

**Cambodia: Third Review Under the Poverty Reduction and Growth Facility—Staff Report;
News Brief on the Executive Board Discussion; and Statement on Behalf of the Authorities of
Cambodia**

- the Staff Report for the Third Review Under the Poverty Reduction and Growth Facility, prepared by a staff team of the IMF, following discussions that ended on **May 2, 2001** with the officials of Cambodia on economic developments and policies. **Based on information available at the time of these discussions, the staff report was completed on July 3, 2001.** The views expressed in the staff report are those of the staff team and do not necessarily reflect the views of the Executive Board of the IMF.
- a News Brief summarizing the views of the **Executive Board as expressed during its July 18, 2001** discussion of the staff report that completed the review.
- a statement on behalf of the authorities of Cambodia

The documents listed below have been or will be separately released.

Letter of Intent by the authorities of the member country*
Memorandum of Economic and Financial Policies*
Technical Memorandum of Understanding*

*May also be included in Staff Report.

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INTERNATIONAL MONETARY FUND

CAMBODIA

Third Review Under the Poverty Reduction and Growth Facility

Prepared by the Asia and Pacific Department and
Policy Development and Review Department

(In consultation with the Fiscal Affairs, Legal, Monetary
and Exchange Affairs, Statistics, and Treasurer's Departments)

Approved by R. Anthony Elson and Mark Allen

July 3, 2001

- A staff team visited Phnom Penh during April 19–May 2 to conduct the third review under the PRGF arrangement. The team consisted of Messrs. Rumbaugh (head), Marciniak, Ishi (all APD), Ms. Duttagupta (EP-APD), and Mr. Adachi (PDR). The team was assisted by Mr. de Zamaróczy (Resident Representative) and worked with a World Bank mission on civil service reform, expenditure management, governance, and the poverty reduction strategy.
- The mission met with H.E. Keat Chhon, Senior Minister and Minister of Economy and Finance; H.E. Sok An, Senior Minister in charge of the Council of Ministers; H.E. Chea Chanto, Governor of the National Bank of Cambodia; H.E. Cham Prasidh, Minister of Commerce; and other senior officials.
- A three-year PRGF arrangement for SDR 58.5 million (67 percent of quota) was approved by the Executive Board on October 22, 1999 and the second review under the arrangement, together with the presentation of the I-PRSP, was concluded on January 19, 2001. The 2000 Article IV consultation was concluded on September 15, 2000.
- The government has agreed to the publication of the Staff Report for the third review and the attached Supplementary Memorandum of Economic and Financial Policies.
- This report was prepared by a staff team under the direction of Mr. Rumbaugh.

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Executive Summary

Program Performance. Cambodia's performance so far during the second year under the PRGF arrangement has generally been positive, despite delays in the implementation of some structural reforms. Economic recovery has been sustained, inflation has remained moderate, and budgetary performance improved. Quantitative performance criteria for end-March 2001 were observed, and the structural performance criterion for end-June 2001 was also observed.

Economic Prospects. The macroeconomic outlook for 2001 is favorable. Real GDP growth should be sustained, as damage to agriculture following heavy flooding in late 2000 was not as severe as expected. Inflation should also be kept in check, in part because timely flood-related assistance by the government and donors prevented an increase in food prices.

Poverty Reduction Strategy. The government, together with the Bank and the Fund, held a workshop on the preparation of the poverty reduction strategy during April 25–26 that was successful in increasing public awareness, identifying gaps toward preparing the full PRSP, and defining next steps to be taken. More time will likely be needed beyond the existing target of end-2001 for the completion of the PRSP to allow for a full participatory process, and adequate time to prioritize and sequence actions.

Main Policy Issues for the Current Review

Budget Implementation for 2001. Financing targets for the first five months of the year were in line with program targets, although revenue was slightly behind program projections. Agreed tax measures have recently been introduced, but new efforts will need to be sustained through the year. Social sector spending will also need to be accelerated to meet program objectives.

Fiscal Management. Improving revenue administration and expenditure management, and progress in implementing military demobilization and civil service reform will be needed to support the overall fiscal reform agenda.

Bank Restructuring. Substantial progress has been made in bank relicensing and in consolidating the banking system. The authorities will need to monitor banks subject to corrective actions against their Memoranda of Understanding, and to press ahead with the restructuring of the Foreign Trade Bank to pave the way for its eventual privatization.

Scope of Structural Conditionality. Consistent with staff guidelines, the program's structural conditionality focuses on areas critical to the near-term macroeconomic outlook, including bank reform, tax administration, the civil service payroll, and the restructuring of forestry concessions. Military demobilization, the civil service reform strategy, revisions to the Law on Investment, and the implementation of the Governance Action Plan (GAP) continue to be key areas of structural reform and are being monitored in close consultation with the World Bank.

I. INTRODUCTION

1. **In concluding the second PRGF review in January 2001**, Executive Directors commended the authorities for the performance under the first year of the program, but noted that strong efforts were needed in the period ahead to protect macroeconomic stability, strengthen economic growth, build basic economic institutions, improve governance, and reduce pervasive poverty. Directors considered that fiscal reform remained critical to the success of the program, and that, meeting medium-term objectives would require stronger efforts to broaden the tax base, enhance tax and customs administration, and improve budget management. Directors also stressed that it was important to continue bank restructuring and deepen other structural reforms that are key to macroeconomic stability and poverty reduction, including civil service reform and military demobilization.

2. **At the Consultative Group meeting (June 11–13 in Tokyo), donors were cautiously supportive of Cambodia's ongoing efforts.** They urged the authorities to sustain the reform momentum, address areas where there have been shortcomings and delays, and follow through with commitments to improve governance, especially with respect to legal and judicial reform.

3. **The government remains committed to the PRGF-supported program, but administrative constraints are affecting program implementation.** Implementation of reforms in the future could also be influenced by the run up to local commune elections in early 2002 and national elections scheduled for 2003. Extensive technical assistance is being provided by the Fund and other donors to support improvements in implementation capacity, but effective use of this assistance will be necessary to achieve program objectives.

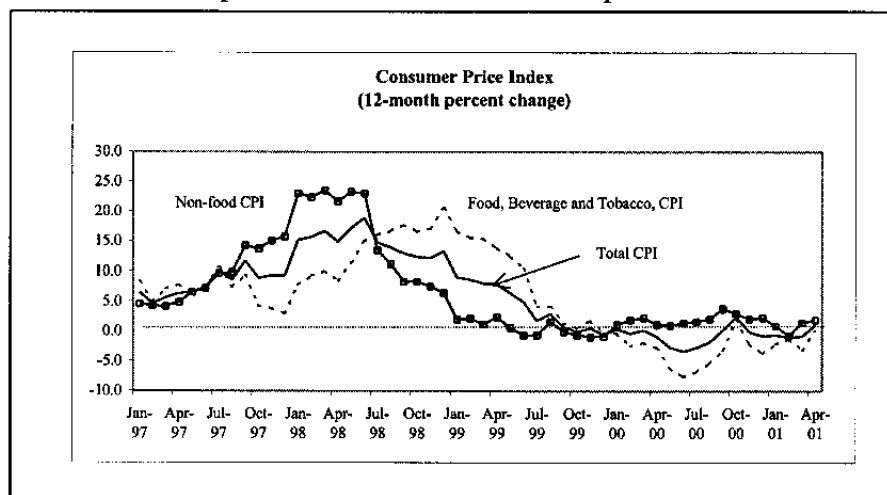
4. **In the attached letter to the Managing Director, the authorities request completion of the third PRGF review** to allow for the next disbursement from the Fund in the amount of SDR 8.357 million. In the accompanying Memorandum of Economic and Financial Policies (MEFP), the authorities report on progress made under the program, and describe their policies for the remainder of 2001. Quantitative performance criteria and the coverage of structural conditionality are described in the MEFP (paragraph 25 and the attached tables).

II. RECENT PERFORMANCE UNDER THE 2001 PROGRAM

5. **Economic developments and policy implementation through mid-2001 were broadly consistent with the program.** Macroeconomic objectives for 2000 were achieved despite the impact of flooding (Table 1); and quantitative benchmarks for December 2000,

quantitative performance criteria for March 2001, and the structural performance criterion for end-June 2001 were observed (Tables 2 and 3).¹

6. **Economic growth in 2000 is now estimated at 5 percent, driven largely by buoyant activity in the garment and tourism sectors.** Damage to agricultural production following heavy flooding in late 2000 was not as severe as expected, and timely flood-related assistance by the government and donors prevented an increase in food prices. While there were some increases in food prices in April 2001, the annual inflation rate has remained at less than two percent, well within the program target of keeping inflation below 5 percent. Preliminary indications suggest a rebound in agricultural production in the second half of 2001.



Together with continued strong growth in tourism and increased construction, this would offset lower growth in industrial production owing to some recent decline in garment export orders. These factors should contribute to GDP growth of about 6 percent, as programmed.

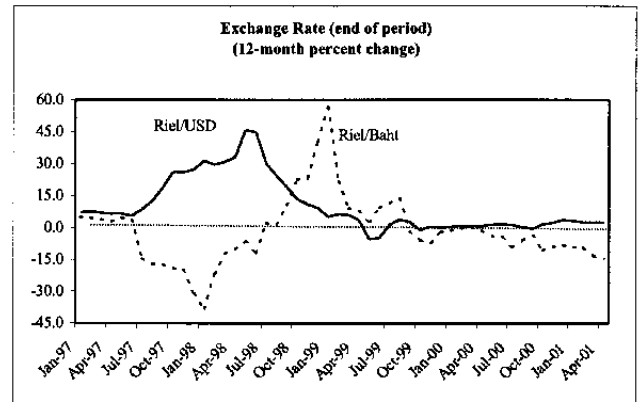
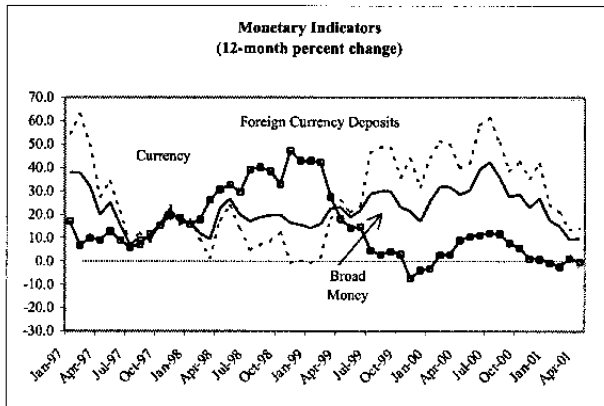
7. **Fiscal performance in the first five months of 2001 was slightly below program projections.** The 2001 budget aims at increasing revenue to 12 percent of GDP (from 11½ percent of GDP in 2000) and restructuring expenditure to achieve a further increase in social sector spending (Table 4).² Revenue was slightly below the pace necessary to achieve the 2001 target, despite good performance of direct taxes, largely because of delays in implementing agreed measures,³ and shortfalls in trade taxes and nontax revenue. On the expenditure side, the release of the first quarterly allocation under the Priority Action

¹ With the exception of one quantitative benchmark for December 2000 (see paragraph 16 below).

² The 2001 budget is described in detail in Box 2 of EBS/01/2 (01/04/01).

³ These revenue measures, which are now being implemented, were: (i) tariff restructuring and associated adjustments in excise rates; (ii) introduction of a stamp system to improve collection of taxes on cigarettes; and (iii) steps to improve the monitoring and collection of revenue from issuing visas.

Programs (PAP) for the social sectors did not take place until April, repeating a pattern of low disbursements during the first quarter of the year.



8. **Growth of monetary aggregates over the last six months has been below program targets.** Private sector credit increased sharply in the third quarter of 2000, partly related to financing of petroleum imports. However, outstanding credit declined in the fourth quarter, and the overall growth of private credit in 2000 was contained to 18 percent, with broad money growth of 27 percent, mainly led by an increase in foreign currency deposits (Tables 5 and 6). During the first four months of 2001, private credit growth remained stable, and net credit to the government declined. The increase in domestic currency in circulation remained low, reflecting the fiscal restraint. Overall, the rate of growth of broad money fell to 10 percent at end-April 2001.

9. **External developments in 2000 were positive** as the current account deficit increased only marginally to 10 percent of GDP (excluding official transfers), well below earlier projections. The continued strong growth in garment exports and buoyant tourism earnings were the main factors behind this result, compensating in part for the impact of higher oil prices on imports. Inflows of concessional assistance were also higher than projected, but this was offset by a small decline in foreign direct investment (FDI), and larger than expected residual short-term outflows.⁴ As a result, international reserves increased by \$62 million, in line with the program target, and sufficient to maintain reserve coverage equivalent to three months of imports. International reserves increased further during the first half of 2001 and the exchange rate remained broadly stable, depreciating slightly against the U.S. dollar over the last six months.

⁴ The coverage of capital account transactions is a major objective of ongoing efforts to improve balance of payments statistics. Large outflows of short-term capital and residual errors and omissions may also reflect under recording of imports related to smuggling.

10. **Significant progress has been made with many structural reforms, although there have also been areas of slippage.** Progress was notable in the areas of bank restructuring, preparation of a Forest Law, adoption of a Governance Action Plan (GAP), and computerization of the civil service payroll, although the preparation of the Forest Law and adoption of the GAP took longer than expected, owing in part to the need to consult with stakeholders (including NGOs). Progress was also made in finalizing the full military demobilization program, and preparing a strategy for civil service reform. However, important elements in the design of these programs still need to be addressed before they can be implemented. There have also been delays in moving forward with previously agreed revisions to the Law on Investment.

III. POLICY DISCUSSIONS FOR THE REMAINDER OF 2001

A. Poverty Reduction Strategy

11. **The authorities have started the participatory process that will underlie the full poverty reduction strategy paper (PRSP).** A workshop was held during April 25–26, 2001 involving government officials, NGOs, other members of civil society, and multilateral and bilateral donors. The workshop was useful in enhancing awareness of the strategy, taking stock of progress, and identifying gaps and the next steps needed to prepare the full PRSP. The authorities have decided to use the I-PRSP and the recently prepared second Socio-Economic Development Plan (SEDP II) as the basis for developing the PRSP. They are also planning to strengthen the participatory process through the involvement of line ministries, civil society, donors, and the poor themselves. The staff teams from the Bank and Fund supported the view expressed by workshop participants that, given the need to broaden the participatory process, as well as time needed to prioritize, sequence and fully cost required actions, the target date of December 2001 set in the I-PRSP could be postponed, provided that there are clear milestones against which progress can be assessed through periodic reports.

12. **The medium-term economic framework presented in the I-PRSP remains appropriate.** The macroeconomic scenario has been updated to take into account recent developments. This updating suggests that the program should still aim at maintaining economic growth to an annual average rate of 6 percent, keeping inflation to low single digits, containing the external current account deficit to a level consistent with concessional financing and FDI flows, and increasing gross official reserves to about 3½ months of import coverage (Table 8). The projected increases in output growth over the medium term are based on agricultural and rural development, and further growth in industrial production and tourism.

B. Fiscal Policy for 2001

13. **The budget for 2001 was set in line with the medium-term fiscal objectives.** It is aimed at improving revenue mobilization, increasing spending on essential public services, and maintaining a sustainable fiscal position. The budget targeted a current surplus of

1½ percent of GDP and provided for additional measures to increase revenue to 12 percent of GDP. Spending for priority social sectors and locally financed development expenditure was budgeted to increase further, with an associated decline in military and security spending. The overall fiscal deficit was budgeted at 5¾ percent of GDP, similar to 2000. Taking into account projected external project financing and budget support, a further modest reduction in the governments' net indebtedness to the banking system was programmed.

14. To improve the prospects for reaching the 2001 revenue target, the pending tax measures would need to be quickly introduced and firmly implemented. The authorities indicated that they were committed to introducing all of these tax measures, but cited administrative constraints for the delays in implementation. Some of the measures involve significant adjustments in tax administration, such as introducing a stamp system for cigarette taxation, but the mission considered that others could be implemented more quickly. Agreement was reached on revised timing for the implementation of these measures, with several of them as prior actions for the current review. Moreover, to help make up for a potential shortfall in revenue, the government has also put in place additional measures, such as the treatment of diesel sales as final sales for VAT purposes, and additional adjustment in selected excise rates (a list of all measures is contained in the Annex attached to the MEFP). These measures should allow for revenue to increase to 12 percent of GDP, in line with the program target. Looking ahead to the 2002 budget, and in view of recent comprehensive recommendations for improving tax administration by FAD, the authorities will prepare a detailed implementation program by November 2001, taking into account assistance to be provided by the forthcoming resident tax advisor.

15. The mission also expressed concern over ongoing difficulties in the collection of trade taxes and nontax revenue. Pervasive smuggling of imports is undermining trade revenue. While the authorities have directed a recently commissioned task force on reducing smuggling to make more progress in this area, administrative and staff constraints remain an issue. The mission also expressed concern that the full benefits of preshipment inspection (PSI) were not materializing, and urged the authorities to increase their coordination with the PSI company, and to strengthen the application of penalties for firms that bypass the system. With respect to nontax revenue, there have been persistent problems in reaching budget targets related to telecommunication service charges, and in collecting arrears from service providers. The authorities have set up an interministerial task force to address this issue that will be supplemented by advice from technical consultants provided by donors. The Ministry of Economy and Finance (MEF) will begin to use their full legal authority to cancel leases of state enterprises when payment obligations are not being met. The authorities also intend to establish a monitoring mechanism for the leases of state assets to improve collections, and a full inventory of all state assets will be initiated by the end of the year. Improvements in both customs administration and the monitoring of state assets are important elements of the GAP.

16. The expenditure pattern in the last two years has been marked by very slow spending in the first half of the year, with a rush of spending at the end of the year to meet budget targets for the social sectors. Such concentration of expenditure commitments at one time, as occurred in December 2000, has complicated cash management, and was the

main reason for the marginal breach in the quantitative benchmark on domestic financing of the budget in December 2000. Moreover, there has been an adverse impact on the cash position of the government in the first half of 2001, reflecting spending on last year's commitments even as new expenditure commitments have been below program projections. The mission emphasized that improving cash management was essential for better management of the expenditure program. To this end, the authorities created a cash management unit to help ensure better planning and use of available government funding. The mission also stressed that effective implementation of the PAP for the education and health sectors (which accounts for only 5.3 percent of current expenditure) is essential to the credibility of the public expenditure reform program, as it represents a pilot exercise for moving to a more comprehensive medium-term expenditure framework in the future. In response, the authorities secured financing for the second quarterly PAP allocation in May 2001, and committed to release funds at the beginning of each quarter thereafter.

17. **In the event of shortfalls in revenue or nonproject budget support, the authorities indicated that nonsocial expenditure will be implemented cautiously,** and the budgeted increase in locally financed development spending would be reduced, if necessary, to achieve the domestic financing target. Further room is provided by contingency and reserve funds (amounting to about 0.3 percent of GDP). Improving expenditure composition and cash management will be an important focus of technical assistance being provided by the Fund, the AsDB, and bilateral donors under the Technical Cooperation Action Plan (TCAP), as well as by the World Bank.

18. **The mission worked closely with the authorities to review the budget financing targets for the remainder of the year.** Given the large overhang in expenditure commitments from the previous year, the aim to even the flow of expenditure during the year, and the overall stable macroeconomic situation with low inflation, it was agreed that a further net increase in government deposits with the domestic banking system was not warranted, and that zero bank and domestic financing targets for 2001 were justified. Quarterly targets have also been revised accordingly.

19. **The GAP is the cornerstone of the government's strategy aimed at strengthening fiscal transparency.** Actions aimed at addressing corruption in government agencies and enhancing budget management, tax administration, and public expenditure management are central to improving fiscal transparency. Broad dissemination of the GAP among line ministries, local governments, and civil society is underway, and a comprehensive framework for further prioritizing, sequencing, costing and monitoring performance under the GAP is being prepared with World Bank support. In addition, the MEF will prepare action plans taking into account recent recommendations by FAD staff on budget management, tax administration, and expenditure management by end-2001. The permanent advisors assigned in these areas under the TCAP are expected to provide crucial support for establishing a transparent regulatory framework and improving accounting and auditing procedures.

20. **The 2002 budget is expected to represent further substantial progress toward a sustainable fiscal position.** The mission emphasized the importance of reaching the revenue target of 13 percent of GDP in 2002 in view of competing expenditure demands, including the need to further increase social sector spending to support the poverty reduction strategy, expected wage increases as part of an agreed civil service reform strategy, and the costs of local commune elections. The authorities reaffirmed their commitment to fiscal stability as the central element of their program, but were concerned about both the expenditure demands, and the politically difficult revenue measures that might be required to meet program targets. They indicated that they would make use of technical assistance provided by FAD and consult closely with Fund staff in the coming months on the design of the 2002 budget.

21. **The military demobilization program is a critical element of the government's fiscal reform program.** Defense and security spending accounted for about 3½ percent of GDP in 2000. The mission expressed concerns about delays in implementing military demobilization, as savings from downsizing the army are essential for redirecting spending toward the social sectors. The demobilization program aims at demobilizing 30,000 soldiers (i.e., around 23 percent of the total military size) by end-2002 (Box 1). Completion of the program would free up resources estimated at up to ½ percent of GDP annually. The authorities stressed their commitment to the program, and emphasized the need for financing assurances before moving forward with the full program. Given the pledges received at the Consultative Group meeting on June 11–13, 2001, and provided that the World Bank project (about \$16 million) is approved by their Executive Board in the near future, as scheduled, it would be feasible to finance the demobilization of 15,000 soldiers during 2001, with the remaining 15,000 soldiers to be discharged in 2002.

22. **Civil service reform is crucial to improve the delivery of public services and to ensure the medium-term viability of the fiscal program.** An important first step has been the validation and computerization of the civil service census, which has already led to the identification of more than 8,000 irregular cases (5 percent of the civil service payroll). The authorities have committed to set the overall wage bill annually in consultation with Fund staff. In particular, the overall wage bill will be kept below a maximum of 40 percent of current expenditure to ensure adequate funding for nonwage operations and maintenance. Within these budget constraints, the authorities have made progress in designing a credible reform strategy in consultation with the World Bank and other development partners (see Box 2). Additional work on this strategy is needed, particularly to ensure adequate incentives for senior civil service positions. Further discussions with the World Bank will take place with a view to finalizing the strategy in the near future so that implementation can begin in the context of the 2002 budget.

Box 1. Cambodia: Preparation of the Military Demobilization Program

The program consists of four main stages: registration of the soldiers, discharge and disarmament, reinsertion, and reintegration (involving a smooth transition of the veterans into civilian life). The overall cost of the full program is estimated at \$42 million (1½ percent of GDP).¹

The Pilot Program:

In early 2000, the government launched a pilot program (demobilization of 1,500 soldiers in four provinces), with the objective of completing it by year-end, gaining experience from the likely challenges it faces, and then moving forward with the full program. The first two stages of the pilot were successfully completed by mid-2000. However, delays in the release of committed donor funds led to significant delays in completing the final stage of the pilot. The government, NGOs, and donors gave a positive evaluation on the overall performance of the pilot during a workshop in March 2001, and agreement was reached on some basic issues to ensure effective implementation of the full program:

- Operations for registration and discharge would be undertaken only after all committed funds were disbursed and in place for meeting the associated costs.
- Demobilized soldiers would be fully informed of their entitlements before they were discharged. Assistance packets and a basic health kit would be made available immediately after discharge and all land issues would be resolved before the veterans return home.
- A contingency group (about 5 percent of the total) would be identified to fill up positions of soldiers who cannot be demobilized for some unforeseen reasons.

It was also felt that smooth delivery of committed funds, further streamlining of the procurement process, and increased interaction between the government, donors, NGOs, and local governments at all stages were crucial for the successful implementation of the full program.

Recent Progress:

During the March 2001 workshop, a few donors committed funds that would cover a part of the expenses for the first phase of the full program. The pilot is now near completion and the government has completed the registration of 15,000 soldiers to be discharged before the end of the year.

At the recent CG meeting, financing assurances were received comprising \$7.2 million to be contributed by the government, about \$16 million by the World Bank, \$10 million by Japan, and the rest covered by several other donors. As a result, the program now includes funding for reinsertion and reintegration, and these programs are being carefully designed to mitigate against the risks of social disruption associated with such a large program. The World Bank demobilization and reintegration project is expected to be presented to the Executive Board in August 2001.

¹ For more details on the costs, design and preliminary assessment on the pilot program see Box 4 (EBS/01/2, 01/04/01).

Box 2. Cambodia: Status of Civil Service Reform

Background: The government of Cambodia embarked on civil service reform with the launching of the civil service census in mid-1999. Following completion of the census in March 2000, efforts have focused on validating the results and establishing a computerized payroll. Required fingerprinting and photographing operations are expected to be completed in July 2001. A computerized payroll has been prepared for line ministries and is expected to be expanded to provinces by end-2001. About 8,000 irregular cases (5 percent of civil service workforce and \$1.2 million annual saving) have been eliminated from the payroll, as a result of the census. In parallel, the government has formulated a comprehensive strategy for rationalizing the civil service, with assistance from the World Bank and donors. The strategy is expected to be implemented during 2002–06. However, despite commendable progress, the strategy described below needs to be strengthened in several areas.

Proposed strategy

A new job classification system includes four basic categories (A, B, C, and D) based on education levels and a “super category A” comprising senior officials. Within each category, a system of pay scale indices defines base wage levels. Additional incentives are also granted to staff under special statutes (e.g., diplomats, teaching personnel) or working in a “Special Operating Agency” (i.e., revenue generating agency).

A new compensation system consists of base wages with a compression ratio of 4.5 and five categories of allowances to account for job complexity, level of responsibility and hardship. The compensation system is aimed at : (i) aligning the average compensation level with the minimum wage in the private sector (\$45); and (ii) closing the gap between the education and non-education sectors by 2006. In addition, salary supplements would be distributed to members of a “*Super category A*” and “*Priority Mission Groups (PMG)*,” both schemes being aimed at raising income incentives to retain qualified staff. The proposed strategy leaves a small cumulative financing gap of \$5 million (about one percent of the total wage bill) over 2002–06 that the authorities hope could be filled by donor assistance.

The *civil service workforce* of 158,498 in 2000 would rise by 4.8 percent in 2001–06, with the increase in the education sector (16.2 percent) partly offset by a decline (-18.1 percent) in other sectors. A drastic change in the composition is envisaged, reflecting staffing needs in priority sectors (i.e., education, health, and local government). About 3,000 teachers would be recruited annually in response to the considerable increase in primary enrollment in the last ten years.

Assessment by Bank and Fund staffs. The proposed strategy is a credible start, but revisions are needed to provide for higher incentives to senior managers. The proposed PMGs are a parallel and temporary cohort and are not integrated within the permanent civil service structure. In addition, the payroll should be self-financing as donor financing for PMGs is unlikely to be forthcoming. Proposed pay improvements also need to be targeted to the higher-grade levels to concentrate benefits where they are most urgently needed. To address these problems, a smaller increase in the number of teachers, or deeper cuts in non-education personnel should be considered. An adequate but affordable safety net in support of the anticipated downsizing effort also needs to be developed. The World Bank is assisting in this effort through an Economic Capacity Building project and grant assistance.

C. Monetary Policy and Bank Restructuring

23. **The monetary program for 2001 has been revised to take into account developments at end-2000 and early 2001.** As noted above, the target for net government credit has been revised upward (by one percent of broad money) in line with the revised fiscal program of zero bank and domestic financing. Net domestic assets (NDA) of the National Bank of Cambodia (NBC) are programmed to decline by about 5 percent of reserve money, also slightly less than the original program, reflecting the adjusted fiscal targets. Broad money is targeted to grow by 24 percent, continuing a trend decline in velocity, and principally led by growth in foreign currency deposits, while growth in domestic currency is projected at 8 percent. Domestic credit is projected to grow by 15 percent, entirely led by the growth of private credit, which is expected to rebound to a trend growth rate in line with GDP.

24. **Banking reform has focused on liquidating closed banks and monitoring the performance of banks being restructured under Memoranda of Understanding (MOUs).** The mission welcomed the actions that have been taken to liquidate nonviable banks and monitor other banks, as well as the recent recapitalization of the Foreign Trade Bank (FTB—see Box 3). The authorities were encouraged to continue their strong cooperation with MAE technical assistance in implementing the restructuring strategy. It will be important to monitor the performance of banks under MOUs closely, as it may be necessary for several of these banks to close or merge with other banks later in the year if they cannot meet their performance targets. The mission also emphasized the importance of establishing a commercial culture in the FTB and preparing it for future privatization (targeted for end-2001 under the original PRGF-supported program). The authorities reaffirmed their commitment to the bank restructuring program, including the eventual privatization of the FTB, and were willing to consider an early privatization if feasible. However, it was recognized that substantial restructuring of the FTB would likely be needed before it could be successfully privatized. As a first step, the Board of Directors has been strengthened with the appointment of an outside director with banking experience, and the authorities are actively seeking external management assistance for the bank.

D. External Sector Policies and Capacity to Repay the Fund

25. **A flexible market-based exchange rate policy is expected to remain in place.** Given low inflation, the exchange rate is expected to remain stable and a further build up of international reserves to retain import coverage of about 3 months is programmed. With these prospects, the mission urged the NBC to formally unify the official exchange rate with the market rate, and move toward the acceptance of Article VIII status. While the NBC is firmly committed to keep the spread below one percent, full elimination of the margin was resisted at this time as they consider that the official exchange rate has an important signaling effect on a very thin foreign exchange market. In this context, the NBC assured the mission that there would not be any sustained intervention to resist downward pressure on the exchange rate, in line with the agreed policy in the MEFP.

Box 3. Cambodia: Recent Progress in Bank Restructuring

The Cambodian banking system is relatively small and provides limited banking services, reflecting Cambodia's early stage of monetization. Total loans and deposits amount to only 7 percent and 11 percent of GDP, respectively, mostly denominated in foreign currencies, and the ratios of financial deepening are among the lowest in the world. While the quality of banks' assets is a concern, due to the highly segmented nature of the banking system, systemic risk is low.

Since the beginning of the PRGF arrangement, the authorities have taken timely and decisive actions to restructure the banking system. Following the adoption of the new Financial Institutions Law in November 1999, the National Bank of Cambodia (NBC) closed three insolvent and inactive banks in July 2000, and after carefully evaluating the viability of the remaining 26 privately-owned banks, closed another eight banks in December 2000.¹ During the first half of 2001 two other banks declared voluntary liquidation. Of the remaining 16 banks, five banks have been relicensed with no conditions, and 11 banks are subjected to corrective actions agreed in Memoranda of Understanding (MOUs).² Typically, these banks are required to inject capital to meet the minimum capital requirement and reduce large exposure to a single customer or related parties.

The liquidation process for closed banks has been moving forward. Liquidators have completed inventories of assets and liabilities for all closed banks, and repayments to depositors have started. The NBC is actively involved in this process, together with liquidators, and is making efforts to maximize available assets remaining in closed banks so that depositors could be protected as much as possible.

The 11 privately owned banks under MOUs are expected to be either fully relicensed or closed at the end of 2001. The first quarterly monitoring report prepared in May 2001 indicated that some banks (4) were not meeting the requirements of their MOUs, mostly related to delays in making scheduled capital payments. The NBC has assigned a variety of sanctions against these banks, including restrictions on deposit taking, until they come into compliance with their MOUs. Further actions may be needed in the period ahead and the next quarterly monitoring report, due by end-August, will need to indicate more effective actions against banks which are not in compliance. Given that most of the banks under the MOUs hold substantial amounts of loans and deposits, the NBC will need to carefully plan liquidation procedures for any banks that will need to be closed.

The restructuring of the state-owned Foreign Trade Bank (FTB) is underway, although accelerated efforts are needed for its eventual privatization. A comprehensive modernization of its management and operations and an introduction of a market-oriented business culture are essential. Currently, the FTB is suffering from a lack of efficient management, business planning, credit risk and bank wide risk management, and information technology, and cannot produce an unqualified financial report. The latest progress in FTB reform includes:

- **Full recapitalization.** On June 30, 2001, the NBC issued a central bank note to recapitalize the FTB to CR 50 billion (\$13 million). The Ministry of Economy and Finance will issue a recapitalization bond in the context of the 2002 budget to replace the central bank note, and the NBC and the FTB will be completely separated. The carrying costs of the bond are expected to be marginal, CR3 billion per year (0.3 percent of current expenditure).
- **The appointment of an outside director.** In June 2001, the authorities appointed the first outside director with commercial banking experience to the FTB Executive Board. Currently, the authorities are seeking a candidate with appropriate commercial banking experience to assist FTB management in restructuring the bank.

¹ At the start of the restructuring process in late 1999, the banking system consisted of 31 banks: 2 state-owned banks, 22 privately owned banks, and 7 foreign bank branches.

² The FTB is also being restructured under an MOU.

26. **The staff welcomed the implementation of the first round of tariff restructuring** that has reduced the number of tariff bands to four, and the maximum tariff rate to 35 percent. They urged the authorities to continue this process in the formulation of the 2002 budget by further lowering the unweighted average tariff rate to less than 15 percent. It was agreed that the authorities would consider reducing the maximum tariff rate to 30 percent in the future, taking into account the experience with the implementation of the recent tariff adjustments.

27. **Recent indicators point to a further improvement in the external position over the medium term**, assuming the maintenance of macroeconomic stability and good progress in structural reforms. The current account deficit could fall to about 8 percent of GDP by 2006, based on continued export growth and buoyant tourism. The mission cautioned that to improve the prospects for external viability over the medium term, it was essential to enhance the attractiveness of Cambodia for foreign investment and expand export capacity. The authorities indicated that the recent drop in FDI approvals was due to a combination of factors, including a stricter project approval policy, and intensified regional competition for foreign capital. Private sector representatives cited the high cost of business associated with the bureaucracy and the uncertainty surrounding the envisaged amendments to the Law on Investment as potential barriers to new investment. The mission noted that weaknesses in the statistical data on actual investment prevent a clear analysis. Available data indicate that actual FDI inflows in 2000 declined somewhat, but not as dramatically as the drop in approvals. Improving basic infrastructure, addressing governance issues, and increasing transparency in government policies are fundamental for enhancing the investment environment. In this regard, the authorities were encouraged to complete the proposed revisions to the Law on Investment and take steps to reduce bureaucratic obstacles in the application of investment policy.

28. **Cambodia's external position should be sustainable over the medium term.** The projected current account deficits would be financeable, given prospective official concessional assistance and assuming appropriate debt relief consistent with Cambodia's fiscal capacity. Cambodia should also have no difficulty in continuing to service its obligations to the Fund.⁵ Given the concessional nature of Cambodia's debt, the completion of outstanding bilateral rescheduling agreements should allow debt service payments, including on Fund credit, to remain at less than 5 percent of goods and service receipts during this period. There has been progress in debt restructuring with some former CMEA creditors. Technical discussions with the Czech and Slovak Republics were concluded and final agreements are expected to be signed by the end of 2001. The authorities have also had technical discussions with the Russian Federation and further discussions are envisaged both

⁵ Cambodia is subject to the transitional arrangements under the safeguards procedures, which require a review of the NBC's external audit mechanism. The first external audit of the NBC has been completed and the assessment is underway. The staff is in the process of obtaining additional documentation from NBC.

at technical and political levels in the period ahead. Some additional discussions have also taken place with the United States on the outstanding bilateral agreement under the 1995 Paris Club, but progress thus far has been limited. Accordingly, the mission urged the authorities to continue to make efforts to resolve all outstanding debt issues.⁶ The main risks to the baseline scenario would be a sustained decline in global economic activities, a delay in WTO accession (Box 4), or a deterioration in economic and political stability that would undermine donor assistance and potential FDI inflows. Recent pledges at the CG meeting indicate broad support for Cambodia, but realizing this support will depend on effective implementation of the reform program.

E. Other Structural Reforms

29. **Structural reform priorities remain the same as those identified in the second-year program under the PRGF arrangement (EBS/01/2, 01/04/01).** In addition to the key areas discussed above, other priority areas are forestry policy and legal reform. Additional structural policies for supporting the authorities' poverty reduction efforts were described in detail in the I-PRSP.

30. **The direction of forestry policy has shifted under the program.**⁷ Notable accomplishments so far include cancellation of concessions, the drafting of a new Forestry Law, reductions in logging permits, and the establishment of a Forest Crime Monitoring Unit (FCMU). However, the operations of the FCMU have not matched their potential because of weak coordination among government departments and problems with establishing a protocol for the role of the independent outside monitor. The mission welcomed the recent signing of such a protocol and the re-affirmation of the role of the independent monitor. In the period ahead, completing the restructuring of concessions by end-September 2001 (including cancellation for concessions that do not complete restructured agreements) is a priority, as it will provide the basis for sustainable logging and associated government revenue over the medium term.

⁶ Given the ongoing rescheduling discussions, the corresponding claims do not constitute arrears for program purposes.

⁷ The history of forestry policy and the overall reform effort are described in the Selected Issues paper prepared for the 2000 Article IV consultation (SM/00/200, 08/31/00).

Box 4. Cambodia: Trade Strategy and Accession to the WTO

Cambodia enjoys regional and bilateral trade benefits from the ASEAN Free Trade Area (AFTA), which it joined in April 1999; the Generalized System of Preferences (GSP) granted by the United States in 1997; and the EU Preferential Rules of Origin for ASEAN members provided by the European Commission in 1999. Cambodia's entry into the WTO is expected to provide additional benefits with large trading partners by guaranteeing most favored nation status. Of particular interest to Cambodia is the obligation under the Uruguay Round Agreement on Textiles and Clothing to phase out quotas by 2005.¹

Under AFTA, Cambodia has committed to reduce the majority of tariff lines below 5 percent by 2010 and the remaining tariff lines (mainly applicable to sensitive agricultural products) by 2017 within the framework of the Common Effective Preferential Tariff Agreement (CEPT). Parallel efforts outside the CEPT are also underway. In April 2001, Cambodia reduced the number of tariff bands from 12 to 4 and lowered the maximum rate from 120 percent to 35 percent. Cambodia is currently rated 6 in the Fund's trade restrictiveness index (moderately restrictive). While nontariff barriers (NTBs) were reduced over the past few years, some NTBs still exist. These include temporary export restrictions on rice and import licensing for pharmaceuticals, while exports of wood products are subject to annual export quotas and non-automatic licensing. Reducing the average tariff rate from 16½ percent presently to below 15 percent, and elimination of some of the nontariff barriers, could reduce the trade restrictiveness rating to 2.

Cambodia first applied for WTO membership in December 1994, and it submitted a Memorandum on its Foreign Trade Regime to the WTO Working Party in June 1999. Replies to questions concerning the Memorandum were circulated in January 2001. In May 2001, the Minister of Commerce headed a delegation to Geneva to initiate the first meeting of the Working Party. The second Working Party meeting is expected to take place in January 2002. Further modernization and liberalization of the trade regime is expected as part of the WTO accession process. Legal and regulatory reforms are another area of considerable challenge, as Cambodia does not presently have essential laws, such as those on commercial contract, bankruptcy, quality of goods and services, and intellectual property protection and copyrights.

Trade liberalization, particularly within the region, could have significant benefits, as Cambodia's preferential access can be used to generate export growth and investment from other countries. Over the medium term, the tariff reforms and rationalization being undertaken will allow for a more rational allocation of resources by avoiding costly domestic protection. In this context, the government is formulating a trade strategy linked to the poverty reduction objectives and has requested assistance from six multilateral agencies cooperating under the Integrated Framework for Trade (IF).² This strategy is expected to focus on a number of sectoral action plans for key export products and services, and identify needs and gaps in existing institutional capacity. A joint mission comprising Bank, Fund, and other IF core agency staff is expected to take place in the near future to review the strategy.

¹ Quotas on textiles and clothing imports to the United States were imposed in 1999, and currently about 40 percent of Cambodia's garment exports are subject to the quota restraint. For 2001, Cambodia was awarded a 15 percent increase in their export quota to the United States. Exports to the EU are free of quotas, and increased considerably in 2000.

² The IF is an arrangement between the IMF, ITC, UNCTAD, UNDP, World Bank, and WTO to coordinate assistance in the area of trade and foreign investment policy.

31. An outstanding issue relates to preparing revisions to the Law on Investment.

The present investment law is not effectively applied, with promised benefits in the form of tax holidays not actually conveyed because of complicated qualification criteria. The revisions are designed to increase transparency and improve revenue administration, while maintaining equal incentives for investment for all investors, foreign and domestic. These revisions were formulated with technical assistance from the Foreign Investment Advisory Service (FIAS), the World Bank, and the Fund. The main elements include reducing the scope of tax holidays and simplification of their administration, unifying the corporate tax rate at 20 percent, introducing an investment allowance and accelerated depreciation into the tax law, and reducing the duty-free exemptions granted to investment companies.⁸ In the face of a perceived worsening environment for FDI, the authorities are concerned about making any changes in the regime, and the proposals elicited initial strong objections from the private sector. As a result, the authorities have not yet reached internal consensus on this issue. The World Bank is providing additional assistance on technical aspects of the investment regime and on consultations with the private sector, and will assess progress in meeting SAC conditionality in early September 2001.

32. Further progress has also been made in preparing various aspects of commercial legislation.

In particular, a first draft of legislation has been prepared for corporate insolvency. The authorities are planning to finish this law by end-2001, taking into account technical assistance to be provided by LEG and other development partners. Work is also underway on secured lending legislation. However, the actual timing of submission of these laws to the National Assembly could be delayed beyond end-2001, owing to the large agenda of legal reform.

33. Cambodia's statistical capabilities are limited and compilation and analysis of basic economic data rely heavily on external technical assistance.

The periodicity, coverage and quality of Cambodia's economic data are sufficient for the staff to monitor the PRGF-supported program and recent economic developments. While progress is being made to improve the compilation of government finance and balance of payments data in conformity with international guidelines, significant weaknesses remain with regard to other areas as detailed in Annex IV. Publication of government finance data in Cambodia's *IFS* page is expected shortly. Discussions are underway regarding Cambodia's participation in the General Data Dissemination System (GDSS) and the authorities' request for a permanent statistical advisor is being considered.

⁸ Completing revisions to the Law on Investment is part of the second tranche release conditions for the World Bank SAC program. The \$15 million second tranche is an important part of the overall financing of the program, and the staff will coordinate closely with the Bank to monitor progress in this area.

F. Implementation Capacity and Program Monitoring

34. **Overall commitment to the economic reform program is strong.** Important structural reforms vital to the success of the program have experienced some delays but are generally moving forward. These delays, in some cases significant, have been due to both limited implementation capacity to handle technical aspects of the reforms, and also the difficulties in managing key reforms where sensitivities are high in the context of a fragile political environment. Considerable technical assistance under the TCAP program, and assistance being provided by the World Bank and other donors, is aimed at building implementation capacity and strengthening basic economic institutions with a focus on those aspects most critical to the poverty reduction objectives. This assistance will need to focus more on developing local capacity for the reforms to be lasting. With available technical assistance, the implementation of a wide range of reforms under the program is feasible, but will depend critically on the government's continued strong political will.

35. **The program for the remainder of 2001 will continue to be monitored through quantitative and structural performance criteria outlined in paragraph 25 of the MEFP.** Consistent with staff guidelines, the program's conditionality focuses on areas critical to the near-term macroeconomic outlook. Accordingly, the structural conditions for the remainder of 2001 focus on bank restructuring, tax administration, accounting standards for commercial banks, budget preparation, the computerization of the civil service census, and the restructuring of forestry concessions. Changes in the content of structural conditionality are described in Box 5.

IV. STAFF APPRAISAL

36. **Cambodia has achieved positive results in implementing economic reforms under its PRGF-supported program.** The maintenance of macroeconomic stability and growth momentum in the face of severe flooding last year is particularly commendable. Progress has also been made in key structural areas, including bank restructuring, the computerization of the civil service payroll, and forestry policy reform. However, there remain critical areas of structural reform that have experienced significant delays, most notably in civil service reform, military demobilization, and revisions to investment incentives.

37. **Reform implementation will need to be strengthened and sustained in the period ahead to solidify the positive results so far and begin to reduce pervasive poverty.** Making up for the recent slippages, and pressing ahead with the remaining agenda will be necessary to ensure that a critical mass of structural reforms remain in place to protect macroeconomic stability, and support sustained growth and poverty reduction.

Box 5. Cambodia: Structural Conditionality for 2001

1. Coverage of Conditionality in the Current Program

Structural conditionality for the 2001 program was set out in the Staff Report for the second review (EBS/01/2, 01/04/01) and in the MEFP dated December 18, 2000, and was approved by the Executive Board on January 19, 2001. Structural conditionality for 2001 was to focus on bank restructuring, tax administration, financial transparency, and forestry policy. Structural benchmarks in two areas where the World Bank is taking the lead were included with respect to formulating a strategy for civil service reform and preparing for the full implementation of the military demobilization program because of their importance for the medium-term macroeconomic objectives.

In the context of the third review, the staff team reviewed progress in all areas of structural reform, and reassessed structural conditionality for the fourth review, based on the guidelines for streamlining conditionality and the March 7, 2001 Executive Board discussion on Fund conditionality. As a result, structural conditionality for the remainder of 2001 was redesigned to focus more on those measures most critical to the near-term macroeconomic outlook, and to avoid duplicating specific areas of conditionality being covered by the Bank as described below. The restructuring of forestry concessions was retained as part of structural conditionality for the fourth review, but was revised from a structural performance criteria to a structural benchmark owing to the declining share of forestry in overall government revenue.

2. Status of Structural Conditionality from Earlier Programs

Since the start of the PRGF program in October 1999 all structural performance criteria have been observed, but there have been delays in the implementation of structural benchmarks. Some of these delays were relatively minor reflecting time needed to design reforms in the context of a very heavy agenda. Some other measures subject to benchmarks, however, have experienced considerable delays. In particular, the most important delays relate to beginning implementation of the full military demobilization program, formulating an acceptable strategy for civil service reform, and completing revisions to the Law on Investment. Progress in these areas and the status of these measures are explained in Table 3 and Boxes 1 and 2.

As for legal reform, two pieces of legislation, which were subject to benchmarks and are intended to improve the environment for private sector activity, cover secured transactions and bankruptcy. The authorities remain committed to completing this legislation, taking into account technical assistance from LEG. However, because of the uncertainty of exact timing, and the fact that it is not critical to the short-term macroeconomic outlook, preparation of this legislation was excluded from the formal structural conditionality for the remainder of 2001.

3. Structural Areas Covered by Bank Lending and Conditionality

The current SAC program, approved in February 2000, includes prior actions and tranche release conditions relating to the military demobilization program, public expenditure management, forestry policy, and revisions to the Law on Investment. Implementation of the full military demobilization program will be covered by a demobilization and reintegration project expected to be approved by the Bank Board in August 2001, forestry policy is supported by a Learning and Innovation Loan approved in June 2000, and civil service reform will be addressed through an Economic Capacity Building Project. The World Bank also has a Legal and Judicial Reform Project and a Land Management Project, and is monitoring the implementation of the Governance Action Plan.

4. Other Relevant Structural Measures Not Included in the Current Program

Land reform, a critical component of the poverty reduction strategy, and aspects of natural resource management (excluding forestry) are also major areas of structural reform that are being addressed by the Asian Development Bank and other donors.

38. **Fiscal reform remains critical.** Initial improvements in fiscal policy have been made under the program. Revenue has increased significantly in the last two years, the focus of the expenditure program is being shifted from defense and security to the social sectors, and overall fiscal discipline has contributed to macroeconomic stability. However, to reduce poverty in a durable way, fiscal reform needs to advance to the next stage, involving sustained improvements in revenue performance and a strong expenditure framework over the medium term.

39. **Firm implementation of the agreed tax measures will be important for ensuring that the envisaged revenue mobilization is realized.** Fundamental improvements in revenue will also require that the authorities follow through on technical assistance recommendations to improve customs administration. Strengthening the anti-smuggling task force in the customs department, and ensuring more effective use of the preshipment inspection program for imports will be important in this regard. It will also be important to effectively use technical assistance being provided by FAD to increase revenue and improve tax administration in order to reach the 2002 revenue objective. In this regard, it will also be important to complete revisions to the Law on Investment in the near future to increase transparency and improve revenue administration.

40. **Improving the effectiveness of the PAP for health and education will be necessary to help strengthen the expenditure framework.** The staff welcomes recent advances in the release of funding for the PAP, but improved effectiveness will also require close coordination between the Treasury and line agencies, and between the central and provincial governments. Effective implementation of the PAP is essential for the credibility of the policy, as these programs will need to be broadened in the future into a full medium-term public expenditure program. The staff also welcomes the recent formation of a cash management unit to help even out seasonal fluctuations in the expenditure pattern.

41. **Implementation of the military demobilization program and civil service reform, both vital to medium-term poverty reduction objectives, should begin as soon as possible.** Now that financing assurances seem to be in place, the staff urges the authorities to press ahead with the military demobilization program with a view to discharging 30,000 soldiers by end-2002. The staff also welcomes the progress that has been made to design a civil service reform strategy that provides for the needed increases in remuneration within a comprehensive framework. However, the current proposals do not go far enough to ensure the ability to retain qualified senior staff, and will also need to be adapted to ensure consistency with medium-term fiscal constraints. Accordingly, the authorities are urged to continue technical discussions with the World Bank to review the strategy and planned downsizing targets. It will also be important to complete the design of a safety net for departing civil servants.

42. **Banking reform will need to continue as envisaged under the program.** The staff welcomes the consistent and timely actions taken by the authorities in the liquidation of nonviable banks. Building on the good progress so far, it will also be important to monitor closely those banks that are implementing reforms under Memoranda of Understanding, and

to take action against those banks that do not meet performance targets. Actions also need to be accelerated to transform the Foreign Trade Bank into a commercial entity and to prepare the bank for future privatization. In this regard, it is important to take the necessary steps to obtain an unqualified audit of the FTB, and put in place experienced management to undertake operational restructuring. The government is also urged to take further steps in other reform areas to improve their effectiveness. In particular, better internal coordination in the Forest Crime Monitoring Unit would improve the impact of forestry policy reforms.

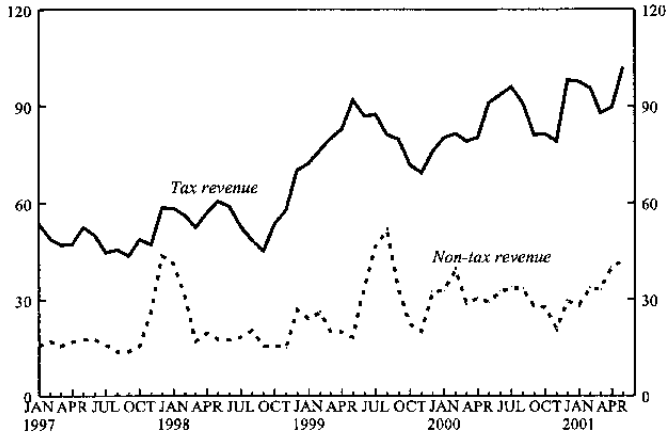
43. The external position is projected to be manageable over the medium term. However, to achieve program objectives, Cambodia will continue to depend on substantial external assistance, and sustained implementation of the reform program will be critical to realize projected assistance. Moreover, to attract needed investment, strong efforts are needed to improve basic economic infrastructure, the delivery of government services, and the overall governance environment. In this regard, the staff urges the authorities to move forward in implementing the GAP and to make effective use of the National Audit Authority. The staff urges the authorities to maintain the current flexible exchange rate policy while keeping the spread between the official and market rate below one percent, and moving toward market unification and acceptance of the obligation of Article VIII, Sections 2, 3, and 4 during the program period. Trade reform will also be important for achieving medium-term growth objectives. In addition to tariff reform, the staff urges that progress be made in reducing the few nontariff barriers that remain in place.

44. Given Cambodia's limited implementation capacity, extensive technical assistance will need to be provided under the TCAP, as well as from other donors. To make lasting contributions to Cambodia's development, the authorities will need to take the necessary steps to ensure that this assistance builds local capacity. The staff also welcomes the authorities commitment to begin preparing government finance statistics for publication, and encourages the authorities to participate in the GDDS in the future as a framework for guiding statistical development.

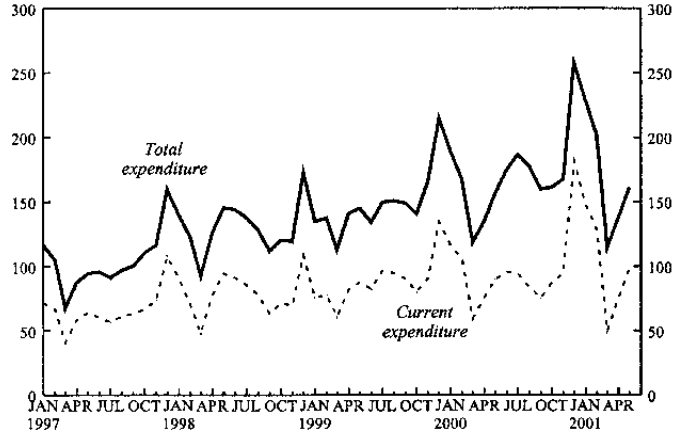
45. Cambodia continues to make progress during the second year of its program and the staff supports the authorities' request for the completion of the third review under the PRGF. Macroeconomic stability needs to be maintained, and structural reforms deepened, to put Cambodia firmly on the path of higher growth and poverty reduction. Given the complex nature of some reforms, weak administrative capacity, and the fragile political environment, program risks remain significant. Close program monitoring and consistent technical assistance support will be critical to achieve program objectives. The policies for the remainder of 2001 set out in the Supplementary Memorandum of Economic and Financial Policies are designed to deepen the reform program and address areas where delays have been experienced, and provide a basis for the continuation of Fund support. Accordingly, the staff recommends that the Executive Board complete the third review under the PRGF.

Chart 1. Cambodia: Selected Economic Indicators, 1997-2001

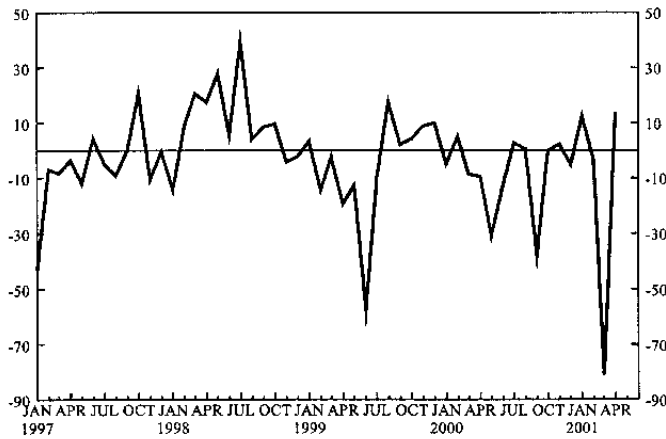
General Government Revenue
(3-month moving average, in billions of riel)



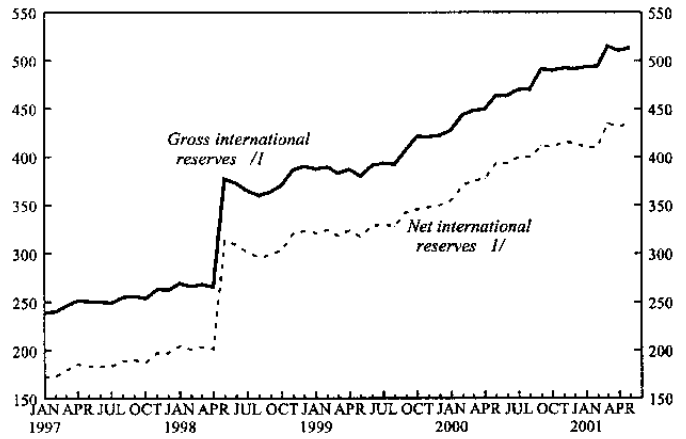
General Government Expenditure
(3-month moving average, in billions of riel)



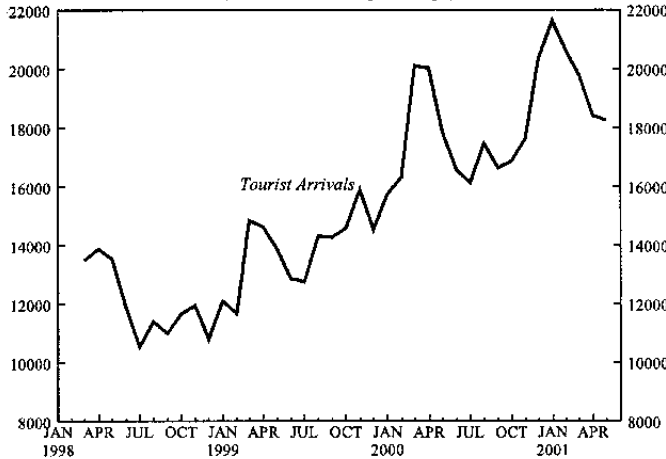
Bank Financing of the Budget
(Monthly flow, in billions of riel)



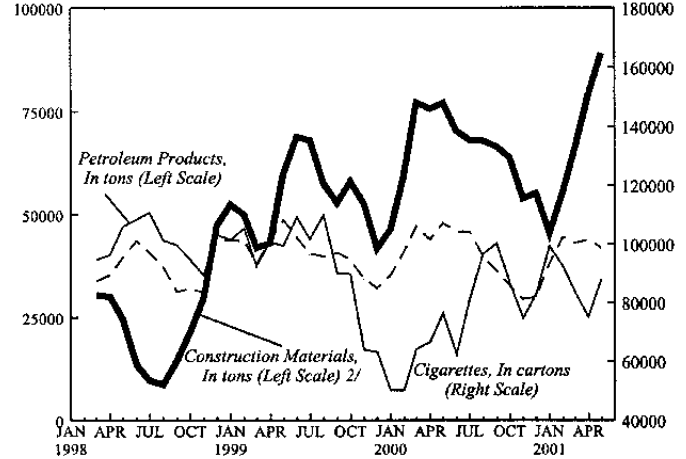
International Reserves
(In millions of U.S. dollars)



Tourist Arrivals at Phnom Penh Airport
(3-month moving average)



Import Volumes of Key Commodities
(3-month moving average)

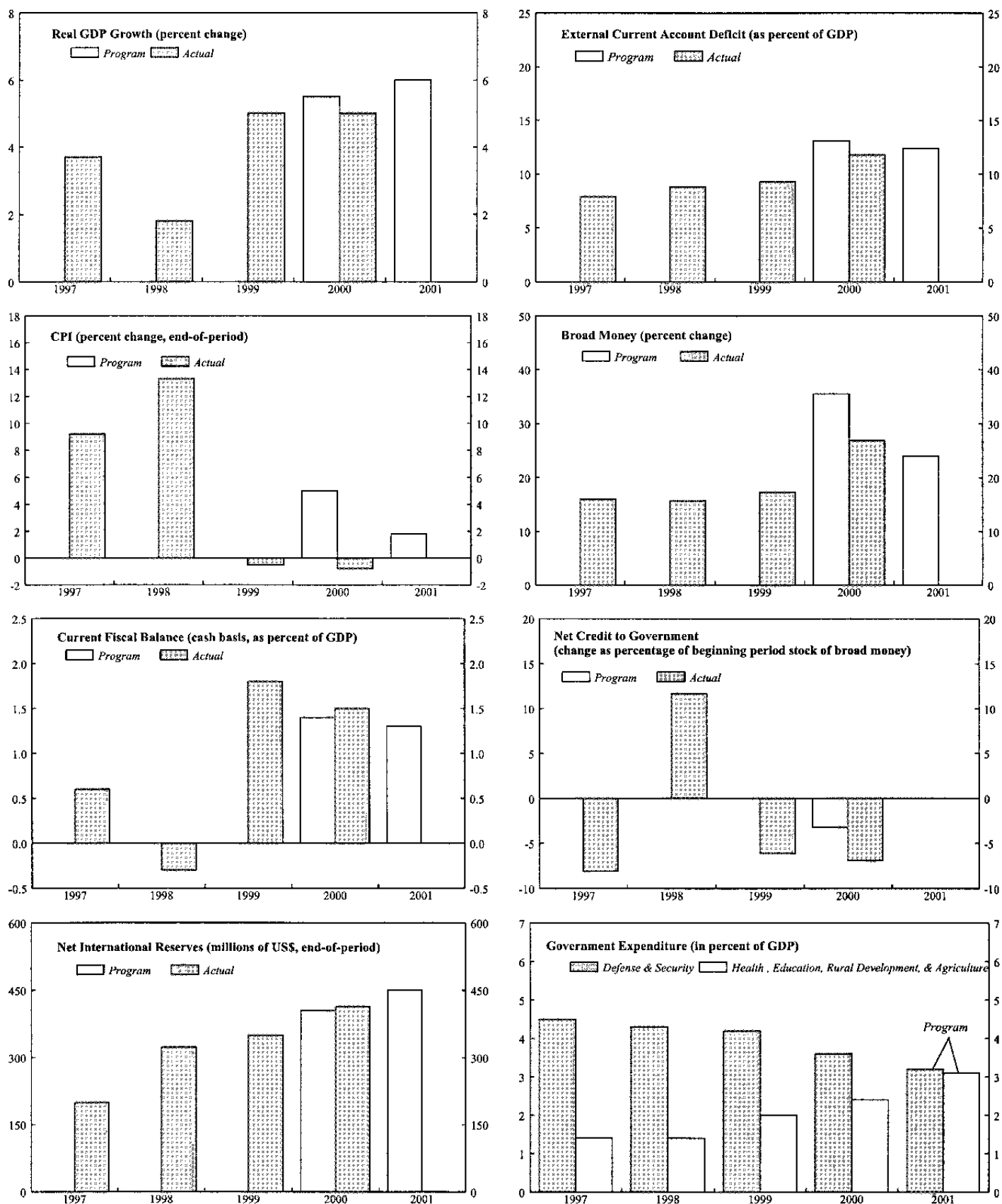


Source: Data provided by the Cambodian authorities.

1/ Includes US\$117 million associated with the return in 1998 of Cambodian gold previously held by the BIS.

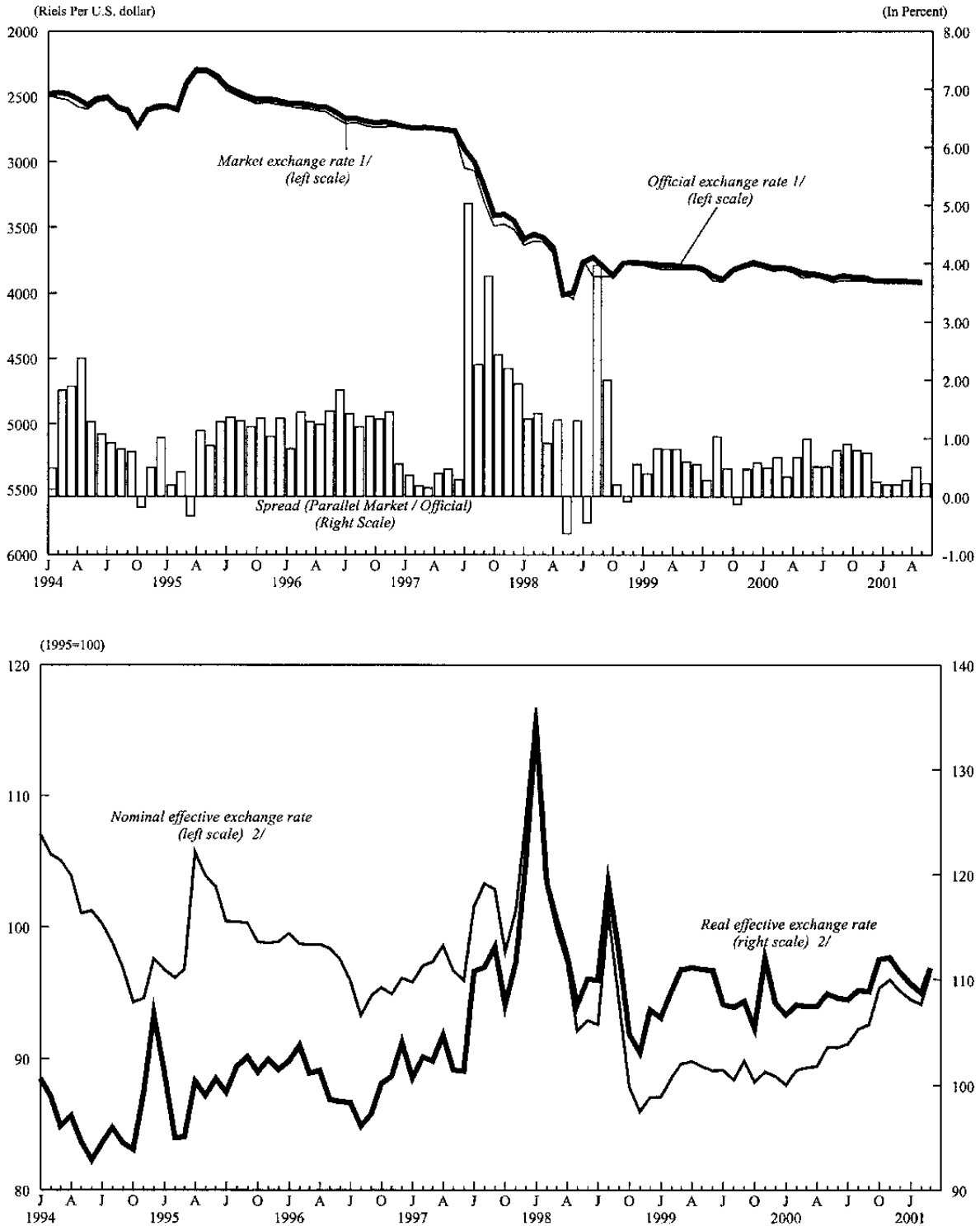
2/ Includes imports of steel, cement, and construction equipment.

Chart 2. Cambodia: Indicators of Program Performance, 1997-2001



Sources: Data provided by the Cambodian authorities, and Fund staff estimates.

Chart 3. Cambodia: Exchange Rate Developments, 1994-2001



Sources: Data provided by the Cambodian authorities, and Fund staff estimates.

1/ Riels per U.S. dollar, end-period buying rate.

2/ Based on the official exchange rate; an upward movement indicates an appreciation of the exchange rate.

Table 1. Cambodia: Selected Economic Indicators, 1998–2001

Nominal GDP (2000): \$3,172 million
 Population (2000): 12.2 million
 GDP per capita (2000): \$260
 Fund Quota: SDR87.5 million

	1998	1999	2000			2001		
			Orig. Prog.	Rev. Prog.	Actual	Orig. Prog.	Rev. Prog.	Most Recent
(Percent change; unless otherwise indicated)								
Real economy								
Real GDP	1.8	5.0	5.5	4.0	5.0	6.0	6.0	...
GDP deflator	13.1	3.8	3.2	4.0	1.5	5.7	5.0	...
Consumer prices (end of period)	13.3	-0.5	5.0	8.4	-0.8	1.8	3.0	1.0 6/
(annual average)	14.8	4.0	2.3	0.4	-0.8	8.9	4.0	...
Money and credit								
Broad money (including foreign currency deposits)	15.7	17.3	35.5	34.7	26.9	24.0	23.7	9.8 6/
Of which: riels in circulation	43.0	-3.8	4.1	7.8	1.0	8.0	8.2	-0.2 6/
Net credit to the government 1/	11.7	-6.1	-3.2	-1.4	-6.9	-1.3	0.0	-8.0 6/
Velocity of money 2/	9.5	8.5	7.4	7.0	6.9	6.2	6.7	...
(In percent of GDP)								
Government budget								
Revenue (including capital revenue)	9.0	11.7	11.7	11.6	11.8	12.1	12.2	11.2 7/
Of which: Tax revenue	6.5	8.4	8.8	8.6	8.6	8.7	8.7	8.0 7/
Nontax revenue	2.2	3.1	2.8	2.9	2.9	3.2	3.3	3.1 7/
Expenditure	14.9	16.1	16.3	17.3	17.3	17.8	18.3	13.8 7/
Current expenditure	8.9	9.8	10.1	10.2	10.0	10.5	10.8	8.2 7/
Capital expenditure	6.0	6.3	6.2	7.1	7.3	7.3	7.6	5.6 7/
Current budget balance	-0.3	1.8	1.4	1.3	1.5	1.4	1.3	2.9 7/
Overall budget balance	-6.0	-4.4	-4.6	-5.7	-5.5	-5.7	-6.1	-2.6 7/
Overall budget balance (including grants)	-2.7	-1.5	-0.6	-2.1	-1.7	-1.9	-2.1	0.5 7/
Foreign financing	4.8	4.5	5.2	5.9	5.8	5.8	6.1	4.2 7/
Domestic financing	1.1	-0.4	-0.6	-0.2	-0.1	-0.2	0.0	-1.7 7/
Outstanding operations 3/	0.1	0.3	0.0	0.0	-0.1	0.0	0.0	0.0 7/
Domestic investment	12.9	15.8	17.5	17.5	16.0	17.8	16.5	...
Government investment 4/	5.7	6.2	6.0	7.1	7.1	7.1	7.6	5.6 7/
Nongovernment investment	7.3	9.6	11.5	10.4	8.9	10.7	8.9	...
National saving	11.8	13.8	10.7	12.4	14.1	12.3	14.1	...
Government saving	-0.3	1.8	1.4	1.3	1.5	1.4	1.3	2.9 7/
Nongovernment saving	12.1	12.0	9.3	11.1	12.6	10.9	12.8	...
(In millions of U.S. dollars; unless otherwise indicated)								
Balance of payments								
Exports 5/	604	709	608	939	1,100	1,002	1,196	.....
Imports 5/	-831	-968	-1,005	-1,337	-1,438	-1,433	-1,524	.....
Current account (excluding official transfers)	-224	-282	-448	-408	-331	-437	-357	.....
(in percent of GDP)	-8.0	-9.4	-13.1	-12.7	-10.4	-12.4	-10.4	.....
Current account (including official transfers)	-30	-61	-231	-164	-60	-192	-83	.....
(in percent of GDP)	-1.1	-2.0	-6.8	-5.1	-1.9	-5.5	-2.4	.....
Capital account	-75	-34	95	100	-3	192	85	.....
Overall balance	-105	-95	-136	-65	-62	0	2	.....
Gross official reserves	390	422	486	484	484	529	531	513 8/
(in months of imports of goods and services)	3.5	3.3	3.5	3.1	2.8	3.2	2.8	2.7 8/
(in percent of broad money)	119.9	110.5	97.0	97.1	103.4	97.2	103.8	...
Net official reserves	323	349	399	405	411	445	451	436 8/
External debt	2,044	2,029	1,146	2,132	2,100	1,339	1,236	...
(in percent of GDP)	72.7	67.4	35.1	66.3	66.2	38.1	35.9	...
Debt service	124	130	37	29	53	53	52	...
(in percent of domestic exports of goods and services)	20.9	18.8	3.9	2.4	4.7	4.1	4.2	...
Memorandum items:								
Nominal GDP (in billions of riels)	10,531	11,470	12,489	12,406	12,225	13,900	13,606	...
(in millions of U.S. dollars)	2,813	3,008	3,267	3,217	3,172	3,519	3,440	...
Exchange rate (riels per dollar, end of period)	3,780	3,775	3,900	3,900	3,910	...	...	3,920 9/

Sources: Data provided by the Cambodian authorities; and Fund staff estimates and projections.

1/ Contributions to 12-month percent change of broad money.

2/ Ratio of nominal GDP to average stock of broad money.

3/ Includes expenditure committed but not yet allocated to the accounts of the government agencies that execute the budget.

4/ Includes externally-financed technical assistance for implementation of capital projects.

5/ Excludes re-exports.

6/ As of April 2001.

7/ As of May 2001; annualized totals relative to projected annual GDP.

8/ As of June 13, 2001. Gold and foreign liabilities are evaluated at the end-2000 gold price and \$/SDR exchange rate, respectively. "In months of imports of goods and services" is calculated based on 2001 projected imports.

9/ June 28, 2001.

Table 2. Cambodia: Quantitative Performance Criteria and Benchmarks, December 2000–March 2001

	1999	2000			2001		
	Stock at End -Dec.	End-Dec.			End-Mar. 1/		
	Actual	Prog.	Adj. Prog.	Actual	Prog.	Adj. Prog.	Actual
		(Cumulative change from beginning of year)					
Net domestic assets of the central bank (in billions of riels) 2/3/	-719	-142	-138	-222	-43	-43	-81
Net credit to the government from the banking system (in billions of riels) 3/	103	-20	-16	-100	-32	-32	-72
Net domestic financing of the budget (in billions of riels) 3/	...	-20	-16	-11	-32	-32	-85
Contracting or guaranteeing of external debt by the public sector 4/							
Up to one-year maturity 5/	...	---	---	---	---	---	---
1-5 year's maturity	...	---	---	---	---	---	---
Medium-and long-term nonconcessional debt 6/	...	---	---	---	---	---	---
External payments arrears 7/	...	---	---	---	---	---	---
		(Cumulative change from beginning of year)					
Net official international reserves (in millions of U.S. dollars) 8/	349	56	49	65	7	2	24
		(Cumulative flows from beginning of year)					
Memorandum Items:							
Total nonproject balance of payment support (in millions of U.S. dollars)	...	30	...	23	5	...	0
Total nonproject budget support (in billions of riels)	...	117	...	113	20	...	23
		(At end of period)					
Exchange rate (riels per U.S. dollar, end of period)	3,775	3,900	...	3,910	3,925	...	3,915

Sources: Data provided by the Cambodian authorities; and Fund staff estimates.

1/ Performance criteria.

2/ Net domestic assets are defined as reserve money minus net foreign assets of the central bank, adjusted for valuation changes arising from the difference between program and actual exchange rates.

3/ For purposes of verifying compliance with the program, the ceiling for net domestic assets of the central bank, net credit to the government from the banking system, and net domestic financing of the budget were adjusted upward by CR3.8 billion in December 2000 due to shortfalls in external nonproject budget support.

4/ Maturity based on original contract.

5/ Ceiling applies to amount outstanding. Excludes normal import-related credit and any borrowing associated with debt rescheduling.

6/ Excludes amounts contracted under the government loan agreement with China dated July 26, 2000 for a maximum loan amount equivalent to \$12 million.

7/ Continuous performance criterion.

8/ For purposes of verifying compliance with the program, the floor on net official international reserves was adjusted downward by \$7.1 million in December 2000 and by \$5.0 million in March 2001 due to shortfalls in foreign currency external nonproject budget support.

Table 3. Cambodia: Main Structural Policy Actions to be Assessed for the Third Review 1/

POLICY ACTION	STATUS
Financial Sector Development	
a. Begin dollar clearing and settlement services by end-January 2001.	Structural benchmark (Completed in January 2001).
b. First quarterly review of performance of relicensed banks against their MOUs by end-April 2001.	Structural benchmark (Completed in May 2001).
c. Appoint outside directors and prepare an updated business plan outlining commercial prospects of FTB by end-June 2001.	Structural benchmark (Study on privatization options completed; outside director was appointed in June 2001).
d. Complete final recapitalization of FTB by end-June 2001.	Structural performance criterion (Completed in June 2001).
Tax Administration	
Submit revised Law on Investment to the National Assembly	Condition for third review ² (Proposed revisions completed, but consultations with the private sector and delays in technical assistance have delayed implementation).
Civil Service and Military Reform	
a. Formulate, in consultation with the World Bank, a civil service reform strategy by end-March 2001.	Structural benchmark (Government strategy has been formulated, as described in Box 2. Discussions on finalizing the strategy with the World Bank are continuing).
b. Launch the first phase of military demobilization involving at least 10,000 soldiers by end-May 2001.	Structural benchmark (First phase expected to include 15,000 soldiers and begin after approval of the World Bank project in late August).
Forestry	
a. Submit a revised Forestry Law to the National Assembly, to provide a permanent framework for sustainable logging by end-February 2001.	Structural benchmark (The law has been completed and is expected to be submitted in July 2001).
b. Review timber revenue mechanism based, <i>inter alia</i> , on the results of an industry-sponsored study, and in consultation with Bank and Fund staff.	Condition for third review (Industry sponsored study completed).
Governance and Financial Transparency	
a. Establish and staff the National Audit Authority by end-March 2001.	Structural benchmark (Candidate to head the NAA was submitted to the National Assembly for approval at end-June 2001).
b. Prepare a comprehensive blueprint in consultation with donors, outlining specific and financial requirements for implementing the Governance Action Plan by end-March 2001.	Structural benchmark (Benchmarks and reform plans for each agency were developed in May 2001, but outlining specific and financial requirements have not been completed).

1/ As stated in the context of the second review, and reported in the Memorandum of Economic and Financial Policies dated December 18, 2000 (EBS/01/2).

2/ Conditions for review provide a framework for an assessment of progress in the implementation of reforms where a number of steps are needed and/or timing is uncertain.

Table 4. Cambodia: General Government Operations, 1999–2001

	1999	2000			2001			1999	2000			2001		
		Budget	Rev. Prog.	Actual	Budget	Prog.	Rev. Prog.		Budget	Rev. Prog.	Actual	Budget	Prog.	Rev. Prog.
		(In billion of riels)							(In percent of GDP)					
Total revenue	1,338	1,529	1,438	1,442	1,683	1,683	1,660	11.7	12.2	11.6	11.8	12.1	12.1	12.2
Tax revenue	966	1,083	1,071	1,055	1,213	1,213	1,190	8.4	8.7	8.6	8.6	8.7	8.7	8.7
Direct taxes	83	104	125	136	131	131	140	0.7	0.8	1.0	1.1	0.9	0.9	1.0
Indirect taxes	433	469	522	500	677	677	628	3.8	3.8	4.2	4.1	4.9	4.9	4.6
<i>Of which</i> : Excise taxes	92	94	123	113	248	248	179	0.8	0.8	1.0	0.9	1.8	1.8	1.3
VAT (net VAT refunds)	316	359	384	371	417	417	438	2.8	2.9	3.1	3.0	3.0	3.0	3.2
Trade taxes	433	492	407	390	379	379	396	3.8	3.9	3.3	3.2	2.7	2.7	2.9
Tax revenue from provinces	17	18	18	29	26	26	26	0.1	0.1	0.1	0.2	0.2	0.2	0.2
Nontax revenue	357	426	357	356	445	445	445	3.1	3.4	2.9	2.9	3.2	3.2	3.3
<i>Of which</i> : Timber royalties	36	52	40	41	55	55	50	0.3	0.4	0.3	0.3	0.4	0.4	0.4
Enterprises and immobile leases	20	39	34	27	35	35	40	0.2	0.3	0.3	0.2	0.2	0.2	0.3
PTT	107	150	101	92	144	144	120	0.9	1.2	0.8	0.8	1.0	1.0	0.9
Passports and visa	17	24	24	20	33	33	40	0.1	0.2	0.2	0.2	0.2	0.2	0.3
Quota auction	87	10	20	22	10	10	21	0.8	0.1	0.2	0.2	0.1	0.1	0.2
Capital revenue	15	20	10	31	25	25	25	0.1	0.2	0.1	0.3	0.2	0.2	0.2
Total expenditure 1/	1,847	2,359	2,150	2,119	2,483	2,471	2,442	16.1	18.9	17.3	17.3	17.9	17.8	18.0
Current expenditure	1,119	1,339	1,265	1,223	1,458	1,458	1,427	9.8	10.7	10.2	10.0	10.5	10.5	10.5
Wages 2/	525	527	507	512	542	557	557	4.6	4.2	4.1	4.2	3.9	4.0	4.1
Civil administration	194	218	212	211	235	240	240	1.7	1.7	1.7	1.7	1.7	1.7	1.8
Defense and security	331	309	294	301	307	317	317	2.9	2.5	2.4	2.5	2.2	2.3	2.3
Nonwage	572	788	735	677	884	869	838	5.0	6.3	5.9	5.5	6.4	6.2	6.2
<i>Of which</i> : Operating expenditures	410	505	489	497	576	576	566	3.6	4.0	3.9	4.1	4.1	4.1	4.2
Economic transfers	12	46	17	31	38	38	35	0.1	0.4	0.1	0.3	0.3	0.3	0.3
Social transfers	104	117	113	104	122	122	122	0.9	0.9	0.9	0.9	0.9	0.9	0.9
Reserve funds (chapter 40)	2	45	51	13	64	64	47	0.0	0.4	0.4	0.1	0.5	0.5	0.3
Provincial expenditure (net)	22	24	23	33	32	32	32	0.2	0.2	0.2	0.3	0.2	0.2	0.2
Capital expenditure	728	1,020	885	896	1,025	1,013	1,015	6.3	8.2	7.1	7.3	7.4	7.3	7.5
Locally financed	224	320	270	303	325	313	315	1.9	2.6	2.2	2.5	2.3	2.3	2.3
Externally financed	504	700	615	592	700	700	700	4.4	5.6	5.0	4.8	5.0	5.0	5.1
Cash adjustments 3/	...	...	...	...	...	...	-50	...	...	...	...	...	...	-0.4
Current balance	205	170	163	188	200	200	171	1.8	1.4	1.3	1.5	1.4	1.4	1.3
Overall balance	-509	-830	-712	-677	-800	-788	-832	-4.4	-6.6	-5.7	-5.5	-5.8	-5.7	-6.1
Overall balance (including grants)	-167	-280	-259	-204	-275	-263	-288	-1.5	-2.2	-2.1	-1.7	-2.0	-1.9	-2.1
Financing	509	830	712	677	799	788	832	4.4	6.6	5.7	5.5	5.7	5.7	6.1
Foreign financing (net)	515	843	732	708	813	813	832	4.5	6.8	5.9	5.8	5.8	5.8	6.1
<i>Of which</i> : Budget support (grant)	4	150	117	113	125	125	144	0.0	1.2	0.9	0.9	0.9	0.9	1.1
Project grants	337	400	336	360	400	400	400	2.9	3.2	2.7	2.9	2.9	2.9	2.9
Project loans	174	300	279	234	300	300	300	1.5	2.4	2.3	1.9	2.2	2.2	2.2
Domestic financing	-39	-13	-20	-11	-14	-25	0	-0.3	-0.1	-0.2	-0.1	-0.1	-0.2	0.0
<i>Of which</i> : Central bank financing	-70	-13	-20	-113	-14	-25	0	-0.6	-0.1	-0.2	-0.9	-0.1	-0.2	0.0
Private sector accounts	28	0	0	103	0	0	0	0.2	0.0	0.0	0.8	0.0	0.0	0.0
Exchange rate adjustments	-6	0	0	-7	0	0	0	0.0	0.0	0.0	-0.1	0.0	0.0	0.0
Outstanding operations 4/	38	0	0	-12	0	0	0	0.3	0.0	0.0	-0.1	0.0	0.0	0.0
Memorandum items:														
Defense and security outlays	470	455	433	446	421	431	431	4.1	3.6	3.5	3.7	3.0	3.1	3.2
Total revenue (excluding garment quotas)	1,251	1,519	1,417	1,419	1,673	1,673	1,639	10.9	12.2	11.4	11.6	12.0	12.0	12.0
Health, education, rural dev., agriculture	250	338	338	299	415	415	415	2.2	2.7	2.7	2.4	3.0	3.0	3.1
Customs department revenue	796	880	838	797	935	935	900	6.9	7.0	6.8	6.5	6.7	6.7	6.6
Total demobilization cost 5/	...	...	9	9	58	58	58	...	...	0.1	0.1	0.4	0.4	0.4
<i>Of which</i> : Government's expense 6/	...	...	1	1	9	9	9	...	...	0.0	0.0	0.1	0.1	0.1
GDP	11,470	12,489	12,406	12,225	13,900	13,900	13,606	...	...	...	...	...	...	...

Sources: Data provided by the Cambodian authorities, and Fund staff estimates and projections.

1/ Cash basis.

2/ Includes a 10 percent base wage increase, effective January 1, 2001. The additional cost for the wage increase is estimated to amount to CR15 billion, formerly budgeted as contingency funds.

3/ CR 50 billion of cash disbursement projected for 2001 reflects the cash impact of expenditure committed at end-2000.

4/ Includes expenditure committed but not yet allocated to the accounts of the government agencies that execute the budget.

5/ 1,500 soldiers were discharged in 2000, and 10,000 soldiers will be discharged in 2001. Cost per soldier is \$1,500.

6/ The government's financial contribution to the demobilization program is \$240 of cash payment per soldier.

Table 5. Cambodia: Monetary Survey, 2000-01

	2000		2001							
	Dec.		Jan.	Feb.	Mar.		Apr.	June	Sept.	Dec.
	Prog.	Actual			Prog. 1/	Actual		Program 1/		
(In billions of riels; end of period)										
Net foreign assets	2,534	2,588	2,617	2,709	2,718	2,733	2,733	2,849	2,935	2,995
National Bank	2,179	2,102	2,128	2,188	2,231	2,198	2,218	2,310	2,393	2,450
Deposit money banks	355	486	489	521	488	535	515	538	542	545
Net domestic assets	-591	-758	-744	-781	-776	-834	-817	-787	-730	-732
Domestic credit	1,057	904	916	909	920	837	860	914	978	1,041
Government (net)	83	3	16	12	-29	-69	-55	-39	-4	3
Public enterprises	9	3	2	2	4	1	1	4	4	4
Private sector	965	898	898	895	945	905	914	948	978	1,033
Other items (net)	-1,648	-1,662	-1,660	-1,689	-1,696	-1,672	-1,677	-1,701	-1,708	-1,772
Of which : Capital	...	-1,791	-1,808	-1,794	...	-1,780	-1,779	...	...	...
Broad money	1,943	1,831	1,873	1,928	1,942	1,899	1,917	2,062	2,205	2,263
Narrow money	570	540	559	570	553	548	550	564	572	581
Currency in circulation	528	495	492	502	510	511	513	520	527	535
Demand deposits	42	45	66	68	43	37	38	44	45	46
Quasi-money	1,373	1,291	1,314	1,358	1,389	1,351	1,366	1,498	1,633	1,682
Time deposits	35	46	48	48	48	48	47	50	52	54
Foreign currency deposits	1,338	1,245	1,266	1,310	1,341	1,303	1,319	1,448	1,581	1,629
(12-month percent change)										
Net foreign assets	25.5	28.2	19.9	17.5	14.5	15.2	14.5	13.5	19.8	15.7
Net domestic assets (- increase)	2.5	31.5	25.7	24.0	21.3	30.4	27.3	16.0	10.8	-3.5
Domestic credit	20.6	3.2	6.9	1.5	4.2	-5.2	-4.6	0.5	3.8	15.1
Government (net)	-19.4	-96.8	-84.1	-88.2	-130.4	-173.1	-165.0	-193.5	-157.5	0.0
Private sector	26.4	17.7	20.0	14.3	21.2	16.1	13.1	10.3	4.9	15.0
Other items (net)	13.4	14.4	14.6	10.8	11.4	9.8	8.7	7.1	6.7	6.6
Broad money	34.7	26.9	17.7	15.1	12.1	9.6	9.8	12.6	23.1	23.7
Of which : Currency in circulation	7.8	1.0	-0.6	-2.2	1.1	1.3	-0.2	3.0	6.2	8.2
(Contribution to annual growth of broad money; in percent)										
Net foreign assets	35.7	39.5	27.2	24.1	19.9	20.8	19.8	18.5	27.0	22.2
Net domestic assets	-1.0	-12.6	-9.6	-9.0	-7.8	-11.2	-10.0	-5.9	-4.0	1.4
Domestic credit	12.5	2.0	3.7	0.8	2.1	-2.6	-2.4	0.3	2.0	7.4
Government (net)	-1.4	-6.9	-5.2	-5.4	-7.1	-9.4	-8.0	-4.4	-0.6	0.0
Private sector	14.0	9.4	9.4	6.7	9.5	7.2	6.1	4.8	2.6	7.4
Other items (net)	-13.5	-14.5	-13.3	-9.8	-10.0	-8.6	-7.7	-6.2	-6.0	-6.0
Memorandum items:										
Foreign currency deposits										
In millions of U.S. dollars	343	318	323	335	342	333	337	366	398	407
In percent of broad money	69	68	68	68	69	69	69	70	72	72
Credit to private sector (In millions of U.S. dollars)	247	230	229	229	241	231	233	240	246	258
Average stock of liquidity	1,778	1,772	1,796	1,817	1,834	1,831	1,845	1,869	1,925	2,038
Velocity 2/	7.0	6.9	6.9	6.8	7.0	6.9	6.9	6.9	6.9	6.7
Broad money stock of the banks operating as of Mar-01	...	1,825	1,873	1,928	1,942	1,899	1,917	2,062	2,205	2,263
Annual growth of broad money of the banks operating as of Mar-01	...	...	...	...	15.1	12.5	...	15.3	24.3	24.0
Private credit stock of the banks operating as of Mar-01	...	880	898	895	945	905	914	948	978	1,033
Annual growth of private credit of the banks operating as of Mar-01	...	...	...	...	41.6	35.7	...	27.8	9.5	17.4

Sources: Data provided by the Cambodian authorities; and Fund staff projections.

1/ Program estimates have been updated from that reported in EBS/01/2, based on the actual outcome for December 2000.

2/ Nominal GDP divided by the average stock of broad money.

Table 6. Cambodia: Summary Accounts of the National Bank of Cambodia, 2000–01

	2000		Jan.	Feb.	2001					
	Dec.	Actual			Mar.	Apr.	June	Sept.	Dec.	
	Prog.									Prog. 1/	Actual	Program 1/
(In billions of riel; end of period)										
Net foreign assets	2,179	2,102	2,128	2,188	2,231	2,198	2,218	2,310	2,393	2,450
Foreign assets	2,486	2,389	2,456	2,514	2,507	2,503	2,522	2,607	2,720	2,768
Foreign liabilities	-307	-286	-328	-326	-277	-305	-304	-297	-327	-318
Net domestic assets	-861	-941	-932	-938	-984	-1,022	-1,001	-1,012	-985	-998
Claims on central government (net)	84	4	16	13	-28	-69	-55	-38	-3	4
Claims on deposit money banks (net)	-90	-69	-67	-82	-86	-81	-65	-97	-102	-106
<i>Of which</i> : Restricted deposits	-90	-84	-83	-98	-86	-97	-81	-97	-102	-106
Claims on public enterprises (net)	0	0	0	0	0	0	0	0	0	0
Claims on private sector (net)	0	0	0	0	0	0	0	0	0	0
Other items (net)	-854	-877	-881	-869	-869	-873	-882	-876	-879	-895
<i>Of which</i> : Capital	...	-1,000	-1,003	-989	...	-988	-1,000	...	...	...
Reserve money	1,317	1,161	1,196	1,250	1,247	1,176	1,217	1,298	1,408	1,452
Currency outside banks	528	495	492	502	510	511	513	520	527	535
Currency in banks	32	34	36	37	33	30	35	34	38	42
Reserve deposits	757	633	668	711	704	635	670	744	843	875
(12-month percent change)										
Net foreign assets	32.1	27.5	19.8	13.0	11.2	9.6	10.6	9.2	14.1	16.5
Net domestic assets (- increase)	19.8	31.0	27.6	18.1	23.9	28.8	23.0	12.6	5.3	6.0
Reserve money	41.7	24.9	14.4	9.4	2.9	-3.0	2.1	6.8	21.3	25.0
<i>Of which</i> : Currency outside banks	7.8	1.0	-0.6	-2.2	1.1	1.3	-0.2	3.0	6.2	8.2
(Contribution to annual reserve money growth; in percent)										
Net foreign assets	57.0	48.8	33.7	22.0	18.5	15.9	17.8	16.1	25.5	29.9
Net domestic assets	-15.3	-23.9	-19.3	-12.6	-15.7	-18.8	-15.7	-9.3	-4.2	-4.9
Net credit to government	-2.5	-11.1	-7.9	-8.0	-10.2	-13.5	-11.8	-6.6	-0.9	0.0
Net claims on banks	-1.5	0.9	1.1	-0.3	-0.7	-0.2	1.1	-1.4	-1.9	-3.3
Other items (net)	-11.3	-13.7	-12.4	-4.3	-4.8	-5.2	-5.0	-1.3	-1.5	-1.6
Memorandum item:										
Money multiplier (broad money/reserve money)	1.5	1.6	1.6	1.5	1.6	1.6	1.6	1.6	1.6	1.6

Sources: Data provided by the Cambodian authorities; and Fund staff projections.

1/ Program estimates have been updated from that reported in EBS/01/2, based on the actual outcome for December 2000.

Table 7. Cambodia: Balance of Payments, 1997–2001
(In millions of U.S. dollars)

	1997	1998	1999	2000		2001	
				Rev. Prog.	Est.	Prog.	Rev. Prog.
Current account (excluding official transfers)	-246	-224	-282	-408	-331	-437	-357
Current account (including official transfers)	-37	-30	-61	-164	-60	-192	-83
Trade balance 1/	-263	-227	-259	-398	-338	-431	-328
Exports	786	867	971	1,140	1,396	1,207	1,498
Domestic exports	534	604	709	939	1,100	1,002	1,196
<i>Of which</i> : GSP (including garments)	279	392	564	851	1,012	902	1,113
Forestry	224	178	111	47	49	55	43
Re-exports	252	263	261	200	296	205	302
Imports, f.o.b.	-1,050	-1,094	-1,230	-1,538	-1,734	-1,638	-1,826
Retained imports, f.o.b.	-798	-831	-968	-1,337	-1,438	-1,433	-1,524
Garments sector	-195	-275	-363	-540	-658	-622	-724
Petroleum	-91	-111	-121	-250	-299	-279	-292
Other retained imports	-511	-445	-484	-441	-481	-532	-508
Imports for re-export, f.o.b.	-252	-263	-261	-200	-296	-205	-302
Services and income (net)	-43	-57	-93	-82	-63	-80	-100
Services (net)	4	-9	-17	-19	19	-14	39
<i>Of which</i> : Tourism	55	59	94	63	149	84	182
Income (net)	-47	-48	-76	-63	-81	-66	-139
<i>Of which</i> : Interest 2/	-3	-2	7	-8	18	-9	-16
Private transfers (net)	60	60	70	72	70	74	70
Official transfers (net) 3/	210	194	220	243	271	244	274
Capital and financial account	-53	-75	-34	100	-3	192	85
Medium- and long-term loans	-77	-69	-63	-59	-5	57	101
Disbursements	38	46	56	61	115	96	137
Amortization	-115	-115	-119	-121	-119	-39	-36
Foreign direct investment	168	121	146	130	110	135	110
Short-term flows and errors and omissions	-144	-126	-116	29	-108	0	-126
Overall balance	-90	-105	-95	-65	-62	0	2
Financing	90	105	95	65	62	0	-2
Change in gross official reserves	-28	-11	-32	-62	-62	-45	-47
Use of Fund credit	0	-1	8	4	4	10	9
Debt rescheduling 4/	0	0	0	0	0	1,358	1,356
Change in arrears (- = reduction)	118	117	119	122	120	-1,322	-1,320
Memorandum items:							
Trade balance (in percent of GDP)	-8.5	-8.1	-8.6	-12.4	-10.7	-12.3	-9.5
Current account balance							
Excluding official transfers (in percent of GDP)	-7.9	-8.0	-9.4	-12.7	-10.4	-12.4	-10.4
Including official transfers (in percent of GDP)	-1.2	-1.1	-2.0	-5.1	-1.9	-5.5	-2.4
Gross official reserves 5/	262	390	422	484	484	529	531
In months of imports of goods and services	2.4	3.5	3.3	3.1	2.8	3.2	2.8
In months of core imports of goods and services 6/	3.7	3.9	5.8	5.4	5.3	5.7	5.7
Net international reserves	197	323	349	405	411	445	451
Nominal GDP (in millions of U.S. dollars)	3,105	2,813	3,008	3,217	3,172	3,519	3,440

Sources: Data provided by the Cambodian authorities; and Fund staff estimates and projections.

1/ Includes estimates for unrecorded forestry exports and unrecorded petroleum imports.

2/ Variations in interest payments in 2000-01 are linked to assumptions on debt restructuring.

3/ Official aid flows are based on the current trend and the additional funds mobilized at the Consultative Group meeting (June 2001).

4/ Assumes the implementation of the 1995 Paris Club flow rescheduling on Naples terms (67 percent NPV reduction) in 2001 including a noncessional deferral of post-cutoff date arrears and maturities as described in EBS/01/2 (01/04/01) page 41.

5/ Includes \$117 million associated with the return of Cambodian gold holdings by the BIS in 1998.

6/ Imports excluding imports for re-export and imports for garment sector.

Table 8. Cambodia: Medium-Term Macroeconomic Framework, 1999–2006
(In percent of GDP, unless otherwise indicated)

	1999	2000	2001	2002	2003	2004	2005	2006
	Projections							
Real sector								
Real GDP (percent change)	5.0	5.0	6.0	6.0	6.0	6.0	6.5	6.5
CPI inflation (end period; percent change)	-0.5	-0.8	3.0	3.7	3.7	3.7	3.7	3.7
GDP deflator (percent change)	3.8	1.5	5.0	3.7	3.5	3.5	2.0	3.7
Per capita GDP (in U.S. dollars)	257	260	276	295	317	341	359	387
National saving	13.8	14.1	14.1	14.9	15.6	16.3	17.0	17.2
<i>Of which</i> : Government saving	1.8	1.5	1.3	1.4	1.5	1.4	1.6	1.4
Domestic investment	15.8	16.0	16.5	18.0	17.5	18.0	18.5	19.0
Fiscal sector								
Revenue	11.7	11.8	12.2	13.0	13.5	13.5	13.5	14.0
<i>Of which</i> : Tax revenue	8.4	8.6	8.7	9.7	10.2	10.3	10.3	10.8
<i>Of which</i> : Nontax revenue	3.1	2.9	3.3	3.2	3.1	3.1	3.1	3.1
Expenditure (cash basis)	16.1	17.3	18.3	18.3	18.2	18.1	17.8	18.4
Current	9.8	10.0	10.8	11.5	11.9	11.9	11.9	12.5
Capital	6.3	7.3	7.6	6.8	6.3	6.2	5.9	6.0
Current balance	1.8	1.5	1.3	1.4	1.5	1.4	1.6	1.4
Overall balance	-4.4	-5.5	-6.1	-5.3	-4.7	-4.6	-4.3	-4.4
Domestic financing	-0.4	-0.1	0.0	-0.1	-0.1	-0.1	-0.1	0.0
Monetary sector								
Broad money (percent change)	17.3	26.9	23.7	18.0	18.0	18.0	16.0	16.0
Velocity (GDP/M2)	8.5	6.9	6.7	6.1	5.6	5.2	4.9	4.6
External sector								
Domestic exports (percent change)	17.5	55.1	8.7	5.5	5.4	7.1	10.2	8.2
Retained imports (percent change)	16.5	48.6	5.9	5.7	5.9	5.8	6.7	7.5
Current account balance (excl. transfers)	-9.4	-10.4	-10.4	-9.8	-9.2	-8.5	-8.0	-7.7
Current account balance (incl. transfers)	-2.0	-1.9	-2.4	-2.1	-1.9	-1.7	-1.5	-1.5
Overall balance	-3.2	-2.0	0.1	0.3	0.3	0.0	0.1	0.2
Financing gap (in millions of U.S. dollars)	0	0	0	17	12	51	47	49
Gross official reserves								
(in millions of U.S. dollars)	422	484	531	602	661	740	820	904
(in months of imports)	3.3	2.8	2.8	3.0	3.1	3.3	3.5	3.6
External debt 1/	67	66	36	34	31	28	25	22
External debt (NPV) 1/	72	58	21	20	18	16	15	13
Debt-service ratio 2/	18.8	4.7	4.2	4.0	3.9	4.5	5.0	4.7

Sources: Data provided by Cambodian authorities; and Fund staff estimates and projections.

1/ Figures include bilateral debt with former CMEA countries and the United States. The scenario reflects the impact of completing rescheduling agreements for this debt in 2001.

2/ The decline in 2000 reflects the end of the large part of the *scheduled* payments to the Russian Federation.

Table 9. Cambodia: Indicators of Fund Credit, 1998–2013

	1998	1999	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013
	Projections															
	(In millions of SDRs)															
Fund credit outstanding	47.2	53.1	56.2	63.5	70.8	69.7	62.7	56.8	52.6	45.1	34.3	22.6	12.5	5.0	0.8	0.0
GRA	5.2	4.2	3.1	2.1	1.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
SAF/PRGF	42.0	49.0	53.1	61.4	69.7	69.7	62.7	56.8	52.6	45.1	34.3	22.6	12.5	5.0	0.8	0.0
PRGF loan disbursements	0.0	8.4	8.4	16.7	16.7	8.4	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Total debt service to the Fund	1.5	2.9	5.7	10.6	10.5	10.4	7.8	6.7	5.0	8.3	11.6	12.3	10.6	7.5	4.2	0.8
Repurchases of GRA	1.0	1.0	1.0	1.0	1.0	1.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Repayments of SAF/PRGF	0.0	1.4	4.2	8.4	8.4	8.4	7.0	5.9	4.2	7.5	10.9	11.7	10.0	7.5	4.2	0.8
Charges	0.5	0.4	0.4	1.1	1.0	0.9	0.8	0.8	0.8	0.8	0.7	0.6	0.6	0.0	0.0	0.0
	(In percent)															
Fund credit outstanding																
In percent of total public external debt	3.1	3.6	3.5	6.6	7.3	7.1	6.5	6.0	5.7	5.1	4.1	2.8	1.6	0.7	0.1	0.0
In percent of quota	72.6	60.7	64.3	72.6	80.9	79.7	71.7	64.9	60.2	51.6	39.2	25.8	14.3	5.7	1.0	0.0
Debt service to the Fund																
In percent of total public external debt service	1.7	3.0	14.0	26.2	25.3	24.0	14.8	10.6	7.9	12.5	15.5	15.5	12.9	9.2	5.2	1.0
In percent of exports of goods and services	0.3	0.6	0.7	1.1	1.0	0.9	0.7	0.5	0.4	0.6	0.7	0.7	0.6	0.4	0.2	0.0
	(In millions of SDRs; unless otherwise indicated)															
Memorandum items:																
Cambodia's quota in the Fund	65.0	87.5	87.5	87.5	87.5	87.5	87.5	87.5	87.5	87.5	87.5	87.5	87.5	87.5	87.5	87.5
Total public external debt	1,507	1,482	1,612	956	969	978	965	947	917	883	844	802	763	726	693	662
Total public external debt service	91	95	41	40	41	43	53	63	63	66	75	80	82	81	80	81
Total exports of goods and services	438	507	859	956	1,031	1,097	1,168	1,253	1,343	1,442	1,546	1,659	1,779	1,907	2,045	2,193
Total debt-service ratio (in percent of exports of goods and services)	20.9	18.8	4.7	4.2	4.0	3.9	4.5	5.0	4.7	4.6	4.8	4.8	4.6	4.3	3.9	3.7

Source: IMF Treasurer's Department; and Fund staff estimates and projections.

Table 10. Cambodia: Proposed Schedule of Remaining Disbursements
Under the PRGF Arrangement, 2001-02

Amount	Available Date	Conditions for Disbursement
SDR 8,357,000 (9.6 percent of quota)	July 31, 2001	Observance of the end-March 2001 quantitative performance criteria, relevant structural performance criteria, and completion of the third review.
SDR 8,357,000 (9.6 percent of quota)	December 15, 2001	Observance of the end-September 2001 quantitative performance criteria, relevant structural performance criteria, and completion of the fourth review.
SDR 8,357,000 (9.6 percent of quota)	June 15, 2002	Observance of the end-March 2002 quantitative performance criteria, relevant structural performance criteria, and completion of the fifth review.
SDR 8,358,000 1/ (9.6 percent of quota)	December 15, 2002	Observance of the end-September 2002 quantitative performance criteria, relevant structural performance criteria, and completion of the sixth review.

1/ An extension of the PRGF arrangement, which will expire on October 21, 2002, will be required.

Cambodia: Fund Relations

As of May 31, 2001

I. **Membership Status:** Joined: 12/31/1969; Article XIV

II. General Resources Account:	SDR Million	Percent Quota
Quota	87.50	100.0
Fund Holdings of Currency	90.10	103.0
III. SDR Department:	SDR Million	Percent Allocation
Net cumulative allocation	15.42	100.0
Holdings	1.20	7.8
IV. Outstanding Purchases and Loans:	SDR Million	Percent Quota
Systemic Transformation	2.60	3.0
PRGF arrangements	57.27	65.5

V. **Financial Arrangements:**

<u>Type</u>	<u>Approval Date</u>	<u>Expiration Date</u>	<u>Amount Approved (SDR Million)</u>	<u>Amount Drawn (SDR Million)</u>
ESAF/PRGF	10/22/1999	10/21/2002	58.50	25.07
ESAF	05/06/1994	08/31/1997	84.00	42.00

VI. **Projected Obligations to Fund:** (SDR Million; based on existing use of resources and present holdings of SDRs):

	Overdue	Forthcoming				
	<u>05/31/2001</u>	<u>2001</u>	<u>2002</u>	<u>2003</u>	<u>2004</u>	<u>2005</u>
Principal	--	4.7	9.4	9.4	7.0	5.9
Charges/Interest	--	<u>0.6</u>	<u>0.8</u>	<u>0.7</u>	<u>0.7</u>	<u>0.6</u>
Total	--	5.3	10.2	10.1	7.7	6.5

VII. **Exchange Rate Arrangement:**

Since November 8, 1992, the exchange rate of the riel has consisted of the following two rates. First, the official exchange rate, which is expressed in riels per U.S. dollar, applies to all official external transactions conducted by the government and state enterprises. Second, the market rate, which is determined through interactions of foreign exchange traders in the private sector, applies to all other transactions. The official exchange rate is adjusted so as to limit the spread between the official rate and the riel-U.S. dollar rate prevailing in the market. From the beginning of 1994, the spread between the official and market exchange rates was limited to no more than 2 percent on a daily basis and, from March 1994, to no more than

1 percent on a daily basis.¹ On June 21, 2001, the official exchange rate was CR 3,920 per U.S. dollar and the private market rate CR 3,927 per U.S. dollar.

VIII. Article IV Consultation:

Cambodia is on a 12-month consultation cycle. The Executive Board concluded the last Article IV consultation on September 15, 2000 (EBS/00/186, 8/31/00).

IX. Technical Assistance:

Following discussions between the Government, the IMF, UNDP, and other interested multilateral and bilateral donors, a comprehensive Technical Cooperation Action Plan (TCAP) has now been finalized. An update of recent technical assistance missions is contained in Annex V.

X. Resident Representative:

The resident representative office was closed in October 1997, but it was re-opened at end-October 1999. Mr. de Zamaróczy is currently the Resident Representative.

¹The spread exceeded 4 percent on a few occasions in August 1998 as the authorities supported the official rate through intervention when the parallel market depreciated.

Cambodia: Relations with the World Bank Group¹

Cambodia became a member of the World Bank on July 22, 1970 but did not borrow from the Bank until 1993. Relations between Cambodia and the Bank were interrupted between 1975 and 1992. In September 1992, Cambodia decided to resume active participation in the Bank, appointing a representative on the Bank Board of Governors and designating the National Bank of Cambodia as the depository institution for Bank assets in Cambodia. In February 2000, the World Bank approved a Country Assistance Strategy for fiscal years 2000–03, focusing on alleviation of poverty, enhancing governance, and advocating stronger partnership with other donors and nongovernmental organizations in the delivery of projects, policy advice and services. At the same time, the Bank Board also approved a Structural Adjustment Credit for \$30 million, which focuses on fiscal, and governance issues. In January 1997, an office was opened in Phnom Penh that has recently been upgraded to Resident Office, to assist in the implementation of the Bank's assistance program and facilitate communication with the Government and other donors.

To date, 15 projects have been approved for Cambodia (\$385 million). Recent projects have focused in the following areas:

- In 1996, a Disease Control and Health Development Project was approved to support rehabilitation and expansion of the public health system, with a focus on control of communicable diseases, tuberculosis, malaria, and HIV/AIDS.
- In 1997, an Agricultural Productivity Improvement Project was approved, focusing on institutional development at the Ministry of Agriculture, including rehabilitation of training facilities, retraining of staff, and sponsoring pilot field activities.
- In 1998, an Urban Water Supply Project was approved to improve water facilities in both Phnom Penh and Sihanoukville.
- In 1999, four IDA projects were approved: a Social Fund II Project to finance small scale social-infrastructure projects at the local level, basically inheriting and extending the objectives from the previous Social Fund Project, a Road Rehabilitation Project to improve accesses to rural areas, a North East Rural Development Project, and an Education Quality Improvement Project.
- In 2000, a Biodiversity and Protected Areas Project, Structural Adjustment Credit and a Forest Concession Management and Control Pilot Project were approved.
- In March 2001, a Flood Emergency Rehabilitation Project (\$35 million) was approved.

¹ Prepared by the Fund staff based on information provided by the World Bank, as of March 30, 2001.

Cambodia became a member of the IFC in March 1997. The IFC is expected to provide entrepreneur training and business services for small and medium enterprises under the Mekong Project Development Facility. In addition, the IFC has approved an investment in a Cambodian power project. The IFC is also providing technical assistance to transform a Cambodian microfinance NGO into a commercial bank.

With regard to recent analytical work, the Bank prepared a Forest Policy Assessment report in June 1996 jointly with the UNDP and the FAO, a Public Expenditure Review in February 1999, and more recently a poverty assessment and strategy report, and a power sector strategy. A diagnostic study on governance and corruption was also prepared.

IDA: Commitments and Disbursements to Cambodia, 1993–2000
(In millions of U.S. dollars, as of December 31, 2000)

Project	Date of Approval	Committed	Disbursed
Emergency Rehabilitation	Oct.26, 1993	62.70	64.86
Technical Assistance	Dec.6, 1994	17.00	15.78
Social Fund	Jun.8, 1995	20.00	18.42
Economic Rehabilitation Credit	Sep.28, 1995	40.00	36.91
Phnom Penh Power Rehabilitation	Sep.28, 1995	40.00	32.02
Disease Control and Health	Dec.24, 1996	30.40	15.56
Agricultural Productivity Improvement	Feb.28, 1997	27.00	4.18
Urban Water Supply	Feb. 17, 1998	30.96	9.00
Social Fund II	Mar.23, 1999	25.00	11.76
Road Rehabilitation	Mar.23, 1999	45.31	0.76
North East Village	May 18, 1999	5.00	0.47
Education Quality Improvement	Aug. 31, 1999	5.00	0.81
Biodiversity and Protected Areas LIL	Feb. 8, 2000	1.90	0.11
Structural Adjustment Credit	Feb. 29, 2000	30.00	9.61
Forest Concession Management and Control LIL	Jun. 5, 2000	4.80	0.00
Total		385.07	220.25

Cambodia: Relations with the Asian Development Bank

From 1992 through May 31, 2001, the AsDB approved \$483.6 million in low-interest loans to Cambodia to finance 16 projects and one structural reform program. To date 3 projects (totaling \$122.9 million) have been completed: the Special Rehabilitation Assistance Project (approved in 1992), Power Rehabilitation Project (approved in 1994), and an Agriculture Sector Program (approved in 1996). Of the remaining loan projects, \$175.5 million were for economic infrastructure, \$107.1 million for social infrastructure, and \$78.1 million for agriculture and natural resources.

The AsDB also designed and administered 76 technical assistance projects during this period. These were financed through \$56.8 million in grants from the AsDB (\$20.2 million), the Japanese Special Fund (\$26.6 million), other sources (\$10.0 million).

The AsDB completed a new Country Operational Strategy in July 2000 that emphasizes poverty reduction through interventions in four areas: rural economic development, social development, governance, and improvement of the conditions for private investment. The AsDB will place particular emphasis on facilitating government leadership of sector development initiatives in water resource management, education and transportation. This will be accomplished through efforts to coordinate the activities of aid agencies, build local capacity to finance and manage development programs, and fund priority investments.

In October 2000, the AsDB conducted an assessment of the flood damage to prepare a proposal for loan assistance to meet Cambodia's rehabilitation requirements. In December 2000 an Emergency Flood Rehabilitation Project in the amount of \$55 million was approved. The Financial Sector Development Program is currently under preparation.

AsDB: Loan Commitments and Disbursements to Cambodia (In millions of U.S. dollars) (as of May 31, 2001)

	Loan Approvals	Contract Awards/ Commitments	Disbursements
1992	67.7	0.0	0.0
1993	0.0	4.4	5.4
1994	28.2	35.9	12.2
1995	45.1	28.1	35.9
1996	105.0	15.3	32.1
1997	0.0	41.5	10.7
1998	40.0	29.1	29.3
1999	88.0	17.0	26.2
2000	109.6	114.2	50.8
2001 (through May 2001)	-	7.9	13.4
Total	483.6	293.4	216.0

Cambodia: Statistical Issues

At the start of Cambodia's reform program in 1993, the statistical base was largely nonexistent. Substantial improvements have been made since then, and an *IFS* page for Cambodia was published in April 1996. Nevertheless, significant problems remain, even though a considerable amount of technical assistance has been provided by the Fund, the UNDP, the AsDB, and the World Bank. Core data are generally provided on a timely basis (Attachment I).

National accounts

The National Institute of Statistics (NIS) of the Ministry of Planning provides official estimates of GDP and its components. The available statistical base on which the national accounts are estimated is extremely weak and fragmentary, and data for most sectors are not collected on a systematic basis. GDP deflators are estimated mainly from CPI data, as most other price data are not available. For several years, the AsDB has been providing technical assistance and financial support to improve the quality of the national accounts. Surveys of the main economic sectors need to be strengthened, and significant improvement of the national accounts database will take a number of years. The latest edition of the national accounts shows revised estimates for 1993–99.

Prices

The NIS provides official estimates of the CPI on a monthly basis with a lag of five weeks. In 1995, a STA mission made recommendations to improve the reliability of the statistics, and since then significant improvements have been made. However, problems relating to price collection procedures and the compilation of the CPI remain, and the index covers only the capital city, Phnom Penh. The NIS plans to revise the weights of the CPI basket in the near future to reflect upgraded patterns of household consumption and broaden the coverage to include five major provincial cities. No producer or wholesale price indices are available yet.

Government finance statistics

The MEF provides monthly fiscal data on a timely basis with a four-week lag. The quality of fiscal data has improved during the last three years, owing to substantial technical assistance mostly financed by the World Bank. However, the authorities have not yet provided any data for publication in *IFS* and the *GFS Yearbook*. There are still weaknesses as regards the coverage and the economic classification of expenditure. Information on external financing of the budget has improved significantly, but detailed donor-specific data on investments financed by project aid are available only with considerable lags. The authorities are committed to provide fiscal data for *IFS* and the *GFS Yearbook* by end-2001. To assist the authorities, an STA mission on government finance statistics visited Phnom Penh in March 2001.

Monetary statistics

The NBC provides data on the monetary authorities and deposit money banks on a monthly basis with a lag of four weeks. Substantial improvements have been made in the past few years, particularly with the adoption of the new plan of accounts by the NBC in January 1996, and the introduction of an *IFS* page for Cambodia in April 1996. Monetary statistics in Cambodia cover riels in circulation and domestic bank deposits in riel and foreign currencies. However, data on the large amount of foreign currency in circulation in Cambodia are not available. As a result, the effective money stock in Cambodia is underestimated by the amount of foreign currency in circulation, which leads to overestimates of the income velocity of money.

Mr. Khay Phousnith, Director of the Economic Research Department of the NBC, is currently on secondment to STA as a Special Appointee.

External sector statistics

The NBC is responsible for the compilation of balance of payments statistics. While a significant improvement has been made in compiling such data, aided in large part by a previous long-term advisor, weaknesses remain in several areas. Customs data have substantial coverage and valuation problems arising from the nonrecording of nondutiable imports and the weakness of customs controls. In addition, the bulk of reexports to neighboring countries is included under customs' import data but may be under-reported in total exports. Estimates made to improve the coverage of the customs data are subject to considerable uncertainty. The largest estimates for undercoverage of imports by direct investment enterprises are not supported by documentation and explanation of methods applied; moreover, they do not correspond to foreign direct investment flows. While efforts have been made to improve the quality of foreign direct investment data, private capital flows are likely to be large and not fully captured by official data. A range of international transactions by enterprises, such as payments for imported services, income payments, and portfolio investment abroad are not included in the data.

An STA mission which visited Phnom Penh in January 2001 made recommendations (i) to improve the coverage of the external trade statistics, including the use of partner country data for deriving the estimates; (ii) to undertake substantial revisions to travel and other business service components; and (iii) to implement a new survey form for collecting foreign direct investment data. As a result of national and international efforts to facilitate cooperation between balance of payments compiling agencies, an inter-ministerial subcommittee was set up under the auspices of the Ministry of Planning to produce more reliable estimates of Cambodia's external trade.

Cambodia: Core Statistical Indicators as of June 22, 2001

	Exchange Rates	International Reserves	Central Bank Balance Sheet	Reserve/ Base Money	Broad Money	Interest Rates	Consumer Price Index	Exports/ Imports	Current Account Balance	Overall Government Balance	GDP/GNP	External Public Debt/Debt Service
Date of Latest Observation	June 22, 2001	June 15, 2001	May 2001	May 2001	May 2001	May 2001	May 2001	December 2000	2000	May 2001	2000 (Preliminary)	2000
Date Received	June 22, 2001	June 15, 2001	June 2001	June 2001	June 2001	June 2001	June 2001	April 2001	April 2001	June 2001	April 2001	March 2001
Frequency of Data	Daily	Daily	Monthly	Weekly	Monthly	Monthly	Monthly	Monthly	Quarterly	Monthly	Annual	Annually
Frequency of Reporting	Daily	Weekly with one week lag	Monthly with five weeks lag	Weekly with one week lag	Monthly with five weeks lag	Monthly with five weeks lag	Monthly with five weeks lag	During missions	During missions	Monthly with one month lag	Annual	Annually
Source of Data	NBC	NBC	NBC	NBC	NBC	NBC	NIS	NBC and MEF	NBC	MEF	NIS	NBC
Mode of Reporting	Fax or Email	Fax or Email	Fax or Email	Fax or Email	Fax or Email	Fax or Email	Fax or Email	During missions	During missions	Fax	During missions	During missions
Confidentiality	No	Yes	No	No	No	No	No	No	No	No	No	Yes
Frequency of Publication	Daily	N/A	Monthly	Monthly	Monthly	Monthly	Monthly	Annually	Annually	Annually	Annually	N/A

Cambodia: Summary of Technical Assistance Provided by the Fund, 1995–2001¹

Purpose	Assistance and Timing (person-months)
Tax Policy and Tax Administration	
• Long-term fiscal advisor	24, from July 1995
• Inspection mission	1/2, June 1996
• Reform of tax administration	1½, January 1997
• Tax policy and customs administration	2, September 1999
• Technical Cooperation Action Plan (TCAP) mission	3¾, March-April 2000
• Customs administration (advisor)	5, February 2000
• Tax administration and policy	1, March 2001
• Public expenditure management	1, April 2001
• Long-term customs advisor	12, April 2001
• Long-term budget advisor (forthcoming)	12, July 2001
• Long-term tax advisor (forthcoming)	12, September 2001
Monetary Policy and Central Bank Operations	
• Assist the NBC in implementing monetary policy	12, from February 1995
• Monetary operations and banking supervision	1, May 1996
• Central bank operations	12, January 1997
• Long-term advisor	36, from January 1998
• Banking system reform	4, March and June 2000
• Banking system restructuring and central bank development	2, October 2000
• Banking system restructuring	1, April 2001
• Banking system restructuring and payments system development (forthcoming)	1, August–September 2001
Statistics	
• Development of balance of payments statistics	24, from May 1995
• Development of monetary statistics	2, from May 1995
• Improvement of consumer price indices	2, from June 1995
• Balance of payments compilation	1/2, December 1998
• Balance of payments compilation	1/2, February 2000
• Balance of payments compilation	1, January 2001
• Government Finance Statistics	1, April 2001
Legal Framework	
• Review of technical assistance needs	1/2, April 2000
• Bankruptcy Law	1/2, November 2000
• Bankruptcy Law (forthcoming)	1/2, July 2001
• Secured Transactions Law (forthcoming)	1/2, July 2001

¹ A detailed description of the Technical Cooperation Action Plan (TCAP) is contained in EBS/01/02 (01/04/01).

June 22, 2001

Mr. Horst Köhler
Managing Director
International Monetary Fund
Washington D.C. 20431
U.S.A

Dear Mr. Köhler:

1. The attached memorandum highlights key developments under the PRGF-supported program during 2000 and the first half of 2001, and sets forth the economic, financial, and poverty alleviation policies that the Royal Government of Cambodia intends to implement in the remainder of 2001 and over the medium term. Macroeconomic stabilization has been fostered despite the adverse impact of severe flooding in the second half of 2000. Significant strides have been achieved in bank restructuring, reorienting government expenditure toward key social sectors, and adopting a comprehensive Governance Action Plan. All quantitative performance criteria for end-March 2001 were observed. The National Bank of Cambodia has complied with the provisions for the Fund's Safeguards Assessment.

2. The Government has received broad support from development partners during the recent Consultative Group Meeting held in Tokyo (June 11–13). The implementation of the full military demobilization program is expected to move forward, with financial support from the World Bank and bilateral donors. Shortfalls in revenue collection and delays in disbursing priority outlays are in the process of being corrected to ensure that the budgetary targets will be met. The Government would like to express its appreciation for the support provided by the IMF under several recent technical assistance missions as part of the Technical Cooperation Action Plan (TCAP). These actions should result in a strengthening in tax and customs administration, as well as in budget and expenditure management, over the medium term. The computerized civil service payroll system is near completion and progress in designing a broad-based reform strategy for the civil service will pave the way for implementation of the reform program starting in 2002.

3. As a first step toward preparing the ground for the full Poverty Reduction Strategy Paper (PRSP) the Government has prepared the second Socio-Economic Development Plan (SEDP II) covering 2001–05. Preparations for the full PRSP have begun in the wake of the PRSP workshop held in Phnom Penh (April 24–25). However, the need to prepare the full PRSP through broad consultation between government ministries, civil society, stakeholders, and NGOs may require additional time beyond end-2001 before a high quality document can be submitted to the World Bank and IMF Executive Boards.

4. The Government believes that the policies and measures described in the attached memorandum are adequate to achieve the objectives of the program for 2001, and stands ready to take additional measures that may become necessary for this purpose. The Government will consult with the Managing Director, at the initiative of either party, and will provide the IMF with such information as it requests on the progress made in policy implementation and the achievement of program objectives. In any event, Cambodia will conduct with the IMF the next review of the arrangement no later than end-January 2002.

5. In continuing with our policy of transparency, we consent to the publication, including on the IMF's website, of the attached Memorandum of Economic and Financial Policies and the accompanying Executive Board documents prepared by the IMF staff.

Sincerely yours,

/s/
Keat Chhon
Senior Minister
Ministry of Economy and Finance

/s/
Chea Chanto
Governor
National Bank of Cambodia

Attachment

CAMBODIA

Supplementary Memorandum of Economic and Financial Policies for 2001

June 22, 2001

I. INTRODUCTION AND RECENT DEVELOPMENTS

1. **Cambodia's economic and financial program is deeply grounded in the Government's poverty alleviation strategy** outlined in the interim PRSP of October 2000. Fostering sustained economic growth is at the center of the Government's efforts aimed at addressing the multiple dimensions of poverty in Cambodia. Raising the population's standard of living and creating employment opportunities in the medium term will be achieved through maintaining a sound macroeconomic environment and implementing broad-based structural reforms with a view to promoting private sector development while improving public service delivery.
2. **All quantitative and structural performance criteria through end-March 2001 were observed.** Macroeconomic performance and reform implementation in 2000 was generally in line with program expectations. Real GDP continued to grow, despite the adverse impact of the severe flooding in the second half of 2000, largely on account of buoyant activity in the garment and tourism sectors. Inflation in 2000 was broadly flat on a year-on-year basis, and declined slightly in the first quarter of 2001, as timely flood-related assistance by the Government and donors prevented an increase in food prices.
3. **The budgetary outturn strengthened in 2000**, as evidenced by increased revenue mobilization, improved composition of government expenditure, and the avoidance of bank financing of the budget. Despite the burden of sizable government outlays for flood relief, fiscal targets for 2000 were largely observed. With fiscal revenue reaching 11½ percent of GDP and current expenditure contained at 10 percent of GDP, the current budget surplus reached 1½ percent of GDP. The overall deficit (excluding grants) was contained at 5½ percent of GDP, notwithstanding the marked increase in public investment for flood damage rehabilitation. However, improvements in revenue collections, especially for the value-added tax (VAT) and direct taxes, were partly offset by revenue shortfalls in trade taxes and nontax revenue, thus highlighting the fragility of the fiscal position. On the expenditure side, while progress was achieved in redirecting government spending toward social programs and reducing defense and security spending, there was a delay in implementing Priority Action Programs (PAPs) and social sector spending fell short of budget targets. Although bank financing of the budget was avoided, total domestic financing slightly exceeded the program's benchmark, largely owing to flood relief outlays at year-end.
4. **Broad money growth in 2000, at 27 percent, was lower than expected**, largely on account of a reduction in net credit to the Government and a marked slowdown in private sector credit in the last two months of the year. Domestic currency grew by 1 percent,

consistent with continued fiscal restraint. Gross international reserves reached more than three months of import coverage at end-2000 and have remained at that level in 2001, while the market exchange rate depreciated only slightly against the U.S. dollar. In the external sector, the current account deficit in 2000 (excluding official transfers) was 10 percent of GDP—smaller than previously projected—largely owing to stronger-than-anticipated garment exports and lower oil prices.

5. **Progress was also achieved in implementing key structural reforms in 2000.** In particular, progress was made in bank restructuring, establishing a forest crime monitoring unit, computerization of the civil service payroll, and the reintroduction of preshipment inspection for imports. Additional progress has been made in the first part of 2001, including in bank reform and the adoption of the Governance Action Plan (GAP).

6. **However, delays or disruptions have been experienced in several key areas during the first four months of 2001.** These include completion of the pilot demobilization program, formulation of an acceptable civil service reform strategy consistent with fiscal constraints, completion of the Forest Law, revision of the Law on Investment, and disruptions to forest crime monitoring. These delays have, thus far, prevented the release of the floating and second tranches of the World Bank's SAC program. While financing targets have been observed, fiscal developments in the first quarter of 2001 indicate that corrective actions—on both revenue and expenditure—will be required in the period ahead to meet the 2001 budget targets.

II. MACROECONOMIC AND STRUCTURAL POLICIES FOR 2001

7. **Under the program for 2001, GDP is projected to grow by 6 percent, with inflation contained at below 5 percent.** The current budget surplus is expected to remain at 1½ percent of GDP, as revenue is targeted to increase to 12 percent of GDP and current expenditure would continue to be contained, while being further redirected toward social objectives and away from defense and security. The overall fiscal deficit (excluding grants) is expected to be contained at about 6 percent of GDP and fully covered through external concessional financing. Broad money growth is projected to grow by 24 percent, while private sector credit would rise by 15 percent. The overall external position would strengthen further, with gross official reserves at end-2001 projected to reach \$531 million (about three months of import coverage).

8. **Revenue performance in the first quarter of 2001 was below program expectations,** largely owing to delays in implementing several revenue measures called for under the 2001 budget. The Government, however, has started taking corrective actions toward meeting the 2001 revenue target. The list of revenue-enhancing measures is shown in Annex I (with several measures having already been implemented, as indicated in Table 2). In addition, efforts to strengthen tax and customs administration will be based on recent technical assistance recommendations. In particular, the Government will establish a Large Taxpayers Unit in the Tax Department by October 2001, including the possibility of direct payment of taxes by check or transfer into Treasury accounts at the National Bank of

Cambodia (NBC). The policy of auctioning all new garment quota allocations, with full and timely transfer of revenue to the budget, will also be maintained.

9. **Proposed amendments to the Law on Investment are still being discussed with a view to reaching agreement on the changes and submitting the amended draft of the law to the National Assembly after a due participatory process.** The proposed amendments are aimed at establishing an adequate balance between enhancing revenue and ensuring an attractive business environment. Under the proposed amendments, investment procedures and criteria for the application of tax holidays would be streamlined, with general investment incentives in the form of accelerated depreciation and an investment allowance to be incorporated into the Law on Taxation. As a result, incentives for investment would remain favorable and apply equally to all investors.

10. **Steps will also be taken to improve customs administration and the effectiveness of the preshipment inspection program (PSI) for imports.** To this end, a steering committee, as defined in the PSI contract, has been established to discuss issues regarding the implementation of the PSI program on a regular basis. Among other things, this committee will strengthen the application of penalties for firms that bring import shipments outside of the PSI system. The Government will also strengthen and extend the work of the anti-smuggling task force, and work to improve coordination between the Tax Department and the Customs Department. A new Customs Law (or Customs Code), in line with World Trade Organization (WTO) requirements, is expected to be submitted to the National Assembly (or adopted by the Government) by end-December 2001. Ongoing efforts to develop the revenue analysis capabilities within the Customs Department will also continue.

11. **The expenditure program for 2001 was designed to support the poverty reduction strategy.** The Government is committed to continue reorienting expenditure toward key social sectors and away from defense and security. Spending for the priority social sectors is budgeted to increase to 3 percent of GDP in 2001. However, enhanced efforts to improve expenditure management and increase the effectiveness of the PAP program will be crucial for meeting this goal. Difficulties in ensuring timely release of funds for key social spending will be addressed by increasing coordination among key departments of the Ministry of Economy and Finance (MEF) and the NBC to improve cash management, including the transfer of all budgetary accounts in commercial banks to the NBC by end-June 2001. There was a delay in releasing the first quarterly allocation for PAP again this year. To avoid delays in the future, the cash management task force has secured payment for the second quarter PAP allocation, and will continue to do so at the beginning of each quarter thereafter. The post-audit team of the MEF is now fully operational, and the internal audit teams at line ministries will become fully operational for the 2002 budget. Aside from the priority sectors, other components of the expenditure program will be implemented cautiously, and locally financed development spending reduced, if necessary, to ensure that the financing targets are observed.

12. **In line with the macroeconomic framework outlined in the I-PRSP, the 2002 budget will provide for a further improvement in social sector spending and improved**

resource mobilization. The 2002 budget will be based on maintaining a current surplus of 1½ percent of GDP, and limiting the overall deficit to available concessional assistance, with no domestic financing of the budget. To meet the expenditure demands envisaged for 2002, including the cost of the commune elections, revenue is projected to increase to 13 percent of GDP. The tax measures being implemented during 2001 will help to set the stage for a further improvement in revenue in 2002, but additional significant revenue measures and improvements in tax and customs administration will be needed. In this regard, the Government will review a range of options based on recent technical assistance recommendations and will consult further with IMF staff in the context of the preparation of the 2002 budget. To support improved fiscal management in 2002, detailed implementation plans based on recent technical assistance recommendations will be prepared by end-November 2001 for tax and customs administration, as well as for expenditure management. Technical assistance support will be provided under the Technical Cooperation Action Plan (TCAP), as well as a World Bank capacity building credit to enhance public service delivery and targeted technical assistance on PAP implementation.

13. Prompt implementation of the full military demobilization program is crucial for redirecting resources to the priority social sectors. Building on the positive assessment of the pilot demobilization program by the Government, donors, and NGOs in March 2001, the Government will complete the registration of 15,000 soldiers for the full program by end-June 2001, and use available funding to complete the last phase of assistance under the pilot program in the near future. The Government remains fully committed to finance the cash component of the demobilization package by using available budget support. On this basis, the Government will be fully prepared to launch the implementation of the full demobilization program as soon as the World Bank credit is presented to the Executive Board, and the reintegration package for veterans under the pilot program begins to be delivered. This is expected to lead to the discharge of 15,000 soldiers by end-2001.

14. The Government has made considerable progress in validating the census results and completing the computerization of the civil service. This process has already led to the removal of 6,091 irregular cases from the payroll and the identification of 2,000 additional irregular cases that have been ordered to be removed from the payroll. The fingerprinting and registration of civil servants in all provinces will be completed by end-July 2001, and the full computerization of the payroll will be completed before the end of the year, with the removal of additional irregular cases as they are discovered. A medium-term civil service reform strategy is being discussed with the World Bank and IMF staffs with implementation due to begin in 2002. As part of this strategy, the Government wage bill will continue to be agreed annually in the context of the budget and will be kept below a maximum of 40 percent of current expenditure to ensure adequate funding for nonwage operations and maintenance. Details on the pay and employment strategy will continue to be discussed with the World Bank and the Government will continue to provide monthly progress reports on the implementation of civil service reform in the agreed format. The Government is also seeking additional financing for the implementation of priority mission groups.

15. **The recent adoption of the Governance Action Plan (GAP) has demonstrated the Government's full commitment to establish a sound public governance framework.** The GAP is aimed at improving public service delivery, involving broad stakeholders such as civil society, and facilitating an enabling environment for private sector development. The GAP, which has been fully endorsed by development partners, provides a comprehensive set of actions in crosscutting areas designed to address the multiple and complex dimensions of governance and corruption in Cambodia. The GAP is a compendium of priority initiatives, and its implementation is under way or is actively being planned. Reform agencies (reform councils and some line ministries) are preparing detailed work plans in consultation with respective stakeholders to sequence and cost their actions. The Government has identified three initiatives to further implement the GAP: (i) a broad-based dissemination campaign already underway among the central government, provincial administration, and NGOs; (ii) continuous updating of a performance matrix; and (iii) establishment of a monitoring and coordination mechanism. With the assistance of the World Bank, the Government held two workshops among reform agencies in early May to articulate the specifics of the latter two initiatives and prepare their implementation plan. The Government circulated an aide-memoire at the CG meeting that reported on the progress made in implementing the GAP, and specified the monitoring and coordinating mechanisms. In support of strengthening governance and anti-corruption measures, the Government will propose a candidate to head the newly created National Audit Authority to the National Assembly by end-June 2001. The Government also intends to prepare new legislation on bankruptcy and secured transactions. This legislation will be submitted to the National Assembly at a time to be determined in the context of the overall legal reform framework.

16. **The Government will maintain a prudent monetary policy aimed at low inflation and a stable exchange rate.** With subdued inflationary pressures and favorable growth prospects in 2001, broad money is projected to rise by 24 percent, while currency in circulation is expected to increase by 8 percent. The expansion in broad money is expected to continue to be led by buoyant foreign currency deposits. However, as the banking reform proceeds, the impact on monetary aggregates is subject to high volatility, as uncertainty remains on the effect of the increase in bank's capital requirement on credit distribution and deposit mobilization. The NBC will continue efforts to strengthen bank supervision and improve credit monitoring capabilities. In this regard, a chart of accounts for fully licensed commercial banks, according to international standards, will be operational by January 2002.

17. **The Government will maintain a flexible exchange rate policy.** To that end, NBC will adhere to its current intervention policy of using any increased demand for local currency to bolster international reserves while not resisting any downward pressure on the rate, except under exceptional circumstances of disorderly market conditions. The official exchange rate will increasingly be set at the level of the market rate with a view to unifying the rate in the future. Any deviation from the market rate will be temporary, and limited to a maximum of one percent.

18. **Trade liberalization will be intensified** in the context of WTO membership, ASEAN requirements, and the development of a trade strategy supportive of poverty

reduction. After the completion of the current tariff restructuring exercise, an evaluation will be made of the average import duty and options formulated for reducing the unweighted average duty below 15 percent in the context of the 2002 budget. As Cambodia's trade and exchange arrangements are now free of restrictions on current account transactions, the Government intends to accept the obligations of Article VIII of the IMF's Articles of Agreement by end-2001.

19. **The Government has continued debt restructuring discussions with several major Paris Club and former CMEA creditors.** In the period ahead, the Government will refrain from contracting or guaranteeing any nonconcessional debt, as defined in the attached technical memorandum. A prudent debt management policy will be maintained to contain external borrowing within Cambodia's debt-servicing capacity. In compliance with the requirements of the IMF, the NBC has recently completed an external audit of its financial accounts and has transmitted a copy of the audit report to the IMF.

20. **The Government is committed to maintain the momentum of bank restructuring.** Liquidators have been appointed for the banks that are being closed for failing to comply with the Financial Institutions Law, and the NBC will pursue legal recourse against the managers of failed banks to obtain further funds for depositors. The 12 banks which signed Memoranda of Understanding (MOUs) have been closely monitored since their signing in December 2000 to ensure compliance with the MOU requirements, including phased injections of capital and other regulatory requirements. In this regard, the NBC has prepared the first quarterly monitoring report on banks' performance under the MOUs. This report identifies specific sanctions against those banks that are falling short of their performance targets. The NBC will prepare by end-August the second quarterly monitoring report, as well as a plan of action—including exit strategies comprising voluntary liquidation and potential mergers and acquisitions—for banks not capable of meeting their requirements. In view of the need to ensure the quality of the banks and build confidence in the banking system, the NBC will not license any new commercial bank until the current round of restructuring is completed. Regulations governing specialized banks will be clarified and strengthened, and restrictions on the scope of their activities strictly enforced. The payments system reform initiated in parallel with bank restructuring will be broadened, taking into account technical assistance from the IMF, and a new Payments Law is expected to be submitted to the National Assembly by end-2001.

21. **In preparation for future privatization, the Foreign Trade Bank (FTB) will be recapitalized by end-June 2001.** In order to avoid delays in the recapitalization process, the NBC will provide bridge capital until the MEF acquires the legal authority to issue bonds in the context of the 2002 budget (i.e., by end-February 2002). The Board of Directors of the FTB has been expanded to include an outside director with adequate banking experience, and a subcommittee of the Board will be formed to identify qualified candidates with international experience to provide management assistance to the FTB, and to start searching for future private investors. As part of the recent completion of a preliminary audit of the 2000 accounts, actions will be identified to secure a full unqualified audit of the FTB as soon as possible.

22. **Forestry reform will be targeted at strengthening the Forest Crime Monitoring Unit (FCMU) and completing the restructuring of forestry concessions.** A draft Forestry Law aimed at establishing sound legal conditions for sustainable forest resource management will be submitted to the National Assembly by end-June 2001. The Government will continue supporting monitoring and reporting by the FCMU with participation of an outside independent monitor. The operations of forest concessionaires for 2001 have been reduced and are being closely monitored. Only those concessions that submit credible restructuring plans by end-September 2001 will be permitted to continue operations. Review by the Government of the recent industry-sponsored forest royalty study is underway and changes to the royalty system are expected to be addressed in the context of the restructured concession agreements.

23. **The Government intends to seek support from the IMF and development partners to upgrade social and economic statistics and widen their dissemination.** To that end, further IMF technical assistance on monetary data, government finance statistics (GFS), and balance of payments statistics has been or will be provided. Progress has recently been made in compiling budget data in accordance with GFS standards. As a result, budget data will be published shortly on a regular basis in *International Financial Statistics (IFS)* and is expected to be submitted for publication in *Government Finance Statistics (GFS)* by end-2001. The Government is reviewing the prospects for participating in the IMF's General Data Dissemination System (GDDS) as a means of guiding statistical development, providing a basis for further IMF support in economic statistics, and for coordinating efforts with other development partners.

24. **The Government held a workshop on the implementation of the poverty reduction strategy during April 25–26.** The workshop included government officials, NGOs, other members of civil society, multilateral and bilateral donors, and World Bank and IMF staff. Based on these discussions, the Government will take steps to improve inter-ministerial coordination, and will begin preparation of the full PRSP with a comprehensive participatory approach, building on the information and analysis in the SEDP II. If more time beyond end-2001 is needed for the completion of the full PRSP, the Government will prepare a progress report to be submitted to the Executive Boards of the World Bank and IMF.

25. **Actions required prior to the IMF Executive Board consideration of the third review, together with quantitative and structural performance criteria and benchmarks, are shown in the attached tables.** Quantitative benchmarks through end-December 2001 include: (i) a ceiling on net domestic assets of the NBC; (ii) a ceiling on net bank credit to the Government; (iii) a ceiling on net domestic financing of the budget; (iv) a ceiling on publicly contracted or guaranteed external debt; and (v) a floor on net official reserves of the NBC. The above quantitative benchmarks for end-September 2001 will be performance criteria. The fourth review under the program is expected to be completed by end-January 2002 and will focus primarily on budget implementation, reform of tax and customs administration, expenditure management, and banking sector reform.

Cambodia: Revenue Measures for April–December 2001

- Issue sub-decree to reduce the number of tariff bands from 12 to 4 and lower the maximum tariff rate to 35 percent, with associated adjustment in excise rates, (end-June 2001).
- Issue regulation to treat all diesel sales as final sales for VAT purposes, (end-April 2001), with retroactive application from February 2001.
- Improve enforcement of the 10 percent tax on entertainment services.
- Compile data and follow the collection and level of tax arrears by company for major taxpayers in the context of establishing a Large Taxpayers Unit (by end-October 2001). To improve collection of arrears, VAT and withholding tax taxpayers will be contacted within 10 days of the outstanding payments; profit tax taxpayers within 5 days for large taxpayers; 15 days for medium taxpayers; and 30 days for small taxpayers.
- Fully implement stamp system for taxes on cigarettes. A Prakas or sub-decree is expected to be issued by end-July 2001 with the system ready to be implemented by end-October 2001.
- Increase collection of revenue from visas by improving the monitoring mechanism (i.e., visa sticker). Prakas to be issued by mid-June 2001 with implementation within 3–4 weeks thereafter.
- Review terms of contract for collecting the entrance fees at the Angkor complex when sales of tickets exceed 200,000 in the calendar year (as specified in the contract).
- Establish a monitoring mechanism for leases of state assets, and increase efforts to collect arrears and payments due on leases of state assets using the recently established task force between the MEF and line ministries (and authority provided by Article 11 of the Financial Act). An inventory of state assets will also be initiated.
- Improve collection of arrears and payments due on telecommunications through the enlargement of the inter-ministerial task force to include MPTC.

Table 1. Cambodia: Quantitative Performance Criteria and Benchmarks, June 2001–December 2001

	2000		2001				
	Stock at	Actual	End-Mar. 1/		End-June	End-Sept. 1/	End-Dec.
	End -Dec.		Prog.	Adj. Prog.	Actual	Rev. Prog.	Rev. Prog.	Rev.Prog.
			(Cumulative change from beginning of year)				
Net domestic assets of the central bank (in billions of riels) 2/3/4/	-941	-43	-43	-81	-71	-44	-57
Net credit to the government from the banking system (in billions of riels) 3/4/	3	-32	-32	-72	-42	-7	0
Net domestic financing of the budget (in billions of riels) 3/4/	...	-32	-32	-85	-66	-18	0
Contracting or guaranteeing of external debt by the public sector 5/							
Up to one-year maturity 6/	...	---	---	---	---	---	---
1-5 year's maturity	...	---	---	---	---	---	---
Medium-and long-term nonconcessional debt 7/	...	---	---	---	---	---	---
External payments arrears 8/	...	---	---	---	---	---	---
			(Cumulative change from beginning of year)				
Net official international reserves (in millions of U.S. dollars) 9/ 10/	411	7	2	24	20	27	40
			(Cumulative flows from beginning of year)				
Memorandum items:							
Total nonproject balance of payment support (in millions of U.S. dollars)	...	5	...	0	0	10	20
Total nonproject budget support (in billions of riels)	...	20	...	23	45	87	162
			(Stock at end of period)				
Net domestic assets of the central bank (in billions of riels)	-941	-984	-984	-1,022	-1,012	-985	-998
Net credit to the government from the banking system (in billions of riels)	3	-29	-29	-69	-39	-4	3
Net official international reserves (in millions of U.S. dollars) 11/	414	...	...	...	...	...	...
Net official international reserves (in millions of U.S. dollars) 12/	411	418	413	435	431	438	451
			(At end of period)				
Exchange rate (riels per U.S. dollar, end of period)	3,775	3,925	...	3,915	...	...	...

Sources: Data provided by the Cambodian authorities; and Fund staff estimates.

1/ Performance criteria.

2/ Net domestic assets are defined as reserve money minus net foreign assets of the central bank, adjusted for valuation changes arising from the difference between program and actual exchange rates.

3/ For purposes of verifying compliance with the program, the ceiling for net domestic assets, net credit to the government from the banking system, and net domestic financing of the budget will be adjusted upward (downward) by any shortfall (excess) in external nonproject budget support from the program estimates. The adjustments for shortfalls in nonproject budget support will not exceed \$10 million.

4/ External nonproject budget support exceeded the program estimate by CR3.2 billion in March 2001, and no adjustment was made.

5/ Maturity based on original contract.

6/ Ceiling applies to amount outstanding. Excludes normal import-related credit and any borrowing associated with debt rescheduling.

7/ Excludes amounts contracted under the government loan agreement with China dated July 26, 2000 for a maximum loan amount equivalent to \$12 million.

8/ Continuous performance criterion.

9/ For purposes of verifying compliance with the program, the floor on net official international reserves will be adjusted downward (upward) by any shortfalls (excess) in external nonproject budget support from the program estimates. The adjustments for shortfalls in budget support will not exceed \$10 million. Valuation effects on the stock of gold holdings are excluded, and gold holdings in 2001 are evaluated at the end-December 2000 gold price.

10/ For purposes of verifying compliance with the program, the floor on net official international reserves was adjusted downward by \$5.0 million in March 2001 due to shortfalls in foreign currency external nonproject budget support.

11/ Evaluated at end-December 1999 gold price.

12/ Evaluated at end-December 2000 gold price.

Table 2. Cambodia: Actions for the Completion of the Third PRGF Review and other Structural Benchmarks

I. Prior Actions for Completion of the Third Review	Status
1. Issue subdecree to reduce the number of tariff bands from 12 to 4 and to lower the maximum tariff rate to 35 percent, with associated adjustments in excise rates.	Completed
2. Preparation of the first quarterly report by the NBC on the implementation of the banks' Memoranda of Understanding (MOUs) and on actions taken against non-complying banks.	Completed
3. Implement several of the other tax measures as specified in Annex I, including: (i) treatment of diesel sales as final for VAT purposes; (ii) improved monitoring of visas (visa sticker); and (iii) additional adjustment in selected excise rates.	Completed
4. Propose a candidate to head the National Audit Authority to the National Assembly.	Completed
5. Establish the Steering Committee for preshipment inspection (PSI), as defined in the PSI contract.	Completed
6. Release second quarter allocation for the Priority Action Program (PAP).	Completed
II. Structural Performance Criterion for the Fourth Disbursement (Third Review)	
1. Complete recapitalization of FTB by end-June 2001.	Completed
III. Structural Benchmarks for the Fourth Review	
1. Establish Large Taxpayers Unit, with the possibility of direct payment by check or transfer into National Treasury accounts at the NBC for the largest taxpayers, by end-October 2001 [Structural performance criterion].	
2. Prepare a new chart of accounts for fully licensed banks based on international standards, to be operational by January 2002.	
3. Complete quarterly reports on the implementation of the banks' MOUs (by end-August and end-October 2001) indicating actions to be taken against non-complying banks, with a view to consolidating further the banking system.	
4. Cancel licenses of forestry concessions that have not submitted restructured concession agreements by end-September 2001.	
5. Complete civil service census, and fingerprinting and registration of civil servants, in all provinces by end-July 2001.	
6. Submit the 2002 budget to the National Assembly by end-November 2001 according to the agreed framework, and with new tax measures (from the options recommended by FAD) and legal authorization for the issuance of FTB recapitalization bonds.	

Cambodia: Technical Memorandum of Understanding

This memorandum sets out the understandings between the Cambodian authorities and the IMF staff regarding the definitions of the quantitative performance criteria and benchmarks for the program supported by the Poverty Reduction and Growth Facility (PRGF), and the related reporting system of monetary and financial data.

1. **Net official international reserves of the National Bank of Cambodia (NIR*)** is defined as the unencumbered (i.e., readily available) gross official reserves of the National Bank of Cambodia (NBC) less foreign liabilities of the NBC. Under the program, the floor for NIR* will be: (i) decreased (increased) by the amount of a shortfall (excess) in external nonproject support from program estimates—any downward adjustment would not exceed \$10 million; and (ii) decreased by any foreign-currency costs associated with bank restructuring. For purposes of monitoring performance against the program target for NIR, valuation effects on the stock of gold holdings will be excluded, and gold holdings will be evaluated at the gold price in effect on December 31st of the previous year¹. Similarly, the level of foreign assets and liabilities will be evaluated at the U.S. dollar/SDR exchange rate in effect on December 31st of the previous year. NIR* data will be transmitted to the IMF weekly with a lag of no more than one week.
2. **Net Domestic Assets of the National Bank of Cambodia (NDA*)** are defined as reserve money minus net foreign assets of the NBC, adjusted for valuation changes arising from the difference between the program and the actual exchange rates. Reserve money is defined as the sum of notes and coins issued by the NBC, excluding NBC holdings of currency, and deposits of commercial banks and domestic nongovernmental sectors at the NBC. Reserve money excludes all NBC securities. The program ceilings for NDA* will be adjusted upward (downward) for any shortfall (excess) in nonproject external budgetary support from program estimates—any upward adjustment will not exceed \$10 million. The ceilings will also be adjusted upward for costs associated with bank restructuring. NDA* data will be transmitted monthly within four weeks.
3. **Net credit to the government from the banking system (NCG)** is defined as claims on the general government by the banking system less deposits of the general government with the banking system. General government is defined to include central government, provinces, and communes. The program ceilings for NCG will be adjusted upward (downward) for any shortfall (excess) in nonproject external budgetary support from program estimates—any upward adjustment would not exceed \$10 million. NCG data (as reflected in the monetary survey) will be transmitted monthly within four weeks.
4. **Net domestic financing of the budget (NDF)** is defined as the sum of NCG and any nonbank financing of the general government. The program ceilings for NDF will be

¹ For example, gold holdings in 2001 will be evaluated at the end-December 2000 gold price.

adjusted upward (downward) for any shortfall (excess) in nonproject external budgetary support from program assumptions—any upward adjustment would not exceed \$10 million. For purposes of program monitoring, actual levels of NDF will not include any flows associated with “outstanding operations” (committed spending that has not yet been executed) or any “exchange rate adjustment” (valuation effects on government deposits from exchange rate fluctuations). Details on all transactions associated with outstanding operations and exchange rate adjustment will be reported at all test dates. For purposes of program monitoring, any accumulation of domestic payments arrears will be included as part of NDF. NDF data (as reflected in the consolidated report on government operations (TOFE) table) will be transmitted monthly within four weeks.

5. **The contracting or guaranteeing of external debt by the public sector** is defined as foreign currency borrowing contracted or guaranteed by the public sector in Cambodia. Public sector is defined to include the Royal Government of Cambodia, the NBC, publicly-owned enterprises, or any other agency acting on behalf of the government. The program has ceilings for all debt below five years maturity and all nonconcessional debt for maturities beyond five years (both ceilings are set at zero). The coverage of debt includes financial leases and other instruments giving rise to external liabilities on nonconcessional terms.² Details on any such borrowing should be reported within three weeks. Nonconcessional debt is defined as a debt with a grant element (NPV discount relative to face value) of less than 35 percent, based on the currency- and maturity-specific discount rates reported by the OECD (commercial interest reference rates).

6. **External payments arrears** are defined as the stock of external arrears on loans contracted or guaranteed by the public sector (as defined above), excluding debts subject to rescheduling or debt forgiveness.

7. **Establishing the Large Taxpayers Unit** (by end-October 2001) will involve selection of appropriate office space, approval of a selection process for hiring staff, beginning staff selection, and initiation of direct payment by check or transfer into National Treasury accounts at the NBC for the largest taxpayers.

² This performance criterion applies not only to debt as defined in point No. 9 of the Guidelines on Performance Criteria with Respect to Foreign Debt (August 24, 2000) but also to commitments contracted or guaranteed for which value has not been received. Excluded from this performance criterion are amounts contracted under the government loan agreement with China, dated July 26, 2000, for a maximum loan amount equivalent to \$12 million. For purposes of program monitoring, the ceilings on external debt also exclude normal short-term trade-related credits and any borrowing associated with debt rescheduling.

Summary of data reporting requirements

- (i) Data on daily average selling and buying exchange rates (official and market rates) to be transmitted daily.
- (ii) NIR* to be transmitted weekly with a lag of one week.
- (iii) Monetary survey and consolidated balance sheets of the NBC and commercial banks to be transmitted monthly within four weeks.
- (iv) Consolidated report of government operations (TOFE) to be transmitted monthly within four weeks.
- (v) CPI data to be transmitted monthly within five weeks.
- (vi) Flash report of NBC accounts to be transmitted weekly within one week.
- (vii) Quarterly monitoring reports on banks' under Memoranda of Understanding (MOUs) to be transmitted within one month.
- (viii) Trade data to be transmitted monthly within ten weeks.
- (ix) Any publicly contracted or guaranteed nonconcessional borrowing to be transmitted within three weeks.
- (x) Any external payments arrears to be transmitted monthly within three weeks.
- (xi) Information on the status of civil service reforms (e.g., fingerprinting and computerization, functional analysis, and removal of irregular cases from the payroll) to be transmitted monthly within two weeks.
- (xii) The outstanding stock of tax and nontax arrears, and any expenditure arrears, to be transmitted quarterly within four weeks.

NEWS  **BRIEF**

FOR IMMEDIATE RELEASE

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International Monetary Fund
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Washington, D. C. 20431 USA

IMF Completes Third Review of Cambodia's PRGF Program and Approves US\$10.5 Million Credit

The Executive Board of the International Monetary Fund (IMF) today completed the third review of Cambodia's performance under a three-year Poverty Reduction and Growth Facility (PRGF)¹ (see Press Release No. 99/51). The Board also approved the release of a further SDR 8.357 million (about US\$10.5 million) from the arrangement, which would bring total disbursements under the IMF-supported program to SDR 33.428 million (about US\$41.8 million).

After the IMF Executive Board's discussion on Cambodia, Eduardo Aninat, Deputy Managing Director, made the following statement:

"Cambodia has continued to make good progress in the implementation of

¹ On November 22, 1999, the IMF's concessional facility for low-income countries, the Enhanced Structural Adjustment Facility, was renamed the Poverty Reduction and Growth Facility, and its purposes were redefined. It is intended that PRGF-supported programs will in time be based on country-owned poverty reduction strategies adopted in a participatory process involving civil society and development partners, and articulated in a Poverty Reduction Strategy Paper (PRSP). This is intended to ensure that each PRGF-supported program is consistent with a comprehensive framework for macroeconomic, structural, and social policies to foster growth and reduce poverty. PRGF loans carry an annual interest rate of 0.5 percent, and are repayable over 10 years with a 5 ½-year grace period on principal payments.

its economic reform program. Inflation has remained low, economic growth has been sustained, budgetary performance has improved, and the external position has strengthened. Progress has also been made in important areas of structural reform including bank restructuring, adoption of a Governance Action Plan, implementation of a pilot military demobilization program, and computerization of the civil service census. However, as the reform agenda remains large, to achieve poverty reduction objectives, further strong efforts will be needed to sustain macroeconomic stability and make up for delays experienced in several important areas of structural reform.

“The program for the remainder of 2001 provides a coherent framework for pursuing growth and poverty reduction objectives. Further efforts to improve revenue mobilization—including a strengthening of customs and tax administration—and to increase the efficiency of expenditure management will be important to meet program targets for 2001, and to set the stage for more fundamental progress toward medium-term objectives in 2002. Prudent monetary and exchange rate policies will continue to be needed, supported by avoidance of domestic financing of the budget.

“Several areas of structural reform remain key to sustaining the recent track record of improved economic performance. These include bank restructuring, implementation of the full military demobilization program, civil service reform, revisions to investment incentives, legal and judicial reform, and further improvements in public expenditure management.

“The government’s poverty reduction and economic reform program will continue to depend on substantial donor support, and continued successful implementation will require close monitoring. Prudent external debt management will be required, including the avoidance of nonconcessional borrowing, and efforts to complete outstanding debt rescheduling agreements. The achievement of program objectives will depend on the authorities’ ability to make effective use of donor assistance, including comprehensive technical assistance being provided to improve local capacity in bank supervision, tax and customs administration, and budget management,” Mr. Aninat said.

**Statement by Dono Iskandar Djojosebroto, Executive Director and
Tola May, Assistant to Executive Director for Cambodia
July 18, 2001**

We would like to thank staff for a comprehensive report on economic developments in Cambodia under the Poverty Reduction and Growth Facility (PRGF) arrangement. Staff has provided a well-balanced assessment of the challenges facing the Cambodian authorities. The authorities would like to express their gratitude to the Fund staff and management, and the Executive Board for their continuous support and policy advice.

The Cambodian authorities have expressed their strong commitment to alleviate poverty as outlined in the Interim Poverty Reduction Strategy Paper (I-PRSP) of October 2000. With the restoration of peace and political stability over the past two years coupled with strong support from donors, the authorities have made significant progress towards sound macroeconomic management to promote sustainable economic growth and development. Cambodia's economy continued to perform well in 2000 and the first half of 2001 under the PRGF-supported arrangement with the resumption of economic growth, low inflation, relatively stable exchange rate, and improvement in public finances. All quantitative performance criteria for March 2001, and the structural performance criterion for end-June 2001 were observed, with notable progress in banking reforms, fiscal management, and the adoption of a comprehensive Governance Action Plan (GAP). In addition, the National Bank of Cambodia (NBC) has complied with the requirements of the Fund's Safeguards Assessment.

Recent economic developments

In 2000, real GDP grew by 5 percent, well above the earlier target of 4 percent, despite the adverse impact of severe flooding in the second-half of 2000. Growth was largely supported by continued buoyant activity in the garment manufacturing and tourism sectors, and is expected to reach the target of 6 percent for the whole of 2001. While there was some recent decline in export orders of garment, this would be offset by the increase in tourist arrivals and construction activities. With the financial assistance from external donors, food prices have stabilized and agriculture production is expected to rebound in the second-half of 2001. Inflation in 2000 was minus 0.8 percent; it remains flat by May 2001, and will be well below the program target of 1.8 percent. The current account deficit, excluding official transfers, increased only marginally to 10 percent of GDP in 2000, well below the earlier projection. Strong garment exports and buoyant tourism earnings along with the inflows of concessional assistance helped to moderate the impact of higher oil prices and a small decline in foreign direct investment on the

external balance. Gross official reserves rose to \$512.5 million by May 2001, with the exchange rate remaining broadly stable throughout 2000 and depreciating only slightly during the first half of 2001.

In 2000, despite the burden of flood relief outlays, fiscal targets were largely met owing to enhanced budget performance with increased revenue collections, improved

public expenditure management and the avoidance of financing from the banking sector. The overall deficit, excluding grants, was contained at 5½ percent of GDP, well below the program target, despite marked increase in public investment for flood damage rehabilitation. The current fiscal surplus reached 1½ percent of GDP in 2000, slightly better than the target of 1.3 percent, as revenues were improved and current expenditures contained. For the 2001 program, the government is committed to maintaining the current fiscal surplus at 1½ percent of GDP, but with greater efforts being made to increase expenditures for the social sectors by raising revenues by a half percentage point to 12 percent of GDP and diverting more resources from defense and security outlays.

Structural policies for 2001

The authorities made noticeable progress in its banking reforms to support the country's socio-economic development. In 2000, after a careful evaluation of their viability, the National Bank of Cambodia (NBC) closed 12 inactive, insolvent and non-viable banks, of which 8 banks declared voluntary liquidation. Their liquidation is being carried out smoothly. Of the remaining 17 banks, only five banks have been re-licensed with no conditions, and 12 potentially viable banks are subject to corrective actions as agreed in Memoranda of Understanding (MOUs). These actions include the injection of more capital and the reduction in large exposures to a single customer or related parties. NBC will make its decision whether to re-license these banks based on their performance at the end of 2001. The progress report for the first quarter of 2001 showed that their performances were broadly on track, except that four of the banks did not meet the requirements for capital injection according to the schedule in their MOUs. The NBC has imposed sanctions against these banks, and is considering the possibility of allowing the stronger banks to merge with or acquire these non-complying banks to avoid jeopardizing public confidence in the banking system.

Marked progress has also been made towards privatizing the Foreign Trade Bank of Cambodia (FTB). To upgrade FTB's management, an outside director with commercial banking experience was appointed to the Board of Directors. In addition, the NBC is also looking for a qualified manager for FTB to help in its restructuring process. The full re-capitalization of FTB was achieved by end-June 2001 with the issuance of NBC promissory notes amounting to CR 40 billion, raising FTB's capital to CR 50 billion.

Fiscal policy

The authorities are cognizant of the need to strengthen Cambodia's fiscal position to ensure the success of the poverty reduction strategy. During the first quarter of 2001, the budget performance was below the program targets, owing to the delay in implementation of a number of revenue measures that were outlined in the 2001 budget.

To address these issues, the government has stepped up its efforts to focus on the reform of custom and tax administration in line with the recent FAD recommendations. In custom administration, the Steering Committee for pre-shipment inspection (PSI) has been set up to improve the collection of import duties. The anti-smuggling task forces will also help curb pervasive cross-border smuggling activities. With assistance from FAD, the draft of the custom code is expected to be revised and submitted to the

government for consideration by the end of 2001. In revenue policy and administration, several additional tax measures have been put in place, including treating diesel sales as final sales for VAT purposes, improving visa fee collection through the introduction of the visa sticker, making additional adjustments to selected excise rates such as on cigarettes, and implementing a 10 percent tax on entertainment services. VAT collections also continue to improve while revenues from Angkor Temple, forestry concessions, and garment quota auctions will be deposited into the treasury account on a regular basis. The collections of arrears from the lease of state assets and telecommunication lines will be strongly enforced. The Large Taxpayers Unit will be created within the Tax Department by end-October 2001 to help improve tax collection.

The government continues to improve public expenditure management in order to support the poverty reduction strategy. More resources will continue to be diverted towards social sectors. Unfortunately, the disbursement of social expenditures as designed in the Priority Action Plan (PAP) has experienced some delay due to limited administrative capacity. However, the government has taken firm actions to redress the deficiencies with the establishment of the Cash Management Unit (CMU). The CMU will be responsible for monitoring the PAP allocation, which will be released at the beginning of each quarter. Meanwhile, the Post Audit team has been made operational to ensure the proper utilization of the PAP allocated funds by the line ministries and local authorities.

Civil service reform and military demobilization

Civil service reforms have been undertaken with a view to strengthening Cambodia's fiscal position. Over 8,000 irregular cases have been identified and ordered to remove from the payroll following the validation of the census results and completion of the computerization of the civil service payroll. The formulation of a credible civil service reform strategy in consultation with the World Bank and other development partners is in progress, and the strategy is targeted for implementation in the 2002 budget.

Along with the civil service reform, the military demobilization program is also necessary to ensure longer-term sustainability of the fiscal position. Careful steps will be taken to minimize the potentially negative social impact given the current fragile political situation in Cambodia. However, due to a lack of financial resources, the program was delayed. Nevertheless, the authorities remain strongly committed to the implementation of the program and would like to appeal to bilateral donors to ensure the prompt release of their financial assistance. In this regard, the authorities are grateful that at the recent Consultative Group meeting in Tokyo, several donors have pledged their support for the program. The authorities look forward to the approval by the World Bank's Executive Board to extend its financial assistance to the program. This, together with the other

pledges received will help expedite the implementation of the annual program of demobilizing 15,000 soldiers in 2001 and the remaining 15,000 in 2002.

Forestry reform

In the forestry reform program, the government continued to strengthen the Forestry Crime Monitoring Unit (FCMU) and complete the restructuring of forestry concessions. While several small-scale logging crime cases have been identified, they were promptly cracked down by the FCMU. The government has signed a protocol with the independent logging crime-monitoring partner to strengthen the cooperation in their efforts to prevent logging crimes. The draft Forestry Law, which was prepared with broad participation from related government agencies, NGOs and donors, will be soon submitted to the National Assembly after final consideration by the Council of Ministers.

Trade liberalization

Trade liberalization will be intensified in the context of Cambodia's application for WTO membership, ASEAN requirements and as part of the development of its trade strategy to support poverty reduction. In April 2001, Cambodia reduced the number of tariff bands from 12 to 4 and lowered the maximum tariff rate from 120 to 35 percent in accordance with the requirements of the ASEAN Free-Trade Agreement (AFTA). With regard to the application for WTO membership, the first meeting of the Working Party was held in May 2001 and the second meeting is expected to take place in January 2002.

Governance and capacity building

The Governance Action Plan (GAP) includes measures to reform the judicial and legal services and the civil administration as well as anti-corruption measures. The adoption of the GAP is a firm step towards improving transparency, stimulating broad participation with all stakeholders, improving public service delivery, facilitating private sector development, and fighting against corruption. In this regard, the openness of the government has progressed rapidly in recent years towards favoring greater public participation in policymaking as reflected in the design of the rural development projects and in the recent policy initiatives such as the PRSP and the GAP itself. To further improve governance, a candidate for the Auditor General of the National Audit Authority has been selected and his name has been submitted to the National Assembly for approval.

Poverty Reduction Strategy Paper

A workshop for the preparation of the full PRSP was conducted in April 2001 with broad participation from domestic stakeholders and donors. The government's Socio-Economic Development Plan II (SEDP II), the Interim PRSP, and the suggestions of workshop participants will form the basis for the preparation of the full PRSP. The full PRSP was scheduled to be completed by end-2001, but more time may be needed to bring together the participation of all stakeholders and the donor community, and to provide a full costed road map for sustainable socio-economic development.

External arrears

At the last program review, we informed the Board about the authorities' moves to resolve outstanding debt issues with the Russian Federation. We are pleased to report that substantial progress has been made. The technical mission of the Russian Federation has discussed with the Cambodian authorities in Phnom Penh in April 2001 and the leaders of the two countries will meet in Moscow, by the end of the year, to agree on a solution. With regard to other debt issues, Cambodia remains committed to discuss with its external creditors under the Paris Club or bilaterally.

Conclusion

While there have been some slippages or delays in Cambodia's reform program, these are mainly due to resource constraints. The availability of technical assistance in a comprehensive Technical Cooperation Action Plan (TCAP) will help bridge this gap. The Cambodian authorities are committed to use this valuable assistance to develop their human capital in order to make further progress in the implementation of the program.

Cambodia is still in its early stages of economic transformation and it still faces significant challenges ahead. In order to succeed, it will need the continued support of the donor community to help it build a sustainable socio-economic base to fight the deep-rooted poverty that was the result of three decades of internal conflict. In this regard, the authorities would like to reiterate their gratitude to donor countries and institutions that have provided both technical and financial support to Cambodia. While progress so far has been encouraging, the Cambodian authorities recognize that there are still greater challenges ahead. They are therefore fully committed to ensure the successful implementation of the PRGF-supported program with the continued support of the IMF and the World Bank.