

**KEY POINTS EMERGING FROM THE DAC REVIEW OF DEVELOPMENT CHALLENGES AND
THE ROLE OF DEVELOPMENT CO-OPERATION IN
THE THREE MEKONG COUNTRIES IN TRANSITION:
CAMBODIA, LAOS AND VIET NAM**

ORGANISATION FOR ECONOMIC CO-OPERATION AND DEVELOPMENT

Paris

46845

Document complet disponible sur OLIS dans son format d'origine

Complete document available on OLIS in its original format

These key points emerging from the DAC Review of the Mekong region were examined by the OECD Development Assistance Committee (DAC) at its meeting on Development Challenges and the Role of Development Co-operation in the Three Mekong countries in Transition: Cambodia, Laos and Viet Nam, held in Paris on 10-11 October 1996. They were subsequently endorsed by the DAC which agreed to their derestriction.

The Development Assistance Committee is the principal body through which the OECD deals with issues related to aid for developing countries. Its mandate is to promote an expansion of the volume of resources to developing countries and to improve the effectiveness of aid provided by Member countries. The DAC Members are Australia, Austria, Belgium, Canada, Denmark, Finland, France, Germany, Ireland, Italy, Japan, Luxembourg, the Netherlands, New-Zealand, Norway, Portugal, Spain, Sweden, Switzerland, the United Kingdom, the United States and the Commission of the European Communities, together with the International Monetary Fund, the United Nations Development Programme and the World Bank as permanent observers.

Copyright OECD, 1996

**Application for permission to reproduce or translate all or part of this material
should be made to:**

**Head of Publication Service, OECD
2 rue André-Pascal, 75775 Paris CEDEX 16, France**

**KEY POINTS EMERGING FROM THE DAC REVIEW OF
DEVELOPMENT CHALLENGES AND THE ROLE OF DEVELOPMENT
CO-OPERATION IN THE THREE MEKONG COUNTRIES
IN TRANSITION: CAMBODIA, LAOS AND VIET NAM**

1. Following a broadly-based process of dialogue with the Mekong countries, including a regional consultation in Phnom Penh, Cambodia on 12-13 June 1996, Members of the DAC met at OECD Headquarters in Paris on 10-11 October 1996 to review the development challenges and the role of development co-operation in the three Mekong countries in transition: Cambodia, Laos and Viet Nam. The key points emerging from this review process are outlined below.

2. DAC Members recognise the impressive achievements made by Cambodia, Laos and Viet Nam in their transition to open economies resulting in exceptional economic growth and improved living standards. Each country is striving to determine its own path to development, combining elements of a market-based economy with the objectives of political stability and social equity. All are determined to work in partnership through regional co-operation to enhance their development prospects and ensure lasting peace in the region. These development objectives are in line with the DAC development partnerships strategy¹ and receive support from DAC Members.

I. Translate into action the broad consensus on development priorities

3. The three countries have distinctive features, rooted in their history and cultural heritage and differentiated development potential and capacities. Yet, they also share common challenges and visions. Cambodia, Laos and Viet Nam have set out broad directions in their medium-term development plans which include a shared commitment to:

- Foster economic and social development and ensure that the benefits of growth are broadly distributed including strategies for poverty alleviation with a focus on rural development, women's needs and the reduction of inequalities between regions, as well as the provision of upgraded services in education, health and family planning.
- Pursue the transition to a market-based economy, implying a broad agenda of structural reform in the macroeconomic, financial, legal and institutional areas.
- Provide an incentive framework for expansion of the private sector, encouragement of local savings and attraction of foreign investment.

1. *Shaping the 21st Century: The Contribution of Development Co-operation*, OECD 1996.

- Establish systems of good governance and strengthen the conditions for political stability and social cohesion.
- Attach high priority to developing human resources and building local capacities at all levels and in all areas affected by the transition process in the public and private sectors.
- Strengthen the non-governmental sector and public participation including increased opportunities for women.
- Build up physical infrastructure, complementing the development of urban and industrial areas with investment in rural infrastructure.
- Manage and preserve natural resources and the environment with special attention to the sustainable management of forests, water and marine resources and prevention of flood and drought.
- Integrate into the regional and world economies.

4. DAC Members are committed to support these strategic orientations and national goals, through clearly defined and prioritised development programmes, as recommended in the DAC development partnerships strategy.

5. The reform policies already undertaken have brought about an unprecedented level of economic activity in the region, after decades of centrally planned development, isolation and conflict. The DAC notes that the Mekong countries have now reached a crossroad where they need to confront a more difficult agenda for deepening the reform process. The remarkable progress in macroeconomic policy remains fragile and needs to be matched by a thorough transformation of the administrative environment, a redefinition of the role and nature of the State and the establishment of the institutional, legal and financial frameworks essential for a well-functioning market economy.

6. It is crucial for maintaining the momentum of rapid growth in the region to remove some of the remaining bottlenecks to market-oriented development. This includes the need to:

- Develop sound macroeconomic policies in the financial, monetary and fiscal areas.
- Move away from cumbersome and non-transparent bureaucracy in favour of a smaller, better remunerated and more efficient civil service.
- Establish a coherent and comprehensive legal framework by clarifying legal texts in important areas such as property rights, streamlining the profuse legislation in some cases, or introducing new regulations. Enhance the capacity to implement the new legislation through strengthening the legal profession and the judicial system for law enforcement and dispute resolution.
- Set up a performing and transparent banking system operating on a commercial basis, and acting as engine of growth to mobilise more domestic savings and attract private capital to the region.
- Widen the revenue base, through tax reform, in order to generate budget resources for meeting the considerable development needs spurred by the accelerating growth.

7. DAC Members emphasize that the challenge ahead for the Mekong countries is to attract more stable and long-term investment in the productive sectors with sustained development impact and a potential for employment generation.

8. In this regard, DAC Members consider the growth of private companies as especially important since most of the job creation takes place outside the state sector. Joint ventures between foreign investors and state-owned enterprises, set up in the transitional process to privatisation, have led to increased production. There is a strong concern, however, that these ventures tend to crowd out the emerging and more labour-intensive private sector and distort competition as a result of their privileged access to land, credit and licenses.

9. The sustained high rates of economic growth are essential for making a broad impact on poverty. DAC Members, however, notice trends pointing to a widening gap of incomes and opportunities between those who have been able to take advantage of the market economy, primarily in the booming cities, and the vast majority of the poor, especially in rural areas, who tend to be left out of the prosperity. In a region where 80 per cent of the population live in rural areas, a stagnating rural economy may result in dualistic growth patterns and consequent risks for social cohesion and political stability.

10. DAC Members, therefore, share the widespread concern of the three countries that development gains need to be more widely distributed throughout the society, between rural and urban areas, and among the different provinces. Consequently, they are committed to allocate assistance to, and otherwise support, local efforts to:

- Implement effective anti-poverty programmes at the grassroots level and rural development strategies based on an integrated, people-centred and participatory approach.
- Expand access to basic social services, rural infrastructure, agricultural inputs and credit facilities with special attention to women's needs and constraints.
- Strengthen local ownership and participation by involving local authorities, communities, mass organisations and non-governmental organisations (NGOs) in the planning, construction and maintenance of development projects.
- Foster decentralisation and improve the management capacity and efficiency of local institutions and provincial administrations.

11. The new climate of economic liberalisation has enhanced opportunities for increased participation of the civil society in development. Furthermore, the mass organisations provide highly participatory structures built on extensive citizens' networks spreading out from central and provincial levels down to the commune and the village. Together with the rapid expansion of foreign NGOs working in the region, the emergence of indigenous NGOs is also a new and important development. However, DAC Members note that an enabling environment, including legislation, is not fully in place yet and NGOs still face many constraints impeding their registration and operations. DAC Members are committed to establishing genuine partnerships with NGOs geared to strengthening their capacity to contribute to policy making and to be more self-reliant.

12. DAC Members draw attention to the urgent need for upgrading the status and living conditions of women. In view of the prevailing high fertility rates among poorer women in the region who are exposed to high risks of maternal and child mortality, DAC Members emphasize that the success of efforts to encourage family planning and slow population growth will depend on people's mobilisation and

participation. They pledge to support the implementation of national and regional action plans for promoting women's equal access to education and other services and full participation in development.

13. DAC Members recognise that a common factor which is slowing down the pace of reform in the three countries is the acute shortage of managerial, administrative and technical skills. The widespread lack of qualified and experienced personnel in all areas affected by the transition process, including the private sector and public administration, demands massive assistance in the area of capacity development and in training of human resources on a large scale. Against this background, further consideration should be given to facilitating the expansion of South-South co-operation with more advanced Asian countries providing their expertise to meet training needs in the Mekong region with financial assistance from DAC Members.

14. In view of the trend of environmental degradation and rapid depletion of forests in the region, environmental considerations should receive the highest attention. Cambodia, Laos and Viet Nam have begun to enact environmental legislation in compliance with Agenda 21. DAC Members hope that the governments' capacity to enforce legislation and to take due account of the economic costs of environmental deterioration is stepped up in this area, so that the environment is effectively preserved and rehabilitated. Efforts to eliminate poverty, which itself contributes to environmental degradation, are considered essential to help protect natural endowments in impoverished and environmentally fragile areas.

15. All three countries in the region cope with the critical issue of how to synchronise economic liberalisation with political reform. The communist parties in the region are credited for having brought the beginning of prosperity and are perceived as a counterweight to the development drawbacks which inevitably accompany the liberalisation process. Cambodia has moved towards a democratic constitutional framework. With the rapid shift to economic liberalisation, opportunities for illegal economic activities have also emerged and are likely to increase in the absence of proper governance systems to contain corruption. DAC Members are ready to provide further assistance to help consolidate democratic processes, strengthen the rule of law and reinforce transparency and accountability.

II. Harness the potential for regional co-operation

16. The Mekong countries see regional co-operation as an important means to accelerate their economic and social development. The countries are eager to break out of their past isolation and to integrate their economies into the region through relatively liberal trade and investment laws. ASEAN² is appealing to them as a regionally rooted group and as the obvious and most promising political body at regional level. It is likely to provide the key focus for regional co-operation in the future.

17. Membership in ASEAN will offer significant benefits to the three Mekong countries in the medium term, not least by giving a boost to trade and by providing a forum for the exchange of experience and ideas on economic and social development and security. Membership will also carry new and important responsibilities. It will require tremendous efforts in terms of management and training as well as far reaching structural reforms in a wide range of policy areas ranging from tariff structures to immigration laws. DAC Members stand ready to consider calls for assistance in helping the Mekong countries become operational Members of ASEAN. They also note that trade and investment regulatory

2. Association of South-East Asian Nations.

frameworks need to be improved in view of their participation in international organisations such as AFTA³ and WTO⁴.

18. DAC Members are actively supporting a number of sub-regional initiatives in the Mekong area involving Cambodia, Laos and Viet Nam and extending to their neighbours sharing the Mekong river: Thailand, Myanmar and Southern China. The gains from co-operation among these geographically contiguous countries appear particularly strong for the development of joint infrastructure projects in the areas of transportation, communications, energy and water. There are also a number of major development issues of a cross-border nature where sub-regional co-operation could effectively complement national efforts particularly in the areas of environment, forestry, human resource development, tourism, AIDS and drug control.

19. In reviewing the Greater Mekong sub-regional initiatives which have been recently launched or revitalised, DAC Members stress the need to:

- Assess the value added by the various regional initiatives with a view to ensuring that they complement and mutually reinforce each other.
- Promote their co-ordination and transparency and strengthen information sharing.
- Move from the phase of identification of regional objectives and selection of priority projects to the stage of resource mobilisation and implementation.
- Consolidate regional co-operation through increased local ownership of these initiatives.
- Facilitate the dialogue across borders between the institutions of civil society and ensure that the views of the private sector are properly reflected in all the sub-regional schemes.

III. Maximise the quality and effectiveness of development co-operation

20. The development needs of the region, its promising potential, and the rapid progress in liberalising the economy have prompted a relatively massive inflow of resources, including significant amounts of aid. DAC Members are keen to ensure that their assistance is effective and contributes to achieving the goals of broad-based and sustainable development.

21. In view of the region's weak institutional base and its limited human capacity, the danger of donor-driven assistance is high in the three countries. In order to avoid this risk, DAC Members reiterate that the concepts of local ownership and partnership should form the basis of the development co-operation relationship. DAC Members, therefore, emphasize that:

- Respect of the Mekong countries' sovereignty, understanding of their social and cultural traditions, and trust and patience on the part of donors are essential to strengthen ownership and thus make assistance more effective in the long run.
- Transparency and accountability should be enhanced in the Mekong countries through fuller use of national budgets, public expenditure reviews and public investment programmes. Such instruments

3. Asian Free Trade Area.

4. World Trade Organisation.

contribute to defining development priorities, using resources in a rational way and bringing aid flows into the picture.

- Predictability of financial commitments will facilitate longer-term planning and secure strong partnerships.

22. Given the imperative to adapt rapidly to the requirements of a market economy, a major focus of donor assistance is on capacity development. In order for local institutions and people to reap the full benefits of this assistance, DAC Members recognise that they need to adapt technical co-operation programmes to the region's special needs and constraints. In particular, they are committed to:

- Emphasize the training of counterparts and transfer of know-how as essential ingredients in all assistance programmes.
- Rely more on local consultants to reduce dependence on high-cost expatriates and expand the use of expertise available from other developing countries including through tripartite co-operation.
- Pay urgent attention to the donor practice of salary supplements paid to government officials in order to avoid distortions and vested interests which are perceived as inequitable.
- Direct more capacity development efforts towards local governments and beneficiaries to improve decision-making and implementation at the local level in line with the governments' goals to decentralise and delegate responsibility to provincial authorities.
- Improve co-ordination of technical co-operation, which is hindered by competition among donors.

23. Success in building both institutional capacity and physical infrastructure is measured in terms of the benefits remaining after the withdrawal of aid. DAC Members agree that the key factors contributing to success in this respect are: local ownership of the development process, financial viability and sustainability of projects and activities in terms of management and technical capacity. DAC Members, therefore, will work to ensure:

- The participation of communities in decisions on the design, operation, maintenance and financing of projects.
- The strengthening of management and technical capacity in line ministries at the design stage of capital investment projects.
- The financial autonomy of projects through self-financing schemes and government commitment to budget provisions.

24. Given the large and growing number of donors active in the region and the already overstretched local capacities, aid co-ordination is of key importance. As a complement to annual consultative groups and round tables, in-country aid co-ordination mechanisms are in place in all three countries, although sectoral co-ordination is not yet fully operational. Over time, governments must assume full leadership in aid co-ordination and management. Until such time, DAC Members will exert restraint and great discipline in co-ordinating their programmes in order to avoid duplication of effort and to ensure the consistency of aid allocations with the governments' priorities. DAC Members will also explore ways to simplify and harmonize their aid procedures with a view to reducing the administrative burden on recipients