

MITIGATING THE ADVERSE IMPACT OF THE ECONOMIC CRISIS

REMARKS BY LEAD DEVELOPMENT PARTNER FACILITATOR

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for the

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THE GOVERNMENT-DEVELOPMENT PARTNER COORDINATION COMMITTEE (GDCC)

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*Excellency Deputy Prime Minister and Minister of Economy and Finance Keat Chhon,
Excellencies, Ladies and Gentlemen,*

It gives me great pleasure to provide these remarks on behalf of the development partners at the 14th meeting of the GDCC. This meeting provides us all the chance to review the progress against the goals that we set for ourselves at the CDCF in December. This meeting provides us an important opportunity for us to examine what further actions can be taken to mitigate the impact on Cambodia of the global economic crisis. As H.E. Deputy Prime Minister Keat Chhon said, it is no exaggeration to say that how the Government and its partners respond to this crisis will impact on the trajectory for Cambodia's development, and the well-being of Cambodians, for many years to come.

Let me reiterate at the outset, as I have done on many occasions, that Cambodia has achieved remarkable progress in the last decade in terms of rapid economic growth, significant poverty reduction and considerable social development. However, the global economic crisis and its impact on Cambodia are now undermining these hard-won gains. **All countries are moving into a danger zone and given its dependence on external demand and a limited number of sectors, the Cambodian economy is particularly vulnerable.**

As the effects of the crisis filter through the economy, Cambodians already living in poverty are now faced with new hardships while the vulnerable are now at risk of falling back into poverty. For example, the significant gains made in reducing malnutrition over the first half of this decade now appear to be stagnating: some population groups, such as children of poor urban families, are suffering particularly badly. To balance higher food prices with lower incomes, more households are now relying on less nutritious food, buying food on credit, eating less, reducing spending on health, and pulling children out of school. And all these will have significant and in many ways irreversible effects on the earning prospects of not just the current generation of Cambodia people but also the next.

Without decisive and comprehensive actions now, the effects on the economy and on the Cambodia people will be much more severe and the recovery slower. **In a crisis like this, I think that you will all agree that business cannot and must not be as usual.** We therefore support Samdech Prime Minister Hun Sen's calls for close collaboration between the Government and development partners and for taking comprehensive and immediate joint actions to mitigate the impact of this crisis.

We commend the Government for responding to the crisis by loosening monetary policy, engaging with the private sector, and reprioritizing agriculture and infrastructure spending. Dr. Naron has already stated the sectoral policies for the garment sector, social safety nets, agriculture and foreign direct investment in his presentation, and these will be discussed later in the meeting. In these remarks, I will just try to summarise a few issues and questions for all of us.

The Chinese phrase for crisis consists of two characters: danger and opportunity. **In many ways the crisis provides us with an important opportunity.** In responding to the current downturn, the

Government now has an important opportunity to address structural constraints that are holding back broader and more sustainable growth. Dr. Naron talked about the importance of facilitating trade and improving the business environment and governance would help enhance competitiveness and diversify the sources of growth; creating a viable social safety net system would help households to make it through the crisis without resorting to desperate coping strategies that undermine their future economic prospects and that of the country as a whole.

The crisis also provides an added urgency to the need to accelerate legal and institutional reforms. As Dr Naron has indicated, further improvements in public financial management and public administration will help the Government to manage the crisis and later the recovery better. It will also create the space to address issues which were not resolved during the years of extremely rapid growth, and which undermine the prospects for sustainable growth or exacerbate the vulnerabilities of poor people. Cambodia has considerable natural wealth. Greater competition and transparency in the allocation of concessions, improvements in the collection and management of revenue streams from resource extractions, and greater attention to sustainability and local community livelihoods are indeed needed to ensure that the national wealth is managed effectively and transparently for the long-term public good. Similarly, there is a need to improve laws and policies relating to land and housing—and the application of these laws and policies in practice—that will better protect the rights of those who live in disputed areas; and, when there is a genuine public interest case for relocating those living on public land, will be very important for us to ensure that they are treated and compensated fairly.

Earlier this year, the Prime Minister noted that dealing with this crisis requires greater communication, coordination and collaboration across Government and between the Government, development partners and civil society. We therefore support and indeed strongly encourage the Government's efforts to engage with the private sector and civil society to identify effective solutions as the Government has already done on many occasions. ***Development partners would welcome guidance on how the Government plans to monitor changing levels of risks and vulnerability over the coming months; and guidance on how development partners can best support this effort.***

Development partners are responding to the Prime Minister's call to fast track growth-promoting expenditures that involve local labour and services and help smallholder agriculture and food security. A focus should be on key bottlenecks in both Government and development partner systems that might hinder implementation. ***Development partners would welcome information on what the Government plans in terms of next steps in identifying and monitoring priority projects and programs for implementation. How could the technical working groups would help to identify and monitor these priority projects and programs, and how can development partners assist in these efforts?***

Globally, aid budgets are under pressure. In Cambodia, official development assistance is likely to become more important as the economy contracts and investment slows. It is therefore critical that development partners deliver on their commitments so as to ensure that budgeted social spending and enable effective and efficient public expenditure and service delivery. ***Development partners would like to take this opportunity to reaffirm their indicative financing for 2009 and 2010, as reported at the CDCF in December.***

However, it is equally important that quality and coherence does not decline as a result of efforts to increase disbursement: Government and partner plans should continue to focus upon aid effectiveness, and not undermine progress achieved to date on this front. I believe implementation of aid effectiveness priorities identified by technical working groups in early 2009 will assist a successful response to the crisis. To enable the Government to monitor aid flows, aggregate reports of development partners' actual disbursements on a quarterly basis could be a useful indicator. ***Development partners welcome the Government's thoughts on this proposal.***

Development partners also look to the Government to do its part to ensure that sufficient fiscal space is created to allow for additional spending to help cushion the downturn. While the overall budget

deficit could be allowed to rise to around 4¾ percent of GDP in 2009, development partners strongly encourage the Government to avoid falling back in tax administration efforts and eroding an already-low revenue base. Public sector stimulus should therefore be led by higher spending, which will provide more effective support to the economy than softening revenue collection efforts. The focus of spending should be on pro-poor social outlays and safety nets and high-quality infrastructure projects that would strengthen competitiveness, broaden private sector growth and promote sustainable development, as H.E. Deputy Prime Minister Keat Chhon detailed. We look forward to a discussion about specific actions in the four areas identified by the Government.

Your Excellency Deputy Prime Minister Keat Chhon, Excellencies, Ladies and Gentlemen.

As we respond to this global crisis, we must remain focused: **our first and foremost priority must on protecting the poor, the weak and the vulnerable.** We should also view this crisis as an opportunity to build a sustainable future for Cambodia. We hope that these discussions will lead to consensus on the nature of the issues, and to agreements on approach that will help to further strengthen our collective response to the crisis. As I noted earlier, the breadth and depth of the global crisis is significant. It requires a bold and comprehensive response from the Government, which we look forward to discussing and supporting.

On the behalf of the development partners, I thank you for your kind attention and look forward to a productive debate. Thank you.