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

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Ladies and Gentlemen,

1. We are pleased to represent Cambodia at this important annual discussion. We meet here today under extraordinary circumstances related immediately to the mandate of our two institutions. The crisis we face is multi-faceted and affects people all over the globe, mostly the poor and underprivileged.

2. A cataclysmic and still enlarging financial crisis of unimagined and unprecedented proportions has engulfed all of us, catching us totally unprepared and unable to fully grasp its magnitude, extensive labyrinth of complexity and adverse effects spreading to all parts of the globe. This is a man-made tsunami, long in the making. No one in the modern financial world could foresee it until its full force has come to unfold in the recent weeks. All the postmortem which would no doubt be done on its causes would not solve the gigantic problems we will all face for years to come. Of immediate consequence to the developing and poor nations is that the slowing economies of the developed countries are shrinking demand for goods and services they import from the former. This in turn will affect millions of jobs and send tens of millions below the poverty line from which they have only recently emerged. The mammoth financial bailout undertaken by the bigger economies to avoid an even bigger crisis puts at risk the level of development assistance and accommodation needed from them to meet essential millennium development goals in the rest of the world.

3. Inflation is running high all over the world reducing growth prospects, leaving the poor not being able to meet even their essential survival needs. Food shortages are occurring in part to due subsidies provided to diversion of food crops for bio-energy. Food and fuel prices continue to be high, volatile and unpredictable. All these factors feed into each other, with compounding global effects. Shock waves have reached every corner of the earth. It is clear that free, unregulated markets cannot correct themselves.

4. All of us here need to admit that our two global institutions with all their research expertise failed to notice such developments in advance and alert the world. They did not do their global watchdog functions. They seem to have been more absorbed in the euphoria of preaching to developing countries and prescribing to them impossible conditions. Even as they imposed more and more reforms on borrowers, they had

relegated pursuit of agricultural research, production and productivity. Our institutions turned the spotlight on poor countries failing even to notice the mammoth turmoil brewing here in their own backyard.

5. But, the crisis we face gives us a real opportunity to start afresh. We need to critically review the mandate and functions of the two institutions so that they get out of 20th century mindsets and become more tuned, alert, capable, responsive and ready to face the 21st challenges. Cambodia joins in the calls made by others to come up with new roles, shape, structure and accountability for the two institutions so that they can truly keep a watch over global developments, not merely in the poorer part of the world. We need to set in place sensors and triggers that can alert us in advance about any crisis in the future and to enable us to take adequate alleviating action just as we do when we know of natural disasters in the making. We need to protect the world from such disasters in the future.

6. The review needs to be conducted by a body of experts, drawn from the academic world and public finance practitioners including from the developing world. A high level body needs to be set up consisting of governors of the two institutions with proportional representation from all regions.

7. There is at the same time the need to expand and enhance intra regional cooperation and solidarity through regional bodies, institutions and mechanisms. Effective regional bodies and intra regional investments could possibly cushion against future global shocks.

8. Even as the world manages the ongoing crisis, it is imperative that we don't lose sight of our long-term global commitments to alleviate the miseries of the poor in mostly developing countries. The task of poverty alleviation and reaching promised millennium development goals cannot afford delays or postponement. If any, it needs much faster acceleration and concerted action. Not only our two institutions but all other international and bi-lateral partners should ensure that programmes of assistance to these ends do not slacken but get enhanced. The present dark clouds over our skies should not stop us in our march.

9. Cambodia is getting fast integrated into the global economy. Because we are less developed we have so far been only bruised by the global events and not very severely affected. We already feel the pains of high inflation, slowing economy and reducing exports which affect our earnest efforts to reduce poverty which have shown impressive success so far but are at risk now. We can no longer sustain our recent annual double digit growth rates in the near future. Our inflation will remain higher than we would like. Our immediate concern is not to let anyone slide back into poverty from which they have

only recently stepped out. We see opportunity in the crisis to make our economic base more diversified by optimally using our natural endowments in rural areas where immense potential for increasing agricultural productivity remains untapped. The renewed focus on rural areas will also help us to immediately and directly address issues relating to poverty reduction. Direct assistance to poor farmers by way of improved seeds, inputs and extension services will at once alleviate poverty and broaden the economic base in a sustainable manner. Both the World Bank and the UN have clearly acknowledged that this is the need in most parts of the world.

10. In the tasks ahead in Cambodia, we need continued help from our development partners and international and regional institutions in the following ways at least:

(1) Write off, or provide swap arrangements in regard to, past outstanding debts, some incurred during a war period dating back to more than thirty years ago. The released resources could be ploughed back into the rural economy and toward achieving millennium development goals.

(2) Provide funds for direct assistance to the poor in rural areas to improve their livelihood through better inputs and practices in agriculture.

(3) Open up markets in the developed world by reducing tariff and local subsidies for products which we can best supply at lower cost.

(4) International institutions start to function more effectively as the advocate of poorer countries in the international arena.

11. The Cambodian delegation looks forward to a meaningful debate and emergence of a clear course of action at this meeting.

12. We now turn to other matters on our agenda. We agree with the core objectives and the broad set of guiding principles as outlined in the paper on Voice and Participation at the Bank. We would like to stress that the voting powers of the smaller members should be protected. We support the increase in IBRD basic votes which will have a bigger impact on raising the voting power of smaller countries. Practical options for realignment of IBRD shareholding should be considered. We support an additional chair for Sub-Saharan Africa in the Bank's Executive Board. We want to see this effort implemented in the broader context of Board effectiveness and governance. On the selection of Bank President, we believe that the process should be consistent among the World Bank group, IMF and the Regional Development Banks.

13. We find that the six strategic directions in the Bank's Strategic Framework for Development and Climate Change support the vision of the World Bank Group of "contributing to an inclusive and sustainable globalization – to overcome poverty, enhance growth with care of environment, and create individual opportunity and hope". However, "public goods" are also vital to address adverse effects of climate change and should not be crowded out of IDA funds. The Bank should mobilize additional financial resources to support strong country ownership and target specific interventions.

14. We have noted with regret that, by using the International Procurement Agency (IPA) arrangement, the Bank financed portfolio for Cambodia suffered a decline last year and would do so next year. This would represent the worst portfolio performance since we began to receive assistance from the Bank. We are disturbed by such poor results.

15. We wish now to present to you some highlights of Cambodia's macro-economic and financial performance. Our socio-economic agenda is spelt out in the Rectangular Strategy we have developed and adopted in 2004 and is implemented through our National Strategic Development Plan, 2006-2010. The Royal Government formed after the recent general elections has reaffirmed this strategy and will continue it in its second phase.

16. As a result of clear vision and concerted action on a package of policy-oriented measures, despite some difficulties and attendant social pains, a number of positive developments are taking place in the country. Poverty level in the country declined rapidly in three years, from about 35% in 2004 to 30% in 2007. In 2008, we expect that GDP growth would continue at a healthy level, though declining from the two digit levels seen in the last few years. Per capita income rose to US\$ 594 in 2007 increasing by over 50% in three years from 2004. Foreign reserves doubled during this period and now stand at \$ 1.9 billion. Exchange rate with US dollar will remain fairly stable. Budget performance would continue to improve with rationalization and reorientation of public expenditures.

17. We are quite optimistic about prospects of revenues from exploitation of our oil and natural gas reserves. We will ensure that benefits accrue to and are available to all Cambodians whose common heritage they are. The additional revenues will be used for targeted investments in priority sectors set out in our National Strategic Development Plan. We are fully committed to managing revenues from our natural resources in a transparent and effective manner for the long term development of the country and with full accountability.

18. Inflation which was well managed and contained till 2006 suddenly increased in the last quarter of 2007 spurred both by external environment already pointed out and

internal pressures including high liquidity in the system. It has continued at a high rate since then. This has prompted a more prudent management of prevailing monetary conditions. The monetary policy implementation has focused on managing the excess liquidity and the over-involvement of banks in the real estate sector which could have adverse consequences. Among measures undertaken were increasing the statutory reserve requirement from 8% to 16%, increasing the capital requirement of the banks, and reduction in real-estate lending. In the area of fiscal policy, despite few expansionary measures to contain the impact of inflation on livelihood of the most vulnerable group of population, the general policy line of the Royal Government is limiting spending, increasing current budget surplus, reducing overall budget deficit, increasing Government's deposit in the banking system and redirecting spending towards productive sectors, especially agriculture and rural economy. However, the Royal Government, conscious of the trade-off between inflation and growth, will follow a flexible approach.

19. In strengthening of the banking system, we have moved away from judgmental loan classification to the prudential asset classification based on objective criteria, adopted strict criteria for the level of provisioning to be applied to various grades of loans, and enhanced credit information sharing system. The implementation of reforms and strengthening of the institutional structure of the banking sector in Cambodia has had an all round salutary impact on the financial health of the banking system, as evidenced by the significant improvements in a number of prudential parameters. The average capital adequacy for the commercial banks in June 2008 was 25.5%, well above the bench mark of 15% despite significant growth in the aggregate assets of the banking system. In regard to the assets quality, the non-performing loan ratio, which was as high as 14.8% in 2002 and 9.9% at the end of 2006, declined significantly to 2.6% as at the end of June 2008. These figures have been driven by loan loss provisioning by the banks as also by the improved recovery climate enabled by the more supportive legislative environment.

20. In sum, our system in the banking sector supervision has worked satisfactorily and the volume of business transactions undertaken by the sector has been increasing steadily. The level of financial deepening has accelerated with increased financial services promoted through the progressive reforms implemented under Financial Sector Blue Print, 2001-2010, which was in late 2007 updated to Financial Sector Development Strategy, 2006-2010.

21. Reforms in other areas of the banking activities are also underway. These include strengthening and supporting the growth of microfinance institutions, the improvement of corporate governance and banks internal audit, enhancing credit information sharing system, and enabling financial leasing business for banks. We have also accentuated our efforts to ensure an efficient implementation of the Law on Anti-money Laundering and

Counter-financing on Terrorism that was adopted in 2007 through the recent establishment of the Financial Intelligence Unit and will allocate resources to facilitate capacity of this unit.

22. Ladies and Gentlemen, we wish to record our appreciation of the assistance Cambodia has received from the Bank and the Fund. We also urge that the Fund to exclude poor countries from its new scheme on "country contributions" or charging for policy Technical Assistance.

23. In conclusion, we wish to once again thank the Board, management and staff of the Bank and the Fund for their readiness to respond to the needs of Cambodia and for providing support over the years.

Thank you.