



CAMBODIA

Hon. Keat Chhon, Governor

It is indeed a great pleasure and honor for me to represent the Royal Government of Cambodia at the Thirty-Fifth Annual Meeting of the Board of Governors of the Asian Development Bank (ADB) and to address this august gathering. May I, on behalf of the Cambodia's delegation, express our deep thanks to our hosts, the Government of the People's Republic of China, and especially the municipality and people of Shanghai, for their warm hospitality extended to our delegation during our stay in this beautiful and culturally rich city. I would like also to express our sincere gratitude to the Management and staff of ADB for the excellent arrangement made for this meeting. Let me take this opportunity to welcome Portugal, which is the 60th member of ADB, and to greet the delegation of the Interim Government of Afghanistan.

The years since the start of the Asian crisis represent a turbulent half-decade for regional and global economies. Rapid growth up to the 1997 crisis was followed by a severe recession in 1998. The faster than expected recovery of 1999 and 2000 was followed by a sharp slowdown in 2001, which was exacerbated by the 11 September attacks on the United States. There are signs of economic recovery in the United States and Europe. In Japan, growth is now expected to pick up toward the middle of next year rather than late this year, as anticipated. Next year's rebound is also likely to be more subdued than previously predicted. This uncertainty in the rapidly integrating global economy suggests that countries have to remain vigilant and take appropriate policy measures to strengthen their resilience to shock. To improve long-term growth potential and in the interest of the region's economy, countries in the region should push ahead with the structural reforms in the financial and corporate sectors to complement the recent fiscal stimulus measures and interest rate reduction.

For Cambodia, 2001 presented great challenges. Apart from the unfavorable external environment, which hurts our export and foreign direct investment influx, our country again experienced another flood following the severe flooding in 2000.

Cambodia had to mobilize resources to prepare for the first commune election held early in February this year in a free and fair manner. Despite all these problems, our economy was still able to grow at 5.3%, because of the fast recovery in the agriculture sector boosted by Government interventions, continued strength of manufacturing especially garments, and strong performance of the tourism sector. The price index has been stable since 1999, as has been the exchange rate. The fiscal situation was on track, despite heavy spending for flooding in 2000 and 2001 and the commune election (2001/02). Revenues account for about 11.5% of gross domestic product (GDP), and total expenditures amount for 17%. The overall deficit of about 5.5% of GDP is financed by grants and concessionary loan, and the current surplus of about 1.5% of GDP goes to debt servicing and locally financed projects.

The election is an important step forward in promoting democracy at the grassroots level and transfers power and resources to local communities. This decentralization will boost more rapid and sustainable development at the community level. Beside the actions to promote grassroots democracy, peace, and security, in 2001 the Government began implementation of its reform programs to sustain economic growth, reduce poverty, accelerate economic reconstruction, maintain macroeconomic stability, undertake fiscal reforms, and strengthen banking and financial institutions.

Last year, the Government adopted the second Socio-Economic Development Plan (SEDPII) for 2001–2005. It was prepared in broad consultation with all stakeholders and with ADB technical assistance. The SEDPII has the ultimate goal of reducing poverty in the country with its three main strategies: (i) achieving long-term, sustainable economic growth at the rate of 6–7% per annum; (ii) equitably distributing the fruits of this economic growth between the have and the have-nots, between urban and rural areas, and between the two opposite sexes; and (iii) sustainably managing the environment and natural resources. The SEDPII also presents the targets for various social development indicators for the SEDPII period, including a target to reduce the poverty headcount index from 36% to 31%. After its endorsement by the legislative body, the Government will sign the Poverty Reduction Partnership Agreement with ADB.

The Government is committed to continuing reforms. The first phase of the armed forces demobilization program has been successfully completed with 15,000 soldiers being discharged. The budget saving from the payroll cut is being diverted to social sector spending. The second phase of the program will begin next month with the aim to demobilize another 15,000 soldiers by the end of the year. The reform of public administration was also set in motion. The Government has successfully completed the civil service census, issued identification cards to government officials, established a computerized payroll, put in place a classification system for civil servants, and introduced a human resources management information system. This year we will introduce a new remuneration system increasing civil servants' salary commensurate with their responsibility. The priority mission groups will be established and financed by government budget resources to improve productivity of the public service by providing incentives to those who are competent and work hard.

Although there was some delay in getting started, the legal and judicial reforms are now on track and gaining momentum. These reforms are necessary to support the evolutionary process of social and economic change and development needs, as well as to create an environment conducive to business and investment activities. Sustainable forestry management policies are being rigorously and vigilantly implemented by the Government. The focus is now placed on monitoring and cracking down on illegal logging, adopting the Forestry Law and subdecree on Community Forestry, as well as on implementing proper forestry concession management. Efforts have also been made to enforce fishery reform, which aims to improve access of the poor to fisheries resources. Land management policy remains the top priority of the Government. To ensure the enforcement of the Land Law, which was prepared with ADB technical assistance, nine subdecrees have been drafted. This framework will support systematic land registration, tax reforms, enforcement of property rights, and land titling and zoning.

Concerted efforts have been made to implement fiscal reform, including improving budget management; broadening the tax base; improving customs policy and administration; reorienting government spending to priority programs in agriculture, rural development, health, and education with a gender focus; and improving public sector governance, transparency, accountability, and adherence to the rule of law. Considerable progress has been made in restructuring the banking sector. There is a reduction in the number of commercial banks, and the quality of the remaining banks is being improved. Prudential measures and supervision of the banking system has been rigorously and increasingly enforced. Efforts are particularly placed on implementing the Vision and Financial Sector Development Plan for 2001–2010, which aims at developing a sound financial system in Cambodia over the next 10 years by sequencing policy reforms. The Government recently put forward to the National Assembly for adoption the draft amended Law on Investment to ensure the balance between the attractiveness of Cambodia as a foreign direct investment destination and the needs for budget revenue increase. We have also put in place the Integrated Framework of Trade and, and work on the improvement of corporate governance with a new Law on Corporate Accounting and Auditing, which is in accordance with the international standards.

The Government considers good governance to be the backbone of these reforms. In this spirit, it has made serious efforts and achieved significant successes in implementing the Governance Action Plan. We are now updating this program of actions to introduce new initiatives and priorities. The new priority initiatives evolve around needs and issues in the areas of social development, fiscal and financial reform, investment and commerce, demobilization, administrative reform, and anticorruption.

2001 was also a year of great challenges for ADB, which undertakes poverty reduction in the Asia and Pacific region as its overarching goal. There were natural calamities in some of the developing member countries (DMCs), terrorism that shocked the world and affected many economies of the DMCs. It was a year of slow and uneven growth worldwide, and a year of ADB reorganization to respond more effectively and

efficiently to the needs of the member countries and to meet the ultimate goal of poverty reduction of ADB. I would like to take this opportunity to express our appreciation to the President, Board of Directors, Management, and staff of ADB for the achievements made last year in coping with the needs and challenges of the region at large and its individual members in particular, as well as for the success in reorganizing itself under the difficult circumstances.

We welcome and highly value ADB's long-term strategic framework 2001–2015, which is aimed at halving poverty in the region by achieving sustainable economic growth, inclusive social development, and good governance. We also commend the medium-term strategy 2001–2005, which is the bridge between the long-term strategic framework and the programs and activities ADB will undertake in its DMCs over the next 5 years. We firmly believe that these frameworks will help ADB to address its main priority areas in its operations, e.g., reducing poverty, addressing environmental degradation, promoting regional cooperation, and managing the risk of globalization. It is our understanding that these frameworks are in line with our SEDPII, which provides strong common ground for Cambodia and ADB to work together in a real partnership spirit toward the common goal of poverty reduction in our country.

The Government continues to support ADB's flagship and catalyst role in the Greater Mekong Subregion (GMS). We appreciate the progress made in implementing the GMS programs throughout the region, including in Cambodia. As the host country for the first GMS Summit, may I take this opportunity to thank ADB for its support and assistance in the preparation for this historical meeting, which will be held back-to-back with the ASEAN informal summit by the end of this year in Phnom Penh. My country looks forward to welcoming you Mr. President and your colleagues from ADB, as well as heads of government and GMS country delegations, and other guests. We welcome also other initiatives in promoting regional cooperation, and especially appreciate ADB's continued support for the surveillance process within the ASEAN and ASEAN+3 frameworks.

Performance-based allocation for Asian Development Fund resource lending was introduced in 2001. While welcoming this lending policy, which links the level of lending to country performance, we still seek ADB's flexibility in its implementation in countries with massive poverty and weak capacity. In this regard, ADB's emphasis on human resources and institution building for these countries, which would enable them to cope with the challenge, are greatly appreciated. I would like to take this opportunity to express our gratitude to Asian Development Fund donor countries for their generous contribution to the fund, which Cambodia has so far benefited from. However, to meet the Millennium Development Goals of the United Nations and ADB's goal to halve poverty in the region over the next 15 years, ADB will have to possess sufficient human and financial resources to cope with the needs and challenges of DMCs. I would like to urge donor countries to make more contributions to the fund so that poverty in the region can be addressed in a proper manner. For their part, the DMCs will have to pursue appropriate policies, good governance, and reforms necessary for tackling poverty and

sustaining development. In this context, I would like to assure you, Mr. President that Cambodia is now working in this spirit and direction.

I would like to conclude by expressing once again our deep appreciation and best wishes to President Chino, ADB's Board of Directors, and staff for their hard work and impressive accomplishment in responding to the needs and challenges of the region and ADB's individual member countries, and especially for the support and assistance in the rehabilitation and development in Cambodia.