



Kingdom of Cambodia
Nation — Religion — King

OPENING REMARKS
SENIOR MINISTER KEAT CHHON
MINISTER OF ECONOMY AND FINANCE
FIRST VICE CHAIRMAN OF THE COUNCIL FOR THE DEVELOPMENT OF CAMBODIA
CO CHAIR OF THE 8TH CG MEETING
PALAIS DU GOUVERNEMENT, PHNOM PENH, 2-3 MARCH 2006

Respected Prime Minister Samdech Hun Sen
Colleagues from the Royal Government of Cambodia
Representatives of Development Cooperation Partners
Distinguished Guests, Ladies and Gentlemen

1. It is a great pleasure for me to welcome both my colleagues from the Government and our development cooperation partners to the 8th Consultative Group meeting at the ***Palais du Gouvernement*** which follows the Government-Donor Coordination Committee meeting that was held on 15 February 2006. I would like to convey our sincere gratitude to **Samdech Prime Minister Hun Sen** for presiding over the opening session of this important meeting and providing his valuable recommendations for both government and development partners.

2. 2006 is the eighth year for the people of Cambodia when they have enjoyed an environment of continued peace and security, and full territorial unity, physically and institutionally unity. Today's meeting is the third one that the Royal Government has organized in the country and is also the second meeting for the Royal Government of the Third Legislature of the National Assembly. Since the last CG meeting, the Royal Government has continued to make significant progress in maintaining macroeconomic stability and achieving economic growth at the rate of 7 percent in 2005. This rate of growth is significantly higher as compared to the estimates made at the beginning of 2005. This high rate of growth was achieved despite of the end of the Multi Fiber Agreement and negative external factors such as the unprecedented high oil prices and the on-going avian flu scare. Over the past ten years, real GDP has grown at an annual rate of over 7 percent. Over the past four years, real income per capita has increased on average by 4.5% per annum. In the same areas of the country that were included in both 1993 and 2004 surveys, the number of people living below the poverty line has declined from 39% in 1993 to 28% in 2004. The fiscal performance in 2005 has been good. The collection of total revenues has increased and public expenditure has been restrained and rationalized. Prudent expenditure management in 2005 has enabled the Royal

Government to allocate more budget resources to priority sectors, including education, health, civil service reform and the rehabilitation and construction of physical infrastructure, in particular the irrigation systems. The sustained level of economic growth that Cambodia has been able to achieve so far is the result of Royal Government's concerted efforts to deepen the implementation of its various reform programs, including Public Financial Management, Financial Sector Development and Private Sector Development to improve investment and business climate, achieve trade facilitation, encourage private sector participation in infrastructure, and develop SMEs, as well as Land Reforms, Public Administration Reforms and Legal and Judicial Reforms. These positive achievements have been possible only because of an environment of peace and political stability. These have been keys elements for Cambodia in moving forward to improve the living standards, human rights, democracy and sustainable development that have been guided by the **Rectangular Strategy** put forward by **Samdech Prime Minister Hun Sen**.

3. Notwithstanding the significant progress that has been made over the last decade and especially in 2005, the Royal Government still faces many development challenges to combat poverty. Poverty rate is still high. Assessment for the whole country shows the poverty rate still stands at 35 percent in 2004, declined from 47 percent 1993-1994. Improving the living standard and equitable distribution of economic development and growth among the population remains a high priority of the Royal Government. Reducing the poverty rate and improving the livelihoods of the population in the rural areas continues to be a high priority for the Royal Government. The Royal Government, without neglecting technological innovation and knowledge economy in the making, is fostering economic diversification. The agriculture sector is the source of livelihood of more than 70 percent of the labor force. Speeding up the development of this sector is the highest and most urgent priority of the Royal Government. Sustainable development, poverty reduction and the Cambodian Millennium Development Goals cannot be achieved without further improvements in rice productivity and diversification of crops as well as promoting agro-industry development. The Royal Government is working on preparing a national strategy for the development of agriculture and water sectors. At the same time, priority is being given to land management and land reforms as an important issue. The Royal Government considers poverty to be a waste of valuable economic and human resources which is not only morally unacceptable but can also result in social polarization and instability

4. Beyond our fight against poverty, we are resolutely fighting against corruption because corruption diverts resources from the poor to the rich and makes the poor remain poor. As part of this commitment, we have agreed at the 6th GDCC held on 15 February to include a JMIs on combating corruption. Also given the importance of improving aid effectiveness, we have included as a JMI on building partnership to enhance aid effectiveness as second priority in the JMIs matrix. I would like to note

that maintaining social order is also critical for development. The fight against poverty and corruption must go hand in hand and must continue unabated. We need to set clear and achievable targets. The Joint Monitoring Indicators are the instrument for this.

5. Since debt issues have direct impacts on macroeconomic management, on MDGs and on country development, broadly speaking, and on public finance management in particular, I would like to take this opportunity to stress that based on our significant progress in implementing our macro-economic policies, substantially reducing poverty, and satisfactorily improving our public financial management we are qualified to receive debt relief under MDRI of the IMF. It is thanks to these achievements that the IMF has approved the cancellation of the USD 82 million in debt owed by Cambodia. The Royal Government would like to renew the expression of our appreciation to the IMF and would like to reassure that the Royal Government has committed itself to fully use these resources that will become available to target poverty reduction. However, Cambodia is still constrained by the debts from other countries that were incurred before 1993. We do recognize these debts in the name of state legacy. But we now face a situation in which, as a conditionality, we must first reach an agreement to settle the arrears on these loans of the pre-1993 era in order to receive approval from the IMF on the Second Poverty Reduction and Growth Facility (PRGF II). I would like to note that the size of the pre-1993 debt will constitute an overwhelmingly large share of our total debt. The service charges of these debts that were incurred by previous regimes will adversely impact on the Cambodian economy for the next 40 years. Cambodia will continue to negotiate and settle these debts regardless of the underlying moral principles and regardless of the consequences of the tragedy Cambodian people have suffered during that era. The Royal Government has no choice but to accept to repay these debts and to minimize the adverse impact on public financial management and the long term development - of Cambodia. The prudent management of these debts is very important to achieve Cambodia's Millennium Development Goals. I would like to take this opportunity to express our heartfelt gratitude to the People's Republic of China that has completely cancelled all the debt owed to it by Cambodia.

6. The Royal Government has adopted the **National Strategic Development Plan** (NSDP) for 2006-2010 and the **Public Investment Program** (PIP) for 2006-2008 on 27 January 2006 following extensive consultations within the Royal Government and with development cooperation partners and civil society organizations to implement the political platform and the **Rectangular Strategy**. The Royal Government urges all development cooperation partners to align their country assistance strategies with the priorities identified in the NSDP and provide financial support to implement the PIP. We make this appeal in the spirit of the Paris Declaration for Aid Effectiveness. I would like to reiterate again that the Royal

Government will allocate resources resulting from the debt cancellation by the IMF to invest in poverty reduction in accordance with NSDP priorities and the PIP.

7. Enhancing aid effectiveness has been heavily debated during the past few years in both international arena and at the country level. In Cambodia, we have made significant progress. Since the last CC meeting, the Royal Government has put in place a new mechanism for aid coordination. This coordination mechanism, as you know, comprises of: (a) 18 Technical Working Groups (TWGs) at the sector/thematic levels, and (b) a high level Government Donors Coordination Committee (GDCC) for policy guidance and coordination of the 18 TWGs.

8. This TWG and the GDCC mechanism represents a fundamental change in the institutional set up for planning, managing and monitoring progress on the implementation of development assistance. This mechanism is designed to strengthen Government ownership in development cooperation management and to build effective partnerships with development cooperation partners to increase aid effectiveness. The 18 TWGs and the GDCC have been meeting regularly on a quarterly basis to jointly review and monitor progress in the implementation of TVVGs Action Plan and to monitor progress in achieving the targets of the Joint Monitoring Indicators that were agreed at the last CG meeting. The discussion at the Fifth GDCC meeting, held at the end of 2005, provided valuable inputs to the Royal Government for the preparation of the new JMI that were discussed at the Sixth GDCC meeting which was held on 15 February 2006 for submission to today's CG meeting. Further strengthening of this mechanism to improve the mobilization, allocation and utilization of ODA resources remains a high priority of the Royal Government.

9. We have also made significant progress in moving towards harmonization of our development partners practices. The first **Action Plan on Harmonization and Alignment** was approved by the Royal Government on 19 November 2004 and 12 development cooperation partners had signed with the Royal Government a declaration to support the implementation of the Action Plan on 2 December 2004. The Council for the Development of Cambodia has updated the Action Plan through extensive discussion with ministries and agencies of the Royal Government and development cooperation partners to implement the partnership commitments of the Paris Declaration and to reflect the situation on-the-ground based on our review of progress in 2005. The Updated **Action Plan on Harmonization** was approved by Samdech Prime Minister on 14 February 2006. Please Samdech Prime Minister, allow me to commend **H.E. Mr. Chhieng Yanara** in his capacity as Chairman of the Partnership and Harmonization TWG for his hard work and effort in the preparation of this Action Plan. In addition, as filter, he has also played an important role in the preparation of the new Joint Monitoring Indicators and other Royal Government policy documents for today's meeting as well as for his leadership in coordinating

both at the technical and administrative levels with all ministries and agencies of the Royal Government and with development cooperation partners in preparing for this CG meeting. This appreciation is not only directed to **H.E. Mr. Chhieng Yanara** personally, but also to the role of the Cambodian Rehabilitation and Development Board of the Council for the Development of Cambodia as the focal point within the Royal Government for aid coordination and management that has been reaffirmed in the **Strategic Framework on Development Cooperation Management** which was adopted by the Royal Government on 27 January 2006 and according to the Sub Decree No. 147 dated 29 December 2005.

9. The substantial progress that has made so far is the result of the Royal Government's firm commitment and concrete actions under the leadership of **Samdech Prime Minister Hun Sen** along with support of our development cooperation partners. Today's meeting is privileged to have Samdech Prime Minister preside over and give his valuable recommendations for our discussion. After the Remarks by my Co-Chair of CG meeting, Mr. Ian Porter, **Samdech Prime Minister** will deliver his keynote address to officially open the 8th Consultative Group meeting for Cambodia.

Thank You.