Public Financial Management Reform: At the Center of the Rectangular Strategy

Remarks by
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I am grateful to have this opportunity to make a few remarks, on behalf of your development partners, on Public Financial Management (PFM), which lies at the center of the Royal Government of Cambodia's *Rectangular Strategy.* Improving public finances is indeed key to achieving the objectives set out in the *National Poverty Reduction Strategy,* and in particular the Cambodian Millennium Development Goals.

The central importance of public financial management reform to poverty reduction is obvious, and almost requires no elaboration. Efficient and fair taxes are key to minimizing their damaging effects and to building a taxpaying culture, and to providing the needed revenue for essential government spending. Cost effective, well targeted pro-poor and pro-growth public spending is an essential ingredient of poverty reduction; poverty reduction thus hinges on substantial and rapid improvement of Cambodia's public finances.

Development partners commend the Royal Government of Cambodia for the substantial achievement in recently formulating a reform strategy for public finances that builds on the progress of the past several years. While the strategy has been prepared in collaboration with, and the assistance of, interested development partners, the government has demonstrated firmly its commitment to reform by taking full ownership of the PFM reform agenda. This is evidenced by the RGC's drafting of its *PFM Reform Program,* endorsed formally by the Prime Minister on June 30, 2004, and by the institutional arrangements that have been introduced by the Government to take the reform agenda forward, in close collaboration with development partners.

It is now time for implementation. Sustained incremental reform is essential, and Cambodia's development partners will be looking to see real and meaningful measures implemented during the next several months in the lead-up to the Consultative Group meeting in December. In this respect, a long overdue reform measure needed to help improve the government's cash flow and, hence, its ability to respect its priority spending obligations, is the consolidation of all government accounts at the National Bank of Cambodia. Equally important is to introduce an effective method for immediate and daily transfer to the National Bank of Cambodia (NBC) of all revenues collected by the Customs and Excise Department and the Tax Department. At the same time it is essential that the Government implement measures to collect Tax and Customs revenues by check and by direct deposit to NBC, and to accelerate payment of suppliers by check or transfer. All of these steps are critical to ensuring "that the budget reflects all significant public resources and their deployment." (Chapter 2, *Public Financial Management Reform Program,* August 2004.) Finally, automation of the Customs and Excise Department is an essential prerequisite to any improvement in trade facilitation, and donors are thus looking to the government to announce soon the results of the competitive bidding process initiated in 2003, an announcement without which progress in this area will not be feasible.

Development partners are fully committed to supporting the Royal Government of Cambodia's PFM reform program, both because of the high priority the government has assigned to this initiative and in light of the central role of high quality public finances to poverty reduction. We are all confident that the government will demonstrate its strong political will by taking the actions mentioned above, among others, during the next few months.