessions is welcome, more complete disclosure is needed to improve transparency and efficiency. Delegates welcomed the Prime Minister's commitment that land not being appropriately utilized be converted from economic land concessions to social land concessions for the poor, and also urged increased attention to ensuring fair and equitable land dispute resolution, as tenure insecurity remains a core constraint to Cambodia's economic and social development and a key factor in rising inequality. Delegates also agreed with the Prime Minister's call for continuation of independent forest crime monitoring — which requires donor funding — and delegates noted that the institutional framework for independent monitoring of illegal logging and land grabbing needs to be reviewed urgently. A comprehensive agriculture development strategy is also needed, to guide reforms and development work in this key area which could greatly benefit Cambodia's rural poor.

On legal and judicial reform, participants urged the Government to move ahead decisively on passing of a series of eight laws which are fundamental to establishing a sound framework for a more effective legal and judicial system. *On anti-corruption*, delegates noted that the current draft law, while representing a significant improvement, still falls short of international best practice and called for four specific actions to be taken to satisfy the Government's commitment from the last CG meeting: operational and budgetary independence of the Anti-Corruption Body (ACB) to be established; operational control by the Secretary General over ACB investigators; access to asset declaration documents by the Secretary General; and harmonization of criminal offense with the United Nations Convention Against Corruption (UNCAC) and draft penal and criminal procedure codes. The Royal Government agreed to consider the points raised and stressed the need to have a comprehensive approach and build capacity for implementation.

In discussing the JMIs for the next year, delegates noted the close linkage between the JMIs and the reform priorities laid out in the NSDP. In addition to JMIs on the issues listed above — natural resource management, legal and judicial reform, and anti-corruption — some JMIs agreed to for the next year, to continue the reform process already underway, include: continuation of *public administration reform* focusing on the civil service; further work on *decentralization and deconcentration reform* and more work on creating transparent and effective management of public money through *public financial management* reform; steps to *improve service delivery* — as well as to advance *human development* efforts through JMIs on domestic violence and women empowerment, and actions to further tackle HIV/AIDs and drug abuse. On private sector development, delegates agreed on the need to strengthen trade facilitation and market development efforts and enhance transparency and accountability. JMIs focusing on infrastructure, private sector-led growth, and increasing aid effectiveness were also discussed and agreed upon.

Mr. Porter commented, *"These Joint Monitoring Indicators are a step in the right direction towards strengthening partnerships for reform and working toward common goals of strengthened systems of accountability in Cambodia. While progress is not going to be perfect, these indicators are ambitious, and we need to understand that in such a complex development environment, moving forward on this agenda will take time. Cambodia is at a critical juncture — it has embarked on the path of reform but now needs to take the necessary actions to move aggressively in key areas such as natural resource management and anti-corruption, while continuing to show momentum, commitment, and political will in all reform areas. Development partners, in return, must continue to do their part to work in partnership with the Government and other stake holders in helping the country achieve its development objectives — ultimately, better lives for all Cambodians."*

A detailed list of the JMIs was agreed to and will be publicly released shortly: www.cdc-crdb.gov.kh and at www.worldbank.org/kh

Discussing aid effectiveness, delegates agreed that Cambodia has made significant progress in laying out principles and an action plan for harmonization and alignment following the March 2005 Paris Declaration, but concrete actions must now be taken to implement the plan. Delegates agreed that the various Technical Working Groups - the basic building blocks for harmonization and alignment — be reassessed and strengthened, with increased opportunity for policy dialogue and discussion between different stakeholders created. Delegates also agreed with the Government's request to aim for the development and implementation of more sector-wide programs, and to come to a broader agreement on difficult issues such as the elimination of salary supplements and the role of technical assistance in genuinely building Cambodia's own capacity.

Actions to further embed the harmonization and alignment agenda need to be undertaken — which means expanding the scope and improving the depth of country ownership of the development agenda — to include both state and non-state actors. Government welcomed the input of civil society and private sector into the development dialogue in a mutual and accountable manner. Delegates agreed that now is a good opportunity to build a stronger consensus between the Royal Government, Cambodian civil society, the national and foreign private sector and external development partners on the priorities for Cambodian development. Engaging in constructive and informed discussion would help to better focus these priorities and improve the likelihood of achieving results from development efforts, delegates said. The representative from the NGO community welcomed the production of the NSDP and the opportunity to engage with Government and donors on these issues of substance.

Donors pledged US\$601 million in support for Cambodia's development efforts, as part of the country's budget and financial plan for 2005. In 2004, the pledge amount was US\$504 million. In addition, Cambodia benefited from US\$82 million in debt relief provided by the International Monetary Fund, given Cambodia's meeting of three key conditions for relief — macroeconomic stability, poverty reduction program, and adopting a public financial management reform agenda.

Development partners agreed to meet with the Government again, in June 2007 in Phnom Penh for the next annual meeting between the Government and its development partners.

For more on the Consultative Group on Cambodia, please see: www.cdc-crdb.gov.kh or www.worldbank.org/kh

The Consultative Group meeting, hosted by the Government of Cambodia in Phnom Penh on March 2-3 2006 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, Canada, Denmark, Finland, France, Germany, Japan, Republic of Korea, New Zealand, Sweden, United Kingdom, United States; Observer countries included India, Poland, Russian Federation, Singapore, Thailand, and Vietnam; organizations included 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, Silaka, and World Vision Cambodia attended the meeting, as did private sector representatives from the Law, Taxation, and Governance Working Group.
