Public Financial Management
Remarks by
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On Behalf of Development Partners
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I am pleased and honored to deliver, on behalf of your development partners, some brief remarks on public financial management reform. It is an especially welcome opportunity since it follows on the heels of yesterday's launching of the Royal Government of Cambodia's (RGC) *Public Financial Management Reform Program* (PFM).

As stressed at the pre-CG meeting in September this year, public financial management lies at the core of the government's *Rectangular Strategy* because it is truly the most crosscutting policy area at this time in Cambodia, affecting the ability of the government to achieve virtually any of its objectives, from macro stability to delivering health services and education, creating a business-friendly environment, reducing rampant corruption, promoting human rights and gender equality, and, ultimately, cutting the rate of abject poverty dramatically, consistent with the MDG target.

Before turning to your development partners' hopes for the PFM reform agenda, allow me to say a few words on performance with respect to the PFM benchmarks set at the last CG meeting in 2002.

Performance measured against the benchmarks

The authorities and development partners agreed to judge performance on the basis of some key benchmarks, focused on spending, revenue mobilization, and transparency.

Priority spending

One of these benchmarks was improving priority spending, by both raising its level and accelerating disbursements. During the past few years, commitments to priority spending have indeed been increased, rising from 2.6 percent of GDP in 2001 to 3.3 percent in 2002 and 3.2 percent in 2003, and are projected to rise to 3.8 percent in 2004. But delays in disbursements of Priority Action Programme (PAP) spending continue to be problematic, despite the government's notable efforts to speed them up. In addition, and notwithstanding the efforts of the task force established at the initiative of the RGC in September 2003 to accelerate disbursements to health and education, delays remain extensive, and cashing out the backlog of previous years' commitments has caused unavoidable delays in liquidating PAP spending budgeted for 2004

Unfortunately, monthly *disbursement* data on salaries and operating expenditures by ministry are difficult to obtain, and it has not been possible to assess whether or not there have been within-year improvements in budgetary execution in these categories. Commendably, however, the MEF has shown its commitment to improving disbursements by deciding recently to expand the coverage of the task force's mandate to all four priority sectors, and to focus also on disbursements of salaries and operating expenditures, in addition to PAP.

Revenue performance

Revenue performance during the period since the June 2002 CG has been mixed. The rising revenue trend that began in 1998 continued through 2002, although performance (11.2 percent of GDP) was somewhat below target. Revenue declined to 10.4 percent of GDP in 2003, however, due largely to poor trade-related revenue performance, caused partly by increased smuggling, adverse effects of the anti-Thai riots of January 2003, the run-up to and aftermath of the July national elections, and a slowdown of non-agricultural growth. Achieving non-tax revenue targets has also been elusive, due in part to the accumulation of arrears and, in some cases, to overly optimistic projections. By contrast, revenue performance at the Tax Department improved throughout the period on a strengthening of administration and on intensified arrears collection efforts. There has been a partial recovery in overall revenue collections in 2004, but it is difficult as yet to know whether the improvement is sustainable or simply a reflection of once-off revenue gains, such as the granting of amnesty for registering previously unregistered vehicles.

Transparency of terms of contracts

Performance has been most disappointing in regard to public-private contracts. Indeed, few if any reforms have been introduced that effectively improve the transparency of public-private contracts. Nor have the government's own regulations been systematically enforced; thus, review and approval by the Ministry of Economy of Finance of unsolicited bids continues to be circumvented more often than not. Most concession contracts still have never been subjected to public scrutiny, the financial terms of most contracts never having been disclosed to the public. Nor have the operations of concessionnaires been assessed by an impartial and independent audit company of international renown. Moreover, new contracts, or extensions of existing ones, continue to be negotiated rather than decided through competitive bidding. Finally the opaqueness surrounding the process of granting land concessions is an especially troubling indicator of lack of progress in this area.

We note, however, that the government has shown a positive response to a draft concessions law that would substantially improve the transparency of contracts, including unsolicited bids that would be negotiated bilaterally. We look forward to progress in moving this legislation forward rapidly during the period ahead.

The road ahead

There have of course been extenuating circumstances accounting for some of the lack of progress toward achieving the PFM benchmarks set in 2002. Some of these were predictable, such as the 2003 elections, and others were not, such as SARS. To be sure, there will be new

[1] Given intervening revisions of the national accounts, and of GDP in particular, assessing revenue performance against original budget targets set as a percent of GDP requires caution.

“extenuating circumstances” during the period ahead; overcoming some of these will require unusually strong political will.

Your development partners’ hopes, and their financial support, are fully behind the government’s PFM reform strategy. The program is well thought out in terms of priorities, sequences, and identified financial and technical assistance requirements. Every single action will need everyone’s full commitment. The government’s earlier concerns that technical assistance in the PFM area was not always coordinated or was poorly targeted should now dissipate. As well, poor civil service pay should no longer be an obstacle to reform of the PFM system *per se;* a key feature of the PFM reform program is the merit-based pay initiative, aimed at providing good pay and career incentives to officials responsible for moving the PFM reform agenda forward. At the same time, the government will have to be very vigilant to ensure the sustainability—including through much greater revenue mobilization—of its eventual obligation to fully fund its increased wage bill in the future.

The first stage of the PFM reform has a rightly ambitious goal: making the budget a credible instrument of strategic and day-to-day management of public resources. Your partners will be looking for full implementation of the actions programmed for the period leading up to the next CG. Moreover, due to the mixed track record on PFM reform to-date, including lack of progress on the measures specifically identified by development partners at the pre-CG meeting in September as signs of political will, much more serious implementation in 2005 will be required to quell skeptics’ concerns about commitment, and to demonstrate that not only MEF, but the entire government, is fully supportive of these reforms.

All actions in the PFM reform program are needed, but some are clearly more critical than others, either because of their *direct* effect on the quality of public finances, or because of their significance as signs of political will. Development partners will thus be looking especially for: (i) streamlining public expenditure management processes, including actions enabling line ministries to spend approved budget provisions by increased reliance on phased budget releases; (ii) a widening of the scope of mandatory payments to and by the government by check or electronic transfer at all times; (iii) development of meaningful and transparent cash management plans for matching inflows and outflows; (iv) completing the consolidation of government bank accounts, and implementing fully daily transfer of all collections into the Treasury Single Account; (v) sustained collection of tax arrears in accordance with the agreed schedule, and continued use of collection enforcement measures; (vi) piloting of establishment control arrangements; and (vii) redesigning the budget cycle and institutional arrangements (including roles and responsibilities of key personnel) at the Ministry of Economy and Finance and its agencies, namely the Tax Department, the Customs and Excise Department, and the National Treasury, to secure appropriate lines of command and accountability.

The challenge is great, and expectations are high. Now is the time for implementation.