

**The Public Financial Management Reform Program (PFMRP)  
The Public Financial Management Steering Committee**

**Progress Report  
First quarter, 2010  
The Secretariat of the Reform Steering Committee**

The first quarter report presents the reform progress during January, February and March 2010 by highlighting activities done, challenges and issues during the first quarter; in addition, the key indicators related to maintaining budget credibility will be also monitored.

**1- 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:

<b>Indicators</b>	<b>Target</b>	<b>Year of 2010</b>	<b>Year of 2009</b>
1. Revenue out-turn increasingly close to targeted level in approved budget	Revenue outturn within + or - 5% of forecast used for budget.	Domestic revenue: 22.8 %	Domestic revenue: 21.4 %
2. No accumulation of new arrears and steadily declining stock	Arrears as defined to be kept at no more than 2% of total expenditure	No arrears	No arrears
3. Budget holders increasingly able to commit expenditure in line with budgets and cash flow forecasts	Expenditure profile not to be less than: - 1 <sup>st</sup> Quarter: 15% - 2 <sup>nd</sup> Quarter: 45% - 3 <sup>rd</sup> Quarter: 67% - 4 <sup>th</sup> Quarter: 96%  Percentage of payments to creditors and staff made through banking system to be not less than 80% by value  Percentage of tax revenue collected through Banks to be not less than 60% by value	Achieved :  - 1 <sup>st</sup> Quarter: 16.3%  - The payment through banking system: 78.92% - 37 Ministries have opened bank accounts for salary payment (Except the Ministry of National Defense)  - Customs revenue: 89.9% - Tax revenue: 97.5 %	Achieved:  - 1 <sup>st</sup> Quarter: 17.8%  - The payment through banking system: 85% - Up to the end of 2009, 26 LMs have opened bank accounts for salary payment  - Customs revenue: 92% - Tax revenue: 96 %
4. Composition of	Outturn compared to	Achieved:	Achieved:

<p>expenditure by type (staff costs, non-staff costs etc) close to approved budget.</p>	<p>budget to be not less than:                      - Salary: 98%                      - Goods/Services: 95%                      - Capital: 85%</p>	<p>- Salary: 17.8%                      - Goods/service: 13.8%                      - Capital: 15.4%</p>	<p>- Salary: 18.8%                      - Goods/service: 12.9%                      - Capital: 20.3%</p>
<p>5. Better yield achieved from tax base through improved collection efficiency and planned use of non-tax sources.</p>	<p>Progressive improvement in revenue yield compared to GDP by 0.5% per annum.</p>	<p>- Tax revenue: 20.3%                      - Direct Tax: 21%                      - Indirect Tax: 20.1%                      - Non-tax revenue: 37.4%</p>	<p>- Tax revenue: 22.1%                      - Direct Tax: 29.1%                      - Indirect Tax: 20.7%                      - Non-tax revenue: 18.5%</p>
<p>6. All significant areas of both revenue and expenditure captured in both the budget and accounts of the government.</p>	<p>No significant areas of omission</p>	<p>- TSA and government bank accounts consolidation have been further strengthened                      - New chart of account, new budget classification and budget strategic plan have been further improved                      - Up to the end of March 2010, the total current accounts have been reduced to 87.</p>	<p>- TSA and government bank accounts consolidation, new chart of account, new budget classification and budget strategic plan have been further strengthened to incorporate revenue and expenditure into the government accounts. Revenue and expenditure of state-owned enterprises, administrative entities and DPs' off budget have been urged to be incorporated in BSP 2010-2012.                      - At the end of 2009, the total current accounts have been reduced to 110                      - Data system (DMFAS) has been implemented to improve overseas financial management and monitoring.</p>

## **2. Performance measurement of Stage 2 activities implementation**

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.

### **2.1 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**

#### **Non-Tax Revenue:**

Activities achieved include: draft on procedure monitoring government sub-loan in micro-finance sector; draft on commission fees of real estate service and Appraisal Company; draft on real estate service management standard; Prakas on real estate management (Dated on 15<sup>th</sup> December 2009). In addition, some activities were prepared and issued such as application form for license and tender document for real estate developer; Prakas on licensing for real estate business management of independent engineering company; sub-degree on public bonds; and sub-degree on Cambodian bond committee. Draft on non-tax revenue management was further discussed with LMS; MEF’s internal meeting was conducted to discuss issues and challenges related to non-tax revenue management and circular on national receipt was reviewed to be consistent with the existing regulations. More importantly, criteria for intensive award to revenue collectors were identified; debt from privatization was further reviewed; dept payment rules were prepared; research on revenue sources of the public administrative entities was conducted; legal frameworks related to state property management were compiled; and circular on strengthening the implementation article 17 of the Public Financial System Law was further prepared.

#### **Tax Revenue:**

Activities which were fully implemented including implementation of rigid claiming measures against tax debtors; monitoring tax debtors at seven Khan Tax branches; preparing plan for enterprise census in Phnom Penh; reviewing guideline on taxpayer’s obligation and rights; conducting workshop for strengthening IT system uses at seven Khan Tax branches; further documenting and entering data of the GDT; further studying on tax auditing program, preparing management policy; reviewing revenue mobilization from oil, gas and other mines; developing economic analysis model for forecasting revenue collected by the company and the government; and establishing sub-working group of revenue management from mines business. Moreover, third draft-law on oil taxation was revised; revenue policy and macro-economic framework were updated; and impact assessment of deducting on import tax of ASEAN’s trade agreement on revenue was surveyed.

In addition, LMs were also contributed in preparing inventory report; providing information on revenue sources; encouraging and strengthening efficiency of revenue and debt collection; and procedures on revenue mobilization was strengthened.

- **Further improved debt management**

DMFAS was further improved in collaboration with national and international consultants; and function of dept sustainable analysis (DSA) was integrated in revenue management office and a national expert in charge was selected. Workshops on DSA were done in cooperation with ABD's consultants.

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

In early 2010, there were 90 accounts and the total current accounts reduced to 87 as of 31 March 2010. No account was further monitored at the national level and only 10 accounts remained and were permitted. The account balance of the General Department of Taxation (GDT) and the General Department of Customs and Excise is regularly kept zero at the end of the day. Account management was further implemented in cooperation with relevant LMs. By September 2009 there were 26 LMs operated bank accounts for salary payment and increased to 37 LMs in early 2010 (except the Ministry of National Defense). The use of banking system for revenue-expenditure operation in seven provinces (in 2009, there were only two provinces) were further prepared in collaboration with international consultants and a meeting between the MEF and NBC on bidding document was conducted. A report format for state cash was further prepared and revenue-expenditure spreadsheets were also updated. Based on regular report of revenue-expenditure operation and reviewing mandate life, there are no more arrears at the GDNT.

- **Further improved public procurement**

A draft on public procurement law was submitted for internal discussion and bidding document was continuously improved. A guideline on public procurement plan of 2010 was also prepared and circulated to all spending agencies. Meanwhile, other activities were also implemented such as a manual on IRRPP was documented; procurement context of LMs was reviewed; prakas on procurement management at provincial level was prepared in accordance with the law on administration of municipality, province/krong, and district/khan. Training course on professional procurement was conducted for spending agencies; international consultant for post audit was selected; procurement website has been further developed; and questionnaires for data collection of sending agencies were designed.

## **2.2 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 studying process and documentation of legal frameworks related to PFM were further implemented; LMs' structure was complied (except the Ministry of National Defense,

Ministry of Interior, and Council of Ministers); and draft on budget entities was also discussed. LMs participated in preparing outline of budget flow and accountability; and preparation of new budget holder and entity, budget flow, and new accountability were reviewed. Within financial monitoring framework, financial controllers have been relocated to 11 LMs.

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

Guideline on procedures, context of expenditure commitment, and mandate payment were prepared and will prepare a detail by each chapter. A workshop on financial inspection standard was organized by France's TA.

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

An appendix on economic classification was progressively improved and a draft on sub-sub accounts was further reviewed. A process of preparing six function classifications (administrative, geographic, economic, functional, program, and financing source) was circulated to relevant staff (Budget Department) and functional classifications were reviewed in accordance with the COFOG. Relevant activities were also implemented such as developing program code; participating a five days workshop on Government Financial Statistics 2001 in Singapore; and training courses on program budgeting and functional classifications were organized for officials in charge by IMF's experts; a process of compiling and circulating documents related to the national treasury was finished and commune/sangkat budget was reviewed; an accounting classification with TOEF was further improved; the linkage of new budget classification with GFS was revised; and TOFE 2008, TOFE January-December 2009, and GFS January-December 2009 were updated. More importantly, meetings with international consultants on budget classification, accounting, cash management, and business process were also organized.

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

Activities implemented including: spending over budget available is not allowed; loan was gradually reduced; sub-degree on improving of current expenditure procedure and cash advance of investment expenditure has been drafted; petty cash advance at LMs was monitored; and procedures on integration of investment expenditure of internal and external finance were developed. In addition, investment expenditure report of external finance 2009 was prepared; sub-degree on local and overseas daily substantial allowance and circular on using and providing salary for contract and temporary officers have been drafted; code of budget classification was reviewed; sub-degree on economic classifications has been drafted; chart of accounts for the FMIS project was identified; and relevant bidding documents for the FMIS were prepared. Significantly, there are four companies which will participate in the FMIS bidding process and they were invited to attend a meeting for clarifying bidding conditions and business process format. A business process was finalized and will submit for approval; a meeting on processing development of program accounting was organized at the GDNT; and training courses on basic IT were conducted for treasury staff in 2 provinces.

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

A number of activities have also been implemented including reviewing of public accounting standards in accordance with PFM through IT system. Furthermore, a manual on state property inventory has been further developed and TOFE has been posted on the MEF website.

LMs in collaboration with the MEF have prepared inventory list and fixed assets of LMs has been registered and issued as well as a draft on state property management law and a report format of internal budget implementation has been developed and implemented.

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

A financial inspection plan 2010 and three years financial inspection plan (2010-2012) were being improved and financial inspection report 2009 was also prepared. Only one more an Internal Audit Department was established at Cambodian stock exchange commission (in 2009, 26 LMs established the Internal Audit Department; 18 of them have been operated and 3 state-owned enterprises also established internal audit units). A manual on general audit procedure and audit strategy (3 years) have been developed in accordance with new procedure. Meanwhile, laws and regulations on PFM and auditing were complied and circulated to LMs audit units. Audit boxes were installed and made known to the public, and MEF's audit plan of 2010 and three-year audit plan of four LMs were revised.

Internal Audit Departments at LMs have prepared annual audit plan in collaboration with the Internal Audit Departments of the MEF and NAA; and staff in charge got relevant trainings. More importantly, procedures and audit report have been developed; internal data monitoring system has been prepared; and audit questionnaires have also been designed.

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

Activities implemented such as reviewing the draft on financial regime law and state property management at national level; and draft on revenue allocation to national level has been prepared, short (2009-2011) and long (2011-2018) term strategies for fiscal decentralization have also been reviewed.

- **Building institutional capacity and motivational measures**

Activities implemented including developing training need assessment within the MEF and all LMs, professional developing plan, and preparing training activities plan for the PFM stage 2. A professional developing plan was completed and submitted to WB for approval; and training programs have been designed in collaboration with the Civil Service College of Singapore (Twining Program). In addition, Personnel Department of the MEF was installed a server for software of HRMIS. The bid for printing legal documents, human resources management rules, and MEF's structures is under process; personnel files preparation of the MEF were fully completed; procedures and relevant documents to support the process of the MEF's officials census were prepared as well as the instruction on work attendance monitoring was approved. Human resources

development and management policies, staff management hand book, code of ethics of MEF's staff, TOR of international consultant functional review have been developed. Priority Operating Costs (POC) for the project implementation has been well progressed.

In addition to activities described above, training courses and study tours were organized and 1 staff was sent to participate training course on young leader in Japan and 2 officials were sent for study tour in Singapore and trainings on "leadership for public policy management" will be organized soon (two groups: 88 participants), short term training courses of 24 classes were conducted for staff from the Ministry of Rural Development, Ministry of Water Resources and Meteorology, Ministry of Agriculture Forestry and Fisheries, and MEF (Budget strategic plan, budget delegation, budget classification, chart of account, budget analysis, planning and auditing program, leadership for public policy management and IT); 100 customs officers attended local training courses and study tours; and 24 customs officers participated overseas training courses and study tours. Additionally, training plan stage 2 (local and overseas) under JICA assistant for the GDT has been prepared; training courses on IT system were conducted in 6 provinces (GDT); a study tour on management and implementation of FMIS project in Uganda was done; 5 staff selection to assist FMIS project is under process; training plan of 2010 for FMIS; and material supply plan for FMIS project officers has been prepared.

### **2.3 Activities for later platforms**

Progress for later platforms aims to improve and expand implementation of program budgeting and budget comprehensiveness and integration.

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

The guideline on program budgeting has been further improved and circulated to 8 pilot ministries; LMs' structures implementing program budgeting have been reviewed; and action plan for PB has been prepared. At the same time, 24 municipalities/provincial departments of education, youth and sports have piloted the program budgeting under monitoring of their Ministry. Strategic plan of LMs have been improved by identifying strategies for developing and implementing program budgeting; and annual operation plan and 3 years plan have been prepared.

- **Further improving budget comprehensiveness and integration**

Guideline on BSP has been improved and presented to relevant staff; evaluation and scoring procedure has been finalized; and matching PIP with BSP 2010-2012 of LMs; and consolidating DPs' revenue-expenditure sources. A revenue-expenditure report format for off budget management has been drafted. Mechanism to collect information of revenue-expenditure and off budget management in LMs has been further reviewed. The Medium Term Expenditure Framework (MTEF) 2011-2013 has also been updated.

LMs have also made great effort for capacity building and encouraging working groups to strengthen the efficiency of annual BSP preparation and budget integration.

### **3. Issues and challenges**

Some challenges had been raised by the General Departments, Department, and entities under the MEF and LMs as follows:

- Qualified and capable staff are still limited
- Some training plans have been delayed and waiting for DPs approval
- Inadequate incentive and incentive policy for non-tax revenue collection has not yet been implemented
- Lack of technical assistant in some sector such as oil and gas business; business management of Casino and Lottery; new budget classification and new accounting implementations; auditing; public procurement ect.
- Limited cooperation of LMs such as non-tax revenue management; operational budget working groups, getting access to information related to DPs' fund; bank account consolidation; and information of oil and gas business operation.