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Statement by the Hon. **CHEA CHANTO**,
Governor of the Fund for **CAMBODIA**,
and by the Hon. **AUN PORN MONIROTH**,
Governor of the Bank for **CAMBODIA**,
at the Joint Annual Discussion

**Statement by the Hon. Dr. Aun Porn Moniroth,
Governor of the Bank for Cambodia, and
by the Hon. Chea Chanto,
Governor of the Fund for Cambodia
at the Joint Annual Discussion**

It is indeed great pleasure and honor for me to represent the Royal Government of Cambodia at the 2006 Annual Meeting of the IMF and World Bank. We are happy to be in Singapore, a dynamic, cosmopolitan and vibrant city-state enriched by the harmonious cooperation among different cultures, ethnic groups and religions in a very promising climate of growth and well-being.

Humanity at large stands today at an important juncture in progress towards achieving self-imposed deadline. Six years since the Millennium Summit and with nine years remaining to achieve critical MDGs, there are both positive and discouraging signs. Led by Asia, and followed by Latin America and the Caribbean, significant progress has been witnessed in reducing income related poverty, but many countries lag behind. In many other areas, additional and more concerted action is needed to reach MDGs in general. In this meeting of senior economic managers from all parts of the world our collective agenda should therefore be on what we should all do to maximize prospects of MDGs being achieved to the largest extent possible.

Most of what has to be achieved has to take place in developing countries which need substantive inflow of assistance to set in place the needed infrastructure, institutions and systems for this purpose and to provide direct catalytic support to lift the poor from their uneconomic status. Therefore, our collective actions necessarily involve those who provide development assistance and the countries which use such funds. IMF and the World Bank as global development institutions have a critical role in these efforts.

On the side of development assistance providers, there should be stronger and visible commitment to increase aid volume and aid effectiveness. Most donors are still to make progress to increase aid volumes and to make concrete efforts towards attaining the target of 0.7 percent of GNI as ODA. The faster we reach that goal the greater are the chances of poorer countries reaching the largely humanitarian MDGs. The proclamations of supporting poor developing countries through debt write offs or swaps needs also to gather more momentum in terms of practical implementation. All LDCs, of which only a few like Cambodia are left in Asia, should be put on to the priority list. Cambodia is appreciative of IMF taking the lead in this regard by providing us debt relief under the

Multilateral Debt Relief Initiative. We are committed to making full use of it for our poverty reduction efforts. We urge the World Bank to follow suit. While working faithfully with the two major countries which made loans to us in the last century to solve the problem of old debt, we would also welcome if they find it possible to write off or provide swap to most of what we owe. This would be help to the poor.

In terms of aid effectiveness, donor countries and development assistance institutions should speedily transform the noble rhetoric and laudable sentiments of Paris and Rome Declarations into ground level reality. They need to align their assistance with the socio-economic development plan and poverty reduction strategy of the recipient countries. They need to improve aid delivery modalities to enhance the real value of aid to the recipient. Some of them need to temper their well-found enthusiasm to involving and enhancing the role of civil society with accent on improving and strengthening the government capacity which can ensure a more sustainable long-term development achievement.

On the other hand, the recipients must sharpen and concretely demonstrate their commitments to improved economic management, through strengthening the management of the domestic resources, ensuring effectiveness of governance and delivery of basic services.

Cambodia is grateful for the immense financial, technical and advisory support it has received from its external development partners in the last over a decade for its development efforts. Such assistance would continue to be needed for the foreseeable future. We have always had a clear vision of our long, medium and short term development goals. Our National Strategic Development Plan, to operationalize our Rectangular Strategy for Growth, Employment, Equity and Efficiency, clearly orchestrates and articulates our goals, strategies and programs. At the heart of our efforts is good governance. We firmly believe that without improved governance, growth and development can neither be achieved nor sustained.

The Royal Government of Cambodia welcomes the stronger focus of the Bank on results. However, the current result evaluation model is very subjective and in its implementation tended to cross lines of fair treatment. We would like to re-emphasize that implementing reforms requires not only political will, but also considerable human and financial resources. The critical role of cultural and social factors and political ethos and context have to be borne in mind.

The Bank could improve the quality of the result evaluation by strengthening the statistical data input. Therefore, the Bank should help strengthening domestic statistical data coverage and quality through building related recipient institution capacity. This data could in turn be used as the input for evaluation.

Cambodia is fully and constantly conscious of its responsibilities to be accountable and transparent to its own people and the tax payers of the donor countries. The Royal Government of Cambodia unreservedly welcomes the recent action of the Bank to do fiduciary review of its projects. We have valued very highly our association with the Bank and hope that this continues through mutual respect and accountability and partnership. However, we call on the Bank to reform its investigation procedures and modality, which, we note with dismay, have in the recent past tended to violate the principles of fairness and ethics. As a professional development agency the Bank needs to studiously steer away from trying to influence the internal politics of a country or even from creating an impression through its actions. Far more positive results, our ultimate goals, can be better achieved amicably by pro-active, positive and participatory engagement and partnership with recipient governments as true and trusted partners than by resort to overt or covert public accusatory criticisms of the governments even before consulting the governments.

Let me now briefly outline some major achievements in Cambodia in the recent past in terms of economic development. With prudent economic management, the economy has registered enormous progress over the last 12 year, with GDP growth averaging at over 7.6 percent per annum, and in reaching record high of about 13.5%. Growth in 2005 was broad based, largely driven by continued high export growth, albeit in one product, healthy tourism receipts, robust construction activity, and strong agricultural production bolstered by both favorable weather conditions and proactive investment efforts by the government. Even after allowing for continued high oil prices, and likely less favorable agricultural production, GDP growth in 2006 is projected at 8%. Annual inflation rate, represented by consumer price has remained within tolerable limits though it rose to 6.7 percent in 2005 due largely to the impact of high oil prices. The exchange rate has been broadly stable.

Poverty level in Cambodia has been declining rapidly in the last 27 years, from 100% in 1979 when the country was liberated from Khmer Rouge's genocidal regime, to about 47% in 1994 and 35% percent in 2004. Per capita household consumption has risen 32 percent in real terms.

The long term progress made in reducing income poverty reflects our favorable economic environment, rapidly improving governance, better economic management and across the board and deep reforms. There are also clear signs of better progress towards the human development MDGs. The under-five mortality rate per 1000 live births declined from 124 in 1998 to 82 in 2005 and 2015 targets likely to be more than achieved. Achieving universal nine-year basic education is a challenge, though it is also dependent on other contributory factors, mainly pro-poor growth. The Royal Government of Cambodia has

taken steps to broaden and strengthen bases of growth by diversifying the economy, with stronger focus on agriculture (including irrigation), enhancing governance and strengthening government capacity, improving trade and investment climate, reorienting capital outlays toward development of rural areas, and promoting agro-industry and small and medium-sized enterprises. Cambodia attached high importance on creation, improvement, strengthening and sustaining of its human capital through human development and other initiatives.

Overall, we realize that the pace of Cambodia's sustained growth will depend very much on capital flows, domestic consumption, exports and suitable fiscal policy. It will also depend on the speed and substance of banking reforms and the soundness and viability of the financial system to underpin the efficient transmission of monetary policy and to encourage the intermediation process. With the National Strategic Development Plan based on our Rectangular Strategy as our guide the Royal Government accords high priority to accelerating broad based and across the board reforms in all sectors, to ensure rapid and orderly development of the country for ever increasing enhancement of well-being and prosperity of our people. The contribution of the banking and financial sector to the process is significant and vital. To date, much has already been achieved with respect to banking reforms: the legal frameworks and regulatory apparatus for central banking, banking and micro finance supervision, and banking business are all in place. The bank re-licensing program is effectively contributing to the financial soundness of the banking sector.

The capacity of the National Bank of Cambodia (NBC) for both on-site and off-site bank supervision has been upgraded and strengthened. Regulatory standards have been gradually improved and additional banking regulations have been issued to enhance the banking system, including measures on anti-money laundering and combating the financing of terrorism. In regard to developing underpinnings for a properly functioning banking and microfinance sector, a credit information sharing system has been established. This has facilitated wider credit access, especially to small borrowers, by lowering cost of borrowing for responsible borrowers, and by reducing credit risk exposure to the banking system. To be effective in its efforts against poverty, the government recognizes that the productive base must spread rapidly to the country side. Adequate supply of micro-financial services is critical to initiate and sustain rural development. The year 2006 has been declared the Year of Microfinance in Cambodia to give a boost to microfinance institutions.

With the successful first stage of the banking sector reform highlighted above, we have also started with all earnest the reform of our insurance sector. Next item in our agenda will be the introduction of capital market in order to diversify the sources of investment financing. We recognize that there is still a long way to go to build up effective and

efficient financial sector in Cambodia. With full awareness that the road ahead will not be always easy, the RGC is committed to the successful implementation of the updated Financial Sector Blueprint for 2006-2015.

We are all excited about the promising perspective of oil and gas sector in Cambodia. Successful petroleum exploration could lead to energy independence, foreign exchange earning, and employment opportunity. There is no doubt that the most important benefit from the petroleum exploitation would be its fiscal role in generating tax and other revenue for the country. Mindful about this and learning from the experiences of many oil producing countries around the world, the RGC is therefore fully committed to ensure that an appropriate framework for managing the revenue generated from this sector will be put in place and that this revenue will be used to build the foundation for sustainable growth and development of Cambodia. So, if there are sizable oil and gas reserves in Cambodia, we will make sure that it will become the “blessing” for our country and our people, but not the “curse” like it has happen elsewhere in the world.

Cambodia can thus be said to have secured necessary conditions for sustainable economic development and owes it in a large measure to the joint efforts between the Royal Government of Cambodia and the development partners, of which IMF and WB have played a notable role. Therefore, the recently released Bank’s Report, which places Cambodia in the group of the so called “Fragile State”, came to us as a surprise. Overall, while recognizing our somehow still low capacity to perform due to the many handicaps caused by our recent history and the many challenges ahead of us, we feel that as Cambodia succeeded, in the last decade, in conducting regular democratic elections, maintaining enduring political stability and social order, ensuring high rate of growth of more than 7% per annum, keeping inflation low, reducing poverty at a rate of more than 1% annually, improving substantially our social indicators, and so on and so forth, we also would not mind living in this kind of “fragile situation” for the next decade.

In conclusion, I would like to express our deep appreciation to the Board, Management and staff of the Bank and the Fund for their hard work and, despite recent hiccups in our relations with the Bank, their readiness in responding to the needs and challenges of the region and individual member countries, and especially for the support and assistance in the rehabilitation and development in Cambodia. We look forward to continued strong partnership with the Bank.

Allow me also to express our admiration and appreciation to the Government and people of Singapore for hosting this important meeting and for making such superb arrangements for it befitting and enhancing Singapore’s well deserved reputation for excellence, perfection and warm hospitality. -- ***Thank you.***