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August 29, 2001

Address to the Inauguration of Hun Sen-Tumring Primary School and the Launch of a Rubber Seed Plantation in Kampong Thom Province (An Excerpt)



On August 14, Samdech Hun Sen cut the ribbon to inaugurate three bridges on Route 56 at Loloksar Commune, Sampoa Meas District, Pursat Province.

“ ... On behalf of the Royal Government of Cambodia (RGC) I personally would like to commend the efforts deployed by the management, workers, and officials of Chub Rubber Plantation to establish a new 6,200 ha plantation in Kompong Thom Province. With this the rubber sector has ushered into a new era. Since 1979 we have rehabilitated only old rubber plantations, the majority of which are beated in Kompong Cham Province. We have not been able to modernize and improve either state or private rubber plantations to industrial scale in various provinces and areas with red soil, due to the innumerable legacies of wars and internal strife ...

“... Indeed, the fall of rubber prices in the international market that we have never seen since the 1960s was caused by the economic and financial crises in a number of countries in the region, coupled with the slowdown of the world economy. Nevertheless, I am confi-

dent that in the future rubber can still maintain its potential and continues to be the source for generating foreign exchange and jobs for ten of thousands of our Cambodian workers.

“ ... I am very proud to see today the good performance of the Chubby Rubber Plantation in expanding rubber plantations to the Sandman District in line with government instructions. This is critical not only in terms of improving the company's future economic efficiency, but also rehabilitating the ecological balance of the region, which was degraded to some extent by logging.

This project would also create jobs and generate revenue for the poor, thereby complementing the government's efforts to alleviate poverty of our population.

The local people here, apart

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August 22, 2001

Address to the International Conference on “Building a Coalition for Transparency” (An Excerpt)

“... I would like to take this opportunity to express my appreciation to the Center for Social Development (CSD) and the Asian Development Bank (ADB) for jointly organizing this conference.

The conference is organized very timely for a number of reasons.

First, it will raise public awareness on the main principles of good governance, which constitutes the cornerstone of the Royal Government of Cambodia (RGC)'s administrative reform agenda.

Second, it will shed light on how best Cambodia could move forward in implementing this crucial reform.

Third, it builds partnership and trust between government and non-government sectors to broaden ownership of and participation in the reform programs.

Today, I wish to take the opportunity provided by this conference to share with you some thoughts on good governance in general and the concept of transparency in particular.

I wish to illustrate them within the context of the government's reform programs and highlight the importance and key role played by the RGC in the promotion of transparency

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August 6, 2001

Address to the Fourth Government-Private Sector Forum in Phnom Penh (An Excerpt)

“... We are gathering here at the time when a synchronized worldwide recession has become a serious danger. The US economy is still sluggish and showed no signs of an imminent rebound.

Japan's economy is already in the doldrums, while Europe's slow growth could get slower and a financial crisis is threatening Argentina and possibly other nations in Latin America.

In Asia only China is doing quite well. But other regional economies are being badly affected by the slowdown in the high-tech industry and the dot-

com meltdown. The current situation has an impact on investment decisions worldwide.

The Cambodian economy has experienced an upward growth

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from rice and slash-and-burn farming, have been involved in the collection of forest by-products, such as vines, rattan, wood resin to generate additional, albeit meager revenue for the family. In most of the cases, the revenue is not adequate to meet the living costs of our people.

With the assistance at the initial stage by the Chubby Rubber Plantation Company, the development of rubber plantation will provide them with the opportunity to grow cash crops between the rubber trees. Their farm size were also segmented, scattered around here and there from half to two hectare, overlapping the Chubby Rubber Plantation Company's concessions recently granted by the RGC to develop rubber plantations.

Therefore, the Chhub Rubber Plantation Company has initiated the idea of swapping their current holdings with the land located near their villages. Each family is entitled to get three ha of land, allowing the local people in this area to enjoy the fruits of development with equity. It means that those who had only half or one ha of land will get an additional portion from the government so that each family in the end will receive three ha of land, so as to develop rubber plantations or grow other cash crops.

“... From now on following the proactive policies of the RGC to establish a new economic development area here the living standards and the status of our people have been upgrading. Our people have been transformed from rice and slash-and-burn farmers into workers and owners of the family rubber plantation. A collector of wood resin with unstable income have become a rubber plantation worker in the community who can generate adequate, stable revenue to

support his or her own family.

These positive changes are of critical importance for their livelihood, reflecting the implementation of the government poverty reduction agenda. Thus, our policy is neither a rhetoric nor a demagogic ploy, but a real action and effort, coupled with new initiatives to genuinely benefit the people of Cambodia.

I would like to take this opportunity to stress the importance of the family-scale rubber plantations. As you all are aware, the family-scale rubber plantation development is an important government political platform aimed at alleviating poverty in the rural areas through increased earnings, creating jobs, improving national income from rubber exports and protecting the environment in the country.

The RGC issued a Prakas on Family-Scaled Rubber Plantation Development in Cambodia by giving priorities to land titling, the transfer of land title or inheritance and introducing the policy of non-nationalization of legal land holdings. Rubber trade is also instrumental in encouraging farmers to promoting family-scale rubber plantations in order to allow them to benefit from the free market prices.

In order to transform this area, especially the state-owned and family rubber plantations into a sustainable, efficient agrobusiness area, I would like to take this opportunity to provide some recommendations to the management as well as officials of the Ministry of Agriculture Forestry and Fishery (MAFF), the General Directorate for Rubber Plantations (GDRP), especially the rubber plantation companies:

First, more efforts have to be devoted to develop rubber plantations in this area in order to promote economic development in our country and help

poor farmers to have better livelihood. In this sense, efforts should be made to transform this remote outback areas with undeveloped facilities into a modern agro-business center, thus the local people, who had previously involved in logging and the collection of rattan, vines and wood resin, will become farmers, workers, owners of rubber plantations or simply cash crop growers. My desire is to see Tumring becoming a model commune, taking the lead in rubber exports. By so doing we will be able to reduce gradually the poverty of the people in remote outback areas, alleviate the sufferings of our people and help them get out of the poverty traps.

Second, it is very important to raise public awareness on the benefits of rubber plantations, government policies to promote family rubber plantations, as well as disseminate technical guidelines on how to plant, care, put fertilizer, monitor, provide treatment for rubber trees.

Then it is also useful to provide extension services on rubber processing and growing cash crops in the plantations to improve the farmers' livelihoods.

Third, the public should be educated to know the importance of forests. Forest is the life blood of our country and therefore should be protected. Renewed efforts should be deployed to eradicate corruption in the forest sector and ensure sustainable forest management. Our actions should be based on the necessity to preserve the environment and maintain the ecological balance and biodiversity. The RGC has done a lot to crack down on illegal logging, corruption and illegal actions in the forest sector. We will continue this work and are committed to eradicate these corrupt practices.

Fourth, I urge the MAFF and the GDRP to cooperate with

the Ministry of Land Management, Urban Planning and Construction, provincial agencies and authorities concerned to conduct a study on the geographic location, geology and zoning of agricultural land by establishing a land use map.

Fifth, apart from developing rubber plantations and other cash crops, I urge the rubber plantation companies based here to give due attention to the development of Tumring Commune in all aspects to the level of other communes in Kompong Thom. Indeed, the Tumring Rubber Plantation should become a core or a backbone to promote the development of family rubber plantations and cash crop production in this area. However, this should be done to promote social development, notably education, health and other aspects of the people livelihood.

“... the issues that should get an immediate attention is to upgrade the living standards of the workers, employers and people living and working in the community by using the company budget to build a network of infrastructure, such as roads, dwelling, hospital, school, pagoda, entertainment center and strengthen law and order, beef up security and ensure safety for the people here, whether at work or out of work.

In this sense I am very touched by the opportunity to preside over the inauguration of the HUN SEN-Tumring primary school. I hope that this primary school will become a center for the development of human resources, which is key to sustaining the government efforts in alleviating poverty and upgrading the livelihood of the people.

I urge the authorities at all levels to raise public awareness on the necessity to send chil-

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dren to school and to invest in knowledge through the provision of basic education and improving skills. This is critical to help them to get out of the poverty trap.

Knowledge will increase productivity, develop mentality and entrepreneurship, which constitute an invaluable assets, given its potential to generate future revenue.

Indeed, to promote economic development and improve the living standards of the population, physical assets are necessary, such as land, natural resources and underground resources, which constitute sine qua non factors of production. However, we should recognize that knowledge, human capital and experiences constitute a very important intangible asset. This kind of asset cannot be getting lost or wasted. It is the most powerful and predominant production factor in the production process. In short, human capital and human resources is key to promoting long term development of Cambodia.

Therefore, to promote sustainable development and achieve comparative advantages over the long run we should adjust development policies to shift resources towards developing human capital, creating new ideas, improving productivity and accepting innovation, know-how and technology .../."

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to attain its ultimate strategic objectives of poverty alleviation and long-term sustainable development with equity. As I have stated on many occasions, our policies and reform programs are not to please anyone in Cambodia or outside. They are truly nationally owned and accepted because we believe in them and we wish to adhere to them for the benefits of Cambodians today and to be born.

For these reform programs to succeed, we should build trust between the key players. It is important that the RGC build partnerships and trust with non-governmental sectors, in particular the private sector and the civil society. I wish to elaborate further why we need the partnerships and trust.

First, there seems to be widespread consensus that social networks, to which sometimes referred to as "social capital," can affect political and economic efficiency. Such things as trust, the willingness and capacity to cooperate and coordinate, the habit of contributing to a common effort - all these patterns of behavior have a payoff in terms of aggregate productivity, dynamism and sustainability of works.

Second, the experiences of some East Asian countries show that conventional economic factors such as investments in human and physical capital and technology only partially contribute to economic growth. Another factor, which is crucial and sometimes determinant, is the investment by the government in social capital by creating policies that provide an enabling social environment for development.

Third, institutional arrangements and organizational designs that enhance efficiency, facilitate exchange of information, and promote cooperation

between government, the private sector and the civil society, which is the catalyst and key to getting the reform mechanism started. For these reasons, we believe that this partnership will add great strength to our reform efforts.

Transparency is a wide, comprehensive concept. In a narrow sense it means fighting corruption. Sometimes it is defined as the extent to which information on public sector decision making, policies, actions, and performance, rules and regulations are accessible to all people.

In this sense new laws, regulations, and policies should be announced publicly so that people are aware of their existence. However, in a larger sense transparency should be considered as one of the key elements of good governance, which is not only applied to government institutions, but also to the private sector, the civil society and the media.

The other elements of good governance include accountability, predictability and participation.

From this point of view, I wish to share with you some thoughts about a macro-institutional analysis of transparency in a large sense. It is a global trend toward growing transparency across issue areas such as political, economic, financial, business and interstate relations.

Transparency is called for in such varied contexts, as banking, auditing and accounting standards, national fiscal practices, control of drug trafficking, environment, anti-corruption, multilateral development assistance, international relations, private sector, and civil society practices.

In general the demands for transparency are increasing in large part because of globalization. As the world becomes

more tightly integrated, many people are affected by, and thus want to have a say in, what used to be other people's business.

As trade, capital, environmental degradation, drugs, people, and ideas cross existing political boundaries in ever greater quantities, events in one place have ever greater impacts on other places.

A decision made by a super-power can have far-reaching implications for small states. Thus, transparency is not a one-way street. In politics, citizens and civil society want to monitor the actions of the officials they elect. At the same time, the government demands information from citizens, the private sector and the civil society to strengthen governance and to enforce laws and regulations for the sake of stability, social order and equity. Thus there are pressures on all of us to open up many of our internal processes for scrutiny as well.

In international affairs, while small states are required to conduct government business in a transparent way, they demand more and more from the big powers to do likewise. It means that the rules of the games should apply equally without double standards, one for the big country and another for the small one; one for the powerful and another one for the powerless. As I often mention, on a boulevard anyone being either a car driver or a motorbike driver or a cyclo-driver or a passenger has to respect traffic rules. In contrast, I observe that besides sports it is difficult to determine the international standard for any other areas in this world.

Quite often, if not always, in our imperfect world, the stronger or the most powerful one imposes its agenda and will

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as the international standard for the weaker or the smaller to follow. However, just proposals or limited capacity of the weak one, have not often been paid attention by the most powerful and the rich. I used to give some example regarding the necessity for transparency in dealing between weak country like Cambodia and countries with world power in both politics and economics, for some issues such as old debt settlement.

The RGC does acknowledge state legacies, including our old debts. These are principles that we always abide by in our practices. But in our efforts to solve this issue we also need transparency, because the RGC is responsible for and must be accountable to Cambodian people who had gone through the various consequences of this loan as well as to those who had provided us with this money. Thus, what we want is a clear and transparent resolution to this problem. In contrast, this fair and just request to have appropriate supporting documents of the debt is being considered by our partner as an excuse to hide our unwillingness to pay the old debt. Furthermore, they even use their power in some international institutions to force Cambodia to accept the old debt without having appropriate evidences. Notwithstanding these facts, Cambodia still has good will to solve this problem and is struggling to do so with its limited capacity, of cause in the spirit of transparency and for the sake of strengthening good friendship and cooperation between the partners.

Transparency is also very important in instilling public confidence in the public services. A transparent civil service will help professionalize the public machinery and improve the quality of public services. To this end, the RGC has adopted a package of reform agenda

and strategy to revamp the structure and size of civil administration in general, and to strengthen governance in particular.

The RGC considers good governance as the backbone of its reform programs. We adopted in March 2001 the Governance Action Plan (GAP) in order to bring governance-related initiatives under a common umbrella framework to ensure smooth and coherent implementation. This calls for a predictable and enforced legal system that is conducive to protecting individual rights and freedoms of our people and promoting both domestic and foreign investments. It also implies improving the quality of the public services, a mechanism for greater accountability and transparency in the society and an everlasting war against corruption.

The RGC recognizes that transparency is an efficient mechanism to fight corruption, which takes a toll on economic performance, undermining its efforts to reduce poverty of the population. For those without money and connections, corruption in public services can have debilitating consequences. Corruption biases government spending away from socially valuable goods, such as education and health care. It diverts public resources from infrastructure investments that could benefit poor people, such as roads, bridges and irrigation system. It also lowers the quality of infrastructure and undermines public service delivery. In this sense, a transparency in public administration plays a critical role in mobilizing domestic and external resources to meet the needs of development and ensure equal treatment and social justice.

To this end, streamlining bureaucratic procedures, simplifying and modernizing the tax system, eliminating excessive regulations, and motivating

public servants can help reduce the opportunities for corruption. In the pursuit of transparency, we have shifted from a centralized to a decentralized management system by introducing technical devolution of power from the central to the local levels. The people at the local level will not only get more information and get involved themselves in public affairs, but also have to assume more responsibility. Therefore, the communal elections to be held next year will be of two values for Cambodians. **First**, the enhancement of democracy at the grassroots level, whereby the people will exercise their rights to elect the people they like. **Second**, strengthen public services at the local level and make it more transparent.

As I stated early, fighting corruption and promoting transparency is important not only in the public sector, but also in the private sector, NGO and the media as well. This has led to the adoption of codes that criminalize bribery of government officials by foreign parties, notably the OECD Convention on Combating Bribery of Foreign Public Officials in International Business. Bribery by domestic firms is also a problem. Fraud, tax evasion, tax avoidance, local bribery, insider dealing, false disclosure, and money laundering reduce trust resulting in misuse of resources. Preventing violations of corporate ethics requires improved legal system, corporate governance and corporate restructuring, as well as reform of judicial system dealing with business disputes.

Therefore, institutions matter in promoting and enforcement of transparency. Already in the past decade tremendous efforts have been devoted to draft and enact laws and regulations. A true "Rule of law" is still some distance away. As we all know, Rome was not and could not have been built overnight. The RGC has doubled its efforts to

achieve these noble objectives. The rule of law means that laws, regulations and formal rules are made publicly known and enforced in a predictable manner through transparent mechanisms. It creates a predictable and secure environment for economic agents to engage, in a fair and just manner, in production, trade, and investment, thereby expanding employment opportunities and incomes for the people. Thus, the rule of law is crucial to poverty reduction, which constitutes one of the main objectives of the reform agenda. It takes a long time to build up institutions, drafting laws that are effective. Since the re-birth of the second monarchy by the new Constitution in 1993, tremendous efforts have been deployed by RGC in drafting new laws and regulations. But at present Cambodia still lacks many important laws and regulations conducive to effective functioning of the rule of law. Civil wars and the disruption of political and economic regimes during the last three decades have taken a heavy toll on institutions. The legacies of this war are widespread: intolerance, violence, egoism and low morality just to name a few.

In this context to achieve transparency and good governance changes in policies and political platform are surely not enough. We have to educate those people who just a few years ago went to war against each other to respect each other. Who to blame for this: ourselves or external powers? I believe that everyone had a faire share of this war. These are also the governance-transparency issues. Should the Royal Government be solely held responsible for all the negative things in this country. I think that legally the Government is responsible for what happens. But all the players, both domestic and external, who had fueled the protracted

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war and changed the mentality of some people, regardless of their political affiliations, from being peaceful to violent, should also assume their moral responsibilities as well. Cambodians are the victims.

During the period of hot war caused by the cold war from outside, our people had suffered unjustly from bombardments and being inflamed to kill and to go to war with each other. Now the war and the conflict was over due to our own efforts, but we continue to be burdened by the war legacy in physical, psychological, and moral terms. Now Cambodians have to adjust themselves to this peaceful life and learn to respect human rights, democracy, rules of law and good governance. In this difficult task we need support encouragement and understanding of our real situation, which closely linked to our recent history. This is the essence and the nature of "Building a Coalition for transparency and good governance".

Nonetheless, adopting laws and regulations is only one side of the equation. Rigorous implementation is the other. We are conscious that changing people's mentality takes time. I can assure you that it is not easy like changing clothes. That is why the RGC has made a lot of efforts to educate people about the rules of law. Ultimately, the sustainability of our actions will depend on the institutional infrastructure to enforce the rules on a consistent and fair basis, and gradual but firm culture change. This will include developing a strong cadre of directors, auditors, regulators, and other professionals who understand their role and exercise their responsibilities within the system. It will require significant investment in training and recruitment of competent and ethical individuals, as well as enforcement of the rules in a timely and fair manner.

As I stated early the RGC clearly understands these challenges and has embarked on reform measures to enhance public administration and the court system and to improve the efficiency of the public services by promoting transparency and accountability. Institutional structures and mechanism have been established to enhance the management and implementation of the military demobilization, administrative and judiciary reforms. Detailed work plans and action plans have been designed and improved subsequently as the RGC is actively implementing the initial phase of this complex reform programs. While preparing for the implementation of the Pilot Demobilization Project, we have carried out first step of the administrative reforms, including civil servant census, functional review of governmental public servants, the establishment of professional skills and introduction of new salary scales. To professionalize the civil service the RGC has conducted competitive recruitment of civil servants in a transparent manner. As I already mentioned, notwithstanding tremendous difficulties and impediments, the RGC has made substantial progress in this area. The cracking down on illegal logging, the increase in tax revenue, the removal of ghosts from the army and the confiscation of land, which has been sold off or held illegally, were among the measures aimed at tackling corruption. The Audit Law was passed last year by our legislative bodies and the National Audit Authority will become fully operational shortly.

There is an important issue which I should also point out here today. It is the participation of all political parties in the process of strengthening transparency and good governance. This is an important factor to the sustainable development of any country. In the

democratic country with pluralistic political system, party running the government is replaced through free election. Therefore, each political party plays an important role in the transparency and good governance process. In Cambodia and in other countries as well, there is a bad habit of some irresponsible political party, which uses certain political demagoguery such as promises to give salary increase, career promotion or some other benefits in exchange for votes from its supporters. I wonder whether a promise to give provincial governor post or district chief or other positions to unqualified person would put the law governing civil servants in jeopardy or not? Or giving higher rank to any soldier without seeking qualification in the national armed force, does it go against the law governing the national armed forces? Whether this kind of practices constitute a type of corruption and lack of transparency? These are our bitter experiences in the last ten years. Some people sold their cows and wealth to buy government positions because of the promises given to them by some political party. Meanwhile, the government has to accept a large number of civil servants and armed forces into its rank in addition to the existing one. As a result, many civilians had become generals, colonels, or high-ranking officials in provincial or district authorities or elsewhere without the need go through competitive recruitment process, therefore making training centers for civil servants and military personnel unnecessary. It is also a common practice to promise a high salary increase exceeding government resource capability, which should be considered corruption practice, or, more than that, a demagogic propaganda of politicians who never have any experience of running the government. Therefore, for the sake of sustainable development, I think that transparency and

good governance should apply also to all political parties. And in this case we can as well rest assured that our people will be free from false and demagoguery of any political party.

I have elaborated on a wide-range of views and concept of transparency in the context of government reform programs. Achieving transparency is not easy task. It is important to foster a culture of transparency. Moreover, we have to think about how to shoulder the costs of being transparent. Using information technology such as the Internet, broadcasting systems, data processors and telecommunications technologies may not reach all segments of the society. We still have to spend a lot more direct efforts to get information to the public in all the corners of the Kingdom and raise awareness among them. For this purpose, we surely need to build a Coalition for Transparency.../.

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momentum, which runs counter to the slowdown observed throughout Southeast Asia.

Our country has been undergoing a period of accelerated transformation and reforms.

The main thrust of the implementation of the financial reform package in 2001 focused on maintaining macro-economic stability, strengthening the banking and financial institutions, implementing additional fiscal reform measures, ensuring a sound management of public property and increasing public investment in physical and social infrastructure and human resource development.

While the results of these reforms are now tangible, they are far from complete. Moreover, much remains to be done to allow reforms to take a firmer root.

It may take another three years of strict implementation of the reform programs as scheduled to put Cambodia firmly on the track of sustainable growth and poverty reduction.

The restructuring and adjustment that we have put in place and actively implemented are now starting to pay off. Performance of the Cambodian economy in 2000 and the first half of 2001 is strong, with continued growth, low inflation, and further progress in the areas of fiscal reforms. Economic activity was buoyed by good performance especially in the tourism sectors.

The manufacturing sector, particularly the garment industry, had displayed a strong dynamism, albeit the slowdown of the US economy has resulted in the drop in garment orders, thus negatively affecting Cambodian exports in 2001.

Hence, diversification is criti-

cal to improving the health of our economy by encouraging other export-oriented, natural-resource-based and tourism-related industries, which Cambodia has a great potential. It is also crucial at the initial stage of development to gear the industrial development policies to build on the country's comparative advantages by developing natural factor of production, including natural resources, historical assets, arts and culture, physical heritage, skilled labor and entrepreneurship of the people.

At the same time, Cambodia should strive to attract, as much as possible, the investment relocation from neighboring countries in the region, which have graduated from the GSP program with developed countries, while attaining a higher degree of development.

With the efforts to develop physical infrastructure and the increase in skilled labor, Cambodia's industry can progressively move towards more technologically sophisticated and capital-using activities.

At present, a number of companies have used computers, the English language and the Internet to create employment in Cambodia. This signals Cambodia's possible entry into a world of new development paradigm, where private companies could use English language, the Internet and the computer skills of Cambodia's ambitious and yearning youth to provide basic information services to US and Canadian corporations.

At the same time, I urge the Ministry of Education, Youth and Sports and relevant government ministries to closely cooperate with the private sector to reset the directions of training, especially by developing good curricula for general education, language and basic skill training in response to market demand.

One of Cambodia's biggest

challenges is to provide training that meets market demand. Even though during the past decade the Royal Government of Cambodia (RGC) has opened up education for the private sector's participation, Cambodia is still being considered as lacking skilled labor.

Therefore, the RGC will make further efforts to reform the education system, both public and private, by focusing on vocational training and developing appropriate curriculum.

This will help investors secure skilled labor, while providing well-trained youth to find relevant jobs. I am confident that all investors could play an active part in this important endeavor.

The drop in new investment approval by the Council for the Development of Cambodia (CDC) is worrisome for all of us. In 2000, a total of 96 investment projects with US \$269 million fixed assets were approved, a decline by 40 percent as compared to 1999.

During the first half of 2001, 27 investment projects were approved with US\$56 million in fixed assets, a further decline by 36 percent, compared to the first half of 2000. We have however noticed that expansion of old projects and investments in tourism-related sector, such as expansion of the airport and hotel construction in Siem Reap, are still vibrant.

Overall, even though the new investment approvals decreased, FDI inflows into Cambodia were estimated at US \$150 million per annum. Moreover, total investment consisting of FDI and domestically funded private investments, which are not reflected in the CDC figures, did not drop, but increased by 7 percent in 2000 compared to 1999.

Nevertheless, what is the signal for Cambodia? Even though

Cambodia can secure sustainable development over the short to medium term, with the increase in public investment and ODA inflows, the declining FDI poses a serious concern for the prospect of economic growth over the long term. Indeed, the decline does not happen only in Cambodia.

The drop in new investment approvals can be observed throughout Southeast Asia, which has experienced a net outflow of funds.

Net FDI outflows from Singapore alone were US\$10 billion in 2000. But China could attract US\$40 billion last year, buoyed by the prospect of the country's accession to the WTO and investors' rush to get a share of this huge market.

Nevertheless, this should not be used as a pretext to circumvent our efforts to improve the investment and business climate in the Kingdom of Cambodia. Attracting and promoting investments, both domestic and foreign, is a prerequisite to achieving sustainable development and poverty reduction.

In this sense, I would like to turn this Government-Private sector forum into a brainstorming session on how to make Cambodia attractive to investments.

The RGC recognizes that improving the business climate and establishing an enabling environment for private sector development is a key prerequisite for fostering growth-reducing poverty and achieving sustainable economic development. The RGC recognizes that there is somewhat of a herd effect with would-be investors following where others are already operating successfully.

This is the reason why that as the Head of the Government I

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pay much attention to improving business environment for the existing investors.

This is the reason why the seven, sectoral, joint Working Groups with the private sector were established and meet on a regular basis in order to improve investment environment and address investors' concerns.

The RGC hopes that this initiative will allow private sector's effective participation in the efforts to improve the quality of policy making with respect to investment and to ensure its consistency.

In this sense, policies with respect to the private sector should be based on the following:

First, supporting the massive small and medium enterprises (SMEs) and the unrecorded economy; and

Second, promoting and facilitating big investors.

The SMEs and the informal, unrecorded sector play an increasingly important role in the Cambodian economy, creating substantial employment for Cambodia's poor.

The lack of credit for establishing new or expanding the existing enterprises is currently one of the biggest challenges.

Hence, as the Head of Government I urge the Rural Development Bank to conduct a study as soon as possible on fostering cooperation between commercial and specialized banks and microfinance operators, which are capable of providing loans to small and medium enterprises (SMEs) and the small-scaled, unrecorded sector involving in rice milling, food processing, animal feed production, furniture-making and handicraft production, which are important sources of revenue generation for the poor.

At this morning's meeting, apart from listening to the presentations by the representatives of the seven working groups, I wish to set the tone and the direction of the discussions during this forum and within the working groups, which are operational between the fora.

I would like to take this opportunity to consider together how best we – government and the private sector – could do to improve the regulatory and legal regime and ensure a level playing field for both existing and prospective investors, whether domestic or foreign.

I understand that the private sector has aired their concerns and made suggestions to relevant government bodies through our joint working groups to ensure an equitable and fair treatment, as well as fair competition.

In this sense, the RGC has a role to play to ensure free, fair and transparent competition.

In this regard, it is important to have an Accounting Law and an Audit Law applicable for private firms based on international standards.

This law should ensure transparent operations, and fair and equitable distribution of tax burdens on private companies.

In this sense, the RGC has encouraged thorough discussions of this draft law with wide participation from experts, the private sector and regulators, especially within the framework of the Working Group on Legislation, Tax, Governance and SMEs. It was a time consuming process, but it ensures that the job was well done, thus facilitating smooth implementation.

Most investors have expressed their legitimate concerns with regard to the proposed amendment to the Law on Investment, which will impose on

investment firms appropriate tax burdens, used to finance government's efforts to upgrade the physical infrastructure, in exchange for improved governance, facilitation and services.

The latter includes streamlining of bureaucratic red tapes and irrelevant procedures, improved customs and tax administration and eradication of corruption, for which the RGC needs resources and time to do. It is true that sometimes it is very difficult to weigh between immediate costs and future benefits.

You may have seen that the RGC has taken very seriously the problems facing the private investment sector and businesses, such as:

- (i) High operating costs, in part brought about by poor infrastructure and overpriced utility services;
- (ii) Excessive layers of bureaucracy that add to production costs and introduce uncertainty;
- (iii) 'Hidden' transaction costs and smuggling – a heavy burden for investors and business people; and
- (iv) A lack of transparency and accountability, especially a sound legal and regulatory framework.

Though most problems are long-term in nature, thus time is needed to address all the impediments. With strong determination, the RGC has achieved encouraging results.

In my address to the third forum, I elaborated on government's efforts to rehabilitate the country's infrastructure and measures to reduce electricity and telephone tariffs. There is a progress in this area. Road and bridge infrastructure has been rehabilitated. The telephone tariffs were reduced.

The RGC has made massive investments in the electrical power sector with improved institutional capacity. This has been done to facilitate and promote economic activities and investments in Cambodia.

The RGC needs substantial financial resources to rehabilitate, build and maintain these works.

In this sense, the RGC relies on active and appropriate participation of the private sector in this endeavor.

At the same time, the RGC recognizes that much remains to be done, especially those related to governance.

To this end, we have adopted and implemented with strong determination the Governance Action Plan (GAP), aimed at improving the efficiency of public services, ensuring transparency and predictability of the public services.

In this context, the RGC is implementing a US\$6 million Strengthening the Economic and Financial Management Project by closely cooperating with the international financial institutions and a number of donors in order to accelerate the reforms, strengthen customs and tax administration, and public expenditure and treasury management.

The objectives of this project also include expanding the tax base and establishing an equitable and modern tax system.

Overall, the RGC will make further efforts to implement the four-pronged reform package with a view to creating an enabling environment for private sector development.

Nevertheless, I wish to clarify the main principles for the review of the Law on Investment.

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First, it will be proposed as a package, which offers investment facilitation and the review of tax incentives;

Second, the review of tax incentives will be carried out with caution to a certain degree that ensures a transparent, fair and equitable treatment, acceptable to all and without discrimination. This is the most important factor, which maintains Cambodia's attractiveness as compared to countries in the region.

Third, the RGC will continue intensive consultations with the private sector and other players concerned with the review of this Law on Investment.

One cannot talk about improving the legal and regulator framework for investment without reforming the Council for the Development of Cambodia (CDC).

In this sense, I signed on 27th July a sub-decree to strengthen the organization and the functioning of the CDC by appointing the Minister of Commerce as another CDC Vice Chairman and expanding the composition of the CDC to include representatives from all government ministries, agencies and provincial/municipal governors.

The main objectives of this restructuring are to enhance the one-stop shop for investment by expanding the scope of this coordination to the provinces and municipalities, where investment projects are being implemented.

Moreover, it will ensure a close coordination between policies and strategies on trade, industry and investment, including the establishment of a Free Trade Area, an Export Processing Zone and a Special Industrial Zone.

dustrial Zone.

It also reflects government's strategy to link investment to exports, which have played a critical role in employment creation for our population and accelerating economic growth.

Within the context of the restructuring, the CDC should organize a workshop with the participation of representatives from all government ministries and agencies, as well as provincial/municipal governors – members of the CDC to raise awareness and facilitate investments in Cambodia.

The government's philosophy with regard to investment is facilitation and provision of all kinds of services to investors at all stages. Using commercial and marketing terms we should provide investors with the after-sale and after-care services.

Thus, I urge the CDC to pay attention to this new concept, redirect and re-adjust its own mechanism, structure and workplace to strengthen efficiency.

As H.E. KEAT CHHON, Chairman of the Council for the Development of Cambodia (CDC), has stated in his address to the forum, the efforts deployed by the RGC, especially the CDC, are geared to improving the legal and regulatory framework and procedures to strengthening the government's institutional capacity.

This is to promote and facilitate investment and business activities in the Kingdom of Cambodia in line with this philosophy.

From this report I have noticed that all working groups have met regularly and have made some positive results.

I strongly hope that through this close cooperation a wise partnership between the government and the private sector

The August-2001 Releases Available at www.cnv.org.kh	
06/08/01	Address to the Fourth Government-Private Sector Forum.
14/08/01	Address to the Official Inauguration of Three Bridges on Route 56 at Loloksar Commune, Sampao Meas District of Pursat Province.
15/08/01	Toast at the Dinner in Honour of H.E Prime Minister Bounnhang VORACHITH of the Lao People's Democratic Republic and Madam.
20/08/01	Address to the Official Inauguration of the Phnom Penh Chamber of Commerce Head Office.
22/08/01	Address to the International Conference on Building a Coalition for Transparency.
29/08/01	Address to the Ceremony to inaugurate the HUN SEN Tumring Primary School and to Launch a Rubber Seed Plantation in Tumring Commune, Sandan District, Kompong Thom Province.

will be further strengthened.

Today I want to talk less, but to listen more. Thus, I think that it is time to give you the floor so that you can air in a frank and candid manner your grievances, concerns and suggestions, so as to help the RGC to re-shape policies and improve further the business environment in this country.

I encourage all my colleagues in the government present here and the representatives of the private sector to continue our good tradition of close partnership and to discuss in an open and candid manner all issues and challenges, and explore ways to establish favorable conditions to attract investments to Cambodia.

My colleagues and I will be happy to answer to your questions and provide comments on any issues that have been your concerns or that you consider as impediments to doing business or undertaking investments in Cambodia.

As in previous fora, most members of the RGC, senior officials and provincial/municipal governors are in attendance.

Thus, I will consider the decision to be made today as those legally made during the Cabinet meeting and the meeting of the CDC.../”