

**PUBLIC FINANCIAL MANAGEMENT REFORM PROGRAM  
ANNUAL STRATEGIC REVIEW PREPARATORY RETREAT**

**OPENING REMARKS<sup>1</sup>**

**BY  
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Your Excellency, Keat Chhon, Senior Minister of Economy and Finance; Excellencies, ladies and gentlemen:

It gives me great pleasure to be here to make a few opening remarks on behalf of your development partners at the start of this Retreat, which is part of the Royal Government of Cambodia's Annual Strategic Review of its Public Financial Management Reform Program, launched by Samdech Prime Minister Hun Sen in December 2004. We thank MEF for the invitation to join—as you can see by our numbers, we are indeed pleased to have been invited and eager to participate.

Public Financial Management reform is the foundation for sustainable development and is at the heart of the Royal Government's National Strategic Development Plan. An accountable and transparent public financial management system is a key determinant of a government's ability to achieve its objectives. And a thorough, frank, and successful review is a critical component of the reform initiative.

At the recent Consultative Group meeting, the Government and development partners agreed to a new set of Joint Monitoring Indicators (JMI) to help with review at a very high level. The JMI for Public Financial Management is as follows:

*Continue implementing the Royal Government of Cambodia's Public Financial Management Reform Program—complete Platform 1 and begin implementing the action plan for Platform 2—and monitor impact through the agreed PFM Performance Management Framework and Indicators.*

So it is timely that we meet informally, here at this wonderful location, where stakeholders and decision makers come to discuss some of the key issues of the action plan, performance indicators and other elements of the Reform Program. These discussions will be very helpful in preparation for the drafting of the Report on the Annual Strategic Review.

All stakeholders have been looking forward to this retreat since it was announced by the Reform Committee early this year. A lot of effort has been put into substantive preparations—I understand that the three working groups and the steering committee had very intense and productive meetings in the preparation of the three reports—and I congratulate and thank everyone involved. We also have a comprehensive report by the external advisory panel that provides valuable insights. I would also like to thank the Reform Committee Secretariat for the very useful 2005 annual progress report. All of

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<sup>1</sup> The views expressed in this presentation are those of the author and should not be attributed to the International Monetary Fund, its Executive Board, or its management.

these are useful tools for our deliberations, and I look forward to the break out sessions tomorrow and encourage all participants to engage in frank discussions. This is the opportune time to talk freely with each other, with the aim of coming to a shared understanding of the best way forward to accelerate a Public Financial Management Reform that is both progressive and achievable.

I would now like to review the objective and the desired outcomes of the retreat. The main objective is to agree on key aspects of the program and provide guidance to officials tasked with drafting the Report on the Annual Strategic Review. The key outcomes from the retreat we envisage are the following:

- First: A shared understanding by all stakeholders of progress and implementation of the Government's PFM Reform Program;
- Second: An agreed outline of remedial measures and an update of the Consolidated Action Plan for priority areas. The purpose of this is to facilitate the timely completion of Platform 1;
- Third: An updated performance management framework; and
- Fourth: An agreed view of program options for Platform 2.

At the outset I'd like to state clearly that your partners are very encouraged by the clear level of commitment that MEF management and staff have exerted to move forward this reform program. We are often impressed by the hard work and dedication shown by MEF on the PFMRP. For example, over the last 12 months, the Ministry of Economy and Finance has laid a solid foundation that will progress reform more vigorously:

- planning, monitoring and decision making arrangements established by the Reform Committee are functioning to a high standard;
- selection policy under the Merit Based Pay Initiative has resulted in the "best and brightest" in the ministry being rewarded more appropriately; and
- political and management commitment remain strong.

And let's think about this from a historical perspective: how does where we are now compare to where we were say 2 years ago. Government ownership and managerial capacity has increased, and donor collaboration has improved markedly. We think it is important to note the significant advances made by MEF in the 'preparation phase' of this program. We thus sincerely congratulate the Ministry for putting in place a very solid institutional framework for advancing reform.

The Ministry's Annual Review builds on the detailed quarterly monitoring reports produced by the Reform Committee Secretariat, while the 14 PFM Performance Indicators, drawn from the Public Expenditure and Financial Accountability Secretariat's work, focus on the following priority areas:

- (1) improving budget comprehensiveness,
- (2) integration, and budget realism;
- (3) streamlining the budget execution process to facilitate service delivery; and
- (4) enhancing transparency and accountability arrangements.

As we will discuss further during this Retreat, actual progress is satisfactory and that some impact is being noted. While the program is still in an early stage of implementation

we believe that accelerated reform is achievable within the next 12 months. We also recognize that while the Program formally commenced in early 2005, new funding and the Merit Based Pay Initiative (MBPI) started much later in the year.

The extensive monitoring and reporting arrangements established by the Ministry is a major achievement and demonstrates significant commitment at all levels of Government. There have been a number of other advances that I would like to highlight:

- improvements have been achieved in cash management, as reflected in a better disbursement profile;
- procurement processes have been streamlined;
- tax revenue has increased significantly;
- the new chart of accounts and budget classification are being readied for implementation;
- tax and customs administration are improving; and
- five line ministries have established internal audit departments.

This retreat looks back at what the Ministry has achieved. But it's also about looking forward, and we do see immense challenges before us. I would like to take this opportunity to highlight the areas where we believe more rapid progress is needed:

- Streamlining of budget execution processes in MEF, line ministries, and local governments;
- implementing a capacity building strategy that provides a solid foundation to ensure the timely and effective delivery of technical assistance as well as the establishment of high level public service capacity;
- transforming the annual budget process into an effective resource allocation tool of Government;
- establishing a credible and active performance management framework for the MBPI;
- enhancing the capacity of line ministries and provincial entities to manage in a deconcentrated procurement system, and strengthening of MEF's oversight role;
- increasing the use of the banking system for tax and customs collections, for Treasury's payments to suppliers, and for civil service wage payments;
- decisively tackling the problem of expenditure arrears;
- enhancing inter-governmental cooperation, coordination, and consultation, especially between the central oversight and line ministries
- taking initial steps to pilot program budgeting.

It's not often that we have key decision makers and key stakeholders together in one venue to discuss Public Financial Management Reform: past, present and future. Lets all take this opportunity to engage and debate in a cooperative spirit to help enhance the Ministry's Public Financial Management Reform Program. What we do now will set the tone and direction for the program the next 12-18 months. On behalf of development partners, I can sincerely say that we look forward to a successful retreat, with the hope and expectation that we will be able to meet here again next year to congratulate the Ministry on its successful completion of Platform 1—and thus the establishment of a truly credible budget.

Thank you.