



THE GLOBAL GOALS  
For Sustainable Development

1 NO  
POVERTY



2 NO  
HUNGER



3 GOOD  
HEALTH



4 QUALITY  
EDUCATION



5 GENDER  
EQUALITY



6 CLEAN WATER  
AND SANITATION



7 RENEWABLE  
ENERGY



8 GOOD JOBS AND  
ECONOMIC GROWTH



គណៈកម្មាធិការ  
សហប្រតិបត្តិការដើម្បីកម្ពុជា  
Cooperation Committee  
for Cambodia  
Comité de Coopération  
Pour le Cambodge

Analysis of Cambodia's Preparedness for the Implementation of

# Sustainable Development Goals:

## Challenges, Opportunities and Financing

Commissioned by the Cooperation Committee for Cambodia

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Partnerships for Sustainable Development in Cambodia



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## EXECUTIVE SUMMARY

The Millennium Development Goals (MDGs), envisioned, on top of all, to slash world poverty by half, will end this December 2015. The post MDGs development agenda termed the Sustainable Development Goals (SDGs) will pursue the un(der)achieved goals of MDGs and require all governments, developed and developing, to work together to achieve the indivisible vision combining environmental sustainability, economic development and inclusion.

To what extent is Cambodia prepared in implementing SDGs? This research report argues that Cambodia has proven gradually more capable in various fashions such as resources mobilization, having a good knowledge about what works and does not work (priority is on growth and less on governance) for country's development, and better ownership of the development agenda in the context of uncoordinated and competing development partners. Therefore Cambodia would be in a better position to implement the possible Cambodia version of SDGs than during the past 15 years through which it has implemented Cambodian MDGs (CMDGs). The profound challenge for Cambodia is to negotiate with the international players for political space that would allow the government to adopt its Cambodian SDGs that are feasible for the local context and that do not pose significant barriers to growth.

In details, we offer a set of six challenges and four opportunities. Next, we assess three sources that could potentially finance SDGs, which is followed by some critical proposed ideas for the likely localized version of SDGs.

Challenges: First, Cambodia's sustained and high economic growth over the past two decades have not been pro-green, suggesting that it may be hard for the country to achieve the fundamental environmental side of SDGs. Second, a core objective of SDGs is to strengthen state institutions along the notion of good governance and rule of law. At the present day, it is more recognized that for a developing country like Cambodia that has experienced genocide and decades of wars which destroyed any formal institutional structure, any pressure and efforts to strengthen strong and impersonal institutions in a quick pace would risk compromising the hard earned peace and stability. All that could result in backward development. Third, SDGs operates based on the proposed 17 goals and 169s targets, which pose tremendous constraint on the government which is not yet equipped with the quantifying capacity. Fourth, while Cambodia's development plan and SDGs converge on paper, in practice they differ. As Cambodian development plan actualizes, a clear priority of achieving growth and poverty reduction precede governance, for instance. Fifth, Cambodia still needs to work harder to move a large number of people categorized as 'near poor' and another number trapped in 'new poverty' to enjoy inclusive growth. Sixth, the coordination among the government, development partners, and NGOs remains weak or uneven at best.

Opportunities: First, SDGs is a good and strategic platform for resource mobilization. Second, while governance lacks behind the priority of growth and poverty reduction, it is showing the sign of improvement. Third, the government has shown better capacity to own development agenda and manage changing relationships among traditional and emerging donors. Fourth, Cambodia may reap the benefit of the ASEAN Economic community despite having to reform on many issues.

Financing SDGs: First under the Public Financial Management Reform, Cambodia has improved its tax administration capacity, consequently recently more revenues have been collected. Second, while it is hard to predict the trend of economic growth for the whole SDG period, the government has shown its commitment and efforts to sustain growth. Hence, there is a potential that growth might be at least moderate in the medium term. Third, Cambodia might be able to maintain a reasonable level source of external finance to implement SDGs given the dynamic location of the country over which such countries like China and Japan are competing for influence. Further it is pretty clear that donors such as the European Union would continue to support Cambodia and its NGO partners to assist the poor who have marginally benefited from growth.

Localized version of SDGs: We provide a package of ideas concerning the localized version of SDGs. First, the CMDGs that are not yet achieved must be continued. Second, on institutional strengthening, Cambodia has demonstrated some notable progress. From now, the government needs more commitment to further strengthen institutions. Third, for the rest of the SDGs that heavily emphasize environmental sustainability, Cambodia need to undertake research before it could agree on any of those goals.

## ACKNOWLEDGMENT

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First of all, we are deeply indebted to the contribution of a number of people from the development sector, government, and private sector. From the development sector, people of various backgrounds were interviewed, including from the United Nations agencies, international financial institution and non-governmental organizations, and independent analyst. Altogether, we interviewed 8 people from this sector. We also benefited from the discussion with 3 private sector representatives, including from the SMEs, insurance company, and trade services. We have tried to talk with government representatives but due to high rate of rejection, we could only manage to interview one government representative. We would extend our thanks to participants who actively contributed invaluable opinions and inputs to our multi-stakeholder consultative workshop as well. We sincerely appreciate the contribution from all these people from diverse backgrounds.

Secondly, special thanks are due to CCC leadership and staff members who have provided necessary supports for the project to run smoothly. Special thanks to Mr. Soeung Saroeun, CCC executive director, for his support in mobilising key informants to be interviewed for this project and his time for the interview on the subject under investigation. We are also indebted to the assistance of Mr. Chen Sochoeun and Mr. Mi Nac, of CCC, who have been actively supplied us with updated documents related to the studied topic and provided us with detailed contacts for interview. Thanks are also due to other CCC staff members involved in the project.

We would like to extend our gratitude to the CCC team for their comments on the early draft of the report. Their comments and feedbacks do enable us to be able to address some of the questions that remain in our report. The final product reflects their inputs and questions.

Without the involvement of all the people listed above, this report would not have achieved such a strength and depth as it has in the current form. However, any deficiencies in the final report remain ours.

## LIST OF ACRONYMS

ADB	Asian Development Bank
AEC	ASEAN Economic Community
CCC	Cooperation Committee for Cambodia
CDC	Council for the Development of Cambodia
CDCF	Cambodia Development Cooperation Forum
CDRI	Cambodia Development Resource Institute
CG	Consultative Group
CMDGs	Cambodian Millennium Development Goals
CPP	Cambodian People's Party
DFID	Department for International Development, UK
EU	European Union
FDI	Foreign Direct Investment
FfD	Financing for Development
GDCC	Government Development Cooperation Committee
GDP	Gross Domestic Product
GFW	Global Forest Watch
HLF4	Fourth High Level Forum
ICRC	International Committee on the Rehabilitation of Cambodia
IDP	Industrial Development Policy
ILO	International Labour Organization
IMF	International Monetary Fund
INGOs	International Non-governmental Organizations
LICs	Low Income Countries
MCRRC	Ministerial Conference on the Rehabilitation and Reconstruction of Cambodia
MDGs	Millennium Development Goals
MICs	Middle Income Countries
NGOF	NGO Forum on Cambodia
NGOs	Non-governmental Organizations
NSDP	National Strategic Development Plan
ODA	Official Development Assistance
OECD	Organization for Economic and Cooperation Development
RGC	Royal Government of Cambodia
SDGs	Sustainable Development Goals
SMEs	Small and Medium Enterprises
TWG	Technical Working Groups
UN	United Nations
UNDP	United Nations Development Program
WB	World Bank

## INTRODUCTION

The Millennium Development Goals (MDGs) endorsed following the United Nations Millennium Declaration in 2000 will end this coming December 2015. The post MDGs development agenda called the Sustainable Development Goals (SDGs) are being developed by the UN member states under the leadership and coordination of the United Nations. While the MDGs envisioned to, inter alia, slash global poverty by half, SDGs, among various goals, fundamentally aim to eradicate world poverty and hunger by 2030 and seriously embed environmental sustainability into the pro-poor growth agenda.

Cambodia will participate in the implementation of SDGs. Hence, what SDGs mean for the government and various development actors and what it should do to make SDGs feasible for its context needs critical examination. This report<sup>1</sup> attempts to answer these questions in fundamental and academic manners; therefore, development actors will have ground to refer to and Cambodia's voice and concerns will be aired at the UN conference in September this year.

### *Report Objectives and Key Findings in Brief*

Precisely, the report aims to scrutinize the extent to which Cambodia is prepared to achieving SDGs based on the analysis of the existing development mechanisms/frameworks and policies Cambodia has developed. Within that overarching objective, it aims to, first of all, reveal any tensions or contradictions between the international version of SDGs and core Cambodian development plans such the National Strategic Development Plan. Second, it provides analyses of the challenges and opportunities for Cambodia and, if required, propose a macro picture of what Cambodian version of SDGs should transpire. Third, it will unravel the likely sources of funding for SDGs.

In a nutshell, our main argument is Cambodia demonstrates more capability, especially in terms of resources mobilization, to implement SDGs than during the past 15 years through which it has implemented CMDGs. The profound challenge for Cambodia is to negotiate with the international players in ways that allow the government to adopt its Cambodian SDGs that are feasible for the local context and that do not significantly retard growth.

### *Methodology and Report Coverage*

The report is framed as follows. It will critically unpack the proposed SDGs and its core ideas and vision. Next it will use the crucial ideas of *sustainable development* (of SDGs) as proposed by Jeffrey Sachs to compare with Cambodia's existing development mechanisms and framework and their actual implementation to illicit any possible tensions/contradictions. Sachs (2012, p. 2206) proposes that while there is still no consensus on the definition of sustainable development, the notion requires "the so-called triple bottom line approach to human wellbeing...a combination of economic development, environmental

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<sup>1</sup> It is worthwhile noting that the report will not elaborate the analysis in detail (such as examining each individual goal), leaving such tasks for other future studies.

sustainability, and social inclusion” and the trio forces need the support from good governance. For Sachs, in details, economic development is the prime reducer of global poverty (continued from the MDGs); however, the pursuance of economic development must consider the sustainability of earth’s ecosystem which sustains all lives; and moreover GDP and household income need to move from the traditional approach of benefiting a few to benefiting all or ensuring gross national happiness. Further, Sachs emphasizes that good governance, to be embraced by all levels, ranging from global to local and in the government and private sector, is foundational in determining the success of the above three development ingredients. He mentions, among many, the commitment to the rule of law, participation, including and sound institutions. Whether these good things – the three dimensions of sustainable development above and good governance, could go together will be examined below in the form of challenges and opportunities.

In addition, the report will look into the sources of direct and indirect funding for SDGs which comprise three main areas: Public Financial Management Reform and resource mobilization, growth and private sector development, and Official Development Assistance (ODA). Based upon the previous analytical discussions, ideas and recommendations for a possible Cambodian version of SDGs are proposed. The report wraps up with a brief conclusion.

To achieve the aforementioned objectives, the report will deploy both a critical review of literature on the topic of SDGs, foreign aid, MDGs, and development globally and specific to Cambodia, and key informant interviews. The study also benefits from the consultative workshop organized by CCC on September 21, 2015 where 70 NGOs representatives and donor partners, and 10 government officials present and active in the discussion on the draft report; During the workshop, critical comments by the United Nations Country Team representative and group discussions were specifically useful and thus taken into account for the final version of the report.

## **SUSTAINABLE DEVELOPMENT GOALS (SDGs)**

The Millennium Development Goals (MDGs) marks a global and historic attempt to enhance and accelerate human wellbeing. 192 states agreed on a set of numerical objectives to be achieved by 2015. Those comprise, inter alia, halving global poverty, getting primary schooling met for all children, promoting the health of mothers and children, eradication of gender discrimination, safeguarding the environment and providing more foreign aid. After more than a decade in implementation, academic and policy debates at the global and national levels about MDGs continue.

On the one hand some low income countries have not met MDGs, partly because of the development partners have not kept their promise in delivering the expected amount of aid (Sachs, 2012). Further, Ashwani Saith (2006) is pessimistic that given the political economy on the donors’ side, which drives the MDG process to achieve more of their own interests, realizing MDGs rests more on the capacity of the recipient states. While such stronger states as China, India or Brazil are in a good position to develop indigenous programs to achieve MDGs, the majority of poor countries do not possess such capacity, then achieving MDGs is beyond reach (ibid).



However, Green, Hale, and Lockwood (2012) note that MDGs could have had some impact on the developing governments' development policies such the likelihood that many national governments have prioritized health and education based on MDGs and customized MDGs into their policies. That reflects the undeniable reality, on top of all, that the developing countries at large have slashed poverty by half between 1990 and 2010 (Sachs, 2012). The exact figure by the UN demonstrates that extreme poverty has fallen more than three times from 47% in 1990 to just 14% in 2015 (UN, 2015a). Besides policy makers and civil society concur that hunger and diseases have substantially reduced (Sachs, 2012). In short, MDGs have contributed to undeniable and remarkable enhancement of the developing countries' people's wellbeing (Sachs, 2012; Vandemoortele, 2011).

To secure the progress, it is agreed that global fight against poverty must continue in the current context where climate change and serious environmental destruction are real development phenomena (Sachs, 2012). Therefore the proposed SDGs have emerged, packaging 17 goals listed in the note below<sup>2</sup>. Four important characteristics of SDGs need to be taken into account. First, SDGs, unlike MDGs stress the crucial roles and collaboration of both developed and developing nations while MDGs are more about the responsibility of the developing countries that are supported by developed governments in terms of resources (external financing and technicality). Second, the post 2015 agreement will pay much more emphasis on the local contexts because national governments diversify their international linkages, have stronger capacity to raise local revenues and continue to depend less on aid unlike before (Green et al., 2012). In other words, with SDGs, the focus is shifted toward enhancing the financial self reliance and capacity of the national governments that used to depend more on external aid from the traditional donors when implementing MDGs. Looking

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<sup>2</sup>GOAL 1 End poverty in all its forms everywhere

GOAL 2 End hunger, achieve food security and improved nutrition and promote sustainable agriculture

GOAL 3 Ensure healthy lives and promote well-being for all at all ages

GOAL 4 Ensure inclusive and equitable quality education and promote lifelong learning opportunities for all

GOAL 5 Achieve gender equality and empower all women and girls

GOAL 6 Ensure availability and sustainable management of water and sanitation for all

GOAL 7 Ensure access to affordable, reliable, sustainable and modern energy for all

GOAL 8 Promote sustained, inclusive and sustainable economic growth, full and productive employment and decent work for all

GOAL 9 Build resilient infrastructure, promote inclusive and sustainable industrialization and foster innovation

GOAL 10 Reduce inequality within and among countries

GOAL 11 Make cities and human settlements inclusive, safe, resilient and sustainable

GOAL 12 Ensure sustainable consumption and production patterns

GOAL 13 Take urgent action to combat climate change and its impacts\*

GOAL 14 Conserve and sustainably use the oceans, seas and marine resources for sustainable development

GOAL 15 Protect, restore and promote sustainable use of terrestrial ecosystems, sustainably manage forests, combat desertification, and halt and reverse land degradation and halt biodiversity loss

GOAL 16 Promote peaceful and inclusive societies for sustainable development, provide access to justice for all and build elective, accountable and inclusive institutions at all levels

GOAL 17 Strengthen the means of implementation and revitalize the global partnership for sustainable development

ahead, those developing national governments are expected to generate more local revenues from growing economies and from South South cooperation from which aid from emerging donors could supplement those from the traditional donors. Third, SDGs, as detailed below, substantially emphasize the protection of the environment. Approximately close to half of the targets involve consideration of the environment, directly and indirectly. Fourth, unlike the previous MDGs which are criticized for the top down approach that draws on primarily a narrow set of privileged perspectives, SDGs adopt multi –stakeholder decision making processes through which businesses, community, local government and various civil society organizations will be engaged (Geoghegan, 2013).

### *Anything Wrong for SDGs?*

The 17 goals and 169 targets are framed under the vision and expectation that all good things will go together; some details include “...a world free of poverty, hunger, disease and want, ...a world of universal respect for human rights and human dignity, the rule of law, justice...peace...” (UN, 2015b, p. 5) and the list goes on. The UN themselves admit that those goals and targets represent “...a *supremely ambitious* and transformational vision”(UN, 2015b, p. 5 emphasis added) and are “integrated and indivisible” (ibid: p. 7). They are highly ambitious goals, particularly when one analyzes the tension between high growth which reduces poverty and the feasibility of sustaining the environment. This is hardly achieved even among the already developed countries such as Canada and the United States of America (Gore & Stoett, 2009). Another important tension that applies to developing countries is the influence from development partners on those countries to achieve peace, stability, and rule of law simultaneously; various studies already document how the quick jump to improving rule of law threatens stability (Fukuyama, 2014). Below, the case of Cambodia will be examined.

## **CAMBODIA: TRANSITING FROM CMDGs TO SDGs**

### *CMDGs: How far has Cambodia gone?*

To understand the extent Cambodia is prepared to achieve SDGs, it is imperative to visit how the country has performed with regards to CMDGs. In a nutshell, Cambodia has achieved at least four<sup>3</sup> out of the 9 set goals (child care, maternal health, communicable diseases and partnership) and it is moving to close to meeting the poverty reduction goal (poverty dropped from 47.8% in 2007 to 19.8% in 2011, which is just 0.3% above the target of 19.5%) (RGC, 2013, 2014a).

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<sup>3</sup> We are caution on the government’s declaration that CMDG eight on “Forging global partnership for development” is achieved. The latest assessment of CMDGs by the government (RGC, 2014a) which claims that Cambodia reaches MDG 8 rests fundamentally on the idea that the country has obtained more than one USD billion from external sources since 2008 on the annual basis. The external funding constituting between 8 and 9 percent of GDP is argued by the government to have contributed to maintaining economic growth, reducing poverty and making way for the country to achieve other MDGs. We applaud the government’s ability to obtain the external financing to support local development agenda. However, that does not mean effectiveness in collaboration is in place; obviously as laid out in the challenge section, coordination between the government, development partners and CSOs remains weak or uneven at best.

The Cambodian government is committed to realizing CMDGs as it has incorporated them into its National Strategic Development Plan (the 2014-2108 and previous versions). Therefore, line ministries work together to achieve MDGs and those objectives of NSDP. The government has further put forth CMDG Acceleration Framework with the aim to speed up the progress of MDGs and other human development goals (RGC, 2014b). However, while CMDGs well feature into the national development plan, observably there is no special mechanism that specifically promotes CMDGs themselves. That explains that while the government acknowledges the significance of CMDGs, the existing framework coordinated by the Ministry of Planning is generally utilized to realize goals of NSDP and CMDGs simultaneously. The success and underachievement of CMDGs is characterized by varied factors below.

First, it is generally agreed that Cambodia's remarkable sustained growth of 7.8 percent achieved between 1994 and 2011 has significantly contributed poverty reduction (ADB, 2013; CDRI, 2013; RGC, 2014a).

**Figure 1: A snapshot of CMDGs progress**

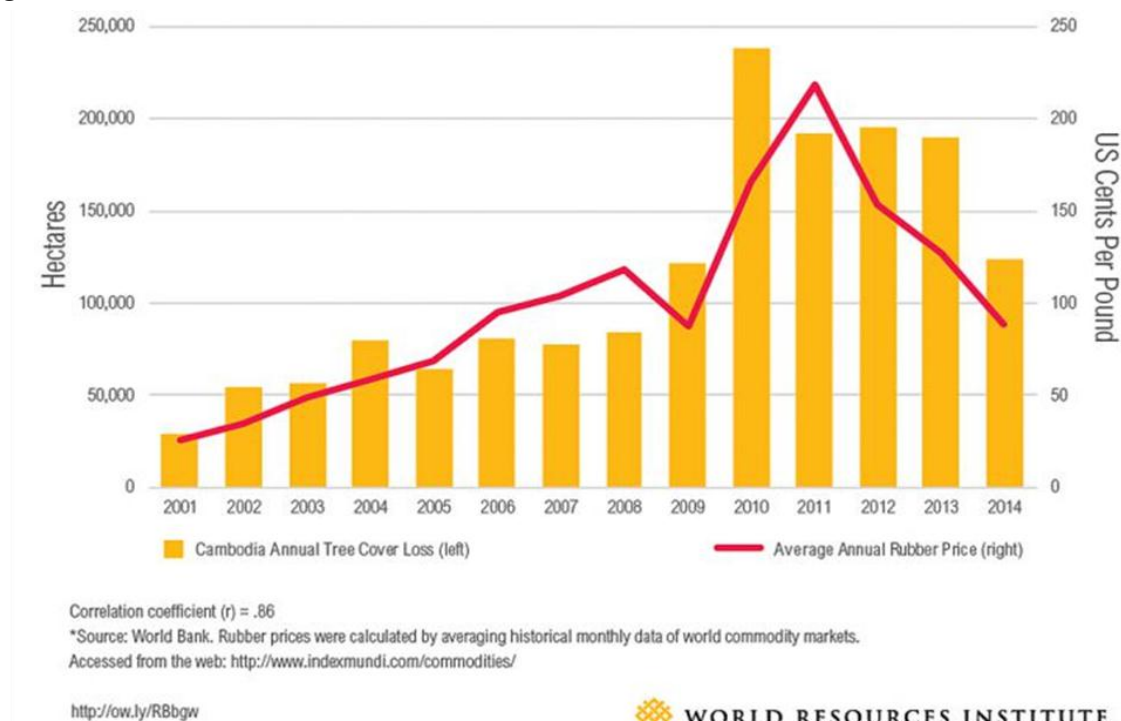
CMDGs	Assessment
CMDG1: Poverty	Met on main indicators
CMDG2: Basic Education	Most likely to be met on main indicators
CMDG3: Gender	Met on main indicators
CMDG4: Child Health	Met
CMDG5: Maternal Health	Met
CMDG6: Communicable Diseases	Met
CMDG7: Environment	Met on main indicators
CMDG8: Partnership	Met
CMDG9: Demining	Some way to go

Source: RGC (2014a, p. 42) (*reproduced*)

Second, however, the achievement of goals 4, 5, 6 could be better explained directly and indirectly from a political economic perspective. K. Un and Hughes (2011) who studied the governance reform of the Phnom Penh Water Supply Agency and the National AIDS Authority have pointed that these two sectors have been very successful mainly because they are the permissible areas in which the public goods (water and health services) would enhance legitimacy of the state. The improvement of which does not encroach the vested interests of the elites, rather they constitute both interests of the state and the donors that have been supporting the sectors (*ibid*). Reform in two other studied areas namely, forestry administration and the judiciary institution, have met serious resistance (*ibid*). The two sectors have remained extremely weak despite committed efforts have been made by a number of major donors (*ibid*). The main reason is, in contrast to the above two sectors, upgrading governance of such resourceful and powerful areas would weaken the informal power of the state elites, their networks and parties (*ibid*).

Third, the difficulty to achieve goal 7 on environmental sustainability reflects the trend in the second point above as well – income from forest exploitation has arguably constituted an informal but significant source of revenue for the ruling elites and their party. Further the government also admits the relationship between economic growth and environmental destruction. For instance, it describes that back “in the 1960s, forests covered more than 70% of Cambodia’s area. Since the 1990s (after the war), forests were one of the few real resources that the country possessed in the commercial and agriculture sense; consequently, deforestation began....Between 1990 and 2010, the government estimates that Cambodia lost 22% of its forest-cover, or around 2,850,000 hectares of forest (RGC, 2014a, p. 31 emphasis added). A very recent Phnom Penh Post article reports that Cambodia has lost its forests “faster than any other country in the world since 2001”, according to Global Forest Watch (GFW); a leading resource-monitoring initiative (Harfenist, 2015). It elaborates further that Cambodia has seen the highest degree of tree-cover loss in the world over the past 14 years, more than that of normal heavy hitters Brazil and Indonesia, with the country quadrupling its loss of tree cover in 2014 as compared to 2001 (ibid). The article stresses that Cambodia’s loss of tree cover correlates with the global rubber price (Ibid). The argument resonates the observation that the past economic growth is accompanied by serious environmental degradation.

**Figure 2: Cambodia’s Tree Cover Loss Correlates with Global Rubber Prices**



Source: WORLD RESOURCES INSTITUTE (as cited in Harfenist, 2015).

Fourth, the underachievement of goals 2 and 3 could relate to the underinvestment, primarily in the educational sector over the past two decades and the lack of commitment to the sector (RGC, 2014a). For instance, an assessment of CMDGs by the government reports the lack of supply of lower secondary schools to accommodate the rising number of students as a reason for lower secondary attainment and completion rate (RGC, 2014a).

Fifth, across all the CMDGs, the contributions from (I)NGOs and development partners are revealing (CCC, 2013). However, this section makes the case that, as illustrated in point 2 above, for some MDGs such health, the interests and efforts of the government and all development actors converge, hence it is relatively easier to achieve that MDGs. However, when it comes to politically sensitive sectors, implementation often lacks behind because the interests of the government (and its elites), development partners and NGOs differ. That has implications for SDGs as well.

### *SDGs and Cambodia*

During the course SDGs unfold in the context of Cambodia, the outcome might follow the trend of CMDGs as analyzed above. Go areas such as poverty, growth, hunger eradication may move faster than, say environment preservation and institutional reform such as rule of law. Below are the potential challenges posed by international agenda of SDGs on Cambodia and how Cambodia's political economy presents challenges to its efforts in achieving SDGs. Opportunities will be discussed as well.

### **SDGs: CHALLENGES AND OPPORTUNITIES<sup>4</sup> FOR CAMBODIA**

This section will illuminate the challenges and opportunities posed by SDGs on Cambodia and how the country itself exhibits challenges and opportunities for the realization of SDGs. Challenges and opportunities are inherently embedded in Cambodia's development framework, its previous implementation and SDGs and the philosophy behind them. A review of Cambodia's rectangular strategy and the National Strategic Development Plan (NSDP) update 2014-2018 points out that Cambodia has adopted all the sustainable development components that Sachs reminds us: growth (economic development and poverty reduction), environmental consideration, inclusive growth and good governance at the core of those documents<sup>5</sup>. SDGs and NSDP share a common element – all good things need to go together. Hence there appears no serious tension between those documents. However, as the analysis of the CMDGs outcome above unfolds, the implementation of NSDP and CMDGs which are parts of NSDP reflect some contradictory observations which may be repeated as SDGs transpire in the country. Beyond those tensions and challenges, opportunities are plenty as well.

The first challenge, an internal one, is thus far Cambodia has not achieved green growth. The sustained high growth is arguably correlated with the loss of a significant sacrifice of the environment as the lead editor Sarah Miller of *"Conservation and Development in Cambodia: Exploring Frontiers of Change in Nature, State and Society"* claims that Cambodia's high GDP growth is accompanied by the profound "...socio-environmental costs... For instance, the country's deforestation rate is one of the world's highest; and there are looming

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<sup>4</sup> We value comments from a few participants of our consultative workshop suggesting that weaknesses and threats could be considered as well. However, SDGs as another participant argued are pulling Cambodia in a positive direction along with its National Strategic Development Plan; therefore, challenge, and not threat or weakness, represents a more productive term, which inherently incorporates some ideas of threats and weaknesses as well.

<sup>5</sup> Nevertheless, NSDP does not provide the details, especially in terms indicators, as SDGs do.

environmental problems that threaten to exacerbate poverty and undermine political stability, such as pollution, climate change, soil degradation and declining fish stocks” (Phy, 2015). One of our informant serving for a UN institution that works closely with the government on such development issues like CMDGs and SDGs describes that the government at the present is acknowledging the large scale environmental destruction and are showing serious concern about its effects<sup>6</sup>. The earlier discussion already mentioned that just for a decade, during the 1990s, Cambodia lost 22% of its forests (RGC, 2014a).

The second challenge, external one for Cambodia, is there is a strong push by the external development actors/interveners for quick strengthening of governance, which Cambodia has been able to upgrade gradually but not as speedy as required. The fundamental aspect is the significance push for developing countries like Cambodia, which experienced genocide and decades of wars, to quickly and riskily adopt serious good governance agenda such as rule of law. Arguably, the transition from a neo-patrimonial context to a modern one is a painful process and any rush in the process might destabilize the hard earned peace and stability. Fukuyama (2014) elaborates that a democratic, modern and uncorrupt state means there is a clear dividing line between the public and private; however, in many transitional countries, the dividing line is severely eroded. Here there is a large gap between the current neo-patrimonial state<sup>7</sup> level and the modern state one (ibid). Hence when such externally driven programs as rule of law and legal institutional building are set up and implemented to build institutions to constrain the state *when it is not ready*, it is problematic and unrealistic to be achieved (Ibid). Fukuyama stresses that the external interveners have not cared enough about the painful, hard and similar transition that even the United States of America just experienced in the early 19<sup>th</sup> century (ibid)<sup>8</sup>. Already there is emerging scholarship about the positive side of corruption in temporarily maintaining peace and stability in different parts of the world including Cambodia (Biddulph, 2014; Zaum, 2013). The 2015 Rule of Law Index by the World Justice Project could be interpreted to support the above claim. On that Rule of Law Index, Cambodia’s state of rule of law is ranked very low at 99 out

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<sup>6</sup> Development sector, interviewed August 25, 2015, Phnom Penh.

<sup>7</sup> Neo-patrimonialism refers to a political system in which the “executive maintains authority through personal patronage, rather than through ideology or law ... relationships of loyalty and dependence pervade a formal politics and administrative system ... leaders occupy bureaucratic offices less to perform public service than to acquire personal wealth and status. The distinction between private and public interests is purposely blurred ... In return for material rewards, clients mobilize political support and refer all decisions upwards as a mark of deference to patrons” (Bratton and van de Walle 1994, cited in Pak, 2011).

<sup>8</sup> According to Fukuyama (2014), in the United States of America, the patronage or the spoiled system was still practiced early 19<sup>th</sup> century. For instance in the 1828 election, John Quincy Adams, the 6<sup>th</sup> US president won the election by using patronage politics. Getting people to the poll and voting for a particular party in a country (like USA at the time) when people had little education and income was not about using impersonal public policies such as reducing taxes or providing freer public healthcare (which is practiced these days). It was by bribing the voters individually, giving prime supporters jobs (in the post office, in the police force....) When John Quincy won the election, he picked up key agents who supported him to get public positions. That politics was commonly practiced for approximately 100 years later in American democracy, in which officials from the top to the bottom were appointed by politicians as a payoff for political support during elections. Only when the Congress found the patronage or spoiled system too embarrassing, it was abandoned and the rational system was strongly put in place.

of 102 (Ponce, 2015); however, Cambodia scores above the East Asia and Pacific's on order and security, which is compellingly encouraging for a country having experienced a genocide and decades of civil war (Ibid: 72). Without the state's capacity to have attained current level of stability and order, Cambodia would not have achieved the high level of economic growth and greatly reduced poverty and other CMDGs. Again as Fukuyama warns above strengthening rule of law at a high cost is highly not recommended. Thus, there needs understanding from the international actors about what is feasible and what is not for the medium and long terms for developing contexts such as Cambodia. However, SDGs are imposing tools on the developing countries; hence, it is expected that the external support would come with pressure for the unfeasible institutional reform.

The third external challenge is SDGs, like MDGs, operate based on the detailed goals and targets which is hard for a country like Cambodia with generally weak capacity to follow. The goals and targets mean the baseline and expected outcome need to be quantified; hence, how far Cambodia could tackle the immense difficulty cannot be taken at face value, especially in the context that coordination among various ministries is fragmented. A development sector staff and a private sector individual interviewed share the concern as well<sup>9</sup>.

The fourth challenge, which is a mixture of external and internal one, is the goals and vision of SDGs and those of Cambodia diverge, especially in practice. That is highly related to the second challenge. SDGs follow the notion of all good things could together; however, for government of Cambodia, the philosophy may follow the analogy that "rice needs to be produced before rights could be respected". As laid out in the rectangular strategy and NSDP, growth (and poverty reduction) and good governance are all designed to be pursued simultaneously. However, apparently when it comes to real implementation, the former is prioritized but not the latter. Our interview with an informant, who is a senior government official also confirms the hidden priority<sup>10</sup>. Slocomb (2010)'s account recalls that UNDP was invited to assist the Cambodian authorities to draw up a national program of administrative reform and implementation. The goal is institutional building and strategies included legal framework for restructuring public administration, strengthening management of line ministries and reforming civil service management, developing capacity and strengthening provincial administration. The government signed the Structural Adjustment Program of IMF, committed to the reduction of the number of civil servants of 20% by 1997. The resistance and subversion were the key obstacles to the reform efforts. The result was disappointing, UNDP contributed \$3.5 million and it was disappearing. However, one immediate result of Cambodia's resistance to the donor' requirement is Cambodia has been able to maintain peace and stability, which is hard earned and difficult to obtain for a country having suffered from a genocide and close to two decades of another subsequent civil war (from 1979 to 1998 when the Khmer Rouge defected). Caroline Hughes (2009) in her comparative study between the international community's interventions to build peace in Cambodia and East Timor found that the local elites played the most crucial roles in determining the peace outcome in the two countries. Cambodia seems to have performed better than East Timor, largely because the national elites have been eschewing the

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<sup>9</sup> Development sector, interviewed September 2, 2015, Phnom Penh; Private sector staff 01, interviewed August 19, 2015, Phnom Penh.

<sup>10</sup> Government official, interviewed April 06, 2011, Phnom Penh.



international agenda to a higher degree (which they have been deeply criticized for) and thus own the subsequent peace process more than the Timorean counterparts. In contrast, the East Timorean elites intended to be best performers” under a liberal peace regime, conforming to the donors” requirements and therefore witnessing a weaker peace outcome (Hughes 2009). In short the challenge here is the agenda of SDGs and Cambodia’s differ – the international community enforcing SDGs assumes they know what works best for developing countries and impose their development paradigm while Cambodia pursues its own realistic and workable approach which has worked thus far. The implication from this is if Cambodia resists the SDGs’ agenda and if the resistance appears visible, it might not receive the expected financial support from the international community. In contrast, if Cambodia acted as a good performer, it would receive likely receive more aid; however, it would cost the country in ways that stability could be disturbed.

The fifth internal challenge is enhancing inclusion, the welfare and productivity of the groups living around poverty line requires more investments in health, education and social protection. It remains to be seen how far Cambodia, development partners and NGOs could assist in the process. While poverty is going down, and inequality reduced (CDRI, 2013; Hill & Menon, 2013) approximately three quarter of the population are still grouped as ‘poor’ or ‘near poor’, below or slightly above poverty line (Hill & Menon, 2013; WB, 2015). Further the child malnutrition level remains high and consequently produces pockets of poverty, especially in far flunk areas; inter-provincial/intra-provincial disparities are common as well (Hill & Menon, 2013; RGC, 2014a). ‘New Poverty’ is another worrying incidence. For instance, (I)NGOs have documented that in natural resource rich provinces in the country, new poverty has occurred in that a number people (who were not poor before) have become poor because their natural resources are grabbed or stolen by external development players/companies<sup>11</sup>. A related concern is because Cambodia’s growth is narrow based and thus volatile the regional and global market (Hill & Menon, 2013), any economic downturn, which happens in the 2008/2009 could slower growth and risk witnessing a large segment of the people who have survive around the poverty line to fall back.

The sixth challenge, a mixture between local and external one, is the fragmented coordination among government agencies, development partners (including multilateral and bilateral agencies), and NGOs. As envisioned in the aid and development effectiveness agenda, all these development actors are supposed to collaborate so that development process could go smoothly. However, those relationships have emerged off track in several fronts. First, while the coordination between the existing traditional donors and the government remains far very cooperative<sup>12</sup>, the newly emerging donors present another issue in that they are not brought into coordination mechanism. A new trend in Cambodia is non-traditional donors have been growing stronger in importance and volumes of support over time. These non-traditional donors were the new emerging economies in the south, namely China, South Korea, India and Thailand (Sato, Shiga, Kobayashi, & Kondoh, 2011). Until now they are not yet part of the aid coordination mechanism - the new emerging donors are left behind, not even the volume of aid is available in the CDC online ODA database. Such a trend is destructive to working together to achieving development goals for Cambodia. Second, the

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<sup>11</sup> Researcher 01, interviewed via skype, August 19, 2015.

<sup>12</sup> NGO staff 01, interviewed August 19, 2015, Phnom Penh.



connections between the government and the NGOs are poor or uneven at best. As representatives of the civil society movements in Cambodia, NGOs play very important role in providing inputs for the development planning as well. However, NGOs have been sidelined. Two particular examples confirm this tendency. First, the government's move to pass the NGO law means the explicit intention to put the NGO community under control. Second, the NGOs' contribution to TWGs is limited. Until 2009, as stipulated in the TWG guidelines, the role of NGO was limited to a role as observer, and this was not changed until the World Bank recommendations to the government. After its full participation status at the TWG, and GDCC civil society capacity remains meager, except the health and education sectors where multi-stakeholder mechanism proven to be quite successful and the engagement remains an urban phenomena. At the sub-national and local level, there was limited platform for the civil society participation in development agenda (Nowaczyk 2011).

The first opportunity Cambodia would benefit from SDGs is a platform for external resource mobilization. Like MDGs, SDGs will be a forum which invites development partners to commit more to aid provision to the global south. While donors in general fail to commit funding as expected for the implementation of MDGs (Sachs, 2012), still MDGs and the forthcoming SDGs will pressure donors to allocate more budget to helping the poorer countries, especially when such an issue as climate change has proved to be more than a myth but a real and alarming phenomenon. Further SDGs assist Cambodia in terms to priority setting. Climate change and environment issues, identified as crucial for sustainable development and thus have become a global agenda, have been incorporated into Cambodia's NSDP without the country having to invest in research and development. It is there for Cambodia to pick up. Whether Cambodian has achieved much or little is another issue; the whole point is Cambodia has recognized environmental values and start to take action.

The second opportunity is Cambodia has strengthened governance gradually. It was mentioned earlier that Cambodia lacks behind in terms of expected governance enhancement, the phenomenon David Roberts (2009) calls buildings of political husks rather than institutions (recognized in the western sense). However, anecdotal evidence and observations (Giry, 2015) suggest that Cambodia has reformed more since the last 2013 general election and the improvement in governance and service delivery may continue to gain momentum. For instance, two charismatic leaders have been promoted to take the minister positions of the Ministry of Education, Youth and Sport and the Ministry of Commerce. The anti corruption unit has been more active recently, sending a clear message to both the public and private sectors about the consequences of corrupt act. One informant<sup>13</sup>, for instance, observes that "corruption is still practiced; however, it's much less open than before". Further the same informant hinted that the government now is "different; they have changed". When the multinational corporation he serves expresses what they want (from the state) such as new and necessary regulations that Cambodia should adopt and varied forms on institutional support, the top leadership usually agreed and did accordingly despite some delay. Worth recalling is the islands of institutional development in some sectors such as HIV/AIDS reduction and Phnom Penh Water Supply (K. Un & Hughes, 2011). As will be discussed in the following section of the Public Financial Management Reform, the government's capacity to collect taxes has improved and more local revenues have been mobilized. All these signifies

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<sup>13</sup> Private sector staff 03, interviewed via skype, August 25, 2015.

that while Cambodia will not achieve the high end good governance objective including rule of law, the progress Cambodia made might be able to reap more aid from the international community.

The third opportunity is the improved government ownership of development agenda and foreign aid. Aid effectiveness is part of the existing mechanism that is crucial for an aid depending country like Cambodia to realize SDGs. While the evolution of aid effectiveness from the 2005 Paris Declaration to the Development Effectiveness in 2011<sup>14</sup> has proved more pessimism than optimism<sup>15</sup>, the record of aid effectiveness in Cambodia and the trend of South South cooperation provide more opportunities for the country to own its development agenda better than in the past. Post-conflict Cambodia received UN-support for the peace building process and democratisation starting with the UN-sponsored first national election in 1993. Its evolution began with the 1992 Ministerial Conference on the Rehabilitation and Reconstruction of Cambodia (MCRRC) in Tokyo to the Meetings of International Committee on the Rehabilitation of Cambodia (ICRC) that was first held in Paris in 1993, and it was replaced by the Consultative Group (CG) in 1996. The CG started to be held in Phnom Penh for the first time in 2002 with Cambodian government and the World Bank as chairs and was replaced by the meetings of the Cambodia Development Cooperation Forum (CDCF) in 2007. This evolution signifies the growing ownership and leadership held by the Cambodian government in the aid coordination for development in Cambodia (NGOF, 2012). More importantly, the government aiming to own its development agenda more than in the past views the emerging South-South cooperation as fruitful and productive (RGC, 2013). The Development Cooperation and Partnerships Strategy 2014-2018 explicitly considers the South-South cooperation a *potential* modality that could "... provide policy solutions and technologies that are more contextualised, demand-led, responsive, flexible, cost-effective and sustainable" (RGC, 2013, p. 8). A piece of academic research has already illuminated that while concerns have been raised about the negative impact of emerging donors such as South Korea, China, India and Thailand, which have recently provided aid to Cambodia, the government views the aid and modality in more positive light (Sato et al., 2011). The government considers infrastructure demands as being supplied by those donors (especially China) in a timely and more efficient manner (compared with the western model), thus contributing to Cambodia's growth, development (ibid) and predictably the forthcoming SDGs as well. The complementary nature of emerging donors is the usually provide hard infrastructure (especially roads) which Cambodia urgently needs and which are not the priority of traditional donors.

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<sup>14</sup> Building on the 2005 Paris Declaration on Aid Effectiveness focusing on ownership, alignment, harmonization, managing for results and mutual accountability OECD (OECD, 2012), the 2011 Fourth High Level Forum (HLF4) on Development Effectiveness in Busan moved forward with a Global Partnership for Effective Development Cooperation. At the Busan HLF4, *partnership* was agreed to be not only a horizontal and sophisticated set of linkages among traditional and aid recipient countries but also among emerging donors such as China, South, India and Brazil, private sector individuals, civil society and academics (Eyben & Savage, 2013). At Busan, the emphasis added was on cooperation to support countries in the Global South to achieve "development effectiveness" (Eyben & Savage, 2013, p. 557).

<sup>15</sup> An OECD's recent assessment describes the outcome of the 2005 Paris aid effectiveness declaration and commitment as "sobering" – only one target of technical cooperation was met, missing the other 12 (OECD 2012), suggesting that realizing aid effectiveness is far from achievable

The fourth opportunity is the regional dynamic of ASEAN Economic Community (AEC) would provide to Cambodia. AEC presents more as opportunities for Cambodia than challenges, contributing to prospective realization of SDGs. Cambodia membership in the AEC is optimistically seen as a net gain for the country (Hing, 2015; Hing and Strange 2015; ADB and ILO 2014; Pich 2014; Dahles 2015). Involved free flow of goods, services, investment, capital, and skilled labour, and free trade arrangements, the process will benefit the region as a whole (Hing and Strange 2015). For Cambodia, it is projected that its GDP will grow by 4.4 percentage points, exports by 5.3 percentage points, and private investment by 24.8 percentage points (Itakura 2013 cited in Hing and Strange 2015). AEC is also an opportunity for the country to make necessary reforms for it to maximize gains from the integration. Regional and global integration allows a small economy like Cambodia to be more competitive for its manufactured goods and a window to attract foreign direct investment (FDI). However, the studies also point to the fact that given Cambodia's current state of education and economic growth, more need to be done to reap the benefits of the AEC member. Cambodia needs to address the issues of investment climate, which lacks behind countries in the region, trade facilitation, SME development and supports, and education quality and technical and vocational training (TVET) (Hing 2015)<sup>16</sup>.

## **FINANCING SDGs: BY WHOM?**

To achieve the Sustainable Development Goals, it is clear that for every country, financing holds the key. Cambodia is no exception. And in this respect, the government reiterated the importance of aids or ODA, its public financial management reform, and the role of private sector. The Minister of Economy and Finance, Aun Porn Monyrath, speech at the 3<sup>rd</sup> International Conference on Financing for Development in Addis Ababa, Ethiopia in July 2015 echoes the current financial situation and development stage of Cambodia. He used the opportunity to appeal to the world leaders present at the FfD that the Cambodian government is committed to the SDGs and will be putting efforts to mobilise necessary funding for the localized agenda. Cambodia fully supports the Addis Ababa Action Agenda that is believed to help mobilise resource to finance the SDGs (Aun 2015).

Below are the discussions about the potential strengths and weaknesses of the three areas, namely strengthening domestic revenue collection, encouraging private sector investment and development and FDI inflow, and continued inflow of ODA (grant and loan).

### ***Public Financial Management Reform and Local Resource Revenue Mobilization***

As reminded earlier, the post 2015 development agenda will count more local revenue collection and less on aid (Green et al., 2012). An examination of Cambodia's local revenue trend is optimistic at least in the medium term. With the Public Financial Management Reform Program (PFMRP) that is moving forward, it is estimated that the government's domestic revenue has reached 16.1 percent of GDP (or US\$2.68 billion) in 2014, up from 15.1%

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<sup>16</sup> For details about the pros and cons of AEC and implications for Cambodia, see appendix 02. Here, we should re-emphasize that AEC presents more opportunities than challenges at least on the short term horizon; whether Cambodia could reform to a degree that it can evade various challenges we point out is beyond the study's scope, particularly in the long term.

in 2013 (WB, 2015). The growth by a 1.percentage point of GDP represents a significant progress, outdoing the 0.5 target set in the PFMRP. To improve revenue collection, the government already adopted the medium term Resource Mobilization Strategy (RMS) 2014-2018, fundamentally aiming to strengthen the capacity to collect more taxes while maintaining the existing taxes and tax rates. In other words, RMS attempts to improve the tax administration but not to expand the scope of taxes and increase rates; however, when compliance is improved, it is expected more taxes would be collected, especially among top registered tax payers<sup>17</sup>.

**Table 1: Public Revenue, as percent of GDP**

	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010e	2011	2012	2013	2014	2015p	2016f	2017f
%GDP	10.2	10.0	10.5	9.6	10.3	10.3	11.5	11.9	12.0	11.5	13.1	13.2	15.3	15.1	16.1	16	16.3	16.8

Source: (WB, 2011); (WB, 2015); e = estimate; f = forecast; p = projection

**Figure 3: Revenue Mobilization Strategy 2014-2018 at a Glance**

- **Main principles:** (1) full potential; (2) no new tax; (3) no tax rate increase; and (4) simplicity, equity, efficiency, transparency, and accountability.
- **Three pillars:** (1) revenue administration; (2) revenue policy; and (3) monitoring and evaluation.
- **Target:** 0.5 percentage point of GDP current revenue increase per annum.
- **Policy reviews:** excises, value-added tax, tax base (estimated regime category), tax incentive, and property tax. Studying income tax and drafting state property law.

**Annual targets by general department**

General department	2014b	2015p	2016p	2017p	2018p
(In percent of GDP)					
GDCE	6.85	7.08	7.24	7.39	7.54
Change		0.23	0.16	0.15	0.15
GDT	5.87	6.26	6.62	6.97	7.29
Change		0.39	0.36	0.35	0.32
Non-tax revenue	2.48	2.35	2.40	2.45	2.51
Change		-0.13	0.05	0.05	0.06
Total	15.20	15.69	16.26	16.81	17.34

GDCE: General Department of Customs and Excise

GDT: General Department of Taxation

b = budget; p = projection

**Areas of focus**

General department	Measures or focused areas
GDCE	Automated manifest, risk management, post-clearance audit, anti-smuggling, single window, institution, human resources, and audit strengthening
GDT	Registration, services, tax audits, debt, organization, human resources, and technology
Non-tax revenue	Receipting system, civil aviation, tourism, visas, telecom, leases, public enterprises, casinos, and privatization

Source: (WB, 2015, p. 10)

<sup>17</sup> Development Bank's staff, interviewed via Skype, August 30, 2015.

It is worthwhile noting that public financial management represents a core to any state function and so involves a substantial sophistication when it comes to reforming. The case of Cambodia's PFMRP is similar. In broad term, the progress of the reform above is marred by the reluctance of the political elites, especially in the Ministry of Economy and Finance to release its financial base to the line ministries, rendering payment issues rather slow. The outcome of PFMR so far speak to the uneven development, revenues are increasing on a yearly basis; however, expenditure patterns and arrangement appear to lack behind, causing difficulties for the line ministries to implement their respective development agenda. However, overall, under the support of the World Bank and general commitment of the government, progress on expenditure is being gradually made<sup>18</sup>.

### *Economic Growth/Private Sector*

As the economy grows, private sector development is key to sustaining growth. The past two decades of Cambodia's episode of economic growth is remarkable; however its base is narrow. The subsequent discussion will demonstrate that the government is aware of the bottle neck to achieving sustainable growth and has shown its commitment to addressing those constraints such as the adoption of the Industrial Development Policy. Moreover, as preceding discussions note, governance, especially in response to the private sector demand, is improving, and the AEC would provide added value to Cambodia's growth. Hence, while it remains to be seen how the IDP, AEC and governance reform will unfold, the prospect of the growth could be at least be moderate.

The last two decades Cambodia has achieved formidable economic growth of more than 7 percent on average (CDRI, 2013; Hill & Menon, 2013; RGC, 2014a), more than anyone could possibly best predict when the Paris peace agreement was signed in 1991. The growth has been dependent on garment, tourism, construction and services. However, the challenges and reform agenda are equally formidable. Its ODA may be decreasing. Perhaps inevitably, with the narrow based economy, the government has limited policy leverages to deal with the challenges posted by volatile regional and global economy (Hall and Menon 2013, 2014).

The government realises the importance of developing industrial sector to sustain its economic growth amid stronger regional integration and globalization. It is clear that in the development of its first Industrial Development Policy, emphasis is stressed especially with regards to strengthening and promoting domestic investment through the strengthening of its huge SMEs sub-sector and encouraging FDI to grow (RGC, 2015)<sup>19</sup>. The likelihood of achieving this policy is again conditioned on the improvement of public sector capacity, addressing coordination challenges across the public sector and governance<sup>20</sup>.

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<sup>18</sup> Development Bank's staff, interviewed via Skype, August 30, 2015.

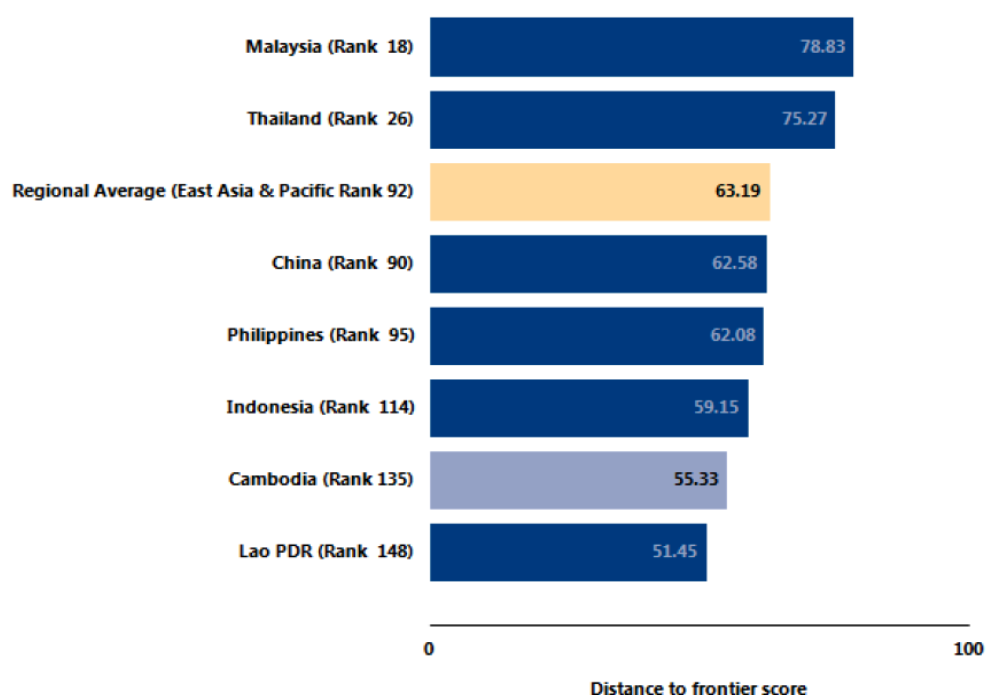
<sup>19</sup> Government official, interviewed in Phnom Penh, 20 August 2015

<sup>20</sup> Government official, interviewed in Phnom Penh, 20 August; Development sector, Phnom Penh, 25, August; Development sector, Phnom Penh, 27 August; and development sector, Skype, 02 September 2015

The IDP also stresses on the role of SMEs to contribute to growth and job creations (RGC 2015)<sup>21</sup>. In Cambodia, SMEs plays a very important role in terms of economic growth and job creations. SME plays an important role for the country's economy for both economic growth and social development. About 40-50 jobs are created within the SME sector. The SME sector dominates the Cambodia private sector, with a percentage of 99% of the whole private sector in terms of number, and 45% of the employment. Also, the number reported by the Ministry of Economy and Finance and Tax department, in 1999, there were 55,466 SMEs; however, by 2007, only about 14,324 establishments are registered formally as limited liability companies (at the ministry of Commerce). Most SMEs remain unregistered with the ministry and operate under operating license from the other ministries or local departments (municipal or provincial) (IFC 2010).

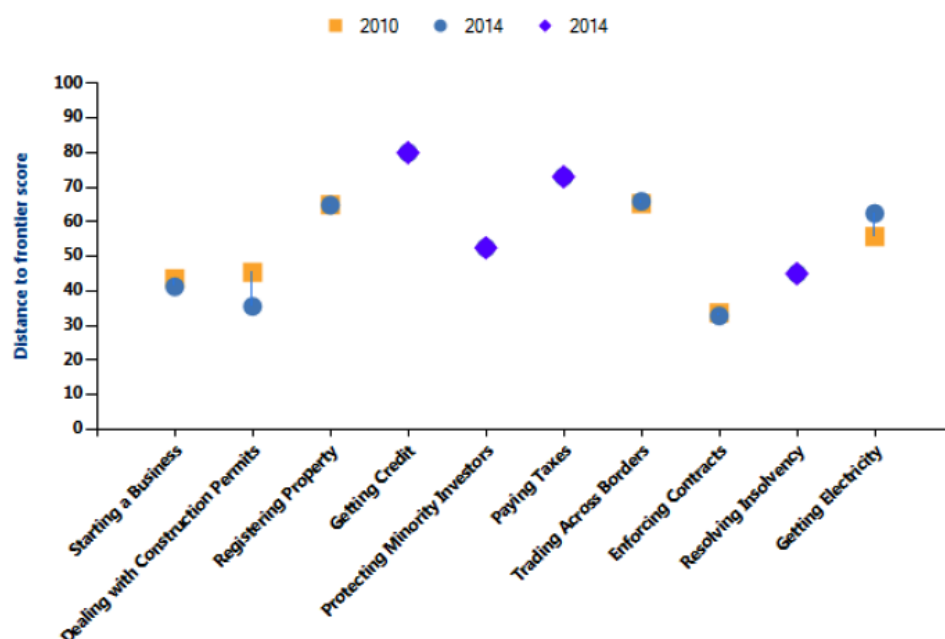
While the growth has been steady and strong, over the past few years, Cambodia's business environment has not changed much. World Bank's study of the ease of doing business around the world, including Cambodia indicates that in a few areas measured by the study, positive changes have been made, though slightly while at the same backward movements in other areas have also been observed (WB, 2015). As seen in the study, among 189 countries, Cambodia is ranked 135 in the ease of doing business in 2015, a -1 change of rank from last year (134) (the score for 2015 is 55.33 and 2014 was 55.04, within a scale of 0 to 100).

**Figure 4: Cambodia's ease of doing business rank and its comparators for 2014.**



<sup>21</sup> Government official, interviewed in Phnom Penh, 20 August 2015

**Figure 5: How far Cambodia has come in areas measured by the Ease of Doing Business (2010, 2013, and 2014)**



Source: (WB, 2014)

However, some detailed accounts from our interviewees point to the mixed picture of business environment in the country. On the one hand, the government has not been responsive enough to the private sector demands (as listed in the chart above)<sup>22</sup>; on the other hand, the government is listening, reforming slowly though not as fast as expected but at the rate the political economic calculation on the side of the government permits<sup>23</sup>.

Its pro-business regulatory framework has yielded the country sustained economic growth in the last decade. Former American Ambassador to Cambodia, William Todd (2015) wrote “...Unlike many other countries in the region foreign companies in Cambodia can own 100 percent of their businesses, easily repatriate profits, enjoy one of the lowest corporate tax rates in ASEAN, and receive longer corporate tax exemptions than most other ASEAN countries. And with ‘generous (too generous) fiscal incentives (Hill and Menon 2013) Cambodia needs to continue to educate investors about the country’s opportunities.” He also pointed to the current efforts the government has made to curb corruption in the business sector through automate business registration and open recruitment of state at the ministry of commerce.

In short, the prospect of private sector development does not appear very bright; however, given the stability ahead and based on the supportive government’s role and commitment, the prospect could be positive, contributing to the likely moderate growth. Therefore, the growth will facilitate Cambodia in achieving SDGs.

<sup>22</sup> Private sector staff 01, interviewed August 19, 2015, Phnom Penh.

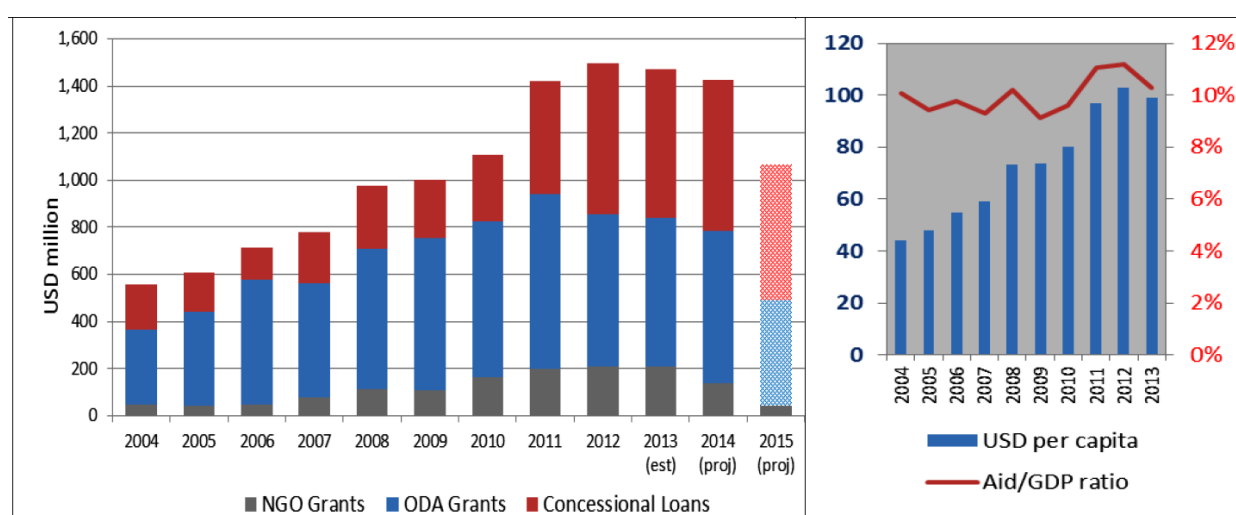
<sup>23</sup> Private sector staff 03, interviewed via skype, August 25, 2015.



## Official Development Assistance (ODA)

Cambodia is grouped as a heavily aid-dependent country and at the same time a well aided country<sup>24</sup>. Approximately Cambodia's budget is contributed by 40 percent of ODA, of which close to 14 percent is executed by NGOs (CDC, 2014). In terms of ODA trend CDC (2014) provides the elaborates as follows. Disbursements of ODA increased to USD 1.46 billion in 2013 (See the chart number? below). Between 2004 and 2013 there have been year-on-year compound increases in support of 11.4% per annum<sup>25</sup>. Worth noticing is external grants (ODA and NGO integrated) have remained comparatively unchanged in the last 3 years, concessional loan financing. For the first time, in 2013, concessional loans' share was bigger than ODA grants, a trend which is predicted to continue in 2014 and beyond. That is because as Cambodia is graduating to Lower Middle-Income Country status, major sources of ODA shift from grants to concessional loans.

**Figure 6: Disbursements and projections 2004-2015 (first) and major trends (second)**



(Note that all data reported in this paper was extracted from the ODA and NGO Databases on 7 March 2014)

Source: (CDC, 2014)

When Cambodia attains the Low Middle Income Country status, which the World Bank would officially announce July 2016 (WB, 2015 see Appendix 3), concerns are raised about decreasing external financing to the country, and consequently affecting the prospective of Cambodia in achieving SDG as well. Based upon the above discussions and below projection, the trend is less worrying<sup>26</sup>.

First, again, the post 2015 development agenda will count more on local capacity to generate its own revenues. Already elaborated above, Cambodia's capacity to tax has

<sup>24</sup> Its aid per capita also rose from US\$31 in 2000 to US\$38 in 2005, which was more than double the average for low income countries of only US\$17 in 2005. ODA as a share of GNI also declined from 11.2 percent in 2000 to 9.1 percent in 2005 in Cambodia because of high economic growth. However, it still was much higher than the average for low income countries, which was only 2.9 percent in 2005 (Ek & Sok, 2008)

<sup>25</sup> However, 2013 saw the first annual decline in disbursements.

<sup>26</sup> Development Bank's staff, interviewed via skype, August 30, 2015; United Nations' staff 01, interviewed August 25, 2015, Phnom Penh.



improved and its local revenues proportional to GDP has increased over the years and will likely accelerate.

Second, while some donors such as Danida and DFID have withdrawn, others such as the EU will stay because such some countries including Cambodia exhibit exceptional case which keeps ODA coming in – pockets of poverty and diseases, for instance, remain and external support targets these areas. The Center for Global Development, a major research institution researching on development, predicts that the number of Low Income Countries (LICs) will decrease considerably; by 2025, approximately only 20 (mostly failed states) will remain (Sumner & Glassman, 2012). Cambodia will not be among the 20 as it will graduate next year (WB, 2015). Donors in this phenomenon of development transition will support still both LICs and Middle Income Countries (MICs); however, using a more sophisticated approach (Sumner & Glassman, 2012). For MICs, they will provide two kinds of support. One is the targeted support to low income regions (implying those harboring new poverty and malnutrition above are the target of support) in those MICs (ibid). The other is the provision of support to fight diseases and reduce poverty in those MICs (ibid). That explains why China and India are still receiving aid because those living in poverty need external help. A potential donor (in the group) is the EU. The EU which will/has close(d) its offices in Indonesia, Thailand and India said it could increase aid to Cambodia twice or even three times depending on Cambodia's performance – improved democracy, governance means more aid<sup>27</sup>. As mentioned above, the quality of governance is expected to gradually improve; hence, Cambodia may slowly meet the conditions of such a traditional donors like the EU.

Third, in Cambodia, Non-Governmental Organizations (NGOs) have played a very important role in development in terms of service delivery and resource mobilization, particularly since early 1990s. NGO census in 2012 found that there were 1 315 NGOs active (670 local NGOs, 321 INGOs, and 325 associations). 85.9% of all these registered NGOs received funding to run [at least] a project in 2012 (CCC, 2013), running some 4 000 projects benefiting some 1.3 million people in the areas of education, health, and agriculture, using some 600-700 million dollars, and giving direct employment to at least 43 000 persons (CCC, 2013).

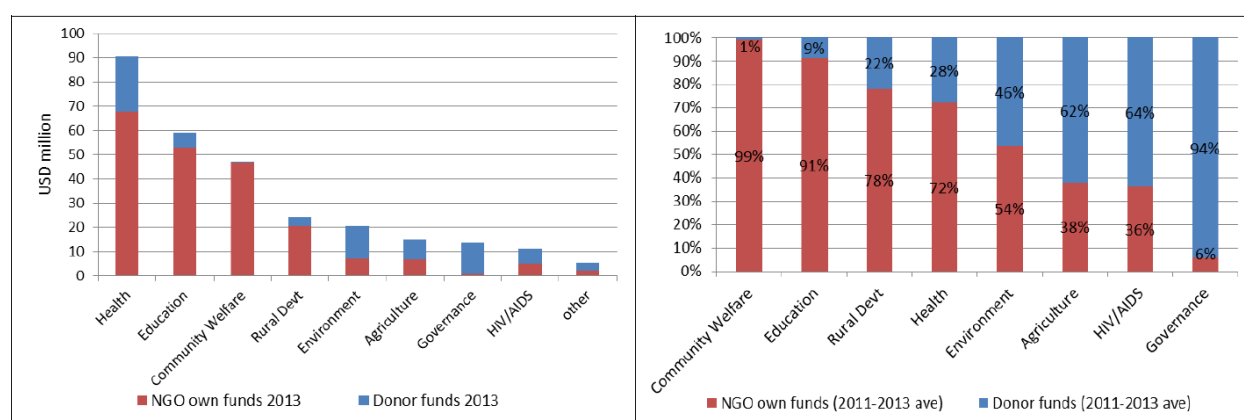
NGO core fund rose four fold between 2006 and 2013, from USD 50 million to more than USD 200 million. During the three years between 2011-2013, 538 non-governmental organizations registered an active project; in terms of own funding, 24 of these NGOs amounts to 50% of total NGO financial activities, the other 50% is shared among the other 515 NGOs (CDC, 2014). DP supports to NGO as complements to their own fund amounts to approximately USD 90 million per year during a period 2011-2013, mainly directed to work on health/HIV, governance, environment and agriculture sectors. US and EU are the two major funders to the NGOs in terms of dollar money and percentage of their portfolio – US's average annual disbursement is USD 60 million or 86% of the total funding; and EU is USD 11.5 or 22% of their total portfolio in Cambodia during 2011-13. The other major NGOs supporters are Japan, giving 4.2 million annually or 3% of the total funding, and UN agencies 3.5 millions or 6% of the total fundings (CDC, 2014).

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<sup>27</sup> Researcher 01, interviewed via skype, August 19, 2015. While it remains to be seen if the EU will act as the informant hinted, overall as raised above, development partners at large will unlikely abandon Cambodia completely and abruptly.

While concerns have been casted that external funding to Cambodian and the NGO sector might shrink when it becomes a lower middle income country, the NGO fund cut might not be considerable in the short and medium terms for a number of reasons. First the preceding discussion put forth that some donors such the EU will stay in Cambodia. Second, the overall global trend indicates that NGOs and aid will be still potentially useful for such purposes as poverty reduction, disease fighting and service delivery in some targeted areas and population. Third, again as pointed above, even though poverty has been greatly reduced in the last few decades, a large number of people still live near poverty line and in vulnerability. Fourth, NGOs, in the face possible of funding decrease, could strive to coordinate better and reduce project or program duplication, which has been a reality in NGOs' operation globally.

**Figure 7: (left) NGO sector support 2013 and (right) Relative funding shares of NGOs work 2011-13**



Source: (CDC, 2014, p. 7)

Fourth, funding (in terms of highly concessional loans) from the International Development Association is a good source for lower middle income countries with stronger capacity to spend<sup>28</sup>. As Cambodia is witnessing growing capacity, the trend of ODA has shifted from being dominated by grants to loans and the trend will continue, more borrowing is anticipated. Further, in another fashion the relationship between some development partners and Cambodia will shift from bilateral donors to more of business/trade partners on an equal footing and FDI will be grow more important in the process<sup>29</sup>. Likewise, the Asia Infrastructure Investment Bank is now up and running (joined by all major countries except the USA and Japan); hence, there are more concessional loans for countries like Cambodia. Moreover, the regional dynamics could sustain support to Cambodia. The fact that China and Japan are competing in the regions (for influence) gives Cambodia leverage to attract more aid. Also as Cambodia's turn to embrace China more than Vietnam (as indicated from the time Cambodia chaired the ASEAN summit a few years back and adopted a biased position, supporting China on the Spratly Islands issue), there has been more aid to Cambodia from China and the trend might continue.

<sup>28</sup> Development Bank's staff, interviewed via skype, August 30, 2015.

<sup>29</sup> Development Sector, interviewed August 25, 2015, Phnom Penh.

## CAMBODIAN SDGs (CSDGs): KEY INGREDIENTS AND RECOMMENDATIONS

SDGs are highly ambitious goals with self contradictions and tensions when viewed from the Cambodian perspective as illustrated in the preceding analyses. Hence, Cambodia, as it did for CMDGs, could strive for its localized version which is realistic on the ground. The following proposed scenario could be taken into serious consideration.

**First, it is imperative that the goals un(der)achieved under CMDGs be pursued further under the comparative rubric of SDGs.** Those include

GOAL 1 End poverty in all its forms everywhere

GOAL 2 End hunger, achieve food security and improved nutrition and promote sustainable agriculture

GOAL 3 Ensure healthy lives and promote well-being for all at all ages

GOAL 4 Ensure inclusive and equitable quality education and promote lifelong learning opportunities for all

GOAL 5 Achieve gender equality and empower all women and girls

GOAL 10 Reduce inequality within and among countries

GOAL 17 Strengthen the means of implementation and revitalize the global partnership for sustainable development

While goal 17 of SDGs is similar to goal CMDG8 which the government claims to have met, **it is apparent that Cambodia needs to work more that partnership component because the country require more external resources to fund the ambitious SDGs. Hence, it is important that is goal is included and emphasized as well. Further CMDG of demining is clearly important because it represents a crosscutting issue of poverty reduction and inclusiveness.**

Second, goal 16 of SDGs on ‘promoting peaceful and inclusive societies for sustainable development, provide access to justice for all and build elective, accountable and inclusive institutions at all levels’ will be burdensome for Cambodia. **Hence it should request for relaxation on that goal. It was made clear already in the aforementioned challenge that building strong and impersonal institutions in the context Cambodia (in a quick manner) is not fully prepared risks taking the country on the brink of instability, which consequently would ruin the hard earned outcome of CMDGs and those of SDGs. That said, it needs elaboration here that effective institution is the corner stone to peace and sustainable development. Therefore, the government needs to speed up on strengthening institutions as feasible as possible while seeking understanding from the international community that a bullet pace is neither realistic.**

1. **Third, Cambodia needs to seriously undertake studies about the relationship between the rest of the SGDs that stress in various manners on the relationship between environmental sustainability, modernization and growth.** Thus far Cambodia’s growth has rested on industry (mostly garment), construction, agriculture, construction and tourism. For instance, while the preceding discussion points to the relationship between forest clearance (for economic land concessions in most parts) and agricultural development and thus economic growth, its scale of

causation requires scientific investigation. Further there is not yet thorough study on the relationship between other pillars of growth such as industry, construction, and tourism and environmental pollution yet. **Without scientific findings in place, Cambodia risks agreeing to a version of SDGs that compromises economic growth. In other words, as noted from the very beginning of the report, overall SDGs are broad, covering many goals, some of which below are arguably less relevant and therefore not urgent priorities. Following some research in the future, Cambodia could localize SDGs by abandoning some irrelevant goals<sup>30</sup>.**

- GOAL 6 Ensure availability and sustainable management of water and sanitation for all
- GOAL 7 Ensure access to affordable, reliable, sustainable and modern energy for all
- GOAL 8 Promote sustained, inclusive and sustainable economic growth, full and productive employment and decent work for all
- GOAL 9 Build resilient infrastructure, promote inclusive and sustainable industrialization and foster innovation
- GOAL 11 Make cities and human settlements inclusive, safe, resilient and sustainable
- GOAL 12 Ensure sustainable consumption and production patterns
- GOAL 13 Take urgent action to combat climate change and its impacts\*
- GOAL 14 Conserve and sustainably use the oceans, seas and marine resources for sustainable development
- GOAL 15 Protect, restore and promote sustainable use of terrestrial ecosystems, sustainably manage forests, combat desertification, and halt and reverse land degradation and halt biodiversity loss.

**Other feasible recommendations include the following:**

2. Financing SDGs is the top priority. While the government is working hard, for instance, in attracting Foreign Direct Investment, setting the Industrial Development Policy and other policies to assist SME, development partners' role in mobilizing aid to meet the goal of 0.7% of their respective GNI is highly encouraged so that a country like Cambodia could have a stronger financial base to implement and realize SDGs.
3. The government has mainstreamed CMDGs into the National Strategic Development Plan and put notable commitment into achieving those millennium goals. The government could do so as well in the next NSDP. The government could, which was not put forth to achieve CMDGs, initiate a multi stakeholder forum at which key government agencies such as the Ministry of Economy and Finance, the Ministry of Planning, the Council for the Development of Cambodia, and the Ministry of Interior, the private sector, NGOs and citizen representatives could work together on the regular basis to discuss and search for potential avenue to achieve SDGs. The forum could be useful in guiding the SDG implementation as well enduring accountability. Beyond the forum, it is highly desired (particularly by civil society actors), that the government provide enabling and encouraging environment for all development actors to productively participate in implementing, monitoring and evaluating SDGs.

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<sup>30</sup> The suggestion is resonated by some participants of consultative workshop as well.

4. Relevant SDGs could be mainstreamed into the decentralization and deconcentration policies, so that the sub national authorities could operate in ways contributing to the overall realization of SDGs.
5. The government could include SDGs into varied Technical Working Group meetings so that the key development stakeholders are constantly reminded of the existing SDGs and could together to achieve the goals.
6. As mentioned above SDGs and the targets are numerous and ambitious. Hence, the relevant capacity building on quantitative work needs to be further strengthened and equipped, especially for the concerned officials at the Ministry of Planning. That will realistically assist the monitoring and evaluation work as well.
7. In light of the emerging SDGs, the NGO law and the fact that the government lacks trust and willingness to embrace CSOs, and the likely less funding for the sector over time, CSOs should re-assess their role and style of working in the newly changing environment in which the government provide less political space for CSOs. One consultative informant rightly pointed out that usually CSOs attacked the government rather than proposed feasible and positive agenda for change. That attitude and style could be altered through ways in which advocacy to promote human rights and democratization, for instance, could be embedded in development work (for detailed proposal on this matter see Ou, 2013, 2015). More collaborative and less confrontational approach by CSOs may lead to more productive engagement between CSOs and the government in TWGs and beyond. The positive phenomenon has emerged in Vietnam, for instance, for a few decades already (see, for example, Wells-Dang, 2014 on that note).

## CONCLUSION

The study strives to answer the primary question of how prepared Cambodia is in implementing SDGs. Our main conclusion is Cambodia has proven gradually more capable in various fashions such as resources mobilization, having a good knowledge about what works and does not work (priority is given go growth and less on governance), and owning development agenda in the context of uncoordinated and competing development partners. Therefore it would be in a better position to implement SDGs than during the past 15 years through which it has implemented CMDGs. The profound challenge for Cambodia is to negotiate with the international players for political space that would allow the government to adopt its Cambodian SDGs that are feasible for the local context that does not significantly impede growth.

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## LIST OF APPENDICES

### *Appendix 01: List of Interviewees*

Notes: Names of and institutions the interviewees are affiliated with are not revealed in the report to ensure anonymity.

1. Government official 01, interviewed August 25, 2015, Phnom Penh.
2. Private sector staff 01, interviewed August 19, 2015, Phnom Penh.
3. Private sector staff 02, interviewed August 27, 2015, Phnom Penh.
4. Private sector staff 03, interviewed via skype, August 25, 2015.
5. United Nations' staff 01, interviewed August 25, 2015, Phnom Penh.
6. United Nations' staff 02, interviewed September 2, 2015, Phnom Penh.
7. Development Bank's staff, interviewed via skype, August 30, 2015.
8. NGO staff 01, interviewed August 19, 2015, Phnom Penh.
9. NGO staff (consultant) 02, interviewed August 24, 2015, Phnom Penh.
10. NGO staff 03, interviewed August 26, 2015, Phnom Penh.
11. Researcher 01, interviewed via skype, August 19, 2015.
12. Government official, interviewed April 06, 2011, Phnom Penh<sup>31</sup>.

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<sup>31</sup> We had difficulties in obtaining a permission to interview government officials given the limited time we and the informants had. Hence, a relevant interview for another previous project is used.

## *Appendix 02: ASEAN Economic Community and Implications for Cambodia.*

The four poor countries in the region (CLMV) will benefit from the pressure on liberalisation and reform efforts to improve efficiency and competitiveness; and SMEs will stand to benefit from larger market access, lower input and transaction costs through elimination of tariffs and non-tariff barriers, trade facilitation, and improved transportation connectivity (Pich, 2014). Institutional strengthening need to keep pace with the integration, especially in the areas of investment climate, logistics and customs procedures, human capital, industrial policy development and implementation, and branding Cambodia as the destination for investment (Hing and Strange 2015). In addition to reform efforts to build Cambodia's image among foreign investors, Cambodia should also be aware of the favorable business environments investors prefer (Todd 2015). Liberation of trade as promoted by the integration can be seen both as a threat and opportunity at the same time. Official fear among the government is that the risk is that through ASEAN trade in Goods Agreement (ATGA), the new ASEAN member states (ASEAN-4) including Cambodia, they have reduced the custom duties to a maximum of 5% and committed to abolish the import duties by 2015 with some flexibility until 2018 (Pich, 2014), which means loss of revenue for the country. It is in the meantime an opportunity as well because wider access to the regional market would put countries like Cambodia where local market is small but with cheap labour and accessible resource in the list of destinations for investment to access the regional market (Bailey 2010).

For Cambodia to benefit from the regional integration, strengthening domestic investment, to sustain the past growth it has achieved, more efforts are required especially to achieve the institutional reforms. To move Cambodia up in the regional and global value chain, quality skilled labour force is required and thus hinges on the education reform both general education and vocational training (Pich, 2014; Todd 2015, ADB & ILO 2014). Attention should be paid to wage standard across the region; social protection for migrant workers and those working in vulnerable jobs; workers in declining sector; and supporting small industries (ADB & ILO 2014), infrastructure and respect of international labour standard, a factor that investors believes contributes to a stable business environment (Todd 2015). While the institutional reform will be likely to affect the ruling and elite way of doing business, there seems to be growing cost for the elite for not doing that. This institutional reform includes fighting corruption, wealth distribution, and land ownership, infrastructure development and education reform. Its history of focusing on attracting FDI has been done at the expense of domestic businesses (Dahles 2015).

In the meantime, challenges are many for the domestic business sector to grow and benefit from the intensifying regional integration. Key challenges for the SMEs sector the government identifies are: (i) high regulatory compliance cost, resulted from weak legal and regulatory environment that creates uncertainties and risks that serve as barrier to entry. (ii) lack of a clear and market-oriented framework for SME development—though recognized as one of the engines for growth, the government has been unable to develop a clear framework for its growth and therefore ministries and government agencies create their own strategy for SMEs, which sometime produce redundancy and at times even contradictory. (iii) limited access to finance—local commercial banks provide only 1% of working capital and 1.7% of

investment capital overall to SME sector. It is difficult for banks to lend to SMEs due to weak banking infrastructure, making enforcing loan agreements and liquidating collateral very uncertain, lack of financial information system and credit information sharing system to assess the SME creditworthiness (IFC 2010).

## Appendix 03: Cambodia is on track to become a lower-middle income economy by 2015

### Box 1

#### Cambodia is on track to become a lower-middle income economy by 2015

The World Bank classifies economies based on their **Gross National Income (GNI) per capita**. GNI is the total value of goods and services produced within a country (i.e., its GDP) plus the income received from other countries (notably from repatriation of profits and wages) less similar payments made to other countries earned in the domestic economy. For example, if a Cambodian company operating in a foreign country sends some of its profits back to Cambodia, this increases Cambodia's GNI. GNI is considered to be the best single indicator of economic capacity and progress, although it is recognized that GNI does not, by itself, measure welfare or success in development. GNI per capita is thus the World Bank's main criterion for classifying countries into income groups.

For the period July 1, 2014 to June 30, 2015, the World Bank has established a set of income group thresholds (Table B1.1). Low-income economies are those with a GNI per capita (calculated using the Atlas Method) of US\$1,045 or less in 2013; lower-middle-income economies are those with a GNI per capita of more than US\$1,045 but less than US\$4,125; upper-middle-income economies are those with a GNI per capita of more than US\$4,125 but less than US\$12,746; and high-income economies are those with a GNI per capita of US\$12,746 or more. The per capita income thresholds are updated the first of July every year to incorporate the effect of international inflation.

**Table B1.1 Gross National Income per capita thresholds for income group classification as of July 2014 (in constant US\$ of 2013):**

	Low income	< \$1,045
\$1,045 <	Lower middle income	< \$4,125
\$4,125 <	upper middle income	< \$12,746
\$12,746 <	high income	

Source: <http://data.worldbank.org/news/2015-country-classifications?print>

Note: The thresholds are updated every July. For the latest thresholds see <http://data.worldbank.org/about/country-and-lending-groups>

As the thresholds remain constant over time in real terms, growth simulations need to be performed in constant 2013 US dollars. To assess the income grouping that Cambodia could belong to in the future, its economic growth is projected in constant 2013 US dollars and the resulting GNI per capita is compared with the thresholds presented in Table B3.1.

Cambodia's economy is likely to reach lower-middle income status in 2015, and this would be officially recorded in July 2016. At the forecast GDP growth in constant terms of 6.9 percent in 2015, and annual population growth of 1.2 percent, Cambodia will likely reach a GNI per capita of US\$1,096 (measured in constant 2013 US\$) in 2015, which exceeds the US\$1,045 threshold (Tables B1.1 and B1.2). As the World Bank updates income grouping membership in July, Cambodia's lower-middle income status would likely be officially recorded in July 2016.

**Table B1.2 Simulation of dates and growth rates at which Cambodia would change its development status**

GDP growth in constant US\$	GNI per capita in constant US dollars of 2013			
	2014	2015	2030	2050
4.9%	1,035	1,075	1,908	4,101
6.9%	1,035	1,096	2,589	8,148
9%	1,035	1,117	3,544	16,521

Source: World Bank staff calculations based on WDI, Atlas, and MEF data.

Note: Estimation is based on a Gross National Income of \$950 in 2013. Forecasted GDP growth is taken as a proxy for GNI growth. Annual population growth is assumed to be 1% per annum from 2015 onwards.

At the baseline growth scenario of 6.9 percent annual real GDP growth, Cambodia would reach upper-middle income status by 2039. Reaching high-income status by 2050 would require a real GDP growth rate of 9 percent (Table B1.2), which is equivalent to an 8 percent per capita income growth rate. Judging from countries' past growth experiences since 1950, maintaining such growth rate would require an extraordinary effort. The fastest growing countries over two decades reached average annual per capita income growth rates of 8.9 percent (China) and 6.1 percent (Armenia). However, attaining upper-middle income status before 2050 is well within reach if GDP growth exceeds the low case scenario of 4.9 percent. Under the baseline of 6.9 percent GDP growth, Cambodia would reach it already by 2039.

See <http://data.worldbank.org/indicator/NY.GNP.PCAP.CD> and <http://www.investordictionary.com/definition/gross-national-income>

## **Vision:**

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We provide high quality services to civil society and influence Cambodia's development actors.

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9 INNOVATION AND  
INFRASTRUCTURE



10 REDUCED  
INEQUALITIES



11 SUSTAINABLE CITIES  
AND COMMUNITIES



12 RESPONSIBLE  
CONSUMPTION



13 CLIMATE  
ACTION



14 LIFE BELOW  
WATER



15 LIFE  
ON LAND



16 PEACE AND  
JUSTICE



17 PARTNERSHIPS  
FOR THE GOALS

