

FIRST CAMBODIA DEVELOPMENT COOPERATION FORUM
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Opening Statement by Lead Development Partner Coordinator, Ian C. Porter
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Samdech Prime Minister Hun Sen; Excellency Senior Minister of Economy and Finance, Keat Chhon; Excellencies, ladies and gentlemen:

It is a great honor for me to provide these opening remarks on behalf of Cambodia's development partners at the First Cambodia Development Cooperation Forum. We congratulate the Royal Government on its leadership of the forum and its efficient management of the arrangements for the meeting. We are also very grateful to Prime Minister Hun Sen for taking the time from his schedule to be with us here this morning. As always, we look forward to a frank and open exchange of views on the progress made in implementing the *National Strategic Development Plan, 2006-2010*, including the 2006 Joint Monitoring Indicators, over the past fifteen months.

Looking back at what has been achieved since we last met, there has been notable progress in the economic and social arenas, and some progress in governance reforms. However, there remain important, and in some cases growing, challenges in each of these areas. In this opening statement I will focus on both key accomplishments and the key challenges in each of these broad areas, and suggest some priorities for improving the way we development partners deliver support to Cambodia.

Economic Progress and Challenges

As H.E. Senior Minister Keat Chhon has noted, Cambodia's economic performance continued to be exceptional in 2006 with real GDP growth of about 10.8 percent, following an unprecedented growth rate of 13.5 percent in 2005. Since the early 1990s Cambodia has enjoyed over a decade of high average economic growth—8.4 percent from 1994-2006—which drove significant poverty reduction: 35 percent of Cambodians lived below the poverty line in 2004, down from an estimated 47 percent a decade earlier.

At the same time, the Government will need to carefully monitor inequality, which increased over the last decade, due mainly to widening inequality within rural areas. On the basis of the data available, the report *Cambodia: Sharing Growth* (World Bank, 2007) concluded that consumption inequality rose primarily in the early stages of Cambodia's transition to the market (between 1993/4 and 1997), but remained stable between 1997 and 2004. While these developments are not destabilizing, continued challenges lie ahead for ensuring that growth remains widely shared.

The set of first generation reforms that served Cambodia well—by removing the binding constraints to growth and poverty reduction at that time—is now in need of a successor reform program that focuses on building institutions to ensure that Cambodia continues to grow and prosper. As old constraints have been reformed away, new binding constraints have emerged—that is the nature of reform in a dynamic and competitive regional and world economy. A significant portion of growth over the past decade was due to the post-conflict ‘catch up’ phenomenon, which will likely level off over the next few years. As Cambodia confronts stiffer competition from globalization, the high costs of doing business are becoming more tightly binding constraints. As a result of these effects, more reform will be needed to maintain the momentum, and Cambodia will need to diversify its sources of growth to sustain higher growth rates. The potential of the agricultural sector needs to be unlocked by increasing investment in infrastructure, especially roads and energy, and implementing measures that raise productivity by making land tenure more secure.

In **private sector development** the Royal Government has made progress in promoting an enabling environment for Small- and Medium-sized Enterprises and in putting in place new processes and systems, including information technology systems, to facilitate trade. The first Special Economic Zone is operating in Bavet and provides a one-stop service window to expedite transactions. Important next steps are the use of the approved single administrative document and the operationalization of the risk management unit in the Customs and Excise Department, important JMIs carried over for 2007. Cambodia's

partners also look forward to the adoption of the laws on concessions and customs by the National Assembly over the next few months.

In **public financial management** there has been unequivocal progress toward establishment of a core institution—a budget system that delivers public funds predictably and efficiently toward the nation’s priorities. The Government has made substantial headway toward achievement of the reform program’s platform 1 objective of a more credible budget. Major reform measures were initiated in January 2007, including: a significant streamlining of budget execution procedures, the introduction of program budgeting in seven ministries, and adoption of a new chart of accounts. These follow a number of on-going reforms in procurement, internal audit, and cash management that are yielding continually greater achievements. The challenges for the next year include completion of platform 1, which requires further streamlining of budget execution procedures and improving budget comprehensiveness. Moreover, with the likely development of an oil sector over the next few years, Cambodia’s partners view endorsement of the Extractive Industries Transparency Initiative as a vital measure to signal to global markets, as well as to Cambodia’s citizens, that the mechanisms are being put in place to manage oil wealth effectively and efficiently.

In **agriculture and natural resources development**, some progress is being made, including most notably the completion of the Strategy on Agriculture and Water, but substantial challenges remain, and a number of the 2006 JMIs will be carried over. While the use of Cambodia’s natural resources to support growth and poverty reduction is essential, a longer view that recognizes the need to manage these resources sustainably for future generations is also essential. This will mean developing modern institutions to improve forest management, protect land rights, and build irrigation systems and roads that maximize agriculture’s potential in an environmentally sustainable way.

Over the past several years, Cambodia’s forest cover declined to slightly below the CMDG target. Even more worryingly, the quality of the remaining forests has deteriorated. Agricultural expansion, illegal logging, and increasing demands for land

have caused the loss of forests, and increased the vulnerability of communities who depend on forest resources. Past forest management policies and institutions have not contributed sufficiently to balanced and sustainable development. Implementation of the Forest Law and the Economic Land Concessions sub-decree has been weak. Development partners welcome the adoption of the Forestry and Environment Action Plan (2007-2010), which provides a framework of prioritized actions and investment opportunities. We encourage the Royal Government to redouble its efforts to continue to demarcate the forest estate (a key JMI for 2007), to approve community forestry agreements, to improve mapping services, and to strengthen forest crime monitoring.

The rapid increase in Economic Land Concessions (ELCs) at both the national and provincial levels over the past year poses perhaps the most acute risk to sound natural resources management. We welcome the progress made on public dissemination of information on ELCs and the commitment to review and cancel ELCs over the legal limit. However, we are very concerned that: (1) provisions for transparent bidding on ELC contracts are being circumvented through a loop hole in the sub-decree that allows for no-bid approvals in “exceptional” cases; and (2) social and environmental impact assessments, though required by the sub-decree, are not being performed. Providing greater dissemination of information on ELCs, including at the provincial level, and actually implementing the provisions of the ELC sub-decree are key 2007 JMIs.

Another important JMI is the adoption of a policy on the registration and use rights of indigenous people’s land and the piloting of interim protective measures to safeguard indigenous community land. Making progress would support the Government’s broader efforts to title land and address the problem of land grabbing, which continues unabated.

In addition to land titling, farmers need access to rural infrastructure to boost productivity and diversify production. Key next steps center on progressive implementation of the Strategy for Agriculture and Water, including the establishment of an appropriate irrigation sector policy. While there is considerable interest in the potential contribution

of irrigation investments to agricultural production, such projects should not be limited to rehabilitation of infrastructure but should also target improvements in irrigation practices.

Social Progress and Challenges: Human Development

Human development is about our most fundamental aspirations as human beings and citizens. Let me touch briefly on the progress made and some of the challenges remaining in this area.

In **health** Cambodia has made good progress in reducing child and infant mortality and improving ante-natal care and delivery services. However, maternal mortality remains high and neonatal mortality reduction is lagging, especially in rural areas. The 2007 JMI focuses on increasing the proportion of deliveries attended by skilled health personnel, particularly midwives, in part by increasing salaries. One cannot help but point out that whether one is talking about health services, or education, or water, the issue of low civil service salaries arises as a binding constraint.

Progress in the **education** sector is one of Cambodia's proudest achievements: enrolment rates are close to target, the number of schools at all levels is increasing, and new curricula are being developed for all grades. Now the focus should shift to reducing the drop out and repetition rates: the percentage of children actually completing primary education in six years is less than 50%, which is well below the CMDG target. While sectoral constraints are relevant, cross cutting constraints in public administration and public financial management also play an important role.

In 2007 the Royal Government has committed to developing and adopting a **rural water supply and sanitation strategy** in order to increase the use of improved sanitation, hygiene, and the drinking water supply, especially in rural areas. This new JMI is highly important as sanitation and hygiene stand out as areas where Cambodia is off track in terms of the CMDGs.

Governance Progress and Challenges

Though the challenge of good governance infuses all the sectors and issues I have already discussed, it also deserves attention in its own right. Cambodia's troubled past has resulted in weak governance and high levels of corruption. As a result, improvements in policy continue to be undermined, resulting in difficulties translating good intentions into good outcomes for Cambodian citizens. In some areas of the good governance agenda there has been some progress. But other areas remain stagnant.

On **legal and judicial reform** development partners congratulate the Royal Government on the enactment of the Civil Procedures Code and the adoption of the Penal Procedures Code by the National Assembly. We hope that this momentum will lead to the prompt adoption of the Civil and Penal Codes. Continued momentum on the drafting of the fundamental laws, including the promotion of consistency between laws, will remain a focus. We would like to suggest giving greater priority to the passage of the Law on Judges and Prosecutors, the Law on the Administration of the Courts, and the amendment of the Supreme Council of Magistracy Law. As part of the legal and judicial reform framework, development partners place highest priority on the passage of the draft Anti-Corruption Law, which has been under development for some time now. We believe dialogue in this area is very important so that the Royal Government can speedily enact an Anti-Corruption Law that would meet international standards.

Public administration reform presents another challenge in our partnership. The state of the civil service is one of the key binding constraints on public sector performance, growth, and poverty reduction in Cambodia. Given the seriousness of the problems afflicting the civil service—low pay, low skills, and poor management—reform is needed, and it is needed more quickly. Unfortunately, the pace of public administration reform does not match the seriousness of the problems caused by the weak civil service. Specifically, the past year has seen little progress on two of the most important JMIs agreed in March 2006—the development of a medium term strategy to enhance remuneration and the expansion of Merit Based Pay Initiatives to the line ministries.

In order to address outstanding issues on the anti-corruption law and public administration reform, we request that an immediate dialogue with Deputy Prime Minister Sok An be established.

The second **Commune Council** elections on April 1, 2007 represented a further important advance for local democracy in Cambodia. While some issues remain, the elections were conducted in an atmosphere marked by less violence, threats, and confrontation than in previous elections. Despite inadequate resources and slow movement in reforming the rest of the sub-national state administration, important steps have been taken to rebuild political legitimacy and primary accountability at the commune level. In the area of **decentralization and deconcentration**, the TWG has been set up and a first meeting was held in May. More regular meetings of the TWG would help partners develop a coordinated program of support in this area.

Development partners would also like to speak to the issue of **gender equality**, highlighting concerns about domestic violence and human trafficking. Domestic violence is still unfortunately a widespread phenomenon in Cambodia; and we look forward to the implementation of the Law on Prevention of Domestic Violence. The other pressing issue is human trafficking. We support the Government's efforts to strengthen the draft Law on the Suppression of Human Trafficking and Sexual Exploitation.

Aid Effectiveness

Next, I will turn to the efforts of development partners to improve the effectiveness with which we deliver support. Cambodia's National Strategic Development Plan (NSDP) provides the strategic framework under which sectoral and sub-national plans are elaborated. The NSDP and corresponding sector strategies should serve as the basis for future three-year rolling investment plans and annual budgets, and for aligning official development assistance to Government priorities. Stronger links between the NSDP, the budget, and the JMIs is welcome so that the policies and programs to implement the NSDP can be put in place.

I would also like to call attention to the *NGO Statement to the 2007 CDCF Meeting*, which is supported by a set of detailed position papers. The NGO statement indicates that, by and large, Government, development partners, and NGOs are all focused on the same set of economic, social, and governance priorities and we look forward to further development of that tripartite partnership.

Lastly, I would like to congratulate the CDC on the production of the *2007 Aid Effectiveness Report*, which identifies a number of important issues that we must focus on to improve the quality of our support. While there has been some progress in meeting Paris Declaration commitments, significant challenges lie ahead for 2007 and beyond. Firstly, partners need to improve the accuracy of their forecasting and the credibility of their commitments. Secondly, partners need to commit to ensuring a better division of labor and reducing fragmentation between and within sectors. Thirdly, partners need to move from delivering resources through projects to channeling resources through sector wide approaches and, as the Government has requested, through budget support. This means, for example, building country systems and organizational capacity instead of using project implementation units. It also means ‘kicking the habit’ of projectized salary supplementation by directing resources into more sustainable and policy based solutions.

Your Excellency, Prime Minister, Samdech Hun Sen; Excellency Senior Minister of Economy and Finance, Keat Chhon; Excellencies, ladies and gentlemen:

I conclude by again congratulating the Royal Government on the First Cambodia Development Cooperation Forum. There is no doubt that much good work has been done. But as some reforms take root, remaining problems, particularly in the area of governance, become even more serious impediments. Now we encourage accelerated progress in those areas that have been lagging. Let us use this forum to discuss how we can all support a reform program that focuses on building institutions to manage Cambodia’s future growth and development. Thank you for your kind attention.