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

**Joint Statement by the Hon. Dr. Aun Porn Moniroth, Governor of the Bank and
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We are very pleased to be here to represent the Royal Government of Cambodia at this 2007 Annual Meeting of the IMF and World Bank. First of all, we would like to take this opportunity to congratulate H E Robert B. Zoellick on his appointment as the President of the Bank and to welcome him to his first Annual Meeting in his new position. We would also like to record the appreciation and thanks of the Royal Government of Cambodia for his groundbreaking visit as President of the Bank to Cambodia on August 4-5, 2007. His visit marks a welcome departure from the recent past and demonstrates and reinforces his commitment to uplift the poor of the world, especially in the developing member countries like Cambodia, through an inclusive, non-confrontational, and collaborative relations,

We would also acknowledge once again our sincere thanks to H.E. Rodrigo De Rato Y Fogaredo, the Managing Director of IMF for his recent visit to Cambodia in this year and specially thank him for his role in supporting the inclusion of Cambodia in the group of countries qualified for the MDRI program which has provided an excellent opportunity for the Governments of these developing countries to reach their respective MDGs. The Royal Government has already begun the implementation of the a rural irrigation project in the Eastern region of the country and is preparing three more projects for rural water supply, rural roads and agricultural extension services under the Royal Government's Financing Schemes. We acknowledge and value the key development partnership role that IMF has played in contributing to the development of Cambodia.

Economies in East Asia and the Pacific continued to grow at a steady pace – an aggregate of 9.2 percent– while exports from the region have almost doubled over the last three years. This growth has lifted 50 million people out of poverty each year for the past five years and in much of the region, substantial gains in poverty reduction are expected to forge ahead. This progress notwithstanding, poverty reduction remains a challenge for the developing countries. Therefore, global financial institutions like World Bank will need to continue to play their leadership and partnership role in the foreseeable future if we are to achieve the global vision of a world free of poor. The Royal Government of Cambodia seeks the continued and strong support of the Bank and IMF in its effort to reduce poverty in Cambodia within the framework of the Rectangular Strategy of growth, employment, equity and efficiency.

The RGC has affirmed the central role of good governance by making it the Cornerstone of its Rectangular Strategy for ensuring the economic development with sustainability, equity and social justice. Therefore, we principally welcome the role of the Bank to be involved in these related areas of reform as well as some other areas where the Bank believes that it has strong comparative advantage.

The Bank, however, besides this role, should not forget its main and original role as the development Bank in order to realize the ambitious objective of poverty reduction. We must recognize, as many studies have shown, that while good governance and anti-corruption are critical issues, economic growth is a prerequisite for achieving any sustainable level of poverty reduction. We must therefore ensure that policies and strategies have a clear and central focus on economic growth while giving due emphasis on other crosscutting issues which are also critical for uplifting the poor out of poverty. These must be complementary to each other but I regret to note that recent trends show an imbalanced approach with much greater emphasis on crosscutting issues at the expense of economic growth.

Cambodia has achieved remarkable progress in economic growth and meeting the MDGs despite great political challenges faced in the recent past. But I urge the Bank to be mindful of the recent history of my nation. The institutional capacity, infrastructure and very fabric of the Cambodian society were all but destroyed by the disastrous periods in the past when Cambodia lost most of its state institutions and human capital at a scale unknown in the modern world.

Without taking this factor into consideration such an historical background, as well as the current political context, where Cambodia is making every effort to deepen and strengthen democracy and human rights, Cambodia is being penalized by the current formula of the PBA system.

Therefore, with the smaller amount of IDA allocation, Cambodia has to make its own further effort to overcome two challenges: implementing the various reform programs; and promoting growth and reducing poverty.

To ensure the effectiveness and efficiency as well as to maintain the Bank integrity, and given the limited capacity of financing, to be involved in the reform programs as well as in the development process, the Bank activity, especially the Bank's leading role should be selective on the areas where it has strong comparative advantage and meet the country's needs and priorities.

On the other hand, at the operation side, RGC would like to reiterate that we have always committed to be responsible and accountable to the Bank funds. Therefore, RGC would like to welcome all measure to prevent any possible leakage. However, we would like to

strongly urge the Bank to be more efficient in addressing these issues as it may cause more burdens to the recipient countries. Excessive or inefficient measures tend to be needlessly time consuming as well as to place heavy demand on limited resources.

After sharing some ideas within the context of our relationship with the Bank, I would like to briefly outline some major achievements in Cambodia in the recent past in terms of socio-economic development.

Overall, between 1994 and 2006, Cambodia has achieved average economic growth rate of over 8% per annum. Particularly, since 1999 after the entire country achieved full peace, the average economic growth gained was over 9% annually. At the same time, inflation has been kept below 5% between 1994 and 2006. Country's international reserve has increased almost by 15 fold from 100 million USD in 1994 to over 1.5 billion USD in September 2007. Export has risen by 8 fold from 463 million USD in 1994 to more than 3.6 billion USD in 2006. The international reserves are at a comfortable level and can cover 3 months of imports.

The RGS remains committed to the maintenance of price stability as the principle objective of its monetary policy. Given the high degree of dollarization and the still underdeveloped structure of the domestic financial sector, the current monetary policy framework, which relies on a well-defined monetary program and eventual intervention in the foreign exchange market, has been deemed broadly appropriate in achieving the determined policy objective. Despite the important role of exchange rate stability in maintaining price stability, the monetary authority is determined not to implement an exchange rate targeting framework, but only to limit volatility in the dollar exchange rate and by doing so not resist adjustments that reflect shifts in underlying fundamentals, thereby achieving a realistic exchange rate for the Riel.

The banking sector is gaining strength on the back of the banking sector reforms outlined in the government's Financial Sector Development Strategy 2001-2010, which has recently been updated and extended through 2015. On the basis of capital adequacy, asset quality, earnings performance and liquidity, the overall financial condition and performance of the banking industry during the year has been satisfactory. The basic BIS principles for banking supervision have been achieved. This achievement has not occurred all of a sudden, but is the outcome of a deliberate and carefully designed program of structural reforms undertaken over the last several years, some of them still ongoing. In this context, the prudential standards set for the banking system will continue to rise as we seek perfect alignment with international standards.

Another issue that we wish to highlight during these important gatherings is that even as we have strived to forge an efficient and modern financial system, increasing the access of the poor to the financial system has been our constant special priority. And indeed, the

success of microfinance so far has been the pride of the authorities. We will further encourage in our market linked banking, which involves commercial banks entering into arrangements with microfinance institutions to extend some form of banking services to outlying areas. We feel that linked banking provides an opportunity to improve the intermediation role that banks play in an economy.

While we are happy with the remarkable progress in the last decade both in the economic and political arenas, the Royal Government is mindful of the challenges and obstacles, both large and small, that lie ahead in the path of sustainable development of Cambodia. The Royal Government will actively face the challenges to ensure the continuity and sustainability of the economic and social conditions that have been created in the last decade and are necessary for sustained development and for rapid poverty reduction.

In terms of good governance and anti-corruption, the key priority has been to encourage and speed up the fight against corruption through judicial and legal reform, accelerating the implementation of the public financial management reform, moving speedily ahead in public administration reform and further strengthening the de-concentration and decentralization measures. Enforcement of a code of ethics is being pursued. The draft Anti Corruption law is undergoing extensive and in depth review before it is referred to the National Assembly and the Senate. An Inter-Ministerial Task Force has been established to investigate and strengthen the enforcement of laws and regulations to ensure allegations of fraud or corrupt practices are addressed promptly.

Significant progress was made in many key sectors such as the management of government revenues and expenditures, the management of natural resources, land management, education and health.

Nevertheless, heavy work remains at the top of the government's agenda to achieve the country Millennium Development Goals. As has always been the case in the past, Cambodia hopes the continuous support of the international community, notably the IMF and World Bank, will help in meeting these challenging objectives.

In conclusion, we 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.

Thank you.