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Government, donors resolve to tackle corruption and governance reform at the CG meeting

The 7th Consultative Group (CG) Meeting on Cambodia ended December 7, 2004 in Phnom Penh with Government and Donors agreeing that Cambodia is indeed, as Prime Minister Samdech Hun Sen stated, at a “crossroads in its difficult journey towards sustainable development and poverty reduction.” The time has come, all agreed, to move beyond action plans and strategies to decisive implementation of a comprehensive reform program.

The CG Meeting, held December 6-7 in Phnom Penh, was attended by members of the donor community, including 18 partner countries and 5 international development organizations, and the Government of Cambodia. Civil society and private sector representatives attended as well. Delegates noted that all – government, donors, civil society, private sector – were united behind the message that it is time to transform the promises and commitments into actions with concrete outcomes.

The Prime Minister noted that Cambodia’s last decade had seen signs of progress, including restoring peace and macroeconomic stability; consolidating government institutions and an emerging democracy, civil society, and media; and a resumption of growth and foreign investment.

“However, we are living in a tough and challenging time,” Prime Minister Hun Sen continued, citing the changing regional and world dynamics and economic landscape, increasing uncertainty, and increasing competition for Foreign Direct Investment (FDI) and ODA (Official Development Assistance) resources, leading him to conclude, “the prosperity of our country depends on our ability to implement reforms at all levels. In this context, the biggest challenge for us is to strengthen government institutions and improve governance.”

Senior Minister Mr. Keat Chhon, Minister of Economy and Finance and Co-Chair of the meeting, updated the group on actions taken since the last meeting of the Consultative Group in June 2002, noting progress in, “implementing pro-poor development policies, achieving macro economic stability, public finance management reforms, strengthening democracy and rule of law, mobilizing technical and financial resources, and improving the delivery of public services to meet the needs and expectations of the poor people.” He cau-

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The 7th Consultative Group Meeting held in Phnom Penh, December 6 - 7, 2004

Overseas buyers plan to continue purchasing Cambodian garments after quotas expire

The World Bank Group announced on December 3, 2004 that key overseas buyers from Cambodia’s garment industry currently plan to retain or increase their purchasing – not withdraw, as many Cambodian factory owners fear. These and other findings of an International Finance Corporation and World Bank survey were discussed in a closed workshop with representatives from the garment industry and government.

Nigel Twose, Manager of the IFC/World Bank Foreign Investment Advisory Service (FIAS), which undertook the survey of Eu-

ropean and North American buyers at the request of the Ministry of Commerce, listed a number of key findings. “Buyers surveyed purchase about half of Cambodia’s garments by value of sales. Of these buyers, sixty percent said they plan to increase their garment purchases from Cambodia – none has plans to buy less. Findings also show that Cambodia’s overseas buyers rate labor standards as one of their top priorities in their sourcing decisions, and consider Cambodia to have an advantage over Bangladesh, Thailand, Vietnam and China.”

The survey revealed that almost 80% of buyers consider auditing of labor standards to be crucial after January 1st, and they have high praise for ILO’s current monitoring scheme. Buyers also state that improved labor standards have positive effects on accident rates, workplace productivity, product quality, worker turnover and absenteeism.

Buyers were, however, insistent that compliance with labor standards is not sufficient for the garment industry to survive

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Donors underscored the urgency of governance reform

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tioned however, “*there are many challenges facing us, the most formidable one is the reduction of poverty and improving the livelihoods and quality of life of a rapidly growing population.*”

Delegates congratulated the Government for their achievements of the past decade and more recent reforms – including WTO accession, progress in the fight against the spread of HIV/AIDs, improved literacy rates and increased school enrolments, particularly among girls. The Rectangular Strategy – whose core is governance – and recent initiatives on public financial management, decentralization, and private sector development are all positive developments. However, donors stressed that some of these reforms are in prelimi-

progress on legal and judicial reform and public administration and fiscal management was weak, donors agreed.

Donors underscored the urgency of governance reform in all areas and sectors as essential for Cambodia to move ahead, increase growth, and reduce poverty. Government confirmed their commitment to implementing their reform agenda through the Rectangular Strategy and to improving the effectiveness of development aid in order to reduce poverty and maximize the benefits of aid, but stressed that reforms would take time. As Prime Minister Hun Sen commented in his speech, “*Doing is much harder than saying. We more than anyone else are acutely aware there is a long march ahead... Nevertheless, we have the horizon firmly*



Ian Porter spoke at the opening

cluding improving education, health, HIV/AIDs, and mainstreaming gender equity in social and economic development.

◆ *Increasing Aid Effectiveness* including harmonization and donor alignment and external financing requirements.

In each session, a series of common indicators were agreed upon, to help Government and development partners alike monitor performance in the coming year. A sample of these actions include: passing a draft anti-corruption law in compliance with international best practice; trials on the key reported corruption cases; adoption of a fundamental legal framework that establishes rule of law for all; civil service reform founded on merit-based pay and employment reform; passing of key laws and sub-decrees on natural resources management and increased access to information in particular concerning land, forests, and other forms of concessions; establishing a single entry point, or Single Window, for import-export activities; and passing domestic violence and anti-trafficking laws. Actions were identified in each of the key areas of good governance; rural development; human development and health and education; and increasing aid effectiveness.

On aid effectiveness, donors were urged to change the way they provided aid. In particular, they were urged to provide technical assistance in a manner that builds Cambodia’s capacity and to rely less on foreign technical assistance (TA); to phase out and replace the ad hoc salary supplements they provide to civil servants to work on their projects with support for merit-based pay initiatives; and to work in sector wide approaches (SWAPs) wherever appropriate. While supportive of these general directions, donors stressed the need for better and more transparent systems in the country to underpin effective

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Cambodia Government officials present at the Consultative Group Meeting

nary stages and that much more remained to be done to break the hold of poverty that grips the bulk of the population – with reports showing that income poverty remains stagnant, at around 40 percent, and that Cambodia is unlikely to meet most of its Millennium Development Goals (MDGs).

More specifically, Government progress in meeting the set of performance indicators established at the last CG Meeting in June 2002 was mixed. While there have been improvements in procurement, implementation has raised new issues. Progress in natural resources management – suspension of forest concession and improvements in public disclosure – was offset by continuation of illegal logging and visible governance failures associated with the misuse of state resources. Progress in the social sectors was mixed, with specific budgetary goals unmet but some progress towards those goals and on HIV/AIDs. And

in our sights and we will spare no measures to take Cambodia forward for the betterment of its people.”

The governance theme ran through each of the discussion sessions, with the first session focusing solely on issues related to governance and corruption. The sessions included discussions on:

◆ *Promoting Good Governance* including fighting corruption and increasing accountability; legal and judicial reform and protection of human rights; public administration reform; decentralization and deconcentration; and public financial management.

◆ *Accelerating Growth and Improving Rural Livelihoods*, including enhancing the agricultural sector; promoting private sector development; and further rehabilitation and construction of infrastructure.

◆ *Supporting Human Development* in-

Garment exports will depend on improved business climate

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and grow. Seventy-five percent of buyers surveyed said that red tape, corruption and high energy costs must also be tackled, if production costs are to be competitive. Twose noted that bribe payments alone amount to a reported average of 5% of Cambodian firms' sales. "Because garment production costs in China are estimated to be 15-20% lower than in Cambodia, this 5% and other costs of doing business here can render Cambodia uncompetitive."

Nisha Agrawal, the World Bank's Country Manager, welcomed the survey's findings, but echoed buyers' warnings about Cambodia's business climate. "The issues that concern overseas buyers' about the costs of doing business in Cambodia are shared by the donor community", she said. "The survey findings are a valuable input from the business community for the Consultative Group meeting being held here on Monday and Tuesday (6-7 December)."

Sok Siphana, Secretary of State for the Ministry of Commerce thanked FIAS for conducting the survey. "The results confirm the importance of the market niche that cares about labor standards. We have global competitive advantage on this issue, and we want to capitalize on it."

The Multi Fiber Arrangement, or MFA, which ends on 31 December, has provided many developing countries with access to markets and transitional shelter from the rigors of global competition. Starting January 1, Cambodia's garment exports will no longer be determined by the amount of quota it has been allocated by governments in importing countries. Instead, the success of the industry will depend on its

competitiveness.

Worldwide, textiles and clothing is a \$350 billion industry, employing nearly 24 million workers in 200 countries. According to Twose, in many of these countries the quota system has encouraged the creation of garment industries that are not competitive. "These will almost certainly die away in the next few years, causing factories to close and significant job losses. But countries that are competitive will find their market share increasing. Cambodia's garment industry represents less than 1% of the global industry, but it is of great importance to the country because it employs 220,000 workers, and represents 77% of the country's total exports (in 2003 worth 12.4% of GDP)."

The industry is fueled by significant levels of foreign investment. Seventy-one

percent of exports go to the United States, and 27% to the European Union. Over the last five years, exports to the US have risen 57%, and exports to the EU have risen even more rapidly by 83%. Cambodia has a relatively small group of international buyers, dominated by Gap Inc.

It is widely recognized that Cambodia's reputation as a "sweatshop-free" country stems from a unique provision in its trade agreement with the US. Starting in 1999, Cambodia could earn a higher quota for demonstrated improvements in working conditions. A monitoring system developed and implemented by ILO, with support from the US Department of Labor, the Government of Cambodia, and the Garment Manufacturers' Association of Cambodia (GMAC) has virtually eliminated the worst labor abuses



PHOTO: CHOR SOKHUNTHEA

A garment worker sews clothes at a garment factory in Phnom Penh

such as child labor and sexual harassment.

Van Sou Ieng, Chairman of GMAC, noted "The labor standards monitoring system that we have developed here is unique. It involves all garment factories and is completely transparent."

The garment buyers survey was financed by FIAS, with additional support from the Agence Francaise de Developpement and the French Ministry of the Economy, Finance and Industry. As a next step, FIAS, the Ministry of Commerce and ILO will collaborate on adapting the existing labor monitoring system to the new market realities, and will also consider implications for other industry sectors. Final recommendations and plans for the future will be made in a follow-up workshop in February 2005.

The World Bank small Grants Program 2005

Call for Applications

Closing date: January 31, 2005

Who can apply:

In 2005 the World Bank Small Grant Program (SmGP) funds available is US\$34,000. The SmGP is intended to support youth organizations activities related to the theme "*Youth Engagement in Development of Cambodia*". The activities of the grant support will focus on youth groups including promotion engendering development, useful dialogue, and dissemination of information about development.

How to apply for a Grants?

Please send the proposal to the World Bank Country Office at #113 Norodom Blvd., Phnom Penh, **before January 31, 2005**. The application is available at the World Bank Public Information Center or at the website: www.worldbank.org/smallgrantsprogram

For more information contact:

Ms. Ou Narya, nou@worldbank.org or Ms. Nil Vanna: vnil@worldbank.org. Tel 855 213 538 fax: 210 504

Next CG meeting one year from now

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tive aid harmonization efforts.

The NGO civil society representatives expressed an interest in participating in joint monitoring of progress and reforms through the Technical Working Groups (TWGs) and are committed to abide by the principles of the TWGs. They stressed the importance of community involvement in order to bring the people's voice to influence the government's decision-making process.

The actions identified in each of the key areas are summarized in the Chairman's Concluding Remarks. The newly-established Government Donor Coordinating Committee (GDCC), chaired by Senior Minister Keat Chhon, would play an important role in monitoring progress on a quarterly basis, delegates agreed.

"These performance indicators represent an ambitious undertaking," said Mr. Ian Porter, World Bank Country Director for Cambodia and Co-Chair of the Meeting. "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. To move forward on this agenda, we would need to see momentum, commitment, political will – and most importantly, to see



Donors and NGO representatives attended the CG meeting

words decisively translated into actions. This will take time, but we need to start now." He continued, "Cambodia faces some difficult choices in the weeks and months ahead. It needs to demonstrate that it has chosen this road to improved governance and poverty reduction – and members of the Consultative Group stand ready to support, both financially and technically, this reform agenda."

Donors 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. Both the amount and composition of future pledges will be a function of Cambodia's performance on its reform agenda.

The Royal Government of Cambodia and its development partners agreed to meet in Phnom Penh for the next CG Meeting one year from now.

For more on the Consultative Group on Cambodia, please see: www.worldbank.org/kh.

The World Bank Development Marketplace 2005 Call for proposals for Development Marketplace 2005 on Innovations for Livelihoods in A sustainable Environment

Closing date: January 21, 2005

Who can apply and Eligibility Criteria

DM2005 is open to all, including Non Governmental Organizations (NGOs) and other Civil Society Organizations (CSOs), multilateral and bilateral development agencies (including the World Bank), private foundations, universities and schools, private sector groups, individuals, and local and municipal governments. Proposals will be screened to ensure that they conform to the following criteria:

Theme: Proposals must reflect the theme of Innovations for Livelihoods in a Sustainable Environment in any of the following areas:

- Renewable energy and energy efficiency at the community level
- Innovative application of clean technologies in small enterprises
- Biodiversity conservation
- Environmental education and awareness
- Protecting environmental health (air and water pollution, water supply and sanitation, persistent organic pollutants (POPs)
- Sustainable use of natural resources (land, agriculture, water, forests)

How to Apply

PROPOSALS must be submitted through the development marketplace website. For instructions and detailed information on how to apply, please visit our website at www.developmentmarketplace.org If you are unable to access the internet or the website, please contact the DM team at (202) 522-2042 by fax or send an e-mail to: DMinfo@worldbank.org. The development marketplace team must receive your proposal by 6 p.m (Washington local time or 23:00 GMT) on January 21st 2005.

Q&A column

Dear readers,

We would like to organize a new column, as part of our Monthly Newsletter, called: *This Month's Q&A (Question and Answer)*. This column will hopefully provide the opportunity to readers to ask questions regarding the World Bank activities in Cambodia. We will respond to questions accordingly, though depending on timing and quantity, some questions may be answered at a later date.

Please send your questions to: Bou Saroeun, Communications Specialist, at 113 Norodom Blvd., Phnom Penh, email: sbou@worldbank.org.