We welcome this CAS for Cambodia and are aware of the challenges faced by this country in its efforts to develop and to alleviate poverty.

Cambodian social indicators are a matter of great concern: over one-third of its population lives below the poverty line, with almost no access to basic services and opportunities. For example,

- 24 percent of the labor force has never received any formal education;
- it currently takes 19 years to produce a primary school graduate;
- only 28 percent of the population has access to clean drinking water;
- fewer than 10 percent of all households have access to electricity;
- less than 1 percent of households have telephone service.

These figures ought to stimulate solidarity from multilateral and bilateral donors. We are therefore pleased with the recent steps taken to support Cambodia: the IMF Poverty Reduction and Growth Facility (PRGF) approved in October 1999, and the IDA Structural Adjustment Credit (SAC), which is being submitted to the Board together with this CAS. Furthermore, we are looking forward to an IFC Private Sector Assessment and Sector-Wide Approaches (SWAPs) in priority areas, and a government-planned Poverty Reduction Strategy Paper (PRSP).

We also commend the Cambodian authorities’ commitment to rebuild the democratic institutions, to encourage free markets and to build an environment suitable for private initiative. These building blocks are proven engines for growth, and will facilitate investment and create employment.

We would like, however, to highlight some points in the CAS framework and underline some concerns in this development approach.
It is necessary to build a holistic pro-private investment environment, a business climate, to reach high growth rates. In that sense, we emphasize the following:

- A sound fiscal policy to ensure macroeconomic stability and fiscal balance. A low tax rate and a broader tax base would allow increased revenues and greater equity.

- The government spending re-orientation toward the social sectors should not overlook the lack of productive infrastructure. Public investment is required to complement private investment, especially in the area of “public goods”.

- It is convenient to determine current opportunities for further privatization of state-owned enterprises. For this reason, we welcome the recent government announcement regarding possible privatization of sizeable rubber plantations.

- We emphasize the need to develop financial institutions that meet the growing demand for credit for medium, small and micro-enterprises. In this regard, the expected increased IFC’s presence in Cambodia should be useful to support the development of financial intermediation.

- We believe Cambodia’s ASEAN membership facilitates access to key markets. In addition, export development should be strengthened with the planned cut in tariffs.

Regarding public debt, we are afraid that its projected path may be too optimistic. It is assumed that debt relief from bilateral creditors, continued availability of official grants and concessional loans will be on hand. Moreover, no clear information is given on domestic debt. Lastly, a fiscal deficit of around 5 percent of the GDP is estimated for 2002.

We wish the best to the Cambodian authorities in their laudable efforts to combat poverty and restore social and economic infrastructure and, at the same time, we congratulate Staff for their complete, objective and clear report.