United States General Accounting Office

GAO

Report to the Chairman and to the Ranking Member, Subcommittee on Foreign Operations, Committee on Appropriations, U.S. Senate

June 2002

CAMBODIA

Governance Reform Progressing, But Key Efforts Are Lagging

G A O

Accountability * Integrity * Reliability

GAO-02-569

GAO
Accountability★Integrity★Reliability
Highlights

CAMBODIA
Governance Reform Progressing, but Key Efforts Are Lagging

Highlights of GAO-02-569, a report to the Subcommittee on Foreign Operations, Committee on Appropriations, U.S. Senate

Why GAO Did This Study

As one of the poorest countries in the world (see table 1), Cambodia has received since 1993 over $200 million of assistance from the United States and over $3 billion from all other donors to help reduce poverty and foster economic growth. However, the United States and other donors are concerned that weak governance could undermine these efforts. In response, the Cambodian government has emphasized good governance in its reform activities, including transparent (open) decision making; a professional, accountable civil service; and the rule of law.

Given the importance of good governance to the long-term impact of U.S. assistance, the Subcommittee on Foreign Operations, Senate Committee on Appropriations, asked GAO to review Cambodia's governance reform goals in seven areas and the progress the government has made toward achieving those goals. The seven areas are public finance, military reform, land management, legal and judicial reform, anticorruption, public administration, and forestry management. As part of GAO's review, GAO analysts traveled to Cambodia to meet with government and donor officials.

What GAO Found

The Cambodian government and its donors have established goals for strengthening governance in seven areas of reform. The government has made progress in achieving its goals in three of these areas — public finance, the military, and land management. The government has increased revenue, reduced military spending, and begun issuing legal land titles. However, it has yet to take critical steps in accomplishing its goals in the other four areas — legal and judicial reform, anticorruption, public administration, and forestry management. For example, the government has been deliberating for 7 years on a draft law that would establish penalties for corrupt activities. Donors expressed concern over Cambodia's lack of progress to reform its legal and judicial system, tackle corruption, and reorganize its public administration. We believe that this lack of progress could undermine steps taken in public finance, military, and land management reforms, as well as the government's larger objectives of achieving economic and social development.

We received comments on a draft of this report from the U.S. Department of State, the U.S. Agency for International Development, the government of Cambodia, the Asian Development Bank, the International Monetary Fund, and the World Bank. They generally agreed with our findings, while noting that Cambodia's limited financial and human resources impede the pace of reform.

Table 1: Poverty Indicators for Cambodia Compared to Select Countries in 1999

	GDP[a] per capita (PPP[b] dollars)	Life expectancy (years)	Adult illiteracy (percent)	Population under 14 yrs (percent)
Cambodia	$1,360	54	61%	38%
Vietnam	1,860	69	7	34
Low-income countries (world)	1,920	59	39	37
Indonesia	2,860	66	14	31
Thailand	6,130	69	5	26
Malaysia	8,210	72	13	34

[a]GDP = Gross Domestic Product
[b]PPP = Purchase Price Parity

Source: World Bank.

This is a test for developing highlights for a GAO report. The full report, including GAO's objectives, scope, methodology, and analysis is available at www.gao.gov/cgi-bin/getrpt?GAO-02-569. For additional information about the report, contact Joseph A. Christoff (202-512-8979). To provide comments on this test highlights, contact Keith Fultz (202-512-3200) or e-mail HighlightsTest@gao.gov.

Contents

Letter 1

Results in Brief 2
Background 3
The Cambodian Government and Donors Have Established Goals to Strengthen Governance in Seven Areas 5
Progress Made in Achieving Three Reform Goals; Government Has Not Taken Critical Actions to Achieve the Other Four 13
Observations 25
Agency Comments 26
Scope and Methodology 27

Appendix I **Comments from the Department of State** 29

Appendix II **Comments from U.S. Agency for International Development** 33

Appendix III **Comments from the Department of the Treasury** 34

Appendix IV **Comments from the World Bank** 36

Figures

Figure 1: Typical Cambodian Homes in Kampong Thom Province 12
Figure 2: Former Cambodian Soldiers Participating in a Military Discharge Ceremony 15

G A O
Accountability * Integrity * Reliability

United States General Accounting Office
Washington, DC 20548

June 13, 2002

The Honorable Patrick Leahy
Chairman
The Honorable Mitch McConnell
Ranking Member
Subcommittee on Foreign Operations
Committee on Appropriations

United States Senate

Three decades of internal political struggle and intermittent war have left Cambodia with poor public services, high military spending, and weak government institutions. As one of the poorest countries in the world, according to United Nations (U.N.) data, Cambodia has received more than $3 billion in assistance since 1993. While Cambodia has achieved relative peace and stability during this period, continued widespread corruption[1] and a weak judicial system undermine its efforts to reduce poverty and foster economic growth. In response, the Cambodian government and donors of financial and technical assistance have emphasized good governance — including transparent (open) decision making; a professional, accountable civil service; and the rule of law — as necessary for the country to achieve these larger, longer-term objectives.

Since 1993, the United States has provided Cambodia with over $200 million of assistance to help reduce poverty and foster economic growth.[2] This assistance has included programs to strengthen democracy, improve education and health care, and address problems posed by land mines. Given the importance of good governance to the long-term impact of U.S. assistance efforts, you asked us to review several aspects of governance reform in Cambodia. In response, we looked at the following seven areas of governance: public finance, the military, land management, the legal and judicial system, anticorruption efforts, public administration, and

[1] Corruption is the abuse of public office for private gain.

[2] In recent years, U.S. appropriation laws have restricted U.S. agencies from using funds appropriated under those appropriation laws for direct assistance to the Cambodian government, with certain exceptions for humanitarian-type assistance. For example, the most recent restrictions were found in the Foreign Operations Fiscal Year 2002 Appropriations Act (P.L. 107-115, sec. 563).

forestry management. In this report, we (1) describe the goals that the Cambodian government and its donors have established for strengthening governance in seven areas, including a discussion of the problems that these goals are intended to address, and (2) assess the government's progress in meeting those goals.

As part of our review, we examined key Cambodian government documents, including the Governance Action Plan of March 2001 and related strategy documents, action plans, and progress reports presented to donors of financial and technical assistance. The Governance Action Plan, which the government cites as a guide for measuring its progress in governance reform, describes the actions the government plans to undertake to strengthen governance. We traveled to Cambodia and met with numerous officials of the Cambodian government, including the prime minister and members of parliament. We also interviewed officials from the World Bank; the International Monetary Fund (IMF); the Asian Development Bank; the U.N.; various bilateral donors, including Australia, Canada, Germany, Japan, and the United Kingdom; and nongovernmental organizations in Cambodia and the United States.

Results in Brief

To address weaknesses in Cambodia's economic, social, and legal foundations, the Cambodian government and international donors of financial and technical assistance have established goals for strengthening governance in seven areas. Specific goals include

- increasing government revenue and strengthening budget management;
- creating a smaller, more professional military;
- providing Cambodian citizens with legal titles to land;
- developing Cambodia's weak legal framework and establishing an independent and competent judiciary;
- increasing the risks associated with engaging in corrupt activities in the public sector and making public officials more accountable for their behavior;
- restructuring the civil service so that it can effectively provide services such as health care, primary education, and licenses to begin businesses; and
- preserving Cambodia's forests to ensure continued government revenue from commercial logging fees.

While the Cambodian government has achieved some of its goals in three areas of governance — public finance, military reform, and land management — it has yet to make progress in four other areas — legal and

judicial reform, public administration, anticorruption, and forestry management. Examples of achievements as well as lack of progress include the following:

- The government has increased revenue — from 9 percent of gross domestic product to 12.5 percent of gross domestic product — since 1999 and intensified its management of funds so that the ministries of Health and of Education, Youth, and Sports have more money available to serve the public.
- The government has discharged 16,500 soldiers, many of whom were elderly, disabled, or holding jobs outside their military service.
- The government and two donor countries have prepared maps of Phnom Penh and five provinces and issued approximately 2,000 land titles to Cambodians.
- In contrast, the government has yet to finalize its strategy detailing the actions it will take to increase the independence or competence of the judiciary and; therefore, it has not taken significant actions in this area.
- The government has not passed legislation that defines and provides specific penalties for engaging in corrupt activities, such as accepting bribes.
- The government has not selected or trained civil servants to carry out priority reforms that senior government officials believe must be done quickly.
- The government has not fully implemented its forestry crime monitoring project to detect and track illegal logging.

We believe that the government's limited progress in enhancing the judiciary, reducing corruption, and strengthening the civil service will undermine its efforts to further economic and social development.

We received comments on a draft of this report from the U.S. Department of State, the U.S. Agency for International Development, the government of Cambodia, the Asian Development Bank, the IMF, and the World Bank. They generally agreed with our findings, while noting that Cambodia's limited financial and human resources impede the pace of reform.

Background

Since gaining its independence from France in 1953, Cambodia has experienced frequent and drastic changes in its political, economic, social, and legal systems. The most significant of these events was the destruction wrought under the Khmer Rouge between 1975 and 1979. Under this regime, widespread executions, forced labor, and famine killed an estimated 1 million to 2 million Cambodians, out of a total population of

about 7 million to 8 million. Large numbers of educated civil servants and professionals were executed, and many Cambodians fled to other countries. The regime abolished the market economy, all laws, and the judicial system; isolated the country from the rest of the world except China; and destroyed many facets of society. Vietnamese troops and Cambodian resistance forces ousted the Khmer Rouge from power in 1979, but civil war raged for another 10 years, destroying much of the remaining infrastructure and leaving most Cambodians impoverished.

In 1993, Cambodia adopted its current constitution establishing a constitutional monarchy and three branches of government — legislative, judicial, and executive. In practice, the legislature and the judiciary are not well developed, and the executive holds most of the government's power, according to a recent U.S. Department of State report.[3] Also, in 1993 Cambodia held its first general election, with support from the U.N. The election resulted in a coalition government between the Cambodian People's Party and the royalist party, with two co-prime ministers. This uneasy coalition became untenable in 1997, as factions of the military loyal to the various political parties began fighting in the capital, and one co-prime minister remained in power. By the end of 1997, the parties agreed to cease fighting and hold new elections in 1998. The 1998 elections reestablished the coalition, but under one prime minister from the Cambodian People's Party.

Cambodia continues to deal with the impact of nearly 3 decades of intermittent war and internal political struggle on the poverty of its people and on its government institutions. Cambodians have an annual per capita income of less than $300, and nearly 40 percent of Cambodia's roughly 12 million citizens live below the poverty line. In 2000, the U.N. ranked Cambodia 136 out of 174 countries based on various social and economic indicators such as life expectancy, adult literacy, and per capita income. About 85 percent of the population lives in rural areas, most depending on subsistence agriculture that generates extremely low levels of income. Given these conditions, Cambodia depends heavily on foreign aid. Approximately a third to a half of its budget each year comes from other governments and multilateral organizations. At the end of 2001, Cambodia's gross domestic product, or national income, was about $3.3

[3] U.S. Department of State, *Country Reports on Human Rights Practices-2001* (Washington, DC: U.S. Department of State, Mar. 4, 2002).

billion, according to IMF estimates. The government's expenditures totaled $590 million in 2001.

The Cambodian Government and Donors Have Established Goals to Strengthen Governance in Seven Areas

Through the development of the 2001 Governance Action Plan and related documents, the Cambodian government and donors have agreed to goals to strengthen governance in seven areas. The government and the donors based the goals on the donors' research and on consultations with Cambodian government officials. These consultations identified specific governance problems in Cambodia, their causes, and the possible reforms in each area.

Increasing Revenue and Improving Budget Management

Because the Cambodian government has had one of the lowest rates of revenue collection in the world, at about half the average for low-income countries in 1998, its primary goal in reforming public finance is to increase government revenue. Without sufficient revenue, the Cambodian government is unable to provide adequate public services or to finance programs that will improve economic growth and reduce poverty. To increase revenue, the government is making improvements to its customs and tax administration. Cambodia's second goal in reforming public finance is to improve its budget management, which includes honoring planned budget disbursements to social sector ministries and establishing a National Audit Authority to increase accountability.

To raise revenues and improve budget management, the government must determine how to expand its small tax base, reduce corruption among public finance officials, and enhance management of public funds, according to officials with whom we spoke. The small tax base is a result of Cambodia's low level of industrialization and its high numbers of subsistence farmers who generate little taxable income. In addition, the IMF reports that Cambodia's tax laws provide businesses with excessive tax exemptions and incentives, including a tax on profits that is 10 to 15 percent lower than that of other Association of South East Asian Nations (ASEAN) members.[4] Furthermore, government officials accept bribes for

[4] The other members of ASEAN are Brunei Darussalam, Burma, Indonesia, Laos, Malaysia, Philippines, Singapore, and Thailand.

providing tax and customs exemptions when there is no legal basis for doing so, according to World Bank documents. The World Bank also noted that ineffective management of public services has resulted in diversions of public funds away from their intended uses. For example, the Ministry of Economy and Finance does not provide provincial departments with monthly plans detailing how funds are to be spent, making it easier for provincial officials to divert funds away from social programs and redirect them to other areas. Funding for social ministries, such as the Ministry of Health, has been extremely slow and unreliable, leaving these ministries unable to plan their programs for future months. Previously, allocations to these ministries were not adequate to meet their needs and arrived late in the year, or sometimes not at all, according to the World Bank.

Creating a Smaller, More Professional Military

To address problems in the military, the Cambodian government and donors agreed to establish a smaller, more professional military. Specifically, the goals were to

- lower military spending by formally discharging 31,500 soldiers (about 24 percent of the armed forces) out of a total registered force of more than 130,000, by the end of 2002;[5]
- channel savings into priorities such as health, education, and rural development;
- transition soldiers to full civilian employment; and
- create a professional military.

Cambodia must contend with three issues related to its military that could undermine the country's development, according to Cambodian government and donor officials. First, the government's spending on defense has been high in relation to Cambodia's other needs. In 1999, military spending consumed nearly half of the Cambodian government's revenue and was higher than its spending on health, education, agriculture, and rural development combined. Second, for many Cambodian soldiers, the military is more of a social welfare program than a full-time job, according to Cambodian and donor government officials we interviewed. Many soldiers live in their own homes rather than in military housing, are farmers or engaged in other trades, and have not seen

[5] In 1999, the Cambodian government — with the World Bank's technical and financial assistance — registered more than 130,000 soldiers. This figure took into account the removal from the payroll of 15,551 deceased, or "ghost," soldiers and about 160,000 ghost dependents.

active military service in years, according to the government and donors. Third, the U.N., the Department of State, and other observers have reported that some members of the military have committed numerous abuses within Cambodia such as stealing land, participating in illegal logging activities, and violating human rights.[6] The Cambodian government reported that its military force is too large, poorly equipped, and not well trained.[7]

Providing Cambodians With Legal Land Titles

To help reduce Cambodia's widespread poverty, encourage economic growth, and address the increasing number of land disputes, the government has committed to developing an effective system for managing land and providing Cambodians with legal land titles. Specifically, the government has committed to (1) adopt a new land law and implementing regulations, (2) undertake efforts to systematically map Cambodia and provide Cambodians with legal land titles, and (3) improve the government's ability to develop and implement land policies and land titling in the future.

The government and donors agree that having legal title to land provides an important incentive for farmers to make investments in their land, such as irrigation systems and equipment to work the land. These improvements could help increase agricultural production and reduce poverty. Approximately 85 percent of Cambodians live in rural areas, and most depend on agriculture to sustain their families. However, most Cambodians do not hold legal title to the land on which they live, in part because Cambodians had no right to land from 1975 to 1989 and all land records were destroyed under the Khmer Rouge.

The government, donors, and nongovernmental organizations note that land disputes and land theft have become escalating problems. They cite Cambodia's weak legal framework for property rights and corruption at all

[6] A senior U.N. human rights official reported that there are "almost daily reports of abuses by military and police officials against common people, including killing, rape, illegal arrest or kidnapping for extortion as well as beating and other violent acts." See United Nations, *Situation of Human Rights in Cambodia: Report of the Special Representative of the Secretary-General for Human Rights in Cambodia, Mr. Thomas Hammarberg, submitted in accordance with Commission resolution 1998/60* (New York: U.N. Economic and Social Council, Feb. 26, 1999).

[7] Royal Government of Cambodia, *Defending the Kingdom of Cambodia* (Phnom Penh, Cambodia: Royal Government, 2000).

levels of government as facilitating land theft. Cambodia's 1992 land law is vague concerning the criteria for private land ownership and the process for registering a land claim, according to donors. In addition, donor-funded studies on Cambodia's land management note that government officials at the national, provincial, and local levels often accept unofficial payments in return for approving land title applications, whether the individual making the application lives on the land or not.[8]

Developing Cambodia's Legal Framework and Establishing a Competent Judiciary

To establish the rule of law in Cambodia — which the Cambodian prime minister has defined as having laws, regulations, and formal rules publicly known and enforced in a predictable manner through transparent mechanisms — the government has committed to develop new laws and increase the independence and competence of its judiciary. Specifically, the government committed to develop new civil and criminal codes and complete a strategy document for legal and judicial reforms. This document is to address several reforms of the judiciary, including publication of Cambodian law, implementation of a code of ethics for judges, and separation of the budget for the courts from the budget for the Ministry of Justice.

The government has noted that Cambodia's legal framework lacks significant basic items, such as a comprehensive civil code and a new criminal code. The government also identified other areas of law that are in need of revision, including land law, forestry law, commercial law, and anticorruption law. In addition, the government has not maintained a comprehensive archive of laws in force. Therefore, judges, attorneys, government officials, and common citizens cannot know what are all of Cambodia's laws.

Endemic corruption, lack of judicial independence from the executive branch, and lack of legal training in the judiciary significantly weaken the enforcement of Cambodian law, according to donors. The government, donors, and nongovernmental organizations note that corruption is a significant problem in the judiciary. A U.S. government official noted that court clerks commonly ask plaintiffs and defendants how much they are willing to pay the judge to win their case. Cambodia's judiciary is also

[8] So Sovannarith et al., *Social Assessment of Land in Cambodia: A Field Study* (Phnom Penh, Cambodia: Cambodia Development Resource Institute, July 2001) and Toshiyasu Kato et al., *Cambodia: Enhancing Governance for Sustainable Development* (Manila, Philippines: The Asian Development Bank, Oct. 2000).

weakened by its limited independence from the executive branch of government. For example, the Ministry of Justice has removed judges from their positions, even though the Cambodian constitution provides that only the Supreme Council of the Magistracy — the judiciary's independent oversight body — has the authority to do so. Finally, few of Cambodia's approximately 200 judges have any substantial legal training. A 2000 Asian Development Bank-sponsored study found that about 37 percent of Cambodia's judges had any legal training and only 40 percent had reached — although not necessarily completed — a high school level education.[9]

Anticorruption: Increase the Risks of Engaging in Corrupt Activities and Make Public Officials More Accountable for Their Behavior

To combat widespread corruption that may undermine Cambodia's further economic and social development, the Cambodian government has committed to the following goals: (1) increasing the risks associated with engaging in corrupt activities in the public sector and (2) making public officials more accountable for their behavior. In its Governance Action Plan, the Cambodian government described two broad themes for fighting corruption: setting standards and strengthening enforcement and scrutiny. Given the widespread nature of corruption in Cambodia, many actions to fight corruption are also part of other more general reforms, such as those involving public finance, the legal framework and the judiciary, and public administration.

Corruption adversely affects Cambodia's social and economic development, according to the government, donors, Cambodian civil society, and nongovernmental organizations. Corruption occurs in many activities, ranging from citizens paying unofficial fees for public officials such as teachers to do their jobs to large-scale activities — such as the government's granting of improper tax exemptions — that diminish government revenue. While it is inherently difficult to determine the precise financial impact of corruption, estimates indicate it is severe. In 1997, IMF staff estimated that the amount of public revenue lost due to corrupt activities was nearly equal to the amount of budget revenue actually collected, or about 10 percent of gross domestic product. Cambodians are well aware of the corruption and its impact on their country. A World Bank survey in 2000 found that Cambodian citizens and

[9] Kato, *Cambodia: Enhancing Governance.*

businesses ranked corruption as either the first or second largest constraint to development in Cambodia.[10]

Restructuring Public Administration

Recognizing that Cambodia's public administration is unable to deliver adequate services to the Cambodian people, the government adopted its National Program on Administrative Reform in 1999. The program defined overarching goals for public administration reform. These goals were to

- make public institutions and government structures more efficient and capable of providing services to citizens;
- transfer central government responsibilities to local governments (decentralize) to improve the delivery of services such as water, sanitation, and basic health and education and thereby reduce poverty, especially among the rural population;
- modernize and improve management of the civil service, including reorganizing staff, offering higher salaries, and providing technical training opportunities; and
- introduce Priority Mission Groups to the civil service, which means selecting civil servants to carry out reforms that higher-level government officials believe must be done quickly.

The government and donors have identified three interrelated problems that underlie the current condition of Cambodia's public administration. First, widespread corruption limits the Cambodian peoples' access to government services. Most Cambodians cannot afford to pay the unofficial fees that are often necessary to receive services such as health care, education, or approval of land titles. Second, Cambodia does not have a professional, well-trained civil service at the national or local level. A large number of public employees received their jobs because they supported one of the political parties rather than as a result of their qualifications, according to the Cambodian prime minister[11] and others. Finally, civil servants' average salaries are low compared to the private sector and the living wage. Civil servant salaries average $24 a month, which is about half

[10] World Bank, *Cambodia Governance and Corruption Diagnostic: Evidence from Citizen, Enterprise and Public Official Surveys* (Washington, D.C.: World Bank, May 10, 2000).

[11] Hun Sen, *Address to the International Conference on Building a Coalition for Transparency*, Phnom Penh, Cambodia; 22 August 2001. Cambodia New Vision Web site, *http://www.cnv.org.kh.*

of the minimum wage of $50 a month provided in the garment sector, Cambodia's largest private industry, according to IMF staff. The living monthly wage in Cambodia's capital city, Phnom Penh, is $150, according to a senior Cambodian government official. These low salaries encourage corruption and are insufficient to attract competent staff to the civil service.

Preserving Cambodia's Forests

To ensure continued government revenue from commercial logging fees and the sustainability of Cambodia's forest resources for the Cambodian people, the government has committed to take a number of actions to improve forest management so as to decrease illegal logging. These actions include implementing sustainable forestry management regulations, establishing a special government unit to detect and monitor illegal logging and other forestry crimes, and adopting a new forestry law.

The Cambodian government has not effectively managed the country's forests, leading to lost revenue and forestland, according to donors. The IMF estimates that in 1996 the government lost approximately $100 million in revenue to illegal logging — equal to more than one-third of the government's actual revenue collection; the World Bank estimates that in 1997 the government lost an additional $60 million in revenue. Moreover, over-logging has led to the deforestation of approximately 10 percent of the commercial forestland and the degradation of an unknown amount of forestland to the point that it no longer has commercial value, according to a World Bank study.[12]

Deforestation and illegal logging have also hurt Cambodia's rural communities. Cambodia's rural population depends on resources from the forests, including timber, charcoal, and food to build homes, sustain their families, and earn income, according to the World Bank and Global Witness, a nongovernmental organization (see fig. 1). [13]

[12] World Bank, *Cambodia: A Vision for Forestry Sector Development* (Washington, D.C.: World Bank, Feb. 1, 1999).

[13] World Bank, *Cambodia: A Vision for Forestry Sector Development*.

Figure 1: Typical Cambodian Homes in Kampong Thom Province

Source: GAO.

Corruption at all levels of Cambodia's government, its weak legal framework for forestry management, and its lack of trained forestry officials are impeding efforts to combat illegal logging, according to donors and the government. Donors and nongovernmental organizations cite "unofficial payments" to civil servants at all levels of Cambodia's government, including the military. The Cambodian government noted it has not paid civil servants charged with managing Cambodia's forests a living wage, creating an incentive for corruption that must be addressed if reforms are to be successful. In addition, existing forestry law does not clearly designate the authority to manage the commercial logging system to any one government body, according to the World Bank. Furthermore, the Cambodian government acknowledges that it does not have appropriately trained staff who can effectively implement forestry reforms.

Progress Made in Achieving Three Reform Goals; Government Has Not Taken Critical Actions to Achieve the Other Four

While the Cambodian government has achieved some of its goals in three areas of governance — public finance, military reform, and land management — it has yet to make progress in four other areas — legal and judicial reform, public administration, anticorruption, and forestry management.

The Cambodian Government Has Made Some Progress in Public Finance, Military, and Land Management Reform

The Cambodian government has made progress in achieving its goals in three areas: public finance, military reform, and land management. It has implemented several actions to achieve its goals and is working to complete the remaining actions. In each of these areas we determined that, even though the government had not completed all of its actions, there was momentum on the part of the government and donors to continue with the reform process. The ultimate effect of the actions taken remains to be seen, however.

Public Finance Reforms Have Increased Revenue and Improved Budget Management

In the area of public finance reform, the Cambodian government has taken actions to achieve its goals of increasing revenue and improving budget management. The government increased revenues from 9 percent of gross domestic product in 1998 to 12.5 percent in 2001. This revenue increase was a result of reforms in the tax and customs administrations, according to the IMF. The government has also taken steps to improve budget management by introducing a program to increase the reliability of funding for social ministries and by establishing a National Audit Authority.

Reforms in tax administration have led to improvements in revenue collection. Revenues increased significantly when the government introduced a value-added tax in 1999. The Tax Department is also developing new tax policies and granting fewer tax exemptions. For example, government officials have not granted any exemptions to the value-added tax since 2000.

The government has begun several reforms in customs administration to increase revenue. However, the IMF has said that Cambodia will need to sustain its work in this area, as smuggling activities continue to undermine revenue collection. The Customs and Excise Department has introduced an antismuggling task force, but it is still working to make this unit

operational. The department is developing a new customs code as well, with assistance from the IMF, but it has not yet submitted the code to the National Assembly. The government is also working to consolidate all aspects of customs administration under one government body and to simplify customs procedures. In addition, the customs department has signed a contract with a private company to inspect shipments at major international ports before they enter Cambodia. The private company will train Cambodian customs officials in inspecting import shipments so that they can take responsibility for this activity in 2 to 3 years.

The government has completed several actions to enhance budget management, most notably improving disbursements of funds to social ministries and establishing a National Audit Authority. In particular, it has introduced a Priority Action Program that ensures that priority ministries, such as the Ministries of Health and of Education, Youth, and Sports, receive funds in a timely manner even if the government experiences budget shortfalls. IMF staff report that they receive far fewer complaints from these ministries about getting their funds on time from the Ministry of Economy and Finance. The government implemented the Priority Action Program in the Ministries of Health and of Education, Youth, and Sports and plans to expand it in the future to the Ministries of Agriculture, Forestry, and Fisheries, and of Rural Development. With funding from the World Bank, the government has also established a training center to increase the skills of budget officials at the Ministry of Economy and Finance.

To increase the accountability of government officials, the Cambodian government has created a National Audit Authority, with donor assistance. As head of this agency, the auditor general will audit the transactions, accounts, systems, controls, operations, and programs of government institutions, in accordance with generally accepted auditing standards and government auditing standards. The National Audit Authority is to be an independent agency that reports directly to the National Assembly. To help maintain its independence from external influence, it will have its own budget in 2002. The National Audit Authority currently has 20 staff members and is led by an auditor general and 2 deputies. In commenting on a draft of this report, the U.S. Department of State noted that since the National Audit Authority is a new agency, it is unclear what impact the agency will have on the Cambodian government's budget management.

Military Reform Is Progressing

Cambodia is making progress in implementing its military reform program, according to government and donor officials. With extensive technical and financial assistance from the donors — most notably the World Bank —

the Cambodian government has implemented many of the actions it agreed to undertake and is working to complete the rest.

To achieve its goal of lowering military spending, the government discharged 1,500 soldiers in 2000 and 15,000 in 2001 and removed them from the government payroll, according to World Bank officials. It plans to discharge another 15,000 soldiers in 2002, for a total of 31,500 discharged solders. The government classified about 80 percent of the discharged soldiers as chronically ill, disabled, or elderly. This further demonstrates that, for many soldiers, the military has been a social welfare program. When we attended a Cambodian military discharge ceremony in Siem Reap province in December 2001, we found that many of those being discharged that day were elderly or disabled (see fig. 2).

Figure 2: Former Cambodian Soldiers Participating in a Military Discharge Ceremony

Source: GAO.

As a result of these military discharges, the government lowered overall defense and security (i.e., police) spending to about 18 percent of total expenditures in 2001, allowing the government to achieve its goal of

increasing spending on the four priorities of health, education, agriculture, and rural development. The government's spending on these four priorities is expected to surpass that for defense and security spending in 2002, according to IMF estimates. For 2002, the Fund estimates that government spending on the four priority areas will be 3.7 percent of national income (about $132 million), whereas spending on defense and security will be 2.8 percent of national income (about $100 million) — almost the opposite of the distribution for 2000. However, the Fund noted that despite this significant improvement, the Cambodian government's spending on health and education is still considerably lower than the average of 21 poor countries.[14]

To help soldiers make the transition to full civilian employment and away from reliance on the military as a social welfare program, the government and donors are providing soldiers with two assistance packages and training to enhance their skills. Upon discharge, soldiers receive $240 in cash from the Cambodian government, as well as household items and food rations that donors such as the U.N. World Food Program, Japan, Canada, Germany, the Netherlands, and Sweden have funded.

In addition, through an $18 million World Bank loan, the Cambodian government is to provide each discharged soldier with a second, larger assistance package. The government is to deliver the larger packages within 6 months of the date that the last soldier was discharged for that year.[15] The government delivered most of these larger assistance packages to all 1,500 soldiers discharged in 2000, according to World Bank officials. However, the government delivered the larger packages almost 1 year late in December 2001. Problems in administering funds from several donors and in designing and planning the purchase of the assistance packages caused this delay. As of May 7, 2002, the Cambodian government is in the process of hiring a private sector firm to oversee financial management and procurement of the larger assistance packages for the 15,000 soldiers discharged in 2001.

[14]As a percentage of gross domestic product, on average, poor countries spend roughly 2-3 times more on health and education than Cambodia, according to the IMF staff's estimates of 21 low-income countries.

[15] Each discharged soldier chooses one of the following four larger assistance packages: a shelter (a one-room house), an electric generator and a water pump, an electric generator and a sewing and knitting machine, or a motorcycle and a sewing machine.

To create a more professional military, the Cambodian and Australian governments collaborated on a strategy document that describes the military's roles and responsibilities in light of Cambodia's return to relative peace. The strategy document, Defending the Kingdom of Cambodia, is an important initial step for addressing the problems of corruption, overstaffing, and limited skills in the military. According to the Cambodian government, this paper is the first defense policy that it has published. In addition, the governments of Australia, China, France, India, and Vietnam are training Cambodia's armed forces.

Cambodia Adopts New Land Law and Begins Issuing Land Titles

To help reduce poverty, ensure private persons' rights to land, and reduce land theft, the government committed to adopt a new land law, undertake efforts to systematically issue legal land titles, and improve its ability to develop and implement land policies. We found that, with substantial donor support, the government has made progress toward achieving these goals. However, in commenting on a draft of this report, the U.S. Department of State noted that these actions alone are not sufficient to solve the problem of land theft in Cambodia.

The government adopted a new land law in July 2001. The Asian Development Bank assisted the government with drafting the land law, and the government sought extensive input from other donors and nongovernmental organizations. The new land law clarifies private property rights and establishes the government's responsibility for carrying out systematic land registration and maintaining records of land ownership. With assistance from the Asian Development Bank and the World Bank, the Cambodian government has begun drafting a number of regulations to implement the new land law.

To provide private citizens with legal land titles, the government has been working with Finland and Germany to conduct a pilot land mapping and titling project and has signed a loan with the World Bank to continue these efforts. Under the pilot project, government officials and donor-provided technical advisors developed detailed maps for Phnom Penh and 5 of Cambodia's 23 provinces.[16] According to World Bank officials, they then systematically determined the boundaries of each community in the province and each plot of land in those communities. They defined the plots and determined ownership one community at a time so that they

[16]The areas being mapped and titled are Phnom Penh and the provinces Kampong Speu, Kampot, Kandal, Krong Preah Sihanouk, and Takeo.

could resolve all boundary disputes in a community at once. So far, the government and donors have identified approximately 60,000 plots of land through their mapping efforts and issued about 2,000 land titles at no cost to the recipients, as of December 2001, according to the Cambodian minister of land management. The government signed a $24 million loan agreement with the World Bank in March 2002 to complete titling on the remaining plots and expand mapping and titling efforts to five more provinces in the next 5 years. According to the World Bank, Germany and Finland have agreed to continue their technical assistance and are contributing $3.5 million each toward the World Bank project.

In addition to land mapping and titling, Cambodia's new loan with the World Bank includes technical assistance and equipment to improve the government's ability to develop and implement land policies. This assistance is meant to help the government undertake essential land management tasks, such as developing land use policies and recording land ownership and transactions. It will also help the government establish a university level curriculum in land management and land titling that can be used to train future civil servants.

Critical Actions Not Taken in Four Areas

The Cambodian government has completed few critical actions to achieve its goals in the areas of legal and judicial, anticorruption, public administration, and forestry management reform. Donors have expressed concern about the government's lack of progress in these areas.

Cambodia's Initial Actions to Develop Legal Framework and Lack of Progress Toward Judicial Reform

In the area of legal and judicial reform, we found that the government has taken some preliminary actions to develop Cambodia's legal framework but has made no progress in its planned actions to reform the judicial system. The government had committed to develop new laws, including new civil and criminal codes, and finalize a strategy document for several other legal and judicial reforms.

The government has been working closely with various donors to draft new laws. In particular, France has drafted a new criminal code for Cambodia that the Ministry of Justice is currently reviewing and revising, according to ministry officials. Japan is drafting a new civil code, which the Ministry of Justice is also reviewing and revising. Government officials said that the government will send the draft laws to the National Assembly in 2003 for consideration, although donor officials believe it could take until 2007 for the draft laws to be ready for the National Assembly. The Asian Development Bank helped the government write draft land and

forestry laws; the land law was adopted in July 2001 and the forestry law is currently with the National Assembly for consideration.

To improve transparency and give judges, lawyers, and the Cambodian people access to Cambodian law, the government has also begun periodically distributing an official gazette of new Cambodian laws and some implementing regulations. However, all Cambodians, including judges and civil servants, must pay for the gazette. In addition, the gazette does not include previously enacted Cambodian laws or all of the numerous implementing regulations that the government ministries have adopted, according to the World Bank and attorneys practicing in Cambodia with whom we met. Government officials indicated that no further actions are likely in this area until the government signs a loan with the World Bank to fund legal and judicial reforms. World Bank officials estimate that this loan agreement will not be signed before early 2003. According to the U.S. Department of State, the Cambodian government already has the capacity to compile and distribute copies of a comprehensive archive of Cambodian laws in force, but it has not chosen to do so.

The government has not made progress toward increasing the independence or competence of the judiciary. The government's primary commitment in this area is to finalize a strategy document to describe how it would accomplish several reform actions, such as producing and updating a comprehensive archive of Cambodian law, enacting a code of ethics for judges, requiring judges to declare their assets, separating the budget for the courts from the Ministry of Justice's budget, and strengthening the Supreme Council of the Magistracy — the judiciary's independent oversight body. The government presented the most recent draft of this strategy document to donors in June 2001, but that draft did not specify how the government was going to implement these reforms. Donors have become increasingly frustrated with the government's lack of effort since June 2001 toward finalizing this document. Some have questioned the government's commitment to making lasting reforms in this area, particularly before the next national election, scheduled for June 2003. The World Bank agreed in January 2002 to help the government finalize the strategy document by June 2002. World Bank officials told us

that they suggested changes to this document and that they hoped the government would take "greater ownership" of it.[17]

The Government Has Taken Few Actions to Curb Corruption

The Cambodian government has completed only one action — establishing a national auditing agency — to achieve its goals of increasing the risks associated with engaging in corrupt activities and making public officials more accountable for their behavior. (See public finance section for further discussion of the national audit agency). The government has not completed other critical reforms in this area. For example, the government has not adopted codes of ethics to guide the behavior of public officials and judges, required public officials to declare their assets, or enforced a regulation meant to decrease corruption in public procurement. The government also has not submitted to parliament a law to define and establish penalties for corruption. In 1995, the government began working to develop such a law. However, the government is not likely to pass an anticorruption law until after the 2003 national elections, according to some donor officials. A senior Cambodian government official said the government is not prioritizing passage of the anticorruption law because Cambodia does not have an adequate judicial system to enforce it. He said that, when legal and judicial reforms are sufficiently completed, Cambodia would pass the anticorruption law.

Donors have also expressed concern about the government's lack of progress in implementing its 1995 regulation on public procurement, which they said is central to the transparent and accountable management of public resources. Donors said the government's procurement regulation is a reasonably good foundation, but that it has not been applied. Among other things, the regulation would ensure that public agencies purchase goods and services at the lowest possible price and give suppliers the opportunity to compete for government contracts. In recognition that the regulation has not been fully implemented, in December 2001 the government required that four priority ministries — Agriculture, Forestry, and Fisheries; Education, Youth, and Sports; Health; and Rural Development — fully implement the procurement regulation except in the areas of heavy capital investment in roads, bridges, and sewerage construction.

[17] Although not specifically called for in the *Governance Action Plan* or the Cambodian government's draft strategy document for legal and judicial reform, the Cambodian government has adopted a decree to establish a judicial training college, according to the World Bank.

Donors we interviewed have expressed concern and frustration about the government's lack of progress, given that donors and the government consider corruption to be adversely affecting the country's social and economic development. Several donor officials said that the Cambodian government has not made progress in tackling corruption because it lacks the political will to do so. Donors have also expressed the concern that government officials may be more focused on building support for the 2003 national elections than on implementing reforms to tackle corruption.

Fundamental Actions Not Taken to Reform Public Administration

The government has completed few actions to achieve its goals in public administration reform; the actions are coming slowly; and the most critical ones, such as defining the roles of each ministry, remain incomplete. In its National Program for Administrative Reform, the government committed to take actions to achieve its four goals. These goals are to (1) make public institutions more efficient, (2) transfer responsibilities to local governments, (3) improve management of the civil service, and (4) select civil servants to carry out reforms quickly. The government has been working to reform its public administration since 1993 and introduced its National Program for Administrative Reform in 1999, but so far it has only taken some very preliminary actions. Overall, the government is about 2 years behind in its schedule to reform public administration.

In 2001, the government finalized a strategy intended to explain the detailed actions it would take to achieve the four goals laid out in the National Program for Administrative Reform. These actions include restructuring the civil service, improving motivation of staff, and implementing a new system to manage staff and activities. However, the strategy document is a brief presentation with limited details about how the government will implement reforms to achieve its goals. Also, it was finalized a year behind schedule. World Bank staff stated that they are satisfied with the strategy and that the World Bank would be prepared to consider providing a loan to support reforms in this area.

Furthermore, the government took the initial step in its reform program of completing a census of civil service employees in 2000. Through this census, the government eliminated more than 8,000 ghost workers from

the civil service payroll.[18] It also used data from the census to automate the civil service payroll throughout the country.

To help make its institutions more efficient, the government has agreed to undertake an analysis of the responsibilities, size, and staff required for each ministry. The government committed to completing this analysis by June 2000, but it has yet to do so. This analysis is to be the foundation for a complete restructuring of public administration institutions. Once the analysis is completed, the government will reorganize ministries based on their new responsibilities, reassign staff according to their skills and qualifications, and train staff in their new positions.

Cambodia began transferring central government responsibilities to local governments when it held its first election for 1,621 newly established commune councils in February 2002.[19] Cambodia is establishing the councils, drafting regulations to define how the councils are to operate, and outlining plans to determine the skills — such as preparing and executing local development plans and budgets — that the councils will need. Providing the newly elected officials with the technical skills needed to prepare and administer plans, projects, and budgets will require significant time and resources. Donors are expected to provide most of these resources, given the Cambodian government's limited revenue.[20] However, it is not clear how commune councils will obtain the financial resources needed to fund their projects.

[18] World Bank officials stated that "ghost" workers were once employed in the civil service but have since left their government positions and yet remain on the payroll. The Cambodian government claims that more than 8,000 of these workers have been removed from the payroll, representing a savings of more than $1.2 million per year. We did not verify their removal. However, World Bank and IMF officials stated that there is evidence to indicate that the government removed the names from the payroll.

[19] Donor and nongovernmental officials described the elections as a first step toward democracy and "power sharing" in Cambodia, even though the ruling party will control almost 99 percent of the councils. Moreover, while international observers generally judged the results to be acceptable, they criticized the February elections as not being free or fair.

[20] Since the mid-1990s, with donor funding, the Cambodian government, the U.N. Development Program, and the U.N. Office for Project Services have implemented a program Cambodia Area Rehabilitation and Regeneration Project (CARERE/SEILA) to strengthen the local capacity to plan, finance, and manage development in five provinces. The program emphasizes involving citizens in identifying, prioritizing, and implementing projects of concern to them.

To improve management of the civil service, the government committed to implementing a new, merit-based pay scale. However, it has not fully implemented this new system. The government intends to raise salaries to enhance staff motivation and provide incentives for civil servants to perform their job duties. IMF staff report that the government instituted the new pay scale in two smaller government ministries in early 2002, but they are unclear when the government will expand this plan to other ministries. Donors are also unsure whether the government can afford the salary increases it announced in December 2001. While the previous plan, developed in 2000, allowed for salary increases of between 7 and 38 percent of civil servants' current salaries, in December 2001 the government announced that every civil servant would receive a salary increase of between 38 and 100 percent. Senior Cambodian government officials stated that they would finance the salary increases with savings from eliminated ghost workers, but we found that the government had already earmarked those funds for other programs. Prior to the December announcement, officials from the U.N. Development Program, the lead donor in public administration reform, stated that the government did not have the funds to increase all civil servants' salaries. Moreover, officials from the IMF, which has been extensively involved in Cambodia's fiscal planning, said it would be very difficult for the government to raise salaries under the current budget.

The government also has not achieved its goal of implementing the Priority Mission Group program, a critical reform aimed at beginning reforms quickly and improving civil servants' motivation. Priority Mission Groups are supposed to be teams of the most qualified civil servants chosen to spearhead reforms in each ministry. Members are to receive higher salaries and be held accountable for achieving specific missions. Once the government has mobilized Priority Mission Groups, the government expects that the civil service will be more productive and deliver better services such as health care and education. Although the government has cited this program as key to its other reform efforts, it has not yet articulated a clear plan for how it will form or manage the Priority Mission Groups. Donors stated that the details of the program have not been explained to them, even though the government plans for donors to provide most of the financing for the groups after the first year.

Forestry Reforms Not Fully Implemented and Have Not Had a Sustained Impact

Although the prime minister, the government's action plan, and donors have identified forestry management as an important area of reform, the government's reform actions in this area have not been fully implemented and, therefore, have not yet had a sustained impact on the level of illegal logging in Cambodia. The government committed to undertake several

actions including establishing a special unit to detect and monitor illegal logging, enforcing new sustainable forestry management regulations, and adopting a new forestry law. While illegal logging decreased in 1999 and 2000, donors and a nongovernmental organization have noted an increase in illegal logging in 2001.[21]

To develop the government's ability to detect and track illegal logging, the government, the U.N. Development Program, and the U.N.'s Food and Agriculture Organization initiated a 3-year project that in October 1999 created forestry crimes monitoring and reporting units in both the Department of Forestry and Wildlife and the Department of Inspection. The government and donors agreed to include an independent monitor — the nongovernmental organization Global Witness — as a third unit to monitor illegal logging and oversee the other units' activities. In addition, the U.N.'s Food and Agriculture Organization provides technical advisors to the project.

Reports that the technical advisors and Global Witness prepared indicate that the Forestry Crimes Monitoring Unit has not met its goals toward developing the government's ability to detect and track illegal logging. Both stated that while the Department of Inspections has been cooperative in these efforts, the Department of Forestry and Wildlife has not been a fully cooperative partner. They also assert that the Department of Forestry and Wildlife does not effectively pursue reports of illegal logging by commercial logging companies. Instead, they note that the department pursues small-time logging operations. The technical advisors and Global Witness also assert that the Department of Forestry and Wildlife has denied both of them access to the unit's computerized database of illegal logging reports and various key documents that they have the right to see. In addition, they note that poor coordination between the U.N. Development Program and the U.N.'s Food and Agriculture Organization has caused significant funding delays and hampered the Forestry Crime Monitoring Unit's efforts. The longest delay was 8 months in 2001. These delays have prevented the unit from paying staff and making basic equipment purchases, according to one technical advisor.

To implement new regulations on the management of commercial logging, the government announced that it would not issue new cutting permits or transport permits to logging companies after January 1, 2002, until logging

[21] The severity of this increase is unclear at this time.

companies comply with the regulations. Specifically, the government will not provide these permits until the logging companies have submitted new inventories of the trees remaining in their logging area, an environmental and social impact assessment, and a sustainable forestry management plan. However, the impact of this measure is unclear. The World Bank has recognized that illegal logging continues in Cambodia. Officials from Global Witness stated that they have evidence that one logging company has been cutting a large number of trees since January 1, 2002. However, government and World Bank officials told us that they will not have measures that would significantly improve Cambodia's methods for monitoring logging activities in place until the beginning of the next logging season (September 2002).

As for Cambodia's draft forestry law, it was presented to the National Assembly in July 2001, but it has yet to be adopted and referred to the Senate for its consideration. It is unclear at this time when the National Assembly will complete its deliberations. The government wrote the draft law with substantial assistance from the Asian Development Bank and World Bank. The draft law calls for the development of a national forest policy to ensure the sustainable management of forests and would require the Ministry of Agriculture, Fisheries, and Forestry to prepare a national forest development plan and report annually on its implementation. The new law would also distinguish between legal and illegal logging, establish procedures for investigating and prosecuting illegal logging, and define the penalties. Such cases must still be prosecuted within Cambodia's current judicial system.

Observations

Cambodia has made strides toward establishing a democratic government and a market-based economy in recent years. It has also repeatedly stated its commitment to improving governance so as to attract the investment needed to foster economic growth and development, which in turn could help Cambodia reduce poverty. However, Cambodia faces three cross-cutting challenges — a weak legal and judicial system, endemic corruption, and ineffective public administration. The Cambodian government has identified reform in these areas as fundamental for a functioning government and for providing the foundations of a robust economy and society. The government's limited progress in these areas will, therefore, undermine its efforts in other areas of governance reform, as well as in achieving the government's larger objectives of furthering economic and social development.

Agency Comments

We received written comments from the U.S. Department of State, the U.S. Agency for International Development, the IMF, and the World Bank, which are reprinted in appendixes I through IV. We also received informal comments from the government of Cambodia. We received technical comments from the Department of State, the Asian Development Bank, the IMF, and the World Bank. We incorporated these comments into the report where appropriate.

The Department of State concurred with our general findings. It noted that even in areas where the Cambodian government has made progress toward governance reform, there is room for continued improvement. The department also noted that Cambodia's limited financial and human resources, constrained political will, and opposition to some reforms from powerful vested interests slow the otherwise forward-moving progress of reform.

The U.S. Agency for International Development also concurred with our findings. It noted that the government of Cambodia has taken positive steps in certain areas. The agency also noted that problems of political will, resources, and human capital have resulted in the government's taking few actions to reduce corruption or improve the legal and judicial system, public administration, and forestry management.

The IMF shared our conclusion that efforts need to continue in all areas of governance reform and that greater efforts need to be made in areas where progress has been lagging.

The World Bank agreed that the Cambodian government had made progress in public finance, the military, and land management reform. It also asserted that the Cambodian government had accomplished important achievements in forestry management reform, although illegal logging continues, forestry crime monitoring is not working as it should, and more must be done to solidify any progress made. The bank stressed that Cambodia's lack of human and institutional capacity must be taken into account when evaluating Cambodia's progress toward governance reform.

The government of Cambodia, through the acting minister in charge of the Office of the Council of Ministers, stated that the Cambodian government is proud of the reforms achieved to date but recognizes that more needs to be done on several fronts. He added that the government is very conscious of the need to accelerate the pace of reforms, particularly in establishing the rule of law.

Scope and Methodology

To describe the goals that the Cambodian government and its donors established for strengthening governance in seven areas, we reviewed the government's March 2001 Governance Action Plan and related documents, such as progress reports that the government regularly published and submitted to the donors. We also reviewed strategy documents that the government wrote to describe further its reform goals and the actions it plans to take to achieve those goals. For example, we reviewed the National Program for Administrative Reform, the civil service rationalization strategy, and the strategy to reform the judiciary. We reviewed donor papers and reports, including the Asian Development Bank's Enhancing Governance for Sustainable Development and the World Bank's Cambodia: Governance and Corruption Diagnostic. In addition, we met with Cambodian government officials and international donors to confirm the reform goals and clarify the steps the government would take to achieve them. We interviewed the prime minister, the senior minister in charge of the office of the Council of Ministers, senior officials in charge of reforms within various ministries, and members of the National Assembly.

To assess the government's progress in achieving its governance reform goals, we reviewed what actions the government committed to take in the Governance Action Plan. We also gathered evidence concerning actual steps taken to complete reform actions, the momentum for reform in each area, and the extent of donor involvement. We then determined which actions the government had taken, which were under way, and which it had not taken. To make this determination, we examined many Cambodian government documents, including the Governance Action Plan, progress reports, and draft strategy documents. We also examined documents from donors, including progress reports on donor-funded projects, loan agreement documents, and donor-funded governance assessment reports. In addition, we interviewed key Cambodian government officials in Phnom Penh, Kampong Thom, and Siem Reap, as well as members of the National Assembly. We discussed with them the reform actions and what they have done to implement them.

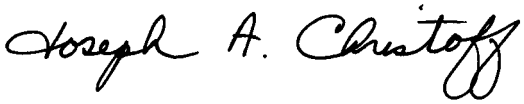
To understand the views of donors and nongovernmental organizations on the government's progress in implementing reforms, we interviewed officials from the World Bank, the IMF, the Asian Development Bank, the U.N., Australia, Canada, Germany, Japan, and the United Kingdom in Cambodia and the United States. We also met with numerous nongovernmental organizations in the United States and Cambodia, including Global Witness, the Center for Social Development, the Khmer

Institute for Democracy, the Cambodian Research and Development Institute, NGO Forum, and OXFAM-Great Britain. We also met with officials from the U.S. Department of State, the U.S. Agency for International Development, and the U.S. Department of the Treasury.

We performed our work from July 2001 through April 2002, in accordance with generally accepted government auditing standards.

We are sending copies of this report to interested congressional committees, the secretary of state, the administrator of the U.S. Agency for International Development, the secretary of the treasury, the prime minister of Cambodia, the president of the World Bank, and the managing director of the IMF. We will make copies available to others on request.

If you or your staff have any questions about this report, please contact me at (202) 512-8979. Other GAO contacts and staff acknowledgments are listed in appendix V.



Joseph A. Christoff,
Director
International Affairs and Trade

Appendix I: Comments from the Department of State

United States Department of State

Washington, D.C. 20520

MAY 28 2002

Dear Ms. Westin:

We appreciate the opportunity to review your draft report, "CAMBODIA: Governance Reform Progressing but Key Efforts are Lagging," GAO-02-569, GAO Job Code 320070.

The enclosed Department of State comments are provided for incorporation with this letter as an appendix to the final report.

If you have any questions concerning this response, please contact Gregory Lawless, Cambodia Desk Officer, Office for Burma, Cambodia, Laos, Thailand, and Vietnam Affairs, Bureau of Eastern Asian and Pacific Affairs, at (202)647-3095.

Sincerely,

Christopher B. Burnham
Assistant Secretary and
Chief Financial Officer

Enclosure:

As stated.

cc: GAO/IAT - Mr. Stephen Lord
State/OIG - Mr. Berman
State/EAP - Ms. Judith Strotz

Ms. Susan S. Westin,
Managing Director,
International Affairs and Trade,
U.S. General Accounting Office.

Department of State Comments on GAO Draft Report: "Cambodia: Governance Reform Progressing but Key Efforts are Lagging" (GAO-02-569, GAO Code 320070)

The GAO has produced a good overview of some aspects of governance in Cambodia which could be a baseline for more detailed studies in the future. The GAO report has served a useful purpose in compiling the fundamental elements necessary to achieve progress in reforming some institutions of government in Cambodia.

The Department of State concurs with the general findings of the report. In each of three areas--public finance, military reform, and land management--the government has indeed achieved progress. However, on closer examination, there is much room for improvement in each of these same subject areas. Similarly, the other four areas under examination--legal and judicial reform, anticorruption, public administration, and

forestry management--have shown bright spots and weak points that would become apparent on closer scrutiny and analysis. In short, in each area of reform, there are some aspects in which there has been progress, and others where there has not.

Before reviewing each of the seven sectors of governance that have come under examination by GAO, it should be noted that the U.S. government is largely prohibited by legislation from assisting the central government of Cambodia in these areas. This prevents possible assistance in certain areas of governance--or specialized subsectors--where there might be potential for reaping an improvement in governance in return for our assistance.

Finance

The report notes improvements in finance reform and budget management and the examples it cites would appear to indicate that the Royal Government of Cambodia (RGC) has the political will to achieve this goal. However, two examples cited are as yet untested. The National Audit Authority and a Customs Department anti-smuggling task force were only recently established. It is still unclear whether either of these bodies will be given the range of powers and independence from political parties or vested interests needed to perform their

Military

The report gives a good accounting of efforts to reduce Cambodian military forces' size. The Department concurs with the findings on demobilization, but notes that demobilization is not equivalent to professionalization of the armed forces.

Land

The report accurately portrays developments in the government's technical ability to develop land policies and manage land titling. While the government did indeed pass a new Immovable Properties Law in July 2001, implementing regulations are not in place. Moreover, these new steps do not by themselves solve the problem of corruption in land disputes.

Legal Framework and Judicial System

The Department concurs that the RGC has not taken critical actions in either of these two sectors. However, the report should recognize the difficult and sometimes overwhelming tasks associated with passing 160 laws since 1993. In addition, there are nearly 4,000 draft laws pending. Despite these accomplishments with the legal framework, it is important to note that the RGC has the capacity to collate and disseminate an archive of all current laws in force, but has not done so to date. Development of the judiciary, which is accurately described in the report, is in a worse state than reform of the legal sector.

Corruption

The report on corruption is accurate. Fighting corruption will require political will at many levels.

Civil Service

The assessment of civil service reform is generally on target. The Priority Mission Group program is accurately described, although it is worth noting that the program could form the basis for an entirely new civil service system in which employees are adequately compensated for efficiently performing their duties in the public interest.

Forestry

Forestry reforms are not fully implemented, as the GAO report indicates; however, illegal logging remains below levels found prior to 1999. The RGC's periodic successes in logging show that better management of forest resources is possible in Cambodia.

The Department's overall assessment is that economic and social development can continue in Cambodia--as can governance reform--as long as bilateral donors and international creditors apply principles of accountability in a realistic manner. In any assessment, it must be recognized that Cambodia as a whole has a thin layer of educated personnel and a large farm-based population with only a basic education. The RGC lacks both the budget and the human resources to accomplish at a fast pace all of the governance reforms established for it by the donor community. Combined with a constrained political will and powerful vested interests opposed to change in some sectors, these factors are a drag on the otherwise forward-moving direction of reform demanded by Cambodia's fledgling democratic institutions and growing civil society.

Appendix II: Comments from U.S. Agency for International Development

U.S. AGENCY FOR
INTERNATIONAL
DEVELOPMENT

MAY 28 2002

Mr. Joseph A. Christoff
Director
International Affairs and Trade
U.S. General Accounting Office
441 G Street, N.W.
Washington, D.C. 20548

Dear Mr. Christoff:

I am pleased to provide the U.S. Agency for International Development's (USAID's) formal response on the draft GAO report entitled "Cambodia Governance Reform Progressing, But Key Efforts Are Lagging." (June 2002).

USAID is mainly in agreement with GAO's findings on Cambodia's progress in governance reform. While the Cambodian Government has taken positive steps in certain areas, problems of political will, resources, and human capital have so far resulted in few actions to diminish corruption or improve Cambodia's civil service, its legal and judicial system, and its forestry management. Because of this, USAID has chosen to focus its assistance efforts in Cambodia on sectors and in ways whereby we can most expect to improve the health status, educational levels, and human rights of ordinary Cambodians.

Thank you for the opportunity to respond to the GAO draft report and for the courtesies extended by your staff in the conduct of this review.

Sincerely,

John Marshall
Assistant Administrator
Bureau for Management

1300 PENNSYLVANIA AVENUE, N.W.
WASHINGTON, D.C. 20523

Appendix III: Comments from the Department of the Treasury

DEPARTMENT OF THE TREASURY
WASHINGTON, D.C. 20220

May 31, 2002

Mr. Joseph A. Christoff
Director, International Affairs and Trade
U.S. General Accounting Office
441 G. St. NW
Washington, DC 20548

Dear Mr. Christoff,

Attached please find two letters of comment regarding the General Accounting Office's draft report entitled "Cambodia: Governance Reform Progressing, But Key Efforts Are Lagging." One letter is from Mr. Yusuke Horiguchi, Director of the Asia and Pacific Department at the IMF and the other is from Mr. Ian Porter, Country Director for Cambodia for the World Bank.

Please let us know if you have any questions or need further assistance.

Sincerely,

David Loevinger
Acting Deputy Assistant Secretary
Africa, the Middle East and Asia

INTERNATIONAL MONETARY FUND
WASHINGTON, D.C. 20431

CABLE ADDRESS
INTERFUND

May 17, 2002

Mr. Joseph A. Christoff
Director, International Affairs and Trade
United States General Accounting Office
441 G St N.W.
Washington, DC 20548

Dear Mr. Christoff:

Thank you for seeking our comments on the May 2002 GAO draft report entitled "Cambodia: Governance Reform Progressing, But Key Efforts are Lagging." As noted in the report, Cambodia has made progress toward establishing a democratic government and a market-based economy in recent years. The task is a difficult one, with Cambodia having inherited a very weak institutional and governance environment from the past.

The IMF-supported program under the Poverty Reduction and Growth Facility is designed to support fundamental economic reforms and institution building with the aim of fostering economic growth and reducing poverty. The program encompasses efforts to improve governance, particularly in the areas of tax administration and public expenditure management. There are also other important areas being supported by the IMF that go beyond the coverage of the GAO report. For example, financial sector reform has been a key aspect of the IMF-supported program and has involved enacting new legislation and regulations, and the closing of financial institutions that are not in compliance. Efforts are also underway to improve bank supervision. The National Bank of Cambodia is in full compliance with the IMF's Safeguards Policy which required, among other things, that the central bank have independent external audits based on international standards in each of the last two years.

There is still much to be done to sustain economic development and poverty reduction. While expectations have to be realistic given the weak institutional and policy environment, we broadly share the report's conclusions that to be successful current efforts need to continue in all areas, and be strengthened in those areas where progress has been lagging.

Sincerely yours,

Yusuke Horiguchi
Director
Asia and Pacific Department

Appendix IV: Comments from the World Bank

The World Bank
INTERNATIONAL BANK FOR RECONSTRUCTION AND DEVELOPMENT
INTERNATIONAL DEVELOPMENT ASSOCIATION

14th Floor, Diethelm Tower A
93/1 Wireless Road
Bangkok 10330, Thailand

Telephone: (66-2) 252-2305-7
(66-2) 256-7792-3
Facsimile: (66-2) 256-7794-5

May 23, 2002

Ms. Carole Brookins
U.S. Executive Director
World Bank
Washington, DC (USA)

Dear Ms. Brookins:

We welcome this opportunity to comment on GAO's draft report entitled, "Cambodia – Governance Reform Progressing, But Key Efforts Are Lagging." Our Country Assistance Strategy for Cambodia stresses the Bank's support of good governance as a critical ingredient in building the foundations for poverty reduction in Cambodia. To this end, we are pleased to see the report's focus on governance, and consider that it makes many valid and useful points about the areas of reform. We intend to share it with other key donors who are also working to promote Cambodia's economic development efforts through improved governance.

In assessing Cambodia's progress on governance reforms, it is important to recognize and put in proper context the situation in which the Cambodian government and its people are struggling. We appreciate that the report quite appropriately begins by acknowledging that Cambodia has been left bereft in terms of public services, excessive military build-up, and weak public institutions because of 30 years of internal political struggle and war. It highlights the fact that Cambodia is ranked only 136 out of 174 countries in terms of various social and economic indicators (United Nations). However, Cambodia's lack of adequate human and institutional capacity should also be taken into account when evaluating the country's progress in the seven areas of reform under Governance that were reviewed by the GAO.

We agree with the report's conclusion that the government has made progress in achieving its goals in public finance, the military, and land management. We also believe that there have been some important achievements in forestry management reforms, although clearly more must be done to solidify the progress made. The Government should be recognized for the degree of commitment it has shown thus far in cutting back on the number of forestry concessions; inviting Global Witness, an international NGO, to help monitor forest crime; increasing forestry royalties; and, importantly, producing the draft forestry law. The drafting of the law was a significant achievement and goes a long way towards resolving some fundamental jurisdictional and governance issues in the forestry sector. That said, we recognize that illegal logging continues, and the forest crime monitoring system is still not working as it should.

To conclude, we welcome this timely and important report and hope that it will contribute to stimulating greater action on governance issues in Cambodia.

Sincerely yours,

Ian C. Porter
Country Director, Cambodia
East Asia and Pacific Region

GAO's Mission

The General Accounting Office, the investigative arm of Congress, exists to support Congress in meeting its constitutional responsibilities and to help improve the performance and accountability of the federal government for the American people. GAO examines the use of public funds; evaluates federal programs and policies; and provides analyses, recommendations, and other assistance to help Congress make informed oversight, policy, and funding decisions. GAO's commitment to good government is reflected in its core values of accountability, integrity, and reliability.

Obtaining Copies of GAO Reports and Testimony

The fastest and easiest way to obtain copies of GAO documents at no cost is through the Internet. GAO's Web site (www.gao.gov) contains abstracts and full-text files of current reports and testimony and an expanding archive of older products. The Web site features a search engine to help you locate documents using key words and phrases. You can print these documents in their entirety, including charts and other graphics.

Each day, GAO issues a list of newly released reports, testimony, and correspondence. GAO posts this list, known as "Today's Reports," on its Web site daily. The list contains links to the full-text document files. To have GAO e-mail this list to you every afternoon, go to www.gao.gov and select "Subscribe to daily E-mail alert for newly released products" under the GAO Reports heading.

Order by Mail or Phone

The first copy of each printed report is free. Additional copies are $2 each. A check or money order should be made out to the Superintendent of Documents. GAO also accepts VISA and Mastercard. Orders for 100 or more copies mailed to a single address are discounted 25 percent. Orders should be sent to:

U.S. General Accounting Office
441 G Street NW, Room LM
Washington, D.C. 20548

To order by Phone:	Voice:	(202) 512-6000
	TDD:	(202) 512-2537
	Fax:	(202) 512-6061

To Report Fraud, Waste, and Abuse in Federal Programs

Contact:

Web site: www.gao.gov/fraudnet/fraudnet.htm
E-mail: fraudnet@gao.gov
Automated answering system: (800) 424-5454 or (202) 512-7470

Public Affairs

Jeff Nelligan, managing director, NelliganJ@gao.gov (202) 512-4800
U.S. General Accounting Office, 441 G Street NW, Room 7149
Washington, D.C. 20548

PRINTED ON RECYCLED PAPER