Second Cambodia Development Cooperation Forum (CDCF)

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Opening Remarks by Lead Development Partner Facilitator [*checked against delivery*]

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Samdech Prime Minister Hun Sen

Excellency, Deputy Prime Minister and Minister of Economy and Finance Keat Chhon

Excellencies, Ladies and Gentlemen:

It is a great pleasure for me to provide these opening remarks on behalf of the Royal Government's development partners at this second Cambodia Development Cooperation Forum. The CDCF is a valuable and important forum as it allows the Government and its partners to engage in a substantive dialogue about national development strategy; the contribution that external assistance can make; and the accountability of both parties to each other, and, most importantly, to the Cambodian people who are the intended recipients and beneficiaries of Government policy and foreign assistance.

The development partners would like to thank the Royal Government of Cambodia, particularly the Council for the Development of Cambodia for organizing the Forum so efficiently. In particular, I would like to acknowledge the openness and strong partnership CDC and his Excellency Chhieng Yanara have extended to the development partners during the preparation for this Forum. We are also delighted to see the high-level representation here. I am most grateful for Samdech Prime Minister presiding over this opening session this morning; and hope that these two days will reward all of us with an open and informed exchange of ideas on the prospects and challenges for the coming year.

As you are all aware, this Forum comes at a critical point in Cambodia's development. The Government that was elected in July has a new mandate, and a new political platform as laid out in the updated Rectangular Strategy. In translating this platform into policies

and public spending, the Government can draw upon the Mid-Term Review of the 2006-2010 National Strategic Development Plan. Using newly available data the Mid-Term Review confirms that progress achieved since 1993 has continued into recent years. The Ministry of Planning will present a summary of this review later today, so I will just pick out a few key headlines.

As you all know, in 2007 Cambodia experienced a fourth successive year of double-digit growth. GDP growth has averaged 9.7 per cent per annum in the past decade and real capita GDP in 2007 was double what it was in 1997. Data from the 2007 Cambodia Socio-Economic Survey show that this growth has resulted in improved living standards: the population living under the national poverty line fell further from 35 per cent in 2004 to 30 per cent in 2007. More rural roads have been built, cutting the time and cost required to reach a market, school or hospital. More people are going to health centres, rather than live with illness because they cannot afford treatment; and school enrolment amongst the poorest households is catching up with that of wealthier groups. It is very clear that rapid growth in the past decade has benefited the vast majority of Cambodians. I think you would all agree that these are very remarkable achievements.

However, since the last CDCF in June 2007, the environment for Cambodia's development has changed very dramatically. Much of this is due to a global financial crisis – as Samdech Prime Minister put it, the fall of the elephants; but some of it is also due to factors internal to Cambodia, as rapid growth and very rapid expansion of domestic credit over the last year have created significant risk of overheating and has worsened inflation. It is very likely that growth in garments, tourism and construction will be considerably lower in 2008 than in 2007. So I think this forum comes at a very critical moment for Cambodia's development.

The agenda for this Forum does a nice job in capturing the various components of the policy response to this changed external environment to Cambodia. Framing this agenda, session one summarizes the conclusions of the Mid-Term Review of the NSDP and the status of Government plans for a Medium-Term Expenditure Framework, or MTEF.

These two presentations introduce a theme that I think you will see runs throughout the next two days: namely, that to direct domestic and foreign resources effectively towards achieving the goals as set out in the NSDP will require a much, much more integrated approach to Government. Translating the NSDP and sector priorities into concrete policies and patterns of public spending will necessitate bringing together the reforms of strategic planning, budget, and aid management — reforms that have so far been very much undertaken in parallel.

To integrate policy and budget processes, and align aid to national priorities using national systems, will require substantial improvements in cross-Government coordination. This will involve close communication and integration between key central agencies and between these core institutions and sector ministries. Specifically, development partners strongly encourage that during the next budget cycle that begins in March 2009, the Government develops an explicit and transparent coordination arrangement so that it will result in an approved overall MTEF for 2010-2012.

The theme for session II today is **macroeconomic management**: promoting high and inclusive economic growth by controlling inflation, attracting investment, and creating an enabling environment for diversifying the economy. As you will have seen the World Bank has prepared a background report for this Forum, *Sustaining growth in a challenging environment*, that draws lessons from the previous decade in order to identify current challenges and opportunities for the future. Our first conclusion is positive: Cambodia has the potential and the capacity to continue to grow rapidly. But to realize this potential requires deliberate efforts to design and implement a growth strategy. I would like to highlight three elements that Samdech Prime Minister Hun Sen stressed yesterday at the PFM reform launch and which will be important for this growth strategy:

- First, the Government could look to ways to **deepen Cambodia's regional integration**. As growth — and demand for Cambodia's exports — slows in north America and Europe, Cambodia should look to neighboring markets in Asia, where at this point it seems fair to say that the contraction may be less pronounced and less

protracted than elsewhere in the world. This will require further efforts to facilitate trade and investment.

- Second, there is, as Samdech Prime Minister mentioned yesterday, a continuing need to **strengthen the institutional framework for managing Cambodia's natural resource base** in a sustainable, transparent and efficient manner. This applies to existing resources, such as forests, fish and land; but also applies to the extractive industries that are likely to become increasingly significant in the coming years. It is very important that these resources are managed well in the best national interest.
- Last, again as emphasized by Samdech Prime Minister, Cambodia needs to invest in the future by **mobilizing more savings and directing public spending** to infrastructure, agricultural and skills. But higher spending alone will not be sufficient: I think the *quality* of spending will be as critical in determining whether Cambodia can develop new engines of growth.

A specific Government objective, and the subject of session three, is to promote **higher productivity and greater diversification in agriculture**. In the long term, Cambodia will have to create jobs in manufacturing and services that provide more value-added and higher incomes than agriculture. In the medium term, agriculture will continue to be the basis of the livelihood of the majority of Cambodians, especially the poor. Cambodia has considerable potential in increasing agricultural output and exports. Realizing this potential, however, will require effective coordination of a complex set of public sector actions in irrigation, agricultural research and extension, access to finance, quality of inputs, and improvements in storage, transportation and marketing.

Growth alone, though, will not be sufficient to reach the Cambodia Millennium Development Goals. A **social safety net** will be much needed to protect the poor and the vulnerable. This will be the subject of session four. In Cambodia, as anywhere in the world, households face common risks, such as harvest failure or a serious illness, which can erode their consumption, destroy assets and affect their productivity. This underlying vulnerability is exacerbated when, as now, the country faces macroeconomic shocks. Engaging with the global economy is essential for long-term growth for Cambodia; but

such engagement does also expose Cambodia to shocks such as occurred today, and such as will inevitably occur in the future. Anticipating and preparing for such shocks will help to reduce their impact and accelerate recovery afterwards. Part of that preparation involves putting in place an effective and affordable social safety net.

The NSDP and the Government's Rectangular Strategy Phase II both recognize the need for a social safety net system, the building blocks of which are emerging in sector-specific programs, in health and education, and in efforts to roll out a standardized system for identifying poor households for targeting purposes. But these initiatives are still largely a set of sector-specific schemes, with limited coverage and financing. We look forward to discussing how to make these efforts much more effective by bringing the various elements together in a unified system.

Achieving all these goals — in macroeconomic management, agricultural development and social protection, particularly under the very challenging external environment — will require **strengthening the capacity of public sector institutions**. Sessions five and six address public administration reform at both the central and sub-national levels respectively. I would like to note that while improvements in public sector skills and the assignment of functions between institutions will certainly help to build capacity, substantial improvements ultimately will require greater public sector accountability. To date, Cambodia has relied on creative solutions that improved institutional arrangements and governance for specific sectors, for example in garments: improving governance in these sectors has had a major impact on economic growth, and thus on poverty.

But international experience also suggests that economic management becomes increasingly challenging as a country develops. If Cambodia were to follow the path from low-income to middle-income status, high rates of growth and improvements in infrastructure and human development, as experienced in the last decade, need to be sustained over several decades. To manage this transformation, the Cambodian state will need to develop institutional capacity to learn, to anticipate and to respond to opportunities as well as threats over both the short and long term. To do this well

Cambodia will need a professional, appropriately-paid and well-managed civil service, and systems for raising and allocating public finances that can direct Government spending effectively to national development priorities, as emphasized by Samdech Prime Minister.

This in turn will require a credible level of institutional accountability and responsiveness to the needs of citizens and businesses. In other words, it will require a basic social contract: a minimum level of trust between Government, citizens and businesses, based on a common understanding that public policy and public money will be managed in the national interest; and that deviations from that behavior will be viewed by all as exceptions to be punished, not as norms to be tolerated. I think this point was made very clearly by Samdech Prime Minister yesterday in his speech.

In this context, we welcome progress made in finalizing the anti-corruption law. Of course such a law is clearly not a magic bullet: as we all know, implementation will be critical. However, passing the law will be an important signal, providing investors and development partners with the confidence to make more long-term commitments in Cambodia.

In the increasingly challenging environment for growth and poverty reduction, it is also important that Cambodia receives external assistance of a quantity and a quality that can help it navigate the new risks and to seize the opportunities that it faces. **Aid effectiveness** — the subject of session seven — has improved considerably since the start of the decade, as his Excellency Keat Chhon noted. Institutions and processes are now in place to promote greater harmonization and alignment of aid to the Government's development strategy. But we agree with the conclusion in this year's Aid Effectiveness Report that much remains to be done. The discussion tomorrow will allow us to review gains in improving aid effectiveness, remaining challenges, and the ways in which progress might be accelerated.

The final session of the Forum will turn to the **Joint Monitoring Indicators**. These play a key role in incorporating principles of results-based monitoring and mutual accountability into our development partnership. As we endorse the JMIs for 2009, we can reflect on the overall quality of the indicators we have as well as the process of agreeing and monitoring the JMIs within the technical working groups. On this, we very much welcome the NGO Statement to this Forum, and the position papers that provide useful analysis of progress and challenges, and recommendations for Government and development partners. We look forward to discussing the issues raised, both within the TWGs and, in the case of more strategic issues, at the next GDCC; and we look forward to further strengthening the relationships and partnerships between Government, development partners, civil society and the private sector.

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This Forum comes at a time of significant achievements but also of greater uncertainty and complex challenges. Looking back to 2007 and the last decade, I would like to congratulate the Government on a fourth year of double-digit growth and a further significant fall in poverty. But events over the last year strongly suggest that growth will now slow and that Cambodia will now need to undertake broader and deeper changes to protect what has been gained but also to strengthen the foundation for long-term growth. Cambodia faces complex challenges: in taming inflation, fostering broader-based growth, raising agricultural productivity and establishing a coherent safety net system. Cutting across all these challenges is the need to integrate separate institutions and processes for planning, budgeting and aid management, and the need to strengthen transparency and accountability in the management of Cambodia's public finances and natural resources. The development partners are very committed to sustain the quantity, and to improve the quality, of our assistance. On their behalf, I would like to thank you for your attention; and look forward to a focused discussion on how we can best work together to secure the

investments and to build the institutions that Cambodia needs to navigate the challenges and to seize the opportunities of 2009 and beyond.

The remarkable progress that Cambodia has made over the last decade is a clear indication of the enormous capacity of the Cambodian people. The complex challenges ahead notwithstanding, I have no doubt that with strong leadership and commitment of the Government, together with the support from its development partners and all stakeholders, Cambodia should do better and Cambodia can do better.

Thank you very much.