

REPORT
On the Review Outcomes of
The Implementation of Public Financial Management Reform Program

General Secretariat
Steering Committee of the Public Financial Management Reform Program
February 2014

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I. Summary

1. The Royal Government of the Kingdom of Cambodia is committed to a step-by-step reform of the public financial management towards the international standard, known as “**a step-by-step reform from centralized input-oriented public financial management system to decentralized achievement-oriented or output-oriented public financial management system**” through the implementation of comprehensive longstanding public financial management reform program and four-platform or/and four-phase strategies including **(1) Strengthened Budget Credibility, (2) Improved Financial Credibility, (3) Linking the Budget to Policy and (4) Improved Achievement Accountability.**
2. The improved budget credibility which is the primary goal of Stage 1 was introduced at the end of 2004, fully implemented in 2005 and successfully ended with the introduction of Stage 2 at the end of 2008 which was fully implemented at the beginning of 2009. The budget credibility was truly enhanced and this was reflected by the improved effectiveness of budget implementation. As a result, it helped narrow the gaps of the income-expense implementation of the national budget against the approved budget law, making the income-expense flow smoother and more practical on monthly and quarterly basis and payment more punctual. Also, it reduced nearly [reeducate?] the chronic debt problem. Given these plausible outcomes, the Royal Government of Cambodia can draw a firm conclusion that essential budget credibility was successfully established, which formed a solid basis for further strengthening Stage 2, gearing mainly toward improving financial accountability and introducing information technology to the public financial management.
3. It is true that despite good planning and preparedness, unexpected risks are unavoidable. When the reform yield fruition of the budget credibility (When the income is high, the government can save up every year), the government shall continue to improve financial accountability so as to increase clarity, integrity and punctuality of accounting and financial recording and reporting system which is an important basis for evaluation and analysis in order to increase transparency, feasibility and effectiveness of the policy through the introduction of Consolidated Action Plan Stage 2 at the beginning of 2009, and unexpected challenges might occur consequently. **The first challenge** is the complexity of the preparation for introducing new and sophisticated information technology which involves modification of the whole working system which affects the improvement of institutional structure, change management and human resource development for the new system. **The second challenge** is global economic and financial crisis which affects the income-expense implementation and Cambodia’s budget policy. Especially, it hurts the budget credibility. **The third challenge** is Cambodian-Thai border crisis and flood which has impacts on the expense and expense policy, affecting some key expense indicators. **The last challenge** is budget shortfalls to support the operationalization of information technology project resulting in reduction of the FMIS completed modules to treasury centric module.
4. However, the outcomes of this four-year reform of budget credibility gave important experience and enhanced capacity for Cambodia to address the above-mentioned challenges which occurred repeatedly and continually during 2009, 2010 and 2011. Especially, it minimized the impact of global financial and economic crisis and

Comment [SS1]: Too long I do not understand

refrained from borrowing international loan which could make Cambodia fall into the trap of debt crisis. Meanwhile, despite consuming a great deal of time, spending 5 years preparing for the implementation of the information technology for public financial management also gave us time to absorb, learn and gain more experience, increase credibility and trust as well as helped us be more prepared for the launch of the information technology which would be eventually introduced at the beginning of 2015.

5. In 2014 which is the sixth year of the implementation of Stage 2, there will be continued efforts to implement the Consolidated Action Plan 2 (CAP2) which consists of 14 objectives, 73 activities divided into 3 sections. Section for enhancement of budget credibility has 4 objectives and 19 activities. Section 2 for improvement of financial accountability has 8 objectives and 49 activities and Section 3 for preparation for the next platform has 2 objectives and 5 activities, focusing on pilot program budget implementation and integration improvement and budget comprehensiveness. Additionally, 2014 is the final year to finalize the 3 plus 2 strategy implementation which focuses on preparing the information technology for treasury centric module and shall be put into operations at the beginning of 2015.
6. Therefore, besides further strengthening the budget credibility towards a strong and stable system, essential financial accountability improvement shall be achieved to be able to go to Stage 3, which focuses mainly on Platform 3 or increased budget link to the policy. To what extent the essential financial accountability shall be determined by which indicators and how to do it is what to answer through the outcome of the review of the implementation of public financial management reform and Cambodia's public financial management system evaluation by PEFA.
7. As indicated above, Stage 3 shall be launched when the basic budget credibility system is stable and the financial accountability is achieved supposedly at the end of 2014 or the end of 2015 after the implementation of the information technology for treasury centric module, implementation of new budget contents and new accounting map which can increase clarity, integrity and punctuality of the accounting and financial record and statement system and which responds to IPSAS at a reasonable level as well as the implementation of new budget transaction system (expense guarantee, procurement and payment) which can guarantee the improvement of the efficiency, effectiveness and transparency of budget implementation. Moreover, Stage 3 shall be launched with the rolling out of Platform 1 of the budget system reform (The beginning of 2015 or 2016). Stage 3 can be **phased out at the end** of 2019 or 2020 with the implementation of Stage 4 and hopefully the four objectives of the whole public financial management reform program will be successfully concluded by 2025.

2. Introduction

2.1. Purpose of Reviews

8. For monitoring and reviews, the Public Financial Management Reform Program establishes three mechanisms namely monthly, quarterly and annual monitoring and reviews. Monthly monitoring and reviews is conducted internally within Ministry of Economy and Finance through PFM Reform Committee of line ministries and institutions via PFM working groups and PFM Development Partners Committee. Although the monthly report and monthly meeting outcomes were prepared internally, they are widely distributed and serve as the basis for the quarterly report and as a rational for the convention of extraordinary meeting of the PFM Steering committee and/or PFM Technical Working Group as necessary.
9. Quarterly monitoring and reviews is a joint exercise, under which the quarterly report is prepared by the General Secretariat of PFM Reform Steering Committee based on the reported submitted by the MEF and line ministries/institutions. This quarterly report is an official report and shall be publicize upon approval following the meeting of PFM Reform Committee, PFM Reform Steering Committee and PFM Technical Working Groups, if need be.
10. Annual monitoring and reviews is a joint exercise, under which the annual report is prepared by the General Secretariat of PFM Reform Steering Committee based on the report submitted by the MEF and line ministries/institutions. This quarterly report is an official report and shall be publicize upon approval following the meeting of PFM Reform Commission, PFM Reform Steering Committee and PFM Technical Working Groups. In addition, annual report is the subject for annual reviews (retreat) that entails broad and in-depth evaluation, incorporating the Assessment Report of Independent Assessment Team and it is not confined to only reviewing the progress of the action plan implementation per se but it also serves as a platform for assessing efficiency and effectiveness of the entire reform program implementation as well as a mechanism for improving activities and/or mechanism and strategy or even lead to the revision the direction, if necessary.
11. The challenges highlighted above, coupled with the General Election 2013 and the change of organizational structure of MEF did have impacts in many ways on the implementation of the PFM Reform Program Stage 2 over the last five years (2009-2013). For instance, the Three-year Consolidated Action Plan Phase 2 (2008-2010) has not been updated and Strategy 3 plus 2 was adopted in 2011 aiming solely at the preparation for the operationalization of the ICT system for financial management placing emphasis on three fundamental areas namely Lines of Accountability, Standardization, and Budget Execution with two support area namely ICT Project Building and Capacity Building for operationalization of ICT system for financial management. Reviews by Independent Review Team and Annual Review Meeting (Retreat) for 2012 was missed. Quarterly report has not been submitted and quarterly meeting has not been convened since the election time toward the end of 2013. Despites these challenges, government reforms activities have not been halted completely. It is just that the zeal of the activity is somewhat subsided.
12. Therefore, to restore the situation and gather momentum in implementing the reform programs especially given the current political, and socio-economic context of the 5th

mandate of the Royal Government of Cambodia, Ministry of Economy and Finance, as an operation arm leading the PFM Reform agenda sees the importance, necessity and urgency in comprehensively reviewing the implementation of PFM Reform Program in order to:

- (1) **assess the annual progress for 2013** by reviewing the implementation of the consolidated action plan stage 2 and strategy 3 plus 2;
- (2) **assess the Cambodia's Public Financial Management System** using PEFA Performance Measurement Framework;
- (3) **assess the entire PFM Reform Program** by reviewing the vision, and consolidated strategies of PFM Reform Program; and ultimately lead to
- (4) **design process of preparing Consolidated Action Plan Stage 3** based on outputs of (1), (2) and (3).

2.2. Review Process

13. As highlighted in the purpose above, the review undertaking is important, necessary and urgent and requires comprehensive review on the implementation of the entire PFM Reform Program. To this end, the reviews are comprehensive in scope and require participation of all concerned stakeholders with the sense of ownership, responsibility and accountability as well as time commitment. To achieve this purpose under the leadership and guidance of H.E. Minister of Economy and Finance, the General Secretariat of PFMR Steering Committee has designed the process of reviews involving the review working groups, activities and timeframe as follows:

- (1) **Assessment on Annual Progress for 2013** by reviewing the implementation of Consolidated Action Plan Stage 2 and Strategy 3 plus 2. Due to the transition from the 4th mandate to the 5th mandate of the Royal Government, the progress reports as well as the quarterly meeting for 2013 have been delayed since the second semester of the year.
 - ✓ the assessment on the implementation of the Consolidated Action Plan Stage 2 and Strategy 3 plus 2 as of December 2013 and reviews to be undertaken on five main areas: Budget Credibility, Public Finance Accountability, Preparedness for the Next Step, Preparedness for Rolling Out the ICT System, and Capacity Building.
 - ✓ Progress Review shall be based on two indicators: **(1) Outputs vs. target** and **(2) activities undertaken vs. action plan.**
 - ✓ Four working groups were established under the General Secretariat: **(1) Policy Working Group, (2) Budgeting and Budget Implementation Working Group, (3) General Support and Capacity Building Working Group, and ICT Working Group.** Each working group is headed by a representative from the General Secretariat and comprises three to four members including development partner representative, working directly with all general directorates in their respective area (see the name list of working group).

- ✓ Aside from working directly with each general directorate, the General Secretariat has chaired two consecutive meetings to provide additional guidance, discuss provisional outcomes and seek common recommendations and agreement on the provisional outcomes which form the basis for consolidating and reporting to the Reform Commission of Ministry of Economy and Finance for perusal, discussion and approval.

- ✓ Timeframe for annual progress review for 2013: January-February 2014.

(2) **Assessment on the Cambodia's Public Financial Management Reform System** using the PEFA Performance Measurement Framework.

- ✓ The assessment will be conducted in two consecutive steps by the PFM General Secretariat and by PEFA Secretariat with one consolidated report.
- ✓ Two working groups will be established to be in charge of gathering figures and data as well as inputting scores and collating report by group. The two working groups will each be headed by a representative of the General Secretariat with participation of representatives from concerned General Directorates and Development Partners.
- ✓ The assessment will be based on the PEFA Performance Measurement Framework encompassing 4 categories, 6 sections and 31 indicators.
- ✓ Timeframe: March – September 2014.

(3) **Assessment on the entire Public Financial Management Reform Program (PFMRP)** by reviewing vision and joint strategy of the PFMRP. Stage 2 of the program is introduced for implementation for five years, starting from the completion of the first stage at the end of 2008. Therefore, monitoring and reviews the entire reform program with the review of vision and strategy is aimed at (1) ensuring long-term vision and strategy are still precise and appropriate, and joint directions and targets of each step and stage remain precise and suitable and are continuously implemented (2) being prepared for finalizing Stage 2 and reaching to begin stage 3.

- ✓ Evaluating the whole program relies on *(1) Findings from the completion of the two stages which lasted almost 10 years (from the end of 2004 to 2013), reviewing the progress of Cambodia's Public Financial Management Reform Program comparing to international standard which is the joint vision and targets of reform and (2) findings from evaluating Cambodia's Public Financial Management Program, adopting PEFA's Performance Measurement Framework.*
- ✓ The General Secretariat preliminary assesses the progress of Cambodia's public financial management system, comparing to international standard which is joint vision and targets of the reform based on finding reports from previous implementation, especially progress of work activities and achieved high-level indicator. The result of this preliminary assessment must undergo discussion, comments and wide inputs, technically and politically, from all stakeholders (retreat) and Independent Evaluation Groups (EAP is requested by the Bank) as well as international experts (High Level Conference will be supported by the IMF).

- ✓ Duration of the entire program evaluation: February-August 2014
 - Preliminary evaluation by the General Secretariat : February-March 2014
 - Independent evaluation: April-June 2014
 - Evaluating the public financial management program by PEFA: March-September 2014
 - High level conference: can conduct in September or October 2014
 - Retreat: can carry out in October or November 2014 after high level workshops

(4) Arrange projects for the process of drawing Consolidated Action Plan stage 3, based on the findings from evaluation on 2013 progress, the evaluation on the whole PFMRP and the evaluation on Cambodia's public financial management system.

- ✓ Consolidated Action Plan (CAP) is led and responsible by the Chairmen of the Public Financial Management Reform Steering Committee while Department Action Plan and Ministry Action Plan are guided and responsible by General Director and head of the institution.
- ✓ The Reform General Secretariat formulates preliminary outline of the Consolidated Action Plan stage 3 (CAP3), based on 2013 progress evaluation , especially evaluation on Consolidated Action Plan stage 2 (CAP2) and strategy 3 plus 2, joint targets as well as four-step and four-stage strategy.
- ✓ General Department and all ministries and institutions must begin drafting action plan stage 3 and also review action plan stage 2, relying on preliminary outline of the Secretariat's Consolidated Action Plan stage 3.
- ✓ Independent Evaluation Group, public financial management system evaluation by PEFA and high-level conferences will give comments and recommendations which are the inputs of reforming action plan stage 3, including the Consolidated Action Plan, General Department and also other ministries and institutions' action plans.
- ✓ Duration of designing action plan stage 3: 2014-2015.

3. Findings of the review

3.1. 2013 progress evaluation

14. Due to missing evaluation and preparing progress report in the second, third and quarter for 2013, this progress evaluation is for 2013 progress, meaning that the progress of the program is considered at the end of December. At the meantime, the progress evaluation is threefold (1) outcomes of the work according to the five groups (fund-managing group, fund-implementing group, policy group, income group and general support group). This evaluation is based on percentage of the outcomes of each activity (100: Good, 80%: fair, over 50%: medium, less than 50%: weak) and (2) outcomes of indicator and target of the three parts (fund reliability, financial accountability and

preparedness for the next step) and (3) outcome from the five groups' targets (accountability line, standard, fund allocation, information technology and capacity building) using strategy 3 plus 2.

(1) Based on objectives and set of activities done by the five groups

15. In the Consolidated Action Plan stage 2, it is included 14 objectives from 11, 12, 13, 14, 21, 22, 23, 24, 25, 26, 27, 31 until 32, and 73 activities from 11.1 to 32.2. To fulfill objectives and set of activities, many activities were determined and implemented by 12 General Departments with participation from all institutions divided into five parts (groups) such as fund-managing group, fund-implementing group, policy group, income group and general support group. In overall, there is no objective which can be completed 100%; however, for 13 activities (13.2, 13.4, 14.5, 21.2, 22.3, 24.2, 24.4, 24.5, 24.6, 25.4, 28.5, 28.8, 32.1) amongst 73 activities have been completed 100%. Most of these activities are carried out by one General Department or Department (however, the set of activities will be reviewed again, especially when preparing action plan stage 3). At the same time, there are four objectives (911, 13, 31, and 32) amongst the 14 objectives (29%) has been completed more than 80%. 15 activities (13.2, 13.4, 14.5, 21.2, 22.3, 24.2, 24.4, 24.5, 24.6, 25.4, 28.5, 28.8, 32.1) amongst 73 activities have been completed over 80%. Thus, if reviewing outcomes based on objectives and the set of activities, it means at objective level there are only 29% which has been completed over 80%. And amongst 71%, less than 80% is required to increase implementation, 7% achieved less than 50% in objective 22, modifying tool to promote to improve responsibility and accountability in financial management, especially activity number 22.1, related to reviewing legal framework and strengthening law enforcement, preparation and implementation of punishment or penalty mechanism and praising or rewarding. At the same time, amongst 61% activities which are lower than 80% and must promote implementation, there are eight activities (14.2, 15.6, 22.1, 23.3, 24.7, 25.5, 27.2, 27.7) which has been completed 50%, equal to 11% of all activities. See attached appendix specifying the situation of a set of activities and activities and implementing General Departments with causes, analysis and conclusion in each part which is the foundation of above joint evaluation.

(2) **Based on indicators and target in the three section**

16. Evaluating joint outcomes based on percentage of the outcome in each activity which contributes to outcomes of the set of activities. The objective of the above reform program truly provides us with understanding about the joint situation of implementing PFMRP's Consolidated Action Plan, especially about the size of achieved work activities and remaining work in each unit (sections and groups) which is in charge of implementation and also about slow or fast implementation, comparing to joint targets of consolidated action plan and vision of the entire reform program. However, indicator-based evaluation and the targets in the three sections of steps and stages which are the strategy of PFMRP will increase understanding of what the final outcomes of these activities. Improving PFMR in steps and stages can demonstrate

through evaluating indicators and targets in the three section of CAP as follows:

A. Budget reliability

The first section of CAS which is of 4 objectives and 19 sets of activities focuses on strengthening and improving budget credibility in a bid to move towards viable budget credibility and the ground of budget credibility which was fundamentally decided in stage 1.

Practically, the main objective in this section is to improve budget through strengthening budget management, cash management, public procurement implementation and debt management. In overall, according to completed activities, this section has been completed 80% of the targeted activities.

In particular, activities which have been implemented less than 50% are 14.2 and 14.6, involving introducing new sub-decree and all regulations on public procurement, as well as the implementation of bidding documents at national level and sub-national level.

At the same time, if considering outcomes of the six indicators in 2013, comparing to the targets, three indicators has been completed as planed:

1. Domestic revenue implemented 99.6 %, comparing to targets plus or minus 5% of the law
2. Bad debt is zero, comparing to the target and not exceeding 2% allowance of overall expense.
3. Expenses by category: salary 99% comparing to the target 98%, commodities and services 104, 8% comparing to 95% and capitals 85% comparing to the target.

Contrarily, two indicators haven't met the target:

1. Harmony in annual implementation which reflects the ability organizers can implement applicable expense program: 13.3% in the first quarter comparing to 15%, 45%, 67%, 96% and
2. Annual revenue growth 13% of GDP comparing to annual growth target 0.5% (in 2012 completed 13,7% of GDP). Another indicator doesn't determine specific target as the foundation for measurement and doesn't strengthen the implementation of single account of the National Bank of Cambodia.

Therefore, it is concluded that reliability on budget which is still fundamentally maintained in 2013 doesn't reach stability as needed. According to the outcome, it reflect necessity to improve and strengthen the efficient implementation of procurement plan and expense program, continuing to strengthen and increase efficiency and effectiveness in revenue collection and management in a bid to constantly gain reliability on budget.

B. Financial Accountability

The second section of Consolidated Action Plan with eight objectives and 49 activities stresses on increasing financial accountability which is the target of stage 2 and the main objective in stage 2. Practically, every activity of this section focuses on developing and

introducing new chart of account, new budget content and institution's budget and improving budget implementation as well as putting information technology into practice for the management of public financial management with a view to improving neutrality, accountability, transparency, efficiency and effectiveness in carrying out budget. In overall, regarding activities, the section has been completed approximately 70% of activities which must be implemented. **In particular, activities implemented less than 50% of the joint target include 22.1, 23.3, 25.5, 27.2 and 27.7 , related to (1) the review of legal framework and strengthening law enforcement, preparation and implementation of punishment or penalty mechanism and praising or rewarding (2) prepare step by step action plan towards accumulated account (3) developing the plan and providing training to all relevant employees in information technology implementation (4) arranging and implementing registration mechanism and regularly updating state properties (5) improving and solidifying non-fiscal income management in province-municipalities and (6) design public financial decentralization policy and strategy.**

Accountability promotion system has been under development and has not put into practice yet. Thus, indicators and specific targets which can measure the quantity or quality can't be determined. Nonetheless, strategy 3 plus 2 evaluated below will demonstrate more clearly readiness or situation of building qualification, technical aspect, human resources and the management of changes which is prerequisite for introducing information technology implementation as planned in the upcoming 2015.

C. Preparedness for the next step

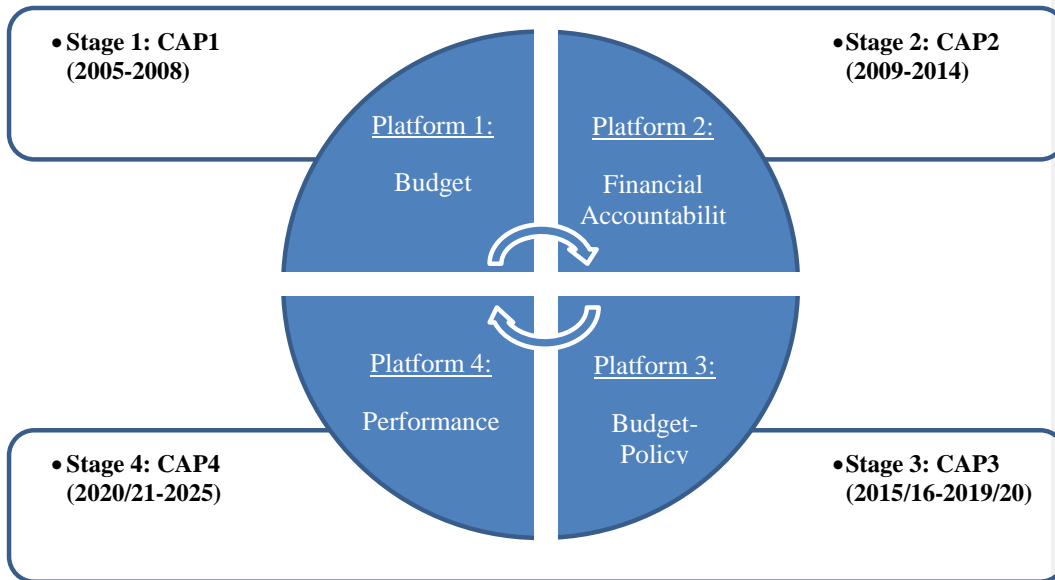
The third section of the Consolidated Action Plan which has two objectives and five activities highlight the preparedness for step 3 and 4: the link between budget and policy and accomplishment accountability which must be continuously prepared in the stage 2, ensuring sustainability and effectiveness of implementing the whole program. Obviously, all activities in the section are to strengthen and expand comprehensiveness and budget integration, especially through consolidating the implementation of budget strategy and continuously strengthening and expanding the implementation of budget program, putting complete budget program into practice at 10 ministries and institutions and budgeting units in the upcoming 2015. In overall, based on determined activities, this section achieved approximately 88% of the target of applicable activities. Therefore, most of activities in this section must complete as planned. **However, success in this section is relevant to the accuracy of the guidelines, efficiency and effectiveness of instruction, training as well as willingness and capacity of ministries and institutions' staff at all level which are the direct implementers.**

(3) Based on outcomes of the five groups from strategy 3 plus 2

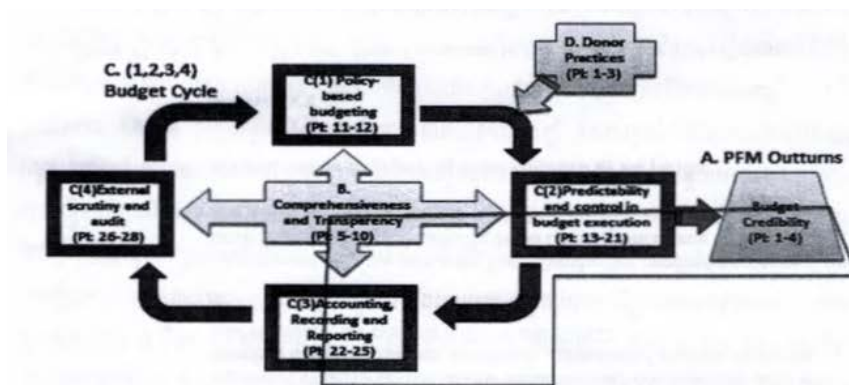
17. Indeed, although the above purposes activities and indicators in each sections are evaluated as shown above, if we wish to know whether we are well-prepared for the introduction of information technology in 2015, we can't answer whether or not we are well-prepared. This is the reason for the introduction of the strategy 3 plus 2 in 2011. 81 activities are determined as key activities to the introduction of information technology system, and according to the evaluation, it is shown that there are 48 activities (59%) achieving 100%; 16 activities (20%) are implementing and retard; eight activities (10%) has yet to start; 5 activities (6%) hasn't reached the time to begin, and four activities (5%) has been found out not to affect the readiness. According to overall evaluation, retard section can be improved to meet the deadline. At the same time, the sections to be finalized include: (1) finalize the preparation of

content code and IT system for making budget book (2) finalize preparation and determination of new budget implementation operation (3) finalize preparation of the closing of account book and preparation of accounting and financial sample distribution and (4) finalize the provision of training on IT implementation and change management and impact assessment on IT system implementation. Detailed reports in the outcomes of 81 activities of the five groups from the strategy 3 plus 2 are indicated in annex 54 of the report.

3.2. Evaluation on the whole Public Financial Management reform Program



PEFA Performance Measurement Framework



18. Overall, this PFMF program will be executed for 20 years compared to the estimate of only 10 years. Meanwhile, although the prediction in the first instance seems ambitious, unforeseen and uncontrolled challenges of the above program is evidence of the delay especially in stage 2. However, twenty years for Cambodia is reasonable as it has just emerged from the war and is lacking financial resources and human capital in comparison with most developed and developing countries needing at least 10 years for the reform program.

19. Common vision and goal as well as four platform/four stage strategies are still appropriate, suitable, effective and efficient for Cambodia. The objectives and themes of the four platforms (including budget credibility, financial accountability, budget-policy linkages, and performance accountability) which shall be implemented in four stages are clearly connected with PEFA performance measurement framework composed of four categories, six sections and 28 indicators, (high level) key indicators transforming the Public Financial Management system towards international standards.

20. **Budget Credibility** has primarily and fundamentally adopted since the end of 2008; however, still it is not complete and secured with stability. Obviously, the efficiency and effectiveness of planned revenue collection during the year, monthly payment to the National Treasury and the implementation of annual expenditure plan are still limited. Therefore, although the six indicators show fundamentally maintained budget credibility, still it is weak as its system is not completely installed and put into practice. This reflects the outcome of 2009 evaluation on seven indicators encompassing PI-13 to PI-19, two of them scored D+, two C, two C+ and one B (expectedly the scores will increase in the evaluation this time). In order to strengthen and ensure stable budget credibility prior to entering Stage 3, it is necessary to further strengthen four important areas:

(i) Further strengthen the revenue collection plan and management during the year in a proper and sustainable manner (achieving monthly and yearly revenue collection plan and payment to the National Treasury on a timely basis as well as avoiding re-accumulation of payment arrears).

(ii) Further strengthen the implementation of foreseeable and reliable revenue and expenditure plan (achieving monthly and yearly expenditure plan according to the law and avoiding re-accumulation of payment arrears or offsetting the revenue in the period against previous year debts).

(iii) Further strengthen cash and bank account management as well as the efficiency of treasury single account and the effective use of bank system for payment (making timely report and cash plan with effective and efficient measures for the use of cash.)

(iv) Further strengthen capacity building in debt management both payables and receivables.

21. If the above four areas can be achieved by 2014 along with fundamental financial accountability being accomplished by the end of 2014 or early 2015, this means that the program can reach its stage 3 by 2015 (it is possibly difficult because according to the temporary evaluation, the IT system can be fully implemented by early 2016 as year 2015 is for piloting and improving).

22. Financial Accountability is a primary objective of stage 2, mainly focusing on (1) improved cash management (simple, easy, predictable, reliable and effective) (2) improved accounting, recording and reporting (clear, accurate and timely) and (3) increased comprehensiveness, accountability and transparency. Obviously, many activities have been conducted for the last five years, centered upon important areas such as the organization and preparation of new operation process, new budget contents and new chart of account, introduction of budget strategy plans and the arrangement of budget entity. However, this financial accountability is not systematically achieved (because some elements of the system are not completely consolidated) despite the fact that each section possibly receives some elements of the established financial accountability respectively.

23. Ultimately, what we are waiting for are on the way. That's the introduction of ICT system for budget implementation as platform 1 is to focus on the operation of National Treasury and the Ministry of Economy and Finance. Considering the temporary evaluation, this system will be fully implemented by early 2016, not early 2015 because the ICT company needs one year (2014) to develop the ICT system based on the outcomes of each section and it requires some time for piloting and improving the system (operating manually and through IT system by year 2015) to ensure the enforcement by early 2016. This means that by the end of 2015 or early 2016, financial accountability will add value to the Public Financial Management System of Cambodia in spite of achieved budget credibility (see the red box with four columns in the above diagram of PEFA performance measurement framework). This means that financial accountability is fundamentally achieved and we can move to focus on budget-policy linkages, platform 3, or it means that public financial management reform can reach it stage 3. However, the IT system project shall be taken into consideration for what to do next after its introduction by 2016 as well as a plan for the extension of this IT system to other sections in the future and especially within the framework of the preparation of consolidated action plan for stage 3.

24. *Preparedness for next step* is of paramount importance to secure the sustainability of PFMRP four platform/four stage strategies. Clearly, the preparation for platform 2 including increased financial accountability in stage 1, contributes to the sustained reform program. In stage 2, we concentrate on two areas: 1) improving and expanding the implementation of program budgeting and (2) further improving comprehensiveness and integration of the budget in preparation for stage 3 including budget-policy linkages. According to the evaluation, although it is delayed due to objective factors, based on budget system reform strategy, the proper and adequate preparation for entering stage 3 is centered on increased budget-policy linkages by early 2015 or reaching stage 3. Therefore, platform 3/stage 3 may commence with piloting the complete program budgeting, enforcement of budget entity and strengthening the preparation of budget strategic plan as well as the roll-out of ICT system (fully implemented by 2016).

25. Therefore, the decision to move to stage 3 by 2015 or 2016 depends upon (1) four important areas or budget credibility as mentioned above, (2) credibility on the flow of changes of current operation on IT system by 2015 and 2016 and (3) preparation for the comprehensive implementation of budget implementation, the functioning of budget entity and strengthening of budget strategy preparation. At the same time, the evaluation on the Public Financial Management System of Cambodia with PEFA performance measurement framework will give important information and recommendation for this decision (but the result will not be released until June or July).

3.3 Evaluation on Public Financial Management System of Cambodia

26. The evaluation on Public Financial Management System of Cambodia by PEFA performance measurement system was once conducted by a consultant in 2009, based on the figures and information for three years from 2006 to 2008. This evaluation was carried out for only central ministerial operations whereas provincial specialized department operations did not evaluate the provincial Public Financial Management System operations. This evaluation on the Public Financial Management System is to (1) reflect the progressive and improved Public Financial Management system of Cambodia after the implementing reform program for almost 10 years, (2) provide the basis for the preparation of action plan for stage 3 and (3) build up capacity of secretariat officials in self-evaluation as well as the acknowledgement of the ability and quality of this evaluation. This evaluation will be based on the figures and information for three years from 2010 to 2012 (possibly 2011-2013 if there are sufficient figures and information of year 2013). This evaluation will be carried out for only central ministerial operations and provincial specialized department operations as the previous one. Sub-national levels are recently on the progress of substantial improvement, so the evaluation should be conducted at an appropriate time as it is the important basis of the preparation of sub-national reform action plans.

27. The following are 31 indicators with evaluation outcomes in 2009 which were prepared for six sections and four categories. Considering the scores by the six sections, it is seen that (1) accounting, recording and reporting, (2) scrutiny of external audit (by the legislation and national audit) and (3) the implementation of partners scored less than others (C and D); the prediction and monitoring of budget implementation (one B, others C and D); comprehensiveness and transparency (B and C); budget credibility (A, B, C and D); last but not least, policy-based budget preparation scored best (A and B). This result is of different grades because the whole system is not responding and the evaluation system is being installed for the improvement although the result is not completely achieved. For example, the reason why policy-based budget preparation scored the best is that there are introduction of budget strategic plan and program budgeting although they are not fully implemented. Also, this responsive system which is effective and efficient should not be far different.

Categories/Section/Indicator		Overall Score	(i)	(ii)	(iii)	(iv)
Category/Section A: Budget Credibility						
(PI-1)	Aggregate expenditure out-turn compared to original approved budget (M1)	B	A			
(PI-2)	Composition of expenditure out-turn compared to original approved budget (M1)	D			D	
(PI-3)	Aggregated revenue out-turn compared to original approved budget (M1)	A	A			

(PI-4)	Stock and monitoring of expenditure payment arrears (M1)	C+	A	C		
Category/Section B: Comprehensiveness and Transparency						
(PI-5)	Classification of the budget (M1)	C			C	
(PI-6)	Comprehensiveness of information included in budget documentation (M1)	B		B		
(PI-7)	Extent of unreported government operations (M1)	C	C	C		
(PI-8)	Transparency of inter-governmental fiscal relations (M2)	C+	C	A	D	
(PI-9)	Oversight of aggregate fiscal risk from other public sector entities (M1)	C+	C	A		
(PI-10)	Public access to key fiscal information (M1)	C	C			
Category C: Budget Cycle						
Section C (i): Budget Preparation Based on Policy						
(PI-11)	Orderliness and participation in the annual budget process (M2)	A	A	A	A	
(PI-12)	Multi-year perspective in fiscal planning, expenditure policy and budgeting (M2)	B	C	A	B	C
Section C (ii): Prediction and Monitoring Budget Implementation						
(PI-13)	Transparency of taxpayer obligations and liabilities (M2)	B	B	B	C	
(PI-14)	Effectiveness of measures for taxpayer registration and tax assessment (M2)	C	B	C	C	

(PI-15)	Effectiveness in collection of tax payment (M1)	D+	D	B	C	
(PI-16)	Predictability in the availability of funds for commitment of expenditures (M1)	C+	B	B	C	
(PI-17)	Recording and management of cash balances, debt and guarantees (M2)	C+	C	B	C	
(PI-18)	Effectiveness of payroll controls (M1)	D+	B	C	B	D
(PI-19)	Competition, value for money and controls in procurement (M2)	C	C	C	C	
(PI-20)	Effectiveness of internal controls for non-salary expenditure (M1)	C+	C	B	C	
(PI-21)	Effectiveness of internal audit (M1)	D+	D	C	C	
Section C (iii): Accounting, Recording and Reporting						
(PI-22)	Timeliness and regularity of accounts reconciliation (M2)	C	B	D		
(PI-23)	Availability of information on resources received by service delivery units (M1)	C	C			
(PI-24)	Quality and timeliness of in-year-budget reports (M1)	C+	C	A	C	
(PI-25)	Quality and timeliness of annual financial statements (M1)	D+	D	C	D	
Section C (iv): Scrutiny of External Audit						
(PI-26)	Scope, nature and follow up of external audit (M1)					
(PI-27)	Legislative scrutiny of the annual budget law (M1)					

(PI-28)	Legislative scrutiny of the external audit reports (M1)					
Category/Section D: Implementation of Development Partners						
D-1	Predictability of direct budget support (M1)	C	C	NU		
D-2	Financial info. provided by donors for budget, reporting on project, program aid (M1)	D	D	D		
D-3	Proportion of aid that is managed by use of national procedures	D	D			

3.4. Preparation for Stage 3 Action Plan

28. Taking into consideration the 2013 progress, reform program evaluation result and PFM assessment result, especially considering the consolidated action plan Stage 2, strategy 3 plus 2, the secretariat proposed an action plan for stage 3 as illustrated in the table below. Proposed consolidated action plan stage 3 is comprised of four sections and 19 objectives: (1) Section 1: Further strengthening budget credibility having four objectives; (2) Section 2: Fostering and strengthening financial accountability having four objectives; (3) Section 3: Further strengthening budget-policy linkages having seven objectives; and (4) preparation for platform 4, improving performance accountability having four objectives. Upon approval, this primary plan proposed by the secretariat will be used as the basis for the preparation of a set of actions for consolidated action plan stage 3 (CAP3) and for general department action plans (MAP3). It is noticed that the ownership, responsibility and accountability of the implementation and preparation for public financial management reform have improved from one stage to another, reflecting the willingness and ability of the Royal Government in leading the management, preparation and implementation of Public Financial Management Reform. With this achievement, stage 3 will be implemented in either early 2015 or 2016 and this action plan will be executed according to the schedule below.

Consolidated Action Plan Stage 3 (CAP3)			
Section 1: Budget Credibility	Section 2: Financial Accountability	Section 3: Budget-Policy Linkages	Section 4: Performance Accountability
11. Strengthening Income Management and Revenue Collection Plan	21. Introduction of new budget contents and new chart of account	31. Strengthening and expanding the implementation of program budgeting	41. Preparing performance-based budget framework

12. Strengthening debt management	22. Introduction of new budgeting system and new transaction processing system	32. Strengthening and improving comprehensiveness and integration of budget.	42. Preparing performance accountability framework
13. Strengthening cash management and account	23. Enforcement of new accounting system, new recording system and transparency system.	33. Preparing and introducing accountancy system (between the legislation and the executive body, between MOEF and ministries/institutions).	43. Preparing performance framework
14. Facilitating budget implementation and strengthening the implementation of expenditure plan	24. Introduction of tools and mechanism to promote responsibility and accountability	34. Strengthening the preparation of policies and public financial plan	44. Preparing capacity building plan for the implementation of performance-based management system
		35. Strengthening internal audit and inspection.	
		36. Strengthening public financial decentralization policy.	
		37. Increasing the effectiveness of capacity building and incentives rules.	

4. Challenges

29. In addition to the above mentioned program challenges which are objective factors and are not under the management of the program such as issues of financial crisis, global economy, Cambodia-Thailand border dispute and flood affecting the implementation of income and expense and Cambodia budget policy, particularly eroding the confidence of budget and impacting the target of some of the main income and expense indicators, there are also challenges relating to subjective factors which should be brought into discussion. Moreover, preventive measures and resolution are needed to address those challenges in an effective and timely manner to ensure effective and efficient implementation of the public financial management reform program as a whole. Those challenges include:

(1) Leadership related challenges (policy, principle or directing)

- Financing support for the reform program is not clear; for instance, there is fund shortage in supporting the project on information technology system.
- Should a Law on Casino and a Law on Governance of Foreign Capital be made? Or how?

(2) Management related challenges (identification of activities, assignment, management and implementation monitoring)

- Cannot differentiate between reform work and daily routine work.
- Cannot find out what to be reformed in their respective units in order to increase productivity, work effectiveness and efficiency.
- Cannot assign officials in accordance with their competence to serve the unit work.
- There is no measurement or/and mechanism to deal with officials who have no commitment, passion and competence.

(3) Technical related challenges

- There is precise action, and the needs of the units are identified; however, there is lack of skill (need a consultant to perform any specific work which is not a daily routine work).
- There is limitation of capacity in conducting effective and efficient trainings and capacity building.

(4) Administration and coordination related challenges

- Collaboration and exchange of information as well as coordination among the units have yet to be considered effective and efficient.

5. Lessons learnt and suggestions

30. Along with the aforementioned challenges, the Secretariat has also discovered and obtained some good lessons learnt and suggestions which should be shared, reviewed and discussed if necessary and appropriate. Those lessons learnt and suggestions are as follows:

(1) Lessons learnt: Some lessons learnt and experiences that the Secretariat deems vital for sharing are the following:

- Departments General with precise and proper action plan and indicators are easy to monitor as well as have good performance and accomplishments.
- Departments General with good leadership and management have good accomplishments.

- Assigning the right officials in accordance with their competence (assign the right persons to attend training) enhances work productivity and effectiveness of the units.
- Trainings by the means of training of trainers who will further echo the trainings have been proving efficiency and effectiveness within and cross units, institutions and the ministry.
- Clear identification of position and roles has contributed to enhancement of officials' productivity and accomplishments.
- Having a specific timeframe for the units has contributed to enrichment of the units and officials' productivity and accomplishments.
- Production of a guideline manual for official staff has contributed to enhancement of officials' productivity and accomplishments.

(2) **Suggestions:** Some suggestions that the Secretariat deems to be reviewed and resolved are as the following:

- General Department of Customs and Excise needs around USD 20 million for the National Single Window project.
- A safe place for establishment of a Disaster Recovery Center is needed for the information technology project.
- A safe place for keeping the national revenue slips is needed.
- Information technology system is needed for registration of the state property inventory.
- More and special training courses, especially training courses related to implementation of the information technology system, are needed.
- Motivation needs to be reviewed.
- Trainings held at the general departments using their respective officials (competent officials train incompetent officials) should be encouraged, supported and promoted.

6. Conclusion and recommendations

(1) Conclusion:

- Problem encountering and faltering implementation in 2013 did have impact on reform implementation, resulting in the prolonging of some activities and affecting the achievement of the target set in some of the major indicators, especially eroding the confidence of the budget.
- In the second stage, there was complexity and a lot of challenges. Nevertheless, timely measures were taken and the target (2015/2016) was accomplished. Good lessons learnt were also extracted, in particular the modernization of work operating

system and improvement of the institutional structure.

- Comprehensive and thorough review was really important for reconnection and reestablishment of dynamism of the reforms, turning into a new more dynamic force.
- Lessons learnt showed us that leadership and management competence, efficiency of assigning officials by using precise action plan and timeframe as well as precise and appropriate division of position and duties along with proper implementation of the principles and disciplines are the foundation of ensuring high productivity, good accomplishments, high effectiveness and efficiency.

(2) Recommendations:

- Ownership, responsibility and accountability are the keys for this stage. The principle of these points should be reminded and its implementation should be thoroughly reviewed.
- There should be a review and evaluation on effectiveness and efficiency of the trainings (a trainer report and a trainee report are not consistent).
- There should be a start of establishing a monitoring and evaluation system and mechanism based on precise indicators for the units and institutions by providing grades with award and punishment.
- There should be clear separation between daily routine work and reform work so that they are easy to be managed. Daily routine work is the work activity defined in the position, completed to achieve the expected results and assigned to in compliance with the ministry's policies and programs. The reform work is the work activity which has been found out to be done in order to enrich productivity, effectiveness and efficiency of the daily routine work.