Statement by Jan Piercy  
Date of Meeting: February 29, 2000  

Cambodia CAS  

1. I appreciate the comprehensiveness and candor of this Country Assistance Strategy. This is in some respects a post-conflict strategy, as Cambodia is still emerging from conflict, with daunting development needs and challenges. We welcome the extensive participatory process through which this CAS was developed. The broader effort to develop an ongoing dialogue/relationship with stakeholders should build capacity to monitor and give input to the national reform program. This is always valuable, but it is particularly vital in the weak governance and capacity environment in Cambodia. Public monitoring and accountability will likewise be strengthened by CAS translation into Khmer and wide public dissemination. We would be interested to hear whether there are plans for briefings or workshops once the CAS is issued, to further build public awareness and understanding of the government’s commitments to reform.

2. The CAS outlines Cambodia's reform agenda well. It is, by necessity, ambitious. The challenge of sustainable development and poverty reduction requires political commitment to pursue the reforms needed for ensuring macroeconomic stability, a sound fiscal policy, protection of Cambodia’s natural resources, and improving the environment for the private sector. We agree that it is essential to (paragraph 35): "tackle the fundamental fiscal and governance problems." Strengthening revenue collection and reorienting spending from defense and security to the social sectors is the cornerstone of the fiscal reform program. The government needs to focus on: strong implementation of the VAT and improving tax and customs administration, and more broadly, ensuring the integrity, accountability, and transparency of the budgetary process.

3. We welcome the Government’s commitment to downsize the army by one-third by 2003 and to reduce military spending. In 1998, defense and security spending were nearly 50% of the budget while spending on health and education were only 13%. Clearly, a shift in budget priorities away from defense spending to social sector spending is essential to achieve economic
growth and sustained development. The CAS is silent on police downsizing. It would appear that police and local militias do not fall under either military demobilization or the civil service reform process. How will the World Bank and other donors deal with this issue? We would also appreciate an update on the creation of a National Audit Authority to implement systematic auditing of military spending. We strongly support the creation of means to improve transparency and accountability of the current system of civilian audits.

4. We strongly support the work by the Bank and others to strengthening education in Cambodia. The CAS notes that other donors are also involved in this sector. We would appreciate assurances that basic needs, particularly of girls, are being met. We note that the Bank will not be providing new financing for primary education until FY03, although this may have a heavy cultural component, as opposed to basic education. We were pleased to see that the Bank will give particular attention to the needs of girls in this operation. Nonetheless, while the CAS emphasizes the serious consequences of the current economic situation in Cambodia for women and girls, there was little follow-up discussion of specific actions that are being undertaken to deal with gender issues. We would appreciate staff comment on this point; reports of trafficking in girls, for example, underscore the precarious and vulnerable status of women and children. This is a dire situation which must be acknowledged and addressed.

5. We appreciate the Bank’s frank discussion of the problems of weak governance in Cambodia, notably in the area of financial management, and welcome the commitment of the Government and the Bank to take on these issues through a Diagnostic Analysis of Governance and Corruption, a Public Institutional Review and Governance Action Plan. The entire reform agenda depends completely on cutting corruption, acknowledged to be deeply embedded in Cambodia. The Public Expenditure Review, a grant for capacity building for public sector accounting and auditing and lending to deepen reforms in public administration and public expenditure management and to streamline the public sector will further these efforts. This ambitious program will require close, careful monitoring, as the track record for translating commitments to action is very short. This should remain a key focus of the Bank and we would welcome staff comment on this point. In this regard, we were encouraged to learn from staff of the government's quarterly meetings with the donor community, and monthly meetings of donor sectoral working groups, including civil society organizations. The need to increase civil servant salaries to sustainable levels is not discussed in the CAS, although it is covered in the SAC. This aspect of the reform of the civil service should be mentioned in the Good Governance Action Plan.

6. The CAS rightly underscores the need for effective strategic partnerships so that aid coordination can be used most efficiently. Nonetheless, our authorities have fundamental reservations about the proposed use of the SWAP program to implement this coordination. SWAPs foresee donor participation either through individual projects which address sector needs, or slices of expenditure programs. We support the aid coordination concept which is the basis of this instrument. However, use of sectoral budget support is highly risky in a country with the weak governance and financial management which characterize Cambodia. This approach injects funds directly into a government's stream of budgetary expenditures: how reliably can financing be tracked and accounted for? On what basis can we determine and attribute results of foreign assistance?
7. Before the Bank proceeds on this course with any country, it should be prepared to do the necessary analytic work, including a Country Financial Accountability Assessment (CFAA), a Country Procurement Assessment Report (CPAR), and annual Public Expenditure Reviews. A work program to strengthen the Government’s budgeting and financial sector management to ensure that funds do not go awry is also required. In our view, such preparatory work should be done before all adjustment lending.

8. Aside from the issue of the appropriateness of the SWAP instrument for Cambodia, we have a broader concern that a new instrument is being introduced, via the SWAP, without the prior concurrence of the Board. In fact, our authorities note many similarities to the proposed Public Expenditure Reform Loans (PERLs), which the Board has not approved. We urge that the Board review the broader SWAP concept, including its appropriateness for countries such as Cambodia, in a separate discussion. We regard the SWAP as currently configured as premature for Cambodia.

9. We were pleased that this was presented as a joint product with the IFC, and welcome the latter’s commitment to help Cambodia’s private sector development. In this context, we note the importance of the private sector to help set priorities for improving the business climate. We would appreciate more information on how the IFC-led Government-Private Sector Dialogue will evolve.

10. The Bank proposes welcome investments in Cambodia’s environment -- plans for small loans on biodiversity and forestry, and operations for rural electrification and development -- as well as analytical work on water and sanitation policy and land management. We are concerned about many of the details and the timetable associated with forest sector reforms, which is presented in greater detail in the SAC. The report on recent actions seems unduly rosy. Statements that the crackdown on illegal logging will continue with the support of military, police, and provincial authorities are somewhat disconcerting since these very authorities are known often to be responsible for illegal activities. In terms of timing, it was our understanding from the IMF’s ESAF negotiations last October that the draft Forestry Law was supposed to be completed by December, but we see that it is only a condition for the second tranche of the adjustment loan, rather than the first. Once again, we see a slipping of the timetable for real actions to stop the destruction of Cambodia’s forests. As trees disappear from Cambodia, the damage to watersheds also results in declines in rice and fish production on which people depend for sustenance. We appreciate the World Bank's facilitation of the appointment of Global Witness as independent monitor of forest reforms, and commend the government's support for Global Witness' role, which we are following with great interest.

11. We are pleased that the CAS includes a discussion of core labor standards, including child labor. The CAS acknowledges the passage of a new labor law in 1997 and the ratification of a number of core ILO conventions. Mention is also made of the U.S.-Cambodia textile agreement, which includes a provision offering an addition to the quota if working conditions in the Cambodian garment industry comply with internationally recognized core labor standards. This was in recognition of the fact that Cambodia's labor law is better than most developing countries and that the government was in a position to further improve working conditions to
bring them into substantial compliance with internationally recognized standards. We would have preferred a more systematic approach to labor issues in the document. The document could also have been strengthened through an evaluation of performance.

12. We conclude by stressing that good governance, military and police demobilization and continued political stability are essential to Cambodia's development as well as the success of the World Bank’s program in Cambodia. If Cambodia cannot meet its commitments in any of these areas, the World Bank should be prepared to suspend its program. We wish the Cambodian authorities every success in undertaking the ambitious program of economic development and social investment to which they have committed themselves, and we commend the World Bank country team for the partnership they have built with Cambodia in formulating this Country Assistance Strategy.

13. In compliance with domestic legislation, I ask to be registered as abstaining on the Structural Adjustment Credit (P-7359-KH).