

PUBLIC FINANCIAL MANAGEMENT REFORM PROGRAM

PROGRESS AFTER THIRD ANNUAL REVIEW

PFM Technical Working Group Meeting
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PFM Steering Committee Secretariat

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1. INTRODUCTION

- PFMRP vision is to improve Cambodia public financial management system towards international standards (Fiscal discipline, Allocative efficiency, and Technical efficiency) by 2015.
- PFMRP strategy is to achieve its vision through 4 platforms/stages approach (budget credibility, financial accountability, budget policy linkages, and performance accountability).

2. STATUS OF PLATFORM/STAGE 1

- Platform 1 goal is to improve budget credibility:
 - Improve revenue collection and management (better policy, forecast, audit, and administration)
 - Improve budget formulation (clear objective/ realistic/ comprehensive)
 - Improve budget implementation processes (supportive and predictable budget execution)

2. STATUS OF PLATFORM/STAGE 1 (cont.)

- Platform 1 achievements:
 - Revenue performance:
 - Total Domestic Tax: on average 17.5% above budget law from 2005-2007 and about 24% above 2008 budget law (on average around 8% less than budget law from 2001-2003). **First quarter 2009 estimated around 23% of budget law compares to 30% in 2008.**
 - Direct Tax: on average increased by 39% from 2005-2007 and about 45% in 2008 (on average was only around 3% from 2001-2003). **First quarter 2009 estimated around 26% of budget law compares to 33% in 2008.**
 - Indirect Tax: on average increased by 28% from 2005-2007 and about 24% in 2008 (on average was only around 9% from 2001-2003). **First quarter 2009 estimated around 21% of budget law compares to 29% in 2008.**

2. STATUS OF PLATFORM/STAGE 1 (cont.)

■ Platform 1 achievements: (cont.)

■ Budget formulation improvement:

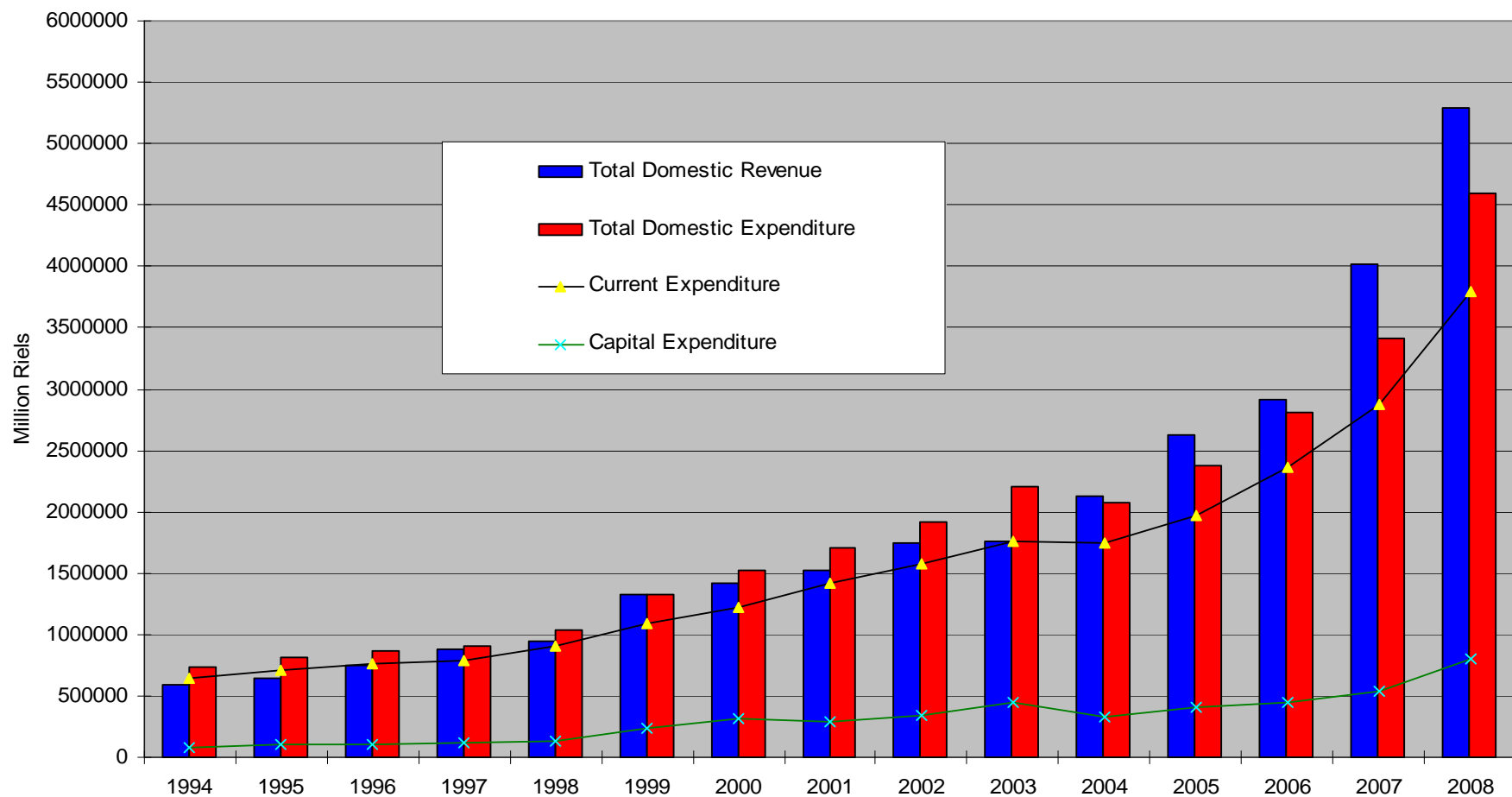
- New public financial system law
- New economic classification
- Budget Strategy Plan (BSP)
- Program budgeting
- Debt management
- Fiscal decentralization

2. STATUS OF PLATFORM/STAGE 1(cont.)

- Platform 1 achievements: (cont.)
 - Budget execution improvement:
 - New chart of accounts (COA)
 - Reduction of arrears
 - De-concentration of public procurement
 - Streamline budget implementation processes
 - De-concentration of financial control
 - Introduction of quarterly revenue and expenditure plan
 - Better use of banking system for both revenue collection and payments
 - Total spending by quarter on average from 2005-2007 were 12.8%, 35.8%, 61.9%, and 97.3% respectively and were 14.7%, 43.7%, 71.6%, and 107.5% respectively and **estimated about 19% for first quarter 2009.**
 - Spending by categories on average from 2005-2007 were 92%, 104%, and 86% respectively for salary, goods/services/capital, and were 115.8%, 107%, and 108% respectively in 2008, and **estimated about 20%, 19.6%, and 25.6% for first quarter 2009 compares to 20%, 16%, and 14% for first quarter 2008.**

2. REVENUE AND EXPENDITURE PERFORMANCE

Domestic Revenue and Expenditure from 1994-2008



3. TRANSFORMATION FROM STAGE 1 TO STAGE 2

- At the 2006 annual review in April 2007, Overall goal of budget credibility of stage 1 has sufficiently achieved and stage 2 preparation should be commenced.
- At 2007 annual review in May 2008, CAP and DAPs were fundamentally acceptable though further improvement need to be made together with the development of MAPs.
- At the stage 2 launch in December 2008, CAP and DAP were officially approved and further improvement of MAPs were needed.
- 4 SC meetings were conducted and series of technical workshops/meetings were conducted since May 2008 to improve action plan (DAPs/MAPs) and implementation arrangements.

4. PROGRESS OF STAGE 2 CONSOLIDATED ACTION PLAN (CAP)

14 Objectives	73 Activities
<p><u>4 Objectives</u> of platform 1 to be continued strengthened in stage 2</p>	<p><u>19 activities</u> to be implemented in order to ensure the sustainability of budget credibility (revenue, debt management, cash and bank account management, procurement)</p>
<p><u>8 objectives</u> of platform 2 to be implemented in stage 2</p>	<p><u>49 activities</u> to be implemented in order to improve financial accountability (roles/ function, budget execution processes, reporting/transparency)</p>
<p><u>2 objectives</u> for later platforms to be implemented in stage 2</p>	<p><u>5 activities</u> to be implemented in order to prepare for later platform (budget policy linkages and performance accountability)</p>

4. PROGRESS OF STAGE 2

4 OBJECTIVES FOR STRENGTHENING BUDGET CREDIBILITY

1. Further improvement of revenue policy and administrative
2. Further improvement of debt management
3. Further improvement of cash and bank account management
4. Further improvement of procurement

4. PROGRESS OF STAGE 2

1. FURTHER IMPROVEMENT OF REVENUE POLICY AND ADMINISTRATIVE

- Medium term revenue policy paper including oil and gas
- Law on casino is being drafted
- ASYCUDA step 3 has been roll out to 4 locations
- Continue to strengthen revenue collection through banking system
- Insurance law has been amended
- Policy and strategy framework on micro-finance has been prepared
- Fees/charges on asset evaluation and services has been drafted
- Asset evaluation association and inter-ministerial working group on asset business management has been established
- Sub-decree on small size insurance operation has been drafted
- Reviewing fees/charges/incentives, developing mechanism, and preparing necessary legal requirements with related LMs
- Strengthening state enterprise management
- Developing mechanism for frequent update of inventory

4. PROGRESS OF STAGE 2

2. Further improvement of debt management

- Continue to entering loan and grant data into the new database system
- Continue to entering data on debt service payment into the database system
- Prepared report format on loan and grant
- Conducted a study tour to Philippine on the use of DMFAS (Debt Management and Financial Analysis System)
- Participated a workshop on DMFAS conducted by UNCTAD
- Conducted a training on DMFAS for some DIC and NT staff

4. PROGRESS OF STAGE 2

3. Further improvement of cash and bank accounts management

- 13 accounts were closed and 42 were frozen in 2008 and 60 accounts were closed and 33 were frozen in 2009 as of March. 187 and 174 accounts found in 2008 and 2009 respectively.
- 20/24 provinces/municipality have been using national bank system
- After conducted a study (NT, NBC, ACLEDA, and Canadia), ACLEDA bank were selected to pilot for 2 provinces (Kandal and Banteymeanchey) and MOU is under preparation.
- 29/38 LMs have opened salary accounts with ANZ but only 17 are being operated.
- Developing revenue expenditure database and cash plan forecasting model
- Developing daily/weekly/monthly cash report formats
- Worked with IMF consultant on further improvement of cash/bank accounts management and building CMU capacity.

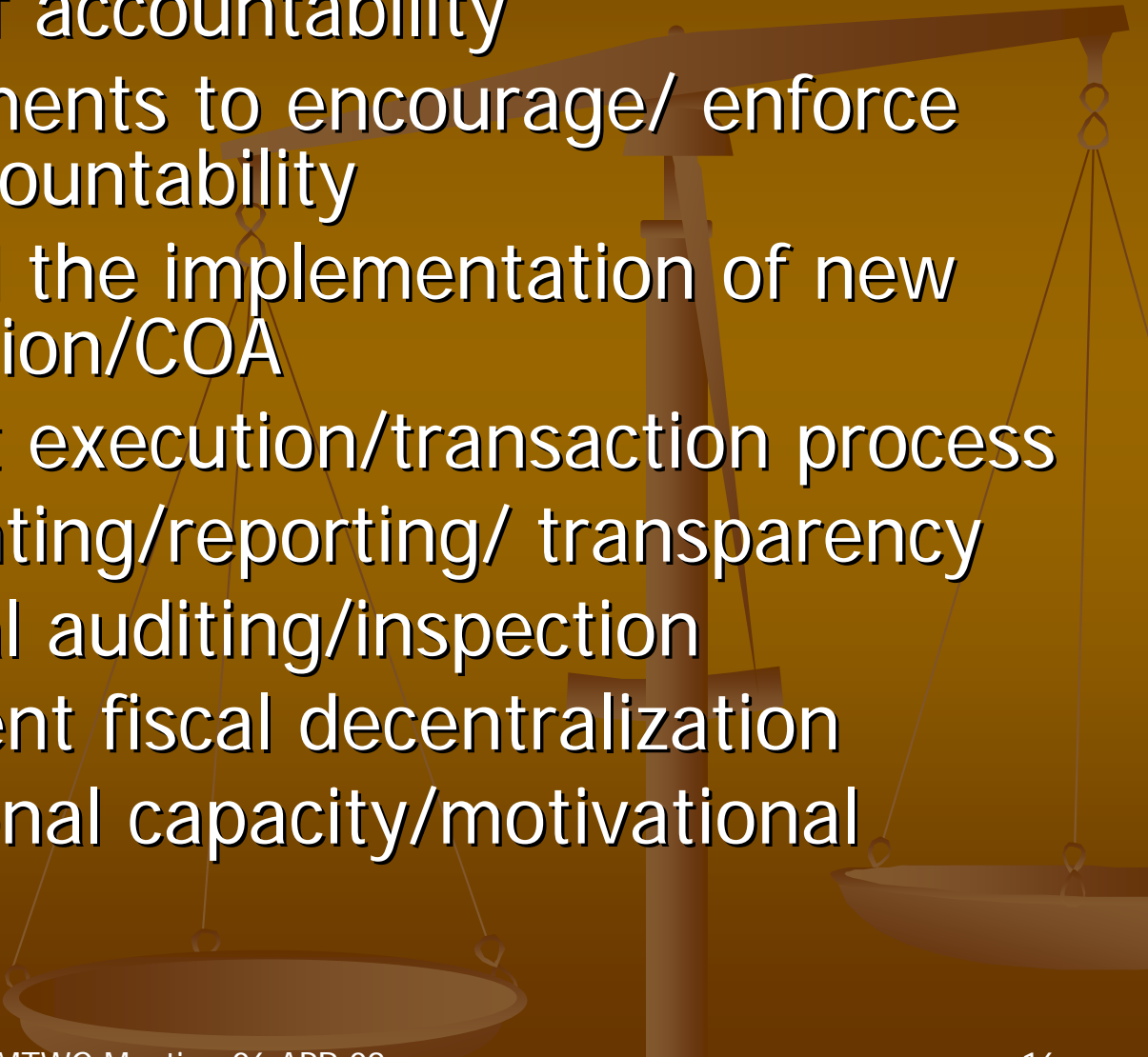
4. PROGRESS OF STAGE 2

4. Further improvement of public procurement

- IRRPP has been reviewed and improved
- Reviewed and improved on some mechanisms and regulations
- Established procurement audit. Conducted procurement audit (post-review) at 4 LMs and 11 provinces and municipality
- First draft of procurement law has been translated into Khmer for internal discussion
- 6 staff have been sent abroad for short training courses
- Discussing on establishment of procurement plan office
- Recruiting international consultants to assist in preparing procurement law and improving the implementation of de-concentration of public procurement
- Recruiting local consultant to assist in developing procurement website and system for e-PPB

4. PROGRESS OF STAGE 2

8 OBJECTIVES FOR FINANCIAL ACCOUNTABILITY

1. Improved lines of accountability
 2. Improved instruments to encourage/ enforce responsibility/accountability
 3. Further improved the implementation of new budget classification/COA
 4. Improved budget execution/transaction process
 5. Improved accounting/reporting/ transparency
 6. Improved internal auditing/inspection
 7. Develop/implement fiscal decentralization
 8. Building institutional capacity/motivational measures
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4. PROGRESS OF STAGE 2

1. Improved lines of accountability

- Reviewing legal framework with relating to roles/functions/responsibilities
- Functional review for MEF has been conducted to propose functional analysis method and human resource management strategy (report circulated for meeting next week lead by General Support Group)
- New business process is being developed under FMIS work plan
- Continue to relocate financial controllers to LMs with clear roles/functions/responsibilities

4. PROGRESS OF STAGE 2

2. Improved instruments to encourage/enforce responsibility/accountability

- Reviewing existing instruments/legal framework of incentives to analyze the current effectiveness/efficiency
- Searching/studying from other countries on effective/efficient instruments
- Continue improving/strengthening the use of BSP/PB and report on budget performance as instruments for budget allocation
- Continue enforcing budget disciplines and enforcing compliant with the existing rules/regulations

4. PROGRESS OF STAGE 2

3. Further improved the implementation of new budget classification/COA

- The implementation of new economic classification/new COA have been reviewed and further improvements have been proposed for discussion.
- Worked with IMF budget classification consultant with regard to Functional, Administrative, geographical, program, and source of fund classification (report circulated for meeting next week lead by Budget Formulation Group).
- Worked with IMF government accounting consultant with regard to improvement of the implementation of new COA especially on recording and reporting (report circulated in French and Budget Execution Group will take the lead for discussion and internalization).
- Developing budget classification guideline
- Developing public accounting manual
- Developing a step by step approach toward accrual accounting

4. PROGRESS OF STAGE 2

4. Improved budget execution/transaction process

- Developing new business process under FMIS work plan.
- Recruiting budget execution consultant
- Reviewed advance payment procedures and preparing sub-decree to improve advance payment management
- 14 IT staff have been trained and 110 FMIS working group members were trained on government account, financial management, and business process review.
- Recruiting 10 business analysts
- FMIS Stage 2 bidding document has been prepared and is waiting for WB approval

4. PROGRESS OF STAGE 2

5. Improved accounting/reporting/transparency

- Continue using and working on further improvement on the Conical Hat accounting system (recording/reporting).
- Recruiting international accounting consultant to assist NT.
- Reviewing public accounting standard in comparison with international standard and FMIS requirements.
- Continue to improving/enforcing budget performance report by LMs especially for program budgeting.
- Annual budget performance report format has been drafted and discussed at the technical level.
- Conducted training for both central and provincial treasuries on recording/reporting system with new COA and Conical Hat accounting system.
- Budget in brief has been developed/updated every year for public since 2007 though need further improvement.

4. PROGRESS OF STAGE 2

6. Improved internal auditing/inspection

- Conducted workshops for LMs to inform stage 2 action plan of internal audit and inspection and clarifying the 2 roles
- Discussing on the preparation of discipline and professional code of conduct for inspector
- 11/25 LMs established internal audit department are operational
- Developed 3 years rolling audit plan
- Audit/inspection reports have been improved
- Recruiting International and local consultant to provide strategic advice and assist in implementing action plan

4. PROGRESS OF STAGE 2

7. Develop/implement fiscal decentralization

- Conducted workshops/issued guidelines on new COA/budget classification/ procurement/implementation of Commune fund to improve budget preparation and execution at sub-national level
- Preparing law on sub-national financial regime and asset management
- Worked closely with D&D working group in developing a 10 years program
- Developing medium and long term strategy for fiscal decentralization based on Organic Law and consistent with the 10 years program
- Discussion with ADB on additional TA to assist and building Local Finance Department capacity

4. PROGRESS OF STAGE 2

8. Building institutional capacity/motivational measures

- Series of workshops/meetings have been conducted to improve an understanding of PFMRP stage 2.
- Some MEF Depts have conducted technical workshops with LMs
- Sending officials to attend workshops/ professional training courses
- 6 master degree scholarships have been awarded
- MBPI stage 2 has been agreed and documents have been prepared for WB approval
- Capacity development plan 2 was developed, suggested list of subjects to be delivered has been prepared and shared with all LMs for further comments/suggestions
- Training adviser is developing short and long term strategy/work plan to implement the capacity development plan 2

4.3. PROGRESS OF STAGE 2

2 OBJECTIVES FOR LATER PLATFORM

1. Improved and expanded the implementation of program budgeting
2. Further improved budget comprehensiveness and integration

4.3. PROGRESS OF STAGE 2

1. Improved and expanded the implementation of program budgeting

- Finalizing program budgeting guidelines and will be submitted for approval and publishing
- Program budgeting training is being discussed and prepared for officials who are preparing budget, middle managers, and policy makers
- Continue working with PB Ministries to improve program structure, costing, indicator design, target setting, and performance reporting.
- Recruiting international budget adviser and program budgeting sectoral specialist

4.3. PROGRESS OF STAGE 2

2 Further improved budget comprehensiveness and integration


- First draft of BSP guidelines has been prepared for next week internal discussion
- Developing a series of technical workshops to further improve the preparation of BSP
- Reviewed BSP evaluation criteria and scoring and some improvement has been made
- Reviewing legal framework for off budget especially for state enterprises/autonomous budget institutions
- PIP improvement has also been discussed with related Ministries and agencies

5. ISSUES AND CHALLENGES

- Need consultant/equipment on time
- Need more incentive for officials
- Need more training and qualified staff
- Need active cooperation/coordination
- Need more ownership and proactive

6. CONCLUSIONS

- Budget credibility still remains strong though we need a transform period from stage 1 to stage 2
- Stage 2 action plan (CAP2) set very clear goal/objectives/activities and DAPs/MAPs has further developed sufficient actions
- Have sufficient performance monitoring/ coordination/ management framework
- Sufficient stage 2 progress has been made though some may fell slow and substantial fruits have not seen but it is normal for strategic development stage and if we look at the 8 + 2 objectives reported above compares to the 10 indicators with key milestones traffic light, definitely some indicators could be moved from red.



THANK YOU