

# Introduction

Reforms are a life and death issue for Cambodia.

—Prime Minister Samdech Hun Sen

In the conduct of government as of one's personal life, ponder untiringly over the plans and then conscientiously carry them out.

—Confucius

**G**ood governance is an increasingly important development issue in Cambodia. During the transition toward a liberal democratic state and a market economy over the last decade, Cambodia's policymakers, civil society, and aid agencies have recognized that the adjustment of the governance system has not matched the dramatic change in the role of the State. Therefore it is imperative to improve governance if Cambodia is to sustain social and economic development.

The recent history of Cambodia points to the urgent need for improving governance. Despite some progress, the State is unable to fully provide public services—such as safe drinking water, health care, basic education, roads, and protection of property rights. Shortfalls in public revenue are another indication of the challenges ahead. Furthermore, Cambodian conditions in the 1990s encouraged the short-term, high-return investments that are synonymous with countries with weak systems of governance.

The experience of neighboring countries provides ample evidence of the importance of good governance for sustaining development. In the past three decades, the high-performing Asian economies significantly improved the provision of public goods and services through the expansion of public revenue and expenditures. This helped to facilitate the development of dynamic market economies. Their industrial structures were also progressively modernized, in a transition from short-term, high-return schemes to long-term, growth-oriented investments. Security of property rights provided domestic and foreign investors with the guarantee not only of their physical investment and assets, but also of long-term returns from investments. As a result, quality of life improved on an unprecedented scale.

In spite of the current status of governance in Cambodia, there are reasons to be hopeful about the country's future development. These hopeful signs include: the collapse of the Khmer Rouge which ended decades of civil war; the imminent trials of some former leaders of the Khmer Rouge; and membership in the Association of Southeast Asian Nations (ASEAN) in April 1999. Meanwhile, the new coalition Government is enjoying a renewed sense of legitimacy after the Consultative Group meeting in Tokyo in February 1999. Cambodia's re-occupancy of an official United Nations (UN) seat followed soon after this meeting. The follow-up meetings in June and October 1999 reaffirmed the Government's strong commitment to reforms. The

current environment in and toward Cambodia is in many ways more favorable for reform of the State than at any other time.

In an effort to facilitate good governance practices in Cambodia, the Asian Development Bank (ADB) has taken a number of steps including: providing technical assistance to help the Government draft legislation on auditing and corresponding implementing regulations; providing technical assistance to develop guidelines for the procurement of goods and services; developing manuals on project accounting standards to assist project implementation units in various ministries; and strengthening the capacity for economic statistics, planning, and investment programming. In 1992, at the time of the resumption of ADB's operations in Cambodia, ADB also provided technical assistance in the areas of tax reform, customs regulation, and banking supervision. However, despite notable progress made or being made, the agenda for governance reform remains extensive. Therefore, a study on governance is vital to help provide a sharper focus to future ADB operations and to initiate a dialogue on critical governance issues with the Government and other development partners of Cambodia.

The current report addresses how to promote good governance for sustainable development in Cambodia. It aims to provide insights for improving the Government's policy making, and also to provide information for the programming of assistance by ADB and other interested agencies. The study examines key issues and challenges related to governance structures, then reviews and analyzes recent reforms from the perspective of good governance. It also assesses the long-term impact of those reforms on Cambodia's economy. Based on those findings, the study offers policy recommendations for the Government and possible entry points for aid agencies' assistance.

Governance is defined in our study as the manner in which power is exercised in the management of a country's economic and social resources for development.<sup>1</sup> States with good governance exercise

<sup>1</sup>The current study adopts this definition that suits well the perspective of our study, although the term "governance" may mean different things to different people. This definition was adopted by ADB (1995), *GOVERNANCE: SOUND DEVELOPMENT MANAGEMENT* (Manila: Asian Development Bank, August). ADB's position on anticorruption issues, which are closely related to governance, is articulated in ADB (1998) *ANTICORRUPTION POLICY* (Manila: Asian Development Bank, June).

their powers through state institutions and organizations that are accountable and transparent to the general public. They also exercise powers based on the rule of law, which are therefore predictable to the public. Furthermore, states with good governance are adept at promoting people's participation in the development process and policy making. Throughout the current report, governance structure and key governance reforms are examined from the perspective of those four elements in governance—accountability, transparency, predictability, and participation (see Box 1 for more detailed description of these elements).

Our study covers three domains of governance structure: (i) the public sector, (ii) civil society, and (iii) the media. The public sector consists of the three branches of government—the Legislature, the Executive, and the Judiciary. Some civil society organizations such as the private sector and nongovernment organizations (NGOs) are selected as critical domains of governance in Cambodia. The broad scope of our study can help articulate strategic programming at the project (or micro) level within the overall picture of governance in Cambodia. It also helps analyze the relationship between the public sector and civil society, a critical, and often underemphasized element in promoting good governance.

In our study, various documents related to governance in Cambodia were critically reviewed. Some statistical information provided by the Government, aid agencies, and NGOs was also analyzed. In addition, a number of interviews and group meetings with key representatives of the public sector, civil society, and media provided experts' views on certain issues.

Case studies in recent reforms comprise an essential component of our study. The following sectors of reform that have direct implications for good governance and sustainable development were selected for the case studies:

- public finance reform;
- public administration reforms, including both civil and military services;
- decentralization; and
- legal and judicial reform, including accountability institutions and the framework for private sector development.

In addition, because of the importance of Cambodia's participation in the ASEAN, the case study also draws lessons on governance relating to regional integration. In order to highlight economic implications of some of those reforms, a recent study of macro-economic projection on the long-term impact of those reforms are also reported in the current study.

The current report is organized as follows. Chapter I serves as an introduction. Chapter II reviews the political and economic structures before 1993. This aims to provide a historical background for the better understanding of modern governance models and issues in Cambodia. It is important to see current issues in an historical context because Cambodia has gone through frequent and major political and economic changes since its independence.

Chapter III provides an overview of the current governance structure under the Constitution promulgated in 1993. Three domains of governance structure mentioned above are reviewed in this chapter. Following the overview, Chapter IV discusses key issues of governance structure in Cambodia. Several key structural issues and problems are critically reviewed and analyzed from the perspective of four key elements of good governance: accountability, transparency, predictability, and participation. The chapter begins with an analysis of several key cross-cutting issues followed by an analysis of each domain of governance: public sector, civil society, and media.

Chapter V studies key reforms to enhance good governance in which the Government has been involved. The above-mentioned sectors of reform are examined as case studies. For each reform, the chapter provides a general introduction assessing sector structure, current reform initiatives, key issues, and ongoing challenges for reform. Chapter VI reports the result of a recent study that examines the economic implications of some recent reforms envisaged by the Government. The study, using a recently developed macro-economic model and database, assesses the impact that those reforms would have on Cambodia's economy in the coming two decades. A macro-economic projection is carried out under two scenarios—Reforms and No Reforms—to assess those long-term impacts.

Based on the studies in the previous chapters, Chapter VII examines their implications for the policy making of the Government on governance and external assistance in Cambodia. A number of concrete actions are recommended to the Government to improve good governance. Suggestions for possible entry points of assistance are also offered to ADB and other aid agencies interested in supporting Cambodia's efforts. Chapter VIII concludes the report.

### **Box 1. Key Elements of Governance**

Accountability is the extent to which public officials are answerable for government behavior. In a country with good governance, public officials are willing to answer questions by, and address the needs of, the people in the country. It also means that public institutions are held responsible for actions that damage the nation or individuals or violate laws. Lack of good governance means that public officials do not answer to the people for decisions made.

Participation is the extent to which people are involved in the policy making and development process. Good governance implies that public officials facilitate and promote an environment in which people can participate meaningfully in the development process. People can be involved in the process in at least three important ways. First, people are beneficiaries of development. Second, people are stakeholders and decision-makers in development. Third, it is the people, as opposed to officials and aid agencies, who implement development activities at the local level. Lack of good governance means that public authority excludes people from decision making and from participation in the development process.

Predictability is the extent to which a rule-based decision-making system operates. Establishing the Rule of Law is a critical element to enhancing predictability. Operationally, this implies that new laws, regulations, and policies are consistent with the rules and procedures stipulated in existing laws; made available to people in a transparent and simple way; and applied fairly and consistently to all people.

Transparency is the extent to which information on public sector decision making, policies, actions, and performance is available to people. In states with good governance, rules and regulations are accessible to all people. This includes not only laws, but also the scale of fees for public services, inventory of public property, rules for public procurement, and statistical data about the economy and society collected by the public sector. New laws, regulations, and policies are announced publicly so that people are aware of their existence.

Reference: The four elements of governance were adopted in ADB (1995), GOVERNANCE: SOUND DEVELOPMENT MANAGEMENT (Manila: Asian Development Bank, August).