Board Meeting of February 19, 1997
Statement by Andrei Bugrov

Cambodia: Country Assistance Strategy

I welcome the opportunity to discuss this full-fledged CAS for Cambodia and commend the staff for its preparation.

Over recent years -- including the period since June, 1995, when a limited CAS was adopted -- the Royal Government with generous support by the international donor community has achieved tangible progress in macroeconomics stabilization and the transition to a market economy. Several of these achievements (e.g. abated inflation, improved external position, more liberal foreign exchange, trade and investment regimes) have been truly remarkable against a background of the country's very hard legacy of the past. Combined with more stable political and security conditions, they have translated into an economic recovery characterized by rapid GDP growth.

In order to sustain high rates of economic growth and ensure its broad-based nature by involving rural areas where the majority of the population lives, the Government will need to implement a very heavy reform agenda. The challenges facing the Government in maintaining macroeconomic stability, supporting rural development and the agricultural sector, rehabilitating and rebuilding social and physical infrastructure, and managing natural resources sustainably are very well identified in the CAS document. However, we remain uncertain about the Government's attitude toward them, its vision of reform priorities, and the degree of its ownership of the proposed CAS.

While we recognize the uncertainties associated with the possible deterioration of the security situation, the fragility of the consensus within the governing coalition, and the national elections scheduled for the next year, we would have preferred to find in the report at least an analytical assessment of probability of different scenarios.

We agree with the proposed summary indicators for measuring success of the overall reform effort. In particular, we would like to underscore the importance of environmentally sensible and financially responsible forestry management. Hence, we urge the Government to move forward decisively on the agreed plan of action that includes specific measures to control illegal logging and ensure transparency and competition in the timber industry. The
implementation of the plan would facilitate an increased revenue flow from the exploitation of forestry resources into the national budget.

We would appreciate a stronger poverty focus in the Bank's lending and non-lending program with special attention to gender and youth issues and the needs of the handicapped. It is very disadvantageous that the CAS is not built on a comprehensive poverty assessment. I would argue for a more speedy preparation of the Poverty Assessment and Strategy Report which is currently scheduled for FY98.

In view of the fact that Cambodia is one of the severely indebted low income countries whose future economic prospects depend crucially on how their current debt situation is handled, a presentation of a detailed analysis of its debt sustainability in the CAS paper is relevant and welcome.

I would like to highlight an important conclusion of this analysis, which is shared by the IMF: the sustainability of Cambodia's debt will depend critically on the terms of rescheduling of the ruble debt. Attachment 1 of the CAS conveys this message within the framework of the intermediate macroeconomics scenario, pointing out that without proper resolution of ruble debt, Cambodia's debt would remain unsustainable throughout the projection period.

Therefore, I would urge the Royal Government to pay strict attention to this important issue. Meanwhile I regret to state that, in contrast to the progress with regard to resolving debts owed to the Paris Club and some other creditors, no advancement has been made in addressing the debt to Russia, whose share in Cambodia's external debt is about two-thirds. The Russian Federation is ready to begin constructive bilateral negotiations that would lead to a successful resolution of Cambodia's debt situation on highly concessional terms, which would be comparable to those agreed to with the Paris Club creditors.

Let me also make one specific comment on the debt issue. A key assumption, which was used in the suggested illustrative scenarios for possible resolution of ruble debt, was that the historical exchange rate at the time the debt was incurred would be applied to its dollar valuation. I consider this assumption as quite appropriate and fully justifiable, therefore I strongly endorse the suggested approach.