

**Appendix
IV**

**DECEMBER 2004
CONSULTATIVE
GROUP MEETING**

Opening Remarks at the Cambodia Consultative Group Meeting

Samdech Hun Sen, Prime Minister

Phnom Penh, 6 December 2004

Your Excellency, Chairperson Excellencies, Distinguished Representatives of Partner Countries and Agencies, Excellencies, Members of the Royal Government of Cambodia

Excellencies, Ladies and Gentlemen

1. On behalf of the Royal Government of Cambodia (RGC) and on my own behalf, I have a great honor and pleasure to welcome you all to this important meeting being held after a gap of nearly two and a half year. A warm welcome to all of you who have come long distances from abroad to be here today.
2. We thank the World Bank for cooperation in making arrangements for the Consultative Group (CG) meeting. As in the past the Royal Government as well as the World Bank and other agencies have prepared and circulated in advance several background papers for discussion. All of you would have no doubt studied them and would have many comments both on them and outside of them. We in Cambodia know that your views expressed here would be straightforward and even if tough would be made in the interests of Cambodia. We are as ever very grateful for and welcome all your advice and support in the past many years.
3. This meeting has special significance as it is being held after the formation of the third successive Royal Government of Cambodia and with the coronation of **Samdech Preah Boromneath NORODOM SIHAMONI** as King of Cambodia, a new chapter has begun in modern Cambodian history. The people of Cambodia are ever beholden to His Majesty **Samdech Preah NORODOM SIHANOUK**, and Her Majesty **Samdech Preah Reach Akkak Mohesei NORODOM MONINEATH SIHANOUK**, who have been instrumental for peace, political stability and democratization of Cambodia and we all pray for their long life.
4. The internationally acknowledged free, fair, peaceful and orderly General Elections held in 2003, the period of somewhat prolonged negotiations for formation of the Royal Government thereafter resulting in the present Government and the recent swift, dignified, peaceful and orderly succession to the throne, have once again demonstrated that Cambodian people have matured in the process of making coherent and orderly decisions through democratic and peaceful means, consultations and compromise.

5. As this meeting will do stocktaking of the past achievements and shortfalls and look at the future goals and prospect, I thought it would be beneficial if I could, at the outset, trace from the Cambodian perspective the major picture relating to the overall progress and achievements during the last five years and define the contours and directions for the future by highlighting the concrete actions required for Cambodia to implement tough reform measures.

6. I agree with the assessment that Cambodia is at the "cross road" in our difficult journey towards sustainable development and poverty reduction. The last decade has seen the prevalence of peace, enhanced internal security and political stability, the consolidation of government institutions, the emergence of democratic establishments, the proliferation of civil society and the affluence of the media. Macroeconomic stability has been achieved, while economic growth was robust. Liberalization has taken a firm root in the economic fabric of the country. Higher levels of investments in garment and tourism industries lead to employment and prosperity. Increased revenues and allocation for physical and economic infrastructure and social or human-development sectors have created favorable conditions for broader distributive growth. Cambodia has relatively achieved social cohesion and has taken steps to address glaring economic and social disparities. Our policies have been home grown and relevant. In short, Cambodia has gradually recovered from 30 years of destructive wars, albeit the legacies of the coup d'état, genocide and internal strife are still vivid in all aspects of the Cambodian society. The social and moral fabric of the society is still fragile.

7. However, we are living in a tough and challenging time. The contours of the regional and world configuration have dramatically changed since the Asian financial crisis. The changing economic landscape in East Asia, the increasing uncertainty caused by terrorist acts across the globe and the increase in oil prices pose a new challenge for Cambodia. On 13 October 2004, Cambodia has officially become a member of the World Trade Organization (WTO). Although Cambodia's trade regime is already very liberal by regional standards, WTO obligations require more reforms to reap the benefits and to bring greater prosperity. Thus, in a time of fierce competition for scarce FDI and ODA resources, the prosperity of our country depends on our ability to implement reforms at all levels. In this context, the biggest challenges for us are to strengthen government institutions and improve governance. I would like to dwell on these in a broad manner.

8. Recognizing the reform imperative, as Head of the RGC, I launched on 16 July 2004 *the Economic Policy Agenda* of the Political Platform of the Royal Government, entitled «*The Rectangular Strategy*». This reform strategy is not only a nice word to please the donor community. We have seen the decline in investment flows to Cambodia and the impacts are already felt by our citizens. At this juncture, we urge those who oppose us, both inside and outside of the country including prominent pseudo-Cambodians, not to try to disturb the hard gained peace and stability to the detriment of the people at large, especially

for petty political reasons, when we implement the necessary reforms. It is clear that we will not be able to overhaul the governance system in the short run, if social and public order is disrupted. The Cambodian people do not want to get back to square one again.

Enhancement of Public Governance and Rule of Law

9. The core of the *Rectangular Strategy* is **good governance** focused at four reform areas: (1) anti-corruption, (2) legal and judicial reform, (3) public administration reform including decentralization and deconcentration, and (4) reform of the armed forces, especially demobilization.

10. A draft of the Anti-Corruption Law was prepared and approved by the Council of Ministers on 20 June 2003 and submitted to the Parliament on 25 June 2003. This draft was returned by the Parliament for a further review. We will further work on this rigorously with all stakeholders, respecting the existing rule of law. While the enactment of the Anti-corruption Law is an important step, developing capacity to rigorously enforce the Law is also equally important. To this end, the RGC has already extended Public Procurement Sub-decree to cover all expenditure categories in all ministries, except the Royal Palace. To combat corruption, we should take rigorous measures such as streamlining bureaucratic procedures, simplifying and modernizing the tax system, eliminating excessive regulations, and motivating public servants in order to reduce the opportunities for corruption. More work is needed to strengthen the National Audit Authority (NAA) and to establish internal audit units in ministries to ensure a greater transparency and accountability.

11. The RGC has adopted in June 2003 the Legal and Judicial Reform Strategy, aimed at improving the protection of fundamental rights and freedoms, modernizing the legislative framework, enhancing the quality of legal processes and related services, strengthening judicial services and institutions. An Action Plan was also prepared the short term plan of action (2004-2006) consists of 33 priorities across the 7 strategic objectives. The medium term of action identifies another 27 priorities to be attained by 2008.

12. We have also restructured the Supreme Council of Magistracy (SCM) by establishing a Secretariat to provide technical support. Since January 2003 the remuneration of judges and prosecutors has been substantially increased. The Royal School of Magistracy and the Lawyer Training Center are now operational with the assistance from France. Work is also underway on the establishment of specialized tribunals to better deal with commercial, juvenile and administrative matters. The draft of the Law on the Statue of Magistrates and the Organic Law on the organization and functioning of the Courts will be submitted to the Parliament in 2005.

13. We are determined to close the darkest chapter of our own history and it is the respect for and search for justice that the Royal Government has sought international

assistance in organizing a special tribunal to prosecute the main perpetrators of heinous crimes during the period of Democratic Kampuchea. While judging the past, we aim to heal the wounds of our common history. It is our desires that judging the past should help Cambodia build a bright future. Therefore, efforts from all concerned are needed to speed up this process. Due to the special characteristic of this task, I am of the view that we should apply different mechanism rather than this CG meeting to further discuss the issue and seek necessary resources for implementation. Nevertheless, I reiterate the Royal Government's position on this matter:

First, the Royal Government of Cambodia will take serious strides to finalize the discussions with the United Nations on budget requirements for the trial by clearly defining the obligations and responsibility of the government and the contribution from our external partner, whereby the United Nations will be responsible for mobilizing assistance from our external partners and the Royal Government will contribute its own share of the budget.

Second, in meeting its budgetary obligations the Royal Government will:

- a) Rationalize its own spending estimates to reflect the real need for the work done;
- b) Clearly determine the government's spending on the trial based on its own budget realities;
- c) To fill the gap of the outstanding un-budgeted amount, the Royal Government will work separately with a number of bilateral donors to mobilize needed resources.

14. The Royal Government has placed a high priority on putting in place basic elements of the legal framework to underpin Cambodia's obligations under the WTO. Moreover, judicial reform is critical to restore investor confidence by enforcement of property rights and contracts. At a more basic level, improved access to justice and judicial services for the poor is essential to tackle feelings of social injustice and vulnerability, improve community confidence on the rule of law and quality of life and reduce poverty. To succeed, it will require colossal administrative capacity and resources. Thus I urge all of you to consider providing substantial technical and financial assistance for this initiative.

15. As part of this strategy to rationalize the civil service, the Council for Administrative Reforms (CAR) carried out six studies to collect factual information and prepare analysis based on which decisions could be made to accelerate pay and employment reforms and to strengthen the management of the Civil Service: (i) improving public services delivery; (ii) benchmarking the labor market; (iii) reviewing operations; (iv) enhancing remuneration to support performance; (v) enhancing employment to support service delivery; and (vi) strengthening the management of the civil service work force.

16. With respect to a wage policy for the civil service, the actions of the Royal Government will be based on two basic principles. First, a balanced approach towards the pay of politicians, civil servants, and military and security forces is considered. Secondly, pay reform must be sustainable over time within the fiscal framework. Thus, the RGC is committed to increasing remuneration by 10 to 15 percent annually. The available resources will be targeted to priority needs through instruments like the Priority Mission Groups program (PMG) and a system of allowances that complement base pay.

17. The Royal Government will continue to implement the policy and programs identified in the White Book of National Defense of the Royal Cambodian Armed Forces, including the distribution of social concession lands to the demobilized landless soldiers who request land for their residences and/or for family farming in conformity with the Sub-decree on Social Concessions.

18. Our strategy identifies four priority areas: (1) enhancement of agricultural sector; (2) private sector growth and employment; (3) continued rehabilitation and construction of physical infrastructure; and (4) capacity building and human resource development.

Making Agriculture a Viable Sector

19. Sustainable economic growth, poverty reduction, and Cambodia's Millennium Development Goals cannot be achieved without a significant improvement in the productivity and diversification of the agriculture sector. Productivity improvements can be derived from well-targeted intervention through «irrigation policy», the introduction of improved seed varieties, agronomic techniques, more diversified crops and community fisheries. To modernize the agriculture sector, the Royal Government will: first, increase the percentage of public investment allocations to agriculture and for rural development, particularly at the provincial and local levels for irrigation facilities, rural roads and other rural infrastructure; second, encourage increased private sector investment in farm and village-level enterprises in key sub-sectors including small-scale commercial, market-oriented aquaculture, crop and livestock production, and agro-enterprises such as processing, post-harvest facilities and mechanization; third, accelerate and stabilize broad-based growth of agricultural output through sustainable development of high-value added products; and fourth, increase local-level expenditures and investments in: (i) extension services focused at increasing the productivity of farmers; (ii) farmer-owned and operated irrigation; (iii) rural enterprises; (iv) enhanced skills and capacity in lending to agricultural and agro-based enterprises; and (v) decentralized public investments and de-concentrated budgeting and services for the agricultural sector.

20. In keeping with our commitments no new forest concessions have been issued. From 1999 to-date, the Royal Government of Cambodia (RGC) has cancelled forest concession licenses of 17 companies covering total forest land area of around 3.5 million hectares in 24

locations. The licenses of 5 forest concessionaires were cancelled during the reviewing process of the Strategic Forest Management Plans (SFMPs). The Royal Government of Cambodia has continued to pursue vigorous crackdowns on illegal logging operations. In the course of performing their duties 7 forest administration officers have been killed and 34 have been injured. Some 1,386 illicit sawmill plants, 653 timber processing machineries have been destroyed, and 332 offenders have been apprehended and prosecuted.

21. The Sub-decree on Community Forestry was enacted in December 2003 to put public forest assets under the stewardship of local communities in the framework of approved management plans and benefit sharing arrangements. The Sub-decree on Social Land Concessions was enacted by the Royal Government in March 2003. Based on the results of pilot projects, the Council of Land Policy in collaboration with various development partners is currently involved in designing a program for Land Allocation for Social and Economic Development (LASED). It is important that this process is implemented in a transparent manner to ensure equity and social justice. We are also determined to address the problems of landlessness and land grabbing. It also shows our serious strides to ensure the protection of human rights and the respect for dignity of our people.

22. The Royal Decree on the establishment of community fisheries and a Sub-decree on the management of community fisheries have been prepared and submitted to the Council of Ministers for approval. Some 360 community-fishery lots have already been established across the country with assistance from development partners. The Fisheries Law has been reviewed by the Council of Ministers and is scheduled to be submitted to the Parliament.

Private sector growth and employment

23. Sustainable future economic growth in Cambodia remains heavily dependent on the ability of the government to diversify the economy and broaden the base for growth. The challenge for Cambodia in the next 10 years is to strengthen governance in order to attract more private investments and ensure competitiveness vis-à-vis neighboring countries so that the country can gain from its potentials in agriculture, agro-industry, labor-intensive industry, processing industry, tourism and in some other production and services.

24. To this end, much more remain to be done to remove impediments to private sector development by focusing on the improvement to the investment climate, including the legal, regulatory and administrative environment. The reform should also allow for improvements in access to key factor inputs, including skilled personnel and competitive access to finance.

25. To support industrial diversification, all relevant ministries should cooperate to remove impediments or constraints to growth and building institutions, so that Cambodia will be able to compete with neighboring countries to attract investors. This shall include:

(i) substantially reduce costs, especially unofficial costs; (ii) reducing policy-based impediments to efficient transactions, particularly in such areas as trade facilitation and business transactions; (iii) rationalizing roles and responsibility of government agencies involved in the control of exportation and importation by introducing single window with flat fee; (iv) implementing customs streamlining programs; (v) introducing process automation; and (vi) reducing entry barriers, such as unnecessary licenses and the high cost of registering business.

26. At the same time, the Royal Government will pursue immediate actions in order to: (i) encourage the development of SMEs; (ii) suppress smuggling; (iii) reduce registration procedures and start-up processes for companies; (iv) facilitate export-import activities by simplifying procedures such as licensing and other letters of permission; (v) establish a national standards institution and laboratories; and (vi) promote vocational/skills training.

27. Trade unions have become the fact of life in Cambodia's business landscape. Improving working conditions and upholding the Labor Law are among the pre-requisite of harmonious relationships between workers and employers. However, negotiations between business owners and the trade unions should be based on realities in Cambodia, rather than on demands that cannot be fulfilled.

28. To create jobs and ensure better working conditions for our workers, the Royal Government in its third mandate will: (i) implement measures which encourage domestic investment and attract foreign direct investment in priority sectors, especially agriculture, agro-industry, labor-intensive industries and tourism; (ii) establish skills training networks for the poor, linked to employment assistance especially for young people and new graduates in response to labor market needs; and (iii) develop a labor statistical system.

Enhanced construction of physical infrastructure

29. The transport networks are instrumental in integrating domestic markets and facilitating Cambodia's integration into the regional and world economies. A high priority of the Royal Government is the rehabilitation and construction of supply systems of electricity and clean water, low-cost communication system, transport networks, including bridges, roads, railroads, seaports, and airports that link all parts of the country, and Cambodia to its neighboring countries and the rest of the world. A significant challenge is to ensure the maintenance of road networks. Therefore, during the third mandate of the Royal Government a high priority will be given to ensure routine and periodic maintenance of the road network.

Technical assistance, capacity building and human resource development

30. Building up the government's capacity and technical expertise is crucial to the success and sustainability of reforms. Regardless of massive investment in technical assistance in the past decade, we still face a lack of necessary skills and weak institutions, and the country's capacity has not yet appeared adequate to meet the challenges of reforms and development. It is clear that governance reform requires all of us to adopt a new approach to technical assistance. Moreover, a clean administration cannot be cheap. We therefore suggest that donors review the practices of past technical assistance and adopt new approach in order to ensure a real transfer of knowledge that will ignite a positive chain reaction throughout the society. Thus, we should build national technical capacity by shifting from traditional technical assistance, which uses great numbers of foreign experts, towards direct support for the Government's national human capacity building and use initiatives.

Promoting Gender Equality

31. Improved equality and equity for women and children is crucial to sustainable development, social justice and poverty alleviation in Cambodia. Investment in and greater attention to women's needs will result in better health and education of future generations, as well as greater economic efficiency and decreased poverty. Therefore, investment in women and children and improvements in women's social, economic and political status are direct investments in the future of Cambodia. Accordingly, our actions are focused on the implementation of the five-year strategic plan, Neary Rattanak (Women are Precious Gems) and the program of "Building Together toward Achieving Gender Equity and Social Development".

Excellencies, Ladies and Gentlemen;

32. The Rectangular Strategy clearly identifies peace, social order, macroeconomic stability, partnership and economic integration to be crucial for Cambodia to implement the whole strategy in order to achieve progress and prosperity. Let me elaborate these four points:

Peace, political stability and social order

33. We will deploy utmost efforts to further strengthen peace, political stability and social order, reflecting the nation's decisive move towards development and prosperity, leaving behind the legacies of wars, genocide and internal strife that have destroyed Cambodia over the past three decades. Therefore, our top priority is to strengthen by all means the fabric of peace in order to promote a «credible image» of Cambodia, build the confidence of investors and tourists in the country and generate favorable conditions for the people's dignified livelihoods that significantly contribute to economic development.

Consolidating macroeconomic stability for rapid growth

34. During its second mandate, the RGC has made significant progress in macroeconomic management, by maintaining macroeconomic stability, strengthening the banking and financial institutions and implementing fiscal reform measures. Cambodia has made impressive strides in re-integrating herself into the international community. Over the last five years, the average annual real GDP growth was 6.8 percent. Monetary developments reflected improved fiscal position. A prudent monetary and fiscal policy pursued by the RGC resulted in low inflation and broadly stable exchange rate. Inflation was kept on average at 1.6 percent per annum during this period. Gross international reserves have remained at a comfortable level.

35. However, the approaching end of the Multi-Fiber Agreement (MFA), starting from January 2005, will adversely affect growth prospect and employment creation. The garment sector, which is the catalyst for Cambodia's growth over the past years, will face tight competition with the phasing out of quota system linked to the MFA agreement. Agriculture is also facing major challenges such as low productivity and unfavorable weather conditions. The slowdown is expected to dampen growth in services and construction, but the impact will be somewhat offset by continued strong growth in tourism. Cautious estimation shows that growth for 2005 would be around 3-4% and it would recover to 6 to 7% only in 2008 and 2009 respectively.

36. All these have put the enhancement of growth momentum high and urgently on the agenda of Cambodia, if we want to reach the MDGs as planned. In response to these daunting challenges, the Royal Government has actively set out measures to enhance the Cambodia's competitiveness through the promotion of good governance, reduction in operation costs particularly the administrative and labor costs, as well as trade facilitation and improvement in investment climate, as indicated above. In this context, I think that ODA plays a major and important role in helping Cambodia to overcome all these challenges. Thus, I do agree with the assessment jointly made by the IMF, World Bank, ADB and other development partners on the needs for a greater inflow of ODA over the short to medium term into the areas that will improve and enhance the base of Cambodia's economic growth, especially agriculture and rural development. Robust investment in these sectors will help to rehabilitate and ensure the sustainability of the driving force of growth and to directly reduce poverty through broadening growth base to the milieu of farmers who represent more than 80 percent of Cambodian population, those who live in rural areas.

37. In spite of the many challenges, the Royal Government has been making steady progress in increasing its revenues collection. Revenues as a percent of revised GDP estimates increased from 8.1 percent in 1998 to 11.5 percent in 2004, although in 2003 we experienced revenue shortfalls, due to the outbreak of SARS and political uncertainty.

Governance should be further strengthened in revenue collection through implementation of measures to prevent leakages, especially by combating smuggling and strengthening customs and tax administration and increase the transparency of contracts.

38. On the expenditure side, the Royal Government has spelt out policies and taken steps to shift priorities by providing adequate funds for spending on social and economic sectors, increase public investment in rural infrastructure and establish responsibility for performance at the level of disbursing units. Budgetary disbursements to four priority action ministries increased to 3.6 percent of GDP.

39. For the Ministry of Health, actual disbursements as a percent of budget allocations for chapters 11 and 13 were 88.1 and 99.9 percent in 2002 and 84.6 percent and 93.5 percent in 2003. In the case of the Ministry of Education, actual disbursements as a percent of budget allocations for chapters 11 and 13 were 87.1 percent and 107.2 percent in 2002 and 95.1 percent and 85.1 percent in 2003.

40. The Royal Government is well aware of the important role of Public Financial Management (PFM) in our thrust for development and poverty reduction. In this sense and since the formation of the government in its third mandate, with the assistance of our development partners, the Royal Government has been actively promoting the sense of ownership and strongly committed to the preparation of PFM reform. Indeed, the program was officially launched yesterday, 05 December 2004. Thus, I see no need for me to elaborate again on this important reform program at this meeting. Nonetheless, I would like to strongly welcome the "Sector Wide Approach - SWAP" that has been agreed to with our development partners to implement the PFM. This will be an ample opportunity for Cambodia to play the role of real owner of development in preparing and implementing our reform programs. Moreover, this will help facilitate the allocation of tasks among development partners and reduce transaction costs involved the administrative costs and excessive coordination workload.

Partnership in development

41. During the third mandate of the Royal Government, an important challenge for both the Government and the development partners is to identify and implement approaches that will improve aid effectiveness in reducing poverty and achieving Cambodia's Millennium Development Goals. In this sense, the Royal Government would like its development partners to align their assistance programs with Cambodia's development priorities and to harmonize their practices based on the principle and guidelines that have been agreed to in various international fora, in particular within the OECD/DAC framework. The Royal Government is convinced that using nationally owned strategies to plan and manage ODA and a greater harmonization of donor practices will not only enhance national ownership of the development activities but will also improve aid

coordination and aid effectiveness. The Royal Government also encourages the development partners to consider planning their country assistance programs within the context of program/sector-based approaches that will not only minimize the multitude of stand alone projects that place a heavy burden on the limited capacity in government institutions but will also bring a sharper focus to ODA supported activities.

42. On 19 November 2004, the Royal Government has adopted the action plan for harmonization program, reflecting the step taken by Cambodia to take lead in facilitating ODA. The Royal Government is strongly looking forward to the encouragement and proactive cooperation provided by all our development partners in support of the implementation of this action plan.

43. Concerning the ownership in the preparation of the development plan for Cambodia, currently at the policy level the Royal Government has introduced the Rectangular Strategy as an economic policy agenda of its political platform. While at the same time, we are continuing to refine and develop the strategy into detailed work plans for implementation of the RGC's political platform. To this end, we will organize a national conference on strengthening governance for poverty reduction and development, scheduled for 14-16 December 2004, with wider participation of the senior officials from the Royal Government, ministries and institutions and provinces and municipalities across the Kingdom of Cambodia. Next step, we will prepare the third Socio-Economic Development Plan (SEDP-III) and National Poverty Reduction Strategy (NPRS) as a consolidated single official document. In order to ensure the consistency within our policies, strategies and development plans the SEDPIII will adopt the CMDGs and the Rectangular Strategy as guiding principles. This initiative will consolidate the key components involving development policies and strategies, as well as the detailed work plans and specific Public Investment Project (PIP), to reach the priority objectives of the set policies and strategies. With the intention to promote harmonization agenda, I also urge all our donor partners to identify possibility of using the sector-wide approach (SWAP) in preparing their development plans and investment programs for Cambodia. In doing so, we will indeed be able to ensure the ownership of the Royal Government on development works and also the participation of all our development partners in helping identify priorities for Cambodia development, and especially ensuring smooth coordinated allocation of resource and fields of intervention among all concerned donors.

44. Touching upon the CMDG, may I draw the attention of all development partners to two vital sectors for Cambodia: (i) Mine clearance, which is considered as the 9th MDG for Cambodia on top of the 8 MDGs adopted for the whole world; and (ii) the fight against HIV/AIDS.

45. The Royal Government of Cambodia has attached great importance to mine clearance for development. Mine clearance is not only a humanitarian action. For

Cambodia, this sector constitutes an integral part of our tremendous efforts in reducing poverty, as clearly stipulated in the Rectangular Strategy. In many provinces, rural development cannot be successful if we fail to include mine clearance activities in the work program. The Royal Government has recently adopted a Sub-decree on the Establishment of Provincial Mine Action Committee in those affected provinces and municipalities with the view to prioritizing mine clearance activities in accordance with development needs at the grass-roots level. We are strongly committed in pursuing reform in this area and we are looking forward to continued assistance from the development partners.

46. AIDS is the single most devastating health hazard in Cambodia. However, the combined efforts of Royal Government's institutions and development partners have begun to show positive results with the prevalence of HIV infection among 15 to 49 years old declining from 3.3 percent in 1998 to 2.6 percent in 2003. Almost 100,000 people have undergone testing and provided counseling services. HIV/AIDS education programs are also being implemented by the private sector for their employees. Overall, in combating HIV/AIDS we have achieved encouraging results and Cambodia is expected to make progress towards achieving this one of the important eight MDG. Indeed, continued generous assistance from the development partners to this sector is the pre-requisite for achieving this objective.

Integration of Cambodia into the region and the world

47. Economic integration and international cooperation constitute the main pillars supporting economic growth in Cambodia. Market access is critical for promoting growth and poverty reduction. Cambodia has launched an aggressive campaign of its integration into international community. Cambodia's membership in ASEAN and the WTO, as well as cooperation within the framework of the Greater Mekong Sub-Region (GMS), the Ayeyawade-Chao Phraya-Mekong Economic Cooperation Strategy (ACMECS) and the Triangular Development provide great opportunity to reform the investment and foreign trade regime by focusing on the liberalization and decentralization of decision making process, reducing the bureaucratic red tapes, removing impediments to investments, implementing reform programs and initiating the modernization of the national economy and upgrade its competitiveness to the regional and international standards.

48. To maximize the gains from international integration, Cambodia will strengthen its institutional capacity to implement cooperative strategies. The Royal Government will continue to liberalize trade and ensure free flow of goods and services both within the country and between Cambodia and other key partners in the region and the world, and particularly implement measures that will improve the competitiveness of Cambodian products.

Meeting the Challenges to Reforms

49. I have very broadly laid before you the many areas we have progressed. Doing is much harder than saying. We more than any one else are acutely aware that there is a long march ahead.

50. Cambodia's past achievements and solid performance serves to highlight the many problems and challenges to overcome in order to push our reform and development agenda. We need to work on further improvements in governance if we are to make more than a dent in poverty. Furthermore, we should instill the sense of ownership of the development process and our achievements among all social strata.

51. Indeed, policy reforms across sectors have constituted the substance of our development thrusts. Yet we also realize that while good policies do matter, their rigorous and consistent implementation remains vital. Coordination and information sharing between and within ministries/institutions should be improved. The challenge to ensure that systems of governance work efficiently to increase access to modern knowledge and technology should also be overcome.

52. Reform is not a just shallow word. Implementing reforms require not only political will, but also considerable human and financial resources. Cultural and political context has to be taken into account. I realize the amplitude of efforts and the challenges that lie ahead of us. This requires that all stakeholders are involved, and not just observe and criticize.

53. To systematically resolve the many challenges before us, we need a merit-based civil service system. We clearly need an efficient government that is responsive to the demands of the rapidly changing international environment as well as a strong and vibrant private sector.

54. The broad picture I have tried to place before you today no doubt shows the vast distances Cambodia has traversed in mere ten years, accelerating significantly in the last four years, to transform itself from a strife-torn, problem-ridden, poor country to one firmly on the path to progress and realization of its true potential. But every step we take shows up new challenges ahead. Nevertheless, we have the horizon firmly in our sights and we will spare no measures to take Cambodia forward for betterment of its people.

55. In closing, let me thank you all for your patience and attention. My intention is to assure you of our unity, sincerity and seriousness of purpose in pursuing progressive policies and measures of our own. The road ahead has become much clearer, but is still long and difficult, and the solidarity of the international community with the aspirations of the Cambodian people continues to be vital.

56. The Royal Government of Cambodia is represented in the CG meeting by an experienced and able senior delegation led by H.E. Keat Chhon. They will be with you and

share with you the details of our programs and all the information required about the various aspects of our socio-economic situation and needs for development assistance. Throughout the meeting, Cambodia will listen, take careful notes of all that you say and give it utmost consideration. *Thank you very much for your kind attention and have a good meeting!*

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CAMBODIA: CONSULTATIVE GROUP MEETING

Phnom Penh, December 6-7, 2004

Opening Statement by Co-Chair, Ian C. Porter

Country Director for Cambodia, World Bank

Your Excellency, Prime Minister, Samdech Hun Sen, my co-chair, Excellency Keat Chhon, Senior Minister of Economy and Finance, Excellencies, Ladies and Gentlemen:

It gives me great pleasure to welcome you on behalf of the World Bank to the seventh meeting of the Consultative Group for Cambodia. May I begin by thanking the Royal Government of Cambodia on behalf of all of us for its generous hospitality and for the excellent arrangements for this meeting. We are particularly grateful to Prime Minister Hun Sen for having taken the time from his very busy schedule to be with us this morning.

We meet after a long interregnum. As the new Government recognizes, this has been costly to Cambodia in terms of lost momentum for its development efforts. At the same time, looking at the positive side, a new government has been formed based on a consensus forged during the prolonged negotiations that preceded its formation. This consensus is reflected in the impressive reform agenda the Prime Minister has outlined for us this morning.

Cambodia is in the midst of multiple transitions. But the Prime Minister's remarks underscore perhaps the one transition that is currently the most relevant to our discussions over the next two days. That is the transition from a society grappling with the aftermath of conflict to one grappling with the challenges of poverty and long term development. This is indeed a big step forward. That we can say with some confidence that Cambodia stands poised to look forward to development instead of being mired in conflict is a remarkable achievement of the people of Cambodia and of the governments they have elected, under the wise guidance of His Majesty the King.

Cambodia is indeed, as the World Bank's brief for this meeting argues, at a crossroads. It is our view Samdech Prime Minister, that your government faces some difficult choices in the weeks and months ahead. If these choices result in a significant improvement in governance, and squarely address the bottlenecks which both the Rectangular Strategy and the World Bank report identify as impeding poverty reduction, then Cambodia stands a very good chance of joining its neighbors in the region who are on the path to sustainable development. This meeting therefore presents a real opportunity to send a powerful signal back to the capitals and headquarters of the countries and

institutions represented here. If Cambodia demonstrates unambiguously that it has chosen the road to improved governance and poverty reduction, then I am sure that members of the Consultative Group will be generous in their financial and technical support for its efforts in the years to come.

The alternative, as the Prime Minister has himself said on another occasion, is not an option. In the absence of governance reforms that remove the constraints to diversification and sustainable growth of Cambodia's economy, the hard won gains of recent years stand at risk. Reforms are needed to reverse the likely deceleration in growth in the coming years, due to the country's heavy dependence on garments exports in a post multi fiber agreement (MFA) world. This implies improving the investment climate to attract investments in new activities. It also implies removing the governance and other impediments to accelerated growth in the agricultural sector.

The Agenda for this Meeting

The development agenda facing Cambodia is large and difficult as will be evident from our discussions over the next two days. Since the Prime Minister will leave us at the coffee break, I will take the liberty of giving you a brief preview to our discussions over the next two days, and the work of the various working groups that have done so much for the preparations for this meeting. The agenda which appropriately takes a leaf from the Rectangular Strategy, not only covers the four key goals set out in the Strategy, but has four substantive sessions.

Session I will appropriately focus on the core governance agenda, which as the Rectangular Strategy recognizes, lies at the heart of the development challenge in Cambodia. There are a number of major issues which are on the table: strengthening accountability and fighting corruption; legal and judicial reform, public administration reform, public financial management, decentralization and deconcentration. The American Ambassador's statement for this session rightly stresses that corruption is a cancer that is deeply threatening to Cambodia's future development. An effective *anti-corruption* strategy must address amongst other things the issue of impunity and lack of transparency. A freedom of information law and greater transparency in everything the government does is as important to the success of anti-corruption as progress on a sound anti-corruption law and actual prosecution of a few landmark cases. New laws and the prosecution of offenders require a functional judicial system. The Royal government's action plan for *legal and judicial reform* is an important step forward, and as the French Ambassador's statement notes, it is important now to ensure that no effort is spared to restore the credibility of Cambodia's judicial institutions.

Mr. Gardner, the UN's Resident Coordinator will remind us later this morning that until there is a serious civil service reform that raises government pay to reward skills and

performance, the low quality of public administration will likely remain the most critical constraint on moving Cambodia's development agenda forward. Civil service reform that aims at improving service delivery will also entail bringing government closer to the people. The German delegation will note the impressive progress made on decentralization since we last met, and the Government indeed needs to be commended for these achievements. The government is now beginning to think through a longer term vision for decentralization and deconcentration and I believe, Samdech Prime Minister that we stand ready to support this work and the further steps that are needed to realize the full potential that strengthened and accountable local governments offer.

Another area of progress is the work undertaken to enhance the accountability and transparency of the national budget. As will be stressed by the IMF Delegation, public financial management is another key cross-cutting policy issue at this time in Cambodia, affecting the Government's ability to achieve virtually any of its objectives. If the system is not reformed, the outlook for poverty reduction will remain bleak we are very excited about what might be achieved in the coming year or two in this area. But to succeed, Samdech Prime Minister, the program will need support at the highest level, as emphasized at yesterday's launch.

Session II will focus on the constraints to accelerating growth and improving rural livelihoods. Here again the principal constraints are governance related: access to land and the effective management of natural resources are the key to unlocking the potential of the agricultural sector. Samdech Prime Minister, we are greatly encouraged, as Mr. Proctor from Australia will note, by your recognition of many of the problems and the leadership you have been providing for change both on the issue of land and the related issue for this session of lowering the current very high cost to the private sector and foreign investors of doing business in Cambodia. As Mr. Bajpai from the ADB will note, the Rectangular Strategy clearly recognizes the private sector's key role and the governance constraints that impede its healthy development.

Session III will address the human and physical capital constraints to development, the remaining two sides of the Rectangle. The principal challenge in terms of human development is to ensure that adequate resources are allocated to services directed at the poor and helps meet Cambodia's Millennium Development Goals for health and education, and that these resources are delivered in a timely manner. A second challenge is to ensure adequate remuneration for service providers. The one clear message coming out from the working groups on these issues are the need for government and donors to pull together to meet these challenges.

As for infrastructure, the Japanese Ambassador's statement for this afternoon's session makes an eloquent case for the centrality of infrastructure to growth and poverty reduction, and indeed to regional integration. Given the severe resource constraints facing

the Government, the central challenge in infrastructure is to remove the governance impediments to attracting and effectively managing privately provided infrastructure, by ensuring a level playing field, by enhancing transparency and reducing the large uncertainties investors face.

Session IV appropriately turns to the role of donors and development agencies. The delegations represented around this table, Samdech Prime Minister, are anxious to be part of the solution to Cambodia's problems. But as the Danish statement for tomorrow morning's session notes, we are also often part of the problem, making "*matters worse by contributing to and exacerbating a culture of corruption and patronage*". Recognizing that we have a problem is half the battle. I want to acknowledge the hard work that has gone on this past year both by donors and government towards alignment and harmonization of donor support for a government owned framework for development cooperation. As the Prime Minister has just mentioned, we are pleased to note that the Government approved and adopted the Harmonization Action Plan on November 19th and that last week on December 2nd, the Government and twelve of its development partners signed the Partnership Principles that commit them to implementation of this Action Plan and improving the way that aid is delivered to Cambodia. I believe that this provides a very good foundation for really changing the nature of our partnership in Cambodia.

Monitoring Indicators and the Agenda Going Forward

When the Consultative Group for Cambodia last met more than two years ago, we established certain indicators to monitor performance. A progress report on whether these indicators have been met has been circulated to all of you. The story is a mixed one. We have seen progress in the procurement area, where both indicators relating to implementation of a sub-decree on procurement were met, although actual implementation has thrown up further issues that must now be addressed. There was also a fair amount of progress on most of the indicators on natural resources management. Progress in the social sectors was mixed, with the specific budgetary goals unmet, but some progress towards those goals, and considerable progress on the HIV/AIDs related agenda. However, the big disappointment was in some crucial areas: legal and judicial reform, and public administration and fiscal management, where the indicators were largely unmet.

I am pleased that government and donors have in advance of this meeting agreed on a set of indicators that this meeting needs to endorse. This is a concrete outcome from the 17 Technical Working Groups which were launched by you, Samdech Prime Minister, at the pre-CG Meeting held on September 10th. These groups have been hard at work since the pre-CG Meeting and are already proving to be a very useful forum for dialogue between the Government and its development partners. We also had a very constructive meeting last week to discuss and agree these joint monitoring indicators with the Government Donor Coordinating Committee (GDCC) which was also launched by you at the pre-CG Meeting

in September. We believe that this Committee can play a very useful role by monitoring progress on the indicators on a quarterly basis to ensure that the agreed program is on track.

The agreed indicators represent an ambitious undertaking. Governance looms large over this entire agenda. What is being attempted here is to strengthen and in some cases build from scratch the systems of accountability of government to the people of Cambodia. This will take time, but we need to start now. The necessary changes will be resisted because they will hurt powerful vested interests. Moreover, to effect change, the government perforce must rely on the very same weak, underpaid bureaucracy and the fragile and often easily corrupted institutions that are the object of reforms.

Part of the challenge you face, Samdech Prime Minister, is where to start when there is so much to fix, and when everything is interconnected and progress in one area depends on progress in another. The government will indeed need to move on a broad front, as implied by the indicators. But demonstrated progress and some quick wins in a few strategic areas can help send a powerful signal that the government is indeed serious. And success in a few areas will help build political support and momentum and increase the confidence of reformers to stay the course.

So, Samdech Prime Minister, as you have recognized this morning, what you are facing is indeed a very difficult challenge. Our ability to help you will depend on whether we can together build a stronger relationship, based on trust and mutual understanding. In some countries governments and their international development partners go through a ritual. Governments pretend to reform and their development partners pretend to support such reforms while everyone pursues their own private agenda. Few people are fooled by this, and very few of them are fooled for long. So we must avoid this. As you know well Samdech Prime Minister, we have been frank in our assessments of the situation. We believe that it is the duty of true friends of Cambodia to say what the government may not always like to hear. It is equally important that government is honest with us and clear about what it can and cannot do and what it expects from us. To the extent that you are able to push the reform agenda within the bounds of realism, we in the donor community will be there to support you both financially and with technical assistance.

Tomorrow we will also be going through the normal process that characterizes these meetings of announcing pledges of financial and technical assistance for Cambodia's development program. The outside world pays a lot of attention to this particular outcome, and of course it is something of great importance to the government in preparing its budget and financial plan for next year. Total bilateral donor support announced tomorrow is expected to remain at a level similar to what was announced at the last CG meeting. However, the multilateral development banks, whose support is performance based, will report a decline in the level of their support to Cambodia on account of the poor

governance performance. But if this performance were to improve, we would be able to provide substantially higher resources in the future.

Looking beyond this year, however, donor support now needs to better reflect the transition that Cambodia is making from a post-conflict state to one geared to long term development and poverty reduction. This implies first, linking the volume and nature of assistance much more closely to the size of the reform effort, and second, to shift the emphasis of development assistance towards diversification of the Cambodian economy, and particularly its rural economy. It also implies moving away from supply driven technical assistance as the Prime Minister has just emphasized in his speech. As the government clarifies further its reform intentions, we intend to work closely with members of the Consultative Group to ensure that the nature and sectoral composition of development assistance responds adequately to Cambodia's changing needs.

Last week on November 30, members of civil society organized the first ever Civil Society Forum in Cambodia. This Forum brought together representatives from more than 200 NGOs and civil society groups in order to make recommendations for the CG Meeting that are contained in the comprehensive NGO statement for this meeting. The meeting was also attended by representatives of the Government and donors. We feel that there is now a strong consensus amongst the Government, donors, private sector and members of the civil society on the nature of the challenges facing Cambodia and on the actions needed to tackle these challenges. This represents a unique opportunity for all of us to unite behind the slogan of the Civil Society Forum *"it is time to transform the promises and commitments into actions with concrete outcomes"*.

In sum, Samdech Prime Minister, you will find in this group a strong commitment to the wellbeing of Cambodia's people and in particular the country's poor people. We are very pleased that your new government has rededicated itself to reducing poverty, making the best effort to meet Cambodia's millennium development goals, and removing the governance constraints to such an effort. As good friends of Cambodia we stand ready to support you and your government in a genuine reform effort.

Thank you all for your attention and I look forward to two days of open, frank and productive discussions.

Source: *World Bank*

CONSULTATIVE GROUP MEETING

SPEAKING NOTES

H.E. Sok An Deputy Prime Minister

Minister in charge of the Office of the Council of Ministers

Permanent Vice Chairmen of Supreme Council for State Reform

December 6, 2004

Samdech Hun Sen, Prime Minister of the Royal Government of Cambodia Royal Highnesses

Excellencies, members of the Royal Government Excellencies, Ladies and Gentlemen,

We all have heard the Prime Minister earlier this morning. The direction the Royal Government set for itself is clear. The issue is how, together, we could work to make this strategy succeed taking into account Cambodia's reality.

The Royal Government enters its mandate fully committed to the cause of peace, development and prosperity for all. Our strategy, our actions in the next four years must set strong and lasting foundations for sustainable development for years to come. During this mandate, the Royal Government will also be a government of reforms. As Samdech Prime Minister has said, reforms are a necessity, there is no choice. The Royal Government will pursue relentlessly Growth, Employment, Equity and Efficiency. It will reform the State in fundamental ways to uphold good governance. Behavior will change, the capacity of institutions and people will be developed and Cambodian resources will be mobilized towards priority needs and duly accounted for.

Reforming the State is a political venture made of a myriad of inter-dependent actions. It is more art than science. It is the art of the possible that is sustainable. Reforming the State is a long arduous process that involves a complex array of activities that must mutually reinforce one another. It is not about doing a few things of drama with early results but of dubious cost benefits. This is particularly true in areas such as the fight against corruption, the reform of the legal and judicial sector and the administrative reform. There is a saying in Cambodia to the effect that the ships come and go but the harbour stays.

The Royal Government approach to State reforms is based on three core principles:

- Securing peace and security necessary conditions to growth and sustainable development
- Strengthening governance thus improving transparency and accountability necessary conditions to due diligence and to sound public finances
- Making public services more transparent and responsive and less bureaucratic to serve the people better

Since the Paris Accords, Cambodia has made important progress. Like most things in human nature, we tend to forget or quickly take for granted what only a few short years before could only be a distant dream. Our pace has steadily accelerated, Peace, stability and security were restored in all parts of the Kingdom. Core institutions of the State were rebuilt, others were strengthened.

Reforms were widened and deepened in every sector: democratization and local governance, public finances, banking, administration, legal and judicial, gender equity, military, land, forestry and fisheries reforms. To name a few. Yet, we are still at the start of long road and our challenges are many. They are well documented even if at times, incorrectly.

Cambodia has also evolved rapidly as a society. It is now eager to assume the ownership and leadership of its future. Indeed, as a country we continue to need assistance from our development partners. But this relationship must change drastically from one of donorship to one of partnership. I am encouraged by recent development. One, in particular, has drawn my attention. At retreat in September 2003, a group of donors (the World Bank, the Asia Development Bank and DFID) adopted principles to guide their actions. One of those principles was "we commit to listening to Government's own development agenda and to base our dialogue on this". These were encouraging words.

During the last mandate, the Royal Government has made important strides on the road to good governance. In March 2001, at the recommendation of the Prime Minister, the Council of Ministers of the Royal Government approved over one hundred governance initiatives as part of the Governance Action Plan. The GAP covered seven areas of activities from the legal and judicial reform to reforming the management of natural resources. Much has been achieved. Yet, progress is always too slow when so much is at stake.

We are now updating the GAP to reflect better current priorities as set out in the Rectangular Strategy. These two documents must be totally coherent as the GAP is at the heart of the Rectangular Strategy. For months now, work has been ongoing to update the GAP. At the last inter- ministerial meeting, a few weeks ago, it was decided to revisit the GAP once more to ensure full coherence with the Rectangular Strategy. Once a draft is

finalized any week now, we will undertake extensive consultations with our development partners.

Excellencies, ladies and gentlemen,

This morning I would like to focus attention on three reforms at the heart of the Rectangular Strategy and the Governance Action Plan: the fight against corruption, the Legal & Judicial Reform and the Administrative Reform. But before I do, please allow me a few words on demining.

As I am just returning back from the Nairobi Summit participated in the First Review Conference of the Convention on the Prohibition of the Use, Stockpiling and Transfer of Antipersonnel Mines and on Their Destruction, Cambodia has declared to the Summit along with other more than hundred States Parties, who has signed the Ottawa Treaty seven years ago, that Cambodia reiterates to renew our unwavering commitment to achieving the goal of a world free of anti-personnel mines, in which there will be zero new victims. We will strengthen our effort to clear mined areas and destroyed all anti-personnel mines. We will assist mine victims and we will vigorously promote the universal acceptance of the Ottawa Convention on Mine Ban Treaty. We pledge to work in partnership, fulfilling our shared responsibility to provide the required human, technical and financial resources.

The fight against corruption.

Shortly, after the formation of the second RGC in 1998, Samdech Prime Minister Hun Sen commissioned, on behalf of the Royal Government a study on corruption. A first in this part of the world. The study led together with other studies and a national seminar, to the first Governance Action Plan, a compendium of over 100 initiatives that directly or indirectly addressed root causes of corruption. In the coming weeks, we will report on progress and submit to consultations a revised plan for the coming years. By itself, this demonstrates the political will of the government to address the issue. There are numerous other examples of the government determination in this regards.

An anti-corruption law was submitted to the National Assembly and the Senate for approval. The draft law is being revised in light of the political platform agreed to among the two partners in the coalition government. The law will be resubmitted to the National Assembly and the Senate as a matter of urgency to complement a package of laws that are required to complete the legal framework for the legal and judicial sectors and to meet WTO obligations.

Speaking of the WTO. If anything, joining the WTO demonstrates the Royal Government determination to curtail corruption in our country and to strengthen the Rule of Law in commerce, trade and investment. On August 20, Samdech Prime Minister

outlined the strategy and an action plan, in essence, to empower the private sector to become the engine of growth.

Cambodia joined the anti-Corruption Action Plan for Asia and the Pacific. We are looking for assistance to fully take advantage of opportunities in this regard. Other examples include the strengthening of audit and inspection functions and the piloting of new mechanisms such as the Citizens Bureau and the development of enforceable codes of ethics.

Two of the reforms identified by the Rectangular Strategy as the heart of the strategy directly contribute to the fight against corruption: the Legal and Judicial Reform to ensure fair enforcement and the Administrative Reform to reduce root causes of corruption. As if needed, this is yet another reasons to accelerate these two reforms.

Our actions against corruption must be coherent. Passing the law, for instance, is one of many necessary conditions to reducing this scourge. We shall also develop capacity to enforce. The Royal Government is looking forward to articulating a strategy and a program to fight corruption pulling together efforts now underway on a broad front from the Administrative Reform to the reform of public finances and sectoral reforms such as the management of natural resources (land, forestry and fisheries).

Many of the actions singled out by ministries and their partners as early priorities of their technical working group (TWG) will prove determinant to the fight: increasing the transparency of public service delivery processes, reducing the current dependence on cash transactions, enhancing the enforcement of laws and regulations... And the list could go on and on.

Specific priorities for 2005 include:

- Seeking the approval of an anti-corruption law that meets international standards
- The establishment of mechanisms to enforce the law
- The prosecution of cases of corruption

The Legal and Judicial Reform.

Cambodia is a society in transition in a post conflict environment. The Khmer Rouge had left nothing standing. After a period of adjustment and stabilization, the Royal Government is now in a position to help Cambodia move on from our difficult past. The Royal Government is committed to accelerating the legal and judicial reform which it has identified clearly as one of the key elements in its political platform.

While progress in this has not met expectations often because issues are highly complex or resources are lacking, significant achievements, which our people should be proud of, were made. They provide the basis on which we can progress significantly in the coming year:

- A clear strategy and action plan are in place to accelerate the reform and mobilize new partnerships.
- Important reforms are underway at the Ministry of Justice and the Ministry of Interior to increase enforcement capacity, the secretariat to the Supreme Council of the Magistracy is being strengthened to reinforce independence and self rule;
- The Royal School of Judges and Prosecutors, the Centre for the Training of Lawyers are operational, and now a school for clerks and other auxiliaries will be established;
- Core laws relating to the management of our society have been passed, others, are being readied such as the Civil and Penal codes and Procedures, the Law on the Organization and Functioning of the Court, the Law on the Status of Judges and Prosecutors and the Amendment to the Law on the Organization and Functioning of the Supreme Council of the Magistracy
- A model court is being piloted in Kandal and court procedures and case management are being streamlined and standardized;
- Institutions such as the Bar Association of Cambodia and legal aid are being strengthened
- A lexicon of legal concepts is being finalized
- Mechanisms to implement the change agenda are in place.

I could go on. I just want to make a point. There has been significant progress made in reforming the legal and judicial sector. It will take time. There are two clear lessons of the past few years. One, as for the administrative reform, the legal and judicial reform takes time. Two, progress is directly proportional to the means deployed.

Together, government, the civil society and international partners, we have narrowed down an extensive wish list to a few priorities for 2005.

- the adoption and implementation of the four codes;
- the adoption of laws and regulations to implement WTO accession;
- the adoption of laws to improve judicial services;
- the strengthening of human and institutional capacity (including the Supreme Council of the Magistracy and the Ministry of Justice);
- the strengthening of legal aid;

- ensuring the sustainability of the Official Gazette;
- finalizing guidelines for law making;
- the publication and dissemination of decisions by the Supreme Court; and
- completing the legal lexicon; and.
- enhancing case management by the courts and Court Administration

These are early priorities but it is not all that will happen. Projects are underway in many ministries to strengthen capacity in the sector. At the Ministry of Justice and at the Ministry of Interior, in particular, significant and critical projects are underway to develop the capacity of law enforcement. I invite you to read attentively the plan and project catalogue.

The workload is heavy and, together, we shall find ways to facilitate matters. This is particularly true for the adoption of the fundamental laws to be adopted by the National Assembly and the Senate in the course of 2005. Requisite funding and resources must be made available on time.

The benchmarks which have been developed by the LJ&R Technical Working Group take us a long way in terms of finalizing the fundamental legal framework for Cambodia and improving the independence of the judiciary.

The Administrative Reform.

Along with the Legislative and Judiciary branches of the State, the Administration must become an effective provider of services and a trusted partner in the development of our country. Our focus shall be on marshaling public investment and improving the quality and delivery of public services. Quality public services are to be provided where and when required. And the Administration need not be the direct provider of that service.

This means that the Administration must transform itself on a very broad front. The way it works or thinks must shift from that of administrators of rules to that of providers of services. The State must be closer to the people, be more transparent and be more responsive to people needs. In short, the State must adopt a client focus much like successful private firms do.

In October 2001, the Royal Government approved the *Strategy to Rationalize the Civil Service* as a pillar to continuing efforts to reform the State. It sets the course of actions based on projected government resources. Priority initiatives relating to pay, employment and service delivery are being implemented with available means and changes made are sustainable. In the case of remuneration, change also respect the need for balance and relativity among institutions of the State.

The National Program for Administrative Reform is being updated to support better ministries and agencies implement their change agenda. Drafts of the NPAR and its annexes have been circulating widely since the National Seminar held this past August. Please refer to it. The NPAR builds on important and sustainable achievements made during the last mandate.

- The composition and distribution of the Civil Service is known and mechanisms are in place to maintain and use the database;
- The legal and regulatory frameworks are in place;
- Systems are in place to control and manage the establishment;
- New pay and classification regimes were introduced and salary were increased by 44% simply by better utilizing the existing wage envelope;
- Innovative tools to enhance performance have been designed and are ready for implementation (the PMGs, targeted allowances...)

These are not "modest progress" as some would have us believe.

We must now build on these achievements with a view to accelerate the reform and achieve early tangible and sustainable results critical to the implementation of the Rectangular Strategy. Early priorities include:

- the establishment of One Window Services to enhance accessibility, responsiveness and transparency of public services;
- the remuneration regime shall be completed to enhance performance, to promote merit and to harmonize practices including the phasing out of salary supplementation;
- the workforce shall be redeployed to meet people needs better;
- improving the management and control of the establishment through further developing the HRMIS and through the streamlining and strengthening of HRM processes;
- ongoing human and institutional capacity shall be developed urgently and efforts shall be coordinated better;
- the further introduction of ICT as a means towards e-governance and improved delivery of public services;
- the rapid but prudent deployment of the PMG program.

There are those who say that the reform should concentrate on two or three initiatives in order to achieve early results. Two points I would like to make: One, we are concentrating on a few priorities -remuneration, employment and capacity -and we do it for a purpose to serve people better; two, the reform has already achieved early successes, they are significant, they are sustainable and we shall build on them. It has done so relying essentially on

Cambodian resources and limited well targeted technical assistance. The Council for Administrative Reform looks forward to work with the PAR Technical Working Group to accelerate the reform, to set implementation modalities, to marshal requisite means and to monitor progress.

Excellencies, ladies and gentlemen,

Reforming the State and, in particular, the fight against corruption, the reform of the legal and judicial sectors and the reform of the Administration are not a matter of choice, but of necessity. For the Rectangular Strategy to be successful these reforms must go also hand in hand with other reforms such as the reform of public finances, decentralization and deconcentration and the many sectoral reforms. For the strategy to be successful, peace, democracy and stability must also be strengthened. A few inefficiencies are a small price to pay compared to the alternatives.

The needs are daunting and the means are scarce. Yet, Cambodia has traveled vast distances in a mere ten years to put itself firmly on the path of progress and the realization of its potential. The road ahead will be challenging and the Royal Government will spare no efforts to accelerate the pace of reforms. The timing, sequencing and resourcing of actions will determine success. Angkor was built stone by stone with a clear vision and determination. Solidarity among development partners will be vital to continuing success.

Thus the importance to urgently review our partnerships arrangements and to develop rapidly the capacity of the State to plan and manage the country's development. Dialogue, trust and understanding will be critical. Reforming the State is a long process with results materializing over many years. It is nice to have good strategies and plans. It is much better to be able to implement them. Otherwise, they remain dreams. This presupposes patience, determination, discipline, and adequate means. Foremost, it presupposes that Cambodians are the maitre d'oeuvre and the reforms are squarely anchored into Cambodia's reality.

In short, we are looking for partnerships that uphold principles of good governance with Cambodia leading the way.

Thank you for your kind attention and may our work be of benefit to the people and to the future of Cambodia.

Source: *World Bank*

CONSENSUS DONOR STATEMENT FOR CAMBODIA CG MEETINGS

“PROMOTING GOOD GOVERNANCE: FIGHTING CORRUPTION AND INCREASING ACCOUNTABILITY”

BY AMBASSADOR OF THE UNITED STATES, CHARLES A. RAY

MONDAY, DECEMBER 6

Distinguished guests, ladies and gentlemen: I welcome this opportunity to summarize donor perspectives on a theme that is central to this Consultative Group (CG) meeting and to the future of Cambodia -- “good governance.”

This first session appropriately embraces several principles that form the foundation of good governance, including legal and judicial reform, human rights, public financial management and public administration reform. We open this session with discussion of two interrelated topics that are equally important--fighting corruption and increasing accountability.

The importance of combating corruption and increasing accountability in Cambodia has been highlighted through recent events, official statements and reports. Notably, the Prime Minister has stated his intent to “declare war” on corruption. Similarly, the Government’s Rectangular Strategy has placed good governance at the heart of its program of reform.

The donor community ranks corruption and accountability as two of the most important issues facing Cambodia. At the pre-CG meetings held in Phnom Penh in September, my Japanese colleague stated that, “fighting corruption is the most important challenge the Cambodian government is facing.” That same speech noted that “corruption not only damages the fabric of society, but also distorts the allocation of economic resources and thus prevents sustained economic growth.”

According to the August 2004 USAID-funded corruption assessment, “ordinary Cambodians are subject to a daunting array of small and medium exaction, some paid virtually on a daily basis.” That same report highlighted the significant loss in legal revenue due to smuggling, bribes and other illegal practices, which possibly totals as much as all donor assistance.

The investment climate assessment sponsored by the World Bank Group and also released in August states: “Most firms acknowledge that payments to public officials are

frequently, mostly or always required to ‘get things done.’” More recently, at the NGO civil society forum that preceded the CG meetings, one presenter remarked that payments made by students to teachers suggest that children as young as six are already being “schooled in the art of corruption and bribery.”

In light of these statements, it is no exaggeration to view corruption as a cancer that threatens this country’s economic, political and social development.

Recent discussions highlight the fact that documentation related to the management of state land -- including economic concessions and forestry -- should be made public. This includes information about contracts, boundary maps and payments made to government departments and officials. Additionally, according to the November 2004 report by the Special Representative of the UN Secretary General for Human Rights, some 20 out of 64 known land concessions exceed the legal limit of 10,000 hectares stipulated in the 2001 land law.

At the same time, public statements by the Special Representative during his recent visit to Cambodia emphasized the importance of transparency, especially in regard to land concessions and contracts. Access to information held by public authorities is a key component of transparent and accountable governance. The assets and financial interests of public officials should be a matter of public record. To this end, there should be an effective freedom of information law and there should be administrative procedures in place to effectively implement it. Accountability is possible only when governments operate and make decisions in an open, transparent fashion.

According to some accounts, not a single case of corruption or embezzlement has ever been prosecuted before a court in Phnom Penh. The obstacles to overcoming corruption and increasing accountability are also reflected in the ongoing discussions seeking to address the alleged diversion of resources from the World Food Program. Since the Prime Minister declared war on corruption and pledged to hold accountable those responsible for this diversion, there have been no arrests, no charges filed and no court cases. Without doubt, the misuse of donor resources undermines the effectiveness of assistance and puts the prospects for future contributions in jeopardy.

Donors want to see accountability, especially when resources they have provided appear to have been diverted for personal gain. There is widespread consensus that defeating corruption is the key challenge facing Cambodia. The donor community is now ready to see government commitments translated into real improvements in governance and real reductions in corruption.

The fundamental question here is the question of political will, and translating political will into action by: (1) holding government officials accountable for their actions;

(2) denying safe haven to corrupt officials and their assets; (3) assigning punishments for corruption offenses that are sufficient to deter potential perpetrators; and (4) promoting transparency and good governance.

The Legal and Judicial Reform Working Group (TWG) has already reached consensus on several important benchmarks related to corruption for 2005:

First, Cambodia should sign and implement the UN Convention Against Corruption.

Second, Cambodia should pass an effective anti-corruption law that is based on international standards, as embodied in the United Nations Convention against Corruption. Even as the law is in the process of being enacted, a strategy needs to be developed to ensure effective implementation and enforcement—implementation and enforcement that complies with the general principles of substantive and procedural law, including the core and internationally recognized principle of the presumption of innocence.

And third and most important, Cambodian authorities should pursue verifiable and successful investigations and prosecutions of corruption cases. Even with the existing legal framework, there should be scope for thoroughly reviewing cases and, where appropriate, bringing them to court.

In this context, judicial reform must be addressed in order to ensure that the judiciary contributes to combating corruption and is not part of the problem. A transparent, effective and independent judiciary that upholds the constitution and laws of Cambodia and is committed to the principles of consistency and fairness must be the objective of legal and judicial reform. A strong, transparent and independent Bar Association can help advance these goals with respect to the judiciary.

Civil society has an important role to play in supporting the process for achieving good governance and judicial reform by promoting high standards for official conduct and by drawing public attention to egregious cases of corruption when they occur. The government is, of course, ultimately accountable to the public of Cambodia—its citizens. For progress to be made on reducing corruption and strengthening transparency and accountability, the citizens of Cambodia need to be given opportunities to engage with the reform process. They need to be given information to ask service providers why standards are not being met, and to ask central government why finances have not reached local levels. Building stronger, constructive relations between civil society and government is a key engine to progress on governance reform.

Thank you once again for this opportunity to speak on behalf of the donor community. As I mentioned earlier, there is widespread consensus about the importance of

accountability and the pervasiveness of corruption and its adverse impact on Cambodia's future growth prospects. We must move beyond simple acknowledgement of the problems to demand concrete, verifiable actions to combat the epidemic of corruption directly.

Source: *World Bank*

Address by Sr. Minister Keat Chhon, Minister of Economy and Finance

At the Consultative Group Meeting On Public Financial Management Reform Program

6- 7 December 2004

Colleagues from the Royal Government of Cambodia,

Distinguished Representatives of the donor community:

1. During 1998-2004, the RGC has made significant progress in macroeconomic management, by maintaining macroeconomic stability, strengthening the banking and financial institutions and implementing fiscal reform measures. Over the last five years, the average annual real GDP growth was 6.8 percent. Inflation was kept on average at 1.6 percent per annum during this period. Gross international reserves have remained at a comfortable level of about 3 months of import. Revenues as a percent of revised GDP increased from 8.1 percent in 1998 to 11.5 percent in 2004, although in 2003 we experienced revenue shortfalls, due to the outbreak of SARS and political uncertainty.
2. On the expenditure side, the Royal Government has spelt out policies and taken steps to shift priorities by providing adequate funds for spending on social and economic sectors, increase public investment in rural infrastructure and establish responsibility for performance at the level of disbursing units. Budgetary disbursements to 8 social ministries increased from 1.79 percent of GDP in 1998 to 3.79 percent of GDP in 2004, an increase of 2 percent of GDP. The specific benchmarks and achievements are submitted to you for information.
3. However, the challenge for us is to ensure robust growth in the next five years to come. We are estimating that the phasing out of the quotas system for export to the US will reduce growth in 2005-06 to around 4%. We are conscious that more need to be done to facilitate trade and reduce business costs. Diversifying the economy, especially increasing agricultural productivity and production is critical for poverty reduction and income generation. Reforming the Public Financial Management (PFM) by focusing on performance and results will be vital for ensuring sustained growth and poverty reduction.
4. To this end, yesterday Samdech Prime Minister launched the Public Financial Management (PFM) reform with the support of our development partners to allow the Ministry of Economy and Finance to take full ownership and responsibility in this important agenda of reform. The most important thing here is that the reform program is constructed with a clear structure and a realistic and action plan, developed stage by stage

with strategies to develop institutional capacity and human resource efficiently including provision of equipment and necessary supplies as well as appropriate technology.

5. This program is long term undertaking which will last up to 2015, being implemented over 4 stages. The first stage will focus on the necessary priorities to ensure that budget is credible, envisaged to last for 15 to 20 months. In this first stage, the Ministry of Economy and Finance must lead the implementation of 33 priority clusters which consist of more than 200 concrete actions. Strengthening of governance and budget disciplines becomes crucial to ensure fiscal and macroeconomic stability which promotes high growth and reduced poverty. This program will provide the basis for accountability by improving budget execution and service delivery to the community.

6. I would like to inform you that since 1995 we have embarked on wide-ranging public financial system. You can legitimately ask why we have to do it again. The answer is that though we have made improvements, we have raised the bar all the time and there are still shortcomings in the system.

First, governance is at the heart of the new PFM reform program.

Second, Cambodia is committed to improve resource mobilization to ensure aggregate fiscal sustainability.

Third, the Government will further rationalize public expenditure policy and management to carry out its National Poverty Reduction Strategy (NPRS).

Fourth, we are undertaking a comprehensive civil service reform-focusing on pay, incentives issues and meritocracy - in order to deliver poverty-reducing services. I believe in market economy. Efficiency and better skills requires better pay. We need your direct support for our reform efforts. I thank those who not only speak, but do something concretely to support our reform efforts.

Source: *World Bank*

Public Financial Management Remarks

**by Robert P. Hagemann (IMF) On Behalf of Development Partners 2004
Consultative Group Meeting**

6 December 2004

I am pleased and honored to deliver, on behalf of your development partners, some brief remarks on public financial management reform. It is an especially welcomed opportunity since it follows on the heels of yesterday's launching of the Royal Government of Cambodia's (RGC) *Public Financial Management Reform Program* (PFM).

As stressed at the pre-CG meeting in September this year, public financial management lies at the core of the government's *Rectangular Strategy* because it is truly the most cross-cutting policy area at this time in Cambodia, affecting the ability of the government to achieve virtually any of its objectives, from macro stability to delivering health services and education, creating a business-friendly environment, reducing rampant corruption, promoting human rights and gender equality, and, ultimately, cutting the rate of abject poverty dramatically, consistent with the MDG target.

Before turning to your development partners' hopes for PFM reform agenda, allow me to say a few words on performance with respect to the PFM benchmarks set at the last CG meeting in 2002.

Performance measured against the benchmarks

The authorities and development partners agreed to judge performance on the basis of some key benchmarks, focused on spending, revenue mobilization, and transparency.

Priority spending

One of these benchmarks was improving priority spending, by both raising its level and accelerating disbursements. During the past few years, commitments to priority spending have indeed been increased, rising from 2.6 percent of GDP in 2001 to 3.3 percent in 2002 and 3.2 percent in 2003, and are projected to rise to 3.8 percent in 2004. But delays in disbursements of Priority Action Programme (PAP) spending continue to be problematic, despite the government's notable efforts to speed them up. In addition, and notwithstanding the efforts of the task force established at the initiative of the RGC in September 2003 to accelerate disbursements to health and education, delays remain extensive, and cashing out the backlog of previous years' commitments has caused unavoidable delays in liquidating PAP spending budgeted for 2004.

Unfortunately, monthly *disbursement* data on salaries and operating expenditures by ministry are difficult to obtain, and it has not been possible to assess whether or not there have been within-year improvements in budgetary execution in these categories. Commendably, however, the MEF has shown its commitment to improving disbursements by deciding recently to expand the coverage of the task force's mandate to all four priority sectors, and to focus also on disbursements of salaries and operating expenditures, in addition to PAP.

Revenue performance

Revenue performance during the period since the June 2002 CG has been mixed. The rising revenue trend that began in 1998 continued through 2002, although performance (11.2 percent of GDP) was somewhat below target.¹² Revenue declined to 10.4 percent of GDP in 2003, however, due largely to poor trade-related revenue performance, caused partly by increased smuggling, adverse effects of the anti-Thai riots of January 2003, the run-up to and aftermath of the July national elections, and a slowdown of non-agricultural growth. Achieving non-tax revenue targets has also been elusive, due in part to the accumulation of arrears and, in some cases, to overly optimistic projections. By contrast, revenue performance at the Tax Department improved throughout the period on a strengthening of administration and on intensified arrears collection efforts. There has been a partial recovery in overall revenue collections in 2004, but it is difficult as yet to know whether the improvement is sustainable or simply a reflection of once-off revenue gains, such as the granting of amnesty for registering previously unregistered vehicles.

Transparency of terms of contracts

Performance has been most disappointing in regard to public-private contracts. Indeed, few if any reforms have been introduced that effectively improve the transparency of public-private contracts. Nor have the government's own regulations been systematically enforced; thus, review and approval by the Ministry of Economy of Finance of unsolicited bids continues to be circumvented more often than not. Most concession contracts still have never been subjected to public scrutiny, the financial terms of most contracts never having been disclosed to the public. Nor have the operations of concessionnaires been assessed by an impartial and independent audit company of international renown. Moreover, new contracts, or extensions of existing ones, continue to be negotiated rather than decided through competitive bidding. Finally the opaqueness surrounding the process of granting land concessions is an especially troubling indicator of lack of progress in this area.

We note, however, that the government has shown a positive response to a draft concessions law that would substantially improve the transparency of contracts, including

unsolicited bids that would be negotiated bilaterally. We look forward to progress in moving this legislation forward rapidly during the period ahead.

The road ahead

There have of course been extenuating circumstances accounting for some of the lack of progress toward achieving the PFM benchmarks set in 2002. Some of these were predictable, such as the 2003 elections, and others were not, such as SARS. To be sure, there will be new “extenuating circumstances” during the period ahead; overcoming some of these will require unusually strong political will.

Your development partners’ hopes, and their financial support, are fully behind the government’s PFM reform strategy. The program is well thought out in terms of priorities, sequences, and identified financial and technical assistance requirements. Every single action will need everyone’s full commitment. The government’s earlier concerns that technical assistance in the PFM area was not always coordinated or was poorly targeted should now dissipate. As well, poor civil service pay should no longer be an obstacle to reform of the PFM system *per se*; a key feature of the PFM reform program is the merit-based pay initiative, aimed at providing good pay and career incentives to officials responsible for moving the PFM reform agenda forward. At the same time, the government will have to be very vigilant to ensure the sustainability—including through much greater revenue mobilization—of its eventual obligation to fully fund its increased wage bill in the future.

The first stage of the PFM reform has a rightly ambitious goal: making the budget a credible instrument of strategic and day-to-day management of public resources. Your partners will be looking for full implementation of the actions programmed for the period leading up to the next CG. Moreover, due to the mixed track record on PFM reform to-date, including lack of progress on the measures specifically identified by development partners at the pre-CG meeting in September as signs of political will, much more serious implementation in 2005 will be required to quell skeptics’ concerns about commitment, and to demonstrate that not only MEF, but the entire government, is fully supportive of these reforms.

All actions in the PFM reform program are needed, but some are clearly more critical than others, either because of their *direct* effect on the quality of public finances, or because of their significance as signs of political will. Development partners will thus be looking especially for: (i) streamlining public expenditure management processes, including actions enabling line ministries to spend approved budget provisions by increased reliance on phased budget releases; (ii) a widening of the scope of mandatory payments to and by the government by check or electronic transfer at all times; (iii) development of meaningful and transparent cash management plans for matching inflows and outflows; (iv) completing

the consolidation of government bank accounts, and implementing fully daily transfer of all collections into the Treasury Single Account; (v) sustained collection of tax arrears in accordance with the agreed schedule, and continued use of collection enforcement measures; (vi) piloting of establishment control arrangements; and (vii) redesigning the budget cycle and institutional arrangements (including roles and responsibilities of key personnel) at the Ministry of Economy and Finance and its agencies, namely the Tax Department, the Customs and Excise Department, and the National Treasury, to secure appropriate lines of command and accountability.

The challenge is great, and expectations are high. Now is the time for implementation.

Source: *World Bank*

**Address by Sr. Minister KEAT CHHON Minister for Economy
and Finance on Private Sector Development**

**At the Consultative Meeting *Palais du Gouvernement, Phnom Penh 6-7
December 2004***

-Honorable Cabinet Members,

-Representatives of Donor Community:

1. In my capacity as Chairman of the Steering Committee on Private Sector Development (PSD), allow me to brief you all on what we have done and will do to promote private sector. To implement the Rectangular Strategy, the Prime Minister established on 26 July 2004, the Steering Committee on Private Sector Development, whose mandate is to ensure: (i) Improved Investment Climate and Private Participation in Infrastructure (PPI); (ii) Trade Facilitation; (iii) Development of Small and Medium Enterprises. I am personally responsible for improving investment climate and PPI, my colleague Senior Minister and Minister of Commerce H.E. Cham Prasidh is responsible for trade facilitation and my colleague Minister for Industry, Mines and Energy, H.E. Suy Sem, is in charge of SMEs.

2. We are aware that sustainable economic growth for the next 10 years remains heavily dependent on our ability of the government to diversify the economy and broaden the base for growth. Moreover, to attract more private investments we must strengthen governance in order to ensure competitiveness so that the country can gain from its potentials in agriculture, agro-industry, labor-intensive industry, processing industry, tourism and in some other production and services, and to maintain a robust growth rate of 6 to 7 percent per year.

3. May I now invite my colleague, H.E. Sok Chenda Secretary General of the CDC, Secretary General of the Government-Private Sector Forum and the Secretary General of the Steering Committee on Private Sector Development to elaborate more on the topics and discuss the related specific issues.

Thank you!

Source: *World Bank.*



ASIAN DEVELOPMENT BANK

Seventh Consultative Group Meeting on Cambodia

6-7 December, 2004

Statement on behalf of development partners on Private Sector Development

On behalf of Cambodia's development partners, I am very pleased to make this statement on private sector development.

I would like to place this subject in context. In order to significantly reduce poverty by 2015, and to make an impact on non-income MDGs, Cambodia must achieve a sustainable growth rate of at least 7 percent.

Growth requires investment, increases in productivity, and better service delivery. With limited revenues, government does not have the finances to make these investments now, or in the proximate future. External assistance is unlikely to increase significantly. In any case, there is no recent example of a country having grown only, or even largely, through external assistance. Thus the only source of sizeable investment is the private sector, both domestic and foreign.

Cambodia's private sector consists largely of small, localized, informal enterprises predominantly in agriculture and agro-industry. By one estimate, the informal sector provides 80 percent of GDP and 95 percent of employment. The small formal sector is dominated by garments and services, especially tourism, with a high degree of foreign ownership and management. Value-addition and productivity across all sectors is low. High transaction costs and limited benefits do not provide an incentive for firms to grow and enter the formal sector. These characteristics do not provide the basis for significant growth. The key issues for private sector development therefore are formalization, diversification and productivity increase.

The importance of private sector development is well recognized and clearly enunciated in the Rectangular Strategy. But declaring that the private sector is the engine of growth is only a beginning. Investors today have a wide range of options. They are practical people who look at what they face on the ground, not what they hear at

investment promotion conferences. If they do not like what they see, they will go elsewhere. It is essential to ensure that what they hear is what they get.

We believe that in Cambodia the following are key to a positive investment climate:

1. Stability in the political, economic and policy regimes.
2. Open and fair competition in a market system with free access to information.
3. A legal and regulatory regime that is predictable, transparent, and consistently and fairly applied to all.
4. Lowest possible transaction costs of doing business, especially reduced corruption.
5. Adequate availability of finance, physical infrastructure and skilled labor.

Only under these conditions will Cambodia get the long-term, broad-based and diversified private investment that is essential for sustainable growth.

Donors welcome the recent progress made in reform. Important recent achievements include entry to the WTO, the reduction of cost and time associated with simplification of company registration and import and export procedures, and the creation of the high-powered Steering Committee for Private Sector Development focusing on reform in three key areas: trade facilitation, SME development and public-private partnership. A program loan for promoting SME development through policy reform has been negotiated with the ADB. A major challenge will be to ensure that key reform measures are actually implemented on a sustained basis.

It is essential to build on this momentum, and to make more rapid progress. There are number of critical measures that can be taken in 2005 that will have an early impact. More importantly, they will build investor confidence that Cambodia is moving effectively from intentions to implementation in private sector development:

1. In trade facilitation, establish a single entry point, or Single Window, that will allow parties involved in trade to fulfill all import or export regulatory and documentary requirements with the submission of a single form.
2. In SME, the SME subcommittee to submit and the Council of Ministers to approve an SME development framework (including a single definition of SMEs to be used by all Government agencies) in coordination and consultation with other line ministries and private sector representatives.

3. In public–private partnership, the revised PPI process articulated in the draft Law on Concessions will be adopted by the Council of Ministers and submitted to the National Assembly during 2005.
4. Pass the Law on Commercial Arbitration and establish at least one recognized arbitration center, with appropriately trained staff and a roster of trained and respected arbitrators.

As Cambodia's development partners, we are committed to supporting the government's efforts in this direction. This commitment should be as concrete as the steps we ask the government to take. We will:

1. Work towards better coordinating our assistance under a common framework and in full collaboration with the government and the private sector.
2. Provide full technical support to the PSD Steering Committee and its sub-committees.
3. Based on visible achievements in reform, promote Cambodia as an investment destination.
4. Where feasible, consider direct support to PSD through products such as equity participation, direct non-sovereign loans, and political risk guarantees.

Cambodia is indeed at a crossroad. Against the 7 percent growth needed to reduce poverty, current projections show that growth in 2005 is likely to be nearer 2 percent and will thereafter gradually return to 6 percent by 2009 only if an extensive reform agenda is undertaken. There is therefore no choice but to move rapidly on reform. The private sector is indeed the engine that will power us on the right road to prosperity. Let us today agree to press hard on the accelerator for that engine.

Source: *World Bank*

Public Administration Reform Remarks on behalf of the Development Partners By UN Resident Coordinator Mr. Douglas Gardner Consultative Group Meeting in

Phnom Penh, 06 December 2004

Excellencies, Ladies and Gentlemen,

I am honored to offer some brief remarks on Public Administration Reform that represent the consolidated views provided by a number of your international partners.

We are pleased to note that public administration reform along with fighting corruption and legal and judicial reform are placed at the heart of the Royal Government's "Rectangular Strategy". Progress in public administration and civil service reform is important for all development issues that we discuss during the CG. It is here in this reform sector that the delivery of public services, so vital for progress on Cambodia's Millennium Development Goals, will be developed to best serve citizens.

Civil servants are the ones that make sure that children are taught, that roads are built and that rich and poor ideally have equal access to all services the State provides. Civil servants are people like you and I, who look to their gainful employment to provide a decent living for themselves and their families. They are the teachers, nurses, extension agents, court clerks, and secretaries that make things happen.

In addition to a decent wage, they seek motivation and job fulfillment. In these noble positions of service providers, there is the potential for that special reward that comes from contributing to the betterment of one's community and country. This is the heart of "public service".

After emerging from decades of conflict and having reestablished peace and security, this possibility of public service is now within Cambodia's grasp. But the reality for many civil servants is different. Some have second jobs and rely on the collection of informal fees to supplement their salaries. Others feel ill equipped to do their job in an unpredictable environment. Furthermore, there are many areas in this country where schools and health centers are not staffed since teachers and nurses prefer to be in city centers where alternative income opportunities are better.

As Cambodia's development partners, we believe that a carefully charted civil service pay and employment reform must be accelerated if the Government's vision of poverty reduction and achieving the MDGs is to become a practical reality for all

Cambodians. The moment is ripe to translate the Government's commitment into visible action with measurable results.

In line with the Government's National Programme for Administrative Reform, appropriately titled "Serving People Better", we highlight three priority issues, the implementation of which should help to improve service delivery:

1. **Ensure civil servants receive a pay, that is broadly competitive, so that the civil service can attract and retain skilled staff.** This is the basis for the development of a professional, responsive and responsible public administration that will serve citizens when and where needed. Given the present fiscal situation and in line with the Medium Term Expenditure Framework, we recommend to target and reward high performing civil servants working in priority areas including health, education and public financial management. This should include an agreement to phase out donor funded salary supplements over time and a plan for redirecting these resources in support of pay reform in high priority sectors. In rationally moving beyond salary supplementation towards a more comprehensive reform of civil service salaries, the onus will also be shared with Cambodia's development partners to ensure harmonization, transparency and comparability of incentive schemes currently under discussion. Ultimately, the Royal Government must, however, assume responsibility for raising sufficient revenue to support competitive pay levels for civil servants. Full and timely release of monthly remunerations can best be ensured by commercial bank transfers or cheque payments.
2. **Ensure that the right people are selected for the right job.** This can be undertaken at the key stages of recruitment, promotion, and transfer - all points when skills are matched with the requirements of the job. This merit-based administration of the workforce goes hand in hand with the introduction of performance evaluation, to ensure that well performing staff are rewarded and weaker staff are either trained or replaced. Human resource management would thus benefit considerably from the development of an establishment control system. In this context, it is worth commending the government's commitment to gender equity in the civil service, especially at the decision making level. This is very important and strongly encouraged.
3. **Ensure that civil servants are equipped and trained to do their jobs well.** As part of its wider human resource policy and management systems, the Government will have to identify development needs of civil servants against specific job profiles and develop a comprehensive approach to capacity development of the civil service workforce. By responding to the sectoral reform programmes already in place capacity development initiatives would ensure that the new skills acquired are actually put to use on the job. Information

Technology represents an exciting tool for training of civil servants as well as an asset for more effective service delivery and for the transparent sharing of information with all citizens. Greater transparency and public availability of basic information, such as the number and level of civil servants by ministry, would help to improve accountability and strengthen management.

These three elements of remuneration, employment reforms and capacity building are mutually reinforcing and should be undertaken simultaneously.

The coming year will be crucial to demonstrate Government has the focus and determination to proceed with public administration and civil service reforms in a coherent and coordinated manner, with the support of Cambodia's development partners. We, the development partners of Cambodia, stand together, committed to support the development of a public administration that provides adequate pay and is based on performance, merit and fairness principles, and dedicated to helping improve the quality of services for the citizens of this great Kingdom.

Thank you.

Source: *World Bank.*

**SPEECH OF H.E. SAR KHENG, DEPUTY PRIME MINISTER
AND CO-MINISTER OF THE MINISTRY OF INTERIOR
ON DECENTRALIZATION AND DECONCENTRATION
"NATIONAL POLICY TO FURTHER STRENGTHEN
DEMOCRACY, PROMOTE DEVELOPMENT AND ALLEVIATE
POVERTY IN CAMBODIA THROUGH INSTITUTIONS OF SUB-NA
TIONAL GOVERNMENT"**

Excellency, Ladies and Gentlemen

The core of the Royal Government of Cambodia's Rectangular Strategy is good governance focused in four reform areas. These are –

- anti-corruption;
- legal and judicial reform;
- public administration reform, including decentralization and deconcentration; and
- reform of the armed forces, especially demobilization.

Successful public administration reform holds the key that will open many doors for reform in the other three sectors.

In this Consultative Group meeting, I would like to refer briefly to that part of public administration reform that involves decentralization and deconcentration.

1 - CAMBODIAN DECENTRALIZATION AND DECONCENTRA TION

During the first mandate and almost half of the second mandate of the Royal Government, all the various sub-national levels of administration - Provinces/Municipalities, Districts/Khans and Communes/Sangkats -were nominated and acted only on behalf of the national government as its agents to carry out its directives, decisions and policies. These administrations were always responsive and accountable upwards to the national government that controlled the delegated functions.

Thus, until early 2002, this was the only authorized type of sub-national administration. Cambodians identified it as "deconcentration" or the more commonly understood term "centralization".

However, in February 2002, Cambodian governance policy changed through the establishment of elected Commune/Sangkat councils. This new policy requires the national government to transfer appropriate functions to these elected councils, and to ensure they have the status, authority, responsibility and resources to decide and manage those functions on behalf of their local communities. These councils have to be responsive and accountable to their local communities. The Royal Government only ensures the legality of their actions and that they do not act against the national interests. The new policy is therefore intended to give autonomy, but not sovereignty, to elected local sub-national institutions. Cambodians identify this new policy as "decentralization".

2 - PARTNERS IN GOOD GOVERNANCE

It is the policy of the Cambodian Royal Government that deconcentration and decentralization must now be implemented more vigorously as complementary and supplementary activities or administrations. Deconcentration and decentralization must now become partners in striving to achieve good governance through public administration reform under the Rectangular Strategy of the Royal Government of Cambodia. In applying this policy, sub-national institutions must be empowered to undertake their functions with effectiveness. The purpose and intention of administrative reform through the new partnership of decentralization and deconcentration is to promote good governance. For this purpose it is essential –

- to strengthen and extend democracy through participation, transparency and accountability at all levels of administration;
- to promote development, focusing on the needs of people and alleviation of poverty.

This new partnership will affect the policies and administrative mechanisms of every Ministry and institution of the Royal Government, including existing and future sub-national institutions and agencies. There must be a renewed orientation of attitude, unity of will, and concerted action to support and implement the partnership vigorously.

3 - BASIC CORNERS

It is necessary to conclude with four points that are basic to this policy and strategy for reform of public administration through decentralization and deconcentration:

First: this policy and strategy requires the continuing support, cooperation and coordinated activity from all Ministries and agencies of the Royal Government, especially those that provide crosscutting services such as finance and planning.

Second: only sub-national institutions that have appropriate status, authority, responsibilities and resources can make an optimal contribution towards improving the quality of life of their residents. It is therefore essential to review all sub-national levels of administration including the Provinces and Municipalities, Districts and Khans, and Communes and Sangkats.

Third: in the process of this reform, all of the interrelated and interdependent components must be brought together in a coherent and unambiguous policy and strategy that involves all governmental and non-governmental organizations as well as institutions, agencies and donors. It is the intention of the Royal Government to accomplish this through the deliberations of a government Committee, which I will describe in a moment.

Fourth: the continued support, cooperation and coordination of donors, all international and national NGOs, institutions and agencies are crucial for the development, implementation and sustenance of this policy and strategy.

Recently, the Royal Government of Cambodia established a government Working Group to develop a strategic framework for decentralization and deconcentration in coordination with the Donor Working Group on Decentralization and Deconcentration.

The government Working Group has begun to address the issues. To expedite this process, the Royal Government of Cambodia has created an Inter-Ministerial Committee of the government Working Group, comprised of Ministers of relevant Ministries, that will deliberate and formulate a draft organic law for the management of Provinces/Municipalities and Districts/Khans. This Committee will start functioning early in 2005 and will welcome all submissions that make a constructive and appropriate contribution to this process.

Finally, on behalf of the Royal Government of Cambodia, I would like to express my sincere thanks to all Cambodian development partners for their valuable support and assistance to the cause of reconstruction and development of Cambodia. Through this consultative meeting I hope to receive further support and assistance from the donor community.

Thank you.

Source: *World Bank*.

Coordinated Intervention on behalf of the Donor Community for the 2004 CG

Donor statement on Decentralization and Deconcentration (D&D), to be presented by the German Government.

Excellency, Ladies and Gentlemen,

Decentralization and Deconcentration, as an approach to encourage good governance and grass root democracy is gaining increasing attention and support within Royal Government of Cambodia (RGC) and the donor community. The Rectangular Strategy recognizes the importance and relevance of D&D for improving public service delivery and achieving the overall development goals of Cambodia.

It is in this regard that we are very supportive of the efforts of the Royal Government of Cambodia and the progress achieved in recent years, in particular:

- In 2002 the commune councils were elected and installed in every Province. This important example of local democracy has now been functioning for over two years. This new democratic institution has needed strengthening and the donor community has been able to support the development of Commune Councils in areas such as training, facilitation, planning and implementation.
- The Commune/Sangkat Fund (CSF) now receives part of the national budget to finance local affairs.

More recent developments which have indicated that the new government is accelerating the rate of reform for Decentralization is indicated by:

- The official approval for public release by the NCSC (National Committee to Support the Communes) of the full report of the First Commune Councils Review. We are impressed by the realistic approach in dealing with progress, challenges and recommendations.
- We have been informed that the Prime Minister has agreed with the elaboration of a strategic framework for D&D which could be supported by the donor community as well as having instructed the MoI with drafting the organic laws on sub-national government.

Excellency, Ladies and Gentlemen,

While praising the government for the progress made so far, we also observe that the reform agenda for decentralization and deconcentration is far from finished and that

there are some areas where further action is needed. The reforms mentioned above will have to address the low levels of participation, transparency and accountability at a provincial level before service delivery can become more effective. Some progress has been made in specific sectors at a district level and the District Integration Workshops (DIW) provides a forum for programming projects, but the prioritizing of a number of line ministries remains weak.

Commune Councils still require considerable strengthening. The CSF needs to receive greater levels of funding from the national budget and there is the need for tighter accountability systems, particularly at the level of the Provincial Treasury. The piloting of commercial bank accounts Commune Councils should be urgently carried out. Planning and budgeting at a sub national level needs revision and procedures simplified.

We urge that the following actions and reforms are prioritized during 2005 to allow the RGC to lead the agenda on D&D reform and enable the donors to align their support in the most effective and streamlined manner:

1. to further continue and accelerate attention and efforts to the fiscal part of decentralization, namely to draft the legal framework on own revenues for the communes as stipulated by the commune law, as there is for the time being a legal vacuum, which is not conducive for strengthening of a culture of a rule of law and accountability;
2. part of the implementing the D&D strategy is the drafting of organic laws on the Management of Provinces & Districts, Municipalities and the Capital. The drafting must be preceded by sufficient internal discussion within government and between stakeholders to clarify the underlying policies and guiding principles;
3. to ensure that the above process is handled in an efficient and effective way, we are very strongly recommending that from the part of government there is one entry point to co-ordinate policy and that the donor community be informed about the lead authority in this area of reform.

With the above short suggestions we wish the Royal Government of Cambodia success with the further progress of Decentralization and Deconcentration. On behalf of the donor community I would like to assure the Royal Government of our continued support in promoting democratic local government.

Source: *World Bank.*

Speech on the topic of “Legal and Judicial Reform and Human Rights” by the Ambassador of France, M. Yvon ROE D’ALBERT

Meeting of the Consultative Group

December 6, 2004

The Royal government has appropriately defined the legal and judiciary reform as a key element of the rectangular strategy, the ambitious programme for the government’s third mandate.

This reform, undertaken with the donors’ active support, is fundamental for the edification of a democratic society, and respectful of human and citizens rights. It is very important for the Cambodian population which legitimately long for a profound improvement of the current judiciary system. It is also essential to build investors’ confidence by ensuring legal security, which is needed for long term investment and it represents a basic condition for your country’s development and its progressive return to balance. The reform is also critical to fill in the legal gap, which seriously undermines your country in a more competitive international environment than ever since your accession to the WTO. Cambodia’s backwardness in this field to date must be regarded as a brake and a burden, soon to be removed to enable you to efficiently fight poverty.

I will not mention the details of this reform, which I already presented during our preparatory meeting on the 10th of September.

Please allow me to simply recall, in a few words, its components, its objectives and its philosophy.

Basically, it was first deemed necessary to rebuild a complete and coherent Cambodian legal framework. This is indeed a considerable and complex task. The basic codes are now almost completed. We expect that the Cambodian authorities will carry out each and every action needed in 2005, and we will support you in these efforts, in order to ensure that these basic texts come into effect together with those required for their implementation. All these texts will be the basis of an appropriate law for Cambodia.

In the long run, it is obvious that human resources formation training is a necessary prerequisite to the rebuilding of the judiciary. There again, a concrete result has been achieved quite quickly two years ago, with the establishment of the Royal School of Magistracy. The establishment of the Center for Training Lawyers and the measures taken for overseeing the legal and judicial reform process have been also positive results. We

welcome too, of course, the recent enactment of the law concerning the Extraordinary Chambers, as an important step forward in a way expected by the international community.

In other areas, there has been little progress, and donors, on behalf of whom I am now speaking, deplore it all the more that some reforms are critical. Indeed these reforms aim to ensure the separation of powers and the independence of the magistracy, through the restructuring of the Supreme Council of Magistracy, the adoption of the statutes of magistrates, and on the other hand to complete the reconstruction of the judiciary, through the long awaited law on the organisation and the functioning of the adjudicate Courts of Cambodia. A significant move forward is urgently needed in order to set up a strong and appropriate judicial system.

Finally, the justice institutions must be given the human, technical and political means to operate in terms of budget and salaries. This requirement has started to be taken in account for the magistrates. An effort has to be made for the Ministry of Justice. I do hope that the 2005 budget will provide for these requirements.

But the core is to spare no effort to restore the credibility of Cambodia's judicial institutions, which has been seriously undermined by corruption, as my American colleague has just mentioned. In a few words, one can say that a strong dynamic motion to tackle corruption is critically required.

Beyond legal and judicial concerns, I would especially like to raise a question that matters to each and every one of us: Human Rights. King Norodom Sihamoni himself decided to emphasise the importance attached to this matter on the occasion of his first speech to the Nation. In this respect, the situation in Cambodia is contrasted.

Great progress has been achieved over recent years thanks to the action of your Government: namely the organisation of free and fair elections in close co-operation and under the control of the International community, great freedom of the press, including foreign press; freedom of worship; the exceptional latitude in many regards let to the numerous non governmental organisations, domestic or foreign, which intervene in most various fields. However, donors encourage the Government to take further steps in the fight against the scourge of human trafficking, especially trafficking of women and children. We should also mentioned the land concessions issue and the respect of the rights of the village communities. Donors welcomed the Prime Minister's recent undertaking at the National Land Forum to address this crucial issue.

I mention the issue of Human Rights because this question is at the heart of the action collectively undertaken by your Government and your partners in order to restore the Rule of Law. Naturally, this undertaking aims at and involves the equality of citizens in front of the law; an appropriate conviction of the persons who have committed criminal

acts, no matter who they are, what their motivations and the nature of their crimes; a careful respect not only of the main freedoms, including the freedom of peaceful assembly, but also of the subsequent obligations for each and every one, an effective protection of the rights of the economic and social actors and in particular of the poor who are the first and the foremost victims of corruption.

The formal intention of your Government to act along those lines should give a new impulse to the strengthening of the Rule of Law and the building of a reliable and permanent legal and judicial system. In this respect, we are convinced that this new legislature will be marked by significant steps in these essential fields for a continuous strengthening of democracy and an effective fight against poverty.

All initiatives that you will take in order to achieve these goals will be strongly supported by the donors community.

Source: *World Bank*

Intervention by H.E. CHAN SARUN
Minister for Agriculture, Forestry and Fisheries
Government-Donors Consultative Group Meeting
Phnom Penh, 6-7 December, 2004

- *Samdech HUN SEN, Prime Minister of the Royal Government of Cambodia;*
- *Samdech, Princes, Princesses, Excellencies, Lork Chumteav, Member of the Royal Government of Cambodia;*
- *Excellencies, Representatives of the Donors Community;*
- *Excellencies, Ladies and Gentlemen.*

Today, I am very honored and delightful to present my intervention in this very important Government-Donor Consultative Group Meeting. I would like to take this opportunity to express my sincere thank to the donor countries and international organizations that have provided their support to the development of agricultural sector, especially with the focus on natural resource management and conservation in Cambodia.

Samdech, Princes, Princesses, Excellencies, Lork Chumteav, Ladies and Gentlemen, especially the donor representatives, you all may still remember that on 28 January 2003 in Phnom Penh, the Royal Government organized a government-donor meeting similar to this one, in which I presented the annual progress report and set out a number of necessary follow-up measures while the donors also proposed a follow-up draft action plan. I think that it is now a good opportunity to reflect the achievements of the Royal Government in boosting the development of agricultural sector, in general, and management and conservation of natural resources, in particular. The main outcomes in the framework of reforms and good governance that have been achieved in the past year include:

I-Forestry

1-Forest Crime Monitoring and Reporting:

The mechanism of forest crime monitoring and reporting has continued implementing in a transparent and accountable manner. The SGS was selected and appointed by the Royal Government for this assignment as an independent monitor, in a transparent process and with the support from the World Bank. Currently, the SGS had carried out its assignment in good collaboration with concerned institutions and agencies,

under the 3-year contractual period. In the mean time, Ministry of Agriculture, Forestry and Fisheries (MAFF) has prepared an action plan to mobilize support to 'continue the implementation of this mechanism.

2-Improvement of Consultative Mechanism:

- With the aim at ensuring coordination and better understanding- between the Royal Government and the donors, the MAFF, on 14 July 2003, established an Interministerial Multisectoral Taskforce, including the members from the representatives of the Office of the Council of Ministers (CoM), the MAFF, Ministry of Economy and Finance (MEF), Ministry of Environment (MoE) and Ministry of Land Management, Urban Planning and Construction (MLUMPC). The secretariat of the Taskforce has carried out its duties in close collaboration with the ex-Donor Working Group on Natural Resource Management (WGNRM) led by ADB and FAO. According to the latest development, this secretariat may be replaced by the newly established Government-Donor Joint Technical Working Group on Forestry and Environment, among the 17 Working Groups approved for their establishment by the Government and Donors on 10 September 2004.

- The MAFF approved for Forest Administration to set up a Public Affairs Unit, with the purpose of implementing transparent, public disclosure of information, to provide information on forestry and facilitate with the publics who wish to receive the information.

3-Forest Management:

- The Royal Government always regards environmental protection and sustainable natural resource utilization as its prioritized duty. We have developed comprehensive legal, policy and institutional framework to ensure environmental protection and sustainable utilization of natural resources. Throughout Cambodia, We designated 23 protected areas accounting to 18% of the country's total area, and the figure is increasing due to more allocation of forested areas for protection and conservation purpose. However, we still recognize the necessity of a comprehensive reform in managing natural resources, such as forest, fisheries and land--the prominent national assets.

- The MAFF and the MEF agreed and established an interministerial committee to develop a guideline and interministerial *prakas* on forest revenue management system. The *prakas* had been put for several public consultation workshops and meetings before it was signed by both the ministers of the MAFF and MEF on 28 August 2003.

- Sustainable Forest Management Plans (SFMPs), and Environmental and Social Impact Assessments (ESIAs) had been prepared and were submitted to the Independent Review Team under the support of the WGNRM for its review and comments. The SFMPs and ESIAs were also put through a considerably long consultation process with the

WGNRM, especially with local communities to ensure sufficient participation from the communities in the planning process, and also ensure their benefits. The results of the consultations were subsequently reported and notified to the stakeholders. The SFMPs and ESIA's have been used as a pre-condition for forest concession agreement cancellation at the early stage. Until now, the Government has not yet permitted any forest concession to re-operate.

- The moratorium on timber transportation and forest concession operation has been further imposed. However, the MAFF is considering applying domestic annual coupe as a measure to supply timber for domestic use, and as it can also help eliminate small scale illegal forest harvesting and transportation having occurred due to the local consumption needs.

- To tackle illegal forest land clearing and grabbing, the Royal Government, on 02 June 2004, established National Committee to Prevent, Suppress and Eliminate Forest Land Clearing and Grabbing for Ownership Purpose. This Committee has been implementing its duties, and plans to organize its first annual meeting to review and evaluate the performance of its provincial and municipal sub-committees in December 2004.

- In conformity with the Forestry Law, a vertical management line of the Forest Administration was put for implementation.

- The MAFF, besides its principal mandate, has closely cooperated with the MoE in protecting and cracking down illegal activities in the protected areas. Both ministries now are reviewing Draft Law on Protected Areas, and it is expected to be finalized soon.

4 - Implementation of Sub-decree on Community Forestry:

We highly recognize the role of local communities and empower them through the establishment of a several hundreds of forestry and fisheries communities throughout the country.

The Sub-decree on Community Forestry was drafted with provisions to ensure local participation and benefits. The Draft Sub-decree went through series of transparent consultations. On 02 December 2004, the Royal Government issued the Sub-decree, and it has now been implemented to establish forestry communities.

II-Fisheries

- Fisheries reform has been carried out since the second mandate Royal Government. So far, 538,522 ha equaling 56.46% of the total fishing area was released for family fishing ground.

- Draft Law on Fisheries was finalized through a number of consultations with relevant stakeholders. The Draft was submitted to the National Assembly at the end of the second mandate Royal Government. -

- Draft Royal Decree on Mekong Dolphin Conservation was submitted to the Royal Government for review and adoption.

- Draft Sub-decree on Community Fisheries has been improved many times in a long consultation process with local communities. With close collaboration and support from UNDP, FAO and DFID, especially from the Government, 360 fisheries communities were established country-wide. As it is new for Cambodia, we have unavoidably encountered some difficulties, both financially and technically.

- The MAFF has also been preparing and developing additional regulations to ensure, sustainable fisheries management.

- The MAFF has also taken actions to control illegal fishing. For instance, 5,520 electrocuted and 25,000 mosquito net fishing gears were confiscated and destroyed, in 2003.

- For the purpose of enhancing fisheries research and conservation, the MAFF established Inland Fisheries Development and Research Institute, in February 2003. The conservation of brood fish has also been at our high attention. In this connection, 97 deep pools were found and have been under preparation for establishing Mekong dolphin sanctuaries. Besides that, the MAFF has also actively promoted local aquaculture to generate incomes and improve people livelihoods, and to reduce the pressure on natural fisheries use. From 1998 to 2003, the number of farmers participated in the activities increased significantly about 10,000 with the fish production of 87,000 metric tons.

- In order to increase natural fisheries stock, and encourage the farmers to participate in aquaculture and participate in natural resource protection, the Royal Government decided to annually organized National Fish Day on 01 July, to release fingerlings to natural reservoirs.

III-Agriculture

- With the aim at facilitating and boosting investment in compliance with the contracts, and effectively and sustainably utilizing land, the MAFF had established an interdisciplinary working group to monitor and evaluate the investors' performance. The report of the working group is used for judgment of investors' performance. The MAFF is committed to not leaving the land losing its potential and unused. The non-compliant companies will be subject to contract termination.

- In order to avert conflicts arisen from land disputes, the Royal Government has decided to develop and implement Land Policy, Sub-decree on Social Land Concession, and Sub-decree on Economic Land Concession etc. The RGC adopted the statement on Land Policy on May 2001 and adopted the interim Paper on Strategy of Land Policy on September 6, 2002 and a set of policy papers and four sub-decrees, including **policy paper and Sub-decree on Social Land Concessions (March 2003)**, Sub-decree on the procedures for Establishing the Cadastral Index Map and Land Register (May 2002), Sub-decree on. Sporadic Land Registration (May 2002) and Sub-decree on Organization and Functioning of the Cadastral Commission (May 2002).

- The Sub-decree on Economic Land Concession is now under preparation and will be finalized soon. To implement the Sub-decree on Social Land Concession, mechanisms at national, provincial-municipal and district level have been established, and the pilot projects have been implemented at 3 communes and 1 sankat, in Battambang, Kampot, Kampong Speu and Phnom Penh. Based on the results of the pilot project implementation and the study on poverty impact assessment of a social land concession project, Council for Land Policy in collaboration with development partners is now developing Land Allocation for Social and Economic Development (LASED).

- The Ministry produced training manuals and provided training to 1200 staff, which is approximately equal to 50% of total staff of the ministry. As the education is a prioritized key factor, the Ministry managed to establish a Faculty of Land Management and Land Administration, and operating from 2002 to date with more than 100 students.

Based on the assessment of specialized capacity and the scope of responsibility, the Department of Land Management, Urban Planning, Construction and Cadastre of eight provinces and municipalities, respectively received the delegated power to sign on cadastral documents- granted by the Ministry, and another three provincial departments are expected to receive so in 2005.

- The Ministry has issued 293,500 land titles of which 280,000 land titles were from systematic I and registration in 11 provinces and municipality and 13,500 land parcels and condominium were from sporadic land registration in the whole country. Currently, the Ministry is involved in systematic land registration and collecting data for about 20,000 land parcels monthly.

- Up to now in the whole country, the cadastral commissions at provincial/ municipality level which are involved in a land dispute resolution mechanism throughout the country, have completely resolved 493 cases, canceled and/or handed over 161 cases to the court and issued temporary decisions for two emergency cases.

- The Ministry developed strategic development plan of Kamreing district in Battambang province and continues to implement in four Districts along the border area.

The Ministry also developed industrial zoning plan for Neang Kok in Koh Kong province; conservation zoning for Preah Reach Troap Mountain; master plan for Kampot provincial town (sub-degree are being drafted), Pailin town (awaiting comments from the town authority), Chlounng district in Kratie province (awaiting comments from the province authority) as well as a master plan for the conservation of cultural heritage buildings in Battambang town (sub-degree are being drafted), a master plan of historical tourist site of Anlong Veng (royal degree are being drafted). Actions are now being taken to prepare a master plan for the provincial towns of Kampong Cham and Monduliri, and the municipality of Phnom Penh.

- To carry out the Sub-degree on Social Land Concessions at national; provincial/municipal; and district/Khan level, mechanisms have been formed. Pilot project activities within- three communes and one Sangkat in Battambang, Kampot, Kampong Speu provinces, and Phnom Penh are in the process. Based on the pilot project activities and poverty social impact. assessment study on social land concessions project, the Council of Land Policy in collaboration with various development partners, are currently involved in designing the program of Land Allocation for Social and Economic Development (LASED).

- Besides land, water is also a main natural resource, and is very crucial for agricultural development. In this sense, the Royal Government has put a vast investment in irrigation systems, and put many efforts in the reform of management and use of water.

- National Water Policy Paper, Law on Water and Sub-decree on Association of Water Users had been developed by Ministry of Water Resource and Meteorology in collaboration with relevant institutions.

Samdech, Princes, Princesses, Excellencies, Lork Chum Teav, Ladies and Gentlemen

With the above proud achievements, I would like to briefly present to you, especially the donors community, the main follow-up measures to enhance agricultural production and natural resource management to reflect our commitment as follows:

I-Forestry:

- To further develop regulations to enforce Forestry Law;

- To further establish forestry communities in conformity with Sub-decree on Community Forestry;
- To continue collaboration with concerned stakeholders to review Sustainable Forest Management Plans and Environmental and Social Impact Assessments;
- To further prevent and crackdown illegal forest land clearing and grabbing in conformity with provisions of the Forestry Law;
- To designate annual logging coupe to supply domestic timber consumption for the people, and as a contribution to forest crime reduction;
- To continue forest crime monitoring and reporting mechanism, through the current independent monitor;
- To further study and designate forest biodiversity conservation areas.

2-Fisheries:

- To conduct study and research, and consultations to transfer some would-be contract-expired fishing lots that are biologically and geographically suitable for fish conservation areas, with the aim at increasing natural fish stocks, and maintaining and enriching endangered fish species;
- To study and evaluate to allocate more fishing grounds for people's use;
- To further develop all forms of aquaculture to meet fish consumption needs, and to reduce the pressure on natural fisheries resource;
- To further establish fishery communities to increase effectiveness of fisheries resource utilization;
- The MAFF is ready to implement Fisheries Law when it has been adopted by the Legislature Body.

3- Agricultural Production:

- To finalize Draft Seed Law;
- To establish an effective control system to ensure distribution of good quality of agricultural inputs in the markets;
- To develop a master plan for agricultural research;

- To continue divestment of state-owned rubber estates;
- To continue divestment of Kamfimek and AIC;
- To continue collaboration with relevant institutions to implement regulations and guidelines relating to the management and utilization of land and water resource; 6
- To postpone economic land concession- granting until the Sub-decree on Economic Land Concession has been issued.

Samdech, Princes, Princesses, Excellencies, Ladies and Gentlemen

The above mentioned follow-up measures to be implemented in the framework of good governance, indicate to us that we still have a long journey to go to achieve our objectives, and inevitably these can not be done in just today or tomorrow, regardless of many technical measures to be coincidentally undertaken.

Therefore, the active support and close cooperation to be extended by the donors community and development partners are necessarily needed for the course of enhancing sustainable agricultural development and natural resource management and conservation.

Finally, I would like to once again thank you all for your kind attention, and extend my gratitude to all the donors for their past and future assistance.

Thank you very much!

Source: *World Bank*.

Statement on land Issues by German Representative at the CG Meeting on Dec 6 and 7th, 2004.

In his opening speech for the land Forum in Phnom Penh on 18 October 2004 Excellency Prime Minister Samdech Hun Sen expressed his strong policy guidance on land issues.

The German Government highly appreciates the guidance he provided to suspend the further issuing and to review the existing contracts on economic land concessions. His commitment to solve the land problems and to allocate land to the poor is very encouraging for fighting poverty in Cambodia.

However Germany is concerned about reports on land grabbing and land speculation which resulted in the plundering of Cambodia's most valuable asset. Satellite imagery and aerial photography testify the huge loss of valuable forest cover and the sharp degradation of the ecosystems and vegetation cover. Cambodian farmers are forced to subsist on tiny plots of land, mostly below 1 ha, whereas few rich and powerful possess huge land areas which count more than ten thousands up to hundreds of thousands of ha.

Land concessions have not led to the increase of state budgetary revenue, but on the contrary to the further dispossession of the State's assets. Land Concessions did not contribute to the reduction of rural poverty but they block the access of small holders to productive lands.

In the face of this situation, Germany would strongly encourage immediate action e.g:

- the granting of further contracts for economic land concessions is to be suspended until the necessary legislation is in place and effective;
- based on Article 18 of land law, clarification is to be provided to local authorities emphasizing that private sales transactions on state lands are illegal and hence should not be validated by officials;
- existing contracts have to be reviewed and amended according to the 2001 land law.
- information on existing economic land concessions is to be made available to public, including status of those concessions under review for reduction and/or cancellation;

- Sub decrees on State land Management and Economic land Concessions have to be enacted by the next six months.

The German Delegation to the 2004 Consultative Group Meeting

Source: *World Bank.*

JOINT DONOR STATEMENT ON

“ENHANCEMENT OF THE AGRICULTURE SECTOR (INCLUDING NATURAL RESOURCES MANAGEMENT)”

**Remarks by Murray Proctor, Assistant Director General, East Asia
Branch, AusAID Cambodia Consultative Group Meeting
6 December 2004**

Excellencies, colleagues, ladies and gentlemen

In a country where around 85% of the population lives in rural areas and depend largely upon agriculture and access to natural resources for their livelihoods, the importance of this sector in reducing poverty and improving lives cannot be overstated. Donors warmly welcome the emphasis given in the Rectangular Strategy to improving rural livelihoods through supporting agriculture and the more efficient, equitable and sustainable use of land, water, fisheries and forest resources.

There will be challenges ahead for both the Government and donors in implementing the Strategy and we are therefore pleased to support the Technical Working Groups on Agriculture and Water, Fisheries, Land, Forestry and Environment, and Mine Action as mechanisms to improve cooperation, coordination and allocation of resources.

In recent years, the agriculture sector has not performed as well as needed in order to really reduce rural poverty. Access for the poor to productive natural resources has also become more uncertain, reducing their ability to make a living and to cope with risks. The hardship being endured by so many families during the current drought is further evidence of the precarious state of rural livelihoods and the need for appropriate water resource development, management and use.

Within the agriculture and water sectors, as in all other sectors, the needs are great and resources remain limited. There is a need for us all to become more strategic, more cooperative and direct our shared resources to areas that will contribute to both broad economic growth and direct poverty reduction in rural areas.

We need to ensure that policies developed are implemented for the benefit of the poor, not the already wealthy, and that market orientation and commercialisation does not come at the expense of smallholders and communities. We need to work on linking private investors with smallholders to allow both sides to profit. We must expect from private investment that natural and human resources will be used sustainably and not for short-

term benefit based on asset stripping, which regrettably is too often the case in Cambodia at present.

In a sector with limited public investment we need to consider the respective roles of different levels of government versus private sector and community based organisations in service delivery and inputs supply. The Government's role should be to facilitate the private sector to make the right investments and to contribute to rural economic growth with equity, the creation of employment and the broadening of the Government's revenue base.

We need to ensure equitable access to land for agricultural purposes. 12-15% of the rural population is already landless and land holdings per household appear to be declining. Farmers with no security of land tenure have little incentive to make long-term plans to improve their family's livelihood such as investing in infrastructure or growing commercial crops which may offer improved incomes only after a number of years.

We need to give special emphasis to ensuring that women, who represent more than half the agricultural workforce and thus contribute significantly to agricultural production and household food security, are more appropriately targeted in agricultural policy development and implementation.

Agriculture sector donors are willing to progressively align resources with a jointly developed sector strategy for agriculture and water which takes account of these needs and we look forward to progressing this over the next twelve months.

As most Cambodians are dependent on agriculture for their livelihoods, access to land and water resources are crucial. But most also have diversified livelihood strategies which involve exploitation of common property resources such as fish and forest products, as well as agricultural production. Sadly, there are significant challenges to ensuring ongoing access to these resources - the pressure on reducing natural resources increases almost daily. The need for swift and decisive action has been highlighted in previous Consultative Group meetings and must be emphasised again today.

The core principles of good governance are laid out for us in the Rectangular Strategy – wide participation, enhanced sharing of information, accountability, transparency, equality, inclusiveness and the rule of law. There is an immediate need for these principles to be applied to the management of natural resources in Cambodia to ensure benefits for all Cambodians.

The recent grenade attack on villagers peacefully protesting renewed activities in a concession area in Pursat province highlights the urgent need to respond to the concerns of people whose livelihoods are threatened. We need to ensure that policies for natural resources management benefit the poor, not just the powerful, and that community access

to resources is improved, not reduced. In this context, community-based approaches to management of resources should be further explored and facilitated.

Effective enforcement of sustainable use of natural resources will require greater collaboration amongst local communities, district and provincial officials through arrangements that share the benefits of, and responsibilities for, effective management with local stakeholders. Such approaches are already being implemented, and with increased commitment by Government and support from donors, there is scope to move these approaches from the margins to the mainstream of natural resources management.

Donors have been encouraged by His Excellency Prime Minister's recognition of many of the problems. We particularly welcomed his speech to the National Land Forum in Phnom Penh on 18 October in which he announced that the granting of further economic land concessions would be suspended until legislation is in place and effective, and requested the review of existing contracts.

Donors urge that this suspension of new economic land concessions, along with the moratorium on logging and transport of logs not already inventoried and for which royalties have been paid in full, be maintained pending completion of review processes and legal frameworks.

We also recommend that Government pass and enact key laws and subdecrees governing natural resources management, including the fisheries law and community fisheries subdecree, the Law on Water Resources Management and associated sub-decree, the state land management subdecree and the economic land concessions subdecree based on a process of extensive consultation with stakeholders, and incorporation of their inputs to the extent possible, to build support for effective implementation.

In order to increase transparency, we urge immediate public disclosure of existing contracts for economic concessions, mining concessions and fishing lots, and their compliance status, and continued disclosure of the status of forest concession reviews.

Donors continue to emphasise the need for effective and participatory planning processes - including Environment and Social Impact Assessments, investor evaluations, community consultation, public disclosure and comment - prior to entering into new contracts for private use or management of natural resources.

Significant improvements in agriculture sector performance and natural resource management will be crucial to ensure broad-based growth benefits the poor. Donors remain strongly committed to assist government efforts to enhance rural livelihoods.

Source: *World Bank.*

CAMBODIA: 7th CONSULTATIVE GROUP MEETING

Phnom Penh, December 6-7, 2004

Concluding Remarks by Co-Chair, Ian C. Porter

Country Director for Cambodia, World Bank

Excellency, Senior Minister of Economy and Finance Keat Chhon, my co-chair; Excellencies; Ladies and Gentlemen:

We have now come to the conclusion of the seventh Consultative Group Meeting for Cambodia, the second ever to be held in Phnom Penh. On behalf of all of Cambodia's development partners, I would like to express my gratitude to the Prime Minister, Samdech Hun Sen, for opening the meeting with a strong and clear keynote address. I also express thanks to my co-chair, the Senior Minister of Economy and Finance, and to the entire Royal Government for the warm hospitality provided to all the participants at this meeting. I also want to thank the deputy prime ministers as well as the many ministers and officials who took the time to attend this meeting. I wish to express my appreciation to Cambodia's development partners, especially those from far away, who participated in these discussions with enthusiasm and candor. In addition I would like to thank all the hard working government staff, as well as my colleagues in the World Bank and the donor community, who helped to organize, over many weeks and in a very busy period, this gathering. We also thank the interpreters for their hard work as well, and we thank you for the wonderful dinner and presentation of Khmer music and dance last night.

Excellencies, Ladies and Gentlemen:

We last met here over two years ago, as the second mandate of the Royal Government was entering its final year. We very much welcome the reconvening of the Group, after the delay imposed by the political situation, and are pleased that the meeting has taken place so soon after the formation of the government in July. I would like to speak to four topics this afternoon as we close the meeting: developments since the last CG meeting in 2002; the critical issues emerging from our discussions and the joint monitoring indicators going forward; the challenge of generating a reform momentum; and our new partnership paradigm.

Excellencies, Ladies and Gentlemen:

Let me first look back at developments since 2002, both in terms of what did and did not happen. Overall macroeconomic management continued to be sound and Cambodia

continued to perform above average when compared to other low income countries. Growth did begin to weaken in 2003 and is projected to slow further in 2004, due to a slowdown in agriculture coupled with structural weaknesses limiting non-agricultural growth. In 2005 the Cambodian economy will enter a new phase and growth is expected to deteriorate due to the expiration of the Multi Fiber Arrangement. Cambodia's progress on trade and integration, however, shows the way forward. Ratification of membership to the World Trade Organization was a major achievement. The Early Harvest Program with China and potential new trade pacts in ASEAN also offer new links to growth in the increasingly globalized economy.

On the political front we welcomed the 2003 elections, the formation of the new government, and the coronation of the new king, His Royal Highness King Sihamoni, all of which occurred in an environment of peace and stability. The Prime Minister, in July 2004, launched the Royal Government's Rectangular Strategy, the core of which is good governance, and in response the government began to develop specific action plans. At the same time Cambodia's development partners embarked on the development of a new partnership paradigm, which I will discuss in more detail in a moment.

Yet all friends of Cambodia would have to admit that despite these favorable developments, especially robust growth, there has been only a very modest impact on poverty, which remains high and stagnant. Next year's CG meeting will focus on the new five year strategy for growth and poverty reduction, and the results of the ongoing poverty assessment, which will provide new data that will enable us to delve more deeply into the nature and dynamics of poverty in Cambodia five years into the new millennium. But the question has been asked repeatedly here and in capitals and headquarters around the world: why have we all, government and its partners alike, come up short on one of the most critical and essential indicators of performance? After all, as the Australian representative noted, the taxpayers who finance bilateral and multilateral assistance provide resources on the understanding that they are used to reduce poverty. What would we tell them about Cambodia?

In responding to this question I think it has become increasingly apparent to all of us that improving governance in all areas and sectors is what is necessary to lift Cambodia up to a new level of development. In this context let us take a brief look back at the 2002 benchmarks relative to where we stand now.

On Legal and Judicial Reform and Governance, we find that most of the benchmarks were not met. Though the Strategy for Legal and Judicial Reform was completed in June 2003, the Supreme Council of Magistrates was not restructured. Nor were reported cases of corruption investigated and prosecuted. And the anti-corruption law has not been passed. On public procurement, competitive bidding was extended to all

ministries, except the Royal Palace, and, though there are concerns about the quality and enforcement of the legal framework, the government clearly demonstrated some progress.

In Natural Resources Management there was also some progress. Forest concessions have been suspended. Public disclosure has improved, and environment and social impact assessment guidelines have been used for sustainable forestry management plans. These developments have been offset, however, by the continuation of illegal logging and the very visible governance failures associated with the misuse of state resources by the rich and powerful.

In the social sectors there was some notable progress in the coverage of basic services and some improved utilization, as noted by the representative of the United Kingdom. There has also been significant progress in sector wide policy making and planning, and, most importantly, some positive progress on outcomes, including in the area of HIV/AIDS. Benchmarks on social sector disbursements were not met, though there were some positive developments in terms of disbursements. The public administration benchmark—to complete a set of studies—was not met. Nor were the benchmarks on revenue mobilization and transparency of the terms of government contracts met.

One would have to conclude, by any objective measure, that progress was indeed modest.

Thus, Cambodia finds itself at the crossroads. And as we, your development partners, stand with you, we too find ourselves at the crossroads. My co-chair, Senior Minister Keat Chhon, at dinner Sunday night, quoted Montaigne, a 16th century French philosopher, so I should now also make a literary reference as well. An English language poet, Robert Frost, wrote in a well known poem entitled, “The Road Not Taken,” of two roads diverging in the woods. In the poem the speaker says that in some way he is sorry that he cannot travel both roads. In some way Cambodia might like to travel both roads as well—take up the reform program with vigor in some areas while being complacent about the governance failures of the system, which result in distressingly high levels of poverty, in others. But Cambodia, like the poet, cannot travel both roads. Moving forward from a crossroads means clearly choosing a road—in a definitive manner. It means decisively rejecting the road of business as usual and *definitively* going forward in the right direction.

Excellencies, Ladies and Gentlemen:

Definitively going forward. What would it look like, a year of two from now, if, the Royal Government moved decisively and clearly forward? What would the Cambodian people observe? I think they would see the Royal Government, with the support of its development partners, tackling the critical issues that have emerged from our discussions over the last two days.

Not surprisingly, we would all expect to see progress on the good governance agenda. For one, reported cases of corruption would be brought before the courts for investigation and hearing. We would see the draft law on anti-corruption brought into compliance with international best practice, as reflected in the UN Convention against Corruption. There was some discussion of this point yesterday, though many of your development partners, represented by the comments of Mr. Gardner in his capacity as the UN Resident Coordinator, felt that retaining the reference to the UN convention was of vital importance, as did the representative of Germany. Another important indicator of progress is the facilitation of access to information held by public authorities. There appears to be full agreement on this point, as noted in Deputy Prime Minister Excellency Sok An's speech yesterday, in which the Deputy Prime Minister said that "The state must...be more transparent." We welcome this positive development.

As the representatives from Finland and Denmark noted yesterday, there is a remarkable level of consensus around the importance of good governance. More specifically, speaker after speaker stressed the importance of legal and judicial reform as the underpinning for improving governance, increasing growth, and reducing poverty. In particular the representatives of France, Australia, and Japan highlighted the need to move forward clearly and steadily on the adoption of the fundamental legal framework, without which the rule of law in Cambodia will be insufficient to provide the certainty that investors seek for their ventures and the safety that parents seek for their children. The French ambassador also stressed the importance of ensuring the independence of the magistracy.

On public administration reform, one of the areas in which there has been little noteworthy progress, we heard very encouraging words from the Prime Minister, Samdech Hun Sen, who said and I quote: "To systematically resolve the many challenges before us, we need a merit-based civil service system. We clearly need an efficient government that is responsive to the demands of the rapidly changing international environment..." The globalized economy will not wait and Cambodia does not have the luxury of proceeding with civil service reform at a leisurely pace. The Japanese ambassador called for realistic levels of salaries as soon as possible. The Resident Representative of the IMF noted that a merit-based pay reform is needed to generate results in service delivery. The message is clear and the consensus has now been established: Cambodia's future depends on a merit-based pay and employment reform. Looking backward to judge progress, we expect that observers would see the roll out, on a pilot basis, of the merit-based pay initiative, thereby coupling better pay with improved human resource management in the context of developed reform programs. Meritocracy, coupled with improved pay, is the antidote to patronage and corruption.

On decentralization and deconcentration, commune and sangkat officials and their constituents would see the development of the government's national policies, strategies, and

strategic framework. Moreover, commune and sangkat officials would note improved service delivery resulting from a more reliable and timely flow of resources from the Commune Sangkat Fund through commercial bank accounts and directly to the communes and sangkats. On public financial management, Cambodians would see the implementation of the first twelve months of stage one of the reform program, which holds much promise. Core priorities include: (1) a widening of the scope of mandatory payments to and by the government by check or electronic transfer at all times; (2) streamlining procedures to enable line ministries to spend approved budget provisions by increased reliance on phased budget releases; and (3) completing the consolidation of government bank accounts, and implementing fully daily transfer of all collections into the Treasury Single Account.

In addition to the technical aspects of reform, there is also the need to strengthen the demand for transparency, accountability, and ultimately, good governance. The U.S. Ambassador has highlighted the important role that civil society has “to play in supporting the process for achieving good governance” by promoting high standards for official conduct and “drawing public attention” to matters of public interest. Bringing civil society into the picture—through participatory policy dialogue and dissemination of information—would improve transparency, accountability, and therefore good governance. Civil society should be the voice that demands reform and undergirds the system of accountability. We are encouraged to see the constructive participation of several NGOs in this meeting and would like to encourage all NGOs to work in that same constructive manner.

In the area of accelerating growth and improving rural livelihoods, farmers and rural families would see implementation of key measures in agriculture and natural resources management, as well as further private sector development. These indicators of decisive progress include: (1) enacting key laws and subdecrees governing natural resources management, including the fisheries law and the community fisheries subdecree, state land management and economic land concessions subdecrees, and enforcement of Article 18 of the Land Law on the illegality of private sales transactions on state lands; (2) maintaining the moratorium on logging, the transport of logs (except logs already inventoried and for which royalties have already been paid in full), and new economic land concessions pending completion of review processes and/or legal frameworks; and (3) increasing the transparency of state management of natural resources through immediate public disclosure of existing contracts and the compliance status of contracts governing economic land concessions, mining concessions, and fishing lots.

In the area of private sector development, if a young Cambodian entrepreneur looked back a year or two from now on a solid program of reform, she would see a single entry point, or single window, allowing parties involved in trade to fulfill the documentary requirements for import or export in a single transaction. She would also note a revised process for private participation in infrastructure (PPI) articulated in the law on concessions. Moreover, a small and medium enterprise (SME) development framework

would be approved. To paraphrase the Resident Representative of the ADB, the young entrepreneur would see that the government had pressed hard on the accelerator of the private sector growth engine.

In the area of supporting human development, mothers and children would see the adoption of the domestic violence and anti-trafficking laws, as well as continued progress on HIV/AIDS. Moreover, gender, poverty, and HIV/AIDS would have been mainstreamed in the next five year national strategic development plan. In health and education we would expect to see the implementation of reforms in public financial management and the civil service that improved the timeliness and predictability of disbursements and strengthened human resources to deliver better pro-poor services.

These nine broad areas constitute our consensus. Going forward the Royal Government has committed itself to taking the agreed actions in each of these areas and we development partners have committed to providing the necessary support.

Excellencies, Ladies and Gentlemen:

Let me come back to my motivating question about taking reform forward in a definitive manner. What would it look like if the Royal Government moved decisively and clearly forward? We would certainly observe important action on all these fronts.

We would also see, a few years from now, greater prosperity and as a consequence much larger numbers of Cambodians living lives of dignity that enable them to reach their full potential as human beings and citizens. We would see greater accountability: citizens would have the information necessary to hold officials and civil servants accountable for the stewardship of public resources and the delivery of high quality services. We would also see greater activity in the rural areas, perhaps in the production and export of non-traditional crops, and we would see more and more tourists streaming into Siem Reap, Phnom Penh, and Kampong Som.

And at the same time there are some things we would no longer observe. We would no longer see young children paying bribes to their teachers for schooling. We would no longer see illegal logging in protected areas. And we would no longer see cases of impunity before the law.

But there is something else we *would* see, something greater than the sum of the parts. If we looked up from each of our individual sectors and areas, we would see—and we would sense—something more important than any individual reform measure: we would see momentum; we would see commitment; we would see political will. *We would see words decisively and unequivocally translated into actions.*

As was evident during the discussions these past days, many of Cambodia's development partners see the proverbial glass as half empty. There is concern about the lack of a track record on reform. Many hold the view that in most areas reform has neither gone far enough nor fast enough.

As the Prime Minister Samdech Hun Sen said yesterday, "Doing is much harder than saying. We more than anyone else are acutely aware that there is a long march ahead." Choosing to march down the right road in implementing the Rectangular Strategy would mean demonstrating *steady and cumulative progress*. Too often in Cambodia reform has meant one step forward and then one step backward or sideways.

What is required is building a critical mass of reform measures that would, for example, actually have a significant impact on the quality, quantity, timeliness, and reliability of public services. To move beyond measuring progress by lists of input-oriented measures, to measuring progress by impact for Cambodian citizens, would be one signal that Cambodia had chosen the right path. Another signal would be less disagreement about whether Cambodia had actually made progress or not—the reform would simply speak for itself. When Cambodia's progress is steady, persistent, and sustained there will be no more disagreements about whether there is political will or not.

I hope that when we are back here next year we will all agree that there had been significant progress. And building momentum for reform now will make future reform easier. One of the most important things Cambodia could do right now is establish an indisputable track record on governance reform. Such a track record would ensure that development assistance from those donors using a performance-based allocation system would increase in the years to come.

Excellencies, Ladies and Gentlemen:

Many have noted the growing consensus, among development partners, not just about the centrality of governance for Cambodia's development, but also both in terms of the views expressed at the CG meeting and the daily dialogues we have held over the past several months. This past year has seen significant and notable progress on the part of government and development partners to strengthen their commitment to the partnership principles enshrined in the Rome Declaration on Harmonization and Alignment. Looking back to the 2002 CG meeting, where "strengthening partnerships" was a goal going forward, we can all take pride in recent developments: the strength of our partnership is strong and growing.

Development partners were urged to change the way they provide aid. Senior Minister, Excellency Keat Chhon, you have—repeatedly—urged us to "speak with one voice," and we have endeavored to listen to you. The Prime Minister, Samdech Hun Sen, has strongly welcomed the Sector Wide Approach (SWAp), in particular the one established

in public financial management, in part because, as the Prime Minister noted, the approach will provide “ample opportunity for Cambodia to play the role of real owner of development in preparing and implementing” its reform programs. And as the Prime Minister noted the SWAp arrangement will also reduce the transaction costs and increase the effectiveness of providing technical assistance.

Many development partners have now acknowledged the pernicious effects of salary supplementation on the capacity and morale of the Cambodian civil service. Development partners and government have agreed to develop a strategy to phase out salary supplements and redirect them in support of pay reforms in priority areas. This commitment will mean putting our monies where our mouths are and would represent a sea change in the way development partners have done business in Cambodia. This development is another auspicious sign of a new beginning.

We have also agreed on joint monitoring indicators and a joint reporting process for the upcoming period. With quarterly reporting we will all have a good sense of how the agenda is moving forward, where there has been good progress and where there appear to be bottlenecks of one sort or another.

At the same time we have agreed to harmonize our assistance in terms of national planning. In the past the World Bank and the International Monetary Fund, the Asian Development Bank, and the UN system all supported different plans and initiatives. We have now agreed with government to harmonize our support for the development of the new five year plan next year and we are excited by the prospect of rationalizing our contributions to your planning process.

Excellencies, Ladies and Gentlemen:

I would like to again thank my co-chair, His Excellency Senior Minister Keat Chhon, for his support and to thank you all for your valuable inputs and suggestions during the course of the meeting. The discussion has been constructive and, at times, spirited.

Development partners pledged US\$504 million in support for Cambodia’s development efforts, as part of the country’s budget and financial plan for 2005. In 2002, the pledge amount was US\$635 million. However, because of changes in the methodology and coverage, effected recently in order to comply with the official DAC/OECD definition of ODA, the comparable figure for 2002 was recalculated at US\$514 million; this is the figure that should be used for comparison. Both the amount and composition of future pledges will be a function of Cambodia’s performance on its reform agenda.

The government and development partners also agreed to meet in Phnom Penh for the next CG meeting one year from now.

In conclusion I would like to stress that these three agenda items—specific, concrete critical reform measures, building a reform momentum and track record, and the

new partnership paradigm—are all inextricably linked and mutually reinforcing. We end on a positive note because we all stand at this crossroads with a strong commitment to the well being of Cambodia's people and in particular the poor. We are very pleased that the new government of the third mandate has rededicated itself to reducing poverty, making the best effort to meet Cambodia's Millennium Development Goals, and removing the governance constraints to such an effort. We now have a vision and a consensus, based on the Rectangular Strategy, for going forward. What is now needed is action. As good friends of Cambodia, development partners stand ready to support the Royal Government in a genuine reform effort.

Thank you for your attention. This Consultative Group meeting is now closed.

Source: *World Bank.*

