



Dec 8th, 2005

Fiscal Policy, Economic Development and Poverty Reduction

Sok Hach, Economic Institute of Cambodia (EIC)

Organized by CCLSP and EIC for Distinguished Members of
The National Assembly and The Senate of Cambodia

December 8, 2005
Intercontinental Hotel, Phnom Penh

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Cambodian Economic Profile

- Relatively High Economic Growth (6-7%),
Low Inflation (around 5%)
- Private Sector not Competitive (112th/117)
- High Poverty Rate (35%)

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Sources of Growth

- Garment exports ... for how long?
- Tourist arrivals booming ... but what's about economic trickle down?
- Private construction booming ... for how long?
- New cultivated land from deforested areas ... for whom?



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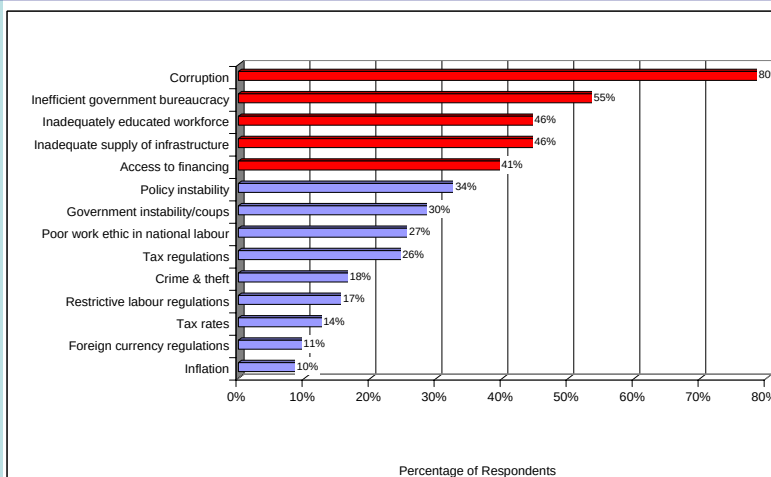
Private Sector Development

- Overall not competitive, low productivity
- MSME (Micro, Small and Medium Enterprise) not growing enough
- ... Unskilled workforce?
- ... Low technology?
- ... Unfair fiscal policy?
- ... Heavy bureaucracy?
- ... Lack of credit, high interest rate?



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Perception of Private Sector: Most Problematic Factors for Doing Business in Cambodia



Source: EIC, Executive Opinion Survey 2005 in Cambodia, February-April 2005

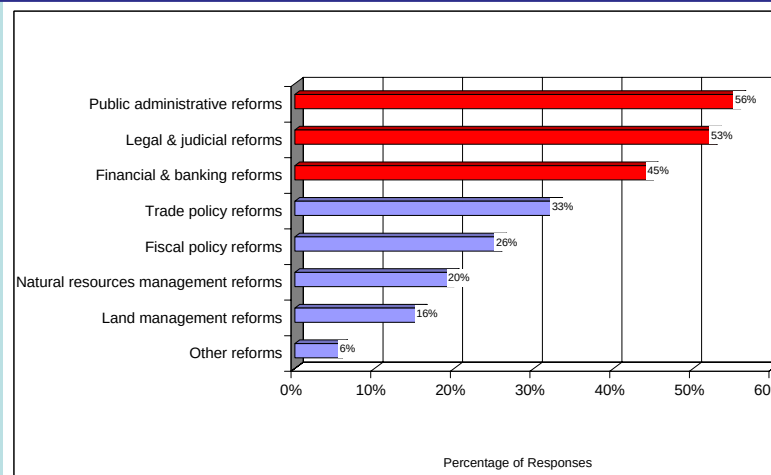
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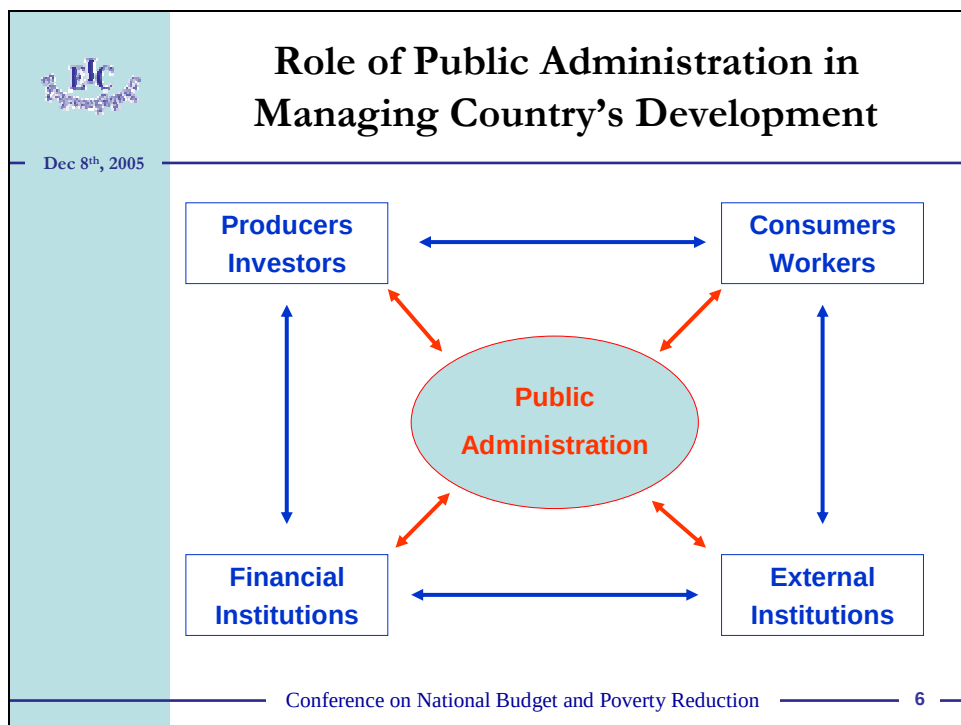
Perception of Private Sector: Critical Reforms for Business in Cambodia



Source: EIC, Executive Opinion Survey 2005 in Cambodia, February-April 2005

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National Budget Revenue

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% of GDP	Cambodia	ASEAN	Gap
Direct Tax	1%	7%	6%
Indirect Tax	4%	7%	3%
Int'l Trade Tax	3%	3%	-
Others	3%	3%	-
Total	11%	20%	9%

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National Budget Revenue

- Total Revenue: 11% of GDP is not enough to provide a minimum of public services ...
- => Increase to 15%? ... But How?
- Improve tax collections?
- Create new (direct) taxes?
- What's about reducing taxes on factors of production (gasoline, machinery...)? And make investment more attractive for MSME?



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National Budget Expenditure

% of GDP	Cambodia	ASEAN	Gap
Defense & Security	5% => 2%	4%	2%
Health & Education	1% => 3%	6%	3%
Others Ministries	3% => 5%	6%	1%
Invest. Local. Funded	0% => 1%	3%	2%
Foreign Aid	5% => 4%	1%	-3%
Total	14%=>15%	20%	5%



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National Budget Expenditure

- Low budget & Overstaff => low salary
=> no effective public delivery,
corruption
- Share of D&S significantly declined, ...
what is the real implication? ... land
grapping, deforestation, ...?



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Concluding Remarks

- Increase budget revenue through improvement
of tax collections
- Improve tax equity between MSMEs and large
companies
- Rationalize public administration
- Better decentralization of budget, make the
public administration close to the people, poor



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**Thank you
for your attention!**