

**PUBLIC FINANCIAL MANAGEMENT  
REFORM PROGRAMS  
Progress Report for Second Quarter of 2014**

General Secretariat of Public Financial Management  
Reform Committee

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## **Introduction**

This Progress Report of the Public Financial Management Reform programs in Phase 2 reflects the implementation achievement, challenges and proposals of Public Financial Management Reform in the second quarter 2014. This report focuses mainly on 3 areas (1) Budget credibility continuity, (2) Strengthening financial accountability, and (3) Activities for the next step, these 3 areas are implemented by 12 of the General Department, General Secretariat and General Inspection of Ministry of Economy and Finance in order to contribute supporting on the reform programs implementation in order to obtain achievement successful and sustainability. Meanwhile, SCS is necessary to monitor, control and evaluate the objectives, activities and indicators which support the above 3 areas implemented by 12 General Departments to ensure the effectiveness and efficiency of the overall reform programs.

Actually, the mechanisms for evaluating the achieved progress and the challenges are based on the 12 General Department report and working mechanisms (Ad Hoc), which enable SCS to prepare the second quarter report. This quarter report is a formal report and will be disseminated to the public according to meeting for approval of Public Finance Reform programs Committee and Public Finance Reform Steering Committee and Technical Working Group on Public Financial Management Reform of Ministry of Economy and Finance. In particular, this report will also become the inputs and important tools for the 12 of General Departments, General Secretariat and General Inspection, for Further driving improvement, strengthening and enhancing work of public finance reform to be successful effectively and efficiently as planned.

## 1. Further Strengthened Budget Credibility

The budget credibility was essentially realized at the beginning of Stage 2 of Public Financial Management Reform programs, and it was strengthened effectively. However, in order to ensure its sustainability, it is required a regular monitoring on key indicators and action plans which contribute to the budget credibility.

### A. Outcome on Key Indicators

There were 6 Key Indicators set to measure the credibility of the budget, which are described the better improvements of revenue collection with more effective and efficiency expenditure, the debt management required priority attention to make precision and avoiding arrears; for the section objective, we will identify the difference comparison between second quarter 2013 and second quarter 2014:

**Indicator 1:** Domestic revenue collection in second quarter 2014 accounted for 50.5%, increasing by 2.4% compared to that of second quarter 2013.

**Indicator 2:** The target set the arrears not to exceed 2% of the total expenditure. In actual implementation in the last five years, no arrears were reported; cash was always available for all expenditure.

**Indicator 3:** The target set the expenditure implementation in second quarter to be at least 45%. For second quarter 2014, the expenditure execution made up of 33.3%, lower than the target by 11.7% and lower than that of second quarter 2013 by 4%. The lower-than-target expenditure implementation could be explained by the improved implementation of expenditure procedure in order to achieve better effectiveness.

**Indicator 4:** Composition of expenditure by types including salary, goods and services and capital. In second quarter 2014, expenditure for salary accounted for 48.4%, goods and services 22.6% and capital 41.2%; these figures decreased by 5.6% for salary, 3.6% for goods and services, but increased by 12.2% for capital.

**Indicator 5:** Better yield from tax and non tax revenue. In second quarter 2014, Revenue from tax accounted for 54.2% and non tax 43.2%.

**Indicator 6:** Strengthened Treasury Single Account (TSA). Since 2008, TSA has been gradually and steadily strengthened. Accounts owned by Line Ministries were closed and all expenditure and revenue transactions are channeled through TSA.

The following table illustrates briefly the progress against the 6 key indicators

<b>Indicators</b>	<b>Target</b>	<b>Progress 2nd Quarter 2013</b>	<b>Progress 2nd Quarter 2014</b>
1. Revenue outturn increasingly close to targeted level in approved budget	Revenue outturn within + or - 5% of forecast used for budget.	Domestic revenue: 48.1 %	Domestic revenue: 50.4 %
2. No accumulation of new arrears	Arrears as defined to be kept at no more than 2% of total expenditure	No arrears	No arrears
3. Budget holders increasingly able to commit expenditure in line with budgets and cash flow forecasts	Expenditure profile not to be less than: <ul style="list-style-type: none"> <li>- 1<sup>st</sup> Quarter: 15%</li> <li>- 2<sup>nd</sup> Quarter: 45%</li> <li>- 3<sup>rd</sup> Quarter: 67%</li> <li>- 4<sup>th</sup> Quarter: 96%</li> </ul> <p>Percentage of payments to creditors and staff made through banking system to be not less than 80% by value</p> <p>Percentage of tax revenue collected through Banks to be not less than 60% by</p>	Achieved : <ul style="list-style-type: none"> <li>- 2<sup>nd</sup> Quarter:37.3%</li> <li>- The payment through banking system: 92.5%</li> <li>- 39 Ministries have opened bank accounts for salary payment</li> <li>- Customs revenue: 93%</li> <li>- Tax revenue: 100 %</li> </ul>	Achieved: <ul style="list-style-type: none"> <li>- 2<sup>nd</sup> Quarter:33.3%</li> <li>- The payment through banking system: 100%</li> <li>- 39 Ministries have opened bank accounts for salary payment</li> <li>- Customs revenue: 81%</li> <li>- Tax revenue: 100 %</li> </ul>

	value		
4. Composition of expenditure by type (staff costs, non-staff costs etc) close to approved budget.	<p>Outturn compared to budget to be not less than:</p> <p>- Salary: 89%</p> <p>- Goods/Services: 95%</p> <p>- Capital: 85%</p>	<p>Achieved:</p> <p>- Salary: 45.0%</p> <p>- Goods/service: 26.2%</p> <p>- Capital: 29.0%</p>	<p>Achieved:</p> <p>- Salary: 48.4%</p> <p>- Goods/service: 22.6%</p> <p>- Capital: 41.2%</p>
5. Better yield achieved from tax base through improved collection efficiency and planned use of non-tax sources.	<p>Progressive improvement in revenue yield compared to GDP by 0.5% per annum.</p>	<p>- Tax revenue: 49.1%</p> <p>Direct Tax: 59.9%</p> <p>Indirect Tax: 48.5%</p> <p>- Non-tax revenue: 42.4%</p>	<p>- Tax revenue: 45.2%</p> <p>Direct Tax: 64.3%</p> <p>Indirect Tax: 47.4%</p> <p>- Non-tax revenue: 43.2%</p>
6. All significant areas of both revenue and expenditure captured in both the budget and accounts of the government.	<p>No significant areas of omission</p>	<p>- TSA was further strengthened</p>	<p>- Further strengthened TSA</p>

## B. Progress against Activities to further strengthen budget credibility

- In addition to measure progress against the 6 indicators, key activities were carried out to strengthen budget credibility in order to support the improved financial accountability which is the key objective of Stage 2. There are 18 activities under 04 objectives being implemented. The progress could be highlighted as the following.

### B1. Further Improved Administration and Revenue Policy

Progress for Improved Administration and Revenue Policy includes:

- Developed and implemented Cambodia National Single Window - CNSW consistent with government policy and, to be in line with the international standards of good practice
- Expanded further the ASYCUDA Automation System implementation including 10 customs posts, to add on the existed 21 customs posts which are implementing
- Developed circular on business, service, pheasai and state property management
- Developed customs Treaty Policy Framework
- Finalized draft policy of Medium term revenue mobilization 2014-2018
- Reviewed and revised revenue forecast 2015-2018 for consistency of medium term revenue mobilization strategy and public financial reform
- Gathered data of Socio-Economic Trend for the initial investment sector
- Economic survey in some provinces for calculating final gross domestic product growth in 2013 and estimated for 2014 interim

## **B.2. Further Improved Debt Management**

- Updated and implemented Strategy for Public Debt Management including document on the debt sustainability analysis
- Implemented building institutional capacity and human resource for public debt management
- Available mechanisms for implementing Debt System and further strengthening Debt Management System DMFAS
- Developed Debt Report regularly for monitoring including on quarter, semester and annual report, and others internal report

## **B.3. Further improved cash and bank account management**

- Gathering government bank account and strengthening Treasury Single Account (TSA)

- Expanded scope of using banking system for operating revenue and expenditure
- Expanded scope of implementing MOU with commercial bank (ALEDA and CANADIA) for revenue and expand, particularly payroll system through bank
- Defined mechanism to monitor outstanding and timeline mandate as well as the payment amount
- Examined outstanding mandate and payment assurance to avoid arrears
- Reduce the outstanding advances by 80%

#### **B.4 Further Improved Public Procurement**

- Guideline on procurement methods and procedures for Municipalities, Districts, and Khan Administrations was issued and disseminated (002 GDPP, MEF, 28 Jan 2014 )
- Developed Procurement Monitoring Manual
- Developed Procurement Monitoring Standard Report
- Finalized goods and construction bidding standard documents for implementation, and trained the trainer in 5 days

## **2. Improved Financial Accountability**

Improved Financial Accountability is the key objective in Stage 2 of Public Financial Reform programs. Consolidating Action Plans cover all Line Ministries of RGC. In order to better manage the program and monitor the progress, the PFMRP Committee has set out the 3+2 Strategy which lays out priority and necessary activities to be implemented as to achieve the objective of Stage 2 and to be ready for the implementation of FMIS by 2015.

There are 49 Activities under 08 Objectives implemented. Progress made could be highlighted as below:



## **2.1. Improved lines of accountability by clarifying roles, functions, and responsibilities**

- Developed Program Strategy on financial inspection transaction to be in line with the public financial law and public financial management reform
- Updated information of Line Ministries structure, Budget Entity group and coordinated with Budget Execution Department through the office of each sectors, in order to ensure consistency and resolving challenges on Budget Classification, and improving the Administrative Classification and Function Classification table of Budget Execution Department in coordination with the WB expert
- Developed COFOG contact list and current structure of Line Ministries in cooperation with institutions and Line Ministries, in order to further monitoring Budget Classification guidance focus on consistency of Administration Classification and Function Classification
- Reviewed guideline on new Budget Classification focus upon setting code number for each classification in cooperation with Line Ministries.

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

- Organized workshop on Expenditure Procedure and Financial Control Context Guideline
- Finalized a consolidated plan between FMWG and contractor for FMIS project were completed and signed by both sides
- Officials Involved in the FMIS project have understood 100% on the implementation.

## **2.3. Further improved the implementation of new budget classification and new chart of account**

- Reviewed and revised Budget Classification and new Chart of Account in order to strengthen the implementation of Function Classification, Economic Classification and Administration Classification
- Chart of Account and Budget Classification were updated to be in line with international accounting standard and to be consistent with FMIS
- Developed and disseminated manual on new Chart of Account
- Implemented the mechanism to complete the inventory listing of state property with recording the price and regularly update
- Reviewed the implementation of new Chart of Account related to overseas finance capital
- Updated FMM for managing overseas finance to be in line with Budget classification and new Chart of Account; implemented FMM and organized SOP/FMM workshop
- Completed implementation of new Chart of Account and new Budget Classification which required by government to record the expenditure of financial project partner
- Review and Finalized operation financial administration statistic standard (TOFE & GFS) to be consistent with the new Chart of Account Standard (COA) in the future
- Revised Budget Classification and new Chart of Account in consistency with all budget levels, including both national and sub-national

#### **2.4. Improved process and transaction of budget execution**

- Implemented testing in initial stage and Expanded the implementation of FMIS (Core Module and budget Module)
- Further reduced the time of insurance cost, revenue and expenditure

- Further reduced current implementing procedures and operating time of the revenue and expenditure in accordance with FMIS requirement
- Improved the process of operation in the MEF/Line Ministries to be in line with the Chart of Account development, financial accounting standards and verifying accounts on a regular basis
- Regularly disseminated progress of the project FMIS system to the user through the Bulletin & Newsletter, FMIS mission to the province, and the monthly meeting
- Finalized procedures applied for the implementation of current business process (As-is Business Process) of General Department / Department and Module (AP, AR, GL, CM, BA and PO) and starting to develop the procedures for implementing future business process (To-be Business Process)
- Developed and resolved the remaining issues of Budget Classification to established Unified Chart-Field for FMIS
- Updated guideline on Budget Entity Preparation for printing
- Review and developed Budget Entity for 10 Ministries and developed inter-ministerial PRAKA on the recognition of Budget Entity of these 10 Ministries
- Updated and Disseminated guideline on preparation and implementing Budget Entity for Line Ministries which are not yet implemented

## **2.5. Improved accounting system and financial statement to ensure transparency**

- Reviewed accounting standard of International Public Entity (IPSAS, GAAP etc) and evaluated for implementation consistently
- Improved judgement, scoring and classifying the development of Budget Strategy Plan
- Developed questionnaire to evaluate and improving the development of Budget Strategy Plan

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

- Finalized the guideline based on its criteria and cooperated with Line Ministries to improve effectiveness of internal audit
- Reviewed Internal control of institution under MEF including 22
- Developed and reviewed mechanisms to improve the Budget Entity effectively in response to the financial inspection result
- Developed audit plan and submitted to the MEF for review and recommending (received SAP, AAP from Line Ministries and public enterprises)
- Disseminated roles and responsibilities between the financial inspection and Internal audit to Line Ministries, departments and public enterprises which were mentioned in the financial inspection program for the financial management year 2013
- Reviewed and recommended report of IAD, Line Ministries for improvement
- Developed and strengthened professional ethics for financial inspection officials

## **2.7. Strengthen and develop fiscal decentralization policy**

- Developed a strategy for strengthening the Budget Allocation and Budget Execution of Capital and Provincial Administration
- Improved non-tax revenue, and researching revenue of Sub Nation Administration
- Improved Budget Allocation and Budget Execution including Financial Administration System for Capital, Provinces, Municipalities, Districts, Khan, Communes, Khum

- Established Municipalities and Districts Financial Administration System and Budget Classification for Sub National Administration, and Developed Fund Transfers with condition mechanisms
- Reviewed Financial Administration System of Commune, Khum which are being implemented
- Reviewed and amended Sub Decree Laws and Regulations to be consistent with the Law on the Administration of Capital, Provincial, Municipalities, District, Khan
- Developed detailed Plan to support the initiating implementation of fiscal and financial aspects as stated in the Law on Administration of Capital, Provinces, Municipalities, District, Khan
- Identified requirement to build capacity for the General Department of Sub National Financial Administration
- Documented the impact assessment of FMIS project through the future implementation procedure which are developed by both Contractor and relevant General Department

## **2.8. Building institutional capacity and motivational measures**

- Organized workshops and training on Program Budgeting, Change Management, Budget Entity and Budget Classification for management of Ministry implement testing on Program Budgeting
- Further develop General Department of National Treasury structure in respond to Phase 2 of PFMRP
- Implemented E-Doc Document Management Systems and Database Management Systems KIT and implementing FMIS in 2015
- Dissiminated and trained the public sector on complemented legal regulations and procures of costumes
- Implemented capacity building plan to train officials on accounting and IT skill

- Organized training to trainer on Financial Management Process and Procurement Management on financial project of developing partner

## **2.9. Progress on implementation of 3+2 Strategy**

3+2 Strategy includes (1) Line of Accountability, (2) Budget execution, (3) Accounting standard and budget classification, (4) readiness to implement FMIS, and (5) Capacity Building.

Key Progress would include:

- Disseminated guideline on Program Budgeting and Budget Entity to Line Ministries
- Further developing manual on Expenditure Process and Financial Control Process for Program Budgeting and Budget Entity
- Financial controllers were reallocated to 22 Line Ministries
- Developed form of report in line with IPSAS based on cash for FMIS. Using data 2012-2013 to develop sample report
- Updated Chart of Account and Budget Classification for FMIS
- Contract between MEF and FMIS Suppliers (FIS LG CNS Joint Venture) were signed on 21 January 2014
- Completed As-Is- Business Process
- Completed TNA (Training Need Assessment) for FMIS.

## **3. Activities for later Platform**

### **3.1. Improving and expanding the implementation of Program Budgeting**

- Revised guideline on Program Budgeting preparation
- Developed evaluating document and implemented Program Budgeting for piloting through 10 Ministries, and collaborated to develop program code and provided training and technical supports base on the requirements

- Reviewed and updated law, Sub Decree, and legal procedures relating to Program Budgeting
- Developed manual on Expenditure Procedure and Financial Control Context of the Program Budgeting
- Updated and published guideline on Program Budgeting Preparation and evaluation report on pilot implementation result of the Program Budgeting
- Revised and updated the Program Budget tutorial document

### **3.2. Further improving budget comprehensiveness and integration**

- Developed policy on Budget Integration
- Reviewed the updated of the SOP / FMM implementation, specially the integration of Budget Expenditure of Financial Project Partner into Budget Strategic Plan
- Developed Medium-term Expenditure Framework (MTEF 2015), focusing on Medium-term Macroeconomic Framework and government policy for the priority ministries
- Integrated the revenue and expenditure which were outside of budget context into the annual budget, including development partner fund.

### **3.3. Threngthening analysise capability and forecasting the economy and finance**

- Examined the possibility to establish the Pawnbroker Association (developed and revised statute of the association )
- Developed Policy and Strategic Framework for microfinance
- Prepare regulatory framework to manage and control the micro finance institutes and banks that use the government's Subordinated Debt Capital
- Developed draft Sub Decree on State Stock Exchange (developed draft Sub Decree in inter-institutional level)

- Researched on the expanding role of the Rural Development Bank (RDB) (Sub Decree on the Rural Development Bank and Sub Decree on the appointment of Director General was approved)
- Further improved and promoted the IPO of State-Owned Enterprises and follow-up activities after post IPO

#### **4. Challenges**

In addition to the progress made during the second quarter 2014. It is worth highlighting some challenges that arose:

- Coordination/Cooperation between different units were not smooth
- Encouragement facilities including financial and non-financial to support the public finance reform Stage 2, was limited for planning and proposed requirement of the organization
- New structure of the General Department and Line Ministries effected reform activities and implementing procedure, which were not smooth and time consuming
- Separated bank accounts were opened and it is being tracked and identified, but there is no detailed information about the bank and lack of cooperation in providing reports on the opening of new accounts from commercial banks
- Specialist officials' capacity of Line General Department is limited for supporting the implementation of reform programs; especially the focal person is unclear.

#### **5. Suggestions**

- Request additional support from SCS to the General Departments on the implementation of reform programs
- Request the Line Ministries and the General Department under MEF reporting to SCS timely and consistently including the new Stage 2 action plan (GDAP2 NEW



and CAP2 NEW), meanwhile this report must indicate clearly the progress achieved

- Request additional recruitment for the General Department of Public Procurement
- Additional training request IT officer for supporting the implementation of the project (FMIS)
- Propose short-term international consultants for collaborating works at some General Departments
- There should be more training through On Job Training and training program organized by the various relevant entities
- Provide enough stationery to improve productivity and efficiency
- Should start to develop systems and mechanisms for monitoring and evaluating the achievements of general department focus on effectiveness and efficiency progress of the reform programs
- New General Department established by integrating departments should develop mechanisms and strengthen the internal coordination to support the reform programs
- General Department have to strengthen the training plan and capacity building in respond to the actual requirements of the organization and supporting budget
- General Department should strengthen the reviewing and evaluation on training effectiveness and efficiency (trainer and training report are not compatible)

## 6. Conclusion

SCS played a role as secretariat to Public Financial Management Reform Steering Committee with responsibility. SCS made significant achievements in implementing plan, including the effectiveness of coordination and technical jobs. However, report highlights the progress of implementation action plan of Public Finance Reform in second quarter 2014, including (1) Maintain the Budget Credibility (Especially, revenue mobilization is

more effectively, and expenditure implementation is more accurately and efficiently) (2) Financial Accountability Strengthening ( Strengthened and expanded to be more comprehensive than before) (3) Readiness for the next phase (Clear subject for the implementation completely of Program Budgeting and piloting sample budget Entity through 10 ministries and will be implemented in 2015 as planned).

Meanwhile, readiness is better for development and implementation of Public Financial Management Information System project and will begin implementation in 2015. Moreover, strategic financial system reform which is a core reform programs will be strengthened and improved through the application step on the Program Budgeting and Budget Entity.

However, the report in second quarter 2014 outlines the remain challenges and possible negative impact of the achievement in phase 2 of the reform programs such as coordination and cooperation of inter General Department of Ministry of Economy and Finance, and Line Ministries structure have not yet obtained efficiency and effectiveness improvement.

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