

Multi-Country Study Mission on Public Sector Productivity Enhancement (6-9 November 2006, Seoul, Republic of Korea)

Government Innovation in Cambodia via National Strategy Development Plan (NSDP) for 2006-2010

Introduction:

Rapidly rebuilding Cambodia from the state of near total destruction of all its assets, human capital, economic, educational and social institutions, government structures, physical asset in infrastructure was highly priority for the government which took over after the overthrow of the genocidal regime in 1979.

On the basic national reconciliation among different factions reached at Paris Peace Conference on October 1991, general elections was held in 1993 leading the adoption of the constitute and formation of coalition Royal Government of Cambodia(RGC). Up-to-date, the highest priority has been attached to rapid socio-economic progress to lift the country on path of self-sustaining growth. The Royal Government's mission is to build a Cambodia society that is socially cohesive, educationally advanced, culturally vibrant and free from hunger, inequality, exclusion and vulnerability. For realizing its vision, the royal government is making all efforts to follow a path that leads to achievement of the CMDGs.

At the present the Royal Government of Cambodia has prepared the National Strategy Development Plan (NSDP) for 2006-2010 by combining the earlier Socio-Economic Development Plan and National Poverty Reduction Strategy processes. The NSDP will be integrated with the CMDGs and will be firmly rooted in the Rectangular Strategy for Growth, Employment, Equity and Efficiency which provides the political platform of the present Royal Government.

In furtherance of the Millennium Declaration of the United Nations Summit in 2000, a set of Cambodia Millennium Development Goals (CMDGs) were prepared in 2003 through an intensive and inclusive consultative process.

The very first major decision of the Royal Government of Cambodia (RGC), starting the third term in 2004, was to adopt a holistic and comprehensive Rectangular Strategy for addressing governance and socio-economic development issues and efforts.

RGC has decided that it should now focus on priority and strategic goals to be reached in the next five years and pursue key strategies and actions to achieve them, maximizing results by use of scarce resources in a selective, cogent and coherent manner. The National Strategic Development Plan (NSDP), 2006-2010, is therefore a single, overarching document containing RGC's priority goals and strategies to reduce poverty rapidly, and to achieve other CMDGs and socio-economic development goals for the benefit of all Cambodians. It synthesises and prioritizes the goals of NPRS and CMDGs and is intended to align sector strategies and planning cycles to overall long term vision, as well as guide external development partners (EDPs) to align and harmonize their efforts towards better aid-effectiveness and higher 'net resources' transfer than hitherto.

NSDP has been developed through wide ranging consultations focused on "results". The strategic goals, targets and actions indicated in it will be spelt out in more details through ongoing, or soon to be adopted, sectoral plans and through sub-national goals and plans. Such exercises, particularly at sub-national levels, will also serve to better disseminate NSDP.

NSDP is a live document, capable of being adjusted and updated annually based on data emerging from new studies and the proposed annual monitoring and evaluation exercises.

Based on the long term vision outlined in the National Program to Rehabilitate and Develop Cambodia (NPRD) prepared in 1994.

EDPs are multilateral development agencies and financial institutions; bilateral governments and government agencies; nongovernmental organisations (NGOs).

Progress so far and current situation¹

Undoubted progress has been made on all fronts and positive and progressive changes are clearly manifest over the past more than a decade. Major highlights are:

- Restoration of, and vast improvements in, internal peace and security.
- Democracy taking roots, both at the national and sub-national levels.
- Major advances in rule of law and improvements in maintenance of law and social order.
- Vast enhancement in personal freedoms and freedom of expression.
- Spectacular and steady macro-economic growth.
- Better and steadily improving fiscal discipline and management.
- Accelerating integration of Cambodia with the region and the rest of the world.
- Sharp and noteworthy reduction in poverty levels².
- Measurable improvements in various social indicators such as: expansion of primary education; reduction in mortality rates for both infants and under-five year olds; significant reduction in communicable diseases, spectacular in HIV/AIDS; improved urban access to safe water, and rural access to sanitation; and, reduction in gender disparity in many fields.

The progress so far also masks some important facets, to be addressed through the NSDP:

- Prevalence of poverty at 34.7% of the population, higher in rural areas.
- Economic growth and indeed all other progress occurred not necessarily due to any highly focused attention (though a significant part was played by the favourable conditions engendered by government's positive and progressive macro-economic and social policies), but because any investment or expenditure, however small or unfocused, contributed to spurring growth as the country started from ground zero; it is therefore time now to more proactively direct growth.
- Economic growth has been sectorally uneven, therefore leaving it very vulnerable to external shocks; such growth has to broaden and deepen to be sustainable over time.
- Growth has been spatially largely urban based, underlining need for more rural focus in the future.
- Reforms in governance have not progressed at the required pace.

Poverty: Historic causes, now being overcome, have left a large proportion of people below the minimum levels of consumption of goods and services needed to keep them above poverty. However, there has been a rapid decline in poverty levels (11 percentage points from 39% to 28%) in 56% of the country covered by both 1993 and 2004 surveys. In 2004, 90% of the poor were in rural areas and, among the poor, a

larger share was closer to the poverty line. Greater, targeted attention to the rural areas would have an immediate and significant impact in reducing poverty levels.

Except for a couple of years, Cambodia has witnessed in the past 12 years, robust and steady macro-economic growth. GDP at constant prices grew at an average of 7.0% per year, led by rapid growth mainly in garments manufacturing, tourism and construction. Per capita GDP registered similar growth 4.7% despite increase in total population. Inflation was kept at under 5%. The riel-US\$ exchange rate was fairly stable, declining gradually. Government revenues and expenditure both in actual terms and as percentage of GDP improved at a strong pace. In the Financial Sector, reforms are progressing and various measures have been put in place to regulate and foster the sector to grow in an orderly and assured manner.

Agriculture is crucial to improving incomes, particularly the poor, in rural areas. Total production in crops, particularly rice, grew steadily resulting in exportable surpluses in recent years. Average paddy yield per hectare has grown, but is still below those in neighbouring countries. Several measures are underway to improve and diversify agricultural production. In Forestry, many old concessions were cancelled for non-performance and new concessions granted with a strict condition to follow plans according to Environmental and Social Impact Assessments.

Rehabilitation of much damaged physical infrastructure, particularly roads, has been proceeding well. Sihanoukville and Phnom Penh ports are now handling higher volumes of goods. The Phnom Penh airport has been vastly improved by involving the private sector under BOT terms. Electricity supply, particularly in Phnom Penh, and some other major population centres, has improved with increased generation capacities and enhancement of transmission and distribution systems. New energy sources are being explored. Possibility of exploitation of offshore oil and gas resources has vastly improved future prospects. Telecommunications and internet use have also expanded, though the costs of the former have to come down quite drastically to promote competitiveness in business and affordable access to the people at large.

Rural Development has gone apace with many roads rehabilitated, markets improved, and training provided to vast number of officials. Rural credit has expanded but interest rates are still very high and the demand far outstrips supply.

Special mechanisms have been set up to assist the private sector. The share of industries in GDP has climbed sharply, pushed by the fast growing garment sector and construction. But this needs to diversify to be sustainable over time. Tourism has grown robustly and steadily. Measures have been taken to promote orderly development of Small and Medium Enterprises (SMEs), which constitute 90% of all enterprises and accounts for half of the employment in the private sector.

In terms of human development, education sector is a success story with many indices showing significant improvement and a high level of collaboration among all stakeholders around a Sector Wide Approach (SWAP). Concerns for improving quality at all levels however continue and have to be addressed.

Significant progress has been achieved in the Health sector as well. All health indices have shown considerable improvement but they are still high in many cases and exceed those in nearby countries. High rates of maternal mortality are of particular concern. A

spectacular success story is the rapid decline in prevalence of HIV/AIDS, brought about RGC's highly focused commitment and excellent collaboration with and among external development partners.

Steady advances have been made in ensuring gender equity, and already the share of women in the total labour force has improved, thanks in part due to large number of women finding employment in the fast growing garment industry.

A National Population Policy has been adopted to work towards a balanced population growth. It is noteworthy that average life expectancy at birth increased significantly in a short period of time, reflecting advances in overall well being.

Priority goals and targets

Orderly progress during the next five years, 2006-10, demands prioritisation of clear goals and measurable targets. Of highest priority is poverty reduction and progress towards achieving CMDG targets by 2015. CMDGs are nine in all, including all the 8 UN Millennium Development Goals (MDG). Each CMDG has also been disaggregated into several sub-CMDGs with clear targets. A study conducted in 2005 suggests that while good progress has been made making it possible to achieve, or even exceed, some CMDGs by 2015, in many others concerted efforts would be needed to achieve the intended targets³. NSDP therefore focuses on these.

Achievement of poverty reduction and CMDGs critically depends on achievement of significant and steady progress in several socio-economic spheres, such as: robust and equitable macro-economic growth; strong check on inflation; significant increases in agricultural production and productivity; protection and enhancement of environment; strengthening and improvement of infrastructure; robust industrial growth, creation of employment and incomes; reforms in public administration and judiciary; fast growth in private sector investments; unhindered growth in Trade; and, growth in the services sector including tourism..

NSDP will therefore focus attention on achieving at the national level some high priority, strategic and macro-goals and core targets (indicators) with poverty alleviation at the top. NSDP is a broad framework for providing the road map and guidelines for taking the country where it is at the end of 2005 to where it ought to be in 2010². Sub-goals and disaggregated and detailed targets and plans to achieve them will be spelt out in greater precision in sectoral and sub-national plans.

Key strategies and actions

NSDP's goals and targets would be operationalised and implemented through the Rectangular Strategy. RGC is fully committed to some basic principles for taking the country forward, such as: strict adherence to democracy in governance with openness and guaranteed freedom of expression; government to ensure political stability, rule of law, equity and social order; government to be fully responsive, responsible, effective, transparent, accountable and predictable; government to ensure macro-economic stability, create and maintain key infrastructure, as well as a conducive climate for private sector to flourish, and provide essential social services for human capital formation and enhancement.

With peace and internal stability taking strong hold, improvements in social order, and robust economic growth in the past few years, Cambodia is at a *critical threshold* for faster future progress. The next ten years represent a *decade of opportunity* to realise ambitious CMDGs and uplift the poor and vulnerable. Certain overarching aspects will govern all other actions to be pursued during 2006-2010

- Factor poverty reduction and gender concerns in all activities.
- Pursue reforms in all sectors, however painful they may be in the short-term.
- Foster and facilitate robust and equitable, and spatially and sectorally well spread, macro-economic growth.
- Significantly increase “real investment” for growth in productive sectors and in human development.
- Target most needy and least served people and areas.
- Focus on well-trying, low cost activities with quick and high returns at the grassroots to have profound positive effect on the poverty situation.
- Optimise factor productivity.
- In rural areas in particular, rely as much as possible on human labour for construction, etc., to enhance household incomes.
- Stress institutional and human capacity building in all sectors.

On the basis of the above, various key strategies and actions will be pursued to implement different aspects and elements of the Rectangular Strategy.

Under Good Governance, priorities are:

- Reinforce and fast track a multi-pronged attack on corruption.
- Carry out specific legal and judicial reforms.
- Speed up and pursue Public Administration Reform.
- Add to and strengthen measures to make decentralisation and deconcentration (D&D) more effective.

Under the critical aspects surrounding the Good Governance rectangle, the strategies and actions proposed are:

- Vigilantly safeguard and continuously enhance the hard-earned peace, political stability and social order, so essential for any progress.
- Further broaden and deepen integration of Cambodia into the region and the world and attract investment to achieve pro-poor economic progress.
- Continue to deepen and strengthen partnership with civil society, private sector and external development partners.

Steady and robust macro-economic growth, fiscal discipline, and vibrant financial sectors are vital to pursue progress. Accordingly, it is intended to:

- Ensure steady GDP growth of 6% per year.
- Maintain external sector and exchange rate stability.
- Contain inflation at under 5%.
- Encourage private sector investment in priority activities in the rural sector.
- Improve budget performance both by increases in current income and targeted pro-poor expenditure.

- Ensure full transparency and accountability in all government transactions, including disposal or lease of public assets.

In the Agriculture Sector, the focus is on intensifying crop production to increase yields and rural incomes, diversification of crops, improving fisheries management, sustainable management of forestry through reforms, environment conservation and carrying out of land reforms, particularly to ensure land tenure to the poor. Among the many key strategies and actions are:

- Prepare a comprehensive Strategy for the Agriculture sector.
- Increase public sector investments in the sector.
- Enhance affordable micro-finance availability.
- Encourage and facilitate private sector involvement in agriculture and agro processing.
- Improve food security and nutrition.
- Facilitate increase in yields through expanding extension services.
- Try out innovative grass-roots oriented direct interventions to reduce poverty.
- Ensure sustainable access to the poor in the fisheries sector.
- Strengthen and enlarge animal production.
- Better manage the protected areas.
- Conserve forests through sustainable management practices.
- Formulate and implement a comprehensive land policy.
- Implement a program of land allocation to poor farmers.
- Continue removal of land mines and UXOs.

To further advance Rural Development, along with D & D, accent will be on building rural infrastructure -- roads, markets, drinking water facilities, sanitation facilities, minor irrigation, school and health buildings, etc. -- much of it through devolution of funds through the commune councils. Efforts will continue to enhance access to rural credit and to bring down the prevalent high interest rates.

Priorities in rehabilitation of physical infrastructure include: primary and secondary roads, railways, airports, ports, irrigation facilities, telecommunications, electricity generation and distribution networks, etc., with maximum attention being paid to attracting private sector to undertake work on a BOT basis wherever possible.

Prospects of exploitation of offshore oil and gas resources are becoming bright. RGC will undertake special studies and put in place necessary infrastructure to optimise use of these valuable resources and revenues to flow from them.

Attracting private sector, both domestic and foreign, is of utmost importance to accelerate the pace of economic development. RGC will earnestly and quickly remove the current major obstacles including delays in approvals and high “transaction costs” and improve the overall climate through various governance reforms. SMEs will receive special attention, including better and easier access to long and medium term finance.

Opportunities for Trade with neighbouring countries and others have improved but are not being adequately availed of to create demand for, and to export, goods and services using the competitive advantages of the country. Reforms to enhance private sector participation will address issues relating to trade as well.

Education is a priority area in human development and capacity building. The Education Sector Strategic Plan (2006-2010) has already been developed. Apart from providing universal basic education, a CMDG, attention needs also to be paid to other levels including vocational training and higher education to start building a 'critical mass' of educated, skilled, talented, capable people to serve the development needs of the county in various spheres. Priorities for the next five years include:

- Ensure easy and equitable access to basic education, especially to the poor and those living in remote areas, including by increasing number of primary and lower secondary schools.
- Facilitate attendance of girls at lower secondary and higher levels, including by increasing the number of dormitories for girls.
- Reduce the financial burden on poor students by targeted scholarships.
- Enhance quality and efficiency of education services.
- Ensure better linkage of education and training to the short and long-term needs of the labour market and the society.

Health Sector has witnessed significant progress but some of the health indices are still quite low. It is expected that some CMDG targets could be met¹ while for others specific actions need to be pursued. Priorities include:

- Accelerate reforms in all areas.
- Expand availability of health care facilities by construction and/or rehabilitation of facilities -- hospitals, health centres, etc., in rural areas.
- Expand and strengthen sustainable methods for provision of help to the poor to access public health care system.
- Elicit, encourage and involve private sector in provision of health care, both in urban and rural areas.
- Pay special attention to curtail spread of HIV/AIDS, especially to families, by information and education efforts.

Gender equity issues permeate all activities, and are being addressed in all sectors, particularly in agriculture, health, education. The National Council for Women would continue to address the myriad aspects of gender mainstreaming in all aspects of governance and society.

The National Population policy designed to improve the quality of life of all Cambodians will be implemented to provide information and knowledge to all couples and enable them to make the choice about the size and spacing of their progeny and provide them with needed services and supplies to attain their goals.

Costs, Resources and Programming

Successful and timely implementation of NSDP strategies and achievement of NSDP targets would need substantial and well-directed additional investments and their focused and effective use. Such investments need to be made both in the public and private sector, but only the public sector aspect is considered here.

Based on projected macro-economic growth and needed investments in the public sector, and taking into account the absorptive capacity of the public sector apparatus, it is estimated that Cambodian Riel (CR) 15,225 billion equivalent to US\$ 3,500 million will

be needed for the public sector during 2006-2010 to achieve the goals and targets set forth in the NSDP. Within this envelope, priority attention is needed to some major sectors. To ensure a rural focus for poverty alleviation, allocations have to be more for activities which will benefit rural areas directly.

The resources to be available for the NSDP will come from: (a) surpluses in current account in the annual national budgets; (b) grant aid from external development partners; (c) concessional loans from multilateral financial institutions; (c) resources from non traditional partners including semi-concessional loans from MFIs; and (d) funds made available from possible past debt relief. A high priority is to direct resources in a meaningful way to “real investments”, including through significant reductions in technical assistance projects, and to persuade EDPs to fully align their assistance to NSDP. RGC is confident and optimistic that a small gap of about CR 980 billion or US\$ 225 million in resources could be covered by increases in internal revenues and external support.

NSDP does not contain detailed project level proposals, sequencing and costs. The three-year rolling Public Investment Programs (PIPs), as the operational tool forming an integral part of NSDP, will be aligned with NSDP priorities and will contain detailed program and project details and costs. Likewise, the annual budgets will also get aligned to the NSDP and PIP starting from 2007.

Monitoring and Evaluation

As a live document, progress of NSDP will be annually reviewed and monitored. For this purpose, necessary methodology for assessment surveys will be developed and put in place in the first few months of 2006. Such surveys would track progress on key economic and social indicators vital for reaching goals including CMDGs. Based on such reviews a progress report will be produced in June of every year, starting from 2006, to also readjust goals and targets as appropriate and needed.

The NSDP and the PIP for 2006-2008 would be presented to the aid mobilisation meeting (CG) in March 2006. Thereafter the annual NSDP progress report and the rolling PIP will be the main RGC documents to be considered at future aid mobilisation meetings.

Conclusion

There are some imponderable factors or risks that may hinder NSDP progress, such as: expected resources not being available particularly from EDPs; global oil and gas prices continuing at the current excessive levels which will push inflation up; world and regional political, security and social situation deteriorating due to acts of terrorism; international trade barriers not being brought down at the required pace; outbreak of diseases like avian flu or other new ones; natural calamities like repeated floods and droughts. RGC is confident that it could withstand such challenges and adjust NSDP to accommodate realities as they emerge. RGC is optimistic that with its strong commitment and cooperation from all, NSDP could be successfully implemented to attain intended goals and reach the measurable targets, to reduce poverty and to enhance overall well being of all Cambodians.

Thank you

RECTANGULAR STRATEGY

