



**Cambodia Development Cooperation Forum (CDCF)  
Phnom Penh, Cambodia, 4-5 December 2008**

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Minister of Economy and Finance  
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Chairman, CDCF  
Royal Government of Cambodia

**Summary of Discussion**

- Colleagues from the Government
  - Honorable Ambassadors, Distinguished Representatives of Development Partners
  - Ladies and Gentlemen
1. We have had a particularly productive discussion over the last two days. To summarise such a rich and wide-ranging discussion is no easy task but, if you will allow me, I would like to make a summary of the main conclusions of our meeting and to begin to chart our next steps based on the Forum's theme of "Implementing the Rectangular Strategy for Growth, Employment, Equity and Efficiency – Phase II".
  2. Before beginning this summary I would like to express my gratitude to **Samdech Akka Moha Sena Padei Techo HUN SEN, Prime Minister of the Kingdom of Cambodia**, who provided us with a keynote address to guide our discussions, and to all of you who have contributed in so many ways to ensuring that our dialogue has been constructive and productive.
  3. In his keynote address, **Samdech Prime Minister Hun Sen** focused on the need to consolidate and accelerate the achievements of the first phase of the Rectangular Strategy. He emphasised the need to build partnerships – across Government, with the private sector, with civil society and with development partners – to meet Cambodia's development challenges. **Samdech Prime Minister** emphasised that a "culture of peace, security, social safety, democracy in Cambodia" laid the foundation for creating the conditions for growth and improvements in social welfare. This has been an important factor in the reduction of poverty levels from 47% on 1994, to 35% in 2004, and a further reduction to 30% in 2007. Continued progress would be dependent on further improvements in the agricultural sector and the continuation of the Royal Government's ambitious infrastructure investment programme.
  4. **Samdech Prime Minister** also made it very clear that he sees "good governance as a prerequisite to ensure sustainable development, equity, and social justice" and that the Royal Government is "well aware that the Anti-Corruption Law is an indispensable legal instrument to fight corruption effectively. In this context, the Royal Government is strongly committed to ensure rapid conclusion and adoption of this law" but "even in the absence of the Anti-Corruption Law, the Royal Government has vigorously combated corruption". Measures taken by the Government in land management, the protection of natural resources and the people dependent on these resources for their livelihoods have been established but need to be consolidated and extended. Reforms in the legal sector would continue in line with the Rectangular Strategy – Phase II commitments, together with

continued reforms in Public Administration Reform, Decentralisation and Deconcentration, and Public Financial Management.

5. Efforts during the Fourth Legislature would therefore be concentrated on maintaining the momentum in improving public service delivery, strengthening governance, enhancing the public infrastructure as well as managing any adverse effects of the global financial crisis. The "ten imbalances", referred to by **Samdech Prime Minister**, require our attention and efforts in order for them to be resolved and our challenge is to meet the demand for improved services, stronger resource management and accountability. **Samdech Prime Minister** concluded his remarks by acknowledging that partnership was an important precondition for tackling each of the economic and social challenges that we face. His observation that "Working together, building up confidence and mutual understanding are the determining factors to achieve the objectives of the Rectangular Strategy-Phase II" concisely established the context for conducting the remainder of our meeting.

Excellencies, Ladies and Gentlemen

6. Many of these issues were also addressed by Mr **Qimiao Fan**, Country Manager of the World Bank, in his opening remarks on behalf of development partners. Mr Fan noted that this second CDCF came at a critical point in Cambodia's development. He congratulated the Government on a fourth year of double-digit growth and a further significant fall in poverty. But in today's challenging environment, he observed that the Government will need to undertake broad and deep changes to protect what has been gained and to sustain rapid growth. Cambodia faces complex challenges: in taming inflation, fostering broad-based growth, raising agricultural productivity and establishing a coherent safety net system. Cutting across all these challenges are 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. Finally, it was encouraging to note his assurance that development partners are committed to sustain the quantity, and improve the quality, of the support they provide to the Government for achievement of the National Strategic Development Plan and the Cambodia Millennium Development Goals.
7. Our second CDCF has provided us with an opportunity for dialogue at the highest level and I believe this opportunity has been used most effectively. The Royal Government has demonstrated its commitment at the highest political level to implementing the Rectangular Strategy, to moving forward with its ambitious reform agenda, and to mobilising domestic and external resources in an efficient and effective manner. Our international development partners as well as our counterparts from civil society have also contributed to our dialogue in each our sessions and I am grateful to all participants for their constructive engagement and insightful comments.
8. It is therefore useful to reflect on what we have achieved over the last two days. There have been many areas of agreement and consensus, which has been encouraging, but also areas where the importance of continued policy dialogue has become evident to us all. I believe this demonstrates that we are focusing on achieving results as well as maintaining the principle of mutual accountability in our partnership.
9. Our second CDCF meeting was pre-faced by the formal launch of the second platform of Public Financial Management reform on 3<sup>rd</sup> December. The central importance of this reform was made very clear in many of our sessions: it relates to the financing and sustainability of NSDP and sectoral priorities; for managing the fallout from the global economic downturn; to ensuring that there is sufficient fiscal flexibility to ensure food

security and longer-term rural development; and to adequately resourcing our ambitious and multi-sectoral reform programme. As Finance Minister, ladies and gentlemen, please allow me to assure you that the success in implementing the PFM reform to date provides a strong foundation on which to build and, together with my colleagues in the Royal Government, we will ensure that the second platform is a success across the whole of government, as instructed by **Samdech Prime Minister**.

10. Our first session yesterday, December 4<sup>th</sup>, focused on the NSDP and its associated financing framework. This provided an excellent vantage point from which we could together overview the progress made towards achieving our national goals, as well as to re-assert our resolve to maintaining these efforts and to addressing new challenges. We heard that strong growth has delivered benefits in terms of increased incomes as well improving social indicators. And continued strengthening of the planning and budgeting function at central and sectoral levels, together with effective macroeconomic management, will help us maintain that momentum by ensuring prioritised spending and providing a basis for improved monitoring of outcomes. Our main challenge, compounded by the deteriorating global environment, is to diversify the economic base, enhance productivity and job creation, especially in the agricultural and rural sectors, and to mitigate the adverse effects amongst the poorest members of our society. Maintaining growth, and ensuring its benefits are widely shared, perhaps summarises very well the nature of our current challenge. Improved integration of strategic planning, budgeting and aid management processes are central to this challenge and we agreed that the three responsible Technical Working Groups – Public Financial Management, Planning and Poverty Reduction, and Partnership and Harmonisation – would work together to strengthen and integrate planning, budget and MTEF processes as well as their link to Budget Strategic Plans. For development partners, it becomes imperative that current levels of support are consolidated and increased, especially for rural development, if Cambodia is to adequately rise to these challenges.
11. Our discussion continued by looking more closely at macroeconomic developments, and we heard from officials at the Ministry of Economy and Finance as well as from the IMF Representative. Growth of ten and one-quarter per cent in 2007 is evidence of an excellent performance, but the warning signs are already clear as we expect growth to slow in 2008 – to between six-and-a-half and seven percent - and 2009, although it will remain relatively robust by regional and global standards. It was agreed that this is not a time to delay reform, rather it should remind us that we cannot waver from the path we have elected to follow in recent years. A range of macroeconomic and financial sector measures have therefore already been taken, including to: double the reserve requirement on foreign currency and to increase banks' minimum capital requirement; enhance revenue collection measures; to increase expenditure on social protection, including fuel subsidies; to maintain investments in rural infrastructure; and, to provide some fiscal relief in the garment and agricultural sectors. Further measures are available to the government and continued monitoring of the economic environment will ensure that we respond with resolve to protect our hard-won gains in increasing incomes and reducing poverty. I must emphasise that, in this increasingly complex environment, the maintenance of fiscal discipline and prudent economic management, is essential, both to maintain growth as well as to control inflation. The need to further improve transparency in the management of public finances and in natural resources was discussed. We noted that Platform II of the Public Financial Management reform addresses revenue management and improved planning and budgeting processes, while extractive industries, and procedures for managing them, are currently being considered by a Government working group.

12. Drawing together the threads of these first two discussions it was encouraging to see the degree of consensus on maintaining our reform efforts. The importance of strengthening the link between the core reforms and our work at sectoral level was emphasised by both the Ministry of Planning and by the Ministry of Economy and Finance and reflect very well **Samdech Prime Minister's** own view communicated at the start of our meeting that the budget is "the key instrument for implementing the development policy of the Royal Government". It is by strengthening these reforms, and the links between them, that we will be assured of continued macroeconomic stability as well as enhanced coordination of resource allocation for priority NSDP activities. This need for broader and deeper reforms is especially critical given the rapidly deteriorating global financial environment. There is also an important role for development partners in maintaining their support and responding quickly to any emerging needs, including to reinforce the provision of safety nets.
13. Moving to the next of our thematic discussions, we considered actions that are necessary to promote agricultural productivity and diversification as well as related activities to ensure food security over the short and long term. We agreed that the Strategy on Agriculture and Water is perhaps where leadership must be most clearly demonstrated, and Government commitments to finalising all five components and taking this strategy forward were enthusiastically received by participants at this meeting. Beyond the need to ensure continued pro-poor growth, changing patterns of food consumption and demand at home and abroad, as well as changing trends in livelihood behaviour, informs the need for diversification and my colleague from the Ministry of Agriculture, Forestry and Fisheries emphasised technological change, infrastructure and provision of a mix of public and commercial services - including extension, research, credit facilities, post-harvest technologies - as playing a critical role in the response. The importance of cross-sectoral collaboration, especially with regard to land management and rural infrastructure was therefore made very clear, and private sector partnerships were also emphasised.
14. Government and development partners noted that significant progress has been made in reducing overall poverty levels but at the same time recognized that significant parts of population remain vulnerable to various economic and social shocks pushing them to poverty and denying equal opportunities for participating in the economic growth. These risks have been exacerbated by the recent inflationary pressures and global financial crisis. To ensure the establishment and effective use of a social safety net system, which as we heard is an important part of a longer-term growth strategy, there are a range of actions required at multiple levels: from the central government, at sectoral and sub-national levels. We agreed that the first step is to undertake a mapping exercise to determine the nature of existing safety net provision and to identify policy, institutional and capacity gaps for developing a more systematic and integrated social safety net system. To start this process, responsibility for this mapping and scoping exercise is assigned to the Technical Working Group on Food Security and Nutrition, with the understanding that to succeed, both this initial analysis and subsequent safety net development will require the intensive engagement of social sector ministries (for example, health and education).
15. A central theme in meeting the challenges of implementing the NSDP in all priority sectors is in consolidating public administration reform and in strengthening the capacity of the public sector. We are therefore most grateful to my colleague, Deputy Prime Minister **SOK AN**, who shared with us the Royal Government's perspectives on progress made and the future direction of reform. After **Samdech Prime Minister**, in his Opening Remarks to the first CDCF meeting in June 2007, had directed that Government and development partners work together to strengthen the current performance and incentive regimes, it was most pleasing to note the substantial progress that has been achieved. Deputy Prime

Minister **SOK AN** also shared with us the objectives of the New Public Administration Reform programme, which will focus on developing the human and institutional context. A National Seminar is scheduled to be held in January. Both government and development partners noted that this ambitious and wide-ranging reform will continue to face a number of challenges, including with regard to pay reform and performance management, which will be an important part of the human resource and capacity development strategies. During our discussion we were able to reflect on issues of remuneration reform, which we acknowledge is a complex issue, but Deputy Prime Minister **SOK AN** made very clear the Royal Government's position that development partners must align their supplementation schemes with Sub-Decree 29. Complementary reforms will also ensure consistency in strengthening the legislative and judicial arms of Government. Finally, the Government's commitment to passing and implementing the Anti-Corruption Law was discussed and I hope the clear commitment expressed by **Samdech Prime Minister** in his Opening Remarks to our meeting has provided sufficient assurance that rooting out corruption is indeed high on the Government agenda during this second phase of the Rectangular Strategy. As we discussed, focusing on other fundamental laws will also be accorded a high level of priority.

Excellencies, Ladies and Gentlemen

16. We began our discussion today by recognising that an effective response to rural, agricultural and social safety net challenges emphasises the importance of enhanced public sector management at sub-national level. The process of decentralizing service delivery will be a long-term undertaking, and the capacity development challenge is significant, but if we maintain the commitment demonstrated previously I think our discussion highlighted that we can continue to make good progress. Development partners indicated that their principal concerns related to governance arrangements and we heard that these will be clarified during the development of the National Programme for Sub-National Democratic Development 2010-2019, which will consider functional assignments at each level as well as local finance and budget; accountability and oversight; and management and administration. As my colleague from the Ministry of Interior emphasised, "this will not happen overnight", and the continued long-term support from our development partners was acknowledged.
17. In summarizing the discussions related to these two key reform programmes I am sure that each of us would readily acknowledge the complexity and difficulty of change and reform. Change is never easy; it must be nurtured, consolidated and sustained over the long-term. But this process is made less difficult when the overarching vision is clearly articulated, which I believe is the case with the Rectangular Strategy. I therefore hope that our discussions have added further clarity and helped to establish a common understanding on which we can base our future partnership and cooperation.

Excellencies, Ladies and Gentlemen

18. The principles of ownership and partnership are the hallmarks of our CDCF model. I believe that the first day of our discussion emphasised renewed commitment at the highest level. This then allowed our dialogue to turn to the theme of partnership. My colleague **Chhieng Yanara** presented to you a set of clear and concrete recommendations for how we can make our partnership more effective and meet the commitments we made in Accra. Principally the approach that has been set out is to focus more intensively on working together at sector level, and with closer collaboration between the central agencies, to identify priority initiatives that are relevant, have high-level support and are likely to contribute to the realization of our development goals. Many

of the initiatives are closely aligned with the PFM and Public Administration reforms and I therefore welcome this more integrated approach. I was very pleased to receive the development partner response to this innovative and more focused response and I look forward to this sharper and more results-based focus delivering quick results early in 2009. The GDCC meeting will of course provide us with an opportunity to reflect on this important initiative: I need not remind everyone here that working more effectively and efficiently will be an important determinant of our success in responding to the global challenges before us as well as implementing the longer-term goals outlined in the NSDP.

19. During our presentation and discussion on the Joint Monitoring Indicators (JMIs) it was also most pleasing to observe the progress that has been made in establishing an improved understanding of the JMIs purpose and process. The remaining challenges that have been identified appear to me to be mainly of a technical nature so I hope the CDC proposal, in its capacity as national aid coordination focal point, to provide training and support will represent an effective response. Most important, I hope that our subsequent TWG and GDCC dialogue will demonstrate that we are making progress in implementing these critical activities across all priority sectors and thematic areas.
20. The aid effectiveness and partnership discussions brought us to our final session, ladies and gentlemen, in which we reviewed the indicative financing projections for 2009, as well as the medium-term outlook for 2010 and 2011. I believe we have now moved well beyond the old-style formal pledging context, and we now make use of established procedures to collect information that makes a more relevant and timely contribution to our planning and budgeting process. Let me be clear: it is the budget that allows us to plan, finance and operationalise the activities required to implement the NSDP and it is essential if this exercise is to be comprehensive and effective that we have improved information on the intentions of our development partners. It is disingenuous to call for accelerated budgetary reform on the one hand, while not providing adequate information to that process on the other. I therefore believe this shift to more routine, predictable and transparent medium-term projections is a very important evolution in our development partnership and I wish to acknowledge the tremendous progress that has been made. The commitment we all made in Accra to precisely this principle is welcomed by the Royal Government and the usefulness of such an exercise in Cambodia is I hope clear to everyone after all the discussions we have had regarding the centrality of the budget and associated PFM reforms. The Multi-Year Indicative Financing Framework process identified a total resource availability of 951.5 million Dollars in 2009, increasing to approximately 1 billion Dollars once the existing commitments of some partners who were unable to participate in the this projections exercise are taken into account. On behalf of the Royal Government, let me express my profound appreciation for these indications of support.

Excellencies, Ladies and Gentlemen

21. I hope this provides a useful summary of our discussions and I trust that you have found our dialogue to be as fruitful as I have. In my view we have taken several concrete and important steps, both towards accelerating progress where we are clearly of the same mind and, perhaps more important, to brokering a consensus and charting a way forward where we have not always shared a common view. I believe it is a testament to the enduring strength of our partnership that we have been able to have this dialogue. It is also evidence of a growing realisation of the mutual accountability that must exist in any real partnership. In this regard, all of the agreements reached at our meeting over the last two days will be taken forward through our Joint Technical Working Groups and progress will be monitored by the Government-Development Partner Coordination Committee.

22. Before finishing my remarks, I must also express my sincere gratitude to colleagues in Government, in particular to Deputy Prime Minister **SOK AN**, the Senior Ministers and Ministers, and other Government colleagues who made presentations and contributed to our discussions. I must also acknowledge the role of the World Bank which, as in previous years, has facilitated the contribution of development partners both before and during the meeting. Please therefore allow me to pause here and to ask Mr **Qimiao Fan**, Country Manager of the World Bank, to say a few words on behalf of development partners.