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Statement by the Hon. **CHEA CHAN TO** and the Hon. **KEAT CHHON**  
Governor for the the Fund and the Bank, respectively, for **CAMBODIA**,  
at the Joint Annual Discussion



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It is once again a great honor and privilege for us to address the Fifty-fifth Joint Annual Meeting of the International Monetary Fund and the World Bank on behalf of the Royal Government of Cambodia and the National Bank of Cambodia. It is also a great pleasure to be in Prague, an ancient city enriched by cultural life and fine architecture, under such happy and promising circumstances. Only two years ago, the world financial and economic conditions, especially those of the Asian region, were rather grim, and the future prospects were uncertain. The world economy, however, turned in an impressive performance since 1999, showing clear signals that we have emerged from the crisis. Moreover, now the underlying fundamentals of the world economy have more generally strengthened, and a more sustainable pattern of growth has been created. All these achievements are, surely enough, to be credited to the relevant countries themselves. But we must also give emphasis to the tremendous efforts of the international community, especially of the Bank and the Fund, in assisting countries to implement the necessary macroeconomic adjustments and structural reforms in the financial, corporate, and government sector. On behalf of the people of Cambodia, allow us, therefore, to take this opportunity to express our sincere gratitude to the two Bretton Woods institutions for their support thus far and for the assistance that we will receive in the years ahead.

This Annual Meeting of the World Bank Group and the International Monetary Fund at the beginning of the millennium is of paramount significance. It provides a forum for discussing the most pressing issues facing humanity in the new century. Let us now turn to the issues that are of utmost importance for all of us: globalization and poverty reduction.

We have all witnessed how “globalization” has become a watchword and a catchword in the past few years. Like it or not, globalization is an all-embracing, irreversible revolution and is the central challenge we face today. While globalization offers great opportunities, at present its benefits are very unevenly shared, and its costs are unevenly distributed. Thus, our top priority is how to meet the challenges of globalization and how to mitigate the impact of globalization, i.e., how to turn the forces of globalization into a positive factor for our national economy.

Globalization could lead to the marginalization of developing and least-developed member countries if they do not adjust to maximize their benefits. Obviously, there is a growing link between globalization, poverty, and the digital divide. Where the capacity is not in place, information technology is poised to become a powerful force of exclusion. In the age of modern technology and the Internet, many countries have found themselves in a spiral of pauperization and social disintegration. The current wave of globalization, though holding promise, has widened the disparity between the rich and the poor. The digital revolution should be exploited for human development to create a global knowledge-based economy. We must seek to transform the digital divide into a global landscape of digital opportunities. Closing the digital divide is key to long-term poverty

alleviation. Measures to address this situation are self-evident: deep and broader debt relief; improved market access; foreign direct investment; management of capital flows; especially short term and financial and technical support in the current trading system. At the same time; developing members should strengthen their capacity to profit from globalization and the knowledge revolution and to ensure that globalization becomes a positive force for all people. Moreover, greater efforts should be deployed to combat poverty, hunger, and marginalization. Developing countries' access to the information superhighway should be facilitated. Knowledge, information, and the access to new technologies are the foundations on which to build higher living standards. In this regard, Cambodia supports efforts being made to relieve the burden of unsustainable debt in the poor countries through HIPC and PRGF initiatives.

The impact of the financial cataclysm in the region two years earlier has resulted in large-scaled tragedies that cannot be gauged. Asia is recovering rapidly, although the growth is still fragile. The experiences drawn from this crisis show that the poor are the most vulnerable and the most affected by the crisis. Therefore, there is a dire need for the establishment of social safety nets to prevent future crisis and for the enactment of regulations and the adoption of policy measures to ensure smooth operation of the market mechanism. The world has spent a lot of time discussing the need to establish social safety nets and a new financial architecture, and to control capital flows and speculative operations in the financial markets. However, it is regrettable that so far progress has been slow. More needs to be done to implement concrete actions to resolve the cross-cutting issues currently faced by the world economy and financial systems in order to maintain decent social safety nets for the millions of poor people scattered around and vulnerable to all kinds of crises. Indeed, at the regional level and within the ASEAN and ASEAN plus three framework, we have worked on some of these issues. The Chiang Mai Initiative is an important step in this direction. These efforts, however, will not be sufficient if there is no overhaul in the world order.

Let us take this opportunity to apprise this distinguished forum of Cambodia's efforts to combat poverty. The Royal Government of Cambodia (RGC) has recently drafted an interim Poverty Reduction Strategy Paper that represents a development program addressing specific areas that are keys to improving the lives of the country's poor. Ensuring participation from various segments inside and outside the country in its preparation, this paper will serve as a guide for a more coordinated action toward achieving the country's primary development objective and for our pioneering work toward preparing the full Poverty Reduction Strategy Paper in the coming year.

The RGC has responded to poverty by taking measures to accelerate economic growth, improve the distribution of income and wealth, and promote social development. The government poverty-reduction strategies have three main components: (1) long-term, sustainable economic growth at an annual rate of 6–7 percent; (2) equitable distribution of the fruits of economic growth between the have and the have-nots, between urban and rural areas, and between genders; and (3) sustainable management and utilisation of the environment and natural resources. The ultimate objectives of poverty reduction is to

ensure more cohesive, consensus-based development with equity for Cambodia and all Cambodians.

Growth is the most powerful weapon in the fight for higher living standards. Faster growth will require policies that encourage macroeconomic stability; shift resources to more efficient sectors; build physical infrastructure; and strengthen prudent macroeconomic management; combined with economic openness and market orientation, to integrate with the global economy. Cambodia continues to deepen its integration with the region and global economy and maintain outward-looking and market-based economic, financial, and trade policies. In this regard, the government will maintain its market-based exchange rate policy and liberal exchange system. Trade reform will also continue in the context of AFTA and Cambodia's accession to the WTO.

The government's economic framework focuses on increasing economic growth to 6–7 percent over the medium term, keeping inflation below 4 percent, containing the external current account deficit to sustainable levels, and prudent management of external debt. To reach these objectives, the government pursues fundamental fiscal reform aimed at increasing revenue and improving the pattern and efficiency of spending. We are committed to continuing the strict implementation of the VAT, avoiding tax exemptions, rationalizing incentives granted to investment projects, enhancing the collection of nontax revenue and ensuring direct transfer of revenue to the Treasury, recovery of arrears from the private sector, and strengthening of tax and customs administration. The main goals are to raise government saving to finance the public investment program to avoid bank financing.

The main thrust of the structural reform programs is to strengthen forestry and public resource management, improve tax administration, implement civil service and military reform, promote financial sector development and private sector development, and embark on trade reform. The RGC is committed to reviewing the tax policy framework with the objectives of raising revenues, enhancing tax buoyancy and equity, and removing distortions that discourage private investment. This is designed to develop a modern tax framework and transparent procedures for managing natural resource concessions, including mining, petroleum, and forestry, with the objectives of improving their sustainable, efficient utilization and enhancing revenues to the government.

However, the benefits of growth for the poor may be eroded if the distribution of income worsens. Thus, there is still room for policies that target interventions to improve health and education outcomes. At the top of the list are female education to ensure gender equality, safe water and sanitation, child immunization, as well as social safety nets to protect the most vulnerable. Attention is also needed to the social structures and institutions that affect development, otherwise called social capital. In the spirit of this motto, the government's pro-poor policy is geared toward establishing a favorable environment to promote and generate economic growth without environmental degradation and with equitable distribution of income.

On the basis of our broad strategy, we have formulated the following policy response to poverty: promoting opportunities, creating security, strengthening capabilities, and generating empowerment. Our approach to promoting opportunities is via strengthening macroeconomic performance, accelerating economic growth, promoting private sector development, developing the physical infrastructure, strengthening the energy sector, ensuring sustainable development of the agricultural sector, improving water resource management, advancing rural development and decentralization, ensuring sound natural resource management, encouraging income-generation activities, embarking on land reform, and increasing access to microfinance for the poor.

Reducing the vulnerability of the poor by developing resistance to external shocks and increasing the overall sustainability of their livelihoods are priorities, as is assisting those poor who want to diversify from agriculture. These concerns have not received sufficient attention. The current emphasis is on microcredit for income-generating activities, but there is a need also to address vulnerability to fluctuations in income. This could be tackled by providing insurance, savings, and loans for consumption purposes. Moreover, security can be ensured by expanding safety net programs, promoting environmental protection, and clearing land mines.

The government plays a crucial role in the delivery of services and the improvement of capabilities. Priority actions that will be taken by the RGC over the short- to medium-term are: to establish priority groups of government officials to improve service delivery and increase productivity; expand decentralization and continue deconcentration of the administration system to increase accessibility of essential services to the people; accelerate the reform of the state by implementing action plans in demobilization, administrative, and fiscal reforms with a view to strengthening the rule of law and consolidating the foundation of the market economy; deepen the judicial reform and establish a national program for judicial reform; and implement the measures outlined in the Governance Action Plan (GAP).

Broad-based growth will also need to be accompanied by an emphasis on improving the access of the poor to credit, education, healthcare, and infrastructure, as well as drinking water and sanitation. Efforts have been deployed by the RGC to increase access of the poor to markets by building rural roads, providing information, and developing rural markets. Also important is better governance to improve the responsiveness of the state to the needs of the poor, as well as the decentralization of power and resources from central government to provincial and local institutions in order to facilitate the participation of the poor in decision making. In this regard, the positive results of the government's SEILA program are encouraging. The proposed commune council elections and establishment of the councils should assist in further developing local institutions and promoting grassroots democracy with the potential to contribute to faster poverty reduction.

The RGC is committed to developing and strengthening the legal and regulatory framework and institutional capacity conducive to private investment and business activities in Cambodia. The RGC considers the private sector as an engine of economic

growth and employment generation. Efforts to improve the business climate and create a level playing field for the private sector include harmonizing laws and regulations, adopting a comprehensive commercial code, strengthening the rule of law and good governance, maintaining Cambodia's competitiveness vis-à-vis the region, and improving the quality of the judicial system.

In the financial sector, we continued apace with our banking sector reform. Starting with the promulgation of the Law on Banking and Financial Institutions, we have taken measures to fine tune and update our legislation. We issued a series of banking regulations and guidelines to foster a more transparent and sound banking sector. More specifically, we have recently introduced a new framework for bank relicensing; and flight to quality represents the major motive for this action. Banks that fail to abide by the provisions of the law and its implementing regulations will be closed. With this step, we hope to promote public confidence in the banking sector that in turn contributes to mobilizing domestic savings.

Cambodia is well aware of the fact that the more the country gains economic and social strength, the better it can provide a cooperative contribution to the region and to the rest of the world. Having said that, we would like now to use the opportunity given by this international forum to brief you on the progress that we have made since the last Annual Meeting of the Bank and the Fund with respect to preparing our economy for the changing world and to promoting macroeconomic stability.

Since 1999, the Cambodian economy has shown remarkable improvement, thanks to the determination of the Royal Government of Cambodia in pursuing decisively its economic reform programs. Macroeconomic performance during the first half of 2000 has strengthened our confidence in the future economic prospect. In 1999, the economy achieved a real growth of 4.3%, a recovery from the stagnation at 1% in the previous two consecutive years. The year 2000 has witnessed ravaging flooding that has wreaked havoc on the people and the economy of the six riparian countries of the Mekong River. The RGC has to divert its resources to finance emergency relief assistance and to rehabilitate the agricultural and transport infrastructure. It is also mobilizing external assistance for those purposes. For this year, therefore, facing the devastation caused by the flood, we have to work hard to ensure that the economy will expand by more than 5%, which would be supported by improved foreign direct investment, higher domestic consumption, increased exports of garments, and tourism services. The three-month moving average inflation declined from 12.6% in December 1998 to 0% in December 1999, and inflationary pressure has remained absent since then. The exchange rates were fairly stable, depreciating by only 2% from the December 1999 level. This was induced more by the general strength of the U.S. dollar against other currencies than by internal factors. During the first six months of the year, the number of passenger arrivals for tourist purposes was up by 19% compared to the same period of last year. Cambodia's exports under the Generalized System of Preferences showed an increase of 50% over the level recorded for the last two quarters of the previous year. The position of gross foreign

reserves held by the National Bank of Cambodia improved further and, at the end of the second quarter 2000, was sufficient to finance 3.5 months of total imports of goods and services.

At the last Consultative Group Meeting held in Paris in May 2000, donors expressed their full support for the RGC's reform programs and the achievements attained so far, pledging US\$548 million for 2000 to push the reform process forward. Moreover, this year's IMF mission for Article IV consultation and PRGF review came to a conclusion. Good progress has been made in several areas, as the achievements in 1999 and in the first half of 2000 were broadly in line with the government's program targets. In particular, all performance criteria for the financial sector were observed, and structural reforms have been progressing as envisaged. Consequently, the first PRGF review in 2000 was successfully completed by the IMF Executive Board on September 15, and we expect to have the same result with the SAC review.

Cambodia looks forwards to strengthening further its relationship with the Bank and the Fund to respond to the new development challenges, combat poverty effectively, narrow gradually the digital divide, and prevent marginalization. We welcome the reforms under way in the Bank and the Fund to make them more effective in today's rapidly evolving world economy, and the determination to strengthen the voice of developing countries within the Bretton Woods institutions. Playing a new role in the new millennium, the Fund and the Bank need to coordinate their activities with regional financial institutions. Cambodia calls for more emphasis to be placed on poor members that are strongly committed to reforms to help them reduce poverty. We expect that the new partnership, reflected in the Technical Cooperation Action Plan, will help Cambodia strengthen its capacity to cope with globalization. In this regard, we would like to appeal to the international financial institutions and other interested donors to assist in mitigating the impacts of the flooding that is ravaging Cambodia and other riparian countries of the Mekong River. There is an urgent need to rehabilitate physical infrastructure, transportation, and agricultural facilities.

We do hope that this Annual Meeting will provide a stronger impetus for the Bank and the Fund, and for the international community to contribute more effectively to the development process of the poor and poorest countries in the world.

In conclusion, we would like to express our sincere appreciation to the World Bank and the International Monetary Fund, as well as to the Asian Development Bank (AsDB) and other international multilateral financial institutions and to Cambodia's bilateral partners for their support and assistance in our endeavors to engineer economic development and alleviate poverty in our populace. Their invaluable wealth of experiences is of great significance to all of us. We are looking forward to enhancing our cooperation with the Fund and Bank in the pursuit of ameliorating the social and economic conditions in Cambodia within the framework of our new development cooperation partnership paradigm.