Board Meeting of Thursday, February 20, 1997
Statement by Godfrey Gaoseb

Cambodia: Country Assistance Strategy

Cambodia's history during the past twenty-five years is one of both human tragedy and hope. It is tragic because the protracted national conflict resulted in, among other things, heavy losses of human resources, destruction of physical infrastructure, and degradation of the environment. It is also a history full of hope since the past five years have witnessed a resumption of economic activities, both in the urban and rural areas. It is therefore without hesitation that we support the country assistance strategy for Cambodia, which we believe adequately responds to the needs and priorities of a country emerging out of a situation of conflict.

We also wish to take this opportunity to commend the Cambodian authorities for putting together, under extremely trying circumstances, an agenda that addresses the most pressing issues related to reconstruction, development and reform. Their efforts to work with both the international community as well as other groups within the country to ensure that the peace process continues uninterrupted also deserve commendation as these efforts will positively impact on their economic agenda.

The CAS presents five very distinct but extremely important objectives which, of necessity, must be addressed in concert if any positive and lasting results are to be realized. We are pleased to note that these have been developed following extensive consultations with the government, other donors and civil society. As the situation on the ground stabilizes further, we hope these consultations will be more extensive and will therefore broaden the ownership of the economic agenda. Subsequent CAS's would benefit from these broader consultations. However, we agree with the document that the program faces many risks, particularly those identified in the report, which may in turn affect Bank Group assistance to the country. Hence we endorse the three-scenario lending program adopted in the CAS, which mitigates against these risks.

Having made these general remarks, I would like to comment briefly on a few specific issues.

Perhaps the most critical problem facing the country is that of capacity and institution building at all levels of society. While the international community has been extremely generous with the provision of technical assistance, particularly in assisting the Cambodian
authorities to put together their economic program, it is critical that whatever efforts are made
in this area should be lasting and should address both short-term and long-term issues. We are
therefore pleased to note the emphasis being placed in the CAS on developing human
resources through education and improved health services. At the same time we welcome the
CAS's awareness of the dangers of too much technical assistance. Para 26 notes the need to
constantly monitor the role of technical advisors in order "to ensure that they are contributing
to Cambodia's long-term development rather than hindering it". The CAS also presents a
practical approach to the use of Technical Assistance in the future and notes, in para 45, that
"all donors are making efforts to phase out such assistance... thereby avoiding a 'dependency
trap' that would force the country to rely exclusively on technical assistance." We welcome this
practical approach to the use of technical assistance.

In order for Cambodia to begin to realize its development goals and to boldly tackle the
issue of poverty reduction, it is critical that programs be developed to reach the rural
population. In this regard, we welcome the many programs the Bank Group is currently
undertaking and which it intends to launch in the future relating to both rural development
and infrastructure. In particular, the Bank's support of the government's program to design
packages that directly benefit the small farmer, including the forthcoming Agricultural
Productivity Improvement Project (FY97), and the Rural Development Project (FY98/99),
should make a significant impact on the rural sector. We hope these efforts will continue to be
coordinated with those being made by other donors, including bilaterals and NGOs, in order to
avoid overlaps and duplication of efforts.

One of the critical areas in the government's economic program, is the need to improve
revenue mobilization, and as we note from the CAS (para 23), considerable progress has been
made by the authorities to develop a comprehensive tax reform program. While this is highly
commendable, we understand that tax collection ratios are generally very low country-wide,
partly because of a narrow tax base and partly because a tax collection culture has not existed in
many parts of the country for a very long time. We would therefore be interested in finding out
from staff about the implementation of the tax reform program, the targets envisaged, and how
the tax base will be widened.

We note the authorities' intention to give the private sector a greater role in the economy
than it has been given heretofore, and their efforts to facilitate this through the creation of an
enabling environment by undertaking legal and administrative reforms, as well as
promulgating appropriate laws where necessary. Although this would help attract foreign
direct investment, and develop a formal private sector, we believe that the large informal sector
that exists in the country, particularly in the urban areas, could be tapped to generate
significant economic activities and hence help to address, among other things, the
unemployment problem facing the country. We therefore hope that the authorities' program to
develop small and medium scale enterprises will be intensified, and that in addition, a program
to assist microenterprises, perhaps with the involvement of the CGAP and NGOs, will be
developed. In noting the development of the SMEs, we wish to commend IFC for its Mekong
Project Development Facility as well as its "Extending IFC's Reach" initiative from which
Cambodia will benefit once the requirements for membership in the Corporation are met.

One of the stumbling blocks to Cambodia's program of rural development is the
existence in some parts of the country of unexploded ordinances, including land mines. Little
has been mentioned in the CAS about this issue, and yet these unexploded ordinances render at least 15 percent of the rural areas unusable for agriculture (para 14). Since at least one precedent for Bank activities in this area exists (Bosnia), and the Bank now has a clearer policy on demining, we would be interested in finding out from management how the international community, including the Bank, can expedite, or coordinate, efforts in this area as it is critical to the expansion of economic activities in the rural areas.

Finally, it is imperative that the problem of external debt be addressed adequately and comprehensively in order to enable the country to realize the full results of its development efforts. In this regard, while we appreciate the brief in para 9, we would be interested in the progress made, if any, in the negotiations with the remaining creditors, particularly the Russian Federation.

In closing, we wish to commend Bank staff for diligently working with the Cambodian authorities to develop their economic program, and with other donors and NGOs to coordinate what is developing into one of the largest aid programs (in terms of development partners involved) among the Bank’s member countries.