# Public Financial Management Reform Program

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**Progress Report**
**(2010- 2nd Quarter 2012)**
**Steering Committee Secretariat of the Public Financial Management Reform Program**

This report presents activities of Public Financial Management Reform Program implemented from 2010 to 2nd Quarter of 2012 by highlighting progress made based on action plans of Phase II, Priority Action Plan and the revised action plan and strategy to implement Treasury Centric FMIS

**1. Further Strengthened Budget Credibility**

Budget Credibiltiy was reviewed against quantitative indicators as shown below:

| Indicators | Target | Progress 2nd Quarter 2012 | Progress 2011 | Progress 2010 |
|---|---|---|---|---|
| 1. Revenue out-turn increasingly close to targeted level in approved budget | Revenue outturn within + or - 5% of forecast used for budget. | Domestic revenue: 49.5 % | Domestic revenue: 95.7 % | Domestic revenue: 103.5% |
| 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 | 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:<br>- 1st Quarter: 15%<br>- 2nd Quarter: 45%<br>- 3rd Quarter: 67%<br>- 4th Quarter: 96%<br><br>Percentage of payments to creditors and staff made through banking | Achieved :<br>- 1stQuarter: 12.5%<br>- 2ndQuarter: 36.5%<br><br>- The payment through banking system: 88.33%%<br>-<br>- 39 Ministries have opened bank accounts | Achieved:<br>- 1St Quarter: 13.5%<br>- 2nd Quarter: 35.4%<br>- 3rd Quarter: 62.3%<br>- 4th Quarter 100.6%<br><br>- The payment through banking system: 75.0%<br><br>- 39 Ministries have | Achieved:<br>- 1St Quarter: 16.2%<br>- 2nd Quarter: 38.9%<br>- 3rd Quarter: 69.1%<br>- 4th Quarter 103.4%<br><br>- The payment through banking system: 84.1%<br><br>- 39 Ministries have |

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| | system to be not less than 80% by value<br><br>Percentage of tax revenue collected through Banks to be not less than 60% by value | for salary payment<br><br>- Customs revenue:100%<br>- Tax revenue: 66.5 % | opened bank accounts for salary payment<br><br>Customs revenue: 91.7%<br><br>- Tax revenue: 86.6 % | opened bank accounts for salary payment<br><br>Customs revenue: 99.4%<br><br>- Tax revenue: 96.7 % |
| 4. Composition of expenditure by type (staff costs, non-staff costs etc) close to approved budget. | Outturn compared to budget to be not less than:<br><br>- Salary: 98%<br>- Goods/Services: 95%<br>- Capital: 85% | - Salary: 41.7%<br>- Goods/service: 31.4%<br>- Capital: 28% | - Salary: 94.4%<br>- Goods/service: 110.6%<br>- Capital: 86.2% | - Salary: 99.6%<br>- Goods/service: 110.7%<br>- Capital: 115.2% |
| 5. Better yield achieved from tax base through improved collection efficiency and planned use of non-tax sources. | Progressive improvement in revenue yield compared to GDP by 0.5% per annum. | - Tax revenue: 47.9%<br>- Direct Tax: 57.3%<br>- Indirect Tax: 46.7%<br>- Non-tax revenue: 51.7% | Achieved 13% of GDP<br><br>- Tax revenue: 81.4%<br>- Direct Tax: 91.8%<br>- Indirect Tax: 73.5%<br>- Non-tax revenue: 88.3% | Achieved 12.94 of GDP<br><br>- Tax revenue: 87.9%<br>- Direct Tax: 82.7%<br>- Indirect Tax: 92.4%<br>Non-tax revenue: 123.5% |
| 6. All significant areas of both revenue and | No significant areas of omission | - TSA was further strengthened | - Further strengthened TSA, government bank account consolidation, | - Further strengthened TSA, government bank account consolidation, |

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| expenditure captured in both the budget and accounts of the government. | | - New chart of account, new budget classification and budget strategic plan were further improved<br><br>- DMFAS was further improved | and implementation of new chart of account<br><br>- Budget classification and budget strategy plan were further improved.<br><br>- DMFAS was further improved | and implementation of new chart of account<br><br>- Budget classification and budget strategy plan were further improved.<br><br>- DMFAS was further improved<br>- |

## 2. Activities to further strengthen budget credibility

There were 04 objectives with 18 activities being implemented to further strenghten budget credibility aiming to **Improve Financial Accountability** which was the Strategic Goal of Phase II of PFMRP.

### 2.1. Further Improved Administration and Revenue Policy

Progress in Improved Administration and Revenue Policy includes:

Revenue Policy:

- Mid term Revenue Mobilization Policy and Strategy (2011-2013) was approved and updated. Working Group for Revenue Mobilization Policy was created to monitor and evaluate of the implementation of the strategy. Mid term Revenue Mobilization policy and framework was in use to support the budget preparation 2012
- Tax revenue policy was improved by reviewing the draft amended law on oil and gas (the draft law was submitted to the Council of Ministers for adoption)law on tax on natural mine resource operation and on tax collection from oil and gas were drafted
- Macro-economic forecasting was strengthened by updating macro-economic 2012-2014, Midium term expenditure framework 2012-2014, producing economic outlook 2011-2014 and monthly socio-economic report.

**Improved tax administration:**

- Drafted Sub degree on deduction of threshold of turnover and value added tax to place under Self Assessed Regime category.
- Drafted circular on measures to survey and collect information; drafted policy on information technology in The General Department of Taxation.
- Further improved program for Self Assessed Regime and tax on property, and program for auditing. The execution of Prakas on collection of property tax; and registration of properties in Capital to be taxed was being implemented
- Enterprises were classified by types of business for better management and monitoring their revenue status
- Implemented and strengthened tax debt reclaim; and meetings with large tax payers (2010-2013)
- Installed network at central, provincial and Khan tax branches; the implementation of program to collect data of revenue from all tax branches nationa wide and further developed system for large tax payers to submit tax declaration for Self Assessed Regime and Estimate Regime.
- Disseminated guideline on obligation and rights of tax payers; of which booklets on types of taxes, on property tax, on services for tax payers, confidential for tax payers, and on procedure for complaints.
- Further use of accounting for small and medium tax payers
- Codes of conduct for tax officers was developed.

- Reviewed options to lower down threshold of turnover, tax annual profit, tax on monthly salary, Value Added Tax, Tax on capital pfofit, tax on fnance and banking sector, Lease Law, and Insured Operation.
- Booklet on tax debt collection was being drafted. Enterprises that were in tax debt over 5 years were recorded.

**Improved Customs Administration:**

- Automated System for Customs Data (ASYCUDA) was improved and updated and Customs Risk Management Database System (CRMDS) of the General Depatment of Customs and Excise of Cambodia was fully developed
- ASYCUDA was expanded by connecting optical networking to certain in-land ports in Phnom Penh and main border checkpoints
- Strengthened incorporation of cash collection and payment through bank into treasury account.

**Improved non tax revenue and state property administration:**

- Prakas and circular on the use of national receipts was launched and receipts were printed out for 17 line ministries, Sub National Administrations, and 24 provincial departments and disseminated by the mass media.
- Public services were prepared and prices for those services were set for 23 ministries.
- Draft Law on the Management of State Property was prepared; Guideline on Inventory of State Property; Circular on the Management and Control of Contract and Agreement related to State Property Management; Draft Prakas on Procedure of Exchange and Sale of State Property were also further prepared.
- A Working Group was created to work on legal framework for the non tax revenue management.
- Measures to collect non tax revenue from Line Ministries, State Enterprises and Capital/Provinces were taken. Accounting management at Public Enterprises was strengthened.
- Measures and Procedures to improve the management of autonomous units, Administrative Public Institutions, Public enterprises, and privatization were being taken. Measures were also taken to claim public debt. Contract and Charge Book were reviewed to ensure effectiveness in managing public revenue.
- Inter-ministrial Prakas on the set of administrative service charge, registration, authorization, fines and permission (7 inter-ministrial prakas were drafted, and 02 Prakas came into effect)

**Financial Industry Sector**

- Draft Trust Law, Draft Law on Insurance, Draft Law on Casino Management, Draft Law on Real Estate Management were finalized. Draft Sub Degree on Micro Finance and Banking Management were further developed. Prakas on Lottery Management; Circular on licensing of small scale insurance was being devloped. Sub Degree on State Bond was incorpotated into Sub Degree on Public Debt Management.

- Developed database to monitor monthly, quarterly and annually revenue collection. Developed automated debt payment monitor system for Casino. Set commission rate for real estate business. Developed real estate management standard.
- Developed and implemented the legal control system for Casino materials.
- Developed procedure to manage Government's sub-debt in micro-finance. Developed draft Prakas on licensing the Real Estate Business, and developed dratf sub-degree on licensing small scale insurance.

### 2.2. Further Improved Debt Management

- Debt Management and Financial Analysis System (DMFAS) was operationalized and further improved by connecting to 3 more units (General Department of National Treasury, Budget Department, and Department of Economic and Public Finance Policy)
- Debt Sustainability Analysis (DSA) was integrated into Debt Management Office. Draft of Division Operation Manual for Debt Management Office was developed and revised. Standard Operation Procedure was further developed
- Capacity building portal was posted at the MEF's webpage
- Monthly, quarterly and annually reports on debt were regularly produced
- Sub Degree on Public Debt Management was adopted and operationalized and Committee on Public Debt Management was created
- Strategic paper for Public Debt Management 2011-2018 was approved by the Government and came into effect.
- Procedure for management of procurement of Development Partner-financed projects; Procedures for Project Administrative management; and SOP/PM/FMM were developed.

### 2.3.Further improved cash and bank account management

- As of now, there were no more current accounts to be frozen; all active accountswere authorized
- Treasury Single Account was strengthened. Accounts for General Department of Taxation and General Department of Customs and Excise of Cambodia maintain zero balance at the end of everyday
- The use of Commercial banks was expanded to 17 provinces for revenue and expenditure transaction. It was planned to expand to all provinces by 2$^{nd}$ Quarter of 2013.
- Developed and implemented budget based on administrative, economic and functional classifications in line with GFS/COFOG
- Roadmap towards accrual accounting with FMIS was being developed, and template as input for FMIS based on cash based accounting of IPSAS was completed.
- Transitional Information technology system for treasury accounting management was gradually improved in Phase II of PFMRP, by incorporating module of cash forecasting.
- Cash Management Unit was moved to General Department of National Treasury
- Mechanism to match revenue and expenditure report 2011 with line ministries were being developed
- Capital/provincial treasuries were further encouraged to prepare their cash flow plan.
- Guideline on cash plan preparation was being implemented
- Monthly cash forecasting and daily, weekly and monthly cash reports (revenue-expenditure) was further improved.

### 2.4. Further Improved Public Procurement

- Law on Public Procurement was adopted
- Certain sub degrees and Prakas to implement the Law on Public Procurement were being developed.
- Implementing Rules and Regulations of Public Procurement (IRRPP) came into effect and was disseminated.
- Website for Public Procurement was created

## 3. Improved Financial Accountability

49 activities under 08 objectives were implemented to improve financial accountability. Progress made for each objective is as follows:

### 3.1. Improved lines of accountability by clarifying roles, functions, and responsibilities of LMs, levels, and within institutions

- Financial Controllers were relocated to 19 line ministries (17 Line Ministries remain)
- Streamlining budget expenditure starting from commitment to payment was completed.
- Comparison table to ensure the consistency between Budget Strategic Plan and Investment plan was developed and came into force.
- Draft of Guideline on Expenditure Procedure and Financial Control was completed, and discussed with General Departments/Departments and Line Ministries.
- Guideline on Budget Entity was completed and guideline on the reparation and Implementation of Budget Entity was disseminated to Line Ministries. 10 Line Ministries was chosen to pilot the implementation of Budget Entity
- Business process illustrating the current work flow starting from commitment to payment, in which, there is Business Processes Template, Business outline/Process Steps and Organization Chart Template was developed which would be the foundation to incorporate into FMIS
- The development of documents, legal papers, lexicons for Public Financial Management were in progress

### 3.2. Improved instruments for encouraging responsibility of financial management and enforcing accountability

- The development of financial inspection standard and manual on financial inspection procedure was in progress
- Financial inspection program and website for General Inspection Department were created and implemented
- Rationalization of expenditure on salary, incentives, and functional allowances for advisors, civil service officials whose workplace was more than one were made.
- Code of conduct and professional responsibility of financial inspectors was further developed.

### 3.3 Further improved the implementation of new budget classification and new chart of account

- New accounts in TOFE were reviewed and improved
- TOFE and GFS reports were monthly produced as of May 2012

- Comparison of accounts between actual revenue and data through treasury in order to estimate revenue was in progress.
- The development of budget codes was in progresswhereas budget classification was requested with timeframe for the implementation of budget codes.
- Reporting system for geographic and functional classifications was in progress.
- Sub Degree on the implementation of procedure for Development Partner- Financing projects came into effect.
- Financial Management for Development Partner- Financing projects was updated
- Improved budget codes and Chart of Accounts.

### 3.4. Improved process and transaction of budget execution

- Strategy and Action plans for FMIS were revised and implemented. FMIS Working Group was officially created. Board of Directors for FMIS was also created.
- Training plan on Change Management and dissemination plan of Change Management were being developed
- Business Process was reviews and revised and Change Management Paper was updated
- 10 Business Analysts were recruited and trained
- FMIS Bidding document was revised, and Functional Module Requirement for FMIS were submitted to concerned Institutions for comments in order to incorporate into new rebidding document of FMIS; major report form for FMIS was also developed
- Survey was conducted in Provincial treasuries to learn more the knowledge of FMIS and its related requirement
- Sub Degree on Improvement of Current and Capital Expenditure Procedures for Advances came into effect
- 14 Line Ministries was chosen to pilot at first stage to streamline commitment process, in which 05 Line Ministries were chosen to pilot to streamline the Commitment and Payment
- Overspent budget was not authorized and committed credit was reduced.

### 3.5. Improved accounting system and financial statement to ensure transparency

- Monthly TOFE reports were developed and regularly updated.
- GFS for National Administration was in progress and GFS for Sub National Administrations were planned to develop.
- Debt Management and Financial Analysis System (DMFAS) was operationalized
- Roadmap toward Cash based-Cambodian accounting standard (IPSAS) for FMIS was developed.
- Payment through bank was executed in Phnom Penh, and piloted in other two provinces.
- Manual on inventory listing was prepared. Inventory check was gradually conducted

### 3.6. Improved auditing, inspection, and response to the use of auditing and inspection finding

- Reviewed progress of internal audit performance in 27 line ministries, 12 public enterprises; of which 25 line ministries and 11 public enterprises met the requirement by filling in the questionnaires.
- Draft assessment report of progress of internal audit function in 25 line ministries was finalized.
- 26 line ministries created their Internal Audit Departments; 23 of them were operationalized.
- internal audit functions in line ministries and public enterprises were improved
- Disseminated the internal audit strategic plan and annual audit plan to 33 line ministries and public enterprises.
- Circular on strengthening internal audit function in line ministries public enterprises was prepared
- Further developed and revised manual on procedure for general audit.
- Audit mail box was installed in every province
- Software IDEA for internal auditing was provided to Internal Audit Department
- Policy paper for internal management to support FMIS was developed and translated into Khmer.
- Internal audit work within the Ministry of Economy and Finance were carried out in 249 units (15 special cases). 34 audit results were issued urging all Units to follow the recommendation
- Consulted on roles and responsibilities of inspection and internal audit in line ministries

### 3.7. Strengthen and develop fiscal decentralization policy

- Law on Financial Regimes and Property Management of Sub National Administration was adopted and came into effect
- Sub Degree on The Establishment and Functioning of the District/Municipal Fund was adopted and came into effect
- Budget Strategy Plan for Sub National Administration was drafted
- Circular on Budget Implementation 2013 for Sub National Administrations was disseminated.
- Prakas on the implementation of Budget Classification and Budget Codes for Sub National Administrations was disseminated
- Policy Paper for own source Revenue for Sub National Administrations was developed
- Conditional transfers for Sub National Administrations was furhter reviewed
- Policy paper on the establishment of Sub-National Investment Facility (SNIF) was revised
- Draft Sub Degree on Financial Management System for Districts and Municipalities was finalized.

### 3.8. Building institutional capacity and motivational measures

- Ministry of Economy and Finance conducted 203 training courses for its officials (13 573 Officials) on key subjects: Financial Accointing, Audit, FMIS, Budget, Revenue management, Public Procurement, Chart of Account, Macro-economic management, Tax management, Customs and Excise management, Public Financial management, Non tax revenue management, Medium term expenditure management, State Property Management, Cash flow procedure, Tax policy, Financial Inspection, Change Management, Leadership, Public Policy, Budget Classification, Strategy- Budget linkages, Effective budget delegation, Budget Analysis, and Budget Transaction.
- Ministry of Economy and Finance cooperated with key partners to build and develop human resources; of which, with Singaporean Administrative College, China's Asia Pacific Finance and Development Center, and other bilateral partners.
- Assisted 15 line ministries to develop their capacity building plan
- Training courses on Public Financial Management for Sub national administrations and provincial departments in 23 Provinces were conducted. Trainers were from various General Departments/Department of the Ministry of Economy and Finance
- Development of training material for 6 key subjects (Public Procurement, Budget, Auditing, Financial inspection, Accounting, and leadership and management) was in progress with participation from trainers from General Departments/Departments.
- Training courses on ASYCUDA World, National Workshop in Interlectual Property Right were conducted.
- Developed 2nd Course Training plan for Tax Officials. Training courses on Information Technology to tax officials in 6 provinces
- 200 Customs officers attended local training coruses/seminars, including Risk Data Management (CRMDS)
- Seminars, study tours about customs work, training on ASYCUDA, Customs Declaration, Commission fees were conducted
- 74 Customs Officer attended training courses and seminars abroad
- Training courses on report writing on audit and audit on fraud for 27 line ministries and 14 Units (150 participants).
- Training on Information technology neccessary for Public Financial Management and strengthening IT capacity was organized with participation from Provincial and Line Ministries's officials
- Training on the use e-mail (@mef.gov.kh) was offered to Officials of the Ministry of Economy and Finance and Provincial department of Economy and Finance.
- MEF's Human Resourse Management and Development was launched.
- Code of Ethics of MEF's officials and training materials for new recruited staff in MEF was finalized, and implemented.
- Computerized document for entry examiniation into the Ministry of Economy and Finance; Manual on procedure to manage officials of the Ministry of Economy and Finance; 5 – year Human resource development and management were further developed.
- 3 Trainings on the implementation of trade agreement under the ASEAN Free Trade Agreement and ASEAN-Partner Trade was organized in Takeo and Svay Rieng and Kompong Cham Provinces.

- Budget Strategy Plan 2013-2015 of theMinistry of Economy and Finance was completed

## 4. Activities for later platform

05 Activities under 02 objectives were implemented in Phase 2 to be ready for later platform. Progress made for each objective is as follows:

### 4.1. Improving and expanding the implementation of program budgeting

- Assessment Report on the implementation of program budgeting for 08 program budgeting ministries 2008-2011 and guideline on sectoral program budgeting was further developed.
- Strategies to expand and strengthen program budgeting was completed and action plans were developed toward fully implement program budgeting in line ministries
- Disseminated guideline on program budgeting and further developed program budgeting codes and guideline on sectoral program budgeting
- Strengthened the piloting of program budgeting in 08 line ministries and 24 Provincial Department of Education Youth and Sports under the monitoring of the Ministry of Education Youth and Sports.

### 4.2. Further improving budget comprehensiveness and integration

- Medium Term Expenditure Framework 2012-2014 was updated
- Policy on budget integration (recurrent and capital budget and public enterprises) annex budget of public enterprises and data on capital and annual revenue and expenditure transaction of Public enterprises were developed and gradually consolidated. Off budget revenue and expenditure was incorporated into annual budget including Development Partners' annual budget; and budget strategy plan was assessed for budget preparation 2012
- Investment expenditure allocation to priority ministries was further carried out in line with Annual Financial Law
- 3-year Public Investment Program was improved and guideline on preparation budget strategy plan was also reviewed and improved.
- Developed Public Investment Program 2010-2012 by highlighting domestic sources for investment expenditure estimates. Improved procedure to score and assess budget strategy plan 2012-2013 of Line ministries. Developed circular on technical instruction to draft Financial Law.
- Improved annex table to highlight budget of administrative public enterprises. Reviewed the mechanism to collect information of off budget revenue and expenditure, Development Partners' budget and verified Public Investment Program against budget strategy plan 2011-2013
- Majority of Line ministries developed their budget strategy plan.

## 5. Challenges

Some challenges should be mentioned were as follows:

- Capacity was still limited, especially, the professional skills for public accounting, auditing and information technology. Means for performing work did not meet with work load. Training on certain basic skills could not be made as planned due to lack of financial supports from Development Partners.
- Ownership and Proactive Approach of Officials in charge was still limited. Cooperation from Institutions, Line Ministries and Development Partners to share information still needed improvement
- The use of Technical Assistance was not so effective to meet with the requirement, such as the recruitment of international advisors/consultants could not be made as planned; They could not perform as TORs
- The approved budget was frozen indefinitely, and the uncertainty of financing was undermining some reform activities, such as study tours, twining program, and FMIS, etc.
- Financial Mechanism to support Reform Officials (Priority Operation Cost) to replace Merit Based Pay Initiative came to an end by June 2012.
- Contract for FMIS which was the core of PFMRP Phase II to improve financial accountability could not be made as planned; and this FMIS project needed to be revised
- Certain reform activities were not clear and did not meet the reality of the current situation

## 6. Conclusion

Overall, the progress of the implementation of Public Financial Management Reform Program Phase II against its objectives and action plans, and against priority action plans as well as as agianst FMIS projects was satisfactory and met high level indicators.Budget still remained credible and built up foundation for the implementation of activities towards financial accountability. Substantial Progress achieved has responded to strategic objectives of the Public Financial Management Reform Program Phase II which contributed to improved budget formulation, budget execution, budget auditing and inspection, fiscal decentralization, and strengthened capacity. Meanwhile activities for next stage of the Public Financial Management Reform Program also showed remarkable progress , especially on comprehensiveness and integration of budget. Hoever, some challenges still remained and needed to overcome in order to ensure that achievement would be made in line with vision of the Public Financial Management Reform Program: Cambodia would have a Public Financial Management System with international standard.

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