

Progress of PFMRP stage 2 reform activities

Second Quarter 2010

1. Strengthening of platform one activities

1.1 Revenue Policy and administration

Revenue policy and administration has been gradually improved. Revenue policy was drafted and translated in Khmer for discussion within the Ministry of Economy and Finance and the draft law on Oil Operation Taxation was finalized after consultations with relevant stakeholders; and draft amendment to Law on Taxation related to taxation on oil operation was submitted to the Office of Council of Ministers for review. Procedures for mobilizing and managing revenue from oil, gas and mines are being prepared. In addition, Tax administration has been further improved in some key areas such as tax revenue data consolidation, implementing strict measures to collect arrears, publishing tax information, developing tax web-site, etc; and ASYCUDA system was also expanded to key checkpoints for customs inspection.

Furthermore, legal frameworks and other necessary measures have been developed to improve non-tax revenue mobilization and management such as preparation of inter ministerial Prakas on collection of non-tax revenue from various sources, establishment of working group in charge of drafting law on non-tax revenue management, conducting research on non-tax revenues, implementing strict measures to collect arrears.

1.2 Debt management

DMFAS has been further improved with assistance of international and local consultants; Standard Operating Manual on Debt Management, Debt Management Strategy are being prepared and the preliminary report of Debt Sustainability Analysis (DSA) and reports on monthly, quarterly and annual debt have been also produced.

1.3 Cash management and TSA

TSA has been also strengthened. As a result, up to 30 June 2010 there are 90 current accounts in total; only four of them will be frozen and others are authorized accounts or linked to TSA. Account balance of General Department of Taxation and Customs and Excise is regularly kept zero at the end of the day. The use of the commercial banks for revenue and expenditure transaction has been increased, particularly expanded to 09 other provinces (in addition to 2 existing provinces). 37 out of 38 line ministries/institutions have used the bank accounts for salary payment. There are no arrears reported in the National Treasury; and procedure on age profile monitoring of payment mandate is put in place

and regularly carried out. Cash forecasting and monitoring has been gradually improved with assistance from IMF.

1.4 Procurement

The Implementing Rules and Regulations Governing Public Procurement (IRRPP) was finalized and disseminated to line spending agencies. Procurement Website/e-PPB is under process of development. Preliminary Draft Law on Public Procurement has been prepared.

2 Platform two activities

The implementation of the platform two activities contributes to improving financial accountability which is the strategic objective of this platform. A number of objectives (08 objectives: 21-28) have been defined and gradually implemented by the Ministry of Economy and Finance and line ministries.

A draft on budget entity framework and a framework of six function classifications (administrative, geographic, economic, functional, program, and financing source) have been developed and discussed within the MEF. In fact, framework of administrative, geographic, functional, program and financing source classification is expected to be developed by December 2010. Strategic implementation plan of these classifications will be developed by February 2011. Functional classification will be implemented in the context of FMIS which will start in early 2012. Program classification and Code of budget classification were also reviewed by the MEF PFM Reform Commission; and sub-degree on economic classifications was drafted. TOFE with new accounting classification 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.

Financial controllers have been relocated to 11 LMs. Guideline on procedures, context of expenditure commitment, and mandate payment was prepared. 23 out of 26 Line ministries which established internal audit departments start their audit function; and four other public enterprises and one Commission also established their internal audit departments. Sub-degree on improving of current expenditure procedure and cash advance of investment expenditure was issued. Procedures on integration of investment expenditure of internal and external financing were developed. Web site of General department of taxation is being developed to improve access to tax information by the public.

Chart of accounts for the FMIS project was identified; and an evaluation of bidding documents for the FMIS was finalized. A business process was finalized and submitted to the management for review and approval. Change management road map, Leadership plan and training program for FMIS were developed. Selection of 12 IT business analysts is under process.

Internal audit and inspection have been further improved. It is observed that a manual on general audit procedure and audit strategy, procedures and audit report, annual audit plan, a financial inspection plan 2010 and three years financial inspection plan have been developed; internal data monitoring system has been prepared.

After consultation with NCDD the draft on financial regime law and state property management at national level was reviewed by the MEF; and draft on revenue allocation to national level has been prepared. In addition, short (2009-2011) and long (2011-2018) term strategies for fiscal decentralization have also been reviewed. A number of circulars on guiding budget formulation and implementation at the sub-national level were issued.

To support the implementation of PFMRP, capacity building activities are constantly carried out including short course trainings, workshops, and studies tours in country and abroad. Based on training need assessment, twinning training program between MEF (Economic and Finance Institute) and Civil Service College, an annual training program and Human resource management and development policy and strategy are being developed. In addition, HRMIS, documents related to Priority Operating Cost (POC), TOR of the coordination group for MEF, LMs and the use of Technical Assistance were developed and submitted to MEF management for review and comments.

3 Implementation of activities for later platforms

Guideline on program budgeting was approved by the PFM commission for publication; and its action plan is being reviewed to enable effective implementation of PB in the 8 key ministries. In addition budget strategic plan was reviewed and endorsed by the PFM commission for publication. PSB scoring methods were also improved to support the BSP implementation. Then relevant workshops will be organized to assist MEF, LMs and their staff in preparing and implementing PB and BSP.

Budget Credibility Performance Indicators

Indicators	Target	Second Quarter 2010	Second Quarter 2009
1. Revenue out-turn increasingly close to targeted level in approved budget	Revenue outturn within + or - 5% of forecast used for budget	Domestic revenue: 48.2 %	Domestic revenue: 46.1 %

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	<p>Expenditure profile not to be less than:</p> <ul style="list-style-type: none"> - 1st Quarter: 15% - 2nd Quarter: 45% - 3rd Quarter: 67% - 4th Quarter: 96% <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 :</p> <ul style="list-style-type: none"> - 2nd Quarter: 41.7 % - The payment through banking system: 86.15% - 37 Ministries have opened bank accounts for salary payment (Except the Ministry of National Defense) - Customs revenue: 97% - Tax revenue: 98.4% 	<p>Achieved:</p> <ul style="list-style-type: none"> - 2nd Quarter: 41.8% - The payment through banking system: 85% - Up to the end of 2009, 26 LMs have opened bank accounts for salary payment - Customs revenue: 98.9% - Tax revenue: 75.1%
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:</p> <ul style="list-style-type: none"> - Salary: 98% - Goods/Services: 95% - Capital: 85% 	<p>Achieved:</p> <ul style="list-style-type: none"> - Salary: 45.5% - Goods/service: 38% - Capital: 38.7% 	<p>Achieved:</p> <ul style="list-style-type: none"> - Salary: 48.7% - Goods/service: 37% - Capital: 42.1%
5. Better yield achieved from tax base through improved collection efficiency and planned use of	<p>Progressive improvement in revenue yield compared to GDP by 0.5% per annum.</p>	<ul style="list-style-type: none"> - Tax revenue: 46.2% - Direct Tax: 44.9% - Indirect Tax: 46.6% - Non-tax revenue: 59.5% 	<ul style="list-style-type: none"> - Tax revenue: 47.8% - Direct Tax: 57.2% - Indirect Tax: 45.8% - Non-tax revenue: 37%

<p>non-tax sources.</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>	<ul style="list-style-type: none"> - 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 - There are 86 current accounts - DMFAS has been further improved - BSP has been further improved 	<ul style="list-style-type: none"> - 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.