

Welcome Remarks and Progress Report

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Committee

At

Launching Ceremony of the Public Financial Management Reform Program - Stage 2



Government Palace, 3rd December 2008

- *Samdech Akka Moha Sena Padei Techo Hun Sen, Prime Minister of the Kingdom of Cambodia,*
- *Excellencies, Ladies and Gentlemen!*

Today is a great day that we gather here to launch our **the Public Financial Reform Program (PFMRP) Stage 2**, presided over by **Samdech Akka Moha Sena Padei Techo Hun Sen**, the Prime Minister of the Kingdom of Cambodia. In my capacity as chairman of the Public Financial Management Reform Steering Committee (PFMRSC), I would like to welcome and sincerely thanks Samdech, Excellencies, Ladies and Gentlemen for taking your valuable time to be at this launching ceremony.

PFMRP is one of the key elements within the core of "**Rectangular Strategy**". The long term vision of this reform program is to build an international standard for public financial management system by 2015, through implementing long-term strategic plan consisted of four platforms/stages: (1) building budget credibility, (2) improved financial accountability, (3) improved budget-policy linkages, and (4) improved performance accountability.

We already knew that the **PFMRP Stage 1** which aims to build “**budget credibility**” was officially launched by **Samdech Akka Moha Sena Padei Techo Hun Sen** on the 5th of December 2004, six months right after the launch of the “**Rectangular Strategy**” for **growth, employment, equity, and efficiency**. After more than three years of active implementing this reform program, the Royal Government of Cambodia (RGC) and Development Partners (DPs) have unanimously agreed—at the Third Annual Review on 28-29 May 2008 which was also presided over by **Samdech Akka Moha Sena Padei Techo Hun Sen**, the Prime Minister of the Kingdom of Cambodia—that the PFMRP Stage 1 successfully completed, meaning that **national budget is fundamentally credible**. Building upon achievements of the Stage 1, we have to prepare all necessary conditions for implementing the Stage 2 of the reform program.

*-Respectfully Samdech Techo,
-Excellencies Ladies and Gentlemen!*

Taking this great opportunity, on behalf of the PFMRSC, allow me to report the meeting on following key achievements from implementation of the PFMRP Stage 1, which can be concluded that **budget is credible**:

First: Improved and strengthened revenue policy, forecasting, management and collection. As the results, revenue increased around 26% per annum on average. At the same time, Legal framework was also broaden, improved, and enhanced, including Law on Customs, Law on taxation, Government order on Non-tax Revenue Management as well as the betterment of sub-decree, Prakas, and other related regulations.

Second: Improved and strengthened budget preparation. As the results, budget is more comprehensive, accurate and responsive to policies of the government through revising budget preparation calendar, introducing budget strategic plan, introducing of new budget classification, piloting program budgeting and introducing of systematic mid-year budget review and quarterly revenue and expenditure plan. Most importantly, we have prepared and adopted “**Public Financial System Law**”, which is a foundation law for public financial management of the Kingdom. The key is that we need to timely prepare and adopt this law in order to ensure consistency to the “**Law on Administration of Capital City, Province, Township and District/Khan**”. This reflects dynamic progress of the key

reforms, in which the RGC is also able to ensure consistency, coherence, and smooth coordination, particular between PFMRP and Decentralization and De-concentration Reform Program.

Third: Improved budget implementation and efficiency. As the results, budgetary control is more simplified and effective, disbursements and payments are smoother and timely, and recording is more transparent and accurate. These can done through strengthening of cash management, establishment of Treasury Single Account, introduction of new Chart of Accounts, introduction of banking system payment, reduce budget execution processes and procedures, including decentralizing financial inspection and procurement. In addition, internal control system has been strengthened through establishment of internal audit body in all line ministries and agencies.

Fourth: Skilled human capacity and institution have been enhanced through clearly defining roles, functions, and responsibilities of individual and institution; transferring knowledge and know-how from consultant/adviser through joint working; study tour; short term and long term training; as well as providing appropriate incentive to skilled staff through introducing Priority Mission Group (PMG) and Merit Based Pay Initiatives (MBPI).

In addition to the aforesaid four achievements, there is another indicator which is the synergy of the four that I would like to report to Samdech Prime Minister and the meeting. We should remember that when we began the implementation of PFMRP in late 2004, our national budget was in serious difficulty. Salary payments to civil servants and arm forces were quite late. The same is for budget disbursements to priority ministries, such as Ministry of Education, Youth and Sport and Ministry of Health. The Priority Action Program (PAP) disbursement was overdue and carried unpaid balance forward to one or two following years. National Treasury was also sitting on around 600 to 700 Billion Riel of arrears. After implementation of PFMRP especially since the last few years, the RGC has been able to clear overdue payments, to end forwarding unpaid balance from year to year and to raise salaries and allowances for civil servants and arm forces as well as increase investment spending on social-economic infrastructure and improve public services deliveries for the benefit of our citizens. Moreover, the huge amount of 600 to 700 Billion Riel arrears accumulated since 2004 was completely cleared and around 1 trillion Riels cash balance is able to maintain. This achievement has made Cambodian public

finance situation deeply changed in quality from **chronic cash shortage to cash surplus**, which is the key for **budget credibility**.

If we are asked about factors contributed to the success of the implementation of the PMRP Stage 1, in short, I would say (1) the righteous vision, (2) strong political commitment, (3) vibrant and proactive leadership, (4) active participation of all government officials and institutions, (5) strong supports of DPs with respect of RGC's **ownership** and good coordination under **Sector Wide Approach**, and (6) all activities are supported by change management and comprehensive capacity training plan together with appropriate incentives for officials involved.

Therefore, in this auspicious occasion, on behalf of the PFMRS, I would like to express the deepest gratitude to **Samdech Akka Moha Sena Padei Techo Hun Sen**, Prime Minister of the Kingdom of Cambodia for his visionary leadership and strong support of this PFMRP and especially for Samdech's firm commitment to adhere strict discipline in public finance management. I would also like to express sincere gratitude to Deputy Prime Minister **Keat Chhon** for his day to day and continuous leadership and encouragement to this PFMRP. I could never forget to heartfully thank officials of the Ministry of Economy and Finance (MEF) and Line Ministries (LMs) and DPs who have actively participated and supported in promoting ownerships and responsibilities which are the key to the success of the PFMRP Stage 1.

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To build Cambodian public financial management system towards the aforementioned vision, we have designed a stage-by-stage strategic approach, of which allows us to prepare necessary conditions for the Stage 2, while we were implementing the Stage 1. With this design, we could sustain our reform program. Therefore, it is not surprise that we dubbed a slogan of the Stage 2 as **"Building on Budget Credibility towards Achieving Better Financial Accountability"**. Of course, while implementing action plan of Stage 1, we have started to prepare action plan for the Stage 2, since after the Second Annual Review in April 2007 in Siem Riep. Preparation for the stage 2 was also reviewed at the Third Annual Review in May 2008. So, we have spent more than one year to prepare the Stage 2. I would like to report to Samdech Prime Minister and the meeting on some important outputs of this preparation as follows:

First, Consolidated Action Plan (CAP) of the RGC is the **Public Financial Management Reform Program – Stage 2** that is about to launch today. This document is a foundation document which defines long term vision and consolidated action plan of the RGC to guide the implementation which included Management and monitoring indicator frameworks as well as clear indicators and targets.

Second, Departmental Action Plans (DAPs) of the MEF which includes activities cluster and detailed actions of each Directorates, Departments, and entities of the MEF. These detailed DAPs were developed and to be implemented by each Directorate, Department, and entity with their ownerships and responsibilities and under direct and overall leadership and management of the PFMRC of the MEF.

Third, Ministry Action Plans (MAPs) of LMs and Agencies in which all LMs and agencies have to develop based on CAP and DAPs. At its meeting on 20 November 2008, the PFMRC has consolidated and evaluated 23 MAPs submitted. About half of these submitted MAPs could start implementing with minor improvement, while the other half needs major improvement.

Fourth, Leadership, management, and monitoring performance frameworks for Stage 2 were rearranged including the extension of EFPC roles to lead, manage, and coordinate at policy and political level. The PFMRC was established to lead, manage, and coordinate with all LMs and agencies at a high technical level. Sub-committees, commission, and Public Financial Management Reform Working Groups at all LMs and agencies were also established to lead, manage, and coordinate within each specific area and among entities of their respective ministries and agencies. At the same time, monthly, quarterly and annual Progress Monitoring Framework with specific indicators and targets were also developed.

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In sum, as we have attained substantial and encouraged achievements for stage 1, we have also made a good and confident preparation for stage 2. However,

based on implementation experience in the Stage 1, we have to regard these action plans as the “**Living Document**”, which should be flexible and can be improved and modified based on actual circumstances through our mechanism and frameworks for PFM management. Therefore, the key to start implementing PFMRP Stage 2 are in fact the sufficient synthesis of wills, commitments, and active participations of all players, especially management and staff at all ministries and agencies; the enhancement of management, communication, and coordination of the institutional mechanism that has been developed; and the development of human capacities and appropriate incentives required for implementing the action plan. It is important to note that in contrast to the Stage 1 which MEF is a solo player implementing the reform, in the Stage 2, all ministries and agencies are the key and active player. Therefore, ownerships, high responsibility and active participation are the determined factors to ensure smooth, effective, and efficient implementation of the PFMRP. If one part or one area cannot move as expected, the whole reform will fail. This is our greatest challenge.

Once again, on behalf of FPMRSC, I would like to express my deepest gratitude to **Samdech Akka Moha Sena Padei Techo Hun Sen**, Prime Minister of the Kingdom of Cambodia, for taking his busiest and the most valuable time to be with us today to launch our the PFMRP Stage 2. His present today reflects high attention and important of PFMRP to the RGC. We are all cannot wait to listen and learn from the great recommendations and guidance of Samdech Prime Minister in a spirit of definite success for implementing the PFMRP Stage 2.

Once again, I would like to sincerely thank and appreciate the efforts and willingness to take challenge of Sub-committees, Commission, Directorates, Departments, Working Groups, Secretariat, as well as the management and officials of MEF and LMs and our DPs who have participated, cooperated, and supported the PFMRP from the start until now. I hope that the spirit of ownership, active participation, cooperation, and support will continue to grow stronger and wider in the Stage 2 and later stage.

Finally, I would like to wish **Samdech Akka Moha Sena Padei Techo Hun Sen**, Prime Minister of the Kingdom of Cambodia, Excellencies, Ladies and Gentlemen healthy, liveliness, and success in all duties for the causes of the nation, county and development.

Thank you!