

Timor-Leste and Cambodia: In search of growth and prosperity

As Timor-Leste and Cambodia continue to rebuild their economies after long periods of social and political conflict, both countries are searching for ways to improve policies and institutions, stimulate economic growth, and reduce poverty. Legislators have critical roles in these processes—both as lawmakers and as monitors acting on the public's behalf. Recently, the IMF sponsored parliamentary seminars in Dili, on March 17–18, and in Phnom Penh, on March 24–25, that took a closer look at what can be done to involve legislators more actively in the development process. The two sessions—which drew 40–50 legislators in each country, as well as parliamentary staff and civil society and donor representatives—spotlighted the need to create jobs and make wise use of oil and gas resources in Timor-Leste and to strengthen governance and intensify efforts to reduce poverty in Cambodia.

Timor-Leste: building from scratch

In Dili, the two-day parliamentary seminar and a half-day workshop with representatives of civil society organizations focused on ways to spur economic growth and fight poverty. Newly independent in 2002, Timor-Leste shares challenges similar to many very low-income countries—but with a few twists. First, in the violence that swept the country after its independence referendum in 1999, Timor-Leste lost much of its physical and human capital. It had to start from scratch in building such key institutions as a finance ministry, monetary authority, and judiciary. Initially administered under a UN mandate, the country is now self-governed, and the IMF continues to play a key role, through technical assistance and policy advice, in helping the country build up its fiscal and monetary policy institutions. Another twist—and a potentially positive one—has been the discovery of significant oil and gas resources. The challenge for the authorities now is to manage this newfound wealth wisely and to avoid the pitfalls that have plagued other resource-rich countries.

One of Timor-Leste's top priorities is reducing unemployment—currently estimated at more than 20 percent—and ensuring that its economy is positioned to create new jobs for its population—50 percent of which is under 16 years of age. The government's prudent policies have helped achieve macroeconomic stability, but other key conditions for strong growth remain absent—notably improved infrastructure and a clear and predictable legal and regulatory structure. Enhanced skills development and training are also needed.



Patrick Carty/IMF

Valeria Fichera of the IMF's Asia and Pacific Department addresses participants at a workshop in Dili, Timor-Leste, on ways to spur economic growth.

On the question of how to provide more financing for economic activity, particularly in rural areas, participants emphasized small finance schemes, such as microcredit and rural cooperatives. As one private sector participant remarked, “a serious challenge facing our young country is that credit is largely limited to the capital city and other large population areas.” In addition, Manuel Tilman, Chair of the National Assembly's Economy and Finance Committee, encouraged the IMF to continue to bolster the capacity of the country's monetary authority as one step toward paving the way for a national currency.

Legislators also looked at the National Assembly's contribution to the country's development. President of the National Assembly Francisco Guterres “Lú-Olo” observed that the parliament “plays a critical role” in examining and approving the state budget, and overseeing its execution so as to ensure a balanced contribution of fiscal policy to development. It also has an important and continuing role in drafting and passing quality legislation.

Legislators were particularly interested in policies that would encourage the sound management of the country's new oil revenue. The government plans to follow best practices by establishing a Norwegian-style oil fund and adopting a savings policy to safeguard Timor-Leste's oil and gas resources for future generations. Parliament will monitor the operations of this oil fund and help ensure that oil and gas wealth is spent wisely in the government's budgets.

Finally, legislators took particular interest in ways to promote good governance, which is a key element in ensuring pro-poor economic development. They placed a special emphasis on the key role national legislatures can play in carefully monitoring national budgets.

Cambodia: tackling poverty reduction

In Phnom Penh, participants focused on disappointing progress in reducing poverty and on governance, trade opportunities, and dollarization. IMF advice and support have helped the country achieve financial stability, they said, but this and high levels of aid have yet to translate into lower poverty rates.

Going forward, there was broad agreement that, with most of the poor living in the countryside, greater emphasis should be placed on rural development. But Cambodia's needs are many. As Than Sina of the National Assembly emphasized, reconstruction of the country's infrastructure, which sustained massive damage during the civil war, remains a high—but neglected—priority. Other parliamentarians also pointed to the need to promote small and medium-sized enterprises.

What is holding back poverty reduction? Participants agreed that weak governance is one of the most important obstacles. They welcomed the IMF's help in promoting good governance and reducing corruption, particularly its insistence on greater transparency. As the IMF staff emphasized, good governance is an essential ingredient in the more effective use of public resources, increased economic activity, better tax collection, and improved poverty reduction. And with their significant budgetary oversight responsibilities, parliamentarians are, the IMF staff stressed, essentially the board of directors of "Cambodia, Inc." They should hold the government to account in delivering "value for the public's money"—especially given that Cambodia has one of the lowest revenue-to-GDP ratios in the world.

Trade can also play a key role in Cambodia's development. Dr. Sok Siphana (Secretary of State, Ministry of Commerce) drove home the point that Cambodia's recent accession to the

World Trade Organization (WTO) presents a huge opportunity and opens vast new markets. Accession should also help accelerate the passage of laws required of WTO members. More generally, open trade, together with improved governance (especially reduced unofficial fees), should speed up diversification of the Cambodian economy—an urgently needed step if Cambodia is to achieve the UN Millennium Development Goals.

Cambodia's highly dollarized economy also surfaced as a prime concern. Indeed, memory of the overnight destruction of the domestic currency and banking system by the Khmer Rouge remains vivid. Participants broadly agreed on the need to increase the use of the Cambodian riel, but they recognized that this would take time. Still, as So Victor of the National Assembly stressed, measures can be taken to rebuild confidence in the riel, confidence that has already been helped very much by the stability of the riel's exchange value since 1999. In the financial sector, legislators can do their part in helping to build a sound financial sector by enacting the necessary laws for commercial activities, financial transactions, and bankruptcy.

Strengthened legislative outreach

The IMF has in recent years increasingly reached out to legislators. Parliamentarians can play a key role in their societies both as representatives with firsthand knowledge of their constituents' needs and interests, and as lawmakers whose awareness of the importance of prudent fiscal, monetary, and structural policies can hasten the development of a stable macroeconomy and a vibrant private sector. The sessions in Timor-Leste and Cambodia also reflect the IMF's considerable work in postconflict situations and its own deepening appreciation of the special challenges these countries face in creating or substantively rebuilding the institutions needed to underpin a functioning economy.

Participants in both seminars appreciated the IMF's efforts to engage them in open and informal forums and to listen to their concerns. Maria Da Costa, a member of the Timorese National Assembly, welcomed the "useful and interesting discussions," and Cheam Yeap, Chair of the Commission on Economy, Finance, Banking, and Audit of the Cambodian National Assembly, cited the value of a "meaningful dialogue" in facilitating common understanding of the issues. Legislators from both countries encouraged the IMF to build on these outreach efforts with follow-up seminars and workshops. ■



Left to right: Robert Hagemann (IMF Resident Representative in Cambodia), Dr. Sok Siphana (Secretary of State, Cambodian Ministry of Commerce), and Kanitta Meesook (Assistant Director, IMF External Relations Department).

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