

GOVERNANCE AND ECONOMIC PERFORMANCE: CREDIBILITY, POLITICAL WILL, AND REFORM

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“[The Royal Government of Cambodia is] conscious that good governance is a sine qua non condition for promoting social and economic development and sustainable social equity.”¹

—Prime Minister Hun Sen (2001a; 2001b)²

—Senior Minister Keat Chhon (2001)

INTRODUCTION

This paper examines how well words have turned into action when it comes to governance in the context of Cambodia’s economy. It reviews a wide-ranging series of achievements in the last decade, many of which the Royal Government should indeed be very proud of. It also examines shortcomings and offers a framework through which to evaluate the likelihood of success.

The paper contains five sections, including this Introduction. Section II begins with an evaluation of economic performance and governance together as policy, practice, and outcomes—success transitioning to a market economy, in containing inflation and keeping exchange rates stable. Success has been more limited in strengthening judicial independence, decentralization, and empowering the National Audit Authority. Based on outcomes, Cambodia has

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¹ The origin of the phrase “governance is a *sine qua non*” can be traced at least as far back as the “Public Administration and Development Report of the Secretary-General” to the United Nations Economic and Social Council, 8 March 1996. Available:

<http://www.un.org/documents/ecosoc/docs/1996/e1996-7.htm>

² The phrase “The RGC is conscious that good governance is a *sine qua non* for promoting social and economic development and sustainable social equity” was first used on 29 January 2001 and would be used again in his closing address at the 2nd National Conference on the Implementation of the Government’s Political Platform for Social Development and Poverty Reduction on 14 March 2001 (as excerpted in *Cambodia New Vision*, 2001).

also seen a number of disappointing trends in the last decade, chief among them has been the failure to achieve significant poverty reduction despite massive aid, and concurrently the increase in infant and child mortality and inequality among other indicators. Finally, again judging from outcomes alone, Cambodia has not yet passed an Anti-Corruption Law since the issue first came to fore in 1994, nor has it enjoyed success in contracts transparency and concessions policy (albeit a draft law is under discussion).

While there are always foreseen and unforeseen extenuating circumstances, such as elections, bird flu, Severe Acute Respiratory Syndrome (which resulted in 10% drop in tourism), the anti-Thai riots, the events of 5-6 July 1997 (which saw a plunge in FDI), the results speak for themselves. These are, ultimately, failures of development due to poor governance. Economist William Easterly has said that “Development is too important to be left to the politicians.” Unfortunately, development is more often than not subservient to patronage politics in Cambodia. Although every country is unique in character, history and culture, its quality of governance can be measured with albeit imperfect subjective instruments (like polls of experts, surveys of firms, etc.) that can in turn be compared to other countries. How Cambodia performs relative to other countries across one element of governance or another offers important insights into its political economy. The World Bank aggregated database (Kaufmann et al., 2003) of six dimensions of governance composed of: (1) voice and accountability; (2) political stability; (3) government effectiveness; (4) regulatory quality; (5) rule of law, and (6) control of corruption reveals that in 2002, when compared with similar income countries in the region, Cambodia performed relatively better in the first four dimensions of governance, while it did relatively worse in the rule of law and control of corruption. As we shall see in this paper, these particular weaknesses of governance will appear and re-appear.

Section III is about the political reality of reform given the experience of the last decade. It discusses trends in donor and government strategies, touching upon the Royal Government’s “Rectangular Strategy for Growth, Employment, Equity and Efficiency” (RGC, 2004b).³ It provides as a framework of reference a

³ The Rectangular Strategy is so-named because during the 2nd Mandate of the National Assembly (1999-2003), the RGC outlined the “Triangle Strategy” which aimed to achieve three main objectives: (1) Ensure and maintain the peace, stability and the security for the nation and its people; (2) Integrate Cambodia into international community and normalize Cambodia’s relationships with international development and finance institutions; and (3) Promote sustainable socio-economic development through the intensive implementation of reforms in key areas including demobilization,

Rectangular Reality in which political willingness is juxtaposed against policy environment. It goes on to describe the “natural experiment” of 1998 following the “events of 5-6 July 1997” in which Official Development Assistance (ODA) decreased significantly and the Royal Government subsequently committed to “break away from the past.” It posits as evidence the possibility that reforms can be achieved in the presence of credible budget constraints (risking a balance of payments crisis), but that such conditions are unlikely to arise again in the near future, and where this change contradicts political reality, the intervention will eventually falter.

Section IV discusses possible solutions and prospects by examining performance-based allocations, contrasting two recent cases of corruption underscoring the importance of credibility. Cambodia has rationally engaged alternative donors to provide financial resources which will dilute the strength of Consultative Group donor coordinated reductions in aid (the first instance of which happened in at the 2004 CG, but minimally). Sadly, while dislodging the current low governance equilibrium is unlikely from a political economy perspective, it may be the burden of debt repayments in the near future that will trigger effective reforms. By that time, Cambodia may join the ranks of dozens of heavily indebted poor countries. The Conclusion, Section V, summarizes the paper’s main findings and offers three lessons learned.

A DECADE OF GOVERNANCE AND ECONOMIC PERFORMANCE

*Qualified Successes*⁴

*“Governance is the manner in which power is exercised in the management of a country’s economic and social resources for development. Good governance ... is synonymous with sound development management.”*⁵

–World Bank (1992: 1) and Asian Development Bank (1997)

public administration reform, judiciary and legal strengthening as well as economic and financial reforms.

⁴ I use the word “qualified” here to circumscribe or limit the word “success”. Of course, credit should be given where credit is due.

⁵ In fact, this phrase dates back to *Webster’s New Universal Unabridged Dictionary*, London: Dorset & Baber, 1979. This reference is thanks to Ahrens (2001: 16). One may wonder what is “power”? Among 16 possible noun variations, the American Heritage® Dictionary of the English Language, Fourth Edition, defines “power” as: “(1) The ability or capacity to perform or act effectively. (2) A specific capacity, faculty, or aptitude. Often used in the plural: her powers of concentration. (3) Strength or force exerted or capable of being exerted; might. See Synonyms at strength. (4) The ability or official capacity to exercise control; authority. (5) A person, group, or nation having great influence or control over others: the western powers. (6) The might of a nation, political

*“There is no need to plead the case of good governance. We are all converts.”*⁶

—Deputy Prime Minister Sok An (2003)

If nothing else, the last decade has also shown that there is no need to plead the case for macroeconomic stability or the merits of the market economy. Members of the Royal Government are all converts.

On 14 October 1994, a *Sarachor* or Circular No. 63 (RGC, 1994), pursuant to directive No. 536 dated October 19, 1993 of the Cabinet of the then First and Second Prime Ministers, signed by then Minister of Commerce Var Huot, announced the “adoption of the market economy”:

1. All the prices of goods shall be determined by mutual agreement between buyers and sellers.
2. The State shall allow free competition between traders. In order to foster competition, the State shall encourage the participation of all traders.
3. The state shall guarantee to the traders freedom to move goods.

The Heritage Foundation (2005) rates Cambodia as “Mostly Free” in terms of economic freedom with an overall score of 2.89 (ranked 63 just above Mexico), and the country ranks higher than Thailand (71), Vietnam (137), and Laos (150) out of 161 countries. While items 1 and 2 were faithfully implemented, it is now abundantly apparent that item 3 leaves much to be desired. Illegal checkpoints have made the freedom to move goods very costly, despite occasional pronouncements by senior officials announcing their dismantlement.

Furthermore, while most State-Owned Enterprises have been privatized, the process cannot be said to have been transparent. To be sure, while the Government of Canada (2004) lauds Cambodia’s economy as having a “Liberal investment climate with many incentives” we also know from recent empirical evidence that unofficial payments⁷ amount to 5.2% of surveyed firms’ gross

organization, or similar group. (7) Forcefulness; effectiveness: a novel of unusual power.” Available: <http://dictionary.reference.com/search?q=power>

⁶ H.E. Sok An was at the time Senior Minister, Minister in charge of the Office of the Council of Ministers, and Chairman of the Council for Administrative Reform when he spoke on “Administrative Reform” at the “Interim Consultative Group Meeting” on 28 January 2003.

⁷ This is the preferred phraseology of the authorities, while it is more commonly known as a bribe tax. While the World Bank (2004a) faithfully replaces all instances of “bribe tax” with “unofficial

revenues (World Bank, 2004d), more than twice that of Bangladesh, Transparency International's bottom performer on the Corruption Perception Index 2004 (which does not include Cambodia due to a lack of data).⁸ An estimate for corruption was proffered at \$120 million (World Bank, 2004d) and between \$300-500 million by Calavan et al. (2004) for USAID which was a descriptive study of corruption in Cambodia. The Global Corruption Report 2005 by Transparency International inaugurates Cambodia's first Country Corruption Report.

Box 1: Low Inflation and Stable Exchange Rates

"Cambodia has achieved some modest economic successes, recently meeting its overall targets for revenue, expenditures and domestic financing while maintaining low inflation and a stable exchange rate." (USAID, Undated)

"At the same time prudent monetary policy contributed to continued expansion of net foreign assets, a stable exchange rate and a low inflation rate of 0.5 percent." (World Bank, 2004c)

"The authorities have achieved progress in economic growth and kept inflation low despite the adverse impact of the floods in 2000... Prudent monetary and exchange rate policies will continue to be needed, supported by the avoidance of domestic financing of the budget." (IMF, 2001)

"Inflation has remained low and economic growth has been sustained despite a weakening in the external environment." (IMF, 2002)

"Performance under the PRGF arrangement was broadly satisfactory, as inflation remained low and sustained economic growth was maintained despite adverse weather conditions." (IMF, 2003)

"Inflation will be subdued given the central bank's recent history of responsible monetary management." (ADB, 2002)

Notwithstanding this, specific macroeconomic outcomes have been nothing short of remarkable. Both inflation and exchange rate instability were very serious problems during this early 1990s period.⁹ The riel depreciated against the US dollar from an average of 418 riel to the dollar in 1990 to circa 2500 between 1994 and 1997 to 4000 in 2004 and has been stable for the last several years. Box 1 gives recent examples of donor praise for Cambodia's low inflation and/or exchange rate stability.

payments" the find-and-replace function missed (perhaps intentionally) one instance in "Annex III: Methodology: Productivity and Investment Climate Survey" on page 110.

⁸ Bangladesh is tied with Haiti in last place at 145 out of 145. Available:

<http://www.transparency.org/cpi/2004/cpi2004.en.html#cpi2004>

⁹ While Consumer Price Index (CPI) figures are not available prior to 1996, what is available is GDP Deflator (1990: 146%; 1991: 107%; 1992: 75%; 1993: 107%). From 1994-2002 the GDP Deflator averaged 6.45%.

While macroeconomic stability was achieved, rapid economic growth was not. Real GDP growth has been respectable, albeit modest, at circa 5% in the last decade.¹⁰ Growth in 2005 is projected to plunge to between 1.9 and 2.4% according to the IMF and the World Bank, respectively, due to the end of garment export quotas. Based on the country's comparative advantage, agriculture is Cambodia's best hope for long-term growth—but this has unfortunately not been the case.

Finally, another success for Cambodia was its accession to the World Trade Organization in 2004. It should be noted that joining WTO came at a great price in terms of both generic drugs and agricultural sector concessions according to Oxfam (2003), the details of which will not be detailed here. Debating the pros and cons of joining is moot at this point. Cambodia is now a member, and dozens of laws await passage.

WTO membership is widely seen as a possible straightjacket for further and deeper reform. For example, making laws publicly available has not been a forte of Cambodia. While ignorance of the law does not permit one to violate it, the basis of this principle presumes that the law is at least made known to the public. The Government has published for some years now an Official Gazette, but following the 2003 elections, publication was reported to have ceased for nearly a year due to lack of funding. As a member of the WTO, Cambodia is required to place all laws on the Internet.¹¹ Furthermore, the creation of commercial courts has been precipitated by WTO membership. The Royal Government recognized their importance as long as a decade ago,¹² but was unable or unwilling to move forward. Of course, while challenges remain with the rule of law and impunity, it is hoped that other WTO members will not take lightly to this attitude, and will encourage the letter of the law to be respected.

¹⁰ Its composition however was too narrow, because of its focus on garments and tourism. Employment in garments is significant, at a quarter of million jobs were created (plus or minus the retrenchment now observed in the aftermath of the end of garment quotas, see related paper by Keo Chamroeun in the same issue of the CER) from essentially zero in the mid-1990s. However, the 250,000 youth entering the labor market each year represent the entire garment industry.

¹¹ The Ministry of Commerce maintains a partial listing that has not been updated since 26 December 2002 (when checked on 25 March 2005). The absence of a database-powered indexing system makes difficult finding specific laws. Available: http://www.moc.gov.kh/laws_regulation/default.htm.

¹² See Articles 54, 55, and 57 of RGC (1995).

Partial Successes, Partial Failures

“[There] is a saying that ‘Rome was not built in a day’. Nor can we build Cambodia in a day. We are a very young state. However, my government is truly committed to the vision of a Cambodia [with] fundamental principles of democracy such as rule of law. We are also equally committed to implementing judicial reform where there is complete judicial independence ...”

—Deputy Prime Minister Sok An (2002)

While some economic successes in macroeconomic stability and market orientation were truly remarkable in the last decade, progress in key governance reform was more limited. One of these areas was judicial independence. The Law on the Organization and Functioning of the Supreme Council of the Magistracy (LOFSCM) was enacted in 1994. The Law should have strengthened the independence of the Judiciary from the Executive and the Legislative branches of government to ensure separation of powers, but the Council’s membership includes a member of the Executive,¹³ despite apparent contradiction with Articles 79 and 120 of the Constitution (RGC, 1999a):

Article 79:

The National Assembly mandate shall be incompatible with the holding of any active public function and of any membership in other institutions provided for in the Constitution, except when the assembly members (s) is (are) required to serve in the Royal Government.

¹³ The Minister of Justice is a member of Supreme Council of the Magistracy (SCM). Other members are known to be active in partisan politics, while his Majesty the King officially chairs the SCM and is the guarantor of its independence according to Article 132- New (Previously Article 113). According to the Article 7 of the Constitution, “The King of Cambodia shall reign but shall not govern.” Amnesty International (2002) states: “On 7 December 1999, then Minister of Justice Uk Vithun suspended from duty the President of the Phnom Penh Municipal Court and its Chief Prosecutor, because of the allegations made against them of corruption. According to the Constitution, only the Supreme Council of Magistracy has the power to act in disciplinary proceedings against judges and prosecutors, although the Minister of Justice is a member of the Supreme Council of Magistracy, which in itself raises serious questions about the independence of this body from the government. Article 12 of the 1994 Law on the Organization and Functioning of the Supreme Council of Magistracy excludes the Minister of Justice from meetings of the Disciplinary Council, which should be convened to consider cases of disciplinary actions against judges and prosecutors. The suspension of court officials by the Minister of Justice contravened Cambodian law, because the Minister is not authorised to act in such matters.”

In this circumstance, the said assembly member (s) shall retain the usual assembly membership but shall not hold any position in the Permanent Standing Committee and in other assembly commissions.

Article 120- New (Previously Article 101):

The functions of members of the Royal Government shall be incompatible with professional activities in trade or industry and with the holding of any position in the public service.

Secretary-General Kofi Annan has said: “The United Nations exists, not as a static memorial to the aspirations of an earlier age, but as a work in progress — imperfect, as all human endeavours must be, but capable of adaptation and improvement” (2002: 6). The same should be said of the Cambodia’s relationship with its Constitution.¹⁴ Angkor, like Rome, was built over a period of centuries. A decade has passed since the LOFSCM was enacted and the first meeting of the Supreme Council of the Magistracy took place in December 1997. Since the end of 1999 it has met regularly. All can recognize, however, that much more progress is needed.

Finally, both decentralization and the creation of the National Audit Authority (NAA) can be cited as partial successes in governance. Their shortcomings had to do mainly with lack of empowerment. Decentralization was an outgrowth of the United Nations’ Cambodian Resettlement and Reintegration (CARERE) program. This program was set up in 1992 to assist returnees from the Thai border camps, later becoming the Cambodia Area Rehabilitation and Regeneration Project (CARERE2) and finally succeeded by Seila, which the Royal Government has adopted as its own. The NAA was created in 2001 with support from the Asian Development Bank following an extensive study of governance for sustainable development in Cambodia which called for (1) strengthening public accountability institutions; (2) building partnership between government and non-government sectors; and (3) building capacity for local governance.

Both decentralization and the NAA merit a longer exposition than this paper can provide. The Royal Government took a major step forward with the

¹⁴ Margaret Slocombe summed it up another way: “The main problem with politics in Cambodia is having a Lexus Constitution when what is really needed is a secondhand Toyota.” *Phnom Penh Post*, Issue 13/27, December 31, 2004 - January 13, 2005. Slocombe is the author of *The People’s Republic of Kampuchea 1979-89: The Revolution After Pol Pot*.

Commune Elections of 2002. Fiscal decentralization and empowerment of commune councils are still desperately needed. Observers may see the difference in expectations and outcomes as a conflict of visions where, according to a scholar and practitioner of development administration intimated, “The goals of the government and the international community are not aligned on this. The international community repeats their good governance mantra, but the government, if you are listening carefully, is talking about peace, stability, and *control* (emphasis added)” (Informant, 2004). With respect to the NAA, three years after its creation, then Asian Development Bank Country Director for Cambodia, Urooj Malik, pointedly remarked that the NAA “needs to be strengthened, it needs to be empowered.”¹⁵

Areas Needing Improvement

“As for being matter-of-fact, I have deliberately spared you any flights of rhetoric. This hall [the UN General Assembly] has heard enough high-sounding declarations to last us for some decades to come. We all know what the problems are, and we all know what we have promised to achieve. What is needed now is not more declarations or promises, but action to fulfill the promises already made.”

—Kofi Annan (2005: 6)

Based purely on outcomes or “results”, it might be said that Cambodians also “know what the problems are” and what actions are needed. Several documents make this clear. The Socio-Economic Development Plan: 2001-2005 (RGC, 2002a) launched on 29 July 2002 coincided with the launch of the National Poverty Reduction Strategy: 2003-2005 on 20 December 2002 (RGC, 2002b). The NPRS committed Cambodia to the Millennium Development Goals (MDGs) by 2015, in particular (1) halving the proportion of people under the US\$ 1 poverty line; (2) halving the number of people suffering from hunger; (3) achieving primary education for all, and reducing by two-thirds from the 1990 level the child mortality rate. Although Cambodia is at an initial stage, it is seriously off track in meeting the MDGs in several areas.

¹⁵ As quoted in Cochrane (2004).

Poverty Reduction and Infrastructure

“To get rich is glorious.”

— Deng Xiaoping

In spite of more than five billion dollars (an average of about 13% of GDP annually) of external financial assistance being received between 1993 and 2003, there has been a negligible impact on national poverty reduction.¹⁶ Moreover, Cambodia now lags behind Laos in infrastructure (see Table 1) and according to the same report, a larger proportion of people (78% as opposed to 73%), now live on less than \$2-a-day in Cambodia than in Laos (Asian Development Bank et al., 2005: 39).

Table 1: Infrastructure in Laos and Cambodia

	Clean Water	Toilets*	Electricity	Internet	Paved Roads
Cambodia	44	22	17	0.2	4
Laos	58	30	41	0.3	15

* Includes latrines

(% population, except for paved roads which are % of total roads)

Source: Asian Development Bank et al. (2005).

Indeed, there may have even been an increase. In a regional update published last year, World Bank (2004e) estimates of \$1-a-day poverty in Cambodia, Vietnam, and Laos (1990-2004) show that only Cambodia observed a steady increase in poverty since 1996, from 36.7% to 45% in 2004 (see Table 2). By contrast, poverty has been halved since 1990, in Laos and Vietnam.

Among the possible explanations are: (1) problems in measurement; (2) a lag effect between poverty reduction programs and actual poverty reduction; (3) ineffective programs themselves either due to donors or the Royal Government or both. Increasing discrepancy in income distribution would suggest this third alternative. Aside from anecdotal evidence (landlessness of between 12-15%, inexplicably numerous luxury vehicles in the streets of Phnom Penh, palatial villa construction, etc.), the only measurement of inequality is of an official Gini index (ranked by per capita expenditure) of 40.39 in 1997, based on the

¹⁶ National poverty (urban and rural), which is based on a caloric formula and stands at circa 55 cents per person per day has remained at circa 36% using data from both 1997 and 1999.

Cambodia Socio-Economic Survey that year.¹⁷ Changes in the Gini index *since* 1997 could help prove the hypothesis that growth has been inequitable and should help to explain the dynamics, indeed, the puzzle of poverty increase to date.¹⁸

Rising Inequality

“In the past ten years of openness we’ve gone from ox-carts to Mercedes.”¹⁹

—Secretary of State Sok Siphana

Fortunately, estimates do exist of the Gini index for Cambodia, Vietnam, and Laos, permitting international comparison. Estimates of which suggest that inequality has increased in Cambodia, from 41.4 in 1998 to 48.1 in 2004. As can be seen below in Table 2, among the three countries, only Cambodia exhibits a steady and disturbing increase in inequality since 1998.

Table 2: Estimates of \$1-a-day Poverty and Inequality

	CAMBODIA		VIETNAM		LAOS	
	Headcount Index (%)	Gini Index (%)	Headcount Index (%)	Gini Index (%)	Headcount Index (%)	Gini Index (%)
1990	48.3	41.6	50.8	35.0	53.0	32.7
1996	36.7	41.6	23.6	36.3	41.3	36.5
1998	39.4	41.4	16.4	35.4	39.6	36.5
1999	41.5	42.3	16.9	35.4	36.7	36.5
2000	43.4	43.9	15.2	35.9	35.1	36.5
2001	43.0	44.6	14.6	36.8	31.3	36.5
2002	45.5	46.2	13.6	37.5	29.9	36.5
2003	45.5	47.4	10.9	37.5	29.3	36.5
2004	45.0	48.1	9.5	37.5	27.0	36.5

Source: Adapted from Appendix Table 8 in World Bank (2004e).

¹⁷ The Gini index is the Gini coefficient expressed in percentage form, and is equal to the Gini coefficient multiplied by 100. A Gini coefficient is an index between 1 (most inequitable outcome possible) and 0 (most equitable outcome possible).

¹⁸ It should be noted that the transition from central planning to market economy also produces inequality, but increasing poverty, infant and child mortality in the presence of moderate real GDP growth is unusual.

¹⁹ H.E. Sok Siphana is a Secretary of State in the Ministry of Commerce and Cambodia’s focal point on accession into the World Trade Organization. His remark was in the context of why Cambodia is ready to join the WTO and is quoted from “You can say that again! 2003 Quotable quotes” *Phnom Penh Post*, Issue 12/26, December 19, 2003 - January 1, 2004.

Infant and Child Mortality

“The link between good governance and economic development has long been established.”

—Senior Minister Keat Chhon (1999)

Finally, since projections are inherently based on assumptions that can sometimes be problematic, further evidence of slippage can be observed with respect to both infant and child mortality rates in Table 3. In 1990, eight infants out of 100 died at birth. By 2001, that number had increased to nearly 10. While 11.5% of children who were under five years of age died, by 2001 that figure had increased to 13.8%, making Cambodia the country with the highest child mortality in the region.

Table 3: Cambodia: Mortality Rate per 1,000 Live Births for Infants and Under-5

	1990	1992	1995	1997	2000	2001
Mortality rate, infant	80	83.2	88	90.8	95	97
Mortality rate, under-5	115	..	120	..	135	138

Source: World Bank (2003).

A handful of other countries have seen similar or even larger increases in mortality rates for infants and children under five. Botswana for instance saw its infant mortality rate go from 50 in 1995, to 74 in 2000, and 80 in 2002, and its under-5 infant mortality go from 66, to 101, to 110 in 1995, 2000, and 2002, respectively. The increase can be attributed to the HIV/AIDS pandemic, not poor governance and corruption. Landlocked Botswana has enjoyed four decades of civilian leadership and has been one of the most dynamic economies in Africa since gaining independence in 1966.

POLITICAL REALITY

“The pace of poverty reduction has been disappointing.”²⁰

—Urooj Malik, Asian Development Bank

²⁰ As quoted in Woodd (2004b). Mr. Malik was at the time the Country Director and Resident Representative for the Asian Development Bank office in Cambodia.

“We are of clear view that we are accountable not just to our people but also to taxpayers of donor countries. From this perspective governance has been and continues to be the top item of our development agenda.”

—Senior Minister Keat Chhon (2004) to Asian Development Bank

Success has many fathers but failure is an orphan!

One is left with little doubt that a failure of either governance or development or both played a major role in the infant and child mortality outcomes observed and the absence of poverty reduction. Certainly, while the Royal Government must ultimately take responsibility for its own development, donors are not faultless for the failure of their interventions, nearly half of which have been in the area of Technical Cooperation. To be sure, reaching for consultants is a natural response to a difficult governance environment, but at 40-50% (IMF, 2004) for the last decade, it has redefined notions of aid. The Royal Government, to its credit, wishes to focus aid on infrastructure, and does not wish to borrow for technical assistance. An emerging complaint from the few in government who dare to speak-up has been the “mountain of reports” and the “cut-and-paste” consultants who offer nothing new in terms of high-level policy advice but whose English is “beautiful”.²¹

Infrastructure is one sector of focus for the Royal Government for donor resources, but the outcomes, when compared to Laos, suggest underinvestment. Indeed in the aforementioned report by Asian Development Bank et al. (2005: 169) the authors argue that expenditure on infrastructure “appears to have been less than optimal in recent years” and that “This may have undermined economic growth and poverty reduction, and even long-run fiscal solvency.” In addition, only eight percent of Official Development Assistance went to agriculture and forestry in the last decade (World Bank, 2004a: 24) in a country where 80% of the population is rural.²²

While the results have indeed been disappointing, two examples may help to elucidate the discrepancy between policy and practice. Many examples come to mind, but two shortcomings stand out in particular. At the 2002 CG, the

²¹ Kate (2004) was quoting Secretary of State for the Ministry of Commerce, Sok Siphana.

²² According to OECD (2004), in 2001-02, eight percent of ODA going to agriculture happens to be the regional average for Asia as well. Are the cut-and-paste consultants to blame? Let us hope it is merely coincidence. Regardless, donors should be more attuned to Cambodia’s specific development needs.

Benchmark for Public Financial Management called for the government to increase transparency in its contracts with the private sector. The IMF, on behalf of Development Partners, stated bluntly:

Performance has been most disappointing in regard to public-private contracts. Indeed, few if any reforms have been introduced that effectively improve [their] transparency ... 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 concessionaires 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.²³

At the time, the only glimmer of hope with respect to contracts was mention of “a positive response to a draft concessions law that would substantially improve the transparency of contracts, including unsolicited bids that would be negotiated bilaterally” (Ibid).

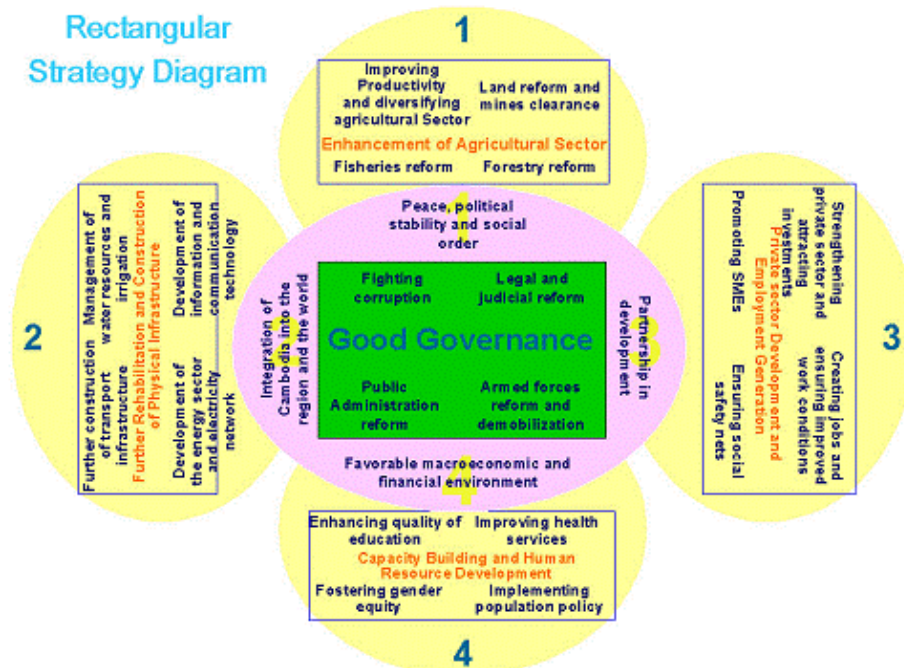
Another example of an apparent inability or unwillingness on the part of the Royal Government to confront governance problems deals with the decade-long wait for an Anti-Corruption Law, work on which began in 1994. Just prior to the 2003 National Elections, promises were made to deliver the Law. Yet to date, the National Assembly has yet to pass any law, although a draft is said to be under serious consideration. Unfortunately, the draft is known to fall short of the UN Convention against Corruption which provides a comprehensive set of standards and measures to promote international cooperation and domestic efforts in the fight to prevent corruption. The Convention is the result of a three-year effort by 129 countries to take global action against corruption and was signed in Merida, Mexico on 9 December 2003. While Cambodia has willed itself into ASEAN, WTO, and has announced its desire to join the UN Security Council, will it join 129 other countries in supporting the fight against corruption?

²³ Hagemann (2004).

Meanwhile, the first cabinet meeting of the Third Legislature on 16 July 2004 saw the launch of the “Rectangular Strategy” for Growth, Employment, Equity and Efficiency, which distilled key elements from a mélange of the MDGs, SEDPII, NPRS, and “various policies, strategies, plans and other important reform programs” (RGC, 2004). Its full breadth and series of interlocking circles and rectangles (see Graphic 1) cannot be done justice in this paper. Praised as an important Government led initiative, it nonetheless offers few indicators and benchmarks against which to judge performance. It was ultimately used as the basis of the Royal Government’s background document for the Consultative Group Meeting.

The World Bank’s background document (2004a: i) “argues that it will take more than the policies set out in the Rectangular Strategy to transform governance in Cambodia so that it is supportive of and not destructive to the development process.” Indeed, policy pronouncements, legal instruments, and even resources alone while necessary are not sufficient to ensure success. What is needed is political willingness. The Joint Monitoring Indicators and Benchmarks for 2005 adopted by donors and the Royal Government are based on the Rectangular Strategy. But let us be realistic. For them to succeed, it will require political will.

Graphic 1: Rectangular Strategy for Growth, Employment, Equity and Efficiency



Source: RGC (2004)

This suggests that the policy environment, based on the Rectangular Strategy, is supportive and that a degree of ownership is evident. Why then have outcomes not been as encouraging? Could the resources be lacking or are the targets too lofty? Or is it a question of political will? The following diagram is a stylized representation of how the selected successes and shortcomings discussed thus far may be classified along a political willingness and policy environment continuum. It is by no means comprehensive and should merely be taken as indicative. For example, while judicial independence is a stated goal of the Royal Government, the legal basis of the Supreme Council of the Magistracy, as discussed earlier, conflicts with the principle of separation of powers. As has been pointed out by Sok An, the principle is enshrined in the Constitution (Articles 128 to 134). Article 130- New (Previously Article 111) specifically states that “Judicial power shall not be granted to the legislative or executive branches.”²⁴

How can this be reconciled? He explained in 2002: “*My government is now in the process of further activating these principles and look[s] forward to donor support to further strengthen the Council and its secretariat, and hope[s] that the Council will ensure the credibility of the judiciary.*”²⁵ The speech underscores a truism of the Royal Government: “*We realize that as a developing nation we do not have the necessary financial nor technical requirements to travel this long road by ourselves. This is why the government gives every support and cooperation to donor agencies to help us with this task. We are very open in our policies in accepting donor assistance and donor interventions and at all times strive to create an environment that is friendly to donor interventions.*”²⁶ Certainly, “*acceptance of donor assistance and donor interventions*” indicates a willingness to receive technical assistance and aid, but it does not imply political willingness within a policy framework. Indeed, as Dapice (1995: 15) has underscored for Myanmar, “*economic reform is not simply setting an interest rate or exchange rate. It is establishing a shared vision of where the policies should lead and creating credibility and confidence that most movements will be in the right directions.*”

²⁴ RGC (1999a).

²⁵ Sok An (2002).

²⁶ Ibid.

**THE RECTANGULAR REALITY:
GOVERNANCE AND ECONOMIC PERFORMANCE**

Political Willingness

		No Will	Will
Policy Environment	No Policy	<ul style="list-style-type: none"> • Judicial Independence (in practice and as proscribed in LOFSCM despite Constitution) • Anti-Corruption Law (that would adhere to UN Convention against Corruption) 	<ul style="list-style-type: none"> • Anti-Corruption Law (short of UN Convention against Corruption) • Infrastructure Borrowing (as opposed to Technical Assistance)
	Policy	<ul style="list-style-type: none"> • Poverty Reduction • Promoting Equity • Reduce Infant and Child Mortality • Min. Econ. & Finance Review of Contracts • National Audit Authority (not empowered) • Enforce Forestry Law 	<ul style="list-style-type: none"> • Market Economy • Exchange Rate Stability • Inflation Control • WTO Membership • Decentralization • Growth & Employment (however narrowly based)

Criteria for Political Will (Government): Outcomes, Results, and Practices

The National Strategic Development Plan 2006-2010 is now being formed. The Circular announcing its formulation (RGC, 2005a: 1-2) states, among other points, that the NSDP will:

- Be responsive to the political commitments articulated in the Political Platform and the Rectangular Strategy ... of the Royal Government of Cambodia in the Third Legislature of the National Assembly;
- Be a realistic strategic plan providing contextually appropriate, feasible, and achievable targets and programmes by taking the environmental, economic and social sustainability into account;
- Be a national strategic plan that incorporates the vision and the priority action plans of the Royal Government and which is consistent with the financial and other resource potentials of the nation;
- Be a national strategic plan that will have been formulated through an improved linkage between planning and budgeting processes;
- Be a document that will have been elaborated in a government led and owned process and with a broad participation of all stakeholders.

Given prior experience, the words “realistic”, “government led and owned”, and “feasible” are particularly encouraging. And while strategizing and planning is important for reaching goals, and shows a degree of willingness and acceptance by the Royal Government, even ownership, it is equally important to follow-through on the allocation and commitment of sufficient resources to attain objectives. With a results based approach, economic performance speaks for itself. Recent experience, when judged against economic performance, as illustrated above, indicates that failures of governance persisted, save for the aftermath of the events of 5-6 July 1997.

Budgetary Crisis-Induced Reform: The Natural Experiment of 1997-8

“Since the removal of the anarchic elements, which by its nature was violent, and its immediate aftermath, Cambodia has sprung back quickly to normalcy. Rule of law, as well as law and order, has been fully restored, and security prevails in the country except in remote pockets on external borders where the rebels are active.”

—Senior Minister Keat Chhon (1997: 76)

After the July 1997 events, the freezing of donor funds and the pull-out of the IMF over governance problems (civil administrative reforms and forestry management), the Royal Government was faced, for the first time, with a hard budget constraint. Whereas before, donor resources were fungible, the curtailment of aid had immediate consequences on budgetary expenditures. According to the United Nations (2000), total donor disbursement decreased from \$520 million in 1996 to \$375 million in 1997, moreover:

This reduction was directly related to the suspension of aid by some donors, notably the United States and Germany (subsequently restored). Other countries took up a wait-and-see attitude - in most cases maintained throughout the national elections in mid-1998 - resulting in long delays in the implementation of many development programs and projects.²⁷

Senior Minister Keat Chhon expressed dismay at the IMF-World Bank Annual Meetings held in Hong Kong that year:

We are somewhat surprised and saddened that, since these events [of July 1997] ... important external partners have ... begun to slow down

²⁷ United Nations (2000: 99).

*their support for the rehabilitation and development programs in the country, which are designed to serve the people at large. Development cooperation has to be a long-term commitment and should not be affected by misconceived perception of temporary events of a political nature...*²⁸

During this period of hardship, real belt-tightening took place. In 1998, an advisor to the Ministry of Economy and Finance warned that “In the first six months of 1997, we went through nine months of budgeted expenditure. And with no budget support from the World Bank or IMF, the national bank printed money. I’m afraid if the political situation is not resolved by the end of this year [1998], [the value of the riel] will be a big, big problem.”²⁹

A more colorful unnamed Southeast Asian diplomat astutely commented at the time:

*Aid is the key to sustain them and get them going. Right now [October 1998] the government coffers are empty. For three months the military and police have not been paid. This is why crime is up. A businessman told me that an army colonel came to see him, begging for \$200 so his men could eat. The Chinese business community is frightened of kidnapping which are getting down to the small fry a bakery manager kidnapped for \$1000 ransom ... The situation is serious and getting worse. Even investments in entertainment [sic] a cowboy country, cheap wine, women, gambling are suffering.*³⁰

In the austerity of 1998, a fiscal crisis emerged. Its antidote: actionable reform. Reform through crisis is nothing new in much of the developing world (Grindle and Thomas, 1991), but this was the first time since 1994 that a budgetary crisis had left the Royal Government without any choice but to undertake serious reforms. Box 2 describes the discourse between the RGC and the IMF in the run-up to resumption of lending by the Fund.

²⁸ Keat Chhon (1997: 76).

²⁹ As quoted in quoted Echardt (1998).

³⁰ Ibid.

Box 2: Cambodia and the IMF, Determined to Break With the Past in 1999

The Article IV Consultations completed on 17 March 1999, following the IMF's return to Cambodia, provided Executive Board Directors an opportunity to lash out at the Royal Government's performance. According to an IMF Public Information Notice:

Directors expressed disappointment that, in 1998, economic growth halted, the riel depreciated, inflation increased considerably, and there was little tangible progress in addressing key structural reforms. Of particular concern was the continued poor fiscal performance, characterized by extensive ad hoc tax exemptions, overspending on the military budget, and sizeable central bank financing of the government.

Against this background, Directors welcomed the authorities' recently announced commitment to break away from the past record of poor governance and weak economic policies and performance. They urged the authorities to fully carry out this commitment. Directors emphasized in particular that it was critical to increase transparency and accountability, adhere to the rule of law, take decisive actions against corruption and illegal logging, and improve fiscal management. Firm implementation of these reforms, together with prudent macroeconomic policies, would help lay the foundation for sustainable growth over the medium term.

Specifically, on 29 September 1999 a Letter of Intent and Memorandum of Economic and Financial Policies for 1999-2000 was signed by H.E. Keat Chhon and H.E. Chea Chanto (Governor of the National Bank of Cambodia) to the Managing Director of IMF. It stated that "The new government, formed in November 1998, is determined to break with the past. It has announced measures and taken actions against illegal logging and corruption and to strengthen fiscal management. It intends to reinforce these actions and also resume other structural reforms."

Source: *IMF (1999) and RGC (1999b).*

In October 1999, the RGC embarked on an IMF-supported program which ended in 2003. Domestic revenue which had been 8.1 percent of GDP in 1998 jumped to 10.2 percent of GDP in 1999, a staggering 2.1 percentage points or 26 percent increase, thanks in large part to the introduction of a 10 percent Value Added Tax. From 1999 to 2000, domestic revenue grew by only 0.2 percentage points. With the passage of a Forestry Law, the Royal Government announced a ban on logging in January 2002, and a ban on log transport in May 2002, as a means of compelling logging concessionaires to produce sustainable forest management plans (none has yet been produced). Critics charge that these bans are policies that have been violated.³¹ In December 2004, the transport ban was officially lifted.

Through 2002, the Royal Government's requests at annual Consultative Group meetings met or exceeded expectations, despite some donors' sometimes noisy complaints at these meetings that the Royal Government had failed to meet expectations by way of one reform or another. One should keep in mind that commitments differ from actual disbursements (not unlike the credibility of

³¹ Does a policy make a sound if it falls in the forest and no one is there to hear it?

Cambodia’s annual Budget Laws). And almost always disbursements were far below commitments because the donor simply had double counted or miscounted or renege (but not because of poor performance by the RGC, at least it was never said publicly). This is a source of anxiety each year on the part of the RGC since the discrepancy announced at each CG is sometimes exploited by critics as evidence of corruption.

OPTIONS AND PROSPECTS: CREDIBILITY, CORRUPTION, AND COORDINATION

“Fighting corruption, fighting corruption, fighting corruption ... This is Cambodia's problem. If you do not move, no one will cry over Cambodia ... If you do not become a credible competitor, it will be because of Cambodians, not because of the international community.”³²

—President James D. Wolfensohn, World Bank

This paper has presented a wide variety and various degrees of successes and shortcomings in the last decade. What are the options and prospects?

A coordinated approach involving a secular decrease in aid would imply increasingly hard budget constraints for the Royal Government. In turn, this would give the right incentive and send the appropriate signal to the Royal Government to improve domestic revenue performance further well beyond current levels which, by international standards, remain inadequate and insufficient for fiscal sustainability without external assistance.³³

This has largely been attempted by the introduction of Performance-Based Allocations (PBAs) using Country Policy and Institutional Assessment (CPIA) scores. Both the PBAs and CPIAs represent a step forward. This year, the World Bank will disclose CPIA scores. Prior to 2005, it was not permitted to disclose scores publicly, even though doing so could have provided an incentive for decision makers to improve performance. In the case of Cambodia, Wolfensohn did reveal “We have reduced our lending to Cambodia – as a response to the poor performance on governance indicators – but we have not

³² As quoted in Reuters “Corruption is Cambodia’s main problem” 11 February 2005.

³³ This paper has not addressed the equally important expenditure side, which to date shows few signs of progress. The World Bank has engaged in expenditure tracking for the education and health sectors. Anecdotal evidence in other areas, like Social Protection, suggests that leakage of a non-trivial amount takes place, see Chan and Ear (2004).

reduced our commitment, nor our efforts to push for the kinds of reforms that are needed to bring about a better life for all Cambodians.”³⁴

What is unstated but should be considered is that the impact of reduced lending can be negated by recourse to alternative financing through bilateral means,³⁵ which Cambodia quickly developed in the post-1997 period. This is akin to portfolio (in this case lender) diversification. The more lenders Cambodia has, the less power Cambodia’s lender of last resort (the IFIs) will exert over it. To be sure, this was only a natural response to a painful lesson learned. This increases the importance of donor coordination, but also reduces its effectiveness since Cambodia can calibrate any reduction in aid with additional resources from elsewhere to compensate. While the goal of ODA is to develop countries, it admittedly also allows governments to forestall reform. This is compounded by a lack of coordination among donors.³⁶

Corruption Case Studies: WFP, World Bank, and Credibility

It is also important to keep in mind that to be effective, threats must be credible. If corruption in lending is unacceptable, its discovery and tacit revelation will have little impact on the status quo.³⁷ As such, donors must engage in an honest and public discourse about expectations concerning the performance of the Royal Government. The formalities of Joint Monitoring Indicators and Benchmarks at annual Consultative Group Meetings have been a welcomed addition, but further transparency and accountability is urged among donors, especially in publicly reporting governance related problems. Two recent cases are instructive from a credibility standpoint.

³⁴ As quoted in World Bank (2005).

³⁵ China and Pakistan are but two countries that have made multimillion dollar loans to Cambodia announced in 2004, \$30 million and \$10 million, respectively, but these did not show-up in the pledging sessions of the December 2004 Consultative Group meeting. Marks (2000) reports that in February 1999 following an official visit to Beijing by the Prime Minister of Cambodia, the country obtained \$18.3 million in foreign assistance guarantees and \$200 million in no-interest loans for infrastructure projects which China acknowledges is one of the highest aid amounts they provide to any country in the world.

³⁶ Think for instance of a non-cooperative Nash equilibrium game in which the players, international donors, move independently of one another even while, to use Easterly’s phrase, they have a “cartel of good intentions”.

³⁷ The classic example is Dr. Strangelove’s doomsday machine from the movie of that same name. Why would the Soviets keep secret doomsday machine if its purpose was deterrence against an American nuclear attack? It would not make sense. If anything, its existence should be well-publicized.

Case 1: The World Food Programme and Food-for-Work

The case of corruption in the World Food Programme's Food-For-Work (FFW) scheme is particularly interesting. The approach was at first very public, with a front-page article in the *Phnom Penh Post* (Woodd, 2004c) and an interview with the then WFP Representative in Cambodia (Woodd, 2004a). It included prior consultation with Cambodia's largest donor and assurances of support by that donor as leverage on the RGC. At the time, that Representative put her foot down, "If [the government] did not accept anything then we would have to seriously look at our future in Cambodia."³⁸ The alleged fraud was initially pegged at \$2 million. The RGC quickly accepted the terms, taking responsibility and agreeing to repay in principle, following its own investigation.

Unfortunately, the \$2 million figure was then disavowed by WFP which made clear to the RGC that the amount in question was negotiable. A year to the day, on 28 February 2005, the RGC agreed to pay only \$900,000.³⁹ WFP had suspended FFW for the duration, but continued all other activities in order not to hurt the "hungry poor".⁴⁰ The agreement came coincidentally after WFP announced it would distribute 1,500 metric tons of rice to drought affected populations. There was no apparent rallying around WFP by other donors, and no press releases were found either on WFP's global website⁴¹ or its local one⁴² concerning this matter through mid-March 2005. One would hope that the lesson learned from this will be the importance of credibility in issuing ultimatums, and implementing more rigorous monitoring systems.

Case 2: The World Bank and Demobilization

In contrast, the case of the World Bank saw somewhat better results even though its initial approach was more muted.⁴³ The Bank initially took a very low-

³⁸ As quoted in McKenny (2005).

³⁹ This was complicated by the now dismissed WFP staff's own complicity in the corruption, which has been used as a foil for criticism of the Royal Government.

⁴⁰ As quoted in Cochrane (2005). With less than half the initial amount claimed repaid, the penalty for corruption appears to have gone on sale.

⁴¹ Click on "Press Releases" at http://www.wfp.org/country_brief/indexcountry.asp?country=116.

⁴² See <http://www.un.org.kh/wfp>.

⁴³ Prior to 1996, when the "c-word" corruption was seen as off-limits and political, the Bank's approach to corruption was ridiculed as the three-monkeys policy: see no evil, hear no evil, speak no evil. Unfortunately, the recent news that a number of Bank projects in Cambodia may have accountability problems was reportedly greeted without any comment whatsoever from the local

key approach for two years with respect to the declaration of misprocurement in a demobilization project with the Royal Government. Seeing no progress, it was then reported by media that a letter was sent by the World Bank's Vice President for East Asia and the Pacific which allegedly threatened that if reimbursement did not take place by 15 February 2005, its entire portfolio of more than a dozen Bank-funded development projects would be suspended. This quickly produced results: the immediate repayment of \$2.8 million.

At impromptu press conference on 21 January 2005, the Prime Minister suggested to reporters that the World Bank had brought into the tender process the private firms responsible for the corruption. Keat Chhon was more conciliatory when earlier interviewed by the Associated Press. He said "It is regretful for me that such a problem has occurred. This was because there were loopholes in the implementation ... We must work to build good governance, so others stop suspecting that corruption was committed."⁴⁴ To be sure, the World Bank's large size, its role as lender of last resort, and its stature as co-chair of annual Consultative Group meetings gave it more leverage than WFP, but the case also suggests that the World Bank's threat to suspend its entire portfolio was credible while WFP's threat to examine its future in Cambodia lacked credibility.⁴⁵

Final Squeeze: Debt Service

Finally, another factor that may help to produce results: Cambodia's debt servicing payments in 2005 are not known. In May 2004, the media reported that Cambodia would pay an estimated at \$4-5 million or the equivalent of about two percent of total government spending according to Kay (2004)⁴⁶ for concessional loans incurred after 1993. The IMF reports on its website that Cambodia is due to pay 6.52 million Special Drawing Rights (SDRs)⁴⁷ to the

Bank office other than a press release and a referral to the Institutional Integrity department at Bank headquarters.

⁴⁴ As quoted by the Associated Press in "Cambodia Says It Will Repay Aid Funds" 19 January 2005.

⁴⁵ Richardson (2005) quotes a Bank staff member as having said in July 2002: "As long as 60 percent of the money gets where it's supposed to go, that's good enough for me." On this basis, she argues that such staff members should have been made to pay 40% of the \$2.8 million.

⁴⁶ Debt sustainability analysis indicates that it is difficult to determine the exact amount of Cambodia's external debt, as the authorities are conducting negotiations with the Russian Federation and the United States on the rescheduling of its pre-1993 financial obligations.

⁴⁷ An SDR is an artificial currency unit that was created by the International Monetary Fund in 1969. It is a basket of currencies that include the Euro, the £ sterling, the Japanese yen and the United

Fund in 2005. This alone is twice as much as the May 2004 earlier estimate, and does not include any other lenders.

In any case, debt service payments may serve as a similar budgetary constraint that could encourage reform. Cambodia's total national debt picture is unclear because negotiations with the United States to whom Cambodia may owe \$500 million and Russia (\$1.6 billion) have not yet been completed. At issue is the discounting of the debt and the exchange rate to be used. Debt sustainability analysis undertaken by the IMF suggests that "the fiscal burden of the debt is heavy (given the low revenue to GDP ratios), with debt service amounting to more than 15-20 percent of revenue over the next ten years."⁴⁸ Moreover, according to the World Bank (2004b: 13), by 2008, after rescheduling of its pre-1993 obligations,⁴⁹ Cambodia's external debt is estimated to be about 48.9 percent of GDP, and debt service will equal 2.6 percent of exports of goods and services. While this is not large in relative terms, given Cambodia's low revenue to GDP ratios, the Bank reiterated the concern that the "fiscal burden of the debt is heavy". It would be a pity for the people of Cambodia if only the burden of debt repayments could lead to reforms and more importantly a fundamental transformation of its low governance equilibrium.

CONCLUSIONS AND LESSONS LEARNED

This paper has explored three gradients of development outcomes in the last decade by looking at governance and economic performance together. Policies for which there is political will, like foreign exchange stability and control of inflation, have the best chance of succeeding. Policies that negatively impact patronage politics, like equity and contracts transparency, have shown the least likelihood of success given Cambodia's political economy. Three lessons learned are apparent.

States dollar. Using 1 SDR = 1.52577 exchange rate of 22 March 2005, 6.52 million SDRs are worth about US\$10 million.

⁴⁸ Hang Chuon Naron (2003: 10).

⁴⁹ In *The Elusive Quest for Growth*, William Easterly (2001) rightly argues that a major test of good governance rests on whether, after receiving debt relief, a Government increases borrowing and returns to its original overburdened and unsustainable debt levels. In the case of Cambodia, this period of uncertainty in its debt outlook should give the authorities pause over how much more (or less) to borrow.

First, the politically-induced “natural experiment” of 1997-98 suggests external pressure to force reform, while initially successful at increasing domestic revenue collection, have floundered. Forestry policies adopted by the Royal Government in 2002 at the behest of donors are in a state of flux. Policy and political commitment were not concomitant. Furthermore, the recurrence of a fiscal crisis in the short to medium term is unlikely. The feasible set of options is small given external conditions. Among the factors that should be considered are Cambodia’s accession to WTO, preferences in the Royal Government’s borrowing (away from technical assistance and towards infrastructure, which is encouraging⁵⁰), and debt service payments. Membership in the WTO requires changes in the country’s legal and policy framework and their implementation may need to be credible. Finally, the burden of debt service payments will likely send increasingly strong signals about the need for effective reform.

A second lesson is that donors should examine policies in light of political reality, since a decade of governance and development has now taken place to permit a careful evaluation. It is clear that the Royal Government has fully adapted the language of development and governance, but in its practice, development is still subservient to political considerations. Poor development outcomes make this evident. Since the Royal Government’s posture is one of openness to donor interventions and to receiving aid, this should not be confused with political willingness to undertake necessary reforms. Donor interventions steeped in technical solutions to specific problems seldom take this reality into account.

A third and final lesson learned is that the three Cs; corruption, credibility, and coordination, are clearly linked. To fight corruption, as was shown in the two case studies presented, requires credible threats. In the longer run, the credibility of donor support in the face of governance failures requires that donors coordinate their actions to send a clear message and provide the right incentives for change. While Performance-Based Allocations are a step forward, their efficacy is limited when the borrower can access alternative sources of financing to compensate for reductions in CG-coordinated ODA. Paradoxically, this should underscore the importance of donor coordination to

⁵⁰ Asian Development Bank et al. (2005: iii) does warn: “[Q]uestions and concerns have often been raised about the impact of infrastructure development on the environment and local communities, about waste through corruption in public spending and private contracts, and about the appropriate roles of the public and private sectors in infrastructure financing, ownership and management” and concedes that “While infrastructure can be a force for good, we also have to make sure it is done well.”

provide an effective financing mechanism, despite the implication that the impact of such coordination will, inevitably, be diminished. While the scope for reform is narrow, it is not set in stone. Where there is credibility and political will, there is a way.

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