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 MINISTRY OF ECONOMY AND FINANCE

Nº.....MEF/.....

Annual Review
Of the Public Financial Management Reform Program

An Overview of the PFMRP

By

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Secretary of State of the Ministry of Economy and Finance

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Excellencies Ladies and Gentlemen

1. I would like to personally thank you all on behalf of the Ministry for giving up your time for this Retreat. You all have important jobs, whether inside MEF or outside it and I know that the work doesn't go away while you are here. We appreciate your support and value your inputs to this important endeavour of ours.
2. As you have heard from the Senior Minister, our commitment to follow through on our Reform Strategy remains strong and committed. We know that many of our ambitions to improve the lot of Cambodians are fundamentally dependant on improvements in our management of public resources. Support for the reforms comes from the highest levels including the Prime Minister and Cabinet.
3. I'm not going to take a lot of time up with rehearsing the background to the PFRMP and how it came about. I think everybody here knows that. Suffice to say that it arose from our taking action, with Development Partner support, to think though our longer term strategy for the reform of public financial management and to establish a feasible sequencing of action.
4. We then focused on the first step (the famous 'Platform 1'!) to develop our detailed plans. I think it's fair to note that some of the features of those initial plans reflect the process of engagement and internalisation of ownership that we felt to be so important. In particular, we felt it very important to engage ALL our departments in the reform process so that there was commitment from top to bottom of the organisation. A consequence of this may have been a greater number of defined activities than we had initially bargained for, but it was a price that we consciously paid. As we move forward we know we have to focus on those things that are most critical for the completion of the Platform. It is

important that progress is made on the others. But their absolute completion may not be necessary to be able to say to ourselves that the objectives of Platform 1 have been achieved and that it is safe to move on.

5. The PFRMP is a vital step in our taking a more strategic approach to the reform of our public financial management systems and capacities. We welcome the trust that is placed in us to manage these reforms for ourselves. In our first year of the process we know we have made some progress, but also some mistakes. We do not seek to hide from the mistakes or invent excuses. The responsibility is ours and we gladly accept it. The important thing is that we are learning and learning by doing. This Retreat is an important part of that process. I want all of us to be open and to listen as well as speak. We have much to learn from each other.

6. Our key instrument of coordination is the Reform Committee. The Committee consists of all the senior management in the Ministry and is supported by a full time Secretariat. As Chairman of the Reform Committee, I and my Committee have certainly learnt a lot during last year. Key lessons were:

- We have to rise above the detail while ensuring that systems are in place to manage the detail. Our initial reaction was to try and establish accountability with our Departments by making them go through each activity to explain what they had and hadn't done. We now realise that our key role is more one of keeping the ship pointing in the right direction and to provide strategic leadership as well as support where it is needed.
- We have learnt to use our reporting system and particularly our quarterly reports to step back and take a more strategic view of how the programme is working and threats to the integrity of the overall strategy. Increasingly, we are concentrating on the key areas where performance is fundamental to overall achievement.
- We quickly discovered the interdependency of many of the actions we proposed and the need to try and find ways of encouraging working across Departmental boundaries. We sought to introduce measures to manage these cross cutting issues and require inter-departmental working to tackle them.
- We have learnt how best to use our authority to mandate remedial action where it appears to be necessary.

7. A major theme of the PFRMP is that reforms are being implemented by our operational departments rather than by a central reform team. Experience has suggested that this is vital requirement if reforms are to be effectively operationalised. Our Departments also have learned much.

- First and foremost they have learned that success or failure is in their hands and they will be accountable. There is nowhere to hide if things don't get done or are not successful. The best way of managing their

exposure to accountability is to make sure that they have the resources and support to implement the reform required of them.

- They have learned that they are all dependant on each other. They need to cooperate if they are to be able to share in success.
- Past practices have sometimes left us with a mentality of reliance on technical assistance to solve problems for us. Now the Departments see that the responsibility for initiating action is with them and it is up to them to seek both the technical assistance and capacity development that they require rather than relying on somebody else's assessment of what they need.

8. Platform 1 is about making the budget more credible. We realise that our ambition to make better use of public money and harness it more closely to our priorities cannot be achieved unless the budget process has integrity and is robust, stable and predictable enough to be taken seriously as an instrument of policy delivery.

9. We believe that we have made progress. The indicators that we adopted for measuring the impact of our efforts are not perfect and we will discuss some of the lessons in that respect during the Retreat. But what they do indicate is that access to the resources represented in their budgets are reaching Ministries earlier in the year, in a more predictable way and that they are taking the opportunity to spend those resources more in line with their plans than they have been able to before. This is a significant step forward and goes to the heart of the objectives of Platform 1.

10. We do not pretend to ourselves or to you that all of this is due to our efforts under the reform programme. Improved liquidity has been the key. Our steps to consolidate banking accounts and make better use of the banking system have helped. Our improved revenue collection systems and procedures have also made a very significant contribution. But we also acknowledge that improved economic circumstances that, unfortunately (!) we cannot claim as being due to the PFRMP, have also helped us a lot.

11. What we realise is that a number of our planned activities that would sustain and improve these gains are not yet in place. We are still at the planning stage with them and progress has been slower than we would have wished. Issues such as streamlining the commitment/payment process and sharpening our cash management functions are important in this respect and we are giving them renewed focus and attention. We know that sorting these particular issues out is vital not just for making sure that the gains we have made in the basic integrity of budget implementation are sustained. They are also essential to ensure that our introduction of computerised facilities in the later stages of our work is soundly based on business processes that support effective budget implementation.

12. A number of our planned improvements in the budget formulation process that we intended should support the credibility of the budget have also slipped. Without wishing to make an excuse I think we all realise that during 2005, the first year of the programme, different aspects of programme support slotted into place at different times during the

year. It also took time for organisational changes that we implemented last year, particularly in the budgeting area, to settle down. Although work went on during the year while these things were sorted out an area that probably suffered most was changes in the budget formulation process. There is quite a narrow window of opportunity for introducing changes during the budget cycle and, quite frankly we missed it. However, we have taken the opportunity to bring greater clarity to what we plan to do in this area and some of those plans will be described to you in the course of the Retreat. We are much clearer now about the reforms we will try to put in place during this year in building towards the 2007 budget and their longer term context for budget reform in subsequent Platforms.

13. We also appreciate that our programme cannot be implemented by commitment alone. It must be complemented by capacity. Here much remains to be done and I feel that we are only just beginning to scratch the surface of what is required. This is a long term task and we know that there are no quick fixes. But we need to accelerate the effort. There is always the temptation to reach out for external assistance when we run into capacity constraints. While an element of that is certainly necessary we also feel a need to be careful not to stifle the growth in confidence and initiative in our own people that will be vital to the sustainability of reforms in the longer term. There is a balance to be struck here and we try to carefully feel our way towards it.

14. So we welcome this Retreat. In every way we see it as an opportunity rather than a threat. We are not afraid of criticism, because we already know that we haven't got everything right, but are keen to learn. We realise that we are all learning...officials and development partners together. Each side is taking risks and the outcomes are not certain. But continuing to approach our partnership in the spirit of learning makes the achievement of our mutual objectives ever more likely.