



Cambodia: Public Financial Management Reform Program Annual Review 2008

Remarks by
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On behalf of Development Partners¹
May 28, 2008

Samdech Prime Minister Hun Sen,
Excellency Senior Minister Keat Chhon,
Excellencies, Ladies and Gentlemen:

It is my honor to have this opportunity to deliver some remarks on behalf of Cambodia's development partners at this year's annual review for the Royal Government of Cambodia's Public Financial Management Reform Program.

We all agree on the important role that a stronger PFM system plays in Cambodia's development: it is essential for ensuring that domestic public resources and donor funds are used efficiently and effectively; it enhances ownership, transparency and accountability; and a strong PFM system forms a critical link with sound fiscal and budgetary policy for achieving macroeconomic stability, economic growth, and ultimately the Cambodian Millennium Development Goals.

Indeed, last year provides a good example of how PFM reforms and fiscal policy work hand in hand for macroeconomic stability. Strong revenue collection efforts helped raise tax revenue to around 9½ percent of GDP in 2007, compared to 8 percent in 2006. This is a highly commendable effort. Adoption of new procedures helped to ensure that spending was broadly in line with the budget by year-end, after some early delays were overcome. As a result, the overall budget deficit declined in 2007, and the government was able to build up its reserves at the National Bank. Sound fiscal outcomes such as this are critical for macroeconomic stability, particularly now, to help combat domestic inflation pressures.

As many of you have witnessed, progress and management of the PFM Reform program has been commendable. Challenges certainly remain, and development partners welcome the open and frank dialogue that takes place with the Royal Government on both the successes and the challenges. In particular, we commend the strong ownership of the reform

¹ The views expressed herein are those of the author, and not necessarily of the International Monetary Fund, its Management or Executive Board.

program—exemplified by the participation of the Prime Minister here today—as this is a key factor that has driven progress along with capacity building efforts by development partners.

The annual review gives us an opportunity to step back from our hard work and take a fresh look at the progress made over the past year, to learn from our efforts about what has gone well, what challenges have been faced, and how those challenges have been overcome.

It also presents us with an opportunity to take stock of where the reform program stands, and then look forward into the future to discuss how the outstanding issues can be tackled, how to apply the lessons learned over the last year to improve implementation, and to identify key priorities and chart the direction going forward.

What has gone well under the PFM reform in Platform One/Stage One?

Let me turn now to look briefly at what has gone well under the PFM reform program in Platform One. As you know, the reform program has been developed and built around a multi-staged approach that sets objectives for progress, but also allows for the flexibility needed to accommodate the complexity and comprehensiveness of the overall reform effort.

This approach has served the program well. At last year's annual review, the Royal Government of Cambodia and development partners recognized that much progress had been made toward achieving the Platform One/Stage One objective of making the budget more credible. Notwithstanding the achievements, 2007 was considered as a transitional year rather than a time to declare Platform One complete, and efforts were directed to implementing ongoing reforms priorities while preparing for Platform Two/Stage Two and its objective of enhanced financial accountability.

In the view of development partners, the 2007 annual progress report shows significant continued progress towards strengthened budget credibility. Allow me to highlight just a few of these successes:

- There was a consolidation of improvements and experience in budget preparation, along with the budget strategic plans, and the piloting of program budgets.
- A first phase of budget execution streamlining was initiated
- Revenue administration efforts delivered strong revenue gains
- Implementation of the new chart of accounts and budget classification systems commenced
- Cash management reforms began, there has been increased use of the banking system; and
- A new Public Finance Law was recently finalized.

Coordinated financial and technical support provided by development partners continues to play a key role in the progress achieved so far. A good example is the introduction of the Merit Based Pay Initiative (MBPI) to support PFM reforms, and this has resulted in a decision to expand the scheme to other ministries and agencies.

What remains to be done for Platform One/Stage One?

One of the key lessons learned over the last year is that many of the reforms being undertaken are complex, and they affect some very fundamental core Government functions. Because of this, it is not surprising that their implementation remains ongoing, and will need continued attention during Stage Two. This applies in particular to:

- Continued efforts to enhance revenue mobilization, including management of potential revenue from the mining and oil sectors;
- Fuller integration of the capital and recurrent elements of the budget, in particular for wages and externally-financed investment spending, as this is critical for the budget to be used as an effective macroeconomic policy tool;
- A more comprehensive budget, including efforts to bring remaining off-budget revenues and expenditures onto the budget
- Further improving government accounting and reporting, in particular for domestic investment spending;
- Continuing to improve cash management and consolidate government bank accounts, so as to introduce a treasury single account for executing government transactions;
- Enhancing capacity building measures; and
- A functional review and restructuring of organizational arrangements in the Ministry of Economy and Finance, to enable it to respond better to evolving and complex challenges.

Many of these reforms have commenced very well under Platform One, and they are critical for strengthening budget credibility. More importantly, however, they are key for laying a strong foundation to achieve the goal of strengthening financial accountability in Stage Two, and development partners look forward to continued progress in their implementation.

What are some of the key challenges for Platform Two/Stage Two?

The preparation for Stage Two has been ongoing for about a year, and development partners are encouraged by the successful joint mission in November 2007, which helped define the consolidated and detailed action plans for Stage Two. These plans will be presented by the Ministry of Economy and Finance today and tomorrow for review and discussion.

Stage Two represents an ambitious plan for escalating the reform process. It encompasses expansion of the reform to line ministries, including key aspects of the fiscal de-concentration and decentralization agenda, and further improvements in budget formulation, execution, financial reporting and oversight. Overall, the plan clearly signals the Government's determination to adapt current roles and responsibilities and strengthen the efficiency of controls, systems and financial reporting arrangements including a commitment to achieving better coordination between ministries and agencies.

This reform agenda will inevitably face challenges from those adversely affected by the improvements planned in governance, accountability, and transparency of the PFM system. For example, progressive implementation of integrated budgets at line ministries within an overall Medium Term Expenditure Framework will certainly challenge the current budget processes, which still suffer from fragmentation. However, the benefit will be seen in improved allocation and targeting of resources for poverty reduction, and with stronger reporting, more timely and accurate awareness of the results.

In a similar light, the identification of budget entities within line ministries that are accountable for achieving defined outputs will provide the basis for improved public expenditure management efficiency and effectiveness at delegated management levels. As well, strengthening linkages between external audit, internal audit and the legislature will help to address current weaknesses in the control and oversight environment.

Finally, the planned implementation of a modern IT-based financial management information system (FMIS) will strengthen control, monitoring, and reporting procedures, and will reduce the number of decision points associated with resource leakages. In turn, these reforms will further encourage increased use of the Government's public finance systems for activities funded by development partners.

To sum up, development partners remain firmly of the view that PFM is an important priority for both strengthening governance and improving service delivery. We are encouraged by the progress that has been made over the last year, and by the ownership of the program. Development partners remain wholeheartedly committed to supporting the Royal Government in its endeavor to achieve the objectives set forth in its PFM Reform Program, and we look forward to a successful annual review.

Thank you for your attention.