



Cambodia at the Crossroads

Strengthening Accountability to Reduce Poverty

World Bank Brief for the 2004 Meeting of the Consultative Group for Cambodia



Impressive Gains since 1993

- Restoration of Peace, Stability and Sense of Normality
- Three successful elections
- Web of Civil Society Spreading Rapidly
- Sound macro-economic management
- Impressive economic growth (over 6.7%-1993-2002) led by garments and tourism and helped by return to normality
- Cambodia reemerging on the international stage: WTO membership



But key challenges ahead

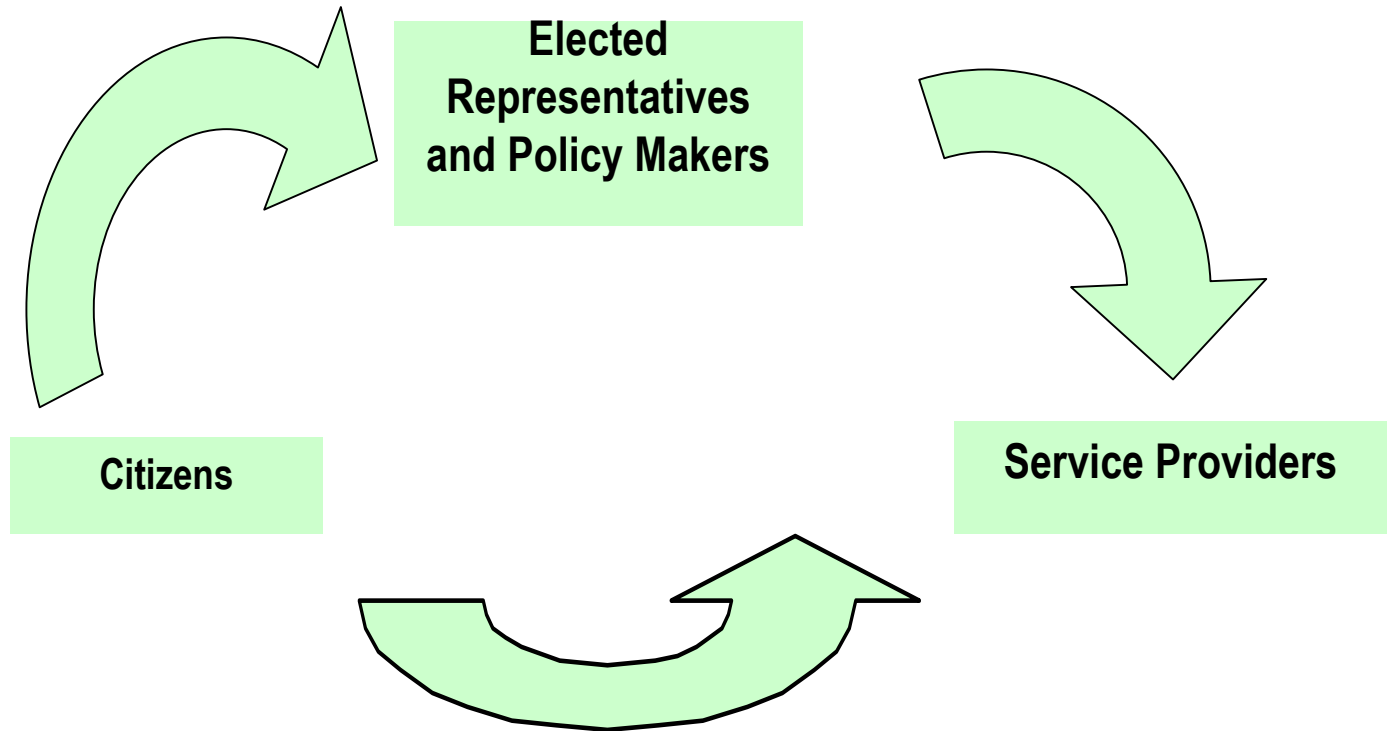
- Income poverty is high (40%) and stagnant
- Progress on MDGs uneven: child and maternal mortality rates three times the levels for East Asia
- Economic growth may slow sharply to around 2% as garment exports hit by competition from China and others
- Governance weak and contributing to both failures in service delivery to the poor, weak investment climate and economic diversification.



Good Governance at the Core of Rectangular Strategy:

“Good governance is the most important precondition to economic development with sustainability, equity and justice. Good governance requires wide participation, enhanced sharing of information, accountability, transparency, equality, inclusiveness and the rule of law.”

Accountability Framework





How Accountability Breaks Down:

1. Citizens and Elected Representatives / Policy Makers

- ✦ Cambodia's Constitution strong on checks and balances, but in practice:
 - Parliament fails in providing adequate oversight over the executive
 - The Judiciary fails to enforce the law
 - Civil society is growing and weak
 - Media is ineffective.



How Accountability Breaks Down:

2. Between Elected representatives/policy makers and Service Providers.

- ✘ Parliamentary Oversight over budget weak
- ✘ Legal framework for the delegation of functions to civil servants often flawed
- ✘ Compact breaks down because policy makers do not provide service providers with the means to do their job: low salaries and inadequate O&M, unpredictability of budget releases
- ✘ External checks such as National Audit Authority/Anti Corruption Commission new or non-existent

How Accountability Breaks Down:

3. Between Citizens and Service Providers

- ✦ Service providers see their accountability upward rather than to their “masters”, the citizens
- ✦ Citizens have difficulty asserting their rights as consumers of public services:
 - Cost of organizing is high, particularly for poor
 - Information needed to hold service providers accountable lacking
 - NGOs still weak in intermediation on behalf of citizens



Reform Justice Sector: the judiciary

- ✦ Provide strong leadership for reform efforts
- ✦ Make Supreme Council of Magistracy truly independent and effective
- ✦ Begin reforms at top with Supreme Court/Court of Appeals
- ✦ Enact modern codes of civil and criminal procedure
- ✦ Improve information flows from court system: publish laws, educate citizens on legal rights;
- ✦ Strengthen alternative dispute resolution mechanisms to ease pressure on the courts and improve access of poor to justice



Reform priorities

1. Strengthen checks and balances through reform of parliament and judiciary
2. Increase financial accountability to improve service delivery to the poor
3. Bring government closer to the people through decentralization
4. Manage natural resources in interests of citizens
5. Remove governance impediments to investment and growth.

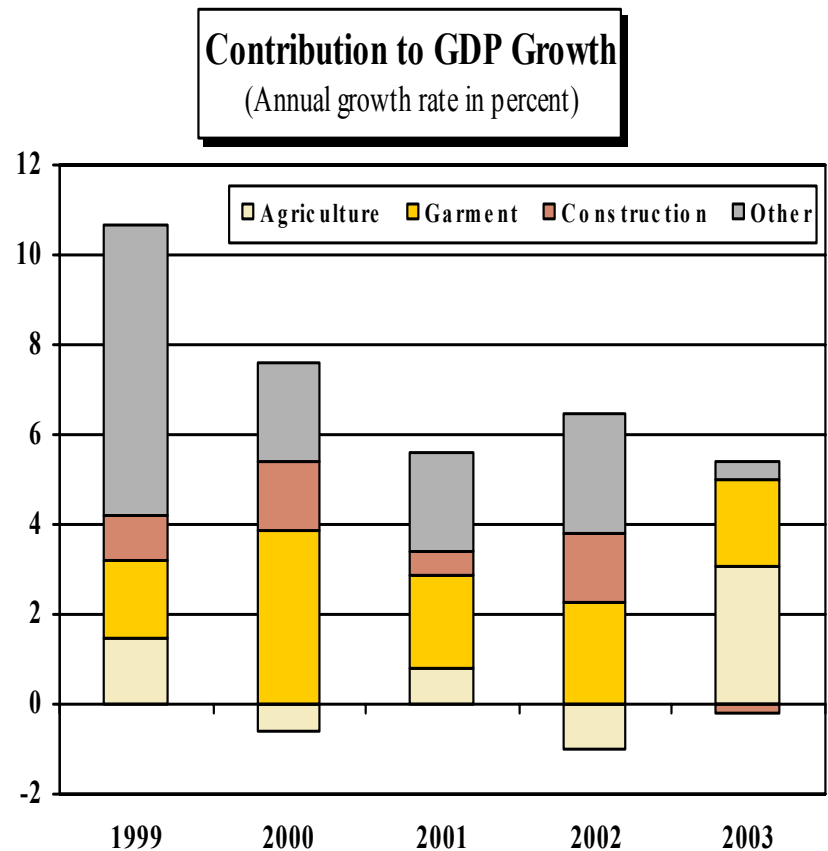


Chapter 1

Recent Economic Performance and
Medium-Term Prospects

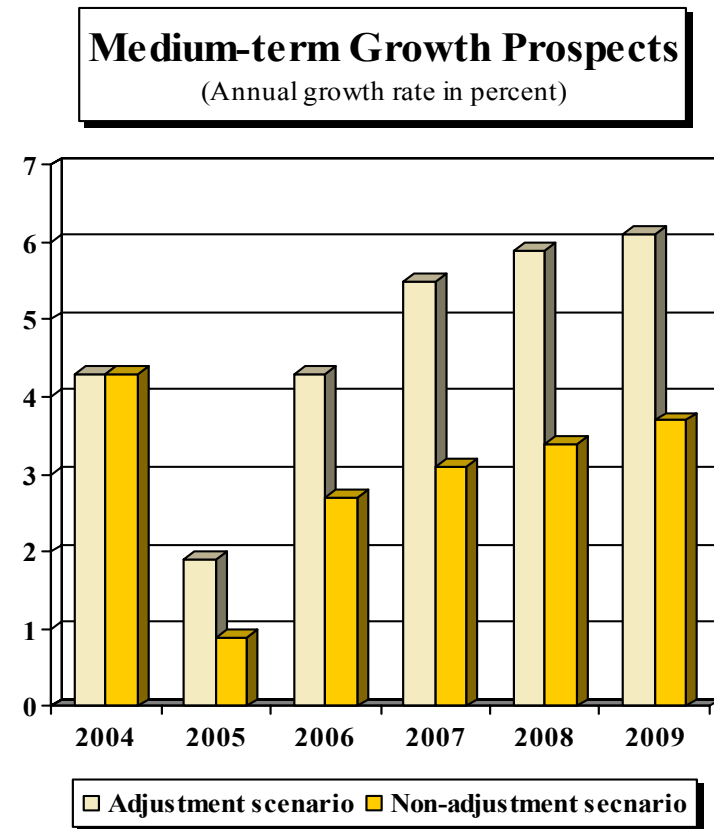
1 - Strong but not pro-poor growth

- ✦ Relatively good growth since 1999, (6-7% per year)
- ✦ Mostly due to external factors:
 - Garments
 - Tourism
 - External assistance
- ✦ Little improvement on poverty front



1 - Recent economic developments and prospects

- ✦ Buoyant growth in 2003 (5.2%) not expected to re-occur in 2004
- ✦ 2005—a shock year;
- ✦ Medium-term prospects depend on ability to diversify growth



1 - Diverse and pro-poor growth needed

- ✦ Create a business friendly investment environment
 - Macroeconomic and financial stability
 - Legal and judicial reform and credibly reduce corruption
 - Reform of public financial management, including public administration,
 - Improve service delivery
- ✦ Promote rural economic activity
 - Develop strategy for rural and agricultural development
 - Find ways for aid flows to be more supportive of agricultural development
 - Address rapidly land use problems



Chapter 2

Increasing Public Financial Accountability

2. Enhance Financial Accountability

Convert revenue mobilization from vicious to virtuous cycle

- Improve Tax and Customs administration by reinforcing merit- and performance-based management and providing better incentives
- Strengthen mobilization of non-tax revenues, including from state assets

Make public expenditures more pro-poor

- Rationalize expenditure policy
- Strengthen accountability of service providers to beneficiaries

2. Enhance Financial Accountability

Reduce fiduciary risk to public funds

- Improve legislative oversight, budget execution, cash management, control environment, and transparency
- Make public procurement more competitive
- *The PFM Reform Program is a promising start*

Reform the civil service

- Introduce a transparent and merit-based system for hiring and promotion
- Increase and decompress pay
- Strengthen establishment control
- *Developing a strategic and prioritized plan is an urgent priority*



Chapter 3

Decentralisation: Enhancing Accountable
Service Delivery for the Poor

3. Bring government closer to the people

✦ Decentralization and deconcentration need to be informed by a long term vision for local governance

- Inter-ministerial Working Group for strategy/action plan presents opportunity for setting out participatory vision
- Clarify functional assignments of C/S Councils
- Clarify supporting functions of provinces/governors
- Recognize differences between communes and sangkats.

3. Bring government closer to the people

- ✦ Clarify and strengthen internal and external accountability of communes/sangkats
 - Provincial authorities have more power than CS/Cs and see themselves accountable to center
 - CS/Cs tend to be accountable to political parties rather than voters.
 - Increase external accountability (National Audit Authority/strengthen information))
 - Enhance role of NGOs/participatory processes
- ✦ Increase the predictability and reliability of funding for communes/sangkats
 - Increase size of allocations and avoid delays in release
 - Increase own revenues of CS/Cs.



Chapter 4

Managing Natural Resources for the Public Good

4. Managing Natural Resources for the Public Good

- ✦ Cambodia is a natural resources-rich country
 - Highest stocks of fish and water per capita in East Asia
 - Second highest forests and arable land per capita
- ✦ Public sector management of natural resources based on concessions has produced few public goods
 - Very low revenues, employment generation or contribution to growth and exports
 - Decreasing access of poor and environmental degradation
- ✦ RGC has recognized failings
 - Prime Minister Hun Sen's speech of October 18, 2004
 - Process of reducing/reforming concessions for fisheries, forests and land
 - Increasing support for community-based approaches
 - Management vacuum?

4. Managing Natural Resources for the Public Good

- ✦ Strengthen policy and legal framework to support sustainable management
 - Set overall priorities for use of state managed natural resources
 - Complete legal framework – key laws and subdecrees
 - Improve dispute resolution mechanisms within and outside judiciary
 - Decentralized, participatory mechanisms to complete resource assessments
 - Greater horizontal and vertical sharing of oversight roles and responsibilities – improve transparency
- ✦ Local benefit sharing to increase transparency and accountability
 - Develop arrangements which share management responsibilities and benefits with local communities
 - Improve incentives and delegated authority to district and provincial staff of resource management agencies

4. Managing Natural Resources for the Public Good

Strengthen Enforcement During Transition

- Maintain/implement moratorium on concessions pending completion of review process and legal frameworks
- Public disclosure and consultation on concession cancellation or restructuring process
- Initiate multi-stakeholder system for identifying, reporting and responding to abuses
- Build capacity amongst subnational staff of Government agencies and communities to work together (role and experience of NGOs)
- Critical role of Independent Monitor to identify weaknesses



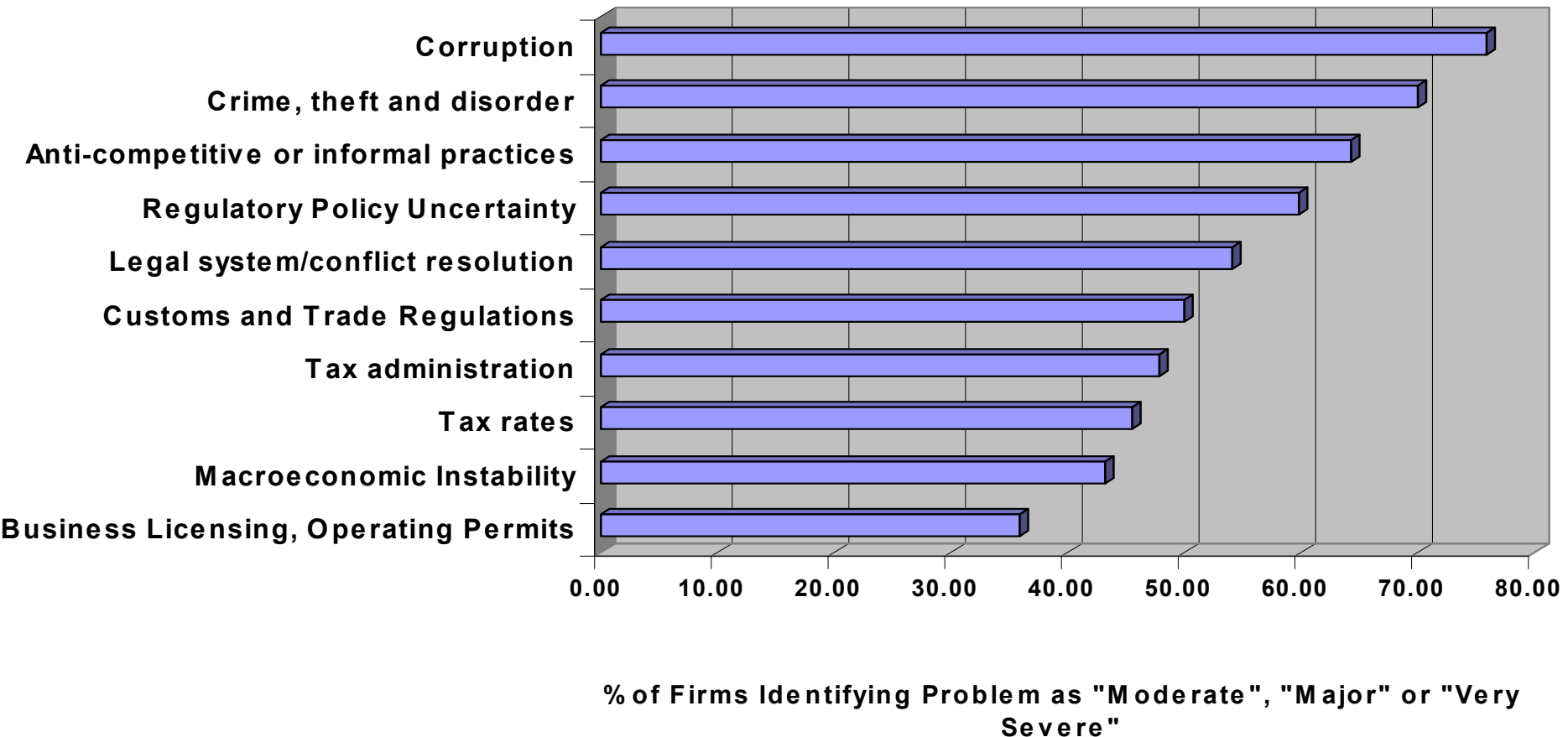
Chapter 5

Governance for Private Sector Development

5- Private Sector Growth demands better governance

According to investors, Governance is key

Cambodia: Top 10 General Constraints to Private Enterprise Operation and Growth



5 - the governance agenda for PSD

- **Complex regulation, discretion, high official & unofficial costs**
- **Weak institutions that create market linkages, esp. agro-industry**
- **Closed concessions, directly negotiated, limited accountability**
- **Governance viewed as a public sector problem**

- ✎ **Reducing costs**
 - particularly cost of corruption and cost of doing business to attract FDI and domestic investment
- ✎ **Building institutions**
 - To help integrate markets within Cambodia and especially to help the small scale rural private sector to access the global marketplace
- ✎ **Creating Transparency**
 - Competitive, transparent regulations and transactions that achieve best results for citizens and predictability for investors
- ✎ **Credibility and hope!**

5 - Through an improved investment climate the private sector can convert market access to employment and public revenue

**GROWING FORMAL TAX BASE
HIGHER GOVT PAY**

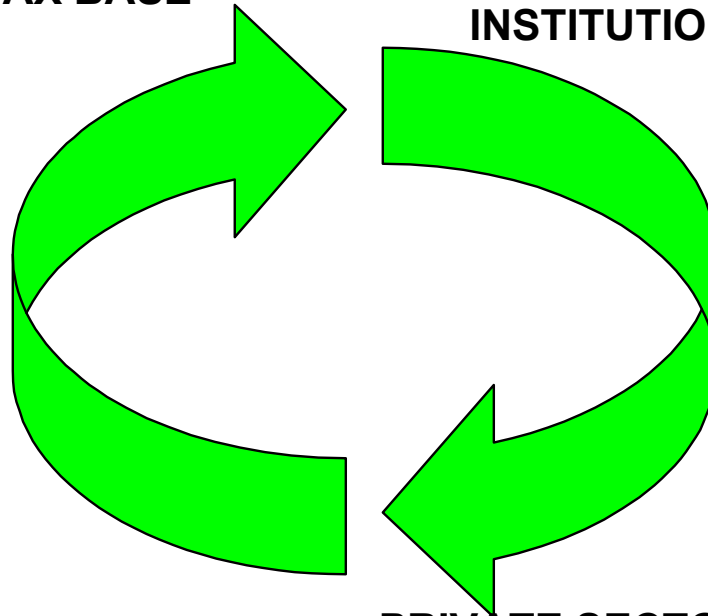
**WELL PERFORMING PUBLIC
INSTITUTIONS, RULE OF LAW**

**NEW GROWTH
PRODUCTIVITY &
EMPLOYMENT**

**EFFICIENT, LOW
COST INVESTMENT
CLIMATE**

WTO MARKET ACCESS

**PRIVATE SECTOR RESPONDS
BY REGISTERING, SURVIVING**





Chapter 6

Improving Aid Effectiveness

6 - Development Partnership: Mutual Accountability

- ✦ Poverty reduction and ODA effectiveness are hampered by weak governance and donor coordination.
 - weak governance impedes poverty reduction
 - ODA must address governance in order to reduce poverty
 - weak donor coordination reduces effectiveness of ODA
 - poor donor practice and coordination has undermined national ownership and development of government systems
- ✦ BUT there has been a positive shift:
 - RGC emphasis on partnership: Rectangular Strategy, Partnership Report to CG
 - Series of Harmonisation and Alignment workshops in 2004, resulting in greater understanding of issues (OECD/DAC questionnaire), commitments (Cambodia Declaration on H & A and Action Plan)
 - WB-ADB-DFID-UNCT joint country strategy process aligned to Rectangular Strategy: governance

The New Partnership Paradigm

- ✦ Cambodia Declaration on Harmonisation and Alignment...
 - Set of partnership principles, to be endorsed/signed by like-minded donors and government
- ✦ ... and Action Plan: donors can improve aid effectiveness by reducing transaction costs and strengthening the strategic orientation of ODA: ownership, capacity-building, alignment, harmonization
 - Support formulation and implementation of single government owned national strategy
 - Ensure transparency and predictability: ODA reflected in national budget, fin mgt responsibility
 - TA should emphasize capacity *building*, not *substitution*
 - Harmonize procedures, strengthen national systems
 - Increase collaboration at sector level: joint analytical work, reviews, planning, implementation and monitoring (SWAPs), ODA management
- ✦ Aid architecture: TWG restructuring to enhance sector level coordination



Ensuring Accountability

- ✦ MDB and Bilateral Donors can strengthen links between level and focus of ODA and progress on government reforms: **role of benchmarks**.
- ✦ CG benchmarking process represents accountability between Government and donors, however, **accountability links** should ultimately be between Government and citizens.
- ✦ **Role of national non-state actors** - NGOs, media and private sector - in strengthening the collective voice of civil society in articulating the **demand for reforms**.
- ✦ Donors and government need to work towards creating an **enabling environment** for civil society to safely press for legitimate reforms in the interest of Cambodian people.