

Pre- CG meeting with the Royal Government of Cambodia

Friday 10 September, 2004.

GROWTH AND PRIVATE SECTOR DEVELOPMENT

**STATEMENT BY THE ASIAN DEVELOPMENT BANK
ON BEHALF OF DONORS**

We appreciate the clear and concise agenda for economic development as set out in the Rectangular Strategy. The Strategy has correctly identified achieving economic growth in the order of 6%-7% per year as central to efforts to reduce poverty and attain the MDG's. To achieve this, growth must be sustained, pro-poor, and respect the environment. Both higher growth, and better distribution of the gains from growth are necessary.

Achieving this will not be easy. Although the Cambodian economy grew by an average of 6.8% per annum from 1999 to 2003, growth has moderated since 1999 and is projected to increase by only 4%-4.5% in 2004, and 1.9%-2.3% in 2005. Despite relatively robust growth, available data suggests only a modest decline in the incidence of income poverty.

It is therefore urgently necessary to nurture new sources of growth beyond garments and tourism. Accelerated growth will require significantly higher rates of productivity and investment, in both the public and private domain. For this, improving the investment climate and promoting trade-oriented private sector development are critical. This will demand significant increases in Cambodia's international competitiveness.

We applaud the commitment and speed the Government and National Assembly have shown in ratifying Cambodia's accession to the WTO. To fully capture its gains, the 40 plus pieces of supporting legislation must also be passed quickly. Financial sector reform has also moved forward. The Government has also quickly adopted specific measures to reduce the cost and time taken in import and export procedures, and in company registration.

Nevertheless, the unfinished reform agenda for private sector development remains large and includes: (i) weak governance including excessive red tape, widespread corruption and a legal system that does not provide consistent and predictable enforcement of laws; (ii) a lack of access to, and the high cost of, institutional finance; (iii) high costs of and inadequate infrastructure in transport and energy; (iv) limited technical and managerial skills and; (v) poor market information and the absence of business development services and business associations. While some of these constraints can only be addressed in the longer term, priority short-term action needs to be taken to:

- Further reduce the cost of doing business by removing unnecessary licensing requirements and government inspections.

- Increase availability of capital by establishing credit risk and information systems for the banking sector.
- Establish a framework for leasing

Since 90% percent of the poor live in rural areas, there can be no poverty reduction without significant growth in agriculture. It is important to realize that the major driver of growth in agriculture is the private sector. Strengthening the policy and institutional framework for investment and productivity is as critical in agriculture as in any other sector, especially to ensure the equitable distribution of gains.

While some progress has been made in land titling and in forestry and fisheries management, overall policy and institutional changes have been slow. Further effort is needed to:

- Ensure security of title and access to land and natural resources
- Improve research and extension, price information, support for export promotion particularly quality management and food safety standards.
- Provide adequate funding for maintenance of rural roads and irrigation facilities.
- Enforce the ban on logging and log transport and accelerate community-based forestry,

As the private sector grows in size and sophistication, it will quickly come up against the poor quality, quantity, efficiency and cost-effectiveness of most of Cambodia's infrastructure systems. Action is needed to:

- Pass the Road Act to establish reliable management and financing mechanisms for road maintenance
- Establish legal and regulatory frameworks to promote greater private participation in infrastructure

To ensure that growth benefits the poor, they need greater access to education and health. Measures need to be adopted to:

- Increase targeted and expanded programs of education incentives for the poor with an emphasis on girls and minorities.
- Increase budget provision for equity funds to protect the poor against high health care costs.
- Increase service quality and delivery of health services by outsourcing to NGO's and the private sector

Donors stand ready to support the Royal Government of Cambodia in implementing this agenda for equitable growth and private sector development, which is fully aligned with the Rectangular Strategy.

Thank you for your attention.