Address

by

Sr. Minister Keat Chhon, Minister of Economy and Finance
At the Consultative Group Meeting
On Public Financial Management Reform Program
6-7 December 2004

Colleagues from the Royal Government of Cambodia,
Distinguished Representatives of the donor community:

1. During 1998-2004, the RGC has made significant progress in macroeconomic management, by maintaining macroeconomic stability, strengthening the banking and financial institutions and implementing fiscal reform measures. Over the last five years, the average annual real GDP growth was 6.8 percent. Inflation was kept on average at 1.6 percent per annum during this period. Gross international reserves have remained at a comfortable level of about 3 months of import. Revenues as a percent of revised GDP increased from 8.1 percent in 1998 to 11.5 percent in 2004, although in 2003 we experienced revenue shortfalls, due to the outbreak of SARS and political uncertainty.

2. On the expenditure side, the Royal Government has spelt out policies and taken steps to shift priorities by providing adequate funds for spending on social and economic sectors, increase public investment in rural infrastructure and establish responsibility for performance at the level of disbursing units. Budgetary disbursements to 8 social ministries increased from 1.79 percent of GDP in 1998 to 3.79 percent of GDP in 2004, an increase of 2 percent of GDP. The specific benchmarks and achievements are submitted to you for information.

3. However, the challenge for us is to ensure robust growth in the next five years to come. We are estimating that the phasing out of the quotas system for export to the US will reduce growth in 2005-06 to around 4%. We are conscious that more need to be done to facilitate trade and reduce business costs. Diversifying the economy, especially increasing agricultural productivity and production is critical for poverty reduction and income generation. Reforming the Public Financial Management (PFM) by focusing on performance and results will be vital for ensuring sustained growth and poverty reduction.

4. To this end, yesterday Samdech Prime Minister launched the Public Financial Management (PFM) reform with the support of our development partners to allow the

Ministry of Economy and Finance to take full ownership and responsibility in this important agenda of reform. The most important thing here is that the reform program is constructed with a clear structure and a realistic and action plan, developed stage by stage with strategies to develop institutional capacity and human resource efficiently including provision of equipment and necessary supplies as well as appropriate technology.

5. This program is long term undertaking which will last up to 2015, being implemented over 4 stages. The first stage will focus on the necessary priorities to ensure that budget is credible, envisaged to last for 15 to 20 months. In this first stage, the Ministry of Economy and Finance must lead the implementation of 33 priority clusters which consist of more than 200 concrete actions. Strengthening of governance and budget disciplines becomes crucial to ensure fiscal and macroeconomic stability which promotes high growth and reduced poverty. This program will provide the basis for accountability by improving budget execution and service delivery to the community.

6. I would like to inform you that since 1995 we have embarked on wide-ranging public financial system. You can legitimately ask why we have to do it again. The answer is that though we have made improvements, we have raised the bar all the time and there are still shortcomings in the system.

First, governance is at the heart of the new PFM reform program.

Second, Cambodia is committed **to improve resource mobilization to ensure aggregate** fiscal sustainability.

Third, the Government will further rationalize public expenditure policy and management to carry out its National Poverty Reduction Strategy (NPRS).

Fourth, we are undertaking a comprehensive civil service reform—focusing on pay, incentives issues and meritocracy—in order to deliver poverty-reducing services. I believe in market economy. Efficiency and better skills requires better pay. We need your direct support for our reform efforts. I thank those who not only speak, but do something concretely to support our reform efforts.

Thank you,