

"NEW INVESTMENT IN DEVELOPING COUNTRIES - ADDING THE GOOD GOVERNANCE DIMENSION - A CAMBODIAN EXPERIENCE"

What is Good Governance?

Administration (of government, or corporations or other private sector entities) that is efficient, fair, open, and impartial.

www.imf.org/external/pubs/ft/fabric/gloss.htm

The terms governance and good governance are being increasingly used in development literature. Governance describes the process of decision-making and the process by which decisions are implemented (or not implemented). Hereby, public institutions conduct public affairs, manage public resources, and guarantee the realization of human rights. Good governance accomplishes this in a manner essentially free of abuse and corruption, and with due regard for the rule of law.

en.wikipedia.org/wiki/Good_governance

1 Cambodia: a "bracing" climate.

Cambodia has had one of the most tragic and traumatic histories of the 20th century, posing a serious challenge to produce a presentation that does not deter potential investors. Yet that is precisely what must be done if ever the country is to recover, and if poverty and so many social evils are to be put right. Recent decades have seen a number of concerted international efforts to transform the various fortunes of countries that have suffered man-made disaster. The one launched for Cambodia, following the Paris Peace Accords of 1991, remains one of the greatest but, fifteen years on, almost everyone agrees that progress has slow, even if they differ on why and who is to blame.

The Cambodian Prime Minister, Hun Sen, in an address to the UN General Assembly on 15 September this year is reported to have said *"Democracy has taken strong roots", "Cambodia has made significant advances toward reaching its Millennium Development Goals"*¹ and *"Public order and rule of law have made steady progress, human rights are fully protected, and spectacular economic growth is manifestly evident"*². This upbeat assessment is in marked contrast to one just a few weeks earlier in Washington for a US State Department Seminar on Cambodia. There a review of socio-economic indicators concluded *"Cambodia is going backward: growth but no development"*.³ The truth is of course somewhere between these two extremes, and there are other assessments from the World Bank, Asia Development Bank and other reputable organizations.⁴ For the purpose of this paper, it is suffice to say that business can be done in Cambodia, despite the bracing climate, there are successful enterprises, but many more are needed.

¹ *The UN Millennium Development Goals; to be achieved by 2015; halve the number of people living in extreme poverty and hunger, ensure that all children receive primary education, promote sexual equality and give women a stronger voice, reduce child death rates, improve the health of mothers, combat HIV, AIDS, malaria and other diseases, make sure the environment is protected, build a global partnership for those working in development.*

² *Cambodia Daily, September 17-18, Page 3.*

³ *US Department of State, Bureau of Intelligence and Research, Seminar on Cambodia, Meridian International Center, Washington, DC, August 18, 2005 "Cambodia - Recent Socio-Economic Performance: An Assessment (1993-2005)" Naranhkiri Tith, Ph.D. P&FRC*

⁴ *Seizing the Global Opportunity: Investment Climate Assessment and Reform Strategy for Cambodia, World Bank, August 2004.*

2 The Long Climb Back from Year Zero.

(The post-disaster aid and development cycle, co-ordination and new institutions).

A standard pattern follows man-made or natural disasters. The immediate period after the event is concerned with emergency relief, measures to preserve lives and stabilise situations. Once this stage is passed, reconstruction takes place, and longer-term development begins. Usually governments are helped by UN agencies, friendly donor countries, and International Non-Governmental Organisations (INGOs). The extent to which countries become to "depend" on such external assistance varies but for Cambodia, it remains extensive with still around half of its GDP coming from international funding. Sooner or later external support does end. It may or may not end for the country as a whole, but it does routinely for projects that are completed in geographical areas or certain "sectors" (health, rebuilding infrastructure, disabled groups, human rights, etc.) Generally private investors do not enter the scene until risks are worth taking. International donor input intends to accelerate progress towards this end to "kick-start" economic development.

The post-emergency and development cycle is often haphazard and wasteful. Many players arrive on the scene, all with their own ideas, missions, and workplans. Increasingly it is recognized that co-ordination is vital and information needs to be shared in order to avoid duplication and to make best use of incoming resources. **The Council for Development of Cambodia (CDC)** was created in order to perform the overall co-ordination role, bringing together the various government ministries and external agencies. Headed by the Prime Minister it is "to be the *Lead Institution*" and *"One-Stop Service"* of the Royal Government, *"responsible for rehabilitation, development, and investment activities."* Within the CDC there is the Cambodian Rehabilitation and Development Board which is *"to prepare strategic plans for the rehabilitation and development of the country and set priorities"*. *(Fuller details are given in Appendices 1 and 2.*

The CDC is housed in an imposing historical building in the centre of Phnom Penh, very close to all the ministries, hotels, and services that prospective investors, whether private or institutional, would require. Although headed by the Prime Minister with the Ministers of Finance and Commerce, it has its own permanent secretariat led by the General Secretary and staff members are available during normal working hours. It is reasonably well-resourced in terms of equipment and facilities – good by Cambodian public service standards, poor by those in developed countries. English, French, Chinese, and other language-speakers can be found. The Cambodian Government in recent years has adopted policies conducive to attracting foreign investment including accession to the World Trade Organisation.⁵ The CDC is therefore geared up for its task.

3 Old and new habits die hard. No apology

A recent report would suggest that the CDC still has a formidable task ahead, placing Cambodia 133 out of 156 countries in terms of expense, difficulty, and delay in starting new businesses.⁶ Ominously, the survey pointed out they included only official or formal charges incurred, not the informal ones that characterises almost every facet of life. Every investor, whether private or from a donor institution, needs to know about these because they arise through sophisticated, unusual and ever-changing operations. They are a product of the local and international alliances that have led Cambodia since 1993.

⁵ See 4 above.

⁶ "Doing Business in 2006" World Bank-International Finance Corporation Survey.

In 1979, when the Khmer Rouge were first defeated and deposed from controlling most of Cambodia, the country was decimated. A relatively small number of people had managed to flee abroad with some of their wealth, but generally everyone, from military leaders to humble peasants, had to start from scratch to rebuild everything, from "Year Zero". They had to do this despite the loss of so many intellectuals and skilled relatives who had been deliberately targeted and killed by the brutal regime. Cambodia followed Vietnam in embracing a communist system of government and economy, with some support from the then "Eastern Bloc". UN Agencies and Western countries, including the former colonial ruler France, did not really re-engage until after the Paris Peace Accords in the 1990s. The country and people exercised the same powers of survival acquired during the darkest days of the Khmer Rouge. It was during this period, that the traditional patron-dependency model, acquired even greater significance, setting the pattern of the "informal" way of doing business today in Cambodia. The pre-occupation of most people was and still is to make money for food, living expenses and acquisition of material wealth. The conditions facing them from 1979 onwards meant they had to do "*whatever was necessary*" to accomplish their goals, giving rise to unusual sets of beliefs and behaviour much accentuated in Cambodia and maybe not found in other countries.

Cambodia does not have a professional or neutral civil or public services, almost all jobs are filled through political and/or family allegiance. Official salaries are very small at every level from Prime Minister down to rural school-teacher. People who would be regarded automatically in other societies as middle-class professionals are paid as little as US\$30 per month. Given the demand for any type of employment, it is usual even then to pay patrons or middlemen money in advance to obtain these jobs. Some continue to have to share a proportion of their earnings to whoever their patron is. Once in the job, the real task of making extra money begins, beyond recouping their outlay. This is now regarded as a legitimate and normal way of doing things. "*Every one*" it is said "*pays!*" The following quotation is taken from one exposition⁷:

"Today, state officials continue to emphasise loyalty over efficiency and to promote opportunities for rent-seeking which exploit the poor, as a means to ensure the loyalty of subordinates. Loyalty within the state apparatus is organised through networks of personal allegiance, and it is these, to a great extent, which maintain the cohesion and residual effectiveness of the state apparatus. Forms of personal allegiance include political allegiances, friendships, kinship, and patron-client relations. These tie the state to the party and the civilian bureaucracy to the military. They are capable of very effective mobilisation at times – for example, during election periods they are mobilised to support the campaigning of the dominant party, the Cambodian People's Party. [The successor to the Communist party]. However, they are also dependent to a significant extent upon informal flows of resources, including funds skimmed from international aid donations, "gifts" and bribes extracted from the population and foreign investor and rents gained from illegal expropriation of natural resources such as timber and land. The networks of loyalty that underpin the state apparatus consequently resemble informal networks for the extraction of resources from society- and frequently directly from the poor. Loyalty from state officials is elicited through the protection of rent-seeking activities conducted by officials at every level from the lowliest rural school to the office of the Prime Minister. The ubiquity of involvement of state officials in these networks can be attributed largely to the extremely low levels of official salaries which are far too low to support an individual, let alone a family. To the extent that rent-seeking functions have come to dominate state activity, the state operates directly at odds with the interests of the poor."

⁷ "Understanding pro-poor political change: the policy process Cambodia by Caroline Hughes and Tim Conway, Overseas Development Institute, 2003

This study, by common consent, endorses the reality of life for millions and the way things operate. Prime Minister Hun Sen may be right in that there is spectacular growth, but it benefits only the elite. For most of the population, recent development has not led to any wealth trickling down to them. By contrast, it continues instead to percolate upwards which is why progress towards reducing poverty is slow. (See Note 15 below. Per capital income in Cambodia in 2003 was just around \$300 per year, the second lowest in South East Asia, only after Burma.)

4 How the wealth percolates up (as opposed to trickling down.)

All new investors, indeed all visitors to Cambodia, need to know therefore that behind the welcoming and happy smile, there is an active calculating brain seeking to extract maximum financial gain. It is both a sport and a serious business. For the street child wanting to shine shoes it makes the difference between whether he eats or not; possibly whether he can go to school or not, if he can raise enough to pay his teacher's informal fee. For the senior government official with the network of dependents he has put in place below him⁸, it provides him with the means to lead the standard of life he desires, along with all the various trappings, on a par with the many senior expatriates placed by international donors to provide technical advice and assistance.

When you encounter a government official, or for that matter the market sales-girl, their priority is not to provide the service you want but to make the most money they can from the transaction. Their concern is only for today. History has left an impression that "tomorrow may never come" and if it does, it will look after itself. In this sense people show absolute commitment to themselves and to those close to them while also acting as loyal agents for their patron. They do not comprehend abstract and alien notions such as fairness and efficiency or the rights of the citizen or consumer. In fact in Khmer language whereas a single word for "loyalty" and "honesty" (smoch trong) means they are considered to be one and the same, there is no ready way of expressing the antithesis. If a person remains completely loyal to their patron, they cannot in their perception be dishonest! This has great significance when dealing with "dishonest" acts.

The process of extracting extra money may be open and obvious, but more usually it is dressed up in multifarious subtle forms. A popular request made on behalf of their patron, i.e., a senior government official is: *"To show your gratitude, would you please donate five tons of rice for our poor starving people?"* This would amount to US\$500 and could give political gain if used as a handout in villages as well as the financial gain. Some investors are invited to provide "retainers" or salary supplements, or "much needed" equipment or supplies, preferably in the form of cash for them. Sometimes the expectations are even higher with as much 10-20% of planned investments to be creamed off. The uninitiated may not realise when and how they are paying informal extra charges. A favourite ploy is the offer of "express service" that will speed things up and obtain quicker approvals. Very often, there will be a "mistake" found or some other difficulty that will cause delay, but of course they are surmountable, at a price naturally. Sometimes fees will be levied that are either much higher than the proper charges, which are seldom posted for inspection, or when the service is supposed to be free. Ingenuity is applied at each and every opportunity to make extra money.

⁸ The male term is used as there are very few women in senior positions in Cambodia. Only 2 of 28 ministers, 8 of 135 secretaries of state, 15 of 123 National Assembly members, only one (a deputy) of the top officials in 24 provinces.) See also "The Situation of Women in Cambodia 2004, LICADHO Report, July 2004 <http://www.licadho.org/>

The making of extra money, in both the public and private sectors, has spawned an almost universal practice whereby receipts, vouchers, and all kinds of plausible-looking documentation are produced. Commissions, or discounts not passed on to purchasers, are not merely regarded as normal, but if denied for any reason, can arouse resentment that the agent is being deprived of his or her legitimate income. Some outlets automatically generate two vouchers – the real one to satisfy their internal records, and the higher one for the agent. If close attention is not paid to the quantities and unit prices quoted, currency conversion rates, and language translations, as these will be used to inflate final figures.

"In today's Cambodia, the God of Impunity reigns side by side with the King of Corruption."⁹ (*The former King of Cambodia, King Norodom Sihanouk in 1999*)

Although it is said "Everyone pays" it is true in only one sense. The only people who pay are those who know no different or who are powerless, but everyone does pay in that corruption is a serious cost to the country's development.

5 Calling the tune¹⁰

"No-one wants be corrupt but we have to live."¹¹

In some ways, it is mysterious how corrupt and exploitative practices have become so widespread and entrenched, especially in view of the length of time and extent of international engagement. Often it is said most of the ills began in the "UNTAC"¹² era of the early 1990s when after a comparatively long barren period, a new and seemingly endless supply of easy money flooded the country, distorting economic and social values. The extra windfall was soon snapped up by an eager and already prepared rent-collection network.

The Cambodian Government, as with governments everywhere, must shoulder the main responsibility. Clearly it has not cultivated the political will to recognise or counter the problem, at least not until this year when a planned Anti-Corruption Law is being considered belatedly. Equally though, given the fact that more than half of Cambodia's revenue has been coming from international donor support, many of their representatives must be regarded as compliant if not negligent. One head of a major international agency asked in 2003 ***"Why be an island of propriety in a sea of corruption?"***¹³ Another Country Director of an international NGO was discovered to be "paying" for visa renewals of their expatriate staff until it was drawn to his attention that their Memorandum of Understanding with the Government provide for them to be free.

It is not just senior government officials, but also their often related aspiring socially mobile connections¹⁴ who take their lead from the large expatriate community who live a very superior grand style of life in the midst of a country where more than one third of population

⁹ Monthly Bulletin of the King Norodom Sihanouk, March 1999

¹⁰ The old phrase "he who pays the piper calls the tune" has not applied in Cambodia. The piper, it may be argued is indifferent to both the payer and the audience!

¹¹ Teacher quoted in Phnom Penh Post 1994

¹² UNTAC - the United Nations Transitional Authority in Cambodia formed after the Paris Peace Accords to prepare for multi-party democracy and the elections in 1993.

¹³ The question was posed to the author in 2003 during a meeting to discuss systematic fraud in NGOs.

¹⁴ Cambodians categorise each as those who have ("Neak Mean") and the rest who have not ("Neak Khmean") The "Neak Mean" include all those who have been able to join the elite, access opportunities, so benefiting socially and economically,

live below the poverty line.¹⁵ Little wonder they believe that there is a “gravy train”, they are entitled to join it, and they make no connection with the fact that their gain, the gain of the few, is a loss for the many. This is not news in 2005. It has been known for years:

"The poor thrive without development assistance in some countries; in others where it is plentifully available, they suffer the most abject miseries. Such suffering...often occurs not in spite of aid but because of it."¹⁶

Studies have shown that far too much donor money has been wasted in the vast army of external “technical advisers”.

"In Cambodia, donors spent between \$50m and \$70m on 700 international consultants in 2002 - equivalent to the wage bill for 160,000 Cambodian civil servants"¹⁷ ***In 1998, it rose as high as 57% or \$230.5 million of a total of \$403.9 million in external assistance spent on technical assistance.***¹⁸

Tax payers everywhere should be pressing for more cost-effective management of aid budgets with crystal clear indicators of the sums that are intended to find their way to the intended target beneficiaries, while making sure that local economies are not distorted to the point of harming indigenous or external private investment.

One problem is the Western notion of “time is money”. Instinctively, when confronted with a choice of paying a few dollars up-front to proceed without delay, or refuse and wait, most people pay up. Please take a deeper longer-term consideration. “*Small, small*” as Cambodians say soon becomes big and habitual.

Is the situation in Cambodia hopeless? The argument to be advocated here is that it is not. For one simple fact, just about everyone knows that their actions are wrong. It takes two sides to indulge in corruption. Concerted consistent action can turn the situation around quickly. There are people and organisations who refuse to be corrupt or to exploit. Some NGOs are known to take high ethical stances and by and large once known, they are left alone. The International Labour Organisation has successfully promoted better fairer conditions in Cambodia’s garment sector.¹⁹ At least two manufacturers have gone further. One UK managed, one Singaporean, have adopted clear personnel policies to stop the practice of workers paying up to the three months of wages in advance to obtain jobs. The World Bank and World Food Programme have taken appropriate action in some well publicised cases when corruption has been discovered²⁰. Some other donor organisations,

¹⁵ Quote from (4) above, page 10. The Cambodian Government’s National Poverty Reduction Strategy (NPRS), states that 36 percent of the total population lives below the poverty line of US\$0.46-\$0.63 per day, and 50.4 percent of children under age five are underweight. In a recent speech, insisting on the need to accelerate reform, Prime Minister Hun Sen explained that if business will continue as usual his country was not on track to halve poverty, but rather would expect poverty incidence of 28% in 2015.

¹⁶ Graham Hancock in “Lords of Poverty” page 192, ISBN 0 7493 0503 7

¹⁷ ActionAid Report by Romilly Greenhill and Patrick Watt, Guardian “Scandal of ‘Phantom’ Aid Money” 27 May 2005.

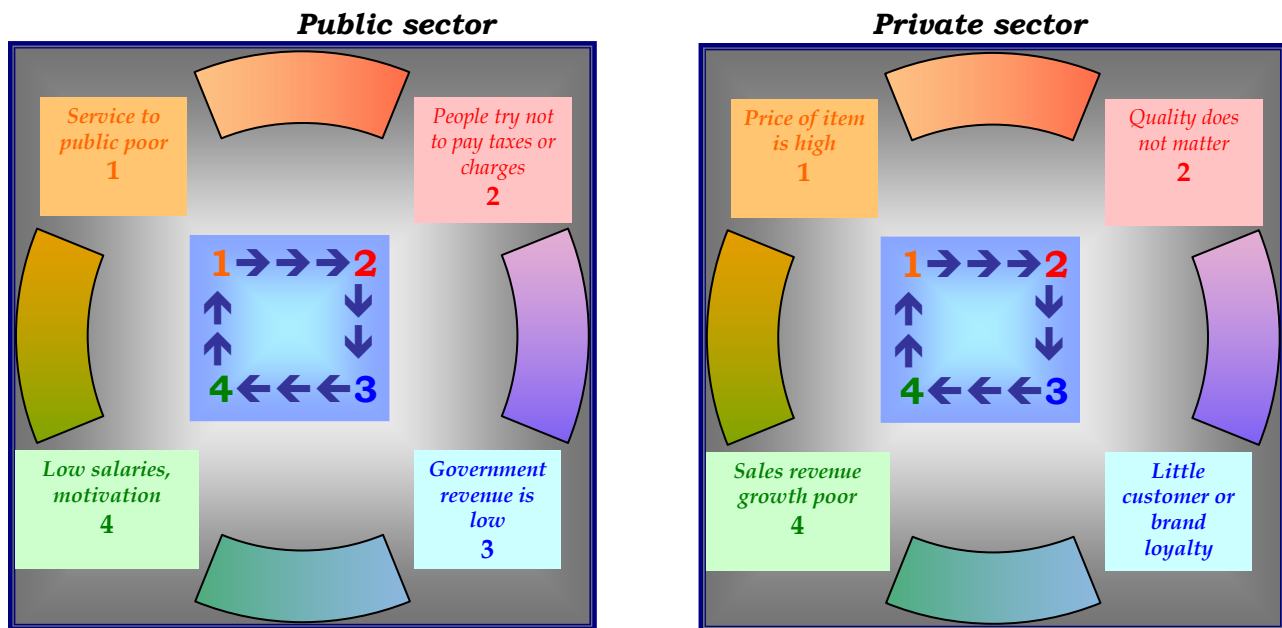
¹⁸ Cambodia Development Research Institute (CDRI) Working paper 15, 2002, “foreign aid distorts Cambodia’s economy in two ways: (1) a high proportion of the most-educated Cambodians are pulled into the aid sector, and (2) foreign aid in health, education and rural development reduces pressure on the government to increase revenues, reallocate expenditures away from defence and security, and increase wages. The study indicates that while TA appears to have strengthened individual capacity, it has not been as successful in building institutional and financial capacities.”

¹⁹ <http://www.ilo.org/public/english/dialogue/ifpdial/publ/cambodia6.htm>

²⁰ World Bank Website 2003 “Cambodian Demobilisation Project” World Food programme “food for work” Project September 2004

but not all, have taken similar action when irregularities have been found. The Prime Minister is repeating his pledge to stamp out corruption, and the impending new law, could begin that process.

Cambodia’s national religion Theravada Buddhism, to which most people belong, proscribes such practices and this should help. Changing attitudes and behaviour can be hard but is not impossible, if the effort is made to express them in ways that are familiar and appropriate. One simple tool developed for early good governance training in Cambodia is successful in conveying to public officials the linkage between their actions and wider consequences. It is the first introduction for many to the concept of reward based on other factors such as effort, merit, achievement, self-creativity, which are largely absent from their daily lives as are universal human values and rights. Such tools are needed to help make up for the paucity of education and training in Cambodia, with public provision still struggling to rebuild. The same tool can also be modified to illustrate value for money in commercial transactions. Good governance and "rights-based development" concepts, when conveyed successfully, are powerful catalysts of change that are culturally understood, accepted, and applied.



The idea is to encourage people to relate to each of stages, to consider the repercussions and advantages of doing things differently, so reversing the direction of the flow.

6 Advice and Recommendations

- 1 Adopt a clear anti-corruption good governance policy from the outset. State it in documentation.
- 2 Reiterate it in meetings and indicate that it is for real, to be taken seriously – not a token or disingenuous commitment seen elsewhere.
- 3 Recruit a local person of standing in terms of education and training who does share high ethical principles to accompany in all dealings. They do exist. Reward them appropriately; when necessary give extra support when inevitable pressures are put on them or people close to them. Overtures to solicit gains are usually made indirectly from local to local “keeping it in the family”.

- 4 Be prepared to say “No” and walk away. This is an expected part of negotiations. If it does not feature, the best deal will not be struck. The skill has been acquired through generations of everyday bargaining in markets which can be observed anywhere in Cambodia. Markets are still by far the main form of retailing in Cambodia. Unless the correct price is known in advance, it is only possible to get down to the real selling price after refusing and walking away at least once before being invited back to seal the deal.
- 5 Maintain good humour even when agents soliciting money appear unpleasant or threatening. They are just trying their best to succeed. Offer to make yourself available at any time to meet the boss. Consider making a helpful suggestion, offer to enlist either someone who has been through this process successfully before or invite a person of influence to join the discussions, such as your Country’s Ambassador. Agents do not want to “lose face”. They know how far they can push and with whom.
- 6 Always determine who is the real decision-maker, who is it wielding the power. (Places like Phnom Penh have their share of long-time people in the know.) It may not be the nominal head of the organisation or a person appearing in its published details.
- 7 Try to find authoritative written details of the laws and procedures applicable to your business. Do not rely solely on what officials tell you or give you. Consult relevant trade or NGO umbrella associations, details are available from Embassies and other organisations. Be prepared to use the major international accountancy and management companies to avoid inadvertently breaking laws, as this would weaken your stance.
- 8 When transgressions are found within your own organisation, handle them consistently and fairly to all, avoid the temptation to keep them secret to avoid embarrassment. Equally do reward achievement on merit, also incorporate best practice from your country towards women and other disadvantaged groups such as disabled people.
- 9 Try to stay engaged and positive even when situations do not look promising. The old theatrical phrase often applies “It will be all right on the night!”
- 10 Take every opportunity with top officials to talk good governance to help cultivate political will for change.

Appendices

- 1 **The Council for the Development of Cambodia (CDC)**
- 2 **Role and Responsibilities of the Cambodian Rehabilitation and Development Board:**