

Public Financial Management
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Statement on Behalf of Development Partners for the 2006 CG Meeting

Excellencies, colleagues, ladies and gentlemen: I am honored to deliver, on behalf of your development partners, some remarks on public financial management (PFM). It is a timely opportunity, as the Royal Government of Cambodia is preparing the inaugural Annual Review of its *Public Financial Management Reform Program*, launched by H.E. Samdech Prime Minister Hun Sen on the eve of the 2004 CG meeting. Public financial management reform is the foundation for sustainable development and is at the heart of the Royal Government of Cambodia'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.

Before turning to your development partners' assessment and hopes for the Public Financial Management Reform Program, allow me to say a few words on the monitoring indicator agreed at the last CG meeting and the new indicator as proposed at this meeting. The benchmark set in 2004 for the PFM TWG was to implement the first 12 months of Platform 1 of the Government's PFM Reform Program. Successful implementation of such a comprehensive and far reaching program must rest on institutional, financial, and managerial prerequisites. In this regard, H.E. Prime Minister Hun Sen highlighted in a recent speech that implementation of the PFM program is underway and that: "all the prerequisites are in place: political commitment, managerial and technical ownership, improved staff incentives, internal Government coordination mechanisms; donor coordination mechanisms; and funding."

Consequently, a solid foundation has been laid to progress reform more vigorously: (1) planning, monitoring and decision making arrangements established by the Reform Committee are functioning to a high standard; (2) selection policy under the Merit Based Pay Initiative has resulted in the "best and brightest" in the ministry being rewarded appropriately; and (3) political and management commitment remain strong. Your development partners are encouraged by these developments and we congratulate the Government for putting in place a very solid institutional framework for advancing reform and look forward to accelerated implementation.

The 2006 Joint Monitoring Indicator, which is an updated version of the 2004 indicator, is both comprehensive and flexible. In addition, it reflects our harmonization and alignment commitments made in international fora. Assessment of this JMI requires both a credible assessment mechanism and an agreed set of performance indicators. The PFM Annual Review, currently underway, 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, integration, and realism; (2) streamlining the budget execution process to facilitate service delivery; and (3) enhancing transparency and accountability arrangements.

Let me now move to a more detailed assessment of the Reform Program. It is our view that overall progress is satisfactory and that some impact is being noted, although the Program is still in an early stage of implementation. The Program formally commenced in early 2005, but new funding and the Merit Based Pay Initiative (MBPI) started much later in the year. Moreover, some key measures to institutionalize the reforms—such as the streamlining of the budget execution process—have lagged. Still, the Government has made a number of advances: cash management has improved, as reflected in a better

disbursement profile; the procurement process has 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.

Looking forward, immense challenges lie before us. The ramping up of the pace of reform remains essential. Some outstanding actions, supported by proposed Poverty Reduction Growth Facility (PRGF) and the proposed Poverty Reduction Support Operation (PRSO), need to be completed as a matter of priority. In particular, more rapid progress is needed in the following areas:

- enhancing the capacity of line ministry and provincial entities to manage in a decentralized procurement system, and strengthening of MEF's oversight role;
- streamlining of budget execution processes in MEF, line ministries, and local governments;
- 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;
- improving non-tax revenue mobilization, including collection arrears, at all levels of government;
- consolidating donor and government bank accounts, and transferring government accounts to the NBC;
- designing an appropriate intergovernmental fiscal system to support the Government's decentralization and deconcentration reforms;
- furthering implementation of the new functional structure of the Tax Department; and,
- improving civil service establishment control in MEF.

Another challenge—and also a great opportunity—is the MBPI. This is an innovative program and the potential returns are high. Changing organizational culture, however, will not happen overnight. Development partners are mindful of the risks, yet believe that with careful monitoring and proactive management the initiative will be a success.

We are also mindful that we need to build on our own efforts to improve donor coordination. We will do this. We will also work with you to improve the effectiveness of our assistance, as this remains a key objective. We do, however, wish to highlight the need to enhance inter-governmental cooperation, coordination, and consultation, especially between the central oversight and line ministries.

Looking further a field, I would like to underscore the importance of success in this reform program should current estimates of future oil revenue flows be realized. A transformed PFM system that reflects the best international standards is the only sustainable solution to ensure that Cambodia avoids the ills of the “resource curse.”

We recognize that the risks are real: there will be implementation difficulties; there are capacity constraints; and program monitoring is demanding. But at the same time, the solid foundation in the management structures and arrangements already put in place give hope. We fully expect to stand here at the next CG meeting and congratulate the Government on the completion of Platform 1—and thus the establishment of a credible budget.