

**CAMBODIA**  
**HON. KEAT CHHON, GOVERNOR**

It is a great honor and pleasure for me to represent the Royal Government of Cambodia (RGC) at the 34th Annual Meeting of the Board of Governors of the Asian Development Bank (ADB) and to address this august gathering. I would like to join other Governors in expressing my gratitude to the United States (US) government, the State of Hawaii, and people of Honolulu for hosting this year's annual meeting, as well as to the Management and staff of ADB for the excellent arrangements made for the meeting. I also wish to congratulate and welcome Turkmenistan that has become the 59th member of ADB.

This annual meeting is taking place at a crucial juncture. The recovery from the 1997 financial crisis has been remarkable. After a drastic contraction in 1998, growth for the crisis-hit economies turned positive in 1999 and strengthened in 2000. The recovery was buoyed by favorable conditions of the global economy after actions taken by the national governments to carry out structural reforms. However, the global outlook for 2001 is becoming significantly more adverse, with the quicker slowdown of the US economy than expected, lower growth in Europe, and problems in the Japanese economy. This is compounded by weakness in the global information technology (IT) sector, with some Asian economies heavily dependent on the production and exports of electronic goods.

I would like now to share with you some developments in my country. During the last two years, having enjoyed full-fledged peace and stability, Cambodia has rigorously implemented reforms aimed at attaining a broad-based, sustainable development and reducing poverty. Cambodia is moving decisively forward on the path of economic reforms, designed to maintain macroeconomic stability, strengthen the banking and financial institutions, implement fiscal reform measures, strengthen public expenditure management, ensure a sound management of public property, and increase public investment in physical and social infrastructure and human resource development.

We are accelerating the adoption of a new Land Law to prevent land eviction of the poor by the powerful. We are reducing the size of official fishing lots to improve the access by the poor to fisheries resources. We are cracking down on illegal logging to improve collection of timber royalties to the government coffers. We are implementing the military demobilization program to shift spending priority from defense and security to social and economic sectors. We are working very closely with the private sector to improve the business and investment environment. In order to ensure and sustain actions and success of these reforms the RGC has adopted a Governance Action Plan (GAP), some measures of which are now being implemented. Governance is considered by the RGC as the backbone of poverty reduction strategy and the reforms being conducted in Cambodia.

The RGC has taken considerable strides to boost economic growth. Hence, even after the most severe flooding in 70 years, the RGC is committed to taking necessary measures in order to reach the GDP growth target of 5.5 percent. According to the latest estimate of the National Institute of Statistics, real GDP growth recorded 5.4 percent in 2000 against

the projected 5.5 percent. This testifies to the fact that growth momentum, which commenced in 1999, was maintained. It is necessary to recall that, according to our new national accounts data, after tepid growth of 3.7 percent and 1.5 percent in 1997 and 1998, respectively, the growth rate for 1999 reached 6.9 percent against 4 percent projected.

Manufacturing and public investment financed by both the budget and external assistance have been the main engines in driving output growth. Growth and investment in export-oriented industries such as garments and footwear were particularly strong. Boosted by strong export performance, Cambodia is expected to sustain economic momentum in 2001 and 2002, with real GDP projected to grow by 6.1 percent. The inflation rate (4th quarter moving average) declined from 0 in December 1999 to -0.8 percent in December 2000. The exchange rate was fairly stable ranging around 3,900 riels per US dollar. The international reserves increased 16 percent, covering 3.3 months of imports. For the 2001 and 2002 the inflation expects to remain low and the exchange rate will be broadly stable.

To strengthen the banking system and corporate governance, the National Bank of Cambodia (NBC) proceeded to bank relicensing, in compliance with the Law on Banking and Financial Institutions, with the view to closing nonviable banks, either voluntarily or through liquidation process. These measures are necessary to establish a sound banking system, promote savings, and increase the confidence of the public in the banking system.

With rigorous implementation of the fiscal reforms and strict management of public expenditure, we have received encouraging results, with improved revenue mobilization and expenditure restraint to make room for flood relief advance payment of CR73 billion, or 0.6 percent of GDP.

For 2000, domestic revenue increased by 7 percent compared to 1999. At the same time, we recognize that we have experienced some difficulty in the collection of certain tax and nontax revenue. Measures have been put in place by the RGC to strengthen customs administration to prevent the decline in international trade tax. Special measures are being implemented to improve collection of revenue from PTT and improve the efficiency of nontax revenue collection.

With increased revenue collection, overall public expenditures were contained to make room for flood relief expenses. Even with increased contingency funds for flood relief, the current budget surplus for 2000 was estimated at 1.6 percent of GDP, compared to 1.3 percent budgeted. This surplus was used to finance counterpart funds and locally financed projects, as well as debt amortization. The share of defense and security spending has gradually declined from 43 percent in 1999 to 37 percent of the current budget in 2000, while civil administration outlays increased from 57 percent in 1999 to 63 percent of the current expenditure in 2000. Since 1994, defense and security expenditure dropped from 6.38 percent of GDP to 3.9 percent of GDP in 1999 and to 3.5 percent in 2000.

The RGC is promoting the social policy agenda that growth must take a pro-poor path. Growth and equity should come hand in hand: that is precisely the trickle-down concept. Having put in place this social policy agenda, we are pouring a massive proportion of our budget into the priority sectors of education, health, agriculture, and rural development, which are the foundations of future growth, equity, and progress. We are pursuing reforms in the educational system and promote other modes of human capital formation to make Cambodians more productive and competitive in the global economy. We are restructuring our health programs to provide preferential attention, through the Accelerated District Development scheme (ADD) and the Priority Actions Programs (PAP), to improve disbursement to finance referral hospitals and health centers at the district level.

Actual disbursements and advances to the priority sectors, including advance payment on flood relief, which accounted for CR73 billion, increased by 55 percent compared to last year. In nominal terms, current disbursements to health increased 25 percent (83 percent of budget target), agriculture.13 percent (91 percent of budget target), rural development.161 percent (104 percent of budget target) and education.24 percent (99 percent of budget target).

I am pleased to inform the meeting that the cooperation and partnership between Cambodia and ADB has developed and strengthened in a satisfactory fashion, which has had a considerably positive impact on the development of the country. This was witnessed, Mr. President, during your and the Board's visit to Cambodia late last year and February this year, respectively. The portfolio has expanded and its performance has improved remarkably. For 2000 the lending by ADB to Cambodia reached \$109.6 million, the highest level of yearly lending by ADB to our Kingdom. The contract award ratio was 56.2%, more than twice higher than the ADB-wide average. The disbursement ratio was 19.1%, a bit lower the ADB-wide average of 20.5%, but this expects to be accelerated this year. ADB is also actively assisting the RGC in sectoral and structural reform programs such as education, infrastructure, agriculture, land reform, financial sector, and governance. A major role is also played by ADB in helping the RGC prepare the second five-year sociodevelopment plan (2001-2005) with the focus on poverty reduction. For all of these we are very much grateful.

The RGC appreciates and supports the undertaking by ADB in formulating the long-term strategic framework aimed at halving poverty between 2001 and 2015. We look forward to working with ADB in achieving this common goal of poverty reduction in Cambodia and would like to assure you of our cooperation in this important endeavor. We also applaud ADB efforts in promoting the private sector in the member countries as the engine to sustain economic growth and poverty reduction. We would welcome ADB joining the ongoing process of strengthening the partnership between the RGC and the private sector in my country.

The RGC is welcoming the introduction by ADB of the performance-based allocations, which link the level of lending to a member country to its degree of poverty and population size and performance rating based on the assessment on sustainable economic

growth, social inclusion, governance, and portfolio performance. We are however concerned about the way and manner this is going to be applied to the countries with massive poverty and weak institutional capacity, which might lead to a double burden on the poverty situation of those countries. We therefore would like to see sensitivity and flexibility on ADB's side in implementing this policy. I would like to take this opportunity to extend my congratulations to and commend ADB, and in particular President Chino, for the successful conclusion of the Asian Development Fund (ADF) replenishment negotiations and to express my gratitude to the ADF donor countries for their support and contribution to the funds.

While supporting and appreciating the ADB flagship in the Greater Mekong Subregion (GMS) program, we wish to see a more project-oriented approach and stronger financing commitment in this important endeavor. We would like also to see the principle of cost-benefit sharing among GMS member countries to be applied when designing any regional project and its related investment. I would like to take this opportunity to thank ADB for its important role in helping strengthen the ASEAN surveillance mechanism and ask for its continued support for this process.

In conclusion, I wish to express our deep appreciation and best wishes to President Chino, ADB's Board of Directors and staff for the impressive accomplishments in sustaining development and poverty reduction in the region and the support and assistance to the and development in Cambodia.