

**The Public Financial Management Reform Program (PFMRP)
Progress Report
First quarter, 2009**

**The Secretariat of the Reform Steering Committee
07 May 2009**

1. Background

The Public Financial Management Reform Program (PFMRP) is one of the priorities of “Rectangular Strategy”; it has commenced since December 2004 with its objective to transform the Public Financial Management System of the Royal Government of Cambodia towards international standards by 2015.

The PFMRP is designed as four platforms which have been implemented stage by stage to achieve objectives: (1) increasing budget credibility, (2) increasing financial accountability to enhance the internal review and accountability of budget manager, (3) increasing budget and policy linkages, and (4) increasing performance accountability of manager.

The action plans have been developed to achieve the strategic objective of each stage; relevant activities and monitoring and evaluation mechanisms based on a set of performance indicators of the Financial Accountability and Expenditure Framework have been identified.

The implementation of activities of the stage 2 identified in the Consolidated Action Plan which had been carried out by the Ministry of Economy and Finance and Line Ministries in January, February, and March 2009 and challenges will be presented in this report. The progress in key indicators related to maintaining budget credibility which was the achievement of the Platform 1/Stage 1 will be also reported.

2- Progress based on indicators in key sectors of Platform 1/Stage 1

The budget credibility has been further monitored in the stage 2 through reviewing quantitative indicators of the Platform 1 which is shown as follows:

Indicators	Target	First quarter 2009	First quarter 2008
1. Revenue outturn increasingly close to targeted level in approved budget	Revenue outturn within + or - 5% of forecast used for budget.	Domestic revenue: 21.4%	Domestic revenue: 30%
2. No accumulation of new arrears and	Arrears as defined to be kept at no more than 2% of total	No arrears	No arrears

steadily declining stock	expenditure		
3. Budget holders increasingly able to commit expenditure in line with budgets and cash flow forecasts	<p>Expenditure profile not to be less than: 1st Quarter: 15% 2nd Quarter: 45% 3rd Quarter: 67% 4th Quarter: 96%</p> <p>Percentage of payments to creditors and staff made through banking system to be not less than 80% by value</p> <p>Percentage of tax revenue collected through Banks to be not less than 60% by value</p>	<p>Achieved in 1st Quarter: 17.8%</p> <p>- The payment through banking system: 85% - 18 Ministries have used banking system for salary payment (50%)</p> <p>- Customs revenue: 92% - Tax revenue: 96%</p>	<p>Achieved in 1st Quarter: 14.7%</p>
4. Composition of expenditure by type (staff costs, non-staff costs etc) close to approved budget.	<p>Outturn compared to budget to be not less than: Salary: 98% Goods/Services: 95% Capital: 85%</p>	<p>Achieved:</p> <p>- Salary: 18.8% - Goods/service: 12.9% - Capital: 20.3%</p>	<p>Achieved:</p> <p>- Salary: 20% - Goods/service: 16% - Capital: 14%</p>
5. Better yield achieved from tax base through improved collection efficiency and planned use of non-tax sources.	<p>Progressive improvement in revenue yield compared to GDP by 0.5% per annum.</p>	<p>- Tax revenue: 22.1% - Direct Tax: 29.1% - Indirect Tax: 20.7% - Non-tax revenue: 18.5%</p>	<p>- Tax revenue: 30% - Direct Tax: 33% - Indirect Tax: 29% - Non-tax revenue: 29%</p>
6. All significant areas of both revenue and expenditure captured in both the budget and accounts of the government.	<p>No significant areas of omission</p>	<p>- TSA and government bank accounts consolidation, new chart of account, new budget classification and budget strategic plan have been further improved. - At early 2009 there</p>	<p>- TSA and government bank account consolidation were strengthened, new chart of account, new budget classification, and budget strategic plan</p>

		<p>were 174 LMs accounts in NBC and commercial banks; 60 accounts were close and 33 accounts were frozen. Then in the first quarter of 2009 accounts were reduced to 114.</p> <p>- Data system (DMFAS) has been implemented to improve external financial management and review</p>	<p>have been implemented.</p> <p>- In early 2008, there were 187 accounts of LMs at the Commercial and National Banks and 13 accounts were closed and 42 were frozen.</p> <p>- Data system (DMFAS) has been implemented.</p>
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3. Performance measurement of activities implementation stage 2

The review of stage 2 activities implementation has focused on the progress of three action plans identified in CAP such as reviewing Platform 1 achievements to be strengthened in stage 2, progress to achieve the objectives of the platform 2 and implementation of activities for the next platforms.

3.1 Platform one activities to be strengthened in stage 2

The four objectives for sustaining budget credibility which is the achievement of the platform 1 have been reviewed to support achieving platform 2 objective “Improved Financial Accountability”.

- **Further improved revenue policy and administration**

Action plan preparation and monitoring mechanism of oil/gas/other mines revenue mobilization and management have been discussed within the Inter-ministerial Technical Working Groups; and a study on royalty payment for oil and gas guided by the international practices has been conducted.

Prakas on Life Insurance and on accounting guideline were issued. Draft-Law on Casino, Trust, amended law on Insurance, draft sub-degree on small scaled-insurance and relevant Prakas, draft-Prakas on commission for appraisal and real estate services, on monitoring and license issuing to real estate developers, contract and statute book (cahier de charge) for public revenue management, legal frameworks related to non-tax revenue management at LMs and draft-circular on national receipt have been reviewed. In addition, Policy and strategy framework for micro-finance, draft sub-degree on micro-finance, on issuing and trading of non-government bond, and on functioning of the Stock-Exchange Committee were also developed.

Inter-ministerial working group for real estate development management, inter-ministerial Committee for developing management mechanism and encouraging insurance purchasing for vehicles, construction sites, and transportation; legal review mechanism of gambling and real estate evaluation association were established.

At the same time, revenue and expenditure review of the public entities which can become an administrative public entity was conducted and charge on fees from two universities has been identified. The criteria based on which incentives are provided to revenue collectors have been set. Five groups of Non-Tax Revenue Department Officials were assigned to cooperate with LMs for non-tax revenue management in 2009 and preparing relevant activities.

- **Further improved debt management**

A report format on loan and grant and a draft of guideline on debt management were prepared. A training course on using DMFAS was conducted. In addition, officials participated in training courses and study tours to Philippine on debt management through DMFAS.

- **Further improved cash and bank account management**

In early 2009, there were 174 accounts; and in its first quarter 60 accounts were close and 33 accounts were frozen; then accounts were reduced to 114 and other accounts have been reviewed to ensure that they are not under the projects. Some LMs have reviewed their accounts and reported to the General Department of National Treasury and closed inactive accounts.

By March 2009, 27 LMs (of 38 LMs) and 32 provincial departments and institutions (of 58) have opened salary accounts with ANZ but only accounts of 18 LMs are being operated. Salary payment through banking system has been further encouraged. The ACLEDA bank has been also selected as a partner under the pilot project in two provinces: Banteay Menchey and Kandal Provinces for revenue-expenditure transaction in the second quarter of 2009. A draft of memorandum of understanding between the Ministry of Economy and Finance and ACLEDA Bank has been finalized. A survey of using banking system in provinces has been continued. LMs reduce cash based transactions and expand the use of banking system for salary payment.

Revenue-expenditure spreadsheets at LMs, by chapters, accounts, and sub-accounts were gradually developed; data 2007 were recorded and data 208 were also updated. Report format on state cash, monthly forecast format, comparison spreadsheet between planning and actual outcomes, and monthly/weekly/daily cash balance were developed. The Cash Management Unit (CMU) through technical assistance from international consultant has been preparing a format and model for cash flow forecasting. LMs have regularly updated revenue-expenditure plan and reported to the Ministry of Economy and Finance for strengthening cash management system.

Since 2007, there are no arrears at the General Department of National Treasury. Business process for the General Department of National Treasury has been reviewed and conducted in cooperation with Conical Hat Company.

- **Further improved public procurement**

Procurement Plans of spending institutions were reviewed and submitted to the MEF management for approval. Post Audits have been carried out in four ministries: the Ministry of Education, Youth and Sports, the Ministry of Health, the Ministry of Rural Development, and the Ministry of Agriculture Forestry and Fisheries. Staff had been trained and two of them were sent to participate in short term training course on international procurement organized by the International Law Institute in the United States.

The recruitment of international consultant for developing procurement law and local consultant for designing e-procurement website to support the implementation of procurement activities are under process.

Annexes of the implementing rules and regulations on public procurement (IRRPP) have been reviewed and improved. At same time, the preliminary draft of procurement law and the proposal for establishing Procurement Plan Office within the PPD were submitted for internal discussion.

3.2 Platform two activities to be implemented in stage 2

In the process towards improving financial accountability which is the main strategic objective of stage 2, activities have been identified and developed around eight objectives and success of which will lead to an improved financial accountability.

- **Improved lines of accountability by clarifying roles, functions, and responsibilities of LMs, levels, and within institutions**

A study on legal framework related to preparing and operating of budget entities and budget manager at the national and sub-national levels has been started by reviewing consistency of the existing regulations, new accountability, budget entities with the law on public financial system 2008 and research on responsibility framework related to preparing the Public Investment Plan (PIP) of the Ministry of Planning has been conducted.

The process of functional analysis for the MEF has commenced and its methodologies and human resources management strategy have been proposed and submitted for internal discussion within the MEF. A study of new business process has been started under the FMIS Project. Furthermore, the MEF has relocated financial controllers to 11 LMs (only 9 LMs in 2008).

- **Improved instruments for encouraging responsibility of financial management and enforcing accountability**

Legal framework and incentive instruments have been reviewed and studied to encourage effective work. The program budgeting and budget strategic plans have been further improved and strengthened. Report system has been implemented to review budget performance; and it is used as an instrument for budget allocation. The Ministry has further strengthened disciplines of budget management and budget execution in accordance with the existing rules such as law on public financial system 2008.

- **Further improve the implementation of new budget classification and new chart of account**

Integration of accounts receivable and accounts payable has been continued. In cooperation with French consultant data collection for recording debt, loan, and accounts receivable have been carried out.

Relevant departments of the MEF studied and discussed with the IMF experts on the budget classification and adapt the structure of budget classification to the Cambodian context. The Budget Department reviewed and agreed on the new budget classification structure including: administrative, economic, geographic, functional, program, and source of fund; and reviewed 10 criteria of COFOG and the current functional classification. A draft of the budget classification such as sub-sub account revenue was prepared and submitted to relevant departments for discussion.

Under the technical assistance of IMF, the General Departments, Departments, and other relevant entities of the MEF have further copied bridging code of new chart of account in alignment with TOFE, expanded scope of using commercial banks, budget classification preparation, account classification by functions and programs, and recording loans. IMF reports on the budget classification and accounting were submitted to the budget formulation and execution groups for discussion.

Documents related to the new chart of account, guideline for budget classification implementation and other relevant documents have been developed and documented. In addition, training courses on petty cash advance, income, and advance were conducted.

Measures for the step by step implementation of accrual account were taken through focusing on debt record, debt integration with relevant entities, preparation of payment voucher and asset inventory.

- **Improved process and transaction of budget execution**

To reduce time frame for expenditure commitment, expending, and revenue payment, the General Department of National Treasury has collaborated with Conical Hat Company to improve the accounting process and other requirements at the revenue and expenditure units. A draft of sub-degree on improving of recurrent expenditure procedure and investment expenditure for cash advance and a draft of circular on petty cash advance at LMs and departments has been prepared.

Training courses on petty cash advance, income, cash advance and year-end closing were organized for LMs and municipalities/provinces entities.

The advance procedure was reviewed; and sub-degree on procedure of providing cash advance for recurrent and public investment expenditure was also drafted. the recruitment of budget execution consultant is under process.

The level of understanding and capacity building of relevant officials have been improved for the Financial Management Information System project. The selection of 10 business analysts is under process. 14 IT staffs were trained on basic information

technology and data base management program. A bidding document for stage 2 was prepared and submitted to WB for approval (third time). An assessment of ITC equipment and infrastructure needs, human resources, capacity building plan, change management in all departments and LMs was completed. Strategic documents on ICT implementation, common business process and procedure for each phase and identification of business process, and change management strategy and communication plan were prepared and will be submitted to the MEF management for approval in early May. At the same time, documents related to function and roles of all departments within the MEF were developed and documented.

- **Improved accounting system and financial statement to ensure transparency**

Quarterly, bi-annual, and annual report formats of budget execution performance were prepared, improved, and circulated to relevant offices and relevant LMs, especially the ministries which have been implementing program budgeting. Moreover, improvement of new budget classification and the implementation of the new chart of account in relevant departments and LMs have been continued.

- **Improved auditing, inspection, and response to the use of auditing and inspection finding**

Reviewing the Internal Audit Departments at LMs and the state-owned enterprises was started. Audit boxes were installed in capital/provinces. An internal audit procedure for the General Department of Customs and Excise and the General Department of Taxation were drafted. Three year inspection plan (2009-2011) and financial inspection program 2009 were prepared by the General Inspectorate of the MEF; and Prakas on discipline, professional code of conduct for financial inspectors and manual on financial inspection procedure is being drafted. Inspection of the financial management and program budgeting for 2008-2009 at the ministry of land management, urbanization and construction and provinces (07) was conducted.

- **Strengthen and develop fiscal decentralization policy and strategy**

Guidelines on technical procedure of budget preparation and budget execution, allocation of non-tax revenue for sub-national administration were developed to enhance budget formulation and execution of capital/provinces to be consistent with the Law on Administration of Municipality, province, district, and khan; and the Law on financial regime and management of state assets at sub-national level with studying options for autonomous budget procedure and uniform budget at the municipalities/provinces.

Recommendations on improving of the implementation of commune/sangkat budget, the new chart of account for commune/sangkat budget, guideline on improving of procurement at commune/sangkat, and draft-manual on the implementation of commune/sangkat projects were documented. Relevant workshops were conducted in two provinces (Kampong Speu and Kampong Cham).

The working group for reviewing the law on financial regime and management of the provinces/municipalities assets was created and the law on financial regime and management of state assets at sub-national level was drafted and submitted to the

National Committee for sub-National Democratic Development. Short (2009-2011) and long term (2011-2018) strategies for implementing fiscal decentralization were developed. In addition, 10 years national program for democratic development was prepared in cooperation with the National Committee for sub-National Democratic Development.

- **Building institutional capacity and motivational measures**

A capacity building plan was reviewed and improved by including new arising needs from General Departments, Departments, and relevant entities. 43 trainers of the National Audit Authority were trained. Local and overseas short term training courses and workshops were conducted for staff of MEF and relevant LMs. Significantly, structure and implementation program of the capacity building plan stage 2 were developed to ensure effective implementation. Moreover, short, medium, and long term training policies and strategies were also reviewed and improved in accordance with the reform program objective.

73 staff were recruited for the General Department of National Treasury. The selection of international consultant for human resource management is under negotiation process. The bidding document of HRMIS, personnel files of the MEF, other legal documents related to the staff management have been prepared and documented. A report on functional review strategy and methodology for the MEF has been developed and submitted to the MEF for comment. MBPI operation manuals, PMAS and business cases for MEF and LMs were prepared.

3.3 Activities for later platforms

It focuses on improving and expanding implementation of program budgeting and budget comprehensiveness and integration.

- **Improving and expanding the implementation of program budgeting**

The guideline on program budgeting was improved and updated. 11 training courses were also conducted. In addition, the MEF has collaborated with technical staff of the pilot ministries to improve the effectiveness of program structure, expenditure, indicators and targets identification, and performance report in accordance with the guideline. The program budgeting has been implemented step by step. 24 municipalities/provincial departments of education, youth and sports have piloted the program budgeting under the monitoring of their Ministry.

- **Further improving budget comprehensiveness and integration**

The Medium Term Expenditure Framework (MTEF) was updated and the workshop will be conducted in May. A draft of guideline on the Budget Strategic Plan (BSP) has been finalized. Scoring and evaluating procedures were prepared. The relevant departments of the MEF together with the Ministry of Planning and relevant LMs have prepared PIP 2010-2012 and participated in forecasting investment budget expenditure financed by domestic fund and providing data related to PIP financed by both external and internal fund for improving efficiency of BSP and PIP.

A working group has been established; it has been collecting legal documents related to management and functioning of public entities for preparing budget annex to be integrated into annual budget plan. The working group had reviewed the circular on guideline for preparing annual budget plan to improve the list of annual budget preparation in order to integrate the budget of the public entities into the annual budget.

A legal framework for off budget management, especially for state owned enterprises and autonomous budget entities was reviewed and the draft of revenue-expenditure report format for off budget management was also prepared.

4. LMs activities

In the first quarter, LMs mainly focused on improving and finalizing their action plans and preparing coordination mechanisms to implement them. At the same time, some LMs started to implement the activities identified in their MAPs such as further improving administrative and revenue policy, cash management, and bank account management, public procurement and lines of accountability by clarifying roles, functions, and responsibilities, instruments for encouraging responsibility of financial management and enforcing accountability, implementation of new budget classification and new chart of account, process and transaction of budget execution, accounting system, and financial statement, implementation of the program budgeting, and improving budget comprehensiveness and integration.

Recently, 29 LMs have assigned focal persons for coordination mechanism (except, Ministry of environment, Council for the Development of Cambodia, Ministry of Foreign Affairs and International Cooperation, Ministry of Justice, Ministry of Culture and Fine Arts, Ministry of Social Affairs, Veterans and Youth Rehabilitation, Appeal Court, Ministry of Labor and Vocational Training, and Secretariat of Public Service). 4 LMs have not yet sent a list of MBPI officials (Ministry of Labor and Vocational Training, Ministry of Public Works and Transport, Ministry of Tourism, and Council of Ministers). 2 LMs have not finalized yet their action plans (Office of the Council of Ministers and Council for the Development of Cambodia) (35 MAPs are ready for implementation); 3 LMs officially launched MAPs (Ministry of Interior, Ministry of environment and General Secretariat of National Assembly) and 22 LMs provided the first quarterly report on time.

5. Issues and challenges

During the implementation of action plans, some challenges had been arising:

- Staff's limited capability and knowledge of information system and lack of staff cause delay in implementing action plans,
- Staff participated in training courses are not regular and often changed,
- Selection of consultants, contracted staff, and equipment supply do not happen as planned,
- Collaboration and coordination between LMs and within each LMs are not functioning well,

- Lack of ownership and proactive efforts of General Departments/Departments/ Entities of each LMs which are involved in implementing the reform,
- Establishing and functioning of budget group for preparing BSP at some LMs were late,
- Providing additional incentives for staff and budget for revenue mobilization process, especially new revenue source are limited,
- Having difficulty in getting access to information related to Development Partner Fund at the LMs.

6. Conclusion

In overall, DAPs of the MEF have been implemented step by step and satisfactory progress has been made; however; LMs have not fully implemented their MAPs and some of their activities can be done unless General Departments/Departments/ Entities of the MEF initiate their own activities. Some activities were not implemented as planned which require more attention. Limited capacity and knowledge of the staff also cause delay in implementing the action plans. The reports were not submitted to the Secretariat as scheduled.

Based on the progress and challenges following points need to be considered:

- Developing internal coordination mechanism and clear work allocation within the General Departments/Departments/LMs to monitor the implementation of action plans and preparation of progress report,
- General Departments and LMs which have not submitted report should send progress report to the Secretariat and have to submit the next report on time,
- Relevant General Departments, Departments of the MEF and all LMs should have good relationship to implement the reform,
- Relevant General Departments, Departments of the MEF should carry out activities related to other LMs to enable them to implement their action plans.
- General Departments/Departments of the MEF and LMs intend to build up their staff capacity should propose a capacity building plan and submit to the Steering Committee as soon as possible.
- Relevant staff should participate in training actively, regularly and punctually,
- PFM reform program should be more outreached to the public.