Third International Conference for the Reconstruction of Cambodia (ICORC III) in Paris from 13 to 15 March 1995

German statement on para 2 of the provisional agenda: Economic Situation in Cambodia (including Administrative Reform)

Mr Chairman,

Ladies and Gentlemen,

First of all I wish to thank all those who, with their preparatory work, have contributed decisively to this meeting taking place here today and to our discussing Cambodia's problems and chances and the possibilities we have to help the country in overcoming its difficulties:

- the Japanese government for its renewed political initiative

- the French government for hosting the meeting

- the democratic government of Cambodia, especially the two Prime Ministers who are honouring us with their presence today, His Royal Highness Rannaridh and His Excellency Hun Sen, for the excellent document entitled: "Implementing the National Programme to Rehabilitate and Develop Cambodia"

- and also, last but not least, the World Bank for its excellent and informative document: "Rehabilitation Programme: Implementation and Outlook".

Both reports characterised their open presentation of existing problems. With the objectives and measures they propose they offer a good basis of orientation for future development efforts and donor coordination.

Concerning the economic situation in Cambodia and administrative reform I wish to comment on four aspects: the budget, the administrative reform, the banking and finance sector, and the general environment.

1. Regarding macro-economic development data, it is true that not all targets were reached in 1994; with about 5 %, the economic growth was slightly below expectations, inflation with some 25 % slightly above. This was mostly caused, however, by external factors, especially harvest losses due to adverse weather conditions, and the continuing civil strife in parts of the country. In our view, one of the remarkable achievements during the roughly 18 months of office of the new government is its pursuit of a strict monetary and fiscal policy. Apart from the reduction in the rate of inflation, the success of this policy of stabilisation is demonstrated, inter alia, by the development of the exchange rate, the replenishment of currency reserves, and the data of the balance of current account and the balance of payments.

The budget policy kept the deficits in the current and the overall budget at an acceptable level, despite urgent demands for expenditures, and avoided deficit financing which would have boosted inflation; in terms of revenue, considerable increases were achieved and tax administration was improved. The 1995 budget and the planning for 1996 show, we are glad to note, the determination of the Cambodian government to maintain its stability-oriented budget policy. The declared objective to cover,

already in 1996, at least the - of necessity - sharply increasing current budget expenditures from regular revenue should by all means be pursued further. In the long run, external financing of current budget expenditures at the present level would not have been justifiable. In our view, this important goal can be achieved only, however ~~and~~ if resolute action is taken to reduce military spending and if the potential of internal resource mobilisation is extended and used more effectively. Military expenditure accounted, in 1994, for more than half of the current expenditure. A continued strict discipline in spending and a strict adherence to budget principles such as completeness and transparency of the budget and parliamentary control of financial management are indispensable in this connection. Extra-budgetary revenue such as that stemming from the utilisation of tropical forests in favour of the military blemish the government's credibility and are not in accord with the declaration that top priority is attached to reconstruction and development work. I would like to ask the Cambodian government in this connection whether, with the re-institution of the "logging ban" from the beginning of 1995 onwards, the issue of extra-budgetary revenue has been settled or whether, and possibly, to what extent such revenue will be retained, e.g. from timber concessions continuing to exist in exceptional cases, or from other sources.

2. Administrative reform is closely correlated to fiscal policies, but also to an appropriate division of roles between the state and the private sector, and the improvement of the "absorptive capacity". Quite rightly, it tops the agenda of necessary reforms in the conference documents. We fully endorse the objectives and the principles regarding the role of the state, as described in the Cambodian government's conference report (page 2 and following), namely to be the "strategist" and "manager" of

development and a "partner of the private sector". However, in reality there is still a long way to go towards achieving this ideal. Understandably, the institutions set up during the time of the command economy are trying to ensure their continued existence. On the other hand, new public tasks necessitate the establishment of new administrative bodies, such as the Cambodian Development Council, the Ministry of Environment and others. Another factor is that there is an urgent need for salaries in the civil service to be raised, especially for better qualified staff. We therefore feel that it is necessary

- to dissolve obsolete administrations and

- to prevent new institutions from unnecessarily expanding their staffing and take over tasks which could be carried out just as well or even better by NGOs or institutions in the private sector.

Otherwise, the rise in salaries and their share in the budget cannot be kept within acceptable limits, and the crucial target of reducing the civil service by 20 % of its staff by 1997 cannot be achieved. We welcome it that the World Bank and UNDP play a decisive role in solving the complex issues of administrative reform, made even more difficult by the fact that at present public administration is becoming more and more politicized. I agree with the "Phase Strategy" proposed in the World Bank document (page 49, para 5.12 and following) for an administrative reform, and with the proposals for improving the "absorptive capacity" which take adequate account of existing "constraints".

3. An important element in the development of the institutional foundation of a market economy and an efficient private sector is the establishment of

the finance, especially the banking, sector. The high number of almost 30 domestic and foreign banking institutions now registered in Cambodia is somewhat misleading and does not really reflect the actual level of development reached here. The stronger regulation of the banking sector which has been initiated and the introduction of bank supervision through the Central Bank are steps urgently called for in our view. We would like to learn from the Cambodian delegation what ideas exist regarding an improvement in the credit supply situation, especially for small and medium-scale enterprises, and how external aid is to be used here. The conference report of the Government mentions the idea of setting up a "Development Fund" for this purpose. We would appreciate some more information on this, especially regarding the following aspects:

- who will be sponsoring the Fund, what will be its purpose, how will it be financed, and what will be its conditions of operation?

4. Finally, I wish to emphasize that we welcome it very much that in its conference document the Cambodian government again expresses its commitment to establish and further develop a liberal democracy and a market economy system, and to a society "where the rule of law prevails, where human rights are respected, and where the private sector is the 'engine of growth'".

In summing up the following can be noted: the new government has launched important measures under very difficult conditions and within only 18 months since entering into office to further approach these ideals. However, its report also bears witness of the fact that there are still grave deficits existing and many tasks still awaiting action in various areas. The most important tasks include, in our view, internal peace and improvement

of the internal security situation - tasks which far exceed the mere solving of the civil war problem. Of prime significance here is to observe the principles of "good governance". Corruption, misuse of office, the political influence on state institutions and on the filling of posts and similar issues undermine the loyalty of the people, their belief in a renewal and their willingness to reconstruct the country. And without them all efforts on the part of external donors and their contributions are doomed to fail.

Thank you.

Third International Conference for the Reconstruction of Cambodia (ICORC III) in Paris from 13 to 15 March 1995

German statement on para 3 of the provisional agenda: Implementation of Aid, Absorption Ability

Mr. Chairman,
Ladies and Gentlemen,

I wish to link up to what I said yesterday on administrative reform, especially regarding the necessary abolishment of obsolete administrative structures and restricting oneself to what is really needed when building up new administrative units, while taking into account the possibilities offered by the private sector. I wish to add here that the delineation of tasks between various ministries and other public agencies and administrative procedures requires, in our view, more clarity so as to avoid confusion of responsibilities, duplication of work, delays and other inefficiencies. For example, the delineation of tasks between the Cambodian Development Council (CDC), the Ministry of Planning, the Ministry of Economy and Finance and the planning divisions of the line ministries with regard to public investment activities is still largely obscure. The same applies to delineations between the Ministry of Agriculture, the Ministry of Rural Development and various related line ministries and local governments regarding rural development activities. Moreover, we feel that the doubts expressed in the World Bank Report (page 22, para 2.17) regarding the suitability of a central procurement division under the roof of the CDC are justified.

The suggestion of the World Bank Report (page 54, para 6.3) to improve donor coordination through sectoral work meetings between important donors and the responsible Cambodian institutions should be fully endorsed.

Third International Conference for the Reconstruction of Cambodia (ICORC III)
in Paris from 13 to 15 March 1995

German statement on para 5 of the provisional agenda: Other Issues

Mr Chairman,
Ladies and Gentlemen,

We welcome it very much that the Cambodian government's report for this conference contains a special detailed chapter on environmental aspects; we fully support the intention of the Cambodian government to formulate appropriate environmental policies. Already last year we offered our know-how and cooperation for an ecologically oriented forestry policy; in this year's programme we have set aside an amount of DM 5 million for this purpose. Moreover, via the Mekong Committee we assist in the drawing up of a forest inventory in the lower Mekong basin in which also Cambodia was included last year.

However, we are deeply concerned by information to the effect that logging concessions in Cambodia would be given to timber companies of an Asian country, namely Malaysia, as we were told; and this despite the logging ban in force since the beginning of the year. I would be grateful if the Cambodian delegation could comment on this issue.

As to demining measures, we can provide funds for this purpose under our rural development projects if this is required for the implementation of a project. Furthermore, the German government can support measures to train mine seekers and for the promotion of mine awareness among the people. I should like to point out in this connection that since 1991 the EU has provided more than ECU 3.0 million for demining activities in Cambodia; more than one quarter of this amount is financed by Germany.

Thank you.