



ROYAL GOVERNMENT OF CAMBODIA

PUBLIC FINANCIAL MANAGEMENT REFORM PROGRAMME

STAGE 2

BUILDING ON IMPROVED BUDGET CREDIBILITY

TOWARD

ACHIEVING BETTER FINANCIAL ACCOUNTABILITY

DECEMBER 2008

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Preface

Samdech Akka Mohasena Padei Techo Hun Sen, Prime Minister of the Kingdom of Cambodia reaffirmed that **Good Governance** remains at the core of the Rectangular Strategy-Phase II, focused on four reform areas: (1) Fighting Corruption; (2) Legal and Judicial Reform; (3) Public Administration Reform including Public Finance Management Reform and Decentralization and De-concentration; and (4) the Royal Cambodian Armed Forces Reform. In particular, it is critical to achieving the Rectangular Strategy-Phase II which is the "*Socio-economic Policy Agenda*" of the "*Political Platform of the Royal Government of the Fourth Legislature of the National Assembly*" aimed at **“ensuring sustainable economic growth at around 7% per year on a broader and more competitive basis in the context of single-digit inflation, as well as ensuring to achieve the poverty alleviation at more than 1% per year”**.

It is not by accident that the **Rectangular Strategy** entered Phase II at a time when the **Public Financial Management Reform Program**, the core of public administration reform, has successfully completed its first objective of **increasing budget credibility because this is a critical element of the strategy**. The second platform is to **increase financial accountability** to ensure the efficiency and effectiveness of public financial management through improving the responsibilities of government officials at all levels in their public resource management and use. It will do this by providing them with appropriate decision making power in effectively fulfilling their responsibilities, and creating and effectively using instruments to promote their accountability for doing so. Gradually, the **budget will be better connected to policy**, which is the objective of the third platform. It will do this through the full implementation of the **Budget Strategic Plan and Program Budgeting reforms that are being piloted** to ensure the efficiency and effectiveness of public resource management and that the budget is truly an instrument for policy implementation. Finally, budget holders will be expected to exercise improved accountability for **performance and service delivery** which is the objective of the fourth platform. In this way we seek to gradually lift the efficiency and effectiveness of public financial management in Cambodia to meet international standards which is the long-term vision of the public financial management reform program to be achieved by 2015.

This long-term vision of the public financial management reform is one of ambition and optimism. However, if we look at the necessary and urgent needs to achieve the objectives of the Rectangular Strategy-Phase II, we must accept the need to be both ambitious and optimistic. Therefore, the second Stage of reform is even more profound and complicated than the first Stage and its generality is also broader. Unlike Stage I in which most of the work was concentrated in the Ministry of Economy and Finance and largely focused on the improvement of internal MEF control mechanisms and budget implementation processes, during Stage II the work will extend to all Ministries and Institutions and there will be a focus on upgrading institutional structures, changes in management methods, behavior and vision related to the definition of clear roles, and functions of entities within each ministry/institution as well as implementing improved information and accountability mechanisms within the framework of a higher standard of public financial management. To achieve this, the improvement of mechanism and coordination among all reform pillars is increasingly important and necessary, especially the linkage between the public financial management reform, decentralization and de-concentration program, and the public administration reform, in order to ensure the consistency, smoothness in implementation, and success of this public administration reform as the core of Good Governance.

Many challenges and lots of tasks are ahead of us, but if we look at the achievements we have accomplished so far they are more extensive and encouraging. The increase of budget credibility through improving revenue raising and expenditure rationalization, particularly the transformation of chronic cash deficit to cash surplus, enables the Royal Government to increase the salary of government officials, teachers, armed forces and policemen from year to year, increase investment expenditure on socio-economic infrastructures in an attempt to strengthen and broaden public services and reduce poverty as well as coping with natural catastrophe and unexpected economic, social and security crisis. Furthermore, based on principles of **consistency, universality, fungibility, and integrity** of budget, the Kingdom of Cambodia, as unitary country, has adopted **public financial system law** which is interconnected and consistent and this law serves as a guide for the implementation of the **Law on the Administration of Khet/krong and Srok/Khan**, and the **Law on the Management of Khum/Sangkat**. Moreover, the coordination mechanisms between public financial management reform and public administration reform have been strengthened and extended, especially through improving salary framework, sharing information on staffing for budget preparation as well as implementing the priority mission group and merit based pay initiatives.

We have additionally prepared a framework and mechanisms to reinforce our progress monitoring system composing of 3 categories and 3 levels. Along with the preparation of a consolidated action plan supported by detailed departmental action plans for MEF, all ministries/institutions have also created their own action plans to contribute to the implementation of public financial management reform Stage II. Monitoring mechanism will be on an annual, quarterly and monthly cycle, based on each Stage II activity of both MEF departments and other ministries/institutions.

Stage I implementation reflected our firm determination, ownership and acceptance of accountability and learning by doing helped us to understand the issues more clearly for effective, comprehensive, and credible action plan preparation. The achievements of the first PFMR Stage and **Public Financial Management Reform Stage II “Building on improved budget credibility toward better financial accountability”** has drawn on Stage I mobilization experience by being based on active and extensive consultation with top management and officials of the MEF, and all ministries/institutions and development partners. This document not only clearly defines the strategies and action plans for Stage II to be implemented; but it also recognized the need to continue to strengthening Stage I achievements and prepares the way for subsequent Stages. In addition, it sets out the leadership mechanism, coordination arrangements and details proposed monitoring procedures. However, this document should be considered as **“living document”** that enables us to adapt based on experience during the implementation process informed by our monitoring framework and, in particular, a joint annual evaluation with our development partners which helps to review and progress toward our long-term vision.

Stage II is the second of four crucial steps in our planned public financial management reform; its success will be vital to the third and fourth Stages in which we will aim to improve our focus on policy and service delivery. The Ministry of Economy and Finance remains the key pioneer in guiding and providing technical support and coordinating as a catalyst. Nevertheless, for this second Stage, it is important that all ministries/institutions play not just a role as participants but also as key actors in the implementation. The success of the second Stage depends largely on the participation of all ministries/institutions with energy, ownership and acceptance of accountability as well as highly efficient and effective management and coordination between public financial management reform, public administration reform and the decentralization and de-concentration program.

On behalf of the Ministry of Economy and Finance I would like to express my deepest gratitude to **Samdech Akka Mohasena Padei Techo Hun Sen**, Prime Minister of the Kingdom of Cambodia, who has supported and encouraged this important reform program which is also the core of wider public administration reform. The Ministry of Economy and Finance, as the only Agency which receives direct command from Samdech Prime Minister on economic and financial management, is fully committed to strictly implement **Public Financial Management Reform Program Stage II** to achieve greater success as expected.

Phnom Penh, 07 November 2008

Deputy Prime Minister

Minister of Economy and Finance

Signed

Keat Chhon

FOREWORD

The Rectangular Strategy-Phase II recognizes that platform one/stage one of the Public Financial Management Reform Program (PFMRP) has made a substantial contribution to the nine important achievements made during the third term of the Royal Government of Cambodia (RGC). This outstanding performance is reflected in an improvement in revenue collection which has been increased about 26 percent per annum and, in just a short time, converted the situation from “**chronic cash shortage to cash surplus**”. This achievement has created fiscal space from year to year and allowed RGC to be able to rationalize its expenditure by raising salary toward an appropriate level for teachers, soldiers, and civil servants, increasing public investment on social and economic infrastructure in order to strengthen and expand public services toward achieving poverty reduction of the people and a more stable and predictable environment for budget implementation.

The success of this reform program not only demonstrates how far we have come in a short time, but also reflects the strong vision and strategy of RGC together with the commitment, dedicated efforts, and active participation with strong ownership and responsibility by Ministries and agencies including civil servants at all levels. Of course, our Development Partners should also be proud of their contributions to the success of this important reform. Therefore, I would like to express my sincere appreciation and to recognize their strong commitment and contribution toward the successful implementation of platform one/ stage one of PFMRP.

However, while we are proud of our achievements, RGC also recognizes that we still have a long way to go and many challenges are ahead of us which we should continue to overcome together to reach the ultimate goal of the reform program. The Rectangular Strategy Phase II indicates seventeen major challenges which Cambodia will continue to face in order to achieve its four strategic objectives as illustrated under the motto Growth, Employment, Equity, and Efficiency. In this sense, the RGC, through the Rectangular Strategy Phase II, has formulated and committed to implementing a systematic and coherent package of strategic reform and policy measures for tackling obstacles and challenges toward achieving the following four ambition prioritized goals in the fourth legislature of the National Assembly:

First, Ensure sustainability, peace, political stability, security and social order to promote rule of law and protect human rights and dignities and multi-parties liberal democracy.

Second, Ensure sustainable economic growth at the rate of 7% per annum, a broader economic basis and more competitive capacity in the context of one-digit inflation.

Third, Ensure poverty reduction rate of over 1% per annum and ensure the improvement of main social indicators, especially in education, health and gender equity.

Fourth, Ensure an increase in coverage, efficiency, and quality of public services and gaining of public trust.

There is no doubt that based on international experience and especially our own positive experience during the last few years “**effective and efficient public financial management is the necessary core foundation for country development and poverty reduction of the people especially through ensuring sustainable economic growth and improving efficiency of public services**” as a result of which the RGC in the fourth legislature of the National Assembly continues to place “Public Financial Management Reform Program” as its first priority.

Furthermore, the priority of further deepening the implementation of the PFMRP has become even more important in a world that is now facing a significant financial crisis that is already beginning to show its negative impact on the world economy. Cambodia as part of an increasing

globalised community cannot be immune from these affects though the degree of its impact remains to be seen. However, what is certain is that improved and improvements in public financial management will strengthen our ability to face these challenges and to minimize the impact of difficulties on implementing government development policy and service delivery to our citizens. Therefore, in this unfavorable circumstance, strengthening public financial management especially strengthening the efficiency of budget management which is the key tool for implementing government development policy is more important than ever.

It is not by accident that PFMRP has now moved to stage 2 at the same time as we begin Phase 2 of the Rectangular Strategy. After ensuring budget credibility in stage 1, PFMRP stage 2 will continue to build, based on the stage 1 foundation, toward improving management and performance of Line Ministries and agencies which will require their broader and stronger participation, ownership, responsibility, and accountability. Moreover, in the same way that stage 1 has laid the foundation for stage 2, the success of stage 2 will determine the success of the later stages of the PFMRP as a whole in achieving our ultimate goal of raising public financial management system of Cambodia to the level of international standards by 2015 through a platform approach which will move from building on budget credibility toward achieving better financial accountability, from building on improved financial accountability toward achieving better budget and policy linkages, and finally from improved budget and policy linkages toward achieving accountability for service performance.

In addition, PFMRP is also crucially important for other key reform agendas of the RGC including Public Administrative Reform Program and the De-concentration and Decentralization Program. Therefore, the success of the PFMRP which is one of the core reform programs of the Rectangular Strategy Phase 2 will have an important contribution to the success of the implementation of the whole Rectangular Strategy. In this sense, I would like to urge the Ministry of Economy and Finance to continue to actively play a leading role in implementing PFMRP stage 2. At the same time, from now on, all Line Ministries and agencies must participate as key players with strong ownership and responsibility. Together with the Ministry of Economy and Finance I ask them to make all efforts to overcome obstacles and challenges through effective and efficient cooperation and coordination to ensure the successful implementation of the PFMRP stage 2. They must also ensure smooth and consistent implementation between PFMRP and other important reform programs of the RGC especially Public Administrative Reform Program and the De-concentration and Decentralization Program.

Once again, on behalf of the RGC, I recognize the active participation of management and staff at all levels of Ministries and agencies in implementing PFMRP during the past years. I welcome their commitment, strong ownership and responsibility in helping the success of stage 1 and its encouraging achievements. I would also like to thank our Development Partners who have contributed well coordinated financial and technical support within the framework of a sector wide approach. I wish that all the commitment, ownership, responsibility, effort and good coordination which we have seen during stage 1 implementation will continue to grow even stronger to ensure the successful implementation of this PFMRP stage 2 as well as other related reform programs.

Phnom Penh, 14 November 2008

Signed

Samdech Akka Mohasena Padei Techo HUN SEN

Table of Contents

Abbreviations and Acronyms

Foreword of the Prime Minister of the Royal Government of Cambodia

Preface of the Deputy Prime Minister and Minister of Economy and Finance

I.	The Overall Vision of Public Financial Management Revisited	1
II.	The Overall Strategy of the Public Financial Management Reform Program Revisited	3
III.	Achievements and Challenges of Stage 1	5
IV.	Introduction to Stage 2 Objectives and Strategy	13
V.	Program Management Framework	22
VI.	Annexes	24
	Annex 1: Consolidated Action Plan	25
	Annex 2: Leadership and Coordination Mechanism	48
	Annex 3: Engaging of Line Ministries and Other Budget Entities	51
	Annex 4: Support and Advice Mechanism	66
	Annex 5: Implementation Strategies	73
	Annex 6: Costing and Funding Mechanism	115
	Annex 7: Monitoring Mechanism	122
	Annex 8: Mechanism for Alignment with Other Reforms	133
	Annex 9: Partner Engagement Mechanism	135
	Annex 10: Risks and risk Managements	139

ABBREVIATIONS AND ACRONYMS

AD	Asean Department
ADB	Asian Development Bank
BD	Budget Department
BEG	Budget Execution Group
BFG	Budget Formulation Group
BSP	Budget Strategic Plan
CAP	Consolidated Action Plan
CAR	Council for Administrative Reform
CDCF	Cambodia Development Cooperation Forum
CDC	Council for the Development of Cambodia
CEDG (CED)	Customs and Excise Department General
CG	Consulting Group
CDP	Capacity Development Plan
CMU	Cash Management Unit
CoA	Chart of Account
CRDB	Cambodia Rehabilitation and Development Board
D&D WG	Decentralization and Deconcentration Working Group
DAP	Department Action Plan
DIC	Department of Investment and Cooperation
DPC	Development Partners Committee
DPs	Development Partners
DSP	Development Strategic Plan
EAP	External Advisory Panel
EFI	Economic and Finance Institution
EFPC	Economic and Finance Policy Committee
EITI	Extractive Industries Transparency Initiative
EPFPD	Economic and Public Finance Policy Department
FAD	Financial Affairs Department
FCs	Financial Controllers
FID	Financial Industry Department
FMIS	Financial Management Information System
GAAP	Generally Accepted Accounting Principles
GDP	Gross Domestic Product
GFS/COFOG	Government Financial Statistics/Classification of the Functions of the Government
GID (ID)	General Inspection Directorate
IAD	Internal Audit Department
ICT	Information Communication Technology
IDA	International Development Aid
IFMIS	Integrated Financial Management Information System
IMF	International Monetary Funds
IPSAS	International Public Sector Accounting Standards
IRR	Implementing Rules and Regulations
ITD	Information Technology Department

LDs	Line Departments
LFD	Local Finance Department
LMs	Line Ministries
MAFF	Ministry of Agriculture, Forestry and Fishery
MAP	Ministry Action Plan
MBPI	Merit Based Pay Initiatives
MDTF	Multi Donor Trust Funds
MEF	Ministry of Economy and Finance
MEFRC	Ministry of Economy and Finance Reform Commission
MEYS	Ministry of Education, Youth and Sports
MLMUC	Ministry of Land Management, Urbanization and Construction
MoC	Ministry of Commerce
MoH	Ministry of Health
MoI	Ministry of Interior
MoJ	Ministry of Justice
MoP	Ministry of Planning
MTP	Ministry of Telecommunication and Post
MPWT	Ministry of Public Works and Transport
MTEF	Medium Term Expenditure Framework
MTMF	Medium Term Macroeconomic Framework
NAA	National Audit Authority
NBC	National Bank of Cambodia
NGO	Non-Governmental Organization
NT (DG)	National Treasury (Department General)
NTD	Non-Tax Department
PD	Personnel Department
PEAC	Pre-qualification, Evaluation, and Awards Committee
PEFA	Public Expenditure and Financial Accountability
PFM	Public Finance Management
PFMRP	Public Finance Management Reform Programme
PFMRSC	Public Financial Management Reform Steering Committee
PFMRWG	Public Financial Management Reform Working Group
PFMTWG	Public Financial Management Technical Working Group
PG	Policy Group
PIP	Public Investment Programme
PPD	Public Procurement Department
PSD	Private Sector Development
RCS	Reform Committee Secretariat
RG	Revenue Group
RGC	Royal Government of Cambodia
SBDs	Standard Bidding Documents
SCS	Steering Committee Secretariat
SG	General Support Group
SoE	State Owned Enterprise
SPD	State Property Department
SWAP	Sector Wide Agreement for Partnership

SWAp	Sector Wide Approach
TA	Technical Assistance
TD (TDG)	Tax Department (Tax Department General)
TF	Trust Fund
TOFE	Tableau d'Opération Financière de l'Etat
TORs	Term of References
TSA	Treasury Single Account
WB	World Bank



I. THE OVERALL VISION OF PUBLIC FINANCIAL MANAGEMENT REVISITED

1.1 The reform strategy developed by the Ministry of economy and finance and endorsed by the Prime Minister on 30th June, 2004 set an overarching framework for the reform of public financial management systems in Cambodia. Part of that strategy was a statement of the characteristics of the public financial management system that the Royal Government of Cambodia aims to introduce. These characteristics were:

Budget Formulation Characteristics

Moving towards a budget formulation process that is oriented towards supporting improvements in service and the delivery of policy objectives. In particular that:

- The PFM system is designed to seek **performance**, both in the use of public resources and in the achievement of policy results through sound public finance management. It seeks maximum value for money over time from the use of government resources. Good performance is rewarded and offences are detected and prosecuted.
- There is clear legal **separation of functions** and fiscal powers for the national and sub-national levels, yet within a unified budget system that covers all government offices, functions, programs and projects.
- A consistent **analytical** framework across all sectors, with budget transactions classified on an administrative, economic, and functional or programmatic basis which identifies poverty-related spending and which supports a general orientation of public expenditure management towards the achievement of policy results.
- The budget is set within a realistic and sustainable **multi-year framework** that governs multi-year programming.
- The budget is **comprehensive** and covers all aspects of government operations, including longer term budget financing and debt management planning, and resourcing plans which include all of the government sector's financial, fixed and other assets with its liabilities.
- Budget formulation is **responsive** to the government's policies and programs which could have the implication on the composition, incentives, size, training, deployment and other staffing implications of the government's policies and programs. The budget system also ensures that post-budget supplementary expenditure credits are fully financed.

Budget Execution Characteristics

Budget execution arrangements that are efficient and deliver services in a cost effective and timely manner. In particular that:

- **Efficiently procures** resource inputs of all types when they are needed at reasonable cost. The acquisition, deployment, use and disposal of all government assets and resources, including human resources, are open, competitive,

transparent and non-discriminatory. The government shall establish and enforce clear rules that promote value for money for the procurement of goods and services, including privatization, contracting out government services and management processes to the private sector, and the recruitment, deployment and promotion of officials.

- **Is responsive** and reacts promptly, clearly and publicly to any problems which emerge during the course of budget implementation. Monthly up-to-date reports are made public on the progress of budget implementation, including a comprehensive mid-year review. The ministry of economy and finance is able to recommend remedial action to the government if the implementation plan is threatened, for example, by revenue flows underperforming or an unexpected need arises for additional expenditure.
- Supported by reliable and timely **information**. There is computerized, comprehensive and integrated financial and budget management information and accounting system. This will facilitate prompt, regular reporting on financial transactions by government agencies, and reconciliation of fiscal data with government bank accounts.

Monitoring and Review Characteristics

Monitoring and review processes that ensure transparency and provide a basis for effective lesson learning and corrective action when any difficulties arise.

- The ministry of economy and finance sets the **standards** for, and guides and monitors, financial management in line ministries and other spending agencies, including internal audit standards.
- Managers are supported by effective arrangements for **systemic scrutiny** of public financial management arrangements. Each ministry and spending agency establishes an internal audit unit to: (i) direct the preparation and management of an annual internal audit plan and (ii) oversight and support audits.
- **Independent** External audit provides timely audit reports which are disclosed to the public, and the government acts promptly on recommendations made in the audit reports.

1.2 Broadly, experience of implementing Stage 1 suggests that this vision and these characteristics remain valid and a strong guide to the PFM system that RGC aspires to. However, it is considered important to add an extra dimension to reflect the institutional arrangements necessary to support a public financial management system with these characteristics. Furthermore, lessons have been learned about important connections between PFM reform and other aspects of governance reform (See Annex 8). This additional characteristic is expressed below:

- Organisational structures, staff management and motivation in relation to public financial management are focused on delivering the other PFM characteristics in an efficient and integrated way.

This vision, as extended by the proposed additional characteristic, will continue to guide the Reform Strategy.

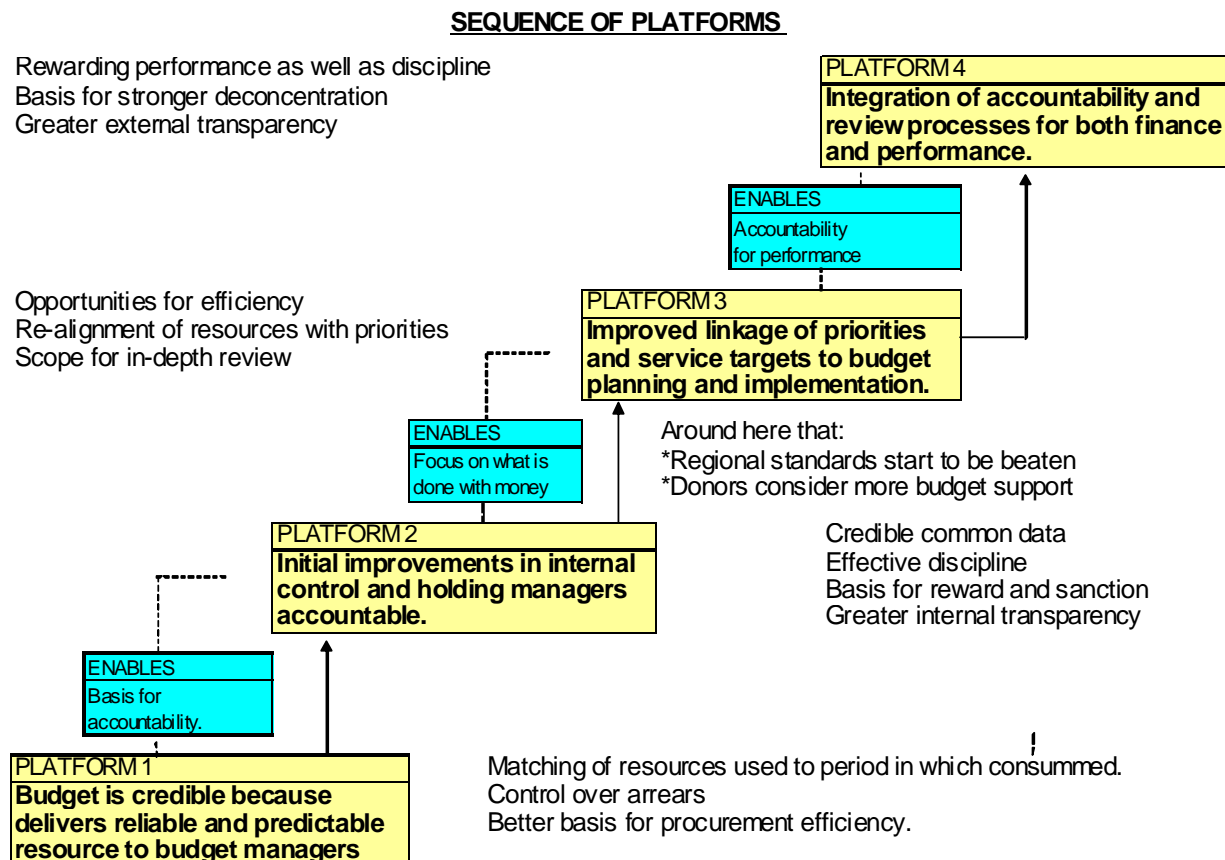
II. THE OVERALL STRATEGY OF PFMRP REVISITED

Summary of overall strategy

2.1 The strategy for moving towards this vision set out in the 2004 document reflected three key elements.

2.2 Firstly, the leadership of the strategy development and implementation process within RGC was firmly established. This importance of both political support and leadership arrangements within the administration were clearly recognised. Attention was paid to coordination arrangements and the assignment of responsibilities within the administration for implementation of the different activities. Furthermore, steps were taken to establish clear, positive and efficient arrangements with the development partners that would support the reform process with both resources and advice.

2.3 Secondly, attention was paid to the sequencing of reforms. It was recognised that not everything can be done at once, but also that some basic and core activities need to be done before others can work effectively. Sequencing cannot be planned based on the importance of individual technical improvements alone. To guide this sequencing, potential activities were grouped into a series of Platforms with each Platform representing a real and measurable improvement in the performance of the public financial management system, but also being a step to the next Platform. The series of Platforms decided upon at that time are shown in the diagram below:



2.4 Thirdly, it was considered important that the plans to implement each Platform should encompass not just technical and process developments, but also complementary organisational, capacity and motivational developments. It was recognised that without attention to all these different dimensions each Platform would not be a robust step to the next. Reforms would be shallow and subject to degradation during the reform process unless these aspects of reform support each other.

It was also decided not to try and produce detailed activity plans for the whole reform programme all at once. Given the long time scales that it was recognised would be required to implement the programme as a whole (probably running up to at least the middle of the next decade) to attempt such planning would be impractical and introduce rigidities into the development process that would not be helpful. Instead, detailed activity planning within the framework of the overall strategy would focus on the first Platform. Furthermore, it was considered important to achieve engagement of staff at all levels in the reform process. This was achieved by combining a 'top down' approach in identifying broad activities with the 'bottom up' development of specific action plans to implement those activities prepared by the operational departments most involved.

However, it was also recognised that the lead time on some activities necessary under later Platforms would be long. Therefore, some strategic development, preparatory work or piloting would take place with regards to such later Platform activities that could be identified now. Work on Platform 1 plus activities in support of this work for later Platforms would, together, constitute Stage 1 of the reform programme and would be managed and monitored alongside each other.

In addition, efforts were made by Development Partners to co-ordinate their financing and cooperation arrangements efforts around the overall RGC PFMRP. A PFM SWAp arrangement was agreed with RGC supported by coordinated multi-lateral and bilateral financing (See Annex 9).

This revised strategy for the next stage of the PFMRP is based on a thorough review of progress to date under stage 1 and an assessment of the needs for achievement of Platform 2 objectives as well as preparatory work for later Platforms. The revised strategy represents a refinement of the existing approach based on the lessons learned to date, the current PFM context and emerging trends for future developing PFM.



III. ACHIEVEMENTS AND CHALLENGES FROM THE PLATFORM 1 IMPLEMENTATION UNDERTAKEN DURING STAGE 1

Progress made during Stage 1 in achieving Platform 1 Objectives

3.1 The essence of stage 1 has been achievement of Platform 1 objectives as a basis for public financial management to begin to achieve its objective of contributing to the effective management of resources in delivering policies and services to the public. The core PFM process, the budget, must be made more credible through its closer alignment with what happens in practice. In particular, resource mobilisation should be strong, budget formulation should be realistic and comprehensive and budget implementation processes should support the execution of the budget as intended.

3.2 Arrangements were put in place to monitor progress with the implementation of activities and work plans. However, it was recognised that higher level performance measures were necessary in order to measure whether the implementation of those activities was contributing to the achievement of the overall objective of Platform 1 and the step change that it was designed to bring about in overall PFM performance. These measurements were specific to the circumstances of Cambodia, but drew upon the indicators designed by PEFA as internationally recognised benchmarks for PFM performance management. They represented a hierarchy of monthly, quarterly and annual review exercises designed to ensure a clear connection between performance on the ground and overall reform objectives.

3.3 In addition, arrangements were put in place for a regular external assessment of progress to be made to help ensure that an added dimension of stepping back and objectivity was added to the process. Based on the high level performance indicators adopted for assessing achievement of a more credible budget, Table 1 summarises the performance to date in implementing Platform 1 outputs and objectives.

Table 1 – Performance of Platform 1

Area of Measurement	Baseline Position (2004)	Position Reached by End 2007	Comment on Impact on strategic objectives
Resource Mobilisation			
Revenue outturn increasingly close to targeted level in approved budget	Outturn of domestic revenue averaged 92% of targeted budget revenue in the period 2001-2003	Outturn of domestic revenue in 2007: 22.5% above targeted budget revenue (average of domestic revenue outturn is about +17.5 % per year for the period 2005-2007)	The problem has swung around from being an over estimate to an under estimate, which is at least more manageable as a problem. However, steps are being taken to further improve revenue forecasting including medium term revenue policy,

			revenue forecasting technique, and coordination among all revenue agencies to increase the accuracy of targeted revenue budget.
Better yield achieved from tax base through improved collection efficiency and planned use of non-tax sources.	Annual increase in non-tax revenue in real terms of [12] %. Annual growth in tax revenue in real terms 2001-2003 : Direct taxes [3]% Indirect taxes [9]%	Annual growth 2005-2007 Achievement in increase in real term Non-tax revenue: 16.9% Direct tax: 39.4% Indirect taxes: 28.3%	Substantial improvement in yield has been achieved through improved tax policy and collection system; this creates more fiscal space to enable budget stability and to address policy priority. However, for non-tax revenue can vary for certain time due to fixed period of contract. In 2008 a number of contracts were renewed leading to increase about 40 %.

Budget Comprehensiveness and Realism

Single and orderly budget process producing good (and integrated) budget plans	Fragmented budget process for example between recurrent and capital. No forum for substantive discussion about budget priorities and justification. Budget cycle starts in [June] and ends in December. No publication in accessible form of budget summary for public information.	New economic classification and Budget Strategic Plan (BSP) were introduced in 2007. Based on BSP and PIP presentation of capital budget in the budget document was improved. Budget cycle starts in March and ends in December with a clear 3 stages process (budget strategic plan, budget estimates, and budget approval) Budget in Brief for 2007 has been produced.	Substantial improvement in budget time table has been achieved enabling more room for policy consideration. Further improvement in both budget classification and budget strategic plan are needed and their activities continue on into stage 2. In addition, capital budgeting process needs to integrate into a recurrent budgeting process through BSP which are also the focus of stage 2.
All significant areas of both public revenue and expenditure captured in both the budget and accounts of the Government.	Major areas of exclusion are: • Investment expenditure funding directly from loans, external financing agencies. • Expenditure funded from revenue not declared to Treasury.	Several tools and measures such as the establishment of Treasury Single Account (TSA), Budget Strategic Plan (BSP), the consolidation of all Gov' t bank accounts, are all contributed to improved capture of revenue and	Significant improvement and comprehensiveness of budget has been achieved making it easier to use the budget as supporting instrument. Further improvement will be made in stage 2

		expenditure into the Gov't single account. In addition, database system to improved capturing/ monitoring of external financing has been developed and regular mission to investigate undeclared revenue/expenditure has been conducted.	through clearer roles and responsibility between MEF and LMs and among all departments/units within each ministry. In addition, system and/or mechanism will be put in place.
Budget has direct influence over nominal staff roll (establishment).	Personnel information is not used by MEF in setting staff related budgets Budget information is not considered by CAR in deciding whether to approve changes in establishment and posts.	Civil Service Secretariat consolidated request for new recruitment from LMs and sent to CAR for final decision and copy to MEF for staff related budgeting. Information sharing and working relationship have been improved between MEF and CAR in approval of changes in establishment and post.	Better integration achieved between staffing and budget control. Further improvement can be made through later stages and with overall civil service reform program.
System in place to ensure that proposals for post-budget supplementary expenditure credits are always accompanied by an MEF report on realistic options for financing the expenditure involved.	Significant budget excesses in the years 2001-2003. No system in place for ensuring that in-year proposals for new expenditure have identified funding sources	Supplementary expenditure credit is based on priority and urgency and the provision in recent years over has been capped within contingency fund and other available resources. BSP has also help to reduce unexpected new expenditures.	The capping supplementary has substantially improved in year budget stability
Institutionalized mid-year budget review feeding into 2nd half year budget implementation/budget preparation for next year.	A mid-year review was conducted in 2004, but: •Started late in the year •Results not implemented •The authority and process for undertaking the review was unclear	Mid-year review has been conducted in July 2007 and review result was used for the implementation of the second half of the year.	The mid-year review has helped to improve prioritisation in responding to in year pressures.
To improve fiscal decentralization in a robust, controlled and measured way		PFM D&D Working Group developed and held internal and external dialogue on draft key FD issues related to sub-national administrative financial provisions related to tax sharing, own sources revenues, central-local transfers and financial management as an input to the draft Financial System Law and Organic Law. PFM D&D Working Group has drafted the Financial Regime and Asset for sub-	Organic law on D and D was adopted; further development will take place in Platform 2.

		national administrative. Fiscal decentralization and deconcentration action plan for stage 2 has been developed.	
More Effective Budget Implementation			
No accumulation of new arrears and steadily declining stock	Value of outstanding arrears (defined as bills overdue excluding T Bills and other forms of debt) as follows: 2004 [554 Billion Riels]	Software to record age of arrears and by spending agency has been installed under the computerized accounting system of the new COA implemented in 2007. Arrears were completely eliminated	Elimination of arrears has improved in year budget control and free up fund for deployment to priorities.
Budget holders increasingly able to commit expenditure in line with budgets and cash flow forecasts	Average 2001-2003 payments for non-salary expenditures as percentage of budget at end of each quarter 1st Quarter [7]% 2nd Quarter [18]% 3rd Quarter [36]% 4th Quarter [64]% There is no transparency on release of mandates or plan to decentralise commitment and payment authority. Internal Audit sections established in only [2] Ministries. Percentage of payments to creditors and staff made through banking system less than [5%] Percentage of tax revenue collected through Banks [2]%	1st Quarter profile: 12.8% 2nd Quarter profile: 35.8% 3rd Quarter profile: 61.9% 4th Quarter profile: 97.3% First phase of streamlined expenditure process has been implemented from January 2007 23 Ministries have established internal audit department and 11 are operational Percentage achieved: 72,5 % Percentage achieved: 92 %	Significant improvement achieved in ability of budget holders to implement their budget as planned Will further improve in stage 2 with the identification of budget entities and the implementation of FMIS.
Service delivery units (schools, health centres) receive an increasing proportion of funds targeted at their levels (and of goods and services meant to be procured for them) increasingly timely.	The proportion of budgets to be allocated to service units not identified in budget. Average 2001-2003 payments for non-salary expenditures in schools and hospitals as percentage of budget at end of each quarter (December being percentage at 31 December not until accounts closed)	Discussions on identifying proxy have been undertaken (MEYS, MoH, DPs and MEF), however agreement has not been reached. A working group will have to be established between MEF and LMs to properly identify and agree on a set of proxies and develop a monitoring framework for 2007.	To be carried forward as part of engagement of line ministries under Platform 2 and analysis of budget entities and transaction flows.

<p>Public procurement based on clear rules, consistently enforced. No major delay in processing and payment</p>	<p>No systematic bid announcing and dissemination of bid documents Product delivery does not meet requirements, unavailability of goods, inability to exchange goods with more suitable items. Inadequate evaluation of PEAC. Payments do not comply with contract due to cash shortages. Oversight mechanisms of procurement processes on departments/ MEF are weak. Weighted average of price achieved in public procurement is 20% above market price.</p>	<p>Procurement rules and policy has been improved through an amendment of sub-decree No. 60 (sub-decree No. 105) and Prakas No.045 on Procurement Decentralization. Reporting mechanism and post review procedures have been introduced and as well as procurement plan. Procurement Manual was issued on January 23, 2007</p>	<p>More streamline of procurement has been achieved and budget holders are better to manage their budget as planned. Will further improve and strengthen especially with the preparation of procurement law.</p>												
<p>Composition of expenditure by type (staff costs, non-staff costs etc) close to approved budget</p>	<p>Average proportion of budget spent between 2001-2003</p> <table data-bbox="477 1003 799 1100"> <tr> <td>Salaries</td> <td>[92]%</td> </tr> <tr> <td>Goods and service</td> <td>[81]%</td> </tr> <tr> <td>Capital</td> <td>[35]%</td> </tr> </table>	Salaries	[92]%	Goods and service	[81]%	Capital	[35]%	<p>Profile of achievements 2005-2007:</p> <table data-bbox="818 1003 1146 1100"> <tr> <td>Salaries</td> <td>92 %</td> </tr> <tr> <td>Goods/Services</td> <td>104 %</td> </tr> <tr> <td>Capital</td> <td>86 %</td> </tr> </table>	Salaries	92 %	Goods/Services	104 %	Capital	86 %	<p>Significant improvement and better balance of expenditure particularly with regard to goods and service and capital. The improvement in budget preparation especially program budgeting will further improve this expenditure profile.</p>
Salaries	[92]%														
Goods and service	[81]%														
Capital	[35]%														
Salaries	92 %														
Goods/Services	104 %														
Capital	86 %														
<p>Clearer/more accurate overview of public finances regularly available (TOFE) based on improvements of existing system pending introduction of FMIS.</p>	<p>No clear legal framework for supply of data to MEF. Accounting data suffers from lack of completeness Substantial inconsistencies between final TOFE for the year (produced mid way through following year) and interim report produced at end of financial year. Average delay in producing in-year TOFE 2001-2003 was 3-4 weeks.</p>	<p>TOFE submission is not always within 2 weeks. No review was made by the internal audit.</p>	<p>To be carried forward to Platform 2 and development of FMIS.</p>												
<p>Annual forecasts of all cash in-flows/out-flows prepared and regularly updated (based on accurate revenue forecasts and good budget implementation plans)</p>	<p>No cash flow plans in place.</p>	<p>Quarterly revenue and expenditure plan becomes a routine work. The cash management unit has been functioning.</p>	<p>Cash flow planning enabling more predictable budget releases.</p>												

3.4 In addition, strategy development, preparatory work and piloting have been undertaken with a view to either ensuring the on-going sustainability of Platform 1 achievements or preparing the way for later Platforms. Key areas are set out in Table 2 below.

Activity	Contribution to later Platforms	Achievements
Development of Longer Term Revenue Strategy	To provide a framework and direction for measures to improve revenue yield and the economic and social efficiency of tax systems	<ul style="list-style-type: none"> • Identification of measures to support increase in tax yield in relation to GDP • Identification of measures to broaden tax base. • Development of proposed balance between direct/indirect taxes • Identification of measures to shift balance of indirect taxes in line with international obligations.
Pilot expenditure tracking surveys in Education and Health	To provide a means of tracking the arrival of resources intended for use in service provision at the point of service delivery.	<ul style="list-style-type: none"> • Pilot studies completed in Ministries of Education and Health. • Lessons learned for system blockages in funds flow and deployment
Introduction of Internal Audit Sections	Gradual roll-out and enforcement of the requirement	<ul style="list-style-type: none"> • Internal Audit Department functional with MEF. • Sections established in 12 Ministries, but not all are fully functional yet.
Development of Programme Budgeting Pilots	To experiment and learn lessons from the pilot application of techniques for planning budget expenditures in relation to the programmes and objectives contributed to.	<ul style="list-style-type: none"> • Development of a strategic planning framework for line ministry budgets. • Definition of programmes for 7 line ministries. • Lesson learning from conducting budget negotiations in programmatic terms. • Establishment of (initially) rudimentary techniques for accounting for actual expenditures in programmatic terms.
Development of FMIS implementation plan and procurement arrangements	To prepare the way for implementation of the FMIS during Platform 2, give the necessary momentum to the system development and lay a foundation of capacity to support the development.	<ul style="list-style-type: none"> • FMIS Software Specification Produced. • Procurement Commenced • Minimum ICT Capacity established
Development of overarching capacity development plan	To set plans for the development of capacity within the public service to manage in accordance with the framework of technical reforms being put in place.	<ul style="list-style-type: none"> • Development of plans for skill, organisational and motivational development to complement technical developments. • Alignment of training plans with technical developments • Laying the foundations for building a cadre of managers and leaders in the PFM field for the longer term.

3.5 The purpose of the strategies and experimentation outlined has been to orient further improvements in PFM capacity towards important policy challenges that RGC faces. Particular challenges that RGC seeks to address through the piloting and strategies undertaken during Stage 1 are:

- To make better use of the improving taxable capacity in Cambodia to support a level of public expenditures appropriate to the aspirations of the Cambodian people.
- To make use of the public resources available in a disciplined way that avoids uncontrollable swings in resource availability, instability in Governments macro-financial position and its impact on the economy as a whole.
- To improve the focus of expenditure plans on policy delivery and priorities.

3.6 As they form important components of the next stages of reform the plans developed for FMIS implementation and capacity development are included in Annex 5. The FMIS will form the heart of control and information systems. The Capacity Development Plan recognises the critical contribution of human resources in achieving the reforms that are planned.

Overall assessment of Stage 1 Outcomes and contribution to strategic objectives

3.7 The overall assessment was made in 2007 that while not all activity proposed under Platform 1 has been fully completed enough progress has been made for the overall objectives of the Platform 1 to have been substantively achieved and to commence planning for Platform 2. Significant improvements have been made in revenue collection and creating fiscal space and the overall credibility of the budget is much improved through more timely and predictable fund release in accordance with budget plans and improved cash planning and management. Budget cycle management has been improved, significant areas of expenditure integrated more closely with the budget process and a mid-year review process introduced. Valuable preparatory work and lesson learning has been gained from sub-strategy development and piloting building towards longer term goals for improved strategic deployment of resources and service delivery through the introduction of Budget Strategy Plans. The Areas where continued activity on Platform 1 should be sustained will be integrated within the Stage 2 plan. It was therefore proposed that work on planning stage 2 should commence for launching of Stage 2 in 2008

3.8 Some lessons learned from work on Platform 1/Stage 1 implementation are:

- Experience has reinforced the importance of establishing ownership of the reform effort at all levels.
- Implementation of a Platform will never be absolutely complete: Work will need to go on to keep the Platform robust. Therefore, judgement will always be necessary about at what point progress to the next Platform is safe.

- It is important to distinguish in work plans those detailed activities that are critical to overall Platform achievement.
- Some aspects of plans have tended to lag others. For example, capacity development activities. It is important that effort be made for these to catch up if the reform strategy is not to be undermined in the longer run.
- In managing a programme of this scale, significance and complexity careful attention to progress reporting and monitoring arrangements is essential.

What the achievement of this progress now puts in place and enables.

3.9 The step change in overall PFM performance that implementation of Platform 1 has enabled is that there can now be more certainty that resources will both be available as envisaged in the budget and released in a timely fashion to those who must implement policies and deliver services. The budget has become a more credible instrument of financial management.

3.10 As a result of this step change, the following features of Platform 1 implementation make it possible now to launch into Stage 2 of RGCs strategy.

- To develop greater engagement of those responsible for using budget resources in the next stages of the reform process **because** of the improved PFM framework that has been put in place under Platform 1.
- To hold those responsible for using budget resources more accountable **because** excuses for poor resource management made possible by the poor predictability of resource availability and weak resource flow and budget implementation mechanisms in the past have been substantially removed.
- To give greater empowerment on a selective basis to those responsible for using budget resources **because** it has become much more possible for budget managers to develop their own internal resource management mechanisms now that previous weaknesses in central procedures have been tackled.
- To have greater visibility and transparency on how those who are responsible for using budget resources exercise their responsibilities **because** initial improvements have been made in data flow and analysis systems and the foundations have been laid for further improvements in those systems.



IV. INTRODUCTION TO STAGE 2 PLANNING PROCESS, OBJECTIVES, STRATEGY AND CONSOLIDATED ACTION PLAN

Process adopted in formulating Stage 2

4.1 In planning the move to Platform 2/Stage 2 a number of steps were worked through By the Reform Committee.

Step 1 - Reflection on continuing validity of the overall strategy. It was considered whether the experience of implementing Stage 1 suggested the need for a change or refinement in the overall strategy. The conclusion was that the strategy appears to be robust and the sequencing implied in the four Platforms remained valid, but that a number of lessons need to be learned in moving on. The most important of these lessons were that:

- The effective engagement of budget entities in line ministries etc would be vital to subsequent stages of reform.
- The capacity development effort would need to be intensified and better organised, particularly as the next wave of reforms will depend not just on MEF, but also on those budget entities.
- The completion of each Platform would never be absolute and that it would be important to go on deepening and reinforcing some of the reforms introduced under Platform 1.
- Some of the piloting work for later Platforms needed to be intensified if lessons were to be fully learned, for example, with regards to the future roll out of programme budgeting.
- The proposed FMIS development is going to require much more intensive development and management than was perhaps initially realised given the lack of experience of large scale system developments in the public service in Cambodia

These lessons have been reflected in Stage 2 design.

Step 2 - Identification of things that need to be reinforced in Platform 1. Having concluded that further work would need to go on to deepen and reinforce Platform 1 reforms in parallel with commencing Platform 2, a fundamental review of progress with Platform 1 activities was undertaken and key activities in this respect were identified for continuing work.

Step 3 - Identification of Platform 2 objectives. At that stage, a more detailed statement of the objectives of Platform 2 was developed and discussed. This work focused on identifying what sorts of things needed to be put in place in order for the overall step change that Platform 2 is targeted at to be achieved.

Step 4 - Identification of pilot work etc that needs to be done for future Platforms. Some of the work commenced under Stage 1 for future Platforms will now be used in the development of Platform 2. However, some of this work will not work full fruition until later Platforms. Therefore, consideration was given at this stage to whether the work for future Platforms in Stage 1 remained appropriate in Stage 2 and if it needed to be added to or redefined.

Step 5 - Development of key activities. Having identified the areas of Platform 1 to be reinforced on an on-going basis, Platform 2 objectives and work for future Platforms, a 'top down' view of the activities required to achieve each of these was then developed and discussed by the Reform Committee. Discussion in the Reform Committee led to several iterations as refinements were identified as being necessary. Both the objectives of Stage 2 and proposed activities form a Consolidated Action plan (CAP) which is at the heart of the process for planning for Stage 2.

Step 6 - Development of detailed work plans. Once the overall framework of activities had been developed and discussed in the Reform Committee, MEF Departments were invited to develop their ideas and work plans to implement those activities. But, again, development of those work plans led to suggestions for refinement of the high level activity list and these were further discussed in the Reform Committee and changes in those activities agreed where considered appropriate.

Step 7 - Development of targeted achievements. Having identified proposed activities and work plans to deliver them measures were developed by which the achievement of those activities and the contribution that they are designed to make to Platform 2 objectives could be assessed. As with Platform 1 these were selected on the basis of their ability to act as a bridge between activity and the outcomes in terms of improvement PFM performance that Platform 2 is targeted at. Again, as with Platform 1, these measures were set within the framework of the indicators designed by PEFA as internationally recognised benchmarks of PFM performance. The selection of these measures then caused a review of whether sufficient activity has been identified in order to achieve the required improvement in PFM performance.

Step 8 - Consultation and partner involvement process. Steps 1-7 were largely conducted within MEF. However, there then followed two exercises in consultation and review:

1. With line ministries and other budget entities: Partly to brief them on reform objectives and plans, but also to invite their contribution to the refinement of those plans.
2. With the involvement of the development partners, including a joint mission, and their representatives.

These two exercises led to further suggestions for refinement in objectives, activities and work plans which were considered and amendments made as appropriate.

Arising from this process the program for stage 2 is designed to have three components:

- Platform one activities to be strengthened in stage 2
- Platform two activities to be implemented in stage 2
- Works for later platforms that need to commenced now

Platform one activities to be strengthened in stage 2

4.2 While good progress has been made in achieving Platform 1 outputs, a number of areas need continued deepening and strengthening. The objectives selected for focus for consolidating and reinforcing Platform 1 achievements are:

Table 3 - Platform 1 Objectives	
PFM Objective	Key Performance Indicators
11. Further improvement of revenue policy and administration	Revenue policy actively used to guide budget measurement and collection process.
Strategic Linkage This objective will aim to support the overall policy objective of progressively improving the level of revenue mobilisation including; i) broadening the revenue base; ii) strengthening the coverage of the ongoing revenue reforms in the taxation departments; iii) the development of oil/gas/mining revenue policy and establishment of mechanisms for management of related revenue flows.	
12. Further improvement of debt management	Legal, systems and reporting framework for Debt Management implemented.
Strategic Linkage The aim of this objective will be, based on the good implementation progress to date, during stage one, to enhance the functionality and capacity to use the DMFAS Debt database for strengthening debt strategy development, debt management, accounting and administration.	
13. Further improvement of cash and bank account management	Implementation of Treasury Single Account Mechanisms.
Strategic Linkage The aim of this objective is to facilitate a progressive consolidation of Government Bank Accounts and adoption of strengthen cash management processes as a basis for effective management of government liquidity.	
14. Further improvement of public procurement	Implementation of enhanced legal more de-concentrated framework and strengthened oversight capacity
Strategic Linkage This objective will further strengthen the transparency of the procurement process while also developing the systems capacity and methodologies necessary to support a more de-concentrated framework.	

Platform two activities to be implemented in stage 2

4.3 As a result of the process described above, preparatory work for Stage 2 led to a refinement of the description of the overall goal of the Platform 2. The definition that emerged was:

To improve accountability for achieving effective financial management so that public servants at all levels feel responsible for how they manage and control public finances, that they are empowered to fulfil those responsibilities effectively and that instruments for holding them accountable are in place and effective.

4.4 Therefore, the main theme of Platform 2 is increased accountability of those who are responsible for the safe, efficient and effective management of public resources. Platform 1 has sought to address the overall resource management framework and to tackle fundamental problems in the system as a whole. Platform 2 seeks the engagement of all budget entities and their managers in improving their own internal financial management within that overall framework. Activity plans developed aim to bring this about through a combination of regulatory, process and capacity development initiatives with an appropriate balance of incentives for good PFM performance and sanctions for poor performance.

4.5 It is envisaged that work will be done under Platform 2 to begin to increase the empowerment of budget entities/managers. RGC observes from the experiences of other countries that increased delegation and removing the barriers to the effective delivery of policies and services has been critical to success. It believes that further empowerment will be important to the success of later Platforms involving how money is used to achieve results. However, given the fragility of financial control systems from which the reforms have started this will initially be on a cautious and selective basis. Such measures will only be rolled out as lessons are learned, as confidence is build and trust is earned.

4.6 Both enhanced accountability and empowerment will be supported by measures to further improve information systems and transparency about how financial management obligations are being exercised in practice by budget entities/managers.

4.7 In order to achieve this overall goal, eight contributory objectives have been identified. Table 4 below shows each of these objectives and the contribution that they make to the overall Platform 2 goal.

Table 4 - Platform 2 Objectives	
PFM Objective	Key Outputs Required
21. Improved lines of accountability by clarifying roles, functions and responsibilities between levels of government and within spending institutions	MEF, Line Ministry PFM roles and responsibilities defined, regulatory framework established, capacity developed and operationalized.
Strategic Linkage	
This objective will support Platform 2 by making it clear who is responsible for what without which effective accountability cannot be established. It supports the RGC policy of implementing a more de-concentrated responsibility and authority to Line Ministries and Agencies together with improved capacity to execute these responsibilities. This is also	

<p>consistent with the overall longer term objective of implementing more performance/result based approaches to resource management and enhanced accountability. Achieving this objective will also facilitate the clarification and strengthening of the respective roles of the different organisations and institutions involved at the national and sectoral levels within the planning and annual budget processes. The programme will support activities to empower Line Ministries in this regard, through the provision of technical support and necessary resources. Under overall MEF guidance, budget entities will be supported to assess their own level of capacity and develop contextually appropriate plans and approaches to capacity development.</p>	
<p>22. Improved instruments for encouraging responsible financial management and enforcing accountability</p>	<p>Practical and enforceable set of both sanctions and incentives for managing public funds effectively established and compliance review mechanisms developed.</p>
<p>Strategic Linkage This objective will support Platform 2 by making it clear to all those who are responsible for managing public finances what the consequences are of how they exercise that responsibility. It will facilitate development of a generic framework of incentives, sanctions and monitoring systems for supporting and monitoring the accountabilities established under the RGC policy of deconcentration of budget responsibility. A framework will be applied to those Ministries seeking increased responsibility and delegation of authority and specific sanction, incentive measures and monitoring arrangements agreed.</p>	
<p>23. Further improve the implementation of new budget classification and new chart of account</p>	<p>Classification implemented that is consistent with GFS/COFOG standards. Basis of Accounting progressively incorporates elements of modified accrual accounting</p>
<p>Strategic Linkage This objective seeks to support Platform 2 by ensuring that consistent and accurate data in an appropriate analytical form is available as a basis for accountability. It aims to continue strengthening of the classification framework which forms the basis for the budget and accounting framework that underpins both policy formulation and execution. The key issue is now to ensure full implementation of the Budget Classification /CoA across all government entities. In addition RGC plans to further develop classification by enhancing the administrative and functional dimensions and developing options for recording programs. In parallel the Chart of Accounts will also be updated including the new Budget Classifications and progressively incorporating elements of modified accrual accounting as applicable to the Public Sector. Since accrual accounting involves complex issues related to accrual budgeting and accounting for financial and non financial assets, this should be seen as a long term process.</p>	
<p>24. Improve Budget Execution and Transaction Process</p> <ul style="list-style-type: none"> • Improved efficiency of current Systems • Implementation of the FMIS 	<p>An ICT based budget and financial management framework and capacity introduced that improves reporting, transaction processing efficiency, integrity, comprehensiveness, provides the basis for effective control and for strengthened resource management.</p>
<p>Strategic Linkage This objective supports Platform 2 by using modern technology and approaches to control systems in an effective, secure and transparent manner. It aims to i) continue with efforts to strengthen the efficiency of existing transaction processing and accounting systems while enhancing ICT capacity and ii) progressively implement a modern ICT based Financial Management Information System (FMIS) as a basis for substantially improved efficiency, production of information for improved planning/ budgeting, strengthened internal control, accounting and financial accountability. This will be undertaken in a way that:</p> <ul style="list-style-type: none"> • Ensures understanding, ownership and capacity development at all levels of Government. • Progressively builds transition management capacity, including training dedicated ICT 	

<p>and Application Support personnel</p> <ul style="list-style-type: none"> • Ensuring support arrangements for the sites at MEF, Line Ministries and Provincial Treasuries. • Facilitates sustainability. 	
<p>25. Improved accounting, financial reporting and transparency</p>	<p>Establishment of accounting and management systems capable of both informing effective resource management, but also acting as a basis for enforcing accountability for how public resources are used.</p>
<p>Strategic Linkage</p> <p>This objective supports Platform 2 by ensuring access to financial management information that is timely, accurate and easily available both to those who are accountable and those who must hold them accountable. It is designed to achieve the policy objective of progressively implementing a contextually appropriate accounting and financial reporting framework that is consistent with internationally recognised public sector accounting standards and provides a transparent and timely basis for financial reporting by Government and Government Ministries. Such a framework will empower managers to provide statements of financial accountability to Government, Government to provide reports to the Legislature/ Taxpayers/Citizens and where necessary to provide financial statements to other external agents including Development Partners. Implementation will also facilitate where appropriate and feasible the introduction of accrual accounting concepts.</p>	
<p>26. Improved auditing/inspection and response to/use of audit/inspection findings</p> <ul style="list-style-type: none"> • Internal Audit Planning • Internal Audit Methodologies including use of ICT and Reporting • Internal Audit Capacity 	<p>The introduction of a style of auditing that can identify and advise managers of the need to address areas of financial management weakness, but also bring to the surface fraudulent or inappropriate action and failures in control systems.</p>
<p>Strategic Linkage</p> <p>The objective will support Platform 2 by seeking to put in place audit and monitoring arrangements in order that those who are accountable both have advice on systemic problems, but will also have to manage in the expectation that if they do something inappropriate or allow weaknesses to continue it will come to the surface. It will seek to strengthen internal audit coverage and capacity in Line Ministries. The Government proposes to modernise internal audit methodologies, reporting and capacity. Closer interaction and coordination with the National Audit Authority will also be supported.</p>	
<p>27. Strengthen and develop fiscal decentralization policy and strategy</p>	<p>Momentum and initial steps towards greater decentralisation of service delivery.</p>
<p>Strategic Linkage</p> <p>This objective will support Platform 2 by seeking to ensure that implementation of the Governments Decentralisation Strategy and the new Organic Law will take into account accountability objectives under the Platform as a whole. The PFMRP will focus on supporting those activities that require MEF engagement. This would encompass: i) improvements in existing strategy, systems, staffing and capacity arrangements under the existing de-concentrated framework; ii) addressing issues related to intergovernmental transfers, PFM principles and standards, intergovernmental reporting and capacity development under the new decentralised framework outlined in the organic law and iii) capacity development for the LFD of the MEF to provide oversight.</p>	
<p>28. Building Institution Capacity and Motivational Measures</p>	<p>Greater confidence in managing within the improved PFM systems being put in place, based on appropriate skills and a work force motivated to acquire those skills.</p>

Strategic Linkage

This objective will support Platform 2 by seeking to align the technical development envisaged in the reform programme as a whole with the necessary capacities to implement them and manage the reformed systems in an on-going basis. It aims to remove lack of capacity as a reason for weak exercise of financial responsibility. The initial Capacity Development Plan approved by MEFs Reform Committee addresses skill, organisational and motivational capacity and will be reviewed and updated on an annual basis. It also seeks to address the needs of MEF to upgrade the capacities of the human resource and training units that support Capacity Development in MEF as a whole. Priorities as the programme enters Stage 2 are:

- To further develop the capacity of EFI and Personnel Department to manage the Delivery of the Capacity Development Plan including the appointment of advisors as mentors.
- To deliver the range of training courses envisaged in the CPD as appropriate to Stage 2 while also experimenting with use of different sources of supply for course delivery.
- To begin to engage with the organisational and human resource management aspects of the CDP in the more robust and structured way envisaged in the CDP.
- To begin to facilitate the development of Capacity Development Plans of Line Ministries and establish a process for reviewing those plans.

4.8 These objectives have been selected as representing an appropriate balance between the elements of the overall goal of Platform 2 requiring improved accountability and the cautious development of increased empowerment supported by strong information flows and transparency.

4.9 The areas selected for focus on consolidating and reinforcing Platform 1 achievements are:

- Further improvement of revenue policy and administration
- Further improvement of debt management
- Further improvement of cash and bank account management
- Further improvement of public procurement

4.10 Good progress has been made in all these areas during Platform 1 work, but needs deepening and strengthening. There will be continued monitoring of Platform 1 achievements to ensure that they are sustained and enhanced.

4.11 Work in preparing the way for later Platforms will concentrate on:

- Improving and expanding the implementation of program budgeting
- Further improving comprehensiveness and integration of the budget

4.12 Piloting and further work in these areas will prepare the ground for later Platforms which will depend on aligning *all* resources used analysed in programmatic terms to achieve specific targeted results.

4.13 Proposed activities to fulfil all these objectives are set out in the Consolidated Action Plan and the supporting working plans.

What the achievement of Platform 2/Stage 2 will put in place and enable.

4.14 Implementation of Platform 2 as planned will help to establish a climate of responsibility for the management of public resources at all levels in the administration. Strong and weak management of those resources will be recognised and differentiated.

4.15 As a result of this step change, a foundation will be laid for the following developments in later Platforms:

To build on initial steps towards greater empowerment of budget entities managers to achieve improved results **because** there will be an improved control framework within which to exercise that empowerment and lessons will have been learned.

To challenge the efficiency of expenditure deployment and the continuing relevance of on-going expenditures **because** there will be an improved basis for engaging budget entities/managers in examining such questions based on improved information flows and visibility of what is happening with resources in practice.

To begin to identify an alignment between the implementation of policies and the delivery of service improvements with the resources required to achieve those improvements **because** a foundation of information and analysis about how resources are being used in practice will be in place.

To move on towards accountability for the management of results **because** the improved accountability for resource management can be built upon.

Works for later platforms that need to be commenced early

4.16 Piloting and further work in these areas will prepare the ground for later Platforms which will depend on aligning *all* resources used analysed in programmatic terms to achieve specific targeted results. In preparing the way for later Platforms Stage 2 will concentrate on:

Table 5 - Later Platform Objectives	
PFM Objective	Key Performance Indicators
31. Improving and expanding the implementation of program budgeting	Programme Budget Implementation methodology and capacity strengthened at both MEF and in Line Ministries.
Strategic Linkage This objective aims to prepare MEF and Line Ministries for the progressive adoption of more output based budget methodologies and will facilitate improved classification, budget formulation methodology and the more efficient allocation of resources within the MTEF.	
32. Further improving comprehensiveness and integration of the budget	Progressive implementation of a Multi year fully integrated Budget Framework
Strategic Linkage Substantial progress has been made in Stage 1 in improving the budget formulation process and thereby improving the comprehensiveness and degree of integration of the budget. There are however further issues concerning the development of well coordinated interrelationships between the MTEF, annual budget and Public Investment Program (PIP). There are currently also a number of actors involved the determination of public sector capital spending – the Ministry of Planning (MoP), the MEF, the CDC, the CRDB, the CDCF, the LMs, DPs and NGOs. This objective will aim at achieving clarity and rationalization to support greater efficiency and effectiveness.	

4.17 Proposed activities to fulfil all these objectives are set out in the Consolidated Action Plan and the supporting working plans Work

4.18 Establishing improved financial accountability is an essential step in moving towards a PFM system that meets the overall vision of supporting effective service and policy delivery. Without it later ambitions for a better connection between the way resources are planned and deployed and the delivery of policy objectives will not be possible.



V. PROGRAM MANAGEMENT FRAMEWORK

Proposed mechanisms for implementing and monitoring progress with Platform 2/Stage 2

Significant lessons have been learned in the course of implementing Platform 1 about the process of managing and coordinating the reform process. Mechanisms must be dynamic while being practical about what it takes to get the complicated process of PFM reform to hang together. In the light of these lessons, key mechanisms proposed for the implementation of Platform 2/Stage 2 are set out below together with references to more detailed material in Annexes.

Consolidated action plan	Platform 2/Stage 2 <ul style="list-style-type: none"> • Objectives • Activities. • Performance measures
	Details in Annex 1
Leadership and coordination mechanisms.	High level leadership within Government Administrative coordination within the administration Management of cross cutting issues
	Details in Annex 2
Engaging of line ministries and other budget entities.	Reform cells within line ministries/budget entities. Entity reform plans in alignment with overall reform plan.
	Details in Annex 3
Support and advice mechanisms.	Recruitment of 'core' technical advisors Recruitment of specialist support Access of line ministries/budget entities to technical advice
	Details in Annex 4
Implementation strategies <ul style="list-style-type: none"> • Capacity development, organisational development and motivational development • Line Ministry capacity development plans • FMIS Policy Paper 	Overarching capacity development plan and implementation arrangements Development of ministry/budget entity plans and review FMIS Policy Paper
	Details in Annex 5
Costing and funding mechanisms.	Costing of overall Platform 2/Stage 2 activities. More detailed costing and procurement plan for 2008
	Details in Annex 6
Monitoring mechanisms.	Internal arrangements within RGC High level indicators of achievement Detailed performance indicators Alignment with PEFA
	Details in Annex 7

Mechanisms for alignment with other reforms.	Other reform areas dependant on/contributed to and mechanisms for involvement. Details in Annex 8
Partner engagement mechanisms.	Reporting and discussions, Funding Details in Annex 9
Risks and risk management	Changing pattern of risks as the programme moves into Platform 2/stage 2, an assessment of those risks, and proposed measures to minimise/manage them. Details in Annex 10



VI. ANNEXES

Annex 1	Consolidated Action Plan
Annex 2	Leadership and Coordination Mechanisms
Annex 3	Engaging of line ministries and other budget entities
Annex 4	Support and Advice Mechanisms
Annex 5	Implementation Strategies <ul style="list-style-type: none">• Capacity development, organisational development and motivational development• Line Ministry Capacity Development Plans• FMIS Policy Paper
Annex 6	Costing and Funding Mechanisms
Annex 7	Monitoring Mechanisms
Annex 8	Mechanisms for alignment with other reforms
Annex 9	Partner Engagement Mechanisms
Annex 10	Risks and Risk Management

**ANNEX 1: PUBLIC FINANCIAL MANAGEMENT REFORM PROGRAM
CONSOLIDATED ACTION PLAN FOR STAGE 2 (CAP2)**

PART 1. PLATFORM ONE ACTIVITIES TO BE STRENGTHENED IN STAGE 2

PART 2. PLATFORM TWO ACTIVITIES TO BE IMPLEMENTED IN STAGE 2

**PART 3. WORKS FOR LATER PLATFORMS THAT NEED TO BE COMMENCED
EARLY**

PART 1. PLATFORM ONE ACTIVITIES TO BE STRENGTHENED IN STAGE 2

PART 1. PLATFORM ONE ACTIVITIES TO BE STRENGTHENED IN STAGE 2

Objective/Activity	Timeframe (Quarterly)												Ministries/ Agencies	Key Performance Indicators (PEFA Reference)	Key Targets			Required Resource
	2008				2009				2010						2008	2009	2010	
	1	2	3	4	1	2	3	4	1	2	3	4						
OBJECTIVE 11: FURTHER IMPROVE REVENUE POLICY AND ADMINISTRATION																		
11.1. Refine and Implement medium term revenue policy.	X	X	X	X	X	X	X	X	X	X	X	X	RG, PG/ CED,TD, NTRD,SPD, FID,EPFPD, LMS	Total revenue as % of GDP	12 % of GDP	12.5 % of GDP	13 % of GDP	MDTF/ID A PSD/TF
11.2. Develop and implement oil/gas/mining revenue policy, mechanisms for transparent management of related revenue flows including EITI, and revenue assessment and collection capacity.	X	X	X	X	X	X	X	X	X	X	X	X	RG	Domestic Revenue equal/exceeds 97% of Estimates (PEFA Indicator 3 & 13-15)	Equals/Greater than 97%	Equals/Greater than 97%	Equals/Greater than 97%	
11.3. Continued improvement in customs policy and administration (including measures to improve information and transparency of rights of tax and charge payers).	X	X	X	X	X	X	X	X	X	X	X	X	RG,PG /CED, ASEAN	Oil/Gas/Mining Fiscal Regime Clarified & Legal Framework Enacted & Implementation Commenced	Fiscal regime clarified; EITI study finalized	Initiate implementation of EITI	EITI Implemented	
11.4. Continued improvement in tax policy and administration.	X	X	X	X	X	X	X	X	X	X	X	X	RG/ TD/FID	(PEFA Indicator 9)	Policy Options for Oil/Gas/Mining Revenue Management presented and agreed.	Oil/Gas/Mining Revenue Management Framework Developed	Oil/Gas/Mining Revenue Management Legal Framework Implemented	
11.5. Continued improvement in non-tax revenue policy and administration including state property.	X	X	X	X	X	X	X	X	X	X	X	X	RG/ NTRD, SPD, LMs					
11.6. Strengthen macroeconomic and revenue forecasting.		X	X	X	X	X	X	X	X	X	X	X	PG, RG/ EPFPD,CED ,TD,NTRD, SPD,FID	Improved realism of the resource forecasts used in establishing fiscal plans	Simple model of revenue forecast established	Improve model of revenue forecast	Improve model of revenue forecast	
														- Revenue Forecast Model - Revenue outcome	Variance in three year revenue forecast + or - 10%	Variance in three year revenue forecast + or - 8%	Variance in three year revenue forecast + or - 5%	

PART 1. PLATFORM ONE ACTIVITIES TO BE STRENGTHENED IN STAGE 2

Objective/Activity	Timeframe (Quarterly)												CG/Dept	Key Performance Indicators (PEFA Reference)	Key Targets			Required Resource		
	2008				2009				2010						2008	2009	2010			
	1	2	3	4	1	2	3	4	1	2	3	4								
OBJECTIVE 12: FURTHER IMPROVE DEBT MANAGEMENT																				
12. 1. Review institutional and legal framework and roles/responsibilities of debt management.		X	X	X	X	X	X	X							BFG /DIC	Legal & Institutional Framework is reviewed and implemented	Legal and Institutional Framework Developed	Framework Implemented		ADB/ MDTF/ IDA
12.2. Develop and implement debt management strategy.				X	X	X	X	X	X	X	X			BFG /DIC						
12.3. Enhance use of debt databases.		X	X	X	X	X	X	X	X	X	X			BFG /DIC	Production of Annual Debt Management Strategy					
																Quality of Domestic and Foreign debt Records and Reporting improved. <i>(PEFA Indicator 9 & 17)</i>	Production of Quarterly and Annual Debt Monitoring Statements initiated	Production of complete, updated and reconciliation of Quarterly and Annual Debt Monitoring Statements	Fully Functional Debt Management and Monitoring System Established with comprehensive management and statistical reports.	

PART 1. PLATFORM ONE ACTIVITIES TO BE STRENGTHENED IN STAGE 2

Objective/Activity	Timeframe (Quarterly)												CG/Dept	Key Performance Indicators (PEFA Reference)	Key Targets			Required Resources						
	2008				2009				2010						2008	2009	2010							
	1	2	3	4	1	2	3	4	1	2	3	4												
OBJECTIVE 13: FURTHER IMPROVE CASH AND BANK ACCOUNT MANAGEMENT.																								
13.1. Further consolidation of government bank accounts and strengthening TSA.	X	X	X	X												BEG/NT, CMU, LMs	Extent of Consolidation of the Governments Bank and Cash Balances	50% Reduction in Number of (Non Donor) Government Bank Accounts	75% Reduction in Number of (Non Donor) Government Bank Accounts	Full Operation of TSA	IMF MDTF/IDA			
13.2. Expand further the use of the banking system for government revenue and expenditure transactions.	X	X	X	X	X	X	X	X								BEG/NT, CMU, LMs								
13.3. Consolidate and further improve cash plan (start from quarterly/monthly then slowly move to weekly/ daily).	X	X	X	X												BEG/CMU, LMs						Reduction in Number of Cash Based Transactions.	Commence utilization of TSA wherever possible.	Reach Agreements with Banks on Provision of Retail Banking Services
13.4. Continue to monitor arrear and its ageing profile.	X	X	X	X												BEG/NT, CMU, LMs						Strengthen Cash Management Forecasting and Release of Funds (PEFA Indicator 16 & 17)	Quarterly Cash Flow Forecasting And Cash Release (+or - 5%)	Monthly Cash Flow Forecasting and Cash Release (+or - 5%)
																	Develop arrears monitoring based on capture of supplier invoice date. Stock of Arrears less than 2% of Total Expenditure (PEFA Indicator 4)	Develop arrears monitoring based on capture of supplier invoice date. Stock of Arrears less than 2% of Total Expenditure	Quarterly Arrears Monitoring Report. Stock of Arrears less than 2% of Total Expenditure					

PART 1. PLATFORM ONE ACTIVITIES TO BE STRENGTHENED IN STAGE 2

Objective/Activity	Timeframe (Quarterly)												CG/Dept	Key Performance Indicators (PEFA Reference)	Key Targets			Required Resource			
	2008				2009				2010						2008	2009	2010				
	1	2	3	4	1	2	3	4	1	2	3	4									
OBJECTIVE 14: FURTHER IMPROVE PUBLIC PROCUREMENT																					
14.1. Elevate the legal stature of procurement in the country.	X	X	X	X	X	X	X	X								BEG /PPD, LMs	Law, Regulations & Manuals developed	Enhanced Legal Framework Developed	Enhanced Legal Framework Developed	Enhanced Legal Framework Implemented	MDTF/IDA
14.2. Implement the new Procurement Sub-Decree and Implementing Rules and Regulations (IRR), including Standard Bidding Documents (SBDs) at National and Sub National Levels.				X												BEG /PPD, LMs	Procuring Agencies apply IRR, including SBDs, in their procurement.	20% Procurement Agencies Apply IRR	50% Apply IRR	100% Apply IRR	
14.3. Further Strengthen Procuring Agencies' capacity, at National and Sub-national Levels, to implement the new Procurement Sub-Decree and Implementing Rules and Regulations (IRR), including Standard Bidding Documents (SBDs).						X	X	X								BEG /PPD, LMs	Training Provided to Procurement and Key Staff involved in procurement.	20% Procurement & Key Staff receive training.	50% receive training.	100% receive training.	
14.4. Strengthen DPP's capacity to monitor and evaluate the performance of the public procurement system.	X	X	X	X	X	X	X	X								BEG /PPD, LMs	DPP conducts regular ex-post reviews and produces regular procurement performance reports		Review conducted in 50% Agencies	Review conducted in 100% Agencies	
14.5. Increase competitiveness and transparency in the procurement process through enhanced publicity and disclosure.		X	X	X	X	X	X	X								BEG /PPD, LMs	Procurement website operationalized		Website Developed	50% of bidding opportunities and contract award information published	
14.6. Clarify line of accountability within the procurement process.				X	X	X	X	X	X							BEG /PPD, LMs	Clear lines of Management Accountability for procurement Established (PEFA Indicator 19)	Lines of Accountability Clarified			

PART 2. PLATFORM TWO ACTIVITIES TO BE IMPLEMENTED IN STAGE 2

PART 2. PLATFORM TWO ACTIVITIES TO BE IMPLEMENTED IN STAGE 2

Objective/Activity	Timeframe (Quarterly)												CG/Dept	Key Performance Indicators (PEFA Reference)	Key Targets			Required Resources			
	2008				2009				2010						2008	2009	2010				
	1	2	3	4	1	2	3	4	1	2	3	4									
OBJECTIVE 21: IMPROVED LINES OF ACCOUNTABILITY BY CLARIFYING ROLES, FUNCTIONS AND RESPONSIBILITIES BETWEEN LEVELS OF GOVERNMENT AND WITHIN SPENDING INSTITUTIONS																					
21. 1. Review and update laws and decrees that specify the roles and responsibilities for PFM within the government and re-specify roles where necessary.	X	X	X	X	X	X	X	X								PG, BFG, BEG/BD, FAD, LAD	New executive (Central Institutions, MEF, Line Ministries) roles and responsibilities in respect of Financial Accountability Defined & Implemented.	Regulatory Framework elaborated and new roles, responsibilities, accountabilities defined	Enact new Framework.	Partially Operationalise new framework	MDTF/ IDA
21.2. Clarify the lines of accountability within the annual budget and PIP with respect to government investment spending and define the different responsibilities of all the main actors including the MEF, MoP, CDC.	X	X	X	X	X	X	X	X								PG, BFG/BD, DIC, CDC, EPFPD, LMs	Clear lines of Management Accountability Established	Develop Manual and Training Material and Courses	Disseminate new roles and responsibilities and provide Training to all accountable Budget Managers		
21.3. Identify full schedule of budget entities for central and provincial governments and budget managers in relation to those entities.			X	X	X	X	X	X								BFG/BD,LMs					
21. 4. Define responsibilities between management levels.					X	X	X	X								BFG/BD,LMs					
21. 5. Development and issue of a manual explaining the empowerment and responsibilities of budget entities and budget managers and disseminate via training workshop and courses.									X	X	X	X				BFG/BD, LMs					
21.6 Realign organisation to reflect new transaction processing systems being developed including further relocation of Financial Controllers to remaining line ministries with a clear definition of their role in a decentralised position.																FAD, BD,NT	Financial Controllers relocated in all ministries and budget entities Clear role specified for FCs in decentralised situation	Further strengthen FCs already relocated in the 7 priority ministries 25 % Relocation of FCs to LMs and other budget entities	60 % Relocation of FCs to LMs and other budget entities	100% Relocation of FCs to LMs and budget entities	

PART 2. PLATFORM TWO ACTIVITIES TO BE IMPLEMENTED IN STAGE 2

Objective/Activity	Timeframe (Quarterly)												CG/Dept	Key Performance Indicators (PEFA Reference)	Key Targets			Required Resources
	2008				2009				2010						2008	2009	2010	
	1	2	3	4	1	2	3	4	1	2	3	4						
OBJECTIVE 22: IMPROVED INSTRUMENTS FOR ENCOURAGING RESPONSIBLE FINANCIAL MANAGEMENT AND ENFORCING ACCOUNTABILITY																		
22.1. Establish appropriate sanctions for wrong, inappropriate or inefficient management of resources, build into law and give wide circulation and advice.	X	X	X	X	X	X	X	X	X	X	X	X	PG, BEG/FAD, IAD, GID, LAD	Incentive/Sanction Regime Established	Criteria developed	Establish review and enforcement Mechanisms	Enact new Framework	MDTF/ID A
22.2. Establish a list of freedoms and flexibilities to be given to those budget entities that meet agreed criteria with regards to satisfactory resource management systems.			X	X	X	X	X	X					BFG/BD, LMs	Compliance Reviews Undertaken		Undertake Compliance Reviews in 25% Budget Entities	Undertake Compliance Reviews in 50% of Budget Entities	
22.3. Conduct regular review of standards of resource management achieved by individual budget entities as a basis for extending those freedoms and flexibilities			X	X	X	X	X	X					BFG, BEG/BD, FAD, LMs					

PART 2. PLATFORM TWO ACTIVITIES TO BE IMPLEMENTED IN STAGE 2

Objective/Activity	Timeframe (Quarterly)												CG/Dept	Key Performance Indicators (PEFA Reference)	Key Targets			Required Resource		
	2008				2009				2010						2008	2009	2010			
	1	2	3	4	1	2	3	4	1	2	3	4								
OBJECTIVE 23: FURTHER IMPROVE THE IMPLEMENTATION OF NEW BUDGET CLASSIFICATION AND NEW CHART OF ACCOUNT																				
23. 1. Review and further improve the new chart of account and budget classification in terms of progressive enhancement and implementation of the administrative, functional and economic classifications.		X	X	X	X	X	X	X	X	X	X	X	X	X	PG, BFG, BEG/NT, BD, DIC, EPFPD, LMs	The budget formulation, and execution based on administrative, economic and sub-functional classification, using GFS/COFOG standards is implemented during budget execution at MEF, LM and Sub National levels.	Administrative and Economic Classification using GFS standards is implemented in Budget Formulation and Execution at MEF, LM and Sub National levels	Structure of Functional /Sub Functional and Programme Classification Established	Functional /Sub Functional and Programme Classification Piloted at MEF, LM and Sub National levels	IMF France MDTF/IDA
23. 2. Develop option for implementation of program classifications.				X	X	X	X	X	X	X	X	X	X	BFG, BEG/NT, BD, LMs	<i>(PEFA Indicator 5)</i>					
23. 3. Develop option for a step by step moving to accrual based accounting.		X	X	X	X	X	X	X	X	X	X	X	X	PG, BEG/ NT, EPFPD, LMs	Basis of Accounting progressively incorporate recording of Accounts Payable/Account Receivable and Financial Assets and Liabilities	Establish step by step transition plan	Recording of AP and AR and Financial Assets and Liabilities as part of FMIS Pilot implementation (MEF & Pilot LM and Sub National Levels)	Rollout to Further additional LMs and Sub National Levels.	MDTF/ IMF/ France	
23.4. Develop and disseminate accounting manual			X	X	X	X	X							BEG /NT	Financial Management Manual produced	Manual issued and dissemination training provided			MDTF/ IMF/ France	

PART 2. PLATFORM TWO ACTIVITIES TO BE IMPLEMENTED IN STAGE 2

Objective/Activity	Timeframe (Quarterly)												CG/Dept	Key Performance Indicators (PEFA Reference)	Key Targets			Required Resources			
	2008				2009				2010						2008	2009	2010				
	1	2	3	4	1	2	3	4	1	2	3	4									
OBJECTIVE 24: IMPROVE BUDGET EXECUTION AND TRANSACTION PROCESS																					
24.1. Further reduce timeframe for processing expenditure proposals for commitments, payment and revenues inside line ministries. (Assumes improvements in existing and interim systems and a progressive introduction of the FMIS in 2009 & 2010)	X	X	X	X												BEG/ FAD, NT/LMs	Progressive improvement in Systemic Framework for PFM o Effective Commitment Control o Transaction Processing and Internal Controls Efficient (PEFA Indicator 20)	Expenditure Commitment Control exist and partially effective. Basic transaction processing and internal controls exist	Expenditure Commitment Control exist and effective in limiting commitments to available cash and appropriations with minor exceptions. Substantive transaction processing and internal controls exist with few exceptions	Expenditure Commitment Control exist and effective in limiting commitments to available cash and appropriations. Comprehensive transaction processing and internal controls exist	MDTF/IDA
24.2 Improved processing of transactions in MEF/ Line ministries in accordance with developments in the chart of accounts and accounting rules and regular completion of bank reconciliations.	X	X	X												NT/DIC/LMs	<ul style="list-style-type: none"> Strict adherence to transaction processing (recurrent, investment & financing) in accordance with chart of accounts and accounting rules Elimination of inappropriate use of advances for processing investment expenditure. Regular Reconciliation (PEFA Indicator 18 & 19)	Compliance with CoA & accounting rules for most transactions. Reconciliation and clearance of Key Treasury Managed Bank and Suspense accounts within two months of quarter	Compliance with CoA & accounting rules is high with few exceptions. Reconciliation and clearance of Treasury Managed Bank and Suspense accounts within two months of quarter	Compliance with CoA & accounting rules high with insignificant exceptions. Reconciliation and clearance of Treasury Managed Bank & Suspense accounts within one months of quarter	IMF/French MDTF/IDA	

Objective/Activity	Timeframe (Quarterly)												CG/Dept	Key Performance Indicators (PEFA Reference)	Key Targets			Required Resources
	2008				2009				2010						2008	2009	2010	
	1	2	3	4	1	2	3	4	1	2	3	4						
24.3. Strengthen level of understanding, ownership, engagement and capacity for FMIS at MEF, LMs and Sub-national level.	X	X	X	X	X	X	X	X	X	X	X	X	ITD, LMs	Guidance and awareness programme developed	Develop and implement sensitization programme			
24.4. Establish FMIS Project/Transition Management Capacity incorporating MEF, LMs and Sub-national entities.	X	X	X	X	X	X				X	X		ITD, LMs					
24.5. Strengthen FMIS Design and finalize procurement process.	X	X	X	X	X	X	X	X	X	X	X		ITD, LMs	Pilot Implementation of core modules in NT, 4 LMs and 5 provincial treasuries	Implement budget preparation module for FY 2010			
24.6. Develop an Overall Integrated Implementation Plan (pilot and rollout) encompassing MEF, LMs and Sub-national units.			X	X	X	X	X	X	X	X	X	X	ITD, LMs					Complete FMIS Procurement.
24.7. Development of plan, training courses and materials for on-going training of all personnel (application, ICT, users) involving in FMIS for MEF, LMs and Sub-national units.	X	X	X	X	X	X	X	X	X	X	X	X	ITD, LMs				Pilot implementation of core modules in NT, 4 LMs and 5 provincial treasuries	
24.8 Implementation of first pilot and rollout phase of FMIS (core modules and budget module).								X	X	X	X	X	ITD					

PART 2. PLATFORM TWO ACTIVITIES TO BE IMPLEMENTED IN STAGE 2

Objective/Activity	Timeframe (Quarterly)												CG/Dept	Key Performance Indicators (PEFA Reference)	Key Targets			Require d Resourc es	
	2008				2009				2010						2008	2009	2010		
	1	2	3	4	1	2	3	4	1	2	3	4							
OBJECTIVE 25: IMPROVED ACCOUNTING, FINANCIAL REPORTING AND TRANSPARENCY																			
25. 1. Review of international public sector accounting standards (IPSAS, GAAP etc) and assess realistic and appropriate sequencing for introduction linked to FMIS rollout.			X	X	X	X	X	X	X	X	X	X	X	BEG, PG/NT, EPFPD, LMs	Quality, Timeliness and Transparency of Accounting Financial Reporting o <i>Standards</i> o <i>Annual Financial Statements</i> (PEFA Indicator 25)	Budget/Accounting Bases, Standards and Reporting Formats Defined Financial Statements prepared but not comprehensive, (Some extra budgetary Omissions).	Financial Statements (excluding non financial assets) prepared on agreed basis within agreed time frames/statutory requirements Standards disclosed and Accounts submitted for Audit	Financial Statements (excluding non financial assets) prepared on agreed basis within agreed time frames/statutory requirements Standards disclosed and Accounts submitted for Audit and Publicly available	MDTF /IDA
25.2. Implementation of quarterly budget progress reports commenting on stage of completion reached, results achieved and any delays and remedial action proposed: From line Ministries to MEF and within line ministries from internal budget entities to senior management.		X	X	X	X									PG, BFG/BD,DIC, EPFPD LMs	Budget Execution Reports Publication of quarterly in-year and yearly budget execution reports (PEFA Indicators 23 &24)	Publication of half yearly budget execution reports within eight weeks for main administrative and programme headings	Publication of half yearly and yearly budget execution reports within six weeks of quarter for main administrative and programme headings	Publication of quarterly half yearly and yearly budget execution reports covering commitment and payment stages within four weeks of quarter	
25. 3. Submit improved form of budget implementation summaries to Cabinet and to legislature.			X	X		X						X		BFG/BD,DIC					

Objective/Activity	Timeframe (Quarterly)												CG/Dept	Key Performance Indicators (PEFA Reference)	Key Targets			Required Resources			
	2008				2009				2010						2008	2009	2010				
	1	2	3	4	1	2	3	4	1	2	3	4									
25. 4. Improve forms of reporting to and communication with the public.			X	X	X	X	X									PG/ EPFPD, LMs	Availability of key Fiscal Information <ul style="list-style-type: none"> Budget Documentation In year Budget Reports Year End Financial Statements External Audit Reports Contract Awards Resources Available to Primary Service Units <i>(PEFA Indicator 10)</i>	At least 3 of these reports made available	At least 4 of these reports made available	At least 5 of these reports made available	
25. 5. Introduction of mechanisms to complete and regularly update asset register.	X	X	X	X	X	X	X	X	X	X	X	X	X			RG/SPD	Asset Registers are regularly updated	Mechanism designed	Implementation	Full implementation	MDTF

PART 2. PLATFORM TWO ACTIVITIES TO BE IMPLEMENTED IN STAGE 2

Objective/Activity	Timeframe (Quarterly)												CG/Dept	Key Performance Indicators (PEFA Reference)	Key Targets			Required Resources				
	2008				2009				2010						2008	2009	2010					
	1	2	3	4	1	2	3	4	1	2	3	4										
OBJECTIVE 26: IMPROVED INTERNAL AUDITING/INSPECTION AND RESPONSE TO/USE OF AUDIT/INSPECTION FINDINGS																						
26. 1. Complete coverage of internal audit sections within line ministries.	X	X	X	X	X	X	X	X	X								SG/ IAD,LMs	Internal Audit functional in most important Government Entities and undertakes systems review, issues regular quarterly reports and action is undertaken by managers on issues arising. (PEFA Indicator 21)	Internal Audit Strategic Plan/Charter Developed <ul style="list-style-type: none"> o Coverage o Roles o Methodology o FMIS o Reporting Manual and Training Programmes Developed	Reports issued regularly for most Entities (50%)	Reports responded to and actions implemented by most managers (50%)	MDTF/ IDA
26. 2. Improved mechanism to ensure effective response to audit/inspection finding within budget entities.	X	X	X	X	X	X	X	X	X	X	X	X				SG, PG/ IAD, GID, LMs						
26. 3. Develop and Improve Annual Audit/Inspection Plan of LMs based on risk assessment criteria recommended by MEF.	X	X	X	X	X	X	X	X	X	X	X	X				SG, PG/ IAD, GI, LMs						
26.4. MEF reviews adequacy of sample of audit/inspection reports.	X	X	X	X	X	X	X	X	X	X	X	X				SG, PG/ IAD, GID, LMs						
26.5. Improve focus and reporting of audit/ inspection.	X	X	X	X	X	X	X	X	X	X	X	X				PG/ GID						

PART 2. PLATFORM TWO ACTIVITIES TO BE IMPLEMENTED IN STAGE 2

Objective/Activity	Timeframe (Quarterly)												CG/Dept	Key Performance Indicators (PEFA Reference)	Target			Required Resources								
	2008				2009				2010						2008	2009	2010									
	1	2	3	4	1	2	3	4	1	2	3	4														
OBJECTIVE 27: STRENGTHEN AND DEVELOP FISCAL DECENTRALIZATION POLICY AND STRATEGY																										
27.1. Study current practices and develop options for strengthening preparation and implementation of Municipality's and Province's budgets.		X	X	X	X	X											BFG /LFD	PFM Capacity and Systems at Sub National Level.	Intermediate strategy for strengthening existing Budget Formulation and Execution Systems developed and implemented.	Intermediate Strategy implemented.				MDTF /IDA		
27.2. Improve Non Tax Revenue of Provinces.		X	X	X	X	X	X	X	X	X	X	X	X	X	X	X		BFG/ LFD	Non Tax Revenue Collection	10 % Growth in NT Revenue	15 % Growth in NT Revenue	20 % Growth in NT Revenue				
27.3. Improved provincial/district budget formulation, implementation, and financial management systems.		X	X	X	X	X	X	X	X	X	X	X	X	X	X		BFG/ LFD									
27.4. Improved commune-sangkat budget formulation, implementation, and financial management systems.		X	X	X	X	X	X	X	X	X	X	X	X	X	X			BFG/ LFD	LFD/MEF Oversight Capacity	Timely, year-end consolidated Sub-national Fiscal Information and Analysis available.	Timely, in year consolidated Sub-national Fiscal Information and Analysis available	Timely, Comprehensive in-year consolidated Sub-national Fiscal Information and Analysis available				
27.5. Strengthen capacity in budget formulation and implementation including financial management within the D&D Framework.		X	X	X	X	X	X											LMS, BFG/ LFD								
27.6. Review and Amend existing Laws, Sub-Degree Regulations in order to be consistent with the Law on Administration Management of Capital, Province, Municipalities and District/Khan.		X	X	X														D&D WG, LMS	Development of D&D Fiscal Decentralization Transition Plan	Fiscal Decentralization Strategy and Transition Plan Developed	Transition Plan Implemented					
27.7. Formulate a fiscal decentralization policy and strategy based on the strategic framework for D&D reform and the Public Financial Management Reform.		X	X	X														D&D WG, LMs	Revisions to law and regulations developed and progressively implemented	Revisions to law and regulations developed and enacted	Revised Laws/Regulations Implemented	Transparent and rules based intergovernmental grant allocation and reporting arrangements implemented				
27.8. Develop a detailed implementation plan to support initial implementation of fiscal and financial aspects of the Organic Law.		X	X	X														D&D WG	Transparent and rules based intergovernmental grant allocation and reporting arrangements	Processes for vertical and horizontal allocation of resources, transfer & reporting arrangements developed	Initial phase of Processes for vertical and horizontal allocation of resources, transfer & reporting arrangements implemented					

PART 2. PLATFORM TWO ACTIVITIES TO BE IMPLEMENTED IN STAGE 2

Objective/Activity	Timeframe (Quarterly)												CG/Dept	Key Performance Indicators	Target			Required Resources			
	2008				2009				2010						2008	2009	2010				
	1	2	3	4	1	2	3	4	1	2	3	4									
OBJECTIVE 28: BUILDING INSTITUTIONAL CAPACITY AND MOTIVATIONAL MEASURES																					
28.1. Organizational development relevant to Stage 2 including complete functional reviews of all MEF departments and financial department in LMs. Develop and implement strategic plan for each department, develop approach to production and dissemination of system manuals, introduce policies for MEF IT management strategy, department capacity building, effective use of technical assistance, recruitment of advisers to support the capacity development plan,. Improve work practices through increase use of technology.		x	x	x	x	x	x	x	x	x	x	x	x			GS/PD/ITD/ ALL/LMs	Functional reviews completed	MEF Functional Reviews Complete	Functional Review Recommendations Implemented		MDTF/IDA
																	Departmental Strategic Plans in place (MEF departments and line ministry Finance Departments)	MEF & Line Ministry DSP complete and commence Implementation. External Review Undertaken	DSP Monitored ,Reviewed and Revised External Review Undertaken	DSP Reviewed and Revised External Review Undertaken	
																	Process with regards to System Manuals developed and implemented.	Process Developed and initial manuals developed	System Manuals Developed and Disseminated	System Manuals Developed and Disseminated	
																	Policies related to effective use of Technical Assistance developed and implemented. Advisors supporting CD Plan	TA Policy Developed and implemented	TA Policy Reviewed and Revised.	TA Policy Reviewed and Revised	
																	Institutional support to EFI. And training of Trainers	EFI Institutional Support Framework Developed	Implement Institutional Support Framework	Framework Reviewed and revised.	
																	Functioning ministry-wide local area networks supporting inter-departmental communication and sharing of data	MEF ICT Policy/Standards Developed (LAN & WAN)	LAN/WAN structured implemented (In conjunction with FMIS)	LAN/WAN structured implemented (In conjunction with FMIS)	

Objective/Activity	Timeframe (Quarterly)												CG/Dept	Key Performance Indicators	Target			Required Resources						
	2008				2009				2010						2008	2009	2010							
	1	2	3	4	1	2	3	4	1	2	3	4												
28.2. Human resource development relevant to Stage 2 including establishment and development of cadre of fast streamers, external recruitment in key skill deficiency areas, development of job rotation policies, development of retention plans in key skill areas.		x	x	x	x	x													GS/RCS/EFI/PD, LMs	Implementation of revised HR Policies in the light of MEF/LM Organisational Reviews and Departmental Strategic Plans	HR Policy Impact Review Complete. Strategic recommendations for HRM/HRD developed. - Staffing - Recruitment - Retention - Job Rotation - Performance - Training etc	Revised HR Policies developed, agreed and implementation commenced.	Revised HR Policies implemented.	
28.3. Skill development and training relevant to Stage 2 including expansion in delivery of skill development and foundation courses, initial design of new courses in key areas, initial design of courses in key areas, first implementation of those courses and development of Capacity Development Plans by line ministries under the umbrella of MEF plan. In parallel, continuation of overseas training scheme for selected fast streamers, develop and implement a study tour plan.		x	x	x	x	x													GS/EFI, LMs	Staff trained in MEF/LM-Budget in -Accounting (1000) -Computer (1500) -Procurement (1000) -Managers (500) Evaluation mechanism developed and implemented. Overseas Training Scheme & Study Tour Arrangements	<ul style="list-style-type: none"> Detailed Training Needs Analysis Detailed Sequenced Training Plans developed Identification of Training Supply Institutions (EFI, External etc Training Institutions Contracted Course/materials Developed Pilot Training of Course delivery 	Rollout Delivery of Training Training Impact Evaluation & Course Revision as necessary	Rollout Delivery of Training Training Impact Evaluation & Course Revision as necessary	
28.4. Motivational development relevant to Stage 2 including review and further develop the MBPI scheme encompassing broader range of recipients, develop measures to support those whose jobs are affected by process and organisational change, develop demand led approach to access to training, develop awareness of and participate in the capacity development plan.		x	x	x	x	x													GS/PD, LMs	MBPI scheme reviewed and updated to support stage 2 activities. - MEF Rollout - LM Rollout	MBPI Rollout to MEF Complete. Complete preparatory work for Pilot line Ministries Initiate Rollout to Pilot Ministries	Rollout to other Line Ministries engaged in PFMRP reform	Further Rollout to Other Line Ministries engaged in PFM Reform	

Objective/Activity	Timeframe (Quarterly)												CG/Dept	Key Performance Indicators	Target			Required Resources			
	2008				2009				2010						2008	2009	2010				
	1	2	3	4	1	2	3	4	1	2	3	4									
28.5. Develop and implement a Coordinating & Communication strategy for the PFMRP.	x	x	x	x												Steering Committee/ SCS	Communication Strategy developed and implemented. - Steering Committee Meetings - PFMRP Website - PFMRP Bulletin - PFMRP in Brief - Workshops/Annual Retreat	Communication Strategy Designed and Implemented - Website Operational - Quarterly Bulletins in Operation - CAP Briefing Workshops - Annual Retreat	Maintenance of Strategy Impact Evaluation and Revision as necessary	Maintenance of Strategy Impact Evaluation and Revision as necessary	
28.6. Clarify and document responsibilities of each of the institutions and coordinating bodies that will involve in the delivery of stage 2.	x	x	x	x												Steering Committee/ SCS	Institutional Analysis, linked to Stage 2 CAP - Charter of Roles and Responsibilities - Consolidated Action Plans - Detailed Action Plans - Monitoring & reporting Arrangements	Roles and Responsibilities Defined Consolidated & detailed Action Plans Developed.			
28.7. Develop and implement a strategy for incorporating cross-cutting issues into the institutional arrangements for the delivery of the Stage 2.	x	x	x	x	x											Steering Committee/ SCS	Strategies developed for addressing: - Cross cutting issues - Linkages	Issues identified and Strategy developed including monitoring instrument/arrangements. Implement Strategy	Monitor impact and revise as necessary	Monitor Impact and revise as necessary	TA
28.8 Develop and implement a strategy for establishing linkages between the Executive Committee and in-post financial management advisors at a technical level.	x	x	x	x	x																
28.9 Establish Coordinating Bodies, Roles, Responsibilities, Procedures and agree Resource Framework.	x	x	x	x	x											Steering Committee/ SCS	Functioning Co-ordination Arrangements - Roles/Responsibilities - Competences - Performance Targets - Procedures - Resources - Monitoring and Reporting arrangements	Paper on: - Roles & Responsibilities - Competences - Performance targets. - Procedures - Resources - Monitoring and Reporting arrangements Implemented	Monitor impact and revise as necessary	Monitor Impact and revise as necessary	

Objective/Activity	Timeframe (Quarterly)												CG/Dept	Key Performance Indicators	Target			Required Resources
	2008				2009				2010						2008	2009	2010	
	1	2	3	4	1	2	3	4	1	2	3	4						
28.10 Monitor and evaluate progress achieved in reaching the stage 2 reform vision through the delivery of stage 2 CAP. Update the CAP as necessary.	x	x	x	x	x	x	x	x	x	x	x	x	Steering Committee/ SCS	Quarterly and Annual Progress reports and Financial/Audit Reports Annual External Evaluation - Monthly RC and DPC Meetings - Quarterly TWG - Annual Retreat	PFMRP Reports EAP report	PFMRP Progress Reports EAP Report	PFMRP Progress Reports EAP Report	

**PART 3. WORKS FOR LATER PLATFORMS THAT NEED TO BE COMMENCED
EARLY**

PART 3. WORKS FOR LATER PLATFORMS THAT NEED TO BE COMMENCED NOW

Objective/Activity	Timeframe (Quarterly)												CG/Dept	Key Performance Indicators (PEFA Reference)	Target			Required Resources		
	2008				2009				2010						2008	2009	2010			
	1	2	3	4	1	2	3	4	1	2	3	4								
OBJECTIVE 31: IMPROVE AND EXPAND THE IMPLEMENTATION OF PROGRAM BUDGETING.																				
31.1. Review and improve the implementation of program budgeting.		X	X	X	X	X	X	X	X	X	X	X	X	X	BFG/ BD, LMs	Further experience gained of Program budgeting prior to full roll-out in Platforms 3 And 4.	Further deepening of pilot exercises in 8 Ministries. Conceptual/ Implementation Framework Reviewed	Further deepening of pilot exercises.	Further deepening of pilot exercises.	IDA/MDTF
31.2 Develop strategy for the further roll-out of program budgeting.		X	X	X	X	X	X	X	X	X	X	X	X	BFG/BD, LMs	<i>(PEFA Indicator 5)</i>					
31.3. Implement capacity development and training plan in program budgeting.		X	X	X	X	X	X	X	X	X	X	X	X	BFG/ BD, LMs	Training plan developed and delivered.	Training Plan, Materials & Training of Trainers Complete Initial Training Implemented for Pilots	Further Rollout of Training	Further Rollout of Training		

PART 3. WORKS FOR LATER PLATFORMS THAT NEED TO BE COMMENCED NOW

Objective/Activity	Timeframe (Quarterly)												CG/Dept	Key Performance Indicators (PEFA Reference)	Target			Required Resources			
	2008				2009				2010						2008	2009	2010				
	1	2	3	4	1	2	3	4	1	2	3	4									
OBJECTIVE 32: FURTHER IMPROVE COMPREHENSIVENESS AND INTEGRATION OF THE BUDGET																					
32.1. Develop policy on integration of the budget. Continue to improve integration of recurrent and capital budgets through such ongoing initiatives such as MTEF, BSP and PB. Reflect poverty reduction and gender aspect into BSP and PB guidelines.		X	X	X	X	X	X	X	X	X	X	X	X	X	X	BFG, PG/BD, DIC, EPFPD, LMs	Progressive implementation of costed Sector Strategies Progressive implementation of Multi Year Framework (PEFA Indicators 6 & 7)	BSPs submitted for all LMs MTEF covers all Government Financed Expenditure	Quality BSPs elaborated for all LM and Pilot Provinces MTEF covers all Government Financed Expenditure and at least 50% of DP projects	Quality BSPs elaborated for all LM and Provinces MTEF covers all Government Financed Expenditure and 75% of DP funded Projects.	
32.2. Further incorporate off-budget expenditure and revenues into the annual budget including increasing the coverage of donor funds in the budget.		X	X	X	X	X	X	X	X	X	X	X	X	X	X	BFG/ BD, DIC, LMs		Study and determine the size of Government Financed extra budgetary expenditure and develop baseline.	Reduce Government Financed extra budgetary expenditure by 5% from the baseline and at least 50% of DPs provide Budget Estimates for Donor Financed projects.	Reduce Government Financed extra budgetary expenditure by 10% from the baseline and at least 75% of DPs provide Budget Estimates for Donor Financed projects.	

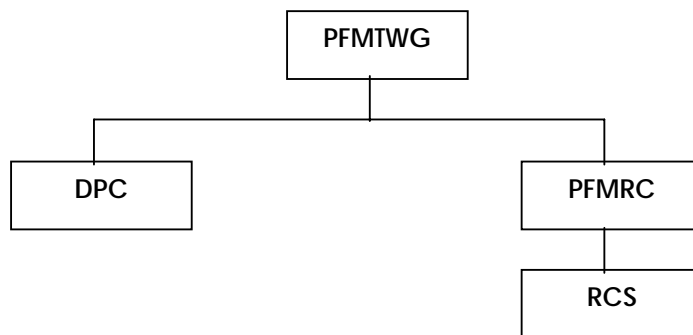


ANNEX 2: LEADERSHIP AND COORDINATION MECHANISM

In general leadership and coordination mechanism for stage 1/platform 1 implementation has been effective. The stage one structure of leadership and coordination mechanism is as follows:

- The Public Financial Management Technical Working Group (PFMTWG), chaired by the government with lead donor coordinator, is an effective forum for high level monitoring and making decision between government and Development Partners (DPs). Members of PFMTWG include all members of PFMRC, all DPs, and representatives of 11 Line Ministries. The PFMTWG meets quarterly and as needed.
- The Public Financial Management Reform Committee (PFMRC) chaired by Secretary of State with all directors of the Ministry of economy and Finance as members. This PFMRC is an effective forum for high technical level monitoring and making decision within the government. The PFMRC meets monthly and as needed.
- Development Partner Committee (DPC) is an effective forum for high technical level coordination and monitoring among Development Partners. The DPC meets monthly and as needed.
- The Reform Committee Secretariat (RCS) is the secretariat of the PFMRC. This secretariat serves PFMRC on all technical and administrative matters as well as coordinates and assists all Departments and DPs.

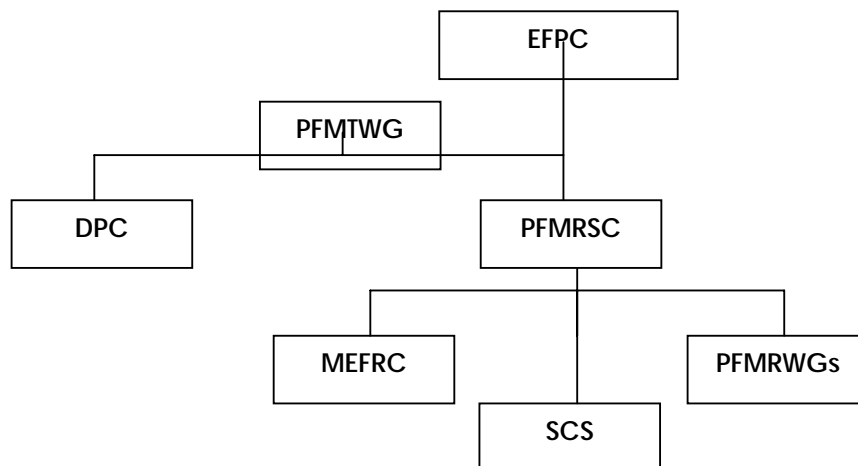
Diagram 1: Stage 1 leadership and coordination mechanism



As stated in the introduction to stage 2/platform 2 above that the effective engagement of budget entities in line ministries would be vital to subsequent stages of reform. And that the capacity development effort would need to be intensified and better organised, particularly as the next wave of reforms will depend not just on MEF, but also on those budget entities and ministries. Participation from line ministries like in stage 1 will not be enough for subsequent stages of reform. Taking the lead and responsibility of line ministries in responding to the requirements of the new PFM system is extremely important and necessary for the success of the reform and sustainability of the new system. Therefore, it is necessary to improve the structure of leadership and coordination mechanism as follows:

- Amended sub-decree on Economic and Financial Policy Committee (EFPC) which is chaired by Minister of Economy and Finance to cover PFMRC as a high level policy forum in which ministers of key ministries are members.
- Established new PFMR Steering Committee chaired by MEF Secretary of State in which Director General (DG) or Secretary General in charge of Finance from all ministries are members. This PFMSC is a high technical level forum to monitor and coordinate among all government agencies.
- Amended Prakas on PFMRC of stage 1 to rename PFMRC to Ministry of Economy and Finance Reform Commission (MEFRC) chaired by Secretary of State in which all directors of MEF are members.
- Established new Steering Committee Secretariat (SCS) which serves both PFMSC and MEFRC and support and assist MEF Departments and PFMRWGs.
- Established Public Financial Management Reform Working Group (PFMRWG) at all ministries chaired by DG/Secretary General responsible for finance who is a member of PFMSC. Members of this PFMRWG should at least be Deputy Director of Finance or Accounting Department, Planning Department, and Project Management Unit who are responsible for implementing grant or loan from DPs if applicable.

Diagram 2: Stage 2 leadership and coordination mechanism



ANNEX 3: MECHANISMS FOR ENGAGEMENT OF LINE MINISTRIES

The nature of Platform 2 makes it important that there is intensive engagement of line ministries and other budget entities in the reform process. This Annex describes proposed arrangements for achieving that engagement.

In general, Line Ministries will be asked to develop their own plans within a framework developed by MEF. Some of this work can be initiated by them immediately, but most will depend on initial actions to be taken by MEF to which they will be asked to respond. They will be given initial briefings on the nature of their contribution in specific areas. Line Ministries will be supported with funding and access to technical advice. The key staff involved in reform will also have access to performance related pay.

In particular, this paper describes:

- The process of engagement.
- The development of work and capacity development plans
- Resources to be made available to line ministries
- Monitoring of progress

Arrangements for involving line ministries in steering arrangements and reform leadership have already been described in Annex 2.

PROCESS OF ENGAGEMENT

It is proposed to bring about and support this engagement through the process described below.

<i>Initial briefing and consultation</i>	
1) Consultation about the form and content of Platform 2 plans.	<ul style="list-style-type: none"> • Initial seminar based on draft CAP • Further seminar based on final plan and CAP
<i>Putting in place institutional arrangements</i>	
2) Requirement to establish a reform cell within each line ministry.	<ul style="list-style-type: none"> • Establish requirement in a Sub-decree. • Require notification to MEF of form and membership of cell established.
3) Establish clusters of line ministries for coordination purposes.	<ul style="list-style-type: none"> • Establish 4 clusters along the lines of the 4 sectors used for budgetary purposes.
4) Establish coordination mechanisms.	<ul style="list-style-type: none"> • See Annex (2)
<i>Identification of contribution required from line ministries</i>	
5) MEF Departments identify activities that require line ministry activity.	<ul style="list-style-type: none"> • Each MEF Department indicates the activities requiring a contribution in both the CAP and their detailed action plans (DAPs). • Departments prepare a short brief on the contribution required.
6) Briefing of line ministries on the contribution expected from them.	<ul style="list-style-type: none"> • Seminar in which MEF Departments brief the line ministries and facilitate discussion.

<i>Development of plans by line ministries</i>	
7) Preparation of action plan.	<ul style="list-style-type: none"> • Preparation of plans by each line ministry in a format approved by PFMRC and provided by RCS.
8) Preparation of capacity development plan.	<ul style="list-style-type: none"> • Preparation of plans by each line ministry in a format approved by PFMRC and provided by SCS.
9) Approval of both activity and capacity development plans by PFMRC	<ul style="list-style-type: none"> • Submission of plans to PFMRC • Clarification and discussion • Final endorsement by PFMRC
<i>Provision of support and advice</i>	
10) Support from core advisors	<ul style="list-style-type: none"> • PFMRC core advisors in each of the 8 key areas identified for procurement purposes make themselves available to line ministries in forming their plans.
11) Support from EFI and SCS	<ul style="list-style-type: none"> • EFI and SCS make themselves available to line ministries in forming their plans.
12) Identification of technical assistance required by line ministries	<ul style="list-style-type: none"> • Identification of opportunities to use advisors and resources already available in existing programmes in the sector. • Identification of additional support required from PFMRC TA pool.
13) Development of a communication programme	<ul style="list-style-type: none"> • Design of programme. • Establishment of implementation arrangements.

DEVELOPMENT OF LINE MINISTRY WORK PLANS AND CAPACITY DEVELOPMENT PLANS

Line ministries will be asked to develop their own work plans and Capacity Development Plans in a similar format to MEF work plans. They will be briefed on this format in accordance with the process described above.

Areas of the CAP where Line Ministries will be expected to engage and the nature of that engagement are shown in the table "PLATFORM 2/STAGE 2 ACTIVITIES REQUIRING ACTIVE ENGAGEMENT FROM LINE MINISTRIES".

PLATFORM 2/STAGE 2 ACTIVITIES REQUIRING ACTIVE ENGAGEMENT FROM LINE MINISTRIES

CAP Activity	Nature of Line Ministry Contribution
REVENUE POLICY	
OBJECTIVE 11: FURTHER IMPROVE REVENUE POLICY AND ADMINISTRATION	
<p>11.1. Refine and Implement medium term revenue policy including oil and gas revenue.</p>	<ul style="list-style-type: none"> • Cooperation with LMs is required to enforce the contract terms to settle the outstanding arrears • LMs and local authorities (LAs) need to provide information of new source of revenue • Discuss with LMs on non-tax revenue collection, control and monitoring mechanism • Provide data input from LMs mainly MOI, Tourism, Post and Telecommunication to prepare gambling legal framework • Need data input on tax policy of gambling from LMs • Need clear guideline from government to review and accelerate the approval of gambling legal framework and Council of Ministers for the active input in meetings and adoption process • Active participation of LMs (Council of Ministers, MoI, MLMUC, MPWT, MoT, MoH, MAFF and MoJ) in meetings and adoption process of the regulation on Insurance • Conduct a nationwide survey MFIs outside the formal sector in order to identify in formal micro-finance market (Insurance) • MLMUC, NBC, CDC, ADB, MoI, MoC are requested to actively participate in meetings and to respond to documentation requirements, and to assist in preventing all illegal real estate transaction of the companies.

11.5. Continued improvement in non-tax revenue policy and administration including state property.

- Input from relevant LMs is required to draft the law on state property management
- Establish working group/commission comprising representatives from LMs to draft the law on state property management. Two sub-commissions will be created to be in charge of gathering technical documents and drafting the law respectively
- MEF and CDC need to take lead in drafting the sub-degree
- LMs need to have measures and procedures to manage state property of autonomous entities under their supervision
- LMs need to provide related information for formulating revenue mobilization policy
- Establish working group
- Review existing legal framework and propose for change
- LMs need to give comments and feedback on draft national receipt
- Provide figure and information on revenue collection, payment to National Treasury, debt and revenue
- Propose incentive scheme and consult with MEF
- Cooperate with appointed staff to monitor revenue at their LMs

OBJECTIVE 25: IMPROVED ACCOUNTING, FINANCIAL REPORTING AND TRANSPARENCY

25. 5. Introduction of mechanisms to complete and regularly update asset register.

- LMs and LAs need to raise issues of inventory management related to implementation of existing laws and regulations and to report its issues
- LMs need to provide comments on draft guidelines, manuals, and procedures
- Ministry of land management, urbanization and construction (MLMUC) need to issue asset title to all LMs and LAs. MEF and MLMUC need to work together on this issue.
- LMs need to provide comments on draft principles, guideline manual and procedures
- Establish working group to compile documents and participate in drafting laws
- MEF needs assistance from Ministry of Land Management, Urbanisation and Construction (MLMUC) to issue land titles
- MEF and MLMUC need to cooperate on plan and financing for this project.

BUDGET FORMULATION

OBJECTIVE 21: IMPROVED LINES OF ACCOUNTABILITY BY CLARIFYING ROLES, FUNCTIONS AND RESPONSIBILITIES BETWEEN LEVELS OF GOVERNMENT AND WITHIN SPENDING INSTITUTIONS

21. 3. Identify full schedule of budget entities for central and provincial governments and budget managers in relation to those entities.

- Identify full schedule of budget entities and budget managers and map existing budget flows and accountability arrangements of ministry based on the guideline prepared by MEF
- Propose new schedule of budget entities and budget managers and new budget flows and new accountability arrangements of ministry based on the guideline prepared by MEF

<p>21. 4. Define responsibilities between management levels.</p>	<ul style="list-style-type: none"> • Design new schedule of budget entities and budget managers and new budget flows and new accountability arrangements of ministry based on the framework established by MEF • Undertake institutional assessment of ministry including functional analysis, organizational and business process review within the framework established by MEF and make recommendations for improvement • Prepare action plan to implement new schedule of budget entities and budget managers and new budget flows and new accountability arrangements of ministry • Develop an internal procedure to monitor implementation of new schedule of budget entities and budget managers and new budget flows and new accountability arrangements under each ministry and take appropriate action as required to address any issues.
<p>21. 5. Development and issue of a manual explaining the empowerment and responsibilities of budget entities and budget managers and disseminate via training workshop and courses.</p>	<ul style="list-style-type: none"> • Provide comments on the manual explaining the new schedule of budget entities and budget managers and new budget flows and new accountability arrangements under each ministry • Disseminate the manual within each LMs in cooperated with BD • Develop in-house training of trainer's programs to train staff in applying the new schedule of budget entities and budget managers and new budget flows and new accountability arrangements
<p>OBJECTIVE 22: IMPROVED INSTRUMENTS FOR ENCOURAGING RESPONSIBLE FINANCIAL MANAGEMENT AND ENFORCING ACCOUNTABILITY</p>	
<p>22. 2. Establish a list of freedoms and flexibilities to be given to those budget entities that meet agreed criteria with regards to satisfactory resource management systems.</p>	<ul style="list-style-type: none"> • Provide an input to MEF (BD) in defining powers to transfer to LMs
<p>22. 3. Conduct regular review of standards of resource management achieved by individual budget entities as a basis for extending those freedoms and flexibilities.</p>	<ul style="list-style-type: none"> • Provide input to Budget Department in the preparation of Checklist of Budget Management Standards to ensure that these are set at realistic levels • In accordance with Budget Department Guidelines, each LMs conduct self assessment to determine baseline of budget management standards of each LMs. • Develop own work plan and training plan to achieve this objective together with internal monitoring and reporting arrangements in order to meet external reporting requirements
<p>OBJECTIVE 23: FURTHER IMPROVE THE IMPLEMENTATION OF NEW BUDGET CLASSIFICATION AND NEW CHART OF ACCOUNT</p>	
<p>23. 1. Review and further improve the new chart of account and budget classification in terms of progressive enhancement and implementation of the administrative, functional and economic classification.</p>	<ul style="list-style-type: none"> • Develop in-house training of trainer's programs to instruct staff in applying new economic classification • Report any implementation difficulties to the Budget Department to obtain advice • Provide comments to BD on the implementation of economic classification in terms of what need to be improved • Provide disbursement report of investment projects to MEF (DIC) in line with budget classification
<p style="text-align: center;">56</p>	

<p>23.2 Develop option for implementation of program and functional classifications.</p>	<ul style="list-style-type: none"> • Provide an input to MEF (BD) in developing program and functional classification • Send the staff to participate training in applying program and functional classification • Organize their own training to disseminate
<p>OBJECTIVE 25: IMPROVED ACCOUNTING, FINANCIAL REPORTING AND TRANSPARENCY</p>	
<p>25. 2. Implementation of quarterly budget progress reports commenting on stage of completion reached, results achieved and any delays and remedial action proposed: From line ministries to MEF and within line ministries from internal budget entities to senior management.</p>	<ul style="list-style-type: none"> • Review internal reporting arrangements and report formats for consistency with new external reporting requirements • Design and propose new internal reporting arrangements and report formats that better enable external reporting requirements to MEF • Train staff in the use of the new reporting arrangements and report formats
<p>OBJECTIVE 27: STRENGTHEN AND DEVELOP FISCAL DECENTRALIZATION POLICY AND STRATEGY</p>	
<p>27.6. Develop supporting laws and regulations as required in the Law on Administration and Management of the Capital, Province, Municipality, District and Khan (Organic Law).</p>	<p>LMs should have comments/ recommendations to any draft laws which may directly or indirectly involve any particular LMs (MEF will submit the draft laws to LMs)</p>
<p>27.7. Develop a fiscal decentralization policy and strategy incorporating the strategic framework for D&D reform and the Public Financial Management Reform.</p>	<p>To contribute to the Fiscal Decentralization Strategy, both short and longer term, LM should consider devolving some appropriate functions, responsibilities downward to the sub-national administrative.</p>
<p>OBJECTIVE 31: IMPROVE AND EXPAND THE IMPLEMENTATION OF PROGRAM BUDGETING</p>	
<p>31.1 Review and improve the implementation of program budgeting, including integrating poverty reduction and gender implications statements into BSP and PB guidelines.</p>	<ul style="list-style-type: none"> • Provide comments to BD to improve Program Budgeting Guidelines issued by Budget Department • Comments on essential characteristics of what constitutes a good program budget • Comment on review methodology in terms of assessment and scoring of PB • Report any implementation difficulties to the Budget Department to obtain advice and take actions to improve the implementation of PB in terms of organizational restructuring etc. • Provide comments to BD on the preparing and implementation of Program Budgeting in terms of what need to be improved • Annual review structure of programs sub-programs and activities to ensure that they meet policy objectives and propose change as needed. • Develop internal mechanism to report the implementation of PB to meet requirement of MEF (BD) • Develop work plan for achieving this objective

<p>31.2 Develop strategy for the further roll-out of program budgeting.</p>	<ul style="list-style-type: none"> • Comment on strategy and criteria to determine the suitability and timing of piloting program budgeting in other line ministries • Develop an internal procedure
<p>31.3 Implement capacity development and training plan in program budgeting.</p>	<ul style="list-style-type: none"> • Conduct self assessment to determine capacity building requirements in regard to meeting program budgeting standards and submit proposal on training to MEF/BD • Using Budget Department Guidelines develop in-house training of trainers programs to ensure that capacity in program budgeting is developed and sustained
<p>OBJECTIVE 32: FURTHER IMPROVE COMPREHENSIVENESS AND INTEGRATION OF THE BUDGET</p>	
<p>32.1. Develop policy on integration of the budget. Continue to improve integration of recurrent and capital budgets through such ongoing initiatives such as MTEF, BSP and PB.</p>	<ul style="list-style-type: none"> • Establish and make operational Budget Working Group with membership drawn from planning and finance departments and project management units for the purpose of preparing Ministry Budget Strategy Plan • Identify capacity building requirements in regard to sectoral policy analysis and strategic planning and make proposal to MEF • Develop in-house training of trainers programs to enable staff to obtain skills in sectoral policy analysis and strategic planning.
<p>32. 2. Further incorporate off-budget expenditure and revenues into the annual budget including increasing coverage of donor funds in the budget.</p>	<ul style="list-style-type: none"> • Prepare guideline to instruct industrial and commercial enterprises and public administrative institutions under each LMs to plan budget based on guideline prepared by MEF and consolidate into annual budget of the LMs • Develop its own mechanism to keep track on off-budget expenditure and revenue and report to MEF based on format prepared by BD • Cooperate with BD to incorporate the off-budget expenditure and revenue into the annual budget.
<p>BUDGET EXECUTION</p>	
<p>OBJECTIVE 13: FURTHER IMPROVE CASH AND BANK ACCOUNT MANAGEMENT</p>	
<p>13. 1. Further consolidation of government bank accounts and strengthening TSA.</p>	<ul style="list-style-type: none"> • Report to NT the opening of saving accounts with NBC and other commercial banks by the end of each month. • Headquarter NBC and provincial NBC need to completely fulfil the sample table (list of account numbers) provided by NT and report to NT on time & regularly • LMs need to completely fulfil the sample table (list of account numbers) provided by NT and report to NT on time & regularly. Prior conciliation with banks is required by LMs. • LMs must fully cooperate with NT by informing the NT the number of account they own, and voluntarily close those accounts. • Provide correct information on the cash flow into and out of government bank accounts.

<p>13.2. Expand further the use of the banking system for government revenue and expenditure transactions.</p>	<ul style="list-style-type: none"> • For payroll of each staff above 400,000 Riels, LMs need to open account at ANZ. Accounts already opened, LMs monitor the implementation.
<p>13.3. Consolidate and further improve cash plan (start from quarterly/monthly then slowly move to weekly/daily).</p>	<ul style="list-style-type: none"> • Provide accurate updated and timely revenue and expenditure forecasts. • Update, review and adjust revenue and expenditure data plan. • Provide data on all significant non regular purchase orders. • Provide revenue and expenditure data make comparison with actual outcomes. • Provide correct information on the cash flow into and out of government bank accounts and government's cash balances. • Provide valuable input to CMU on expected use of cash resources by spending agencies. • Provide quarterly estimates of expenditures in order to control budget releases. • Provide the reasons of comparison between estimate and actual outcomes.
<p>13.4. Continue to monitor arrear and its ageing profile.</p>	<ul style="list-style-type: none"> • Provide expenditure payment order not due. • BD, FAD, DIC and LMs set up a mechanism for commitment plan regularly. • LMs submit payment orders in line with Budget Line to avoid a large number of payment orders arriving by the end of the year.
<p>OBJECTIVE 14: FURTHER IMPROVE PUBLIC PROCUREMENT</p>	
<p>14.1. Elevate the Legal stature of procurement in the Country.</p>	<ul style="list-style-type: none"> • Develop the procurement plan per year. • Set up timetable to carry out the monitoring process. • Provide comment and further inputs to assist DPP in completing the draft of Procurement Law.
<p>14.2. Implement the new Procurement Sub Decree and IRRPP, including SBDs.</p>	<ul style="list-style-type: none"> • Provide effective staffs equipped with suitable capacity for the training. • Ensure to employ the trained staffs in the right position after the training. • Provide progressive procurement activities (procurement method and procedure has been improved).
<p>14.3. Further Strengthen Procuring Agencies' capacity at national and sub national levels, to implement the new Procurement SD, IRRPP, SBDs.</p>	<ul style="list-style-type: none"> • Provide effective staffs equipped with suitable capacity for the training. • Ensure to employ the trained staffs in the right position after the training.
<p>14.4. Strengthen DPP's capacity to monitor and evaluate the performance of the public procurement system.</p>	<ul style="list-style-type: none"> • Provided data output and outcome on the procurement activities conducted within a period of time from line ministries to MEF (DPP). • Provide cooperation and facilities from line ministries to MEF (DPP) to successfully implement ex-post review.
<p>14.5. Increase competitiveness and transparency in the procurement process through enhanced publicity and disclosure.</p>	<ul style="list-style-type: none"> • Provide relevant documents and concrete data on the procurement activities to be taken by line ministries.

<p>14.6. Clarify Line of accountability within the procurement process.</p>	<ul style="list-style-type: none"> • Provide effective staffs equipped with suitable capacity for participating the workshop. • Provide clear line of management accountability of line ministries.
<p>OBJECTIVE 23: FURTHER IMPROVE THE IMPLEMENTATION OF NEW BUDGET CLASSIFICATION AND NEW CHART OF ACCOUNT</p>	
<p>23. 1. Review and further improve the new chart of account, regional (local) and budget classification in terms of progressive enhancement and implementation of the administrative, functional and economic classifications.</p>	<ul style="list-style-type: none"> • Collaborate with DIC, nontax, state property and FID to reports monthly to NT • Provide an input to MEF (EPFPD) • Develop a format for recording the outside transactions of NT in line with budget classification, especially DPs transactions.
<p>23. 3. Develop a plan for a step by step moving to implementing the accrual based accounting.</p>	<p>DIC, Nontax, FID, State Property and LMs cooperate to provide a list of inventories to NT.</p>
<p>OBJECTIVE 24: IMPROVE BUDGET EXECUTION AND TRANSACTION PROCESS</p>	
<p>24.1. Further reduce timeframe for processing commitments, expenditures and revenues. (Assumes improvements in existing and interim systems and a progressive introduction of the FMIS in 2009 & 2010)</p>	<ul style="list-style-type: none"> • Conduct review existing function within levels and map existing processes of spending proposals (commitment and payment) of spending institution/line ministries. • Develop implementation plan and develop means of tracking flow of funds in accordance with new process. • MEF/LMs should also internally reduce time frame for processing commitments, expenditures, and revenue within their own institutions process.
<p>24.2. Improved processing of transactions in MEF/Line ministries in accordance with developments in the chart of accounts and accounting rules and regular completion of bank reconciliations.</p>	<ul style="list-style-type: none"> • MEF/LMs review the recording of payment order or cash advances by respecting accounting rules and new chart of account in line with budget line items.
<p>OBJECTIVE 25: IMPROVED ACCOUNTING, FINANCIAL REPORTING AND TRANSPARENCY</p>	
<p>25.1. Review of international public sector accounting standards (IPSAS, GAAP etc) and assess realistic and appropriate sequencing for introduction linked to FMIS rollout.</p>	<ul style="list-style-type: none"> • LMs respect the dateline to submit payment orders by 25 December of each year.
<p>OBJECTIVE 32: FURTHER IMPROVE COMPREHENSIVENESS AND INTEGRATION OF THE BUDGET</p>	
<p>32.1. Develop policy on integration of the budget. Continue to improve integration of recurrent and capital budgets through such ongoing initiatives such as MTEF, BSP and PB.</p>	<ul style="list-style-type: none"> • Provide data output and outcome from line ministries to update the MTEF output material. • Schedule with line ministries to conduct survey for applying MTEF Bottom Up. • Review of concrete link between sectoral plan and NSDP. • Classify priority sub-program and activities of program budgeting. • Success Measure and Success Indicator of program budgeting with priority ministries which is consistent with Medium Term Macroeconomic Framework. • Review sources of financing with line ministries & CDC. • Quarterly report on projects/programs implementation of line ministries

AUDIT AND MONITORING

OBJECTIVE 26: IMPROVED INTERNAL AUDITING/INSPECTION AND RESPONSE TO/USE OF AUDIT/INSPECTION FINDINGS

<p>26.1. Complete coverage of internal audit sections within line ministries.</p>	<ul style="list-style-type: none"> • LMs' IAD appoints a focal person who will provide technical assistance to LMs' IAD. • To collaborate with NAA to design a questionnaire that may include necessary criteria such as number of staff, proper working place, equipment, annual planning and report. • MEF IAD works with LMs to follow up the progress. • Report MEF IAD the existence of LMs' IAD.
<p>26.2. Improved mechanism to ensure effective response to audit/inspection finding within budget entities.</p>	<ul style="list-style-type: none"> • LMs' IAD carries out the audit based on the annual audit plan. • A mid year selected snap check can be made to follow up the progress on recommendation being implemented by auditees. • Internal auditors will be trained on risk assessment, internal audit technique. • Maintain audit procedure and respect the audit standard and code of ethics. Audit detailed work should be pursued against its audit manual. • Attend the workshop on issues encountered during the audited year. • Need to have computerising AID's statistics and legal documents as well as to have them in hard copies. • Need to have AID's database as an internal control system and updated regularly. • One audit box for each province/city is very crucial for fraud preventing and providing help to detect the weak point of the control system.
<p>26.3. Require internal audit sections and general inspection to submit annual audit plans based on risk assessment criteria recommended by MEF.</p>	<ul style="list-style-type: none"> • LMs and SoEs IAD are requested to submit their selected audit plan to MEF IAD for review. A possible workshop on strengthening the audit plan preparation will be convened. • Request selected LMs and SoEs to submit their 2008 audit report for reviewing and recommendation will be given.
<p>26.4. MEF reviews adequacy of sample of audit/inspection reports.</p>	<ul style="list-style-type: none"> • MEF IAD sets out standard for audit plan preparation and work closely with selected LMs and SoEs to prepare the audit work plan. • LMs and SoEs need to follow the report template established by MEF IAD

FINANCIAL MANAGEMENT INFORMATION SYSTEM

OBJECTIVE 24: IMPROVE BUDGET EXECUTION AND TRANSACTION PROCESS

<p>24.3. Strengthen level of understanding, ownership, engagement and capacity for FMIS at MEF, LMs and Sub-national level.</p>	<ul style="list-style-type: none"> • Participate in trainings, seminars and other capacity building programs that will be organized by the MEF on FMIS. • Disseminate the knowledge or information after having joined the seminars or workshops to other staffs in the line ministries. • Define who will be the end users for the FMIS System.
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<p>24.4. Establish FMIS Project/Transition Management Capacity incorporating MEF, LMs and Sub-national entities.</p>	<ul style="list-style-type: none"> • Establish a three members FMIS team in the line ministries. • Assign staffs with proper qualification requested by the MEF to the FMIS team. • Make sure that the assigned staffs in the FMIS team will attend all trainings, seminars and other capacity building programs on FMIS.
<p>24.5. Strengthen FMIS Design and finalize procurement process.</p>	<ul style="list-style-type: none"> • Prepare the existing business processes and the to be business processes for future FMIS implementation. • Facilitate in every stage of FMIS preparation. • Define what kinds of special reports needed from the system.
<p>24.6. Develop an Overall Integrated Implementation Plan (pilot and rollout) encompassing MEF, LMs and Sub-national units.</p>	<ul style="list-style-type: none"> • Understand the FMIS policy paper and be aware of the roll-out strategy. • Participate in the Change management program. • Facilitate the implementation of the Change Management Strategy in line ministries.
<p>24.7. Development of plan, training courses and materials for on-going training of all personnel (application, ICT, users) involving in FMIS for MEF, LMs and Sub-national units.</p>	<ul style="list-style-type: none"> • Send the right person who will be the users of the system to participate in the FMIS capacity building programs. • Participate actively in all training courses, workshops and other FMIS capacity building programs. • Identify what capacity building programs needed in the line ministries before the implementation of FMIS. • Work cooperatively with the MEF to conduct other capacity building programs and knowledge sharing.
<p>CAPACITY DEVELOPMENT</p>	
<p>OBJECTIVE 28: BUILDING INSTITUTIONAL CAPACITY AND MOTIVATIONAL MEASURES</p>	
<p>28.1 Organizational development relevant to Stage 2 including complete functional reviews of all MEF departments and financial development in LMs. Develop and implement strategic plan for each department, develop approach to production and dissemination of system manuals, introduce policies for effective use of technical assistance, recruitment of advisers to support the capacity development plan,. Improve work practices through increase use of technology.</p>	<ul style="list-style-type: none"> • Design functional review policy and strategy of the ministry and submit it to the MEF for comments and suggestions. • Prepare a manual of functional review of the ministry and submit it to the MEF for comment and suggestions. • Propose legislation related to functional review of the ministry and submit it to the MEF for comment and suggestions. • Undertake functional review of the ministry. • Prepare the effective use of TA Policy of the ministry and submit it to the MEF for comments and suggestions. • Propose an appropriate approach of the effective use of TA of the ministry and submit it to the MEF for comments and suggestion. • Prepare an action plan to implement the organizational development of the ministry including functional review, effective use of TA and MBPI.
<p>28.2. Human resource development relevant to Stage 2 including establishment and development of cadre of fast streamers, external recruitment in key skill deficiency areas, development of job rotation policies, development of retention plans in key skill areas.</p>	<ul style="list-style-type: none"> • Prepare recruitment policy of LM and submit it to the MEF for comments and suggestions. • Prepare job rotation plans for fast streamers of the LM and submit it to the MEF for comments and suggestions. • Design retention plan and policy of the LM and submit it to the MEF for suggestions.

<p>28.3. Skill development and training relevant to Stage 2 including expansion in delivery of skill development and foundation courses, initial design of new courses in key areas, initial design of courses in key areas, first implementation of those courses and development of Capacity Development Plans by line ministries under the umbrella of MEF plan. In parallel, continuation of overseas training scheme for selected fast streamers, develop and implement a study tour plan.</p>	<ul style="list-style-type: none"> • Cooperate with the MEF to identify the skills gap and training needs. • Report any difficulties of broader skill development implementation and training need to the MEF for suggestions. • Cooperate with the MEF to select qualified staffs to the training courses, to be conducted at the MEF. • Effective use of staffs who have been trained by the MEF. • Effective transfer of knowledge and experiences of staffs who has been trained to the other staffs within the ministry. • Assessment tests to measure the effectiveness of training which is conducted by the MEF. • LM design Capacity Development plan and submit it to the MEF for review and comments. • Develop in-house training of training program to instruct staffs in use of new change under the PFM.
<p>28.4. Motivational development relevant to Stage 2 including review and further develop the MBPI scheme encompassing broader range of recipients, develop measures to support those whose jobs are affected by process and organisational change, develop demand led approach to access to training, develop awareness of and participate in the capacity development plan.</p>	<ul style="list-style-type: none"> • LM prepare MBPI scheme and submit it to the MEF for suggestions. • Disseminate the manual within the ministry in cooperate with MEF.

RESOURCES TO BE MADE AVAILABLE TO LINE MINISTRIES

In designing and implementing both their action plans and capacity development plans line ministries will have a number of sources of technical assistance and funding available to them:

From MEF:

From the core advisors described in Annex 4 below.

From the Multi Donor Trust Fund made available to support PFMRP and held by MEF.

From the training and skill development programmes developed by MEF.

From bi-lateral support

Any existing assistance programmes made available to them directly where the funds could be used for activities that support PFMRP.

New assistance programmes where they may negotiate a component that could be used for activities that support PFMRP.

Funding will also be provided to enable performance related pay to those staff most closely involved in the reform process within the Line Ministry.

The balance between these sources will depend on what programmes are already on-going and will, therefore, vary between line ministries. The requirements and how best to met them will be discussed between MEF and line ministries on the basis of their initial work and capacity development plans.

ARRANGEMENTS FOR MONITORING PROGRESS

Line Ministries will be provided with the following material to help them in reviewing and updating their work plans:

- Progress reports on PFMRP as a whole.
- Copies of progress reports submitted by MEF Departments indicating when line ministry contributions are likely to be required with regards to individual activities.
- Work Plan and Capacity Development Plan updates

Line ministries will be expected to develop:

- Internal reporting arrangements for assessing progress with activities in their own specific work plans.
- Quarterly progress reports in accordance with a format to be provided by MEF.

Coordination and management of cross cutting issues will be arranged through the working groups established for this purpose within MEF. The engagement of line ministry staff in this process will be managed through the following:

- The inclusion of line ministry focal points in the membership of the appropriate coordination groups.
- Joint discussion of MEF and line ministry progress reports.
- The sharing of technical assistance and advice where that is appropriate.



**ANNEX 4: IMPROVED DEPLOYMENT OF TECHNICAL ADVISORS
DURING STAGE 2**

The mobilisation of technical assistance during Stage 1 implementation has often been slow, cumbersome and yielded unsatisfactory results. Some contributory reasons are:

- Procurement has often been on the basis of fragmented tasks which might otherwise be better bundled together in order to find the right person to assist with the bundle of tasks.
- Departments have tended to wait until the need arises before asking for assistance. Procurement timescales are such that it is some considerable time later that the assistance actually arrives.
- The emphasis has been on Departments drafting the TORs for the TA that they request. Often they are not in the best position to know how best to address the consulting market and often do so from the point of view of their own interests even though some tasks may cut across the interests of several departments.
- Due to late commencement of the procurement process most of the good consultants have other work for many months ahead by the time that they hear about MEFs needs.
- Task specification and performance monitoring has often been weak. It has also sometimes been confined to the department concerned so that the impact of task delivery on the overall reform programme is not very visible.

The problem will become even more acute during stage 2 as the increased involvement of line ministries and other agencies will make needs more complex.

To try and speed up things it is proposed that MEF procure on behalf of themselves and line ministries a number of 'core' consultants who will be given contracts on a 'call down' basis for a defined number of days over a period to be drawn down by MEF as the need arises and within defined periods of notice. These contracts would work as follows:

- They would be for individual consultants or individuals supplied by a company.
- Initially they would be for a defined number of days for one year.
- At the end of that year MEF may extend for up to 2 further years subject to satisfactory performance.
- In general consultants will be peripatetic (although some may be resident for short periods of time) with the aim that the ownership of activity performance remains with departments, but they have flexible access to advice when they need it.

The task specification for these core consultants would be developed as follows:

- Departments will be asked to identify detailed activities in their work plans where they require assistance.
- The secretariat will examine these activities and bundle them together in to clusters.

- Within those clusters activities will be selected where it appears reasonable to expect an individual to span them (in terms of both time and the nature of the tasks). More specialist activities requiring attention from someone with unique skills will continue to be procured separately.
- TORs will be developed for each cluster of activities initially by the Secretariat with the assistance of the CTA and will be circulated for consultation with the interested departments.
- One of the tasks of the core consultant will be to provide support in developing the TORs for the specialist consultants. They will also be required to support line ministries in their functional areas in reviewing and advising on line ministry action and capacity development plans and in identifying their own TA requirements.
- Core advisors should also be required to make themselves aware of the MBPI related performance obligations of their counterparts. It is important that these obligations remain with the staff concerned, but consultants should make themselves available for advice on a demand basis.
- Increasingly, it is intended that core advisors will make a major contribution to the development and delivery of modules identified within the Capacity Development Plan. This should be included in their Terms of Reference.
- Interested departments will be involved in consultant selection. Short lists will be developed by competition consisting of at least 3-6 individual consultants.
- A simplified task specification pro-forma will be developed by which an interested department will be required to identify specific tasks for the 'core' consultant to perform.

Based on the work envisaged for Stage 2 of the reform programme it is proposed that 'core' consultants be recruited in the following areas and that the recruitment process should begin very soon.

- Macro-fiscal advice and implementation support.
- Revenue policy and implementation advice and implementation support.
- Budget formulation advice and implementation support.
- Budget implementation and control advice and implementation support.
- Accounting and reporting advice and implementation support (including FMIS and ICT).
- Auditing advice and implementation support.
- Training advice and implementation support.
- Human resource development advice and implementation support (including the development and implementation of a communication strategy with regards to the reform programme).

Revised performance monitoring arrangements have been developed requiring departments to report on task performance. The aim is to bring to the surface not just whether tasks have been successfully performed, but also their usefulness in moving the reform agenda forward. The Secretariat will play a key coordinating role in this respect. These arrangements are set out in more detail in the attachment.

It is further proposed that the use of TA should be mainstreamed within MEF management. Initially, this will be done by the Reform Secretariat producing a quarterly summary of technical assistance received, performance of advisors and results achieved. This report will be provided to Reform Commission and Working Group of Line Ministries for overall evaluation and advice to the Steering Committee.

ATTACHMENT

ENHANCED MONITORING OF THE PERFORMANCE OF TECHNICAL ADVISORS

SUGGESTED AMENDMENTS TO TEMPLATE FOR TERMS OF REFERENCE TO BE GIVEN TO TECHNICAL ADVISERS

Add the following paragraphs in an appropriate place:

Firstly to make clear the lines of reporting:

“Core consultants will be expected to report on individual tasks assigned to them.

As well as counterparts, copies of the following reports should be provided electronically to both the Reform Secretariat and the Chief Technical Adviser to the Reform Programme:

- Inception report and work plan.
- Visit reports (where there are multiple visits).
- Final reports.

Secondly, to make it clear to consultants the criteria against which their performance will be judged:

“Fulfilment of the requirements of these Terms of Reference will be assessed in accordance with the attached template. Consultants and their counterparts are encouraged to conduct reviews of progress at appropriate stages using this template as a basis.”

The assessment will be for Government Ministries/Agencies internal purposes although the general outcome of the assessment will be made known to the consultant.

Thirdly, to make it clear that evaluation will be a two way process:

“Consultants should include in their reports an evaluation of their interaction with their counterparts and barriers to the effective implementation of the tasks assigned in the TORs.

The suggested template in respect of the second of these additions is attached. It is proposed that each consultancy be evaluated against three key areas:

- The performance of the responsibilities assigned and the policy and technical advice provided.
- The delivery of the outputs specified in the TORs.
- Capacities developed and the sustainability of the results achieved.

In addition, Heads of Department are required to make it clear what results have been achieved and how they will use and take forward recommendations made and advice received.

TEMPLATE FOR ASSESSING PERFORMANCE OF CONSULTANCY TASKS**Counterpart Assessment**

Responsibilities assigned	Performance (See separate guidance on grading)				
	Not Satisfactory	Partial	Satisfactory	Good	Excellent
(To be listed in TORs and extracted here)					

Justification/evidence for an unsatisfactory assessment.....

Outputs Required	Performance (See separate guidance on grading)				
	Not Satisfactory	Partial	Satisfactory	Good	Excellent
(To be listed in TORs and extracted here)					

Justification/evidence for an unsatisfactory assessment.....

Capacity Developments and sustainability contributed to	Performance (See separate guidance on grading)				
	Not Satisfactory	Partial	Satisfactory	Good	Excellent
(To be listed in TORs and extracted here)					

Justification/evidence for an unsatisfactory assessment.....

Comments by Counterpart Head of Department

Overall performance	
How the outputs from the assignment will be used	
Lessons learned from recruitment and deployment of this consultant	
Future use of this consultant.	

Signed-----Head of Department

Supplementary Comments by: 1. Secretariat 2. Chief Technical Adviser
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ANNEX 5: Implementation Strategies

- 5.1 CAPACITY DEVELOPMENT IN SUPPORT OF PUBLIC FINANCIAL MANAGEMENT REFORM PROGRAM**
- 5.2 LINE MINISTRY CAPACITY DEVELOPMENT PLANS**
- 5.3 FMIS POLICY PAPER**

**ANNEX 5.1 CAPACITY DEVELOPMENT IN SUPPORT
OF THE PUBLIC FINANCIAL MANAGEMENT REFORM PROGRAMME**

CAPACITY DEVELOPMENT PLAN

1. Introduction

On Tuesday, March 27, 2007 the Economics and Finance Institute (EFI) of MEF submitted to the Sub-Committee of Capacity Building a plan for conducting training to support the Public Financial Management Reform Program (PFMRP). This reflected the need to mobilize training support as the reform program got going. The training plan was approved and implementation is being carried out.

It was recognized at the time; however, that a much broader program of capacity development was needed of which training is only a part. For the people working in financial management especially for women as leader in the Government institutions or agencies to be able to improve what they do in line with the objectives of the PFMRP, there is a need to address not just how they are given skills, but also how they are led, organized and motivated. The purpose of this paper is to set out such a plan in which the capacity improvement of female government officials who play crucial roles in PFM is included.

1.1 Background to the Public Financial Management Reform Program

In order to be effective, a capacity development plan must orient itself to the goals of the PFMRP which it seeks to support.

The aim of PFMRP is to install much higher standards of management and accountability in the mobilization of all government current and capital resources and effectiveness and efficiency in the use of resources in their application to the operation of the government's priority programs. The long term objective is to transform the Royal Government of Cambodia's Public Financial Management Reform (PFM) system into a system featuring what are generally accepted as the best international standards.

The Prime Minister of the Royal Government of Cambodia commented in the foreword to the Public Financial Management Reform Program (PFMRP) dated on 30th June 2004 that there is an urgent need to strengthen PFM and this was at heart of the Royal Government Rectangular Strategy for Growth, Employment, Equity, and Efficiency in Cambodia and that the PFMRP is consistent with Socio-Economic Development Plan 2001-2005 and the National Poverty Reduction Strategy 2003-2005. Enhancing public financial management is a crucial element for the strengthening of good governance, and therefore the Royal Government of Cambodia has formulated and established a clear vision of public financial management, and the necessary steps toward the achievement of the vision. The Royal Government understands that the establishment of enhanced public financial management will take many years and much effort.

Four 'platforms' were identified reflecting a staged approach to development starting with, as Platform 1, steps to make the budget more credible than it has previously been.

1.2 The Role of this Capacity Development Plan

This Capacity Development Plan (CDP) is designed to support the implementation of the PFM and to provide strategic components aligned with the needs of the four platforms of the implementation of the PFM. It is therefore, a staged plan that seeks to grow and be relevant to what is going on at that time in the PFMRP itself.

It is recognized that the success of the implementation of the PFM depends in part on the ability of the officials of the Ministry of Economy and Finance as well as Line-Ministries to develop knowledge and skills. Meeting these needs must therefore be seen as essential for all departments of the MEF and LMs.

But it is also recognized that enhanced capacity development is about much more than just skill development. Capacity development seen in this context is not only to improve capacity for individual employees of the Line-Departments of the Ministry of Economy and Finance. It constitutes the strengthening of the most important vehicle available to the Ministry to achieve its goals for the PFM. Capacity development has to aim at making government officials better at the roles that they play in the PFM. Capacity Development, in addition, should become an important vehicle through which we can transform the less tangible aspects of the public servant—their attitudes, their commitment and the manner in which they engage with public.

A Capacity Development Plan for the PFM must ensure that the various components of the Ministry and other Government agencies work together to deliver opportunities for human development. The aim of the Capacity Development Plan for the PFM is therefore to ensure that relevant such arrangements are progressively implemented

2. Aims and Objectives of this Capacity Development Plan

2.1. Overall Aim

The overall aim of the CDP is to support the achievement of the vision of the PFM by providing a competent, professional, well motivated, diverse workforce that is properly led, managed, supported, and rewarded.

2.2. Objective of Capacity Development

A number of key objectives of capacity development have been identified:

- (1) To build capacity in alignment with new processes emerging platform by platform
- (2) To ensure the sustainability of that capacity in the future through organizational, human resource management and motivational measures.
- (3) To build capacity for the longer term in parallel with meeting shorter term needs so that the organization as a whole grows to meet the ambitions of the PFMRP.
- (4) To promote women leadership in government sector through upgrading knowledge, skills, and broader skill development.

Within these key objectives, the following are considered important sub-objectives:

- (1) Recruit competent staffs for PFM
- (2) Attract, retain, and rotate the right people
- (3) Have a working environment where there is a real commitment to the PFM implementation,
- (4) Ensure all training is prioritized through application of the PFM Model to ensure:
 - Learning and development supports operational priorities
 - Organizational risks are minimized
 - Prioritization model is responsive to new demands
- (5) Develop leaders and managers including women for the future
- (6) Minimize training abstractions through the exploitation of alternative training method
- (7) Ensure equality of access to appropriate learning and development opportunities for all our staffs.

2.3 Key Outcomes

Whether these objectives are being met or not will be measured by the achievement of the following outcomes

- (1) Ability of the organization to implement new business process and manage them thereafter
- (2) Growing confidence of the MEF staffs in their own capacity to implement and manage reform
- (3) The emergence of strong candidates as the leaders including women of the future.
- (4) Our officials will have the knowledge and skills and experiences we need for PFM
- (5) Our officials will be motivated and understand the contribution they make to the PFM
- (6) Our officials will be properly led and managed

- (7) Our officials will be properly supported and will work in an environment that is as comfortable as possible
- (8) Our officials will be properly rewarded
- (9) Front line resources will be deployed to adequately meet the job requirement for PFM demand
- (10) Effective line management ownership of operational human resource issues
- (11) Human function drives and supports organizational change in support of operational performance improvement in the PFM.

3. Broad Alignment of Capacity Development with the PFM Reform Program

3.1. Overview

It was emphasized above that an important part of this plan is that capacity development should be aligned with the activity of the PFMRP as a whole. However, some activities need to be on-going through the life of the program in order to build important elements of capacity which are essential for the future sustainability of the program.

The diagram below sets out the reform 'platforms' across the top and then sets out under each platform the specific capacity development activities that this plan envisages as necessary to support that platform. These are a combination of skill developments relevant to that platform, a program of more generic skill building that will need to go on throughout the program, human resource development activities, developments in the way in which technical assistance is used, organizational development activities and motivational development activities. Some of these activities are specific to a particular platform. Some span some or all platforms.

ALIGNMENT OF CAPACITY DEVELOPMENT WITH THE REFORM PROGRAMME

Platform 1	Platform 2	Platform 3	Platform 4
Budget credible because delivers reliable and predictable resources to budget managers	Initial improvement in internal control and holding managers accountable	Improved linkage of priorities and service targets to budget planning and implementation	Integration of accountability and review processes for both finance and performance

SKILL DEVELOPMENT

Technical Skills

<ul style="list-style-type: none"> • Cash flow planning (NT, BD) • Cash flow managing (NT) • Chart of account design (NT, BD) • Debt strategy (DIC, NT, BD) • Debt management (DIC, NT) • Forecasting (PD, NT, CD, NTD) • Revenue policy development (PD, NT, CD, TD) • IT procurement (PD) • Business process design (ALL) 	<ul style="list-style-type: none"> • Effective budget delegation (PD, LM) • Interpreting accounting report (ALL) • Use of chart of account (LM, FAD, BD) • Analyzing budget (ALL) • Responding to budget (LM) • Audit plan development (IAD, ID, LM) • Risk analysis as a basis for audit (IAD, ID, LM) • FMIS implementation (PD) • Use of FMIS system (ALL) • Change management with regard to the introduction of FMIS (ALL) and LM 	<ul style="list-style-type: none"> • Preparing multi-year budget • Programme analyzing and service planning • Option identification for budget purposes • Specifying target results • Learning lessons from budget implementation • Linking recurrent and capital budgets • Looking for budget efficiency savings • Costing analyzing 	<ul style="list-style-type: none"> • Performance indicator • Prioritization • Analyzing variations in service results • Effective consultation on budgets • Reporting and communication • Learning lessons from budget implementation • Effective accountability to the public
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Foundation Skills

Understanding of Reform Program
 Intellectual and managerial development
 Underlying professional skills
 Leadership skills and change management
 Overseas training for fast streamers

BROADER CAPACITY DEVELOPMENT MEASURES

Development of HR Policies

Identification of as cadre of fast-streamers
 External recruitment in key deficiency areas
 Development of job rotation plans for fast streamers
 Development of retention plan in key skill areas

Use of external expertise

Policies for effective use of technical assistance
 Study plan

Organizational Development

Measure introduced at start of reform programme Functional review of treasury/FAD	<ul style="list-style-type: none"> • Introduction of audit committee • Functional review of finance department in line ministries • Review of lines of budget delegation • Development of a systematic approach to production of system manuals 	Functional review of budget department
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Motivational Development

Develop and implement MBPI	<ul style="list-style-type: none"> • Identification of as cadre of fast-streamers • Sanction and incentive for good FM • Develop measures to support those whose job are affected by organizational change • Develop demand led approach to training 	<ul style="list-style-type: none"> • Fully roll MBPI into mainstream pay • Develop rewards in term of budget allocation for good budget submissions
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3.2. Description of Needs for Platform 1 and 2

The PFMRP is nearing successful completion of Platform 1 and senior management is considering transition to Platform2. However, it is recognized that not enough has been done under Platform 1 with regards to Capacity Development. Some good training of a general nature has been provided, but many of the topic specific areas identified in the above diagram need to be deepened. Also, not much work has been done so far on the broader capacity development issues identified other than the development of the MBPI. Therefore, it makes sense to view the needs of Platforms 1 and 2 together: Partly to catch up with the needs of Platform 1 and partly to anticipate the needs of Platform 2.

The capacity development needs in platform 1 and 2 as shown in the above diagram include both skill development and broader capacity development. In terms of skill development all departments of the MEF need to be provided with training courses such as: Cash flow planning, Cash flow managing, Chart of account design, debt strategy, Debt management, Forecasting, Revenue policy development, IT procurement, Business process design, Effective budget delegation, Interpreting accounting report, Use of chart of account, Analyzing budget, Responding to budget, Audit plan development, Risk analysis as a basis for audit, FMIS implementation, Use of FMIS system for technical skills, and Change management with regard to the introduction of FMIS and courses such as Understanding of Reform Program, Intellectual and managerial development and Underlying professional skills, Leadership skills for foundation skills.

For broader capacity development measures all departments of the MEF need to develop HR policies, use of external expertise, and conduct organizational and motivational development for stimulating the process of staff performance.

3.3. Description of Needs for Platform 3 and 4

The above diagram indicates in very broad terms activities required under Platforms 3 and 4. While these will be kept in mind, it is not proposed to try and plan them in detail at this stage. Much will be learned from implementing the program for Platforms 1 and 2 and these lessons will be carried forward into planning for Platforms 3 and 4 at the appropriate time.

4. Proposed Activities to Support Platform 1 and 2

4.1. The approach to identifying skill requirements

Identification skill gap analysis was undertaken which took into account the requirements of both existing functions and proposed changes under the reform program. In order to conduct this skill gap analysis firstly a research survey using questionnaires and interviewing with line departments was done to collect data and information in a quantitative and qualitative form.

The next step was for the quantitative data to be analyzed using a comparative approach in order to find skill gap between new job requirements and existing skills. Moreover, qualitative data was used to support skill development for PFM implementation.

The research found that all departments could not perform their tasks effectively due to the shortage of necessary and specific skills and capacity to support the reform process. Therefore MEF or line departments need to fulfil those gaps by conducting training courses which were listed in the above diagram together with broader capacity development through development of HR policies, use of external expertise and organizational and motivational development.

4.2. Description of main Areas of Reform in Platform 1 and 2 outline work plan

Based on the above findings the departments with specific training courses and broader skill development needs were identified as follow:

4.2.1. Skill Development

Technical Skills

Platforms	Subjects	Departments
1	<ul style="list-style-type: none"> - Cash flow planning - Cash flow managing - Chart of account design - Debt strategy - Debt management - Forecasting - Revenue policy development - IT procurement - Business process design 	<ul style="list-style-type: none"> - National Treasury & Budget - National Treasury - National Treasury & Budget - Investment, National Treasury & Budget - Investment, National Treasury - Policy, National Treasury, Custom, Non-tax - Policy, National Treasury, Custom, Tax - Policy , Procurement - All departments
2	<ul style="list-style-type: none"> - Effective budget delegation - Interpreting accounting report - Use of chart of account - Analyzing budget - Responding to budget - Audit plan development - Risk analysis as a basis for audit - FMIS implementation - Use of FMIS system - Change management with regard to the introduction of FMIS 	<ul style="list-style-type: none"> - Policy , Line Ministries - All line departments of MEF - Line Ministries, Financial Affair, Budget - All line departments of MEF - Line Ministries - Internal Audit, Inspection, Line Ministries - Internal Audit, Inspection, Line Ministries - Policy - All line departments of MEF - All departments and Line Ministries

Foundation Skills

Platforms	Subjects	Departments
1 and 2	<ul style="list-style-type: none"> - Understanding of Reform Program - Intellectual and managerial development - Underlying professional skills - Leadership and change management skills Overseas scholarships for selected fast streamers. 	All departments of the MEF and line ministries

4.2.2. Broader Capacity Development

Development of HR Policy*

Platforms	Policy Options	Proposed Activities	Implementer/Supporter
2	Identification of as cadre of fast-streamers	<ul style="list-style-type: none"> - Develop criteria for identifying. - Develop arrangements for selection. - Develop and conditions to be applied to fast streamers. 	Each Department with support of EFI.
	External recruitment in key deficiency areas	<ul style="list-style-type: none"> - Identify critical areas of skill shortage to be targeted. - Establish recruitment procedure - Create technical process - Design attractive policy 	Each Department with support of EFI and senior management of the MEF and CAR
	Development of job rotation plans for fast streamers	<ul style="list-style-type: none"> - Design job rotation plan and how it is to be applied. - Establish favorable working environment for job rotation. 	Each Department with support of EFI

	Development of retention plan in key skill areas	<ul style="list-style-type: none"> - Create retention policy - Establish retention procedure - Establish favorable working environment - Offer opportunity career development - Create rewarding policy 	Each Department with support of EFI
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(*): In fact this component needs to be implemented from platform 2 through 4, however the above proposed activities will initiate action in each area.

Use of External Expertise

Platforms	Policy Options	Proposed Activities	Implementer/Supporter
1 and 2	Policy for effective use of technical assistance	<ul style="list-style-type: none"> - To establish the clear management procedure for the use of technical assistance - To develop arrangements for debriefing consultants and sharing finds throughout MEF - To design arrangements for using advisers to contribute to training programme. 	RCS and EFI working
	Recruitment of advisers to support the capacity development plan	<ul style="list-style-type: none"> - To recruit two advisers to be available as and when required 1) Training adviser 2) Human Resource Adviser - To recruit other technical advice as necessary. 	
	Study tour plan	<ul style="list-style-type: none"> - To identify areas needed for improvement - To establish study tour program 	EFI with support from line department and senior management of the MEF and RCS

Organizational Development

Platforms	Policy Options	Proposed Activities	Implementer&/Supporter
1	Measures introduced at start of reform programme		Line departments and Senior management of the MEF in cooperation with development partners and strong support from CAR
	Functional review of National Treasury/FAD	Proposed activities will be arranged by TA in April, 2007	Technical consultant recruited by RCS
2	Introduction of Audit Committees	<ul style="list-style-type: none"> - Develop policy. - Develop terms of reference of audit committees and advice to line ministries on methods of working. - Support implementation in line ministries. 	Internal Audit Department with the support of a Technical consultant
	Functional review of Financial Departments in line ministries	<ul style="list-style-type: none"> - Recruit a functional review team externally. - Develop review programme. - Apply the review. - Develop proposals for change. 	RCS with support from Technical Assistant
	Review of lines of budget delegation	<ul style="list-style-type: none"> - Develop proposals with a view to more effective delegation to empower managers to perform at all levels - Develop rewards and sanction to be applied to those to whom delegated powers are given. - Develop any necessary legislation necessary to implement proposals. 	Budget Department with support from senior management and technical adviser
	Development of a systematic approach to production of system manuals	<ul style="list-style-type: none"> - Develop procedures. - Set up arrangements for implementing those procedures. 	Policy Department with assistance from EFI

Motivational Development

Platforms	Policy Options	Proposed Activities	Implementer/Supporter
1	Develop and implement MBPI	<ul style="list-style-type: none"> - To review existing MBPI strategy and performance measures - To implement rotation of MBPI package to the most productive target <p>To develop proposals for extension to line ministries.</p>	RCS in cooperation with line department and support from senior management of MEF

2	Identification of as cadre of fast-streamers	<ul style="list-style-type: none"> - Develop criteria for identifying. - Develop arrangements for selection. - Develop and conditions to be applied to fast streamers. 	Each Department with support of EFI.
	Sanction and incentives for good FM	<ul style="list-style-type: none"> - To identify whom to be sanctioned and made incentive - To establish the sanction and incentive procedure 	Budget Department with support from senior management and technical adviser
	Develop measures to support those whose jobs are affected by organizational change	<ul style="list-style-type: none"> - To establish compensation measures and monitoring mechanism - To set up new job recruitment, retention and rotation policy 	Each Department with support of EFI and Senior management of the MEF
	Develop demand led approach to training	<ul style="list-style-type: none"> - To set up on request training programme - To diversify training curriculum - To cooperate with the national and international training institutions 	EFI and line departments with the support from the senior management of MEF and Development Partners
	Develop a communication program in relation to both the reform programme as a whole and the Capacity Development Programme within it.	<ul style="list-style-type: none"> - Develop a communication plan. - Let staff know about that plan and timetable. - Develop suitable materials. - Implement on a regular basis. 	EFI and line departments with the support from the senior management of MEF and Development Partners

A Work Plan to conduct activity in fulfilling the above activity is set out in more detail in Annex 1.

5. Organization of Work to Implement this Plan

5.1. The Role of EFI

Given the clear importance of capacity development to the PFRMP program Ministry of Economy and Finance assigned the Economics and Finance Institute together with the Sub-committee of Capacity Development (SCD) of the MEF to develop a Capacity Development Plan.

The role of EFI will be to act as coordinator for the capacity development work. It is envisaged that there are five strands to this work:

- (1) Strategic coordination of the capacity development effort

- (2) Identification of modes of delivery of actions proposed in the strategic plan including assignment of actions to other Departments and agencies where they are best places to fulfil tasks.
- (3) Delivery training where it has the necessary skill set itself
- (4) Recruiting or hiring training capacity or other technical assistance where it does not have those skills
- (5) Impact assessment and feedback.

The attached work plan reflects judgments made about where EFI itself can meet certain needs and where some form of outsourcing may be necessary.

The Economics and Finance Institute (EFI) of the Ministry of Economy and Finance aim at building up the human resource capacity and enhancing the quality and professionalism of the government officials of the Ministry and, by and large, those of line-ministries that deal with fundamental and specialized area of Public Finance and Management of the Economy. In addition to the capacity development that is necessary to promote efficiency, quality, and professionalism for the implementation of the PFM, EFI aims at providing the training course which focuses on general background of the PFM, personal development, technical and professional development, building capacity for managing new process, and leadership development skills for the officials of the Ministry of Economy and Finance as well as line-ministries.

EFI will continue to work closely with the line departments within the MEF in ensuring the right skills and knowledge is available. There are also significant training needs that must be met within line-ministries if successful implementation of the PFM is to occur. It is envisaged here that EFI will invite those line ministries to develop their own capacity development plans within the context of the framework set out in this plan. Those plans will be reviewed and advice and access to training and other resources given.

5.2. Support needed by EFI

Even though EFI is a well-experienced training institution this capacity development plan needs much more participation and resources than EFI alone can provide. In particular it will require active support as follow:

- (1) Senior management to provide leadership and to take difficult decisions when they arise.
- (2) Close cooperation with line departments in terms of information sharing, selecting qualified participants and offering exclusive permission to their officials for any training courses, etc.
- (3) To access Technical Advisors with necessarily knowledge, skill and experience for help to design necessarily specific training courses and to design necessarily specific broader skills development including contracting out capacity development activity in accordance with this plan where appropriate.
- (4) To access Technical Assistance to support the implementation of training activities and broader skills development programme.

5.3. Support from senior management (Legislation, discussion with CAR)

EFI has a good management and supported staffs that is dedicated to capacity development of MEF and line ministries. To further strengthen the role of EFI in capacity development, EFI will need:

- (1) Strong support from senior management in areas such as the establishment of recruitment, retention, and rotation policy and regulation to adapt with the change in organizational environment.
- (2) Promulgating changes in legislation where this may be needed to implement some of the activities in this plan.
- (3) Support in dealing with other central agencies such as CAR on issues to do with the implementation of this plan.
- (4) More support and resources for all EFI's activities relevant to training and capacity development.

5.4. Support from Departmental Management

It will be necessary to establish a working relationship with departmental management in which a mutual understanding of what is required is developed and assessment of what is working and what is not takes place. In particular, a number of the proposed activities will require initiative from the Establishment Department of MEF from whom EFI will need close cooperation.

5.5. Access to Technical Assistance and contracting out capacity development activity

To enable EFI and line departments of MEF to perform their responsibility in capacity development, it is important that development partners support EFI and line departments by:

- (1) Close collaboration for capacity development of the MEF's departments
- (2) Sharing the best of practice and knowledge with the development partners on capacity development.
- (3) Continuing support of technical, financial and physical resources.

In order to make better use of technical assistance for capacity development purposes EFI proposes to develop, the mechanism below.

- (1) Clear establishment of management procedure for the commissioning of technical assistance in this field
- (2) Ensuring that there is a well developed plan of activities for each assignment

- (3) Establishment of transparent procurement process which complies with the development partners' procedure
- (4) Establishment of transparent monitoring mechanism.
- (5) Post-auditing of each stage of TA's usage.

EFI and line departments of MEF will network with other institutions in the form of performing their role effectively. Those activities should be as follows:

- (1) Close collaboration with the national and international training institutions for capacity development either individual lecturer(s) or training firm(s)
- (2) Close collaboration with the national and international recruiting firms for recruiting external expertise needed such as technical advisors
- (3) Close collaboration with the national and international institutions for study tour program involved with sharing technical skills, knowledge, and experience.

5.6. Rolling out from MEF to Line Ministries

To share experience learnt from PFM implementation of MEF to line ministries, four main activities will be conducted as follows:

- (1) Offering a clear view on the PFM implementation in MEF by launching seminars
- (2) Nominating MEF' staffs to present lessons learnt from the implementation of PFM and its crucial role for capacity development to line ministries
- (3) Conducting training courses such as skills development and broader skills development for capacity development onto line ministries
- (4) Requiring line ministries to develop their own capacity development plans in relation to the PFM RP program which will be reviewed and upon which advice will be provided.

6. Monitoring the Result and Impact of Capacity Development

The CDSP will be monitored through a number of mechanisms. At the strategic level the Sub-committee of Capacity Development will organize workshops with line departments to provide them the opportunity to review and reflect on the strategy. Finally, the Committee will require EFI and line departments to conduct an annual review of the strategy and its activities.

The methodologies used for monitoring the result and impact of capacity development such as Tests of Course Delivery, Broader the Tests of Skill Attainment, and Tests of Skill Application.

6.1. Test of Course Delivery

EFI and other departments involved in implementing this plan will monitor the activities using standard course evaluation techniques which are believed to be effective. In addition, to ensure valid responses, the feedback forms will be completed in the presence of another trainer or staff of each department who would come in to distribute the questionnaires and collect them.

This is a mechanism used for measuring the level of understanding of participants prior and post of courses delivering. It is helpful for facilitators to matching participants with course delivery methodology. Moreover, it helps us to assess the knowledge and skill of participants gained from the courses.

The same process will be done for the course delivery assessment by using structural test of satisfaction with training delivery (including satisfaction with training content, trainers, training methods, materials, schedules, location, classroom and access to training), at the end of each course.

6.2. Broader Test of Skill Attainment

This is a mechanism used for measuring the level of understanding of staff prior and post of courses delivering and implementing HR policy. The test will be done by structural and semi-structural interview directly with trained and rotated staffs and heads of each department in order to proof that the organization got better positional development and staffs satisfied with those reform activities.

6.3. Test of Skill Application

Impact assessment and feedback can be in the form of structural and semi-structural interviewing with line-departments (head or deputy head of departments of MEF) and with trainees themselves. The test of skill application will also be done by measuring the result of work performance, and result of probation work. The impact assessment and feedback will be focused on:

- (1) Impacts on working conditions and environment for PFM; and
- (2) Performance of participants before and after training.

6.4 Broader tests of Capacity Development

To test the effectiveness of the broader capacity development measures set out in this plan it is proposed to develop a series of benchmarks relating to how MEF is performing as an organization that fosters human development. These will be used to help keep the capacity development plan pointing in the right direction and to gauge progress.

**ANNEX 5.2: FORMAT FOR LINE MINISTRY CAPACITY
DEVELOPMENT PLANS**

Focal points in line ministries will be given a detailed brief on the capacity development plan developed by MEF and the specific elements within it that are focused on Platform 2. As well as describing the background to the plan the skill, organisation, human resource and motivational elements within it will be explained.

Based on this briefing line ministries will be asked to do three things:

- Assess which skill development courses should be attended by their staff and who should come.
- Bearing in mind the activities that line ministries are asked to contribute to in the overall reform programme to consider any additional skill development required specific to the line ministry.
- Bearing in mind the general nature of the organisational, human resource management and motivational measures described in the MEF capacity development plan to propose any additional measures that appear appropriate to the line ministry.

Proposals in this respect should be set out by the line ministry in the form of the attachment. These plans need not be very refined initially and will need to be revisited from time to time as the reform programme unfolds.

These plans will be reviewed by MEF and used as the basis for further dialogue with each line ministry concerning its proposals and support needed by the line ministry to implement its proposals.

Skill Development

COURSE CONTENT	WHO SHOULD ATTEND FROM LM
<i>Courses Proposed By MEF</i>	
• Effective budget delegation	
• Interpreting accounting reports	
• Effective use of chart of accounts	
• Analysing/ responding to budget proposals	
• Audit plan development	
• Risk analysis as a basis for auditing	
• FMIS implementation and usage	
• Change management with regards to computerisation	
<i>Additional Courses proposed by Line Ministry</i>	

Bearing in mind the general nature of the organisational, human resource management and motivational measures described in the MEF capacity development plan the line ministry would like to propose additional measures in relation to itself and its management as follows:

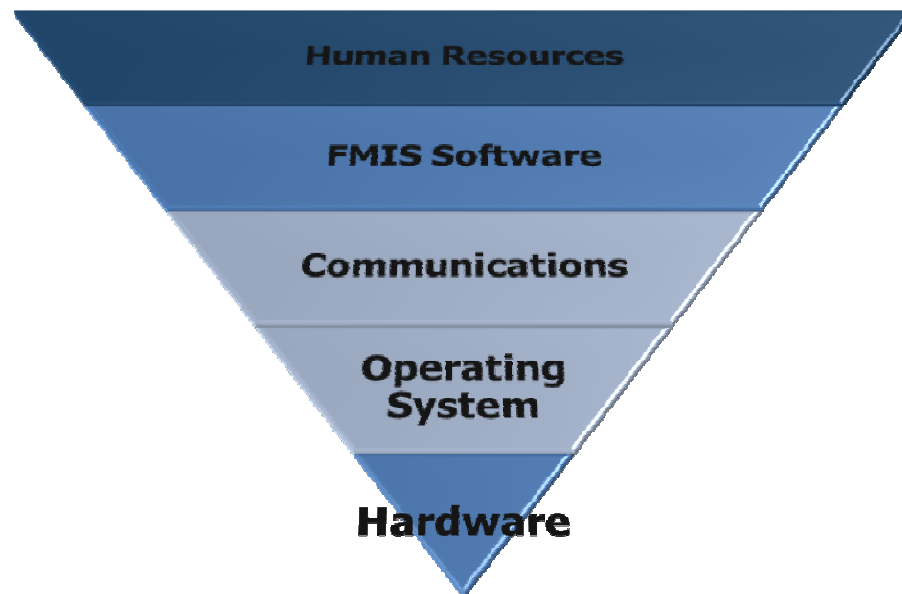
Organisational Measures

Human Resource Development Measures

Motivational Measures

**ANNEX 5.3: FINANCIAL MANAGEMENT INFORMATION SYSTEM
(FMIS) POLICY PAPER**

FMIS Policy Paper



1. Introduction

The Public Financial Management Reform Program (PFMRP) was officially launched in December 2004 with the aim to improve the standards of management and accountability in the mobilization of all government current and capital resources and effectiveness.

To achieve this aim, the whole PFM program has been divided into 4 stages. Each Department has then been involved in developing its own more detailed plans and activities. One of the major activities in the PFM program has been identified as the Financial Management Information System (FMIS) with its main task is to facilitate and promote accountability and transparency in the control and management of government revenue and expenditure and to improve information about both financial and service performance.

The main purpose of this policy paper is to provide overall strategy on how to implement the FMIS successfully and set the future vision.

2. Objectives of the FMIS

The main objectives of FMIS Project implementation are to utilise modern information and communications technology to support and integrate public financial management processes in line with the overall PFM Reform Programme requirements. The system is also intended to provide a database that is a source of data for both formal and management accounting purposes and accessible by many types of user. Moreover, the system will support both a 'core' classification that must be observed by all and optional elements that can be flexible and determined by system users (with whatever safeguards are considered appropriate). There are three major objectives as follows:

- More Efficient Transaction Processing and Control
 - Single point of data entry, storage of data at lowest level, sharing of data, internal control, integrity and security, online/real time processing and internal audit.
 - Facilitate resource management and control.
 - Address specific Resource Management processing requirements (Salaries, Non Financial, Assets etc)
- Improved Classification, Valuation, Aggregation & Consolidation
 - Standardised sets of Classification, Valuation and Accounting Rules.
 - Interrogation and tracking of expenditure
 - Timely, comprehensive accurate aggregation, reporting
 - Multiple different reporting from single data set
 - Consolidation across units
 - Creation of Audit trail

- Analysis for Planning, Budgeting, Decision Making & Monitoring, Reporting

- Production of a wide range of management information and analysis for use in management planning and decision making.
- Production of interim and final budget outturn and financial reports

3. Key Outcomes

Until now the FMIS Project has achieved many positive activities below:

- Complete the 1st Stage FMIS Bid (May 2008) now waiting NOL.
- Finalize the 2nd FMIS Bid Document, incorporating FMIS ICT requirements any amendments arising from 1st Stage process (May 2008).
- Complete additional ICT Bid requirements and forward to WB for Technical Validation. (June 2008)
- Create the mechanism (FMIS task management group) to ensure active involvement of the line departments (LDs) in the FMIS Project implementation. Assist each LDs to compile its departmental business process and redefine the high level to-be business processes, principles and standards.
- Complete Training Strategic Plan for both ICT (30 courses = local 23 courses + overseas 7 courses) and Application Side (8 courses=local 7 courses + overseas 1). (May 2008)
- Complete recruitment of 10 ICT Staffs in April 2008, these staffs will become the permanent staffs of the IT Department and work on the technical side with the future supplier.
- Finalize selection of 10 Business analyst contract staffs to work on the business process, CoA, budget classification and other business side to support the business process input for the FMIS Software design and the Fit/Gap analysis.

4. Preconditions for FMIS Implementation

To secure successful implementation of FMIS, there are certain preconditions that need to in place:

- Strong commitment from the MEF management to the FMIS Project, by using the political voice to ensure involvement from line departments and line ministries in the FMIS project especially in providing the most critical inputs to FMIS project such as Business Process, Chart of Account, comment on functional requirements and assistance of the focal team of each agency for the project implementation.
- Effective commitment and involvement from all stakeholders especially RCS, Budget Department, DIC, National Treasuries and Ministry Pilot Sites.
- Development of Conceptual understanding by all stakeholders.
- Strong participation from all MEF Line Departments and Line Ministries.
- Expert PFM, ICT, Change/Project Management Resources to facilitate client side capacity building and implementation.

- Client side capacity to engage in implementation and develop the necessary capacity to ensure sustainability.
- A phased implementation process which provides the necessary time for learning and managing the change in principles, standards and business processes. It is fundamentally important to recognize this as a major organizational change process and not simply automation of the current process.
- Implementation of the Treasury Single Account is a critical element to implement the FMIS project, all the government revenues must eventually flow into TSA and expenditure be paid out from the TSA with a commensurate reassessment of the use of commercial banks.
- Allocation of appropriate rooms for server installation and offices for new 20 staffs and up to 10 supplier's project team
- Effective incentive mechanisms to support the project implementation team

5. Overview of FMIS Software

The FMIS software will have multiple functions to support the public financial management system. In the implementation of the FMIS in Cambodia, the following modules are required.

5.1. General ledger

The General Ledger is the core of an FMIS, the area where all the posted detailed transaction data and consolidated financial data is maintained. The General Ledger Module also provides the primary linkage between the various modules of the system. The General Ledger also contains a variety of information, including the Budget Classification/Chart of Accounts, the Budget, Budget Allocations, Period Structures (months, quarters and financial years), Accounting Rules, Cash Actual, Accrual Actual etc. Accounting data is held, extending backward, at a summary level at least, for as long as users require. The general ledger module will support both in year and year-end financial reporting.

In the proposal for the FMIS in Cambodia, a multi-dimensional Chart of Accounts structure will be used; this is consistent with budget classification and chart of accounts international standards. All of the structures are entirely User-defined as a Master Data. Required fields will include Sources of Funds, Natural Account, Organization, Project, Program, Location and Activity. Accounting principles and standards will also be setup within the General Ledger Module. The GL will facilitate efficient processing of accounting data as well as progressive implementation of modern accounting principles and standards.

5.2. Budget Preparation and Development

This Module assists with the development of both the annual and multi-year budget development by allowing for both 'Top-Down' including multiyear forecasting and budgeting for MTEF preparation and 'Bottom-Up' budget development including objective setting, activity definition, resource

identification and costing. The Module will contain the same Budget Classification structure as in the General Ledger and will, depending on security access, allow: i) Users to access the budget development and planning functions to build their own budget forecasts/requests/bids, as appropriate and ii) permit the MEF to perform the Budget challenge function, iii) facilitate both capital and recurrent budget consolidation and iv) enable in year budget processing (virement, supplementary estimates etc). Final approved budgets in FMIS General Ledger will be populated either by direct data entry into FMIS after the Parliament has passed the Budget Law, or rolled across from the Budget Module.

The Budget Module can be used to model budget options during the development phase, can be set up with macros to allocate budget on pre-determined bases and can import current financial year Current Budget or Current Actual (cash or accrual) plus remaining Budget to assist with the development of the next budget. Annual Budgets can be restricted by the MTEF framework and data can be imported from external systems (economic forecasting models, estimates of revenues from revenue agencies. During the year the Budget and General Ledger Modules can set caps per agency or Spending Unit, can be uncapped, can manage virement requests and approvals on line

5.3. Procurement

The Procurement Management System will allow control of the procurement (requisition, purchase order, goods/services received, linkage to tender management etc) of common use items through a centralized vendor database, linked to the Commitment and Accounts Payable systems. The system will retain the database relating to any common item contracts that have been established through the tendering process. Ministries and autonomous agencies will access the system to effect purchases of items using funds allocated in the normal budget process. It should be possible to allow access by industry via the Internet to information on the status of their contracts, record of their purchases, etc.

5.4. Account Payable

The Account Payable Module provides for expenditure and the linkage to asset management (cash or accrual) and manages Creditors and their Payments. Most expense payments of Government will be recorded through this module except Salary which is recorded but should be paid through a Payroll system and transferred to the General Ledger. Payments include Purchases, Travel/transport, Software/hardware Licenses and Maintenance, Consultants /Advisors, Repayment of Donor Loans, Investments of Funds, Payment of Interest and Repayment of Borrowings. All this and probably more information is stored against a payment record and can be searched on individually or in combination.

5.5. Account Receivable

The Revenue Management will facilitate capture of all sources of revenues, ensure they are properly classified and accounted for, provide input into the consolidation of government financial data and ensure that the collected revenues are shared in accordance with any applicable budget law or specifically earmarked purposes. The system will provide features to facilitate the evaluation of the revenue performance against the pre-determined estimates and provide a comprehensive set of reports on revenues, both anticipated and actual. The system would have interfaces to the General Ledger for:

- Updating the general ledger accounts; and
- Providing input data to the Cash Management System for determination of the government's liquidity position and preparation of cash flow forecasts to facilitate the government cash mobilization.

The Accounts Receivable aspect of Revenue Management will track all payments to be made to the government, recording these in the General Ledger against the appropriate client account. Receivables in this sense includes payments made by cash, check, wire transfer, e-Commerce for total settlement of all costs or part payments for the same. The system must track, monitor and record receipts.

The Account Receivable can record Revenues (cash or accrual) and manages Debtors and their Payments, partial or total and can offset against Payments. Most large receipts of Government come through Interface from Tax and Customs. This records receipts from other sources such as Fees, Fines, Local taxes, Licenses, Donor Funds, Grants, Sale of Government Assets, Borrowings, and Investment Income.

5.6. Asset and Liability Management

The FMIS will provide an Asset Management system to be used for registering all government physical assets above an agreed value. Regular reporting, stock-taking and reconciliation of physical assets and values will be used to assist ministries and autonomous organizations in managing their assets with a view to efficiently spending public monies on such capital items. The system, in association with the Commitment Accounting and Accounts Payable systems, must provide facilities for each ministry and autonomous agency to record newly purchased assets on the register with relevant details. The system must have features to write-off those assets that are reported lost or damaged, and to record the disposal or sale of assets no longer required.

The FMIS will facilitate capture of data into the GL from the government's debt management and investment management systems.

5.7. Cash Management

The Cash Management is the area of a FMIS where cash flow forecasting, cash management and banks and bank account details are managed. The bank account reconciliations are performed and bank account balances and transactions are processed during the interface operations.

The objective of the Cash Management System is to forecast cash available for payment of expenditures, in order to allow an orderly implementation of the budget and facilitate cost effective financing when required; to identify periods and extent of cash shortages; to enable timely debt servicing; and to allow correct reporting of all receipts and use of government borrowings.

This area of the system also brings together data on cash balances, receipts and expenditures, accounts receivable and accounts payable, commitments, budget allocations etc for the purpose of providing information on expected cash inflows and outflows over whatever reporting period the user requires. Bank account details also cover foreign currency bank accounts and also allows for specific bank accounts to be uniquely linked to, for example, a Project Code (in the General Ledger) representing the Development partner accounts used to manage cash transactions from specific (non-budget support) development funds. In this way, the account is effectively 'protected' from spending by other areas of Government. This also provides a very useful and quick view of those bank account funds, fund usage and reconciliation history.

5.8. Interfacing

The FMIS Software will link to other internal and external systems including:

- Banking - National Bank of Cambodia
- Customs Department
- Taxation Department
- CAR Payroll System
- Debt management Information System
- Desktop Applications (Word Processing, Spreadsheet).

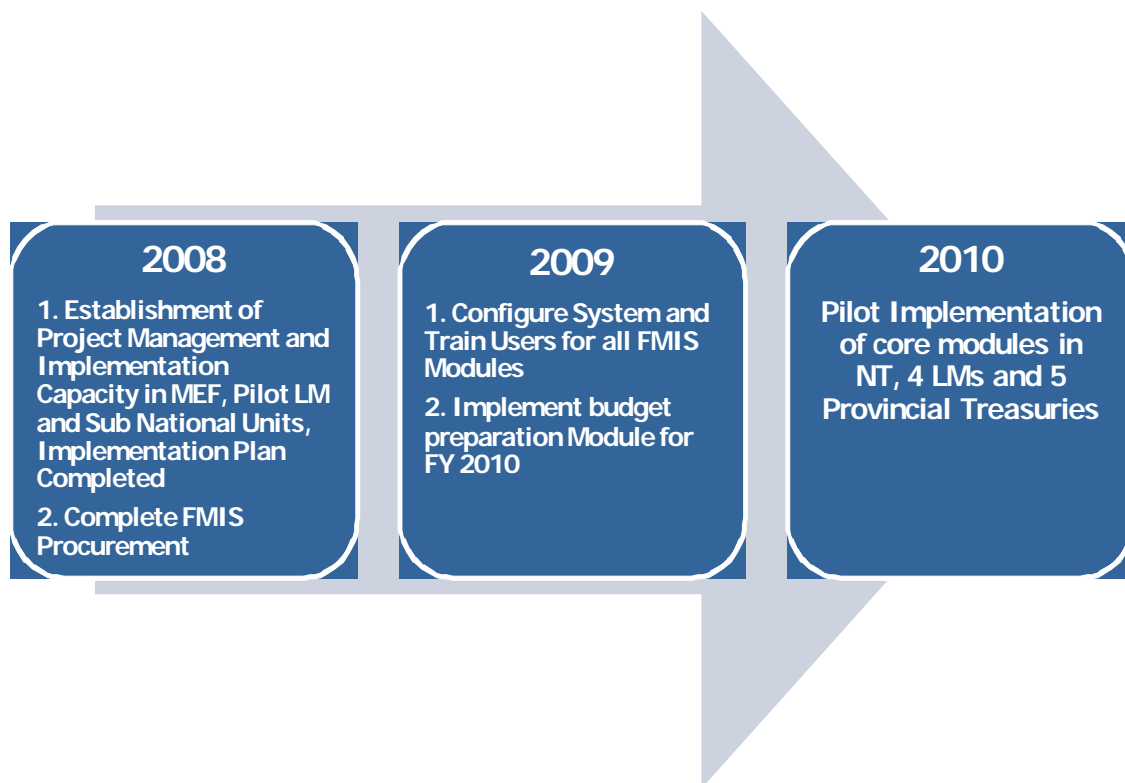
5.9. Reporting

This tool produces financial report for both standard (GFS, IMF, TOEF, ...) and user define types by filtering the information through structure of CoA periodically, report on Screen, Print out or Export to Excel to product graphical information and report in cash or accrual base.

The reporting option will be included in every core module of the FMIS from the General ledger, Asset management, Account payable\receivable, procurement to Cash management and report can be customized by the privileged users or FMIS administrators. Users can also print the report daily, monthly, quarterly, annually, the end of period or else.

6. Major Milestones for the FMIS Implementation

In order to coordinate out the complex FMIS implementation process, a project plan has been developed (Process, Technical, Change Management, Capacity Building etc) and modified as required for adapting to the environment, time constraint and other factors that might affect to the progress of the project. The plan provides for a logical sequencing of implementation activities and allocates responsibilities for each activity. The plan will ensure effective coordination and assist in avoiding scope creep, the project plan is based on achievement of the objectives, goals and activities in accordance with the overall timeframe. The plan also provides for mitigating activities to address the potential risks arising in these types of implementations



7. FMIS Procurement Plan

The procurement for a bid project like FMIS is complex. . To facilitate the implementation, the procurement will be done in two different stages. Moreover, we need to ensure as follows:

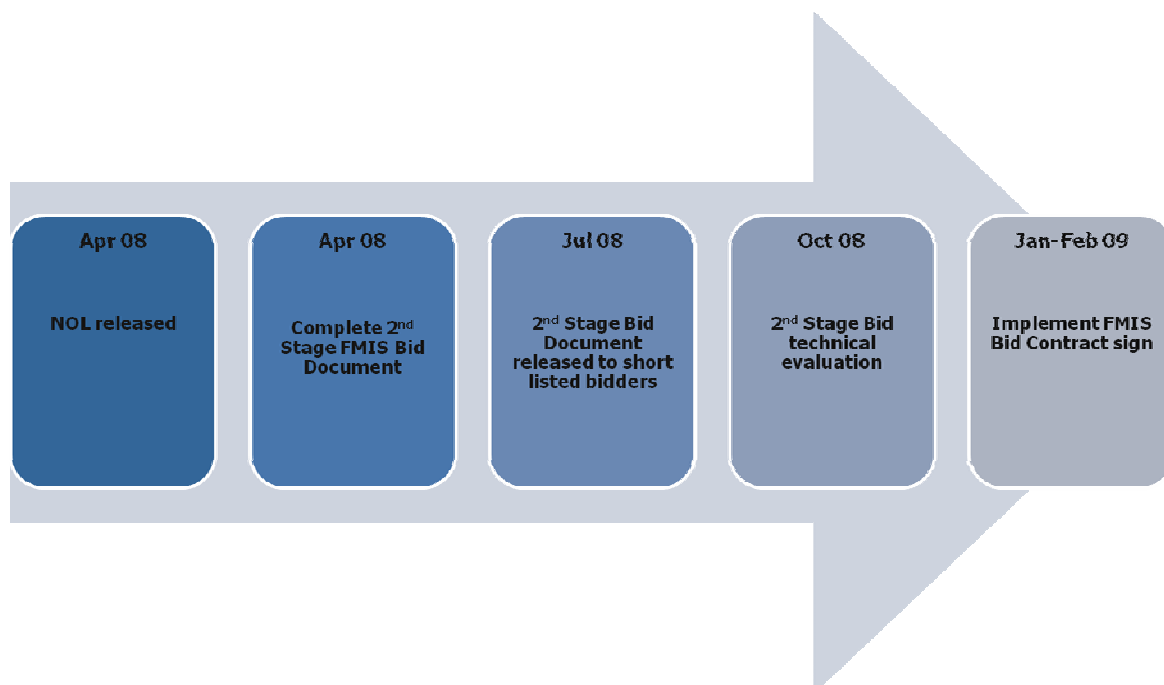
- To use internationally recognised package and a turnkey approach thereby reducing the frequently occurring risks arising from use of multiple vendors
- Use independent and experienced expertise to assist in specification, evaluation, negotiation and quality control.
- Ensure implementation contracts specify accountabilities and outputs as deliverables.

- Ensure contract requires substantial transfer of knowledge to facilitate long term sustainability.
- Ensure a long period of post implementation support and in particular the creation of a local support capacity in Cambodia capable of providing this support.

So far, the first stage bidding document for the FMIS software has been completed. To ensure on time implementation, the hardware component will be included in the second stage FMIS bidding document.

Following determination of the short list, to facilitate full understanding of the various packages being offered, demonstrations of the system will be undertaken for all major stakeholders. Each shortlisted bid from the first stage FMIS procurement will be invited to undertake a product demonstration based on the Cambodian requirements. Answers to specific questions based on the first stage submissions will be required to clear any doubts arising from the first stage submissions.

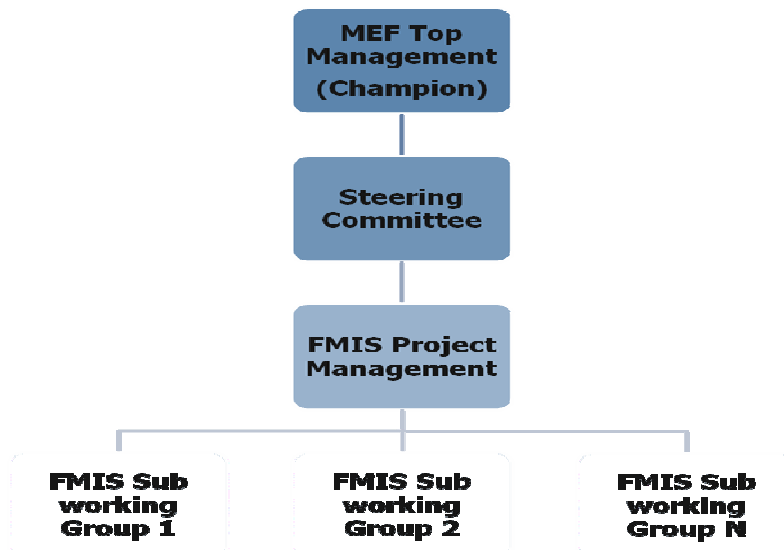
The functional requirement of the 2nd Stage bid has been drafted and needs urgent review by the Line Departments. Line departments must review this functional requirement and comment on any requirement that has not been met. The line departments must organize internal meetings that must have the head of all relevant offices and its key staffs who know the business flow of their office or department to check through the draft functional requirement, have it discussed and provide feedback to IT Department. Any department who does not submit the feedback cannot claim at a later date that the FMIS software does not comply with the department's business requirement.



8. Project Management Organization and Capacity Building

8.1 Management Organization

Effective project management, organization and capacity building are key aspects for the successful implementation of the FMIS project. Realizing this, the IT Department has established an FMIS governance arrangement, which includes a Champion, Steering Committee, FMIS project management and different sub working groups for application, training, ICT, security & controls etc.



So far, this management structure has been almost complete. The champion has been identified and the steering committee has been formed with the participation from all directors of the departments. The project needs the strong commitment of the champion and the steering committee to endorse the project implementation process. Especially they have to enforce the cooperation and involvement from line departments and ministries as well.

The members in the sub-working group will be drawn from all line departments in the MEF and line ministries. To ensure maximum cooperation from all stakeholders, each MEF department and pilot line ministry need to set up FMIS team, which will comprises at least 3 qualified officials to be assigned to different sub-working groups. All members in these sub-working groups will be given training and they will become the system super users.

The main objectives of these activities are: (1) provide input for the FMIS and ICT procurement such as technical or functional requirement, (2) identify and redesign the current business process of all spending and revenue entities to fully support the financial reform program of the MEF and RGC, (3) broaden the understanding and lessen all fears about FMIS to all line departments and line ministries (4) build the culture of cohesive cooperation among all the FMIS stakeholders and (5) reinforce the capacity building program for FMIS implementation group, core FMIS users and FMIS end uses, (6) become the key managers of the system

Other than the sub-working groups, there is also a need to build enough man power in the FMIS project management. To have sufficient workforce to work with the future contractor, 10 IT staffs and at least 10 business analysts will be needed. Staff in the FMIS project management will need work closely with the staff in the sub-working groups.

Other than the project management structure, mobilizing a qualified and experienced international consultant is also important for the FMIS project. Different consultants such as ICT consultant, FMIS consultant, Functional consultant, Change management consultant and legal advisor are needed, their ToRs have been defined and are currently being recruited.

When FMIS is under development and when operational, Information Technology Department will be the 'owners' of the infrastructure and the FMIS software. This means Information Technology Department will be responsible for all maintenance and support of FMIS, backup, upgrades, disaster recovery and all other system support functions.

Different departments of MEF will be the 'business owners' of the functionality and will therefore be responsible for the way in which the FMIS operates. For example, if Treasury wishes to make changes to the Chart of Accounts or Procurement wishes to change conditions for procurement approvals or certified vendors, they will be responsible for either making the changes directly, where their access security permits or, under more restricted system circumstances, request Information Technology Department to implement the changes and move those changes into production. Changes that affect Users directly will then require edits to online Help information which the business owner will document and Information Technology Department will implement in FMIS.

8.2. Capacity Building

The IT department has developed a comprehensive capacity building plan for the project. The training is tailored for specific group.

For the staffs in the FMIS teams in line departments and line ministries and business analysts, training such as basic computer training, government accounting, chart of account, budgeting, the use of FMIS, business process review, project management and change management will be provided to them. The main idea is to turn these groups of staffs to be the super users.

The FMIS end users will be divided into the following groups:

1. Senior level: (from department directors to the MEF top management) they will use only the FMIS approval, decision making application tools, reporting tools only. They will also be given training in areas such desktop application, database concept and Internet and email.
2. Technical or operational level: there are three different levels of training (1) general introduction to the FMIS which focuses on logging on the system, navigation, appearance, menu, etc., (2) the use of the FMIS which

focuses on how the users use the system functions, for example, how they procure a product, how to enter payable, etc., and (3) re-enforced FMIS training.

3. Specialist training will be provided where required (i.e. Internal and External Audit, Interface management)

For the IT and Business Analyst staff in the IT Department and members in the working groups, they will be provided from the basic computer training to and advanced courses on FMIS application management according to their functions.

8.3. Basic Training

The core training stage will be the FMIS application and technical training that will be provided by the awarded supplier in cooperation with MEF. To build the ground reach undertake this training, the FMIS users must be able to understand basic computer usage, PFM processes and FMIS implementation processes to guarantee that they have fundamental knowledge to absorb at the core training.

The basic training will cover the following key topics: (1) software: desktop application including Microsoft Office application packages, the use of Khmer Unicode, database concept, Internet and Email, (2) hardware: introduction to computer, computer maintenance and repair, and some concept on networking, (3) new PFM processes.

8.4. FMIS Application Training

This training will be conducted by the awarded supplier in cooperation with MEF (IT department and EFI or other stakeholders). The provision of the core training will initially rely on the supplier. A training co trainers approach will be adopted with sufficient training being proceeded to the ICT, Business Analysts, Super users and EFI to enable them to eventually support the training of more staff as the system is rolled out to more users. The supplier must guarantee that the core FMIS support staff end users know how to use the FMIS application and progressively become familiar with its environment and be able to exploit from the system to meet their business requirement.

The FMIS project implementation group and sub-working groups will need to work cooperatively with the supplier team at every stage of the FMIS software development and network/hardware installation including software documentation, analyzing, coding, debugging, customization, reporting, network wiring, etc.

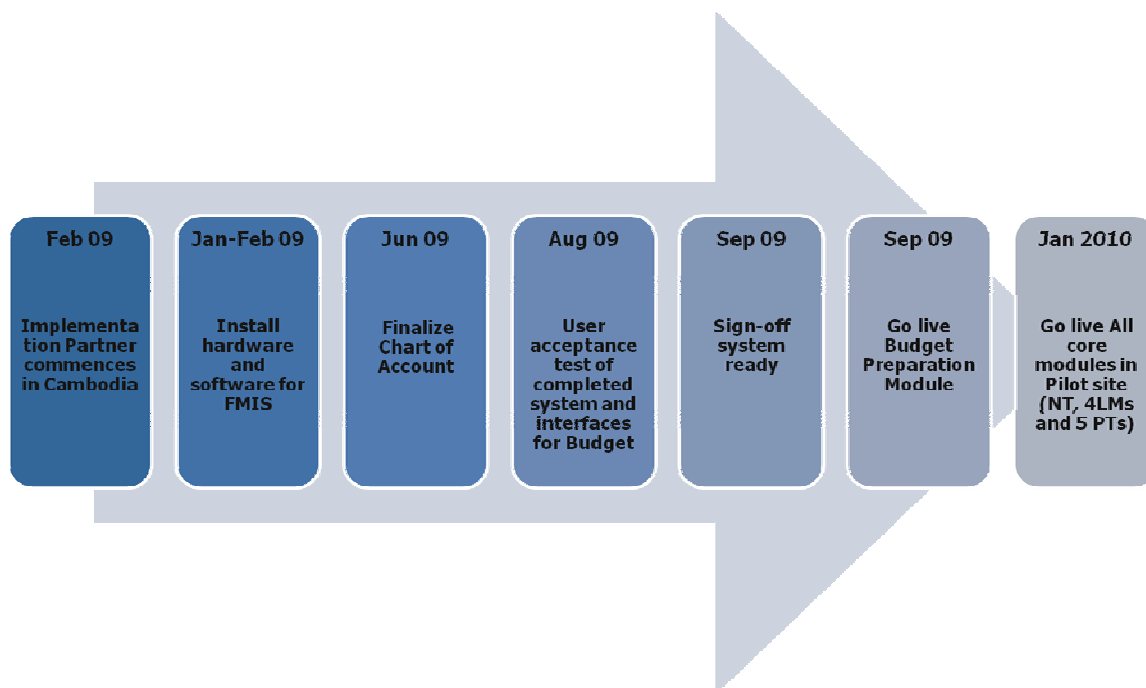
8.5. Trained Staff Retention

With the current level of incentives, it is recognized that it may be hard to retain staffs for the sustainability of the system in the future, especially the IT staffs. Once they get training and implementing the major project like FMIS, they may

become the best IT experts in Cambodia. Therefore, it is necessary to provide them with enough incentives to keep them within the project. The MBPI framework will be used to provide incentives to the staff involved in FMIS implementation.

9. FMIS Roll-out Policy

The initial deployment plan aims at commencing FMIS operations on 1st January 2010 for all core modules for the National Treasury, five pilot line ministries (Ministry of Education Youth and Sport, Ministry of Health, Ministry of Public Works and Transport, Ministry of Agriculture, Forestry and Fishery and Ministry of Rural Development) and 5 provincial treasuries (Kandal, Battambang, Siem Reap, Banteay Mean Chhey and Sihanoukville). As preparation for this it is planned that the Budget preparation module will go live in mid 2009 as the budget preparation is the first module to be implemented before budget execution. The prospective to run the full go live for the whole system in the entire country will depend on the availability of capacity and ICT infrastructure rollout. However it is expected that 1st January 2011 will provide for rollout to all Central Ministries and further rollout to additional provincial treasuries.



The actual program will depend on the timing of the contract and deliverables and the FMIS solution ultimately selected. A more complex solution will require more time to bring its configuration up to an implementable level.

When the product has been selected, the steps required and the approximate time needed for each step would be as estimated below. These tasks are not exactly in sequence as some tasks can commence before others have been completed. These times are indicative of the tasks only, even where there is a

dependency between tasks. This aspect is important in understanding the options.

1	Fit Gap study	4 weeks
2	Training of MEF Project Staff	6 weeks
3	Configuration design	2 weeks
4	Approval by business owners in MEF	4 weeks
5	Configuration and unit testing	3 – 8 months
6	System Integration Testing and error correction	4 weeks
7	User Acceptance Testing and error correction	6 weeks
8	Documentation and training of User Training	Progressive
9	Commencement of Rollout	

These times for each step are not elapsed time. For example, while MEF Project staffs are being trained, the contractor would be undertaking the configuration design and while the system was being configured, modules could be subject to SIT and UAT and be released as and when approved by MEF as ready. The configuration and unit testing timing indicates the potential impact on the scheduling or the range of complexity that can affect the project. Concurrent with the entire FMIS system preparation, the FMIS and network hardware, software and installation would be progressing in parallel.

The current base plan for implementation is to provide the Budget Planning and Preparation module online first. This is also probably the simplest functionality to prepare but is dependent on the Chart of Accounts for FMIS having been finalized and also, depending on the time of year and status of budget preparation, the functionality may have limited usefulness in its first year. As the annual budget is basically finalized by September, introducing a new system to Budget Department after the start of any August would only delay the budget process because of training requirements, so the actual implementation of the Budget Prep functionality is time-dependent.

The second functionality planned to be implemented would be the General Ledger, Budget and parts of Accounts Payable and Accounts Receivable and Banking so that National Treasury could commence recording transactions in the Ledger as early as the system was able to support it. The parts of Accounts Payable and Receivable would be that which would allow the transactions to be captured against Vendors by National Treasury to establish basic process recording and reporting based on FMIS data. NT1 would be recording all transactions received by it and would enter all of them into FMIS, irrespective of whether the sites were designated as Pilot or not. In this way, all transactions would be captured on a cash basis just prior to payment through the banking system.

The pilot phase would commence preferably at the start of a financial year. It is unlikely that all pilot sites could be introduced at 1 January. It is rather more likely that we would start with MEF, Phnom Penh Municipal Treasury and one of the line

¹ It may be that these transactions were entered as soon as they were received in MEF, that is, possibly by FAD, Procurement etc depending on the actual 'to-be' business process that had been agreed prior to FMIS introduction.

Ministries as to attempt more would strain implementation resources. Once these were stabilized and processing successfully, the balance of the pilot sites would be bought on line, two or three at a time, until all the pilot sites were functioning well before the end of the financial year. As each pilot site came on line, NT would reduce transaction processing for those sites only, to a level that was standard Treasury transaction processing (eg., payment approval and payment processing, banking etc).

The functionality that would be introduced into pilot sites will depend on the state of readiness of the software when piloting commences, and the complexity of the final system design. The simplest functionality for the pilots would be to bring them on line using the basic functionality of Accounts Payable and Accounts Receivable with MEF departments such as Budget and NT using Ledger, Banking, and Budget etc. This would require revisiting each pilot site to upgrade User knowledge and processing as each new element of functionality was released. This approach makes the load greater on the ITD Implementation Team and the contractor but easier on the new Users. The alternative would be to wait until all pilot-required functionality was ready for release and then implement full FMIS at each site, making it easier on the implementation team but more challenging on the Users at each pilot. This decision cannot effectively be taken until we know the product and the contractor's timeline for development and release.

The pilot commencement date should be, if possible, January at the commencement of a new financial year, even although not all sites will be bought on at the one time. All pilot transactions (and all others) will be being entered into FMIS (by NT or FAD for example), therefore the pilot transactions will be captured in FMIS. As the implementation team is ready for each new site, there will be a transaction 'freeze' while all pilot site transactions are cleared through MEF and then all following transactions will be entered by the pilot site staff. If it is not possible to capture all transactions for all sites starting 1 January, the change-over from current processing to piloting processes becomes more complex, requires careful calculation of opening balances and detailed reconciliation of transactions processed for that year outside FMIS and those transacted within FMIS. Starting during a financial year is more labor intensive and has a great risk or error attached to it. The benefit of capturing all transactions in FMIS from the start of a financial year, irrespective of whether the pilots (or later, the balance of sites) is that FMIS can be the sole source of financial reports for standard transactions.

Interface development between Payroll, Tax, Customs, Debt Management etc will depend on when those systems and their interfaces have been developed both within FMIS and in the source systems, as well as when communications links and data transfer protocols have been established and are ready for implementation. Where there is any delay (i.e. after 1 January) in establishing the data transfers, careful manual journaling into FMIS will be required, followed by reconciliations with balances between the source system and FMIS at the time the interface is enabled.

Training of Users will depend on the complexity of the final system design and the functionality of the system that particular users will require. For basic transaction processing, a minimal approach would be a 1-day overview of the FMIS, introducing it, logging on, screen layout, navigation through the menus and basic system key strokes. This would be followed by a 3 to 5 day intensive module use course with a form of competency testing before Users would be given access to the production environment. Follow-up refresher training would be offered, where possible at the User's work site, shortly after they went online, to reinforce their understanding of FMIS. As this would be based at the User's work place, one trainer would be present for 2 to 3 days assisting Users with the use of the System. If additional functionality was being phased in, this follow-up training would be extended to 5 days to cover training on the new functionality. All User training must be hands-on, that is, each User must have access to a computer and a 'Sandpit' environment which mirrors the production environment but where Users can try things as well as undertake sample transaction processing required within the training program itself.

From the moment FMIS goes online with Users at any location, there must be a User Help Desk functioning to support any User problems, misunderstandings or system faults that might arise.

An essential requirement of the pilot and full implementation is that each site must have its own unique implementation plan and documentation and the processes and outcomes must also be documented so there is a clear record of who was trained, given access to the system, data loaded etc. It is probably obvious that the network connections must all be in place for each site and fully tested before any site can be brought online.

It is also assumed in these tentative proposals, that 'To-Be' processes are introduced and staff fully trained in those new processes before any useful training can be given in FMIS. All Users should also have been fully trained in the new Chart of Accounts and all necessary forms and other materials are available at each site in sufficient quantities to cover both training and then, operations.

During the pilot stage, the entire implementation process will be reviewed and modified based on experience, if necessary. When the pilot sites have all been implemented and stabilized, there is no reason why, depending on contract arrangements with the contractor, why rolling out to the balance of line Ministries and Provinces cannot commence in a similar manner to the implementation of the pilots.

10. Business Process and Chart of Account

10.1. Business Process

Business Process Mapping is a core and essential feature of the PFM reform program as increasing efficiency in processes can yield a number of major benefits to MEF and RGC. These benefits include:

- Faster processing of transactions.

- Faster payment to suppliers and collection of revenues.
- Up-to-date and more complete information available across Government.
- Identification of risk points in processes and strengthening of risk exposures, identification of responsible staff and a more easily auditable information base.
- Potential freeing of scarce resources (supported by focused capacity building) and re-allocating those resources into more productive areas of activity.

The intention for the business process is to have software that can track and process transactions from initial procurement/commitment to cash discharge....through the whole transaction life cycle.

On the introduction of FMIS, while a computer-based financial system is very flexible in its capacity for configuration, some changes in processes will be essential to have such a system made functional in Cambodia. Systems are basically designed round best practice concepts and will force some process review. Changing processes can require changes in aspects of administrative laws affecting transaction processing and authorization.

Financial transactions cover all aspects of finance, from the start of a procurement process through to the payment of suppliers, budget development and sales of goods and services as well as reporting financial information.

The objectives of the Review are focused on establishing current processes and where those processes are unnecessarily complex or repetitive and inefficient and where activities either add no benefits or fails to offset risk. Where the volume of transactions and the value of transactions are low, it is generally of little benefit to change but where the transaction volume is high and/or where the values of transactions is high and risk or wastage is correspondingly high, mapping and analysis of the processes can identify improvements.

The Policy for Business Process Mapping and Review will therefore comprise the following activities:

- Map the largest 10 financial processes by volume of transactions and review for efficiency gains, risk management issues and legal/political constraints
- Map the largest 10 financial processes by value of transactions and review for efficiency gains, risk management issues and legal/political constraints
- Produce a 'to be' process for these approximately 20 processes and describe the impacts of change on staffing, skills etc
- Describe a strategy whereby changes may be phased in, in conjunction with the PFMRP and FMIS processes
- Review organizational roles and responsibilities as affected by a phased or one-off change to processes

- Identify where constraints will cause significant diversion between practical reform and FMIS-supportable process changes and how these diversions can be addressed

These steps will identify the most important transactions, allow an analysis of current processes and the identification of inefficiency, risks and gaps in processing, control and reporting and the development of alternate approaches to how the objective of the transaction can be achieved in a more effective manner, with less risk, less resources and improved performance and information availability, detail and content.

On the final selection of the FMIS software solution, these current processes or the modified processes can be used by the contractor as a basis for assessing how the FMIS will be designed, configured and implemented.

Process review is an ongoing activity but once the major review has been completed, ongoing changes should be minor or marginal in impact and extent.

The process of conducting the Review will therefore be that each Department of MEF will map their own activities in accordance with templates produced by ICTU. This mapping will also indicate links to external departments or agencies and each activity or decision point will be supported by a brief description of that activity, why it is required (for example, legal compliance etc) and any conditions applying (over a designated value, etc).

MEF will then engage an expert Consultant to analyze and review these process maps and provide an assessment of where improvements can be made, where risks are created and where corrections/improvements can be achieved together with an identification of any legal or structural changes that would be required to achieve the proposed changes.

MEF would then determine their acceptance/modification/rejection of proposed changes and would then commence the introduction of those changes, covering preparation through training, legal modifications, documentation, implementation and audit oversight of the outcomes and compliance.

Documented new processes would be provided to the FMIS contractor during the initial fit/gap stage of implementation to be incorporated into the FMIS design or modified accordingly.

Ongoing responsibility for process reviews would be passed to Audit as part of their role in efficiency and effectiveness aspects of their audit functions, most likely after FMIS has been implemented.

10.2. Chart of Accounts Review

The development of accounting for management, control and reporting processes is developed in a logical number of stages, the basic stages being first Cash, then Modified Cash/Modified Accrual and finally full Accrual. The other essential feature of accounting is Commitment Recording and this should be

bought into consideration as early as possible in accounting development as it is the cornerstone of strong budget execution control.

Cambodia is essentially a cash-based government accounting environment, notwithstanding the recent Chart of Accounts is structured for accruals. However, accounting in RGC should initially focus on Cash and Commitment with the cash-based environment focusing on compliance with the IPSA Cash standard and concurrently with the IMF's GFSM2001 compliance.

The introduction of a FMIS will introduce the capacity to implement commitment recording and reporting will form part of the FMIS rollout objectives. FMIS should be configured to provide both cash and accrual accounting but to focus on cash until full accrual is understood and the capability of staff across Government has been developed such that modified cash and then accrual can be adequately introduced as an active component of accounting. Some aspects of accrual accounting can be provided by default by the FMIS operating on a cash basis but this should not be confused with accrual accounting. For accrual accounting to function in its proper form, transactions must be captured at source initiation and not when the transaction finally reached MEF. It requires full adoption of asset management, debtor and creditor management from the point where liabilities arise and not when the transaction is taken up by MEF. The distinction in the timing of transaction recording is the major difference between the appearance of accrual accounting and its actuality.

Directly associated with the accounting basis is the structure of the Chart of Accounts. The structure used in RGC (National Treasury) is the version produced by the French consultancy and is suitable for current, largely manual processing purposes. However, it is not suitable in its current format for use in a modern FMIS of the form likely to be available from the products under consideration for the FMIS. As a consequence, and in parallel with the accounting development process, the Chart of Accounts, while based directly on the current version, must be revised and reformatted/expanded to take advantage of the capability of the FMIS software.

For accounting, therefore, the policy direction will be to develop an FMIS-compatible Chart of Accounts, the structure and format to focus on two objectives:

1. Provide a base for the capture of transactions in format suitable for the scope of the new FMIS, based entirely on the current CoA but considerably reformatted and expanded.
2. Focus initially of fully compliance IPSAS Cash accounting and GFSM2001 reporting. Then, as FMIS is implemented, introduce Commitment Accounting.

Depending on the final project structure for the implementation of FMIS (only possible when a product and implementation partner have been selected),

introduce modified cash and accrual prior to developing into full accrual accounting.

To achieve this policy framework, the stages of development, in conjunction with the FMIS project, require RGC to

- Identify the current accounting and reporting processes for both internal and external reporting in MEF, Parliament and line Ministries/Provinces and external (particularly international) users
- Identify chart of account issues (legal, political and financial) that will arise from the PFMRP and FMIS processes
- Describe the process by which a transition through all its phases to full accrual accounting and reporting might be achieved and its timeline
- Identify the capacity building and staffing implications for a move to more rigorous accounting
- Identify any changes/weaknesses in current financial management responsibilities which should be addresses before any transition stage
- As FMIS is developed and rolled out, implement Commitment Accounting.

Commitment Recording is independent of whether RGC is on cash, modified or full accrual basis of accounting. Commitment Recording is best supported by a FMIS where transaction data is captured as early in the transaction cycle as is possible. For example, procurement should capture commitments at the time of a requisition for maximum benefit from the process as this is the pint where budget is needed to be checked and reserved. A devolved access to FMIS will provide the earliest possible transaction point and therefore, the greatest benefit to RGC in budget management, control and reporting.

11. Risks and Mitigation

There are several risks that the FMIS project will have. However, major risks can be narrowed down into two types, user side and supplier side. On the user side, the risks are the lack of cooperation from line departments and line ministries, not enough human resources, low capacity for both staffs in Information Technology Department and end users. These risks have been taken into consideration and mitigated seriously by setting the FMIS teams in the line departments in the MEF and line ministries. Staffs in Information Technology Department and staffs in the FMIS teams will be trained by using different capacity building plans.

On the supplier side, there are many risks that the MEF may face in the future. To mitigate these risks, the bidding document has been designed to include all requirements to make sure that supplier will abide by the rules and expectation.

12. Internal and External Cooperation Plan

In the context of the FMIS project implementation, there used to be a serious confusion that FMIS belongs to IT department and it is the task of IT department to do everything to bring the best ever FMIS system to the Government.

In fact, FMIS belongs to all departments. IT Department is just a supporting actor on the IT side only. The main actors are line departments, line ministries and

provincial treasuries who are the owner of the FMIS system and its environment. Only these actors who know exactly what they expect now from the system, how to use the system to remove the difficulty in doing every routine manually, what the system should be and going to be to facility them in operating all the financial transaction in the most efficient and transparent way.

13. Information Dissemination

The information will be publicized via the MEF periodic newsletters and MEF website (www.mef.gov.kh). The information will be updated regularly, especially on the FMIS section (<http://fmis.mef.gov.kh> or www.mef.gov.kh/fmis). The web surfers can see much information related to the FMIS, information technology news, and economic news.



**ANNEX 6: RESOURCES REQUIRED TO SUPPORT STAGE 2 OF THE
REFORM PROGRAMME**

The following is a broad costing based on the identified needs of Departments and a top down overview of how those needs might be grouped and served. Unit cost rates are in dollars (and assume some small recovery in the value of the dollar) and are inclusive of expenses. When Departmental Work Plans are finalised, it is intended that an activity based costing exercise will be carried out to align budget provision more closely with detailed activities.

ANNEX 6: RESOURCES REQUIRED TO SUPPORT STAGE 2 OF THE REFORM PROGRAMME

Resources for Platform 2/Stage2					Requirement			Notes	
					2008	2009	2010		
1-Strengthening of Secretariat and Coordination Arrangements					806,400	246,400	280,000	280,000	Includes provision for one extra senior manager to strengthen core of Secretariat and 4 additional liaison officers to coordinate activities of line ministries in the 4 clusters.
2-Technical Assistance									
Technical Area	Resources for Platform 2/Stage2				Requirement				
		Core Advisor	Specialist support	Pool for Ministries	Total	2008	2009		2010
Macro-fiscal advice and implementation support.	Days	80	30						Mainly on-going improvements in fiscal framework and related forecasts. Possible further need for specialist advice on refinement of forecasting systems.
	Unit Cost	1,200	1,200						
	Budget	96,000	36,000		132,000	60,000	36,000	36,000	
Revenue policy advice and implementation support.	Days	80	200						Further analytical support required in deepening of the Revenue Policy paper and analysis of policy options.
	Unit Cost	1,200	1,200						
	Budget	96,000	240,000		336,000	132,000	132,000	72,000	

Budget formulation advice and implementation support.	Days	150	80	200					Core advisor time will cover most requirements for Budget Department itself. Main requirement now will be support for line ministries to deepen their response to programme budget piloting. Some specialist support required with regards to budget entity mapping, development of functional and programme classification and legal framework developments with regards to integration of off-budget activity
	Unit Cost	1,200	1,200	1,200					
	Budget	180,000	96,000	240,000	516,000	160,000	250,000	106,000	
Budget execution and control advice and implementation support.	Days	180	80	300					
	Unit Cost	1,200	1,200	1,200					
	Budget	216,000	96,000	360,000	672,000	230,000	260,000	182,000	
Accounting and reporting advice and implementation support (including FMIS and ICT).	Days	250	280	100					Specialist support includes: <ul style="list-style-type: none"> • Functional/business process. • Change management • ICT support
	Unit Cost	1,200	1,200	1,200					
	Budget	300,000	336,000	120,000	756,000	250,000	350,000	156,000	
Auditing advice and implementation support.	Days	300	30	100					Core provision based on one consultant resident for a year and peripatetic visits thereafter. Line Ministry support provided through this person+ pool of days for capacity development exercises.
	Unit Cost	1,200	1,200	1,200					
	Budget	320,000	36,000	120,000	476,000	110,000	200,000	166,000	

Training advice and implementation support.	Days	180	60	300					It is assumed that the core advice will be provided by a recognised international training institution (discussions are currently taking place) and that support to line ministries will be built around that.
	Unit Cost	1,200	1,200	1,200					
	Budget	216,000	72,000	360,000	648,000	120,000	300,000	228,000	
Human resource development	Days	180	20	200					The core provision includes the development and implementation of a communication strategy.
	Unit Cost	1,200	1,200	1,200					
	Budget	216,000	24,000	240,000	480,000	160,000	220,000	100,000	
FMIS support staff (business analyst)	Month		360						10-15 local consultants will provide training/support services for setup and implementation of the FMIS in MEF, Treasury, Provincial Treasuries and Line Ministries
	Unit Cost		500						
	Budget		180,000		180,000	30,000	90,000	60,000	
Sub-total					4,196,000	1,252,000	1,838,000	1,106,000	
3-Training Events									
In-house Events									
Number of events				90					30 per annum in line with CDP
Unit cost				5,000					
Budget					450,000	150,000	150,000	150,000	
Outsourced events									
Number of events				60					20 per annum in line with CPD
Unit cost				12,000					
Budget					720,000	240,000	240,000	240,000	

Overseas long term degree training						
Number of Candidates	20					
Unit cost	100,000					
Budget		2,000,000	600,000	800,000	600,000	
Sub-total		3,170,000	990,000	1,190,000	990,000	
4-System Implementation						
FMIS Software design, implementation and hardware		10,400,000				Details of FMIS Costing available.
Mobilisation of implementation	1,130,000		113,000	1,017,000		
Specification/procurement	220,000		110,000	110,000		
Central module implementation & hardware	3,450,000		345,000	3,105,000		
Pilot roll out & hardware	1,650,000			990,000	660,000	
Further roll out & hardware	3,050,000				3,050,000	
Project Management	120,000		40,000	40,000	40,000	
Contingency	780,000		260,000	260,000	260,000	
Further development of interim financial information system		150,000	15,000	135,000		
Sub-total		10,550,000	883,000	5,657,000	4,010,000	
5-Seminars and workshops						
Number of events	30					
Average cost	5,000					
Sub-total budget		150,000	50,000	50,000	50,000	
6-Project Annual Review						
Number of workshop	3					
Average cost	35,000					
Sub-total budget		105,000	35,000	35,000	35,000	

7-Equipment and material					
Hardware in connection with FMIS implementation					Included in FMIS Costing
Work stations for reform cells in line ministries/budget entities	100,000		80,000	20,000	
Additional equipment for Secretariat	15,000		12,000	3,000	5 work stations at 3,000 each
MEF Computerization equipment & materials	1,500,000	900,000	500,000	100,000	
Additional vehicles (provincial contact, audit visits etc.)	180,000	72,000	108,000		Up to 5 more vehicles (3 pooled RCS/MEF)
Sub-total	1,795,000	972,000	700,000	123,000	
8-Communication and dissemination					
Initial design and set up of material	5,000	1,000	2,000	2,000	Relates to regular publishing of news material, plus expansion of web site. Depends on communication strategy adopted.
Subsequent re-runs and issues	30,000	8,000	11,000	11,000	
Sub-total	35,000	9,000	13,000	13,000	
9-Study tours					
Number of events	12				Based on experience during Stage 1 it is proposed to have study tours with smaller numbers, but more intensive.
Average cost	30,000				
Sub-total budget		360,000	120,000	120,000	
10-Performance Improvement Payment Scheme (MBPI)					
Continuation for MEF					
No. people	500				Approximate target (current number less)
Per month	275				
No. months	36				
		4,950,000	1,650,000	1,650,000	1,650,000
Extension to line ministries and other budget entities					
No. people	100				Assumes around 5-10 people per participating Line Ministry
Per month	275				
No. month	30				
		825,000	165,000	330,000	330,000
Sub-total		5,775,000	1,815,000	1,980,000	1,980,000

Less Government Contribution under taper arrangements		(866,000)	(272,000)	(297,000)	(297,000)	Currently 10% growing by 5 % per year
Net Cost to Programme		4,909,000	1,543,000	1,683,000	1,683,000	

OVERALL TOTAL		26,076,400	6,100,400	11,566,000	8,410,000	
Summary by Category		Total	2008	2009	2010	
1- Goods		12,260,000	1,824,000	6,330,000	4,106,000	
2- Consultant Services		4,421,600	1,304,800	1,924,400	1,192,400	
3- Training/workshops/study tour		3,785,000	1,195,000	1,395,000	1,195,000	
4- Operating Cost		240,000	80,000	80,000	80,000	
5- MBPI		5,369,800	1,696,600	1,836,600	1,836,600	
		26,076,400	6,100,400	11,566,000	8,410,000	



ANNEX 7: MONITORING MECHANISMS

As with Platform 2/Stage 2 RGC will regularly monitor progress against a set of indicators. However, by its nature, Platform 2 is a little different from Platform 1. Whereas key areas in Platform 1 were directly quantifiable and measurable, Platform 2 is less amenable in this way and a slightly different approach is required.

Monitoring is proposed at three levels:

Level 1 – Departments will have their own detailed action plans for achieving the outputs and targets set out in the CAP shown in Annex 1 for each year. Each output and target shown in the CAP (Annex 1) will have an identified lead department for its achievement. Lead Departments will report to the Reform Committee on a quarterly basis drawing out any outputs or targets that are at risk of achievement during the year in question. The onus will be on the Department to say either that the output/target is in hand and expected to be achieved or that there are problems, to say what those problems are and how it is proposed that they be overcome. There will be a full annual review of performance against all targets for that year.

The set of indicators to be used for this purpose are set out in the CAP shown in Annex 1.

Level 2 – There will be continued monitoring on a quarterly basis of key targets in relation to Platform 1 to ensure that the achievements during Stage 1 are at least maintained and improved upon where possible.

The set of indicators to be used for this purpose are set out in Attachment 1 to this Annex.

Level 3 – There will be a bi-annual review of progress against a smaller sub-set of Platform 2 indicators that are regarded as critical to achieving the overall objectives of Platform 2. This will be undertaken in terms of important milestones in the delivery of the required outputs in these areas. The monitoring will use a 'traffic light' system of green for achieved, amber for progress being made and red for no progress (all traffic lights will be set to red initially). The purpose of this monitoring will be to step back and give an overall impression of the underlying progress towards Platform 2 objectives.

The set of indicators to be used for this purpose are set out in Attachment 2 to this Annex.

Arrangements by which MEFs Reform Committee will make Development Partners aware of progress are described in Annex 9.

Although a full assessment has not yet been undertaken, RGC also has an eye towards progress against the internationally recognized set of indicators of public financial management indicators provided by PEFA. PEFA is a Multi-Agency Partnership Program sponsored by Multilateral and Bilateral Donors. PEFA issued the PFM Performance Management Framework in June 2005. Attachment 3 to this Annex shows how the work already carried out under Platform 1 and proposed under Platform 2 is intended to contribute to improved attainment in relation to the PEFA indicators.

Attachment 1

QUANTIFIABLE PFM REFORM PROGRAMME INDICATORS FOR PLATFORM 1 TO BE MONITORED ON AN ON-GOING BASIS

INDICATOR	CURRENT FORMULATION
1) Revenue out-turn increasingly close to targeted level in approved budget	Revenue outturn within + or - 5% of forecast used for budget.
2) No accumulation of new arrears and steadily declining stock	Arrears as defined to be kept at no more than 2% of total expenditure
3) Budget holders increasingly able to commit expenditure in line with budgets and cash flow forecasts	Expenditure profile not to be less than: 1 st Quarter [15]% 2 nd Quarter [45]% 3 rd Quarter [67]% 4 th 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
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: Salaries [98]% Goods/Services [95]% Capital [85]%
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.
6) All significant areas of both revenue and expenditure captured in both the budget and accounts of the government.	No significant areas of omission

Attachment 2

HIGH LEVEL PERFORMANCE MEASURES FOR PLATFORM

PLATFORM OBJECTIVE: To improve accountability for achieving effective financial management so that public servants at all levels feel responsible for how they manage and control public finances, that they are empowered to fulfil those responsibilities effectively and that instruments for holding them accountable are in place and effective.

Target Description	Milestone Achievement			
	Milestone 1	Milestone 2	Milestone 3	Milestone 4
1) Establishment and application of clear rules for both responsibility and empowerment of all budget managers. Traffic lights -	Review of existing rules	Design of new rules on a consolidated basis	Issue of new rules under an appropriate authority	Issue of guidance and provision of appropriate training
2) Core FMIS system in place and providing timely and reliable accounting data for both management and formal reporting requirements. Hierarchy of accounting reports established producing consistent and reconciled data to senior management in budget entities, within MEF, to Cabinet and to the legislature. Traffic lights-	Milestone Achievement			
	Milestone 1	Milestone 2	Milestone 3	Milestone 4
	Structure and capacities in place within MEF for managing FMIS implementation	System procurement carried out and contracts in place	Core system implemented	System producing satisfactory required reports in a consistent and reconciled manner

3) Successful implementation of revised chart of accounts and full alignment between budget and accounting classification at the level of the formal budget presentation. Traffic lights -	Milestone Achievement			
	Milestone 1	Milestone 2	Milestone 3	Milestone 4
	Transactions being processed in accordance with new economic classification	Required forms of functional and program classification researched and decided	Core FMIS implementation takes account of required forms of functional and program classification	Functional and program classification introduced
4) Full transparency achieved with regards to tax taxpayer obligations and liabilities Traffic lights -	Milestone Achievement			
	Milestone 1	Milestone 2	Milestone 3	Milestone 4
	Specific measures to be taken identified and consulted upon.	Taxpayers have easy access to comprehensive user friendly and up-to-date information about tax liabilities and administrative procedures for all major taxes.	Active taxpayer education campaigns in place.	A tax appeals system with transparent administrative procedures and appropriate checks and balances implemented
5) Achievement of an improved level of transparency in reporting to Parliament and to the public. Traffic lights -	Milestone Achievement			
	Milestone 1	Milestone 2	Milestone 3	Milestone 4
	Reporting formats designed.	Consultation undertaken with potential users of such information	Arrangements in place for gathering data to service the new reporting formats	Reporting formats implemented and distribution and access arrangements in place.

6) Clear and transparent fiscal relationships between central and locally based public bodies established and adhered to. Traffic lights -	Milestone Achievement			
	Milestone 1	Milestone 2	Milestone 3	Milestone 4
7) Clear sanctions in place and applied for inappropriate resource management activity or results.	Milestone Achievement			
	Milestone 1	Milestone 2	Milestone 3	Milestone 4
	Structure of sanctions reviewed and new integrated framework designed	Changes in law implemented to reflect new structure.	Promulgation and training provided	Effective checks of compliance and application of sanctions in place
8) Clear rewards in terms of trust, freedoms and flexibility established and applied for those budget managers who meet criteria for adequate standards of financial management. Traffic lights -	Milestone Achievement			
	Milestone 1	Milestone 2	Milestone 3	Milestone 4
	Potential freedoms and flexibilities identified and a framework designed	Changes in law implemented to reflect new structure.	Promulgation and training provided	Objective assessments being made as a basis for allowing appropriate freedoms and flexibilities on a selective basis.

9) Strong post audit arrangements in place through internal audit sections providing system based and risk assessment based audit coverage.	Milestone Achievement			
	Milestone 1	Milestone 2	Milestone 3	Milestone 4
	Internal Audit Strategic Plan/Charter Developed Manual and Training Programmes Developed	Internal Audit functional in most important Government Entities and undertakes systems review	Reports issued regularly for most Entities Implementation of Training Programmes	Reports responded to and actions implemented by most managers
Traffic lights-				
10) Minimum capacities established in key line ministries with regards to skill set required for exercising of effective accountability.	Milestone Achievement			
	Milestone 1	Milestone 2	Milestone 3	Milestone 4
	Support to EFI and Personnel Department in place Measures in skill development set out in the CDP being implemented	Review of Capacity Development Plan	Review of Capacity Development Plan	Review of Capacity Development Plan
Traffic lights -				

Attachment 3**PEFA –POTENTIAL IMPACT OF EACH PLATFORM**

INDICATOR		Platform Impact				Platform 2 PI Contributing to Platform Impact
		Platform 1	Platform 2	Platform 3	Platform 4	
PI-1	Aggregate expenditure out-turn compared to original approved budget	X				
PI-2	Composition of expenditure out-turn compared to original approved budget	X				
PI-3	Aggregate revenue out-turn compared to original approved budget	X				
PI-4	Stock and monitoring of expenditure payment arrears	X				
PI-5	Classification of the budget		X			2,3
PI-6	Comprehensiveness of information included in budget documentation		X		X	5
PI-7	Extent of unreported government operations	X				
PI-8	Transparency of inter-governmental fiscal relations		X			6,
PI-9	Oversight of aggregate fiscal risk from other public sector entities.	X				
PI-10	Public access to key fiscal information		X		X	2,5

C. BUDGET CYCLE						
C(i) Policy-Based Budgeting						
PI-11	Orderliness and participation in the annual budget process	X		X		
PI-12	Multi-year perspective in fiscal planning, expenditure policy and budgeting			X	X	
C(ii) Predictability and Control in Budget Execution						
PI-13	Transparency of taxpayer obligations and liabilities		X			4,
PI-14	Effectiveness of measures for tax-payer registration and tax assessment	X				
PI-15	Effectiveness in collection of tax payments	X				
PI-16	Predictability in the availability of funds for commitment of expenditures	X				
PI-17	Recording and management of cash balances, debt and guarantees	X				
PI-18	Effectiveness of payroll controls		X			2,8,10
PI-19	Competition, value for money and controls in procurement	X				
PI-20	Effectiveness of internal controls for non-salary expenditure		X			2,7,8,10
PI-21	Effectiveness of internal audit	X	X			9,10

C(iii) Accounting, Recording and Reporting						
PI-22	Timeliness and regularity of accounts reconciliation		X			2,7
PI-23	Availability of information on resources received by service delivery units		X			1,2
PI-24	Quality and timeliness of in-year budget reports		X			1,2
PI-25	Quality and timeliness of annual financial statements		X			2,5,
C(iv) External Scrutiny and Audit						
PI-26	Scope, nature and follow-up of external audit			X	X	
PI-27	Legislative scrutiny of the annual budget law					
PI-28	Legislative scrutiny of external audit reports			X	X	



**ANNEX 8: ALIGNMENT OF THE PFM REFORM PROGRAMME WITH
OTHER REFORM PROGRAMMES**

As the PFMRP gathers pace it is recognised that it will have increasing interdependency with other reforms that seek to improve the effectiveness of policy delivery in Cambodia. Alignment with those other programmes will be sought both to ensure that PFMRP reforms can be effective, but also that they contribute to those other reforms where necessary.

The following are recognised as important inter-dependencies in this respect:

Related Programme	Nature of Inter-Dependency	Alignment Mechanisms
Decentralisation and deconcentration	Management of budget resources is an important aspect of devolved empowerment. Broadens and deepens requirement for capacity to manage resources effectively Potential impact on macro fiscal management.	Membership of Ministry of Interior in PFMRP Steering arrangements. Cross sharing of plans. Alignment of pace of D&D with sequencing of PFM reforms? Specific D&D component within PFMRP work plans.
Civil Service reform	Empowerment and accountability mechanisms. Performance management. Organisational reform and alignment with budget responsibility.	Membership of CAR in PFMRP Steering arrangements. Cross sharing of plans. Identification of institutional implications of PFMRP plans.
Public service pay reform	Alignment of pay and performance. Achieving realistic living wage levels as a basis for expectations as to both performance and ethics. Performance supplements within PFRMP a potential pilot for broader pay reform.	Membership of CAR in PFMRP Steering arrangements. Lesson learning and sharing about MBPI. Potential roll out of MBPI to other Ministries.
Sector based reform programmes	Some sectors have broader reform projects with PFM components. This gives an opportunity for aligning PFM reforms with broader management and service delivery reforms.	Membership of key Ministries in PFMRP Steering arrangements. Sharing of information about plans and resources available. Alignment of work plans where desirable.



ANNEX 9: PARTNER ENGAGEMENT MECHANISMS

Sector Wide Agreement

The PFMRP is conceived as a Sector Wide Agreement for Partnership (SWAP) between Royal Government of Cambodia (RGC) and Development Partners (DPs). The SWAP has a number of key characteristics namely:

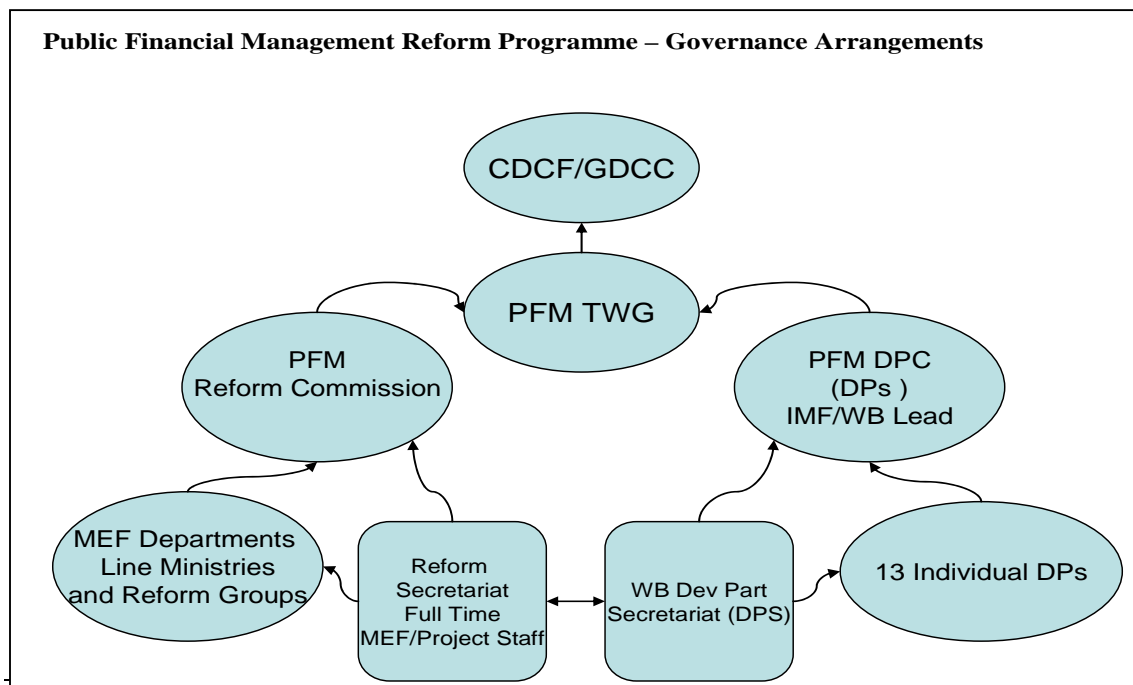
Joint Reform Objectives

- An agreed Reform Vision and Strategy developed and owned by RGC and agreed with DPs.
- Coordinated Funding and support arrangements between DPs which are aimed at supporting the implementation of this reform strategy. Agreed partnership principals govern this relationship
- Ongoing discussion within the regular PFM Technical Working Group² of the reform programme strategy, plans and programmes between the MEF/PFM Reform Committee and DPs. NGO Forum is invited to participate in the TWG Meetings.

Development Partner Support Arrangements

- A Development Partner Committee (DPC) which supports the coordination between RGC and DPs including multi-year strategy development and stage planning, annual work planning, regular monitoring and periodic evaluation. Currently thirteen³ DPs actively participate in the DPs.
- A DP Secretariat based in the World Bank Cambodia Country Office which supports the DPC, provides technical advice and actively manages disbursements from the World Bank Grant and the Multi Donor trust Fund.

Figure 1 – PFMRP Governance



² The PFM Technical Working Group (TWG) is one of the working groups established under the overall consultative arrangements established between Royal Government of Cambodia and Development Partners.

³ ADB, AusAid, CIDA, Dfid, EC, DANIDA, Germany, IMF, Japan, France, Sida, UNDP, World Bank

PFMRP Key Legal Agreements

The key legal Agreements covering the PFMRP include:

- A set of Multi-donor Trust Fund (MDTF) Administrative Agreements between World Bank and participating DPs which provides for the receipt of Grants from the co-financing DPs into a funding pool. Currently four key DPs use this arrangement. A number of DPs also provide earmarked funding in parallel.
- A PFMAP Grant from the World Bank which co-finances the PFMRP.
- A MDTF/PFMAP Funding Agreement between RGC and WB which provides for the disbursement of funds from both the MDTF and the PFMAP. This agreement defines eligible expenditure for grant purposes and includes provisions for programme planning, budgeting, disbursement, procurement, implementation, financial management, reporting and audit.
- Partnership Principles for the participating DPs.
- A specific memorandum of understanding for the management of the Merit Based Performance Incentive Scheme.

PFMRP Planning, Monitoring, Evaluation and Reporting.

The programme provides for a regular cycle of multi year, annual and in-year planning, budgeting, reporting and evaluation processes.

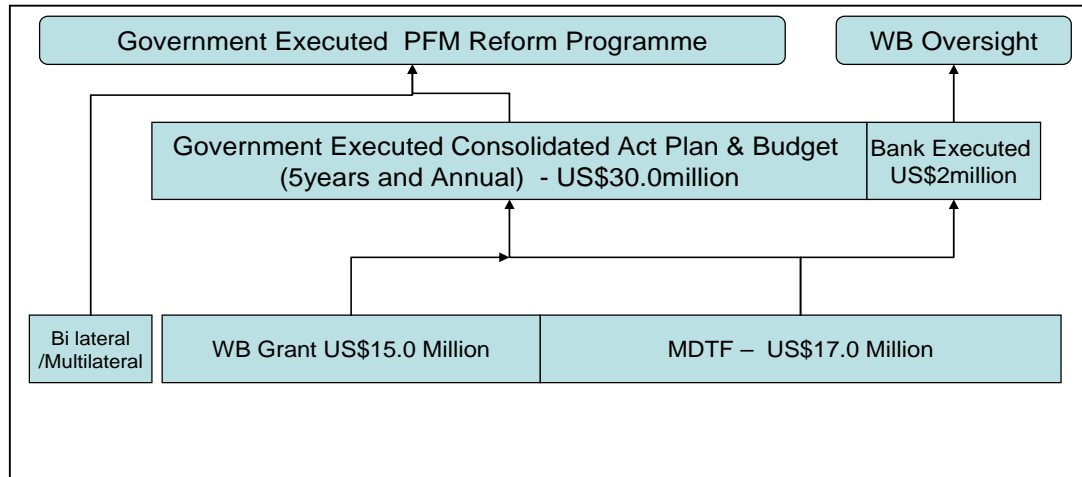
- For each major stage, based on the government design, a Joint Design/Appraisal Mission(s) is undertaken which results in agreement between RGC and DPs on an overall Consolidated multi year strategy and action plan (CAP). Performance Indicators and Targets are defined to monitor performance. This are based around the internationally recognized PEFA indicator set, but contextualized for the RGC.
- Within the overall CAP framework an annual Detailed Action Planning (DAP) exercise is undertaken by the PFMRP prior to the commencement of each year and in consultation with DPs. This provides the basis for annual budgets and procurement plans.
- Regular quarterly and annual progress reports and financial statements are produced.
- Annual Strategic Review Retreats are undertaken with participation from all stakeholders including DPs.
- Periodic External Evaluations (EAP) are undertaken by an External Advisory Panel (EAP) to provide an objective assessment of progress.
- Annual Financial Statements and Audits Reports are also produced and made available to DPs.

Current Funding

The two current major sources of funding include the MDTF (Ausaid, Dfid, EC and Sida) the PFMAP (World Bank). In addition other DPs provide typically TA based bilateral support. Total funding is equivalent to approximately US\$32 million of which the government executes some US\$30 million for the five years 2005-2010.

All the support however funded is aimed at meeting the same objective. ADP is currently in the progress of developing an earmarked program to support the three rural development ministries implementation of the PFMRP. Figure 2 illustrates the current funding arrangements.

Figure 2 – Current Funding Arrangements



Overall

Government and development partners strive to ensure that the PFMRP has:

- A clearly articulated and agreed Strategy and Plan of Action to facilitate resource allocation, government implementation and joint performance monitoring.
- An Appropriate resource envelope
- Effective communication and understanding between RGC and cooperating DPs.
- High level of attention to inclusiveness and information exchange for all stakeholders.
- Effective leadership on both RGC and DP side.
- High level of Co-ordination, Communication, Technical and Administrative Skills on both sides of SWAP.
- Good co-operation between the two secretariats RCS and DPS.
- Establishment and ongoing maintenance of legal, financing, organizational, performance management and monitoring framework.

In Stage two specific attention and effort will be given to strong line ministry engagement.



ANNEX 10: RISK MANAGEMENT FRAMEWORK FOR STAGE 2

All reform programmes carry risks associated with the external task environment and internal organisational constraints. In this context the PFMRP is no different from any other public sector reform programme in any other Country. It is therefore important to identify the key uncertainties, constraints or likely resistance which may impact adversely on the reforms and to proactively implement measures, where necessary, designed to mitigate such risks.

The methodology for this is to first identify areas of possible risk, secondly to determine if the risk is material and thirdly to design and implement such mitigating actions necessary to reduce or if possible eliminate the risk. Materiality in this case involves an assessment of the adverse reform impact arising if an event occurs and the likelihood of such an event actually occurring. A risk may exist but its likelihood of occurrence may be very low in which case mitigation efforts may not need to be that great, however if the impact is very high then even with a low risk effort needs to be made to mitigate such a risk.

For the PFM the following table shows those issues which have been identified as potential risks as well as the materiality of the risk. Based on the materiality, mitigating actions are proposed to eliminate or reduce the risk.

Key Risks	Materiality⁴	Mitigating Actions
Adequacy of Political and Management Support declines (Attention and Leadership)	Low – Political and Management engagement and support is good. Risks at Line Ministry level may exist.	PFMRP will through the Reform Commission and TWG maintain Political and Management engagement and ensure appropriate representation on PFMRP coordinating bodies. Particular attention will be given to briefing Line Ministries at Political and Management Level and to clearly identifying change champions at Line Ministry Level.
Weaker Growth undermines benign task environment and limits space for reform	Medium – Some risk exists given the changes in sources of growth.	A key component of PFMRP is to implement enhanced Revenue Policy which will expand the revenue base and improve revenue forecasting and administration. Specific performance indicators are in place to provide an early signal of any adverse changes in the revenue environment.
Institutional rigidities inhibit budget integration and comprehensiveness undermining rational resource allocation.	High – Overlapping responsibilities exist between MEF departments and in a number of PFM areas, this and the implementation of more de-concentrated PFM arrangements may generate reform resistance.	The PFMRP will aim to clearly identify roles and responsibilities for each stage of the Budget cycle. PFMRP will assist management to elaborate gains arising from both integration and de-concentration, seek opportunities and methodologies to engage stakeholders in understanding and developing commitment to the reform process. PFMRP will also provide multiple opportunities for all concerned stakeholders to their build capacity to engage and implement the reform process. (BSP, MTEF, Programme Budgeting, FMIS)

⁴ Materiality here is expressed as a function of both the level of risk and the probability of the risk arising.

Technology driven FMIS implementation with limited impact on control and accountability	High – Experience and capacity to support implementation and operation of such systems is currently weak.	The PFMRP will ensure an evolutionary approach to implementation gradually matching functionality to capacity. Extensive capacity building will be undertaken and where appropriate additional ICT/application management structures developed to support FMIS implementation. Dedicated transition management and specialist support will be provided to facilitate design and implementation. World Bank will provide substantive technical/quality assurance support for all aspects of the process.
Inadequate Capacity Development undermines reform.	High – Capacity Building efforts in Stage 1 although defined were limited	In PFMRP Stage 2 a comprehensive capacity building plan is developed covering Training, HR Management, Organisational and Motivational Change. Furthermore more concerted focus on all aspects of capacity development at both MEF and Line Ministries. In addition more attention will be given to adoption of a longer term perspective in training by training trainers and institutionalising the training programme. This will be supported by careful design, implementation and monitoring of Organizational Development, Human Resource Development and Change Management. Specialist expertise will be made available to support design and implementation.
Incentives inadequate to support reform (Salaries, MBPI).	High - Inability to expand MBPI scheme limits engagement.	Within the emerging new framework for MBPI recently agreed by RGC PFMRP will agree with MEF, CAR and DPs an extension of MEF MBPI to cover personnel supporting PFMRP in MEF and Line Ministries/Provincial Departments. Continued efforts will also be made to support linkages with the broader Civil Service Reform Programme.
Inadequate coordination	High - Co-ordination and Communication challenges between MEF Departments, other Central Agencies and Line Ministries exist which adversely effect Budget formulation and execution.	PFMRP will support ongoing efforts to i) implement PFM process improvements between key PFM stakeholders at macro, meso and micro level; ii) strategic and departmental functional reviews in the MEF aimed at securing more effective coordination and communication between departments; iii) Development of working group mechanisms, building on and extending the current PFM clustering arrangements including sector based clusters and iv) implementing more inclusive PFMRP governance arrangements that strengthen both Central Agency (NAA, MoP, CAR, CDC) and line ministry participation. Ensure appropriate coordination arrangements in place at all levels. Increase Line Ministry Awareness and Ensure pilot Line Ministries adequately committed and resourced to support reform.

Adequacy of Delegation and Independence (Line Ministries, External Audit)	High – Organisation culture has a tendency to promote centralised decision making and detailed control.	PFMRP will work to ensure the emerging task environment progressively matches responsibility with authority. This will include developing awareness of that delegation does not imply loss of appropriate control and ensure political and management support for progressive restructuring and systems re-development.
Adequacy of External Demand (Civil Society, NAA, National Assembly)	Medium – External demand for effective PFM weak although shows an improving trend.	PFMRP will aim to empower MEF capability to respond to external demand through increasing transparency in implementation, progress reporting and dialogue.
Adequacy of understanding of ICT Development (Strategy, Maintenance & Sustainability)	Medium – Currently no comprehensive ICT policy	PFMRP will provide technical support to the ICT UNIT to ensure development and implementation of an appropriate ICT Strategic Framework. PFMRP will also support continued capacity development
Weak operationalization of mechanisms for ensuring poverty/gender focus in reform programme.	High – Limited gender focus and significant gender inequality.	PFMRP will aim to progressively contribute to developing political management and DP support for addressing poverty/gender initiatives and to create opportunities for higher levels of women’s engagement.

