

JBIC Provides Japanese ODA Loan as First Development Policy Lending to Cambodia

--Supporting Sustainable Growth and Poverty Reduction--

1. Japan Bank for International Cooperation (JBIC; Governor: Koji Tanami) signed on October 9, 2007 an Japanese ODA loan totaling up to 1 billion yen with the Royal Government Cambodia for the Poverty Reduction and Growth Operation (PRGO).
2. This is a development policy loan that supports policy and institutional reforms, which differs from the usual project-based loan assistance such as for infrastructure development. This is the first case of such a development policy lending loan that JBIC has extended to Cambodia. Specifically, this Japanese ODA loan will assist the reform program laid out in the National Strategic Development Plan (NSDP) prepared by the government in May 2006. It will be disbursed based on a close assessment of the Cambodian government's implementation of "prior policy actions" conceived for PRGO to advance the reform agenda in the NSDP.
3. Specific policy and institutional reform areas are: (1) private sector development, which includes policy actions for improving the transparency and efficiency of customs and trade procedures, for improving the investment climate in establishing special economic zones, and for developing laws that facilitate investment from overseas; (2) public finance management and the civil service system, which include capacity development of fiscal budget planning, implementation and auditing, and introduction of a performance-based civil service system; and (3) land and natural resources management, which includes broadly guaranteeing land tenure, protection of the rights of ethnic minority groups, and appropriate land and forestry resources management. The loan was provided in cofinancing with the World Bank and the combined amount is expected to reach about 31 million US dollars (equivalent to 3.54 billion yen).
4. Cambodia has enjoyed political stability in recent years and registered upwards of 9% annual growth on average since 2000. This has brought a decline in poverty incidence by more than 10% over the past decade. Despite this remarkable progress, 35% of its 14 million population is still living below the poverty line. It is thus indispensable to adopt policy measures for distributing the fruits of economic growth equitably and implement policy and institutional reforms, including for creating employment. The PRGO program is expected to accelerate policy and institutional reforms, thereby contributing to sustainable growth and poverty reduction.
5. To date, JBIC has supported rehabilitation and expansion of Sihanoukville Port and development of the adjacent special economic zone. Private sector development, one of the designated areas for policy and institutional reforms under the PRGO program, encompasses the introduction of the one-stop service where all procedures will be done in one window in all the special economic zones, and the electronic customs clearance system, among others. These measures will also serve the development effectiveness of these JBIC-supported projects. JBIC will support Cambodia not only for infrastructure development but also for policy and institutional improvement through assistance finely attuned to its needs, as done with this Japanese ODA loan, to improve the country's investment climate and invigorate its economic activities.

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Reference

1. Loan Amount and Terms

Project Name	Amount (Mil. Yen)	Interest Rate (% per annum)	Repayment Period /Grace Period (Year)	Procurement
Poverty Reduction and Growth Operation	1,000	0.01*	40/10	General Untied

* A minimal interest rate is applied.

2. Project Executing Agency

Ministry of Economy and Finance
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3. Political and Economic Conditions

After years of civil conflict, the 1991 Paris Peace Accords paved the way for the establishment of the Royal Government of Cambodia in 1993. Although there was a factional fighting in 1997, the political situation has remained relatively stable since the new administration was formed under Prime Minister Hun Sen in 1998. Cambodia has been swiftly taking steps for making the transition from a planned to market economy and for integrating its economy into the international economic system by formally joining the Association of Southeast Asian Nations (ASEAN) in April 1999 and the World Trade Organization (WTO) in October 2004. The country has thus firmly returned to the international community.

On the economic front, the Cambodian economy has recorded robust growth: an annual average of more than 9% since 2000 and about 10% in 2006. Still, its per capita GDP of 512 US dollars is in the lowest group among ASEAN member countries, and the proportion of people living below the poverty line remains 35% in 2005. In the ease of doing business rankings that appeared in Doing Business 2008, a report on business regulation published by the World Bank, Cambodia ranked 145th out of 178 countries. Its urgent agenda includes improving a legal and regulatory framework for facilitating investment and increasing the efficiency of customs procedures. While promoting economic growth through improving the investment climate, there is also a need to distribute the fruits of growth equitably and thereby reduce poverty.