

Unofficial Translation

(Draft)
Progress Report
Second Quarter, 2015
Implementation of Consolidated Action Plan, Stage 2 New
Ministry of Economy and Finance

General Secretariat of Public Financial Management Reform Steering Committee

April 2015

Content

- I. Overview
- II. Introduction
- III. The Achieved Results
- IV. Challenges
- V. Recommendations
- VI. Conclusion

Appendix A: Progress Report, Second Quarter, 2015

I. Overview

II. Introduction

Public Financial Management Reform Program has reached the transition of completing Stage 2 which is “Financial Accountability” in this year of 2015, starting the implementation of Stage 3 focusing on “Budget-Policy Linkages” in the upcoming year of 2016 carried out through the implementation of Consolidated Action Plan, Stage 2 New (CAP 2-New) planned for one-year and six-month implementation, which means it is for the second semester of 2014 and the whole 2015.

The implementation of Public Financial Management Reform Program is tracked and monitored through clear, adequate, and frequent mechanisms including monthly, quarterly, and yearly monitoring.

This quarterly progress report is the progress report of the implementation of Consolidated Action Plan, Stage 2 New (CAP 2 New) of Ministry of Economy and Finance presenting in detail the achieved results in each part up until objective levels and the activities compared to the indicators as well as raising the challenges, recommendations, and later platforms.

The method used to evaluate the progress of the implementation of consolidated action plan is of 2 bases:

1. Achieved work activities compared to planned activities
2. Achieved results compared to targeted indicators.

Moreover, evaluation grading of the achieved progress is divided into 4 levels:

- 100% : Good
- Greater than or equal to 80% : Fair
- Greater than 50% : Average
- Lower than or equal to 50% : Weak.

III. The Achieved Results

Part 1: Budget Credibility

Part 1, Budget Credibility in CAP 2 New is strengthened through 4 objectives such as strengthening revenue management and implementing revenue collection plan, strengthening debt management, strengthening the management of cash and account, and improving budget implementation and strengthening the implementation of expenditure plan supported by 14 activities.

In overall, according to the achieved objectives, this part has achieved 84% in which there has been two objectives (objective 11 and 14) achieving less than 80%, and there have been other two activities achieving more than 80% which are the activities 12 and 13.

1. Results of Key Performance Indicators

Indicator	Targets	Second quarterly Progress for 2014	Second quarterly Progress for 2015
1. Total domestic revenue result out-turns increasingly close to approved targets under the financial laws.	Total domestic revenue achieves +/- 5% compared to the approved targets under the laws.	Domestic revenue achieves: <input type="checkbox"/> First quarter: 22.3% <ul style="list-style-type: none"> • Recurrent Revenue: 22.8% • Capital Revenue: 0.6% <input type="checkbox"/> Second quarter: 48.7% <ul style="list-style-type: none"> • Recurrent Revenue: 49.5% • Capital Revenue: 12.8% 	Domestic revenue achieves: <input type="checkbox"/> First quarter: % <ul style="list-style-type: none"> • Recurrent Revenue: 22.0% • Capital Revenue: 0.5% <input type="checkbox"/> Second quarter: <ul style="list-style-type: none"> • Recurrent Revenue: 50.3% • Capital Revenue: 27.6%
2. No accumulation of new arrears	Arrears are defined to be kept at no more than 2% of total expenditure.	No arrears	No arrears
3. Budget holders is increasingly able to commit expenditure in line with budgets and cash flow forecasts	Expenditure profile must not be less than: - 1st Quarter: 15% - 2nd Quarter: 45% - 3rd Quarter: 67% - 4th Quarter: 96% Percentage of payments to creditors and staff made through banking system must not be less than 80% of total expenditure. Percentage of revenue payment collected through banking system must not be less than 60% of total expenditure.	National budget expense achieves in: <input type="checkbox"/> First quarter: 15.6% <input type="checkbox"/> Second quarter: 33.2% The payment through banking system achieves: <input type="checkbox"/> First quarter: 100% <input type="checkbox"/> Second quarter: 100% <ul style="list-style-type: none"> ▪ All ministries have collected their salaries through banking system. First quarter: <input type="checkbox"/> Tarriff revenue: <ul style="list-style-type: none"> • 92% was paid through banks by the customers. • 8% was paid through banks by custom offices. <input type="checkbox"/> Tax revenue: <ul style="list-style-type: none"> • 97% was paid through banks by taxpayers. • 3% was paid through banks by tax offices. Second quarter:	National budget expense achieves in: <input type="checkbox"/> First quarter: 15.4% <input type="checkbox"/> Second quarter: 30.4% The payment through banking system achieves: <input type="checkbox"/> First quarter: 100% <input type="checkbox"/> Second quarter: 100% <ul style="list-style-type: none"> ▪ All ministries got their salaries through banking system First quarter: <input type="checkbox"/> Tarriff revenue: <ul style="list-style-type: none"> • 92.41% was paid through banks by the customers • 7.59% was paid through banks by custom offices. <input type="checkbox"/> Tax revenue: <ul style="list-style-type: none"> • 97% was paid through banks by taxpayers. • 3% was paid through

Indicator	Targets	Second quarterly Progress for 2014	Second quarterly Progress for 2015
		<input type="checkbox"/> Tarriff revenue: <ul style="list-style-type: none"> • 92.6% was paid through banks by the customers. • 7.4% was paid through banks by custom offices. <input type="checkbox"/> Tax revenue: <ul style="list-style-type: none"> • ???% was paid through banks by taxpayers. • ???% was paid through banks by tax offices. 	banks by taxation offices. Second quarter: <input type="checkbox"/> Tarriff revenue: <ul style="list-style-type: none"> • 91.7% was paid through banks by the customers. • 8.3% was paid through banks by custom offices. <input type="checkbox"/> Tax revenue: <ul style="list-style-type: none"> • ???% was paid through banks by taxpayers. • ???% was paid through banks by tax offices.
4. Composition of expenditure by type (staff costs) is close to approved budget.	Expenditure results compared to approved budget must not be less than: <ul style="list-style-type: none"> - Salary: 98% - Goods/Service: 95% - Capital: 85% 	National budget expense achieved: 1st Quarter: <ul style="list-style-type: none"> - Salary: 22.7% - Goods/Service: 11.7% - Capital: 25.5% 2nd Quarter: <ul style="list-style-type: none"> - Salary: 48.3% - Goods/Service: 22.4% - Capital: 40.9% 	National budget expense achieved: 1st Quarter: <ul style="list-style-type: none"> - Salary: 22.2% - Goods/Service: 8.6% - Capital: 14.1% 2nd Quarter: <ul style="list-style-type: none"> - Salary: 44.3% - Goods/Service: 17.2% - Capital: 44.8%
5. The yield achieved from tax base is better through the improvement of collection efficiency and the plan to use non-tax revenue sources.	Progressive improvement in revenue yield compared to GDP by 0.5% per year.	First quarter: <input type="checkbox"/> Tax Revenue: 24.1% <ul style="list-style-type: none"> • Direct Tax: 22.5% • Indirect Tax: 22.9% <input type="checkbox"/> Non-tax revenue: 15.5% Second quarter: <input type="checkbox"/> Tax Revenue: 51.7% <ul style="list-style-type: none"> • Direct Tax: 64.3% • Indirect Tax: 47.4% <input type="checkbox"/> Non-tax revenue: 37.6%	First quarter: <input type="checkbox"/> Tax Revenue: 23.3% <ul style="list-style-type: none"> • Direct Tax: 28.7% • Indirect Tax: 27.1% <input type="checkbox"/> Non-tax revenue: 14.4% Second quarter: <input type="checkbox"/> Tax Revenue: 53.1% <ul style="list-style-type: none"> • Direct Tax: 72.3% • Indirect Tax: 51.3% <input type="checkbox"/> Non-tax revenue: 32.2%
6. All significant areas of both public revenue and	No significant areas of omission.	- First quarter: National Treasury Single	- First quarter: National Treasury Single

Indicator	Targets	Second quarterly Progress for 2014	Second quarterly Progress for 2015
expenditure are captured in both the budget and accounts of the government.		Account has been further strengthened, and there is no new account opened without permission (total numbers of accounts are 93). - Second quarter: total numbers of accounts are 93.	Account has been further strengthened, and there is no new account opened without permission (total numbers of accounts are 81). - Second quarter total numbers of accounts are 81.

2. Outcomes of Key Activities in Furthering Budget Credibility Improvement

Besides monitoring the implementation of budget credibility through the 6 key performance indicators mentioned above, additional key activities were both implemented and launched to monitor the strengthening budget credibility aiming to support the financial accountability improvement which is the strategic objective of the stage 2.

These activities pursue 4 objectives and consist of 14 activities to strengthen budget credibility which is one of the most important parts of Public Financial Management Reform Program, Stage 2 New.

The implementation of activities for budget credibility improvement results in certain outcomes as stated below:

2.1 Strengthening Revenue Management and Implementing Revenue Collection

Objective 11 of the budget credibility consists of four activities. Based on achieved activities, 63% of this objective have been accomplished; in particular, the activities 11.1 has reached 75%; 11.2 has reached 38%; 11.3 has reached 82.74%; and 11.4 has reached 56.50% of their objectives.

At the same time, based on the achieved results of the 4 indicators of the 4 activities, there are 3 indicators have been accomplished in accordance with the targets:

1. More comprehensive revenue projection model has been established (General Department of Economic Policy and Public Finance).
2. Medium-term revenue mobilizing strategy has been published and publicly put to use.
3. Limiting the minimum data on the commercial invoices in order to contribute to the enhancement of customs revenue collection have been introduced through the guidance of General Department of Customs and Excise of Cambodia.

On the other hand, the other seven unsuccessful indicators are:

1. Report monitoring and evaluating the implementation of quarterly medium-term revenue mobilizing strategy.
2. Drafted law taxing the petroleum and gas operation has been sent to MEF for reviewing.
3. Drafted law on taxing the operation of natural mineral resources such as gold, charcoal, and copper has been sent to MEF for reviewing.
4. Projection model has been well-prepared at working group level (General Department of Taxation) and projection model has been well-prepared at the level of General Department of Customs and Excise of Cambodia.
5. Drafted law on state property management has been submitted to inter-ministry meeting.
6. Drafted casino law has been submitted to the technical meeting of MEF and relevant inter ministries and institutions.
7. The implementation of quarterly revenue has achieved in between +/- 5% (except for General Department of Costumes and Excise of Cambodia achieving 103.03%).

At the same time, comparison of the achieved progress to the targets of objectives shows that an indicator having reached the target is that revenue implementation has been monthly, quarterly, per semester, and yearly monitored, and an indicator that has not yet reached the target is that the quarterly revenue implementation has achieved in between +/- 5% of the program.

If we look at the achieved results in this quarter, the percentage of the introduced-activities implementation has dropped, especially the activity implementation of General Department of Costumes and Excise of Cambodia, which is caused by the lack of internal cooperation to implement the activities, the lack of human resource, and the lack of technical assistances, especially on the preparation of projection model. In the meantime, General Department of State Property and Non Tax Revenue and General Department of Taxation are late to prepare the juridical frameworks such as the drafted law on state's property management, the drafted law on the taxing the petroleum and gas operation, and the drafted law on taxing the operation of natural mineral resources such as gold, charcoal, and copper. Although projection model of General Department of Economic Policy and Public Finance has been established, it has not been comprehensive yet, demanding review and improvement from the foreign experts as well as the data accuracy of revenue collection units. Simultaneously, the introduction of effective and efficient revenue collection strategies demands monitoring and per-semester and yearly evaluation. However, General Department of Economic Policy and Public Finance has not yet prepared the detail activities supporting the strategy implementation and working groups being in charge of monitoring and evaluating. The mechanism to deal with this issue is the establishment of clearly in-charge working groups, cooperation between the relevant general determents under the supervision of Ministry of Economy and Finance, and the provision of technical assistances; and the general managers need to request for the adopted budgets to General Secretariat of Public Financial Management Reform Steering Committee so that they can prepare the

procedure of procurement and prepare the request on time to the leaders for the trainings both inside and outside the country.

In short, we can conclude that the strengthening of revenue management and the implementation of revenue collection plan in the year has not reach the target just yet due to the fact that the accuracy of revenue projection and the smoothness of revenue collection are still low.

2.2 Strengthening Debt Management

Strengthening debt management which is the objective 12 of budget credibility consists of 3 activities. Based on achieved activities, this objective has been achieved by 97.5% in which the activity 12.1 has been achieved by 100%; activity 12.2 has been achieved by 95.5%; and there is no implementation of activity 12.3 in the second quarter as the main activities have been implemented already.

At the same time, based on the achieved result of the indicators of the activities for this first quarter, it is observed that all 2 indicators have reached the objective:

1. Second draft of Prakas on the principles and procedures of public debt management and the procedures of state's assurance have been prepared.
2. Updated report on debt sustainability analysis has been prepared.

On the other hand, there are two indicators which have not fully reached the target such as:

1. The adoption of the final draft on updating debt management strategies has not reached the target due to the delay of debt management committee's meeting.
2. The adoption of the draft on updating institutional capacity and human resources development plan.

Hence, it can be concluded that strengthening debt management was still maintained for the second quarter of 2015. This result reflects the necessity to make further efforts for more effective debt management and to achieve the objectives of reform program, stage 2 new, especially for the indicators that have not been fully achieved yet.

2.3 Strengthening Cash and Account Management

Strengthening Cash and Account Management which is the objective 13 of Budget Credibility consists of 4 activities. Based on the achieved activity, the objective has been achieved by 96%; in specific, the achievement rate of the 4 activities; 13.1, 13.2, 13.3, and 13.4; is 100%, 100%, 83% and 100% respectively.

Based on the achieved results of the indicators of the activities for this first quarter of 2015, it is observed that 3 indicators have reached the target:

1. Non-TSA accounts that have no approval from ministry of economy and finance in the national bank and commercial banks were closed. Single accounts of Municipal and

Provincial National Treasury have been monitored and clearly identified. Project accounts of development partner have been collected.

2. Middle level payment through banking system has been achieved by 100% and payment system through E-Transfer was studied, and salary account has been regularly monitored.
3. Payment warrant is monitored and offered fast and on time. Arrear integration plan has been prepared, and the preparation of arrear monitoring system has been concluded.

On the other hand, another one indicator which has not reached the target is improving daily, weekly, and quarterly cash plan report and monitoring cash management. It has not reached the target yet because the projection has not moved closely to the actual balance sheet yet; however, general department of national treasury has fostered the bargaining with Consultant and General Secretariat of Public Financial Management Reform Steering Committee in the second and following quarters in order to establish Web-based Application Software to assist planning and cash forecast so that it will be accurate and achieve the objective 13 by the end of this year of 2015.

In overall, it is concluded that improving cash and accounting management still can be maintained for the second quarter of 2015 and has moved closely to the targeted stability even though the indicators of activities 13.3 have not reached the determined target; as a matter of fact, the balance sheet projection was not accurate just yet due to the lack of Software Online system for the middle level ministries and institutions to input the data. As a result, general department of national treasury must continue to foster the development of Software Online system as well as establish regular monitoring mechanism and train the middle level ministries and institutions to update the data.

2.4- Improving the Budget Implementation and Strengthening the Implementation of Spending Plans

Objective 14 of the budget credibility consists of 3 activities. Based on the achieved activities, this objective has realized 79% in which activities 14.1 has realized 77%; activities 14.2 has realized 80%; and activities 14.3 has realized 80%.

On the one hand, if reviewing the achieved results of the indicators of activities for this second quarter, we can see that no indicator has reached the target:

The three indicators that have not reached the target are:

1. Drafted Sub-decrees and Prakas are adopted and published, and procurement manual has been introduced.
2. The implementation of spending guarantee based on spending plans.
3. The implementation of payment based on spending plans.

Therefore, it can be concluded that improving budget implementation and strengthening spending plans could not achieve the determined targets yet for the second quarter of 2015 because (1) internal monitoring mechanism of the general department on the activities and choosing the indicators are still limited to respond to the activities and determined objectives (2) there is still the lack of cooperation among relevant general departments such as updating the procurement manual on the Implementation of Rule and Rule of Public Procurement (IRRPP) by

harmonization of Standard Overall Procedures (SOPs) which requires General Department of Public Procurement to cooperate with General Department of Budget for the preparation (3) the lateness in establishing public procurement management IT system (PPMIS) (4) the lateness in improving the effectiveness of payment operation of General Department of National Treasury.

Part 2: Financial Accountability

In section 2 of CAP 2 New, financial accountability is implemented through 6 objectives such as introduction of new budget contents and new account plans; introduction of new budget system and new operational process; introduction of new accounting, recording, reporting systems and transparency system; introduction of tools and mechanisms to increase responsibilities and accountabilities; strengthening and increasing comprehensiveness and budget integration; and strengthening internal audit and inspection. These objectives are supported by 28 activities.

Based on the achieved objectives, this section achieved 78% in which there is no objective being able to achieve 100%, and there are 3 objectives being able to achieve more than 80%, 2 objectives achieving less than 80%, and 1 objective achieving 50%. Among the 25 activities, there are 20 activities achieving more than 50%, 5 activities achieving less than or equal to 50%, and 1 activities not being able to measure.

1. Implementation of New Budget Content and New Account Plan

Objective 21 of Financial Accountability consists of 4 activities. Based on the achieved activities in the second quarter of 2015, this objective has been achieved by 85% in which the activities 21.1 has been achieved by 90%; the activities 21.2 has been achieved by 78%; the activities 21.3 has been achieved by 100%; and the activities 21.4 has been achieved by 70%.

According to the achieved result of the indicators of the activities for this first quarter, three indicators are reported to reach the target:

1. Copied table of new chart of account and table of state's financial operation (TOEF and GFS) have been well prepared and included into FMIS system and starts to prepare publicity plan and implements (achieved 90%).
2. Geographic, functional, administrative, program and economic classifications are reviewed and improved.
3. Updating the information about functional structure and services of the ministries and institutions and preparing the table of administrative classifications and new functional classifications.

One indicator that has not reached the target is:

1. Preparing the report based on the standard IPSAP. The quality level and the acceptability are 70% because it is hard to collect and transfer the data into IPSAS report and actual data system does not respond to the requirement of IPSAS report. However General Department of National Treasury has confirmed that producing the report based on the standard IPSAP is possible when FMIS system is introduced.

To sum up, it is concluded that preparing to roll-out the new budget content and new chart of account for the first phase of the roll-out of FMIS system in July 2015 is still maintained for the second quarter of 2015 although there have been some indicators not fully achieved in accordance with the target.

2. Roll-out of New Budget System and New Operational Process

Improved budgeting process and operation for the objective 24 of CAP 2 was modified as the objective 22, Introduction of New Budget System and Operation Process in CAP 2 New. In fact, the implementation of objective 22 for this second quarter is not noticeably far different from the implementation of the first semester of 2015 through the introduction of activities and indicators, especially the introduction of FMIS system. On the other hand, the activities of eight objectives in CAP 2 shall be tailored to seven in CAP 2 New including: 22.1 further shortening the time for requesting the secured expense and payment in the ministries and institutions; 22.2 improving MEF/ministry and institution operation process in consistence with developed chart of account and accounting standard as well as verifying the bank account regularly; 22.3 raising the awareness of participation ownership and capacity of FMIS to MEF, ministries and institutions, and sub national administrations; 22.4 building the FMIS project management capacity including MEF, ministries and institutions, and sub national units; 22.5 preparing consolidated implementation plan (piloting and expanding) including MEF, ministries and institutions, and sub national units; 22.6 planning and preparing trainings as well as the training documents for further training to officials of FMIS at MEF, ministries and institutions and sub national units; and 22.7 piloting first step implementation and FMIS expansion (core module and budget module).

For the implantation of the second quarter, this objective has been achieved by 79% in which the activities 22.1 has been achieved by 60%; the activities 22.2 has been achieved by 83%; the activities 22.3 has been achieved by 90%; the activities 22.4 has been achieved by 49%; the activities 22.5 has been achieved by 92%; and the activities 22.6 has been achieved by 86%. This means that we can define that for the implementation of the second quarter activities 22.2, 22.3, 22.5, 22.6, and 22.7 have still essentially maintained the progress and are able to increase the work effectiveness in order to reach the target compared to the implementation in the first quarter of 2015 because daily operation procedures have been reviewed and edited; specifically, juridical frameworks and some instructions for implementing the program based budgets and budget units along with the awareness of participation ownership and capacity of FMIS have been increased; as the matter of fact, the roll out of FMIS (big book module and budget allocation module) in mid-July along with the plans and trainings as well as training documents for further training to officials of FMIS at MEF, ministries and institutions and sub national units.

At the same time, according to the achieved result of the 7 indicators of the activities of the objective 22 for this second quarter, the only two indicators which are reported not to reach the target yet and essentially require further increase of attention from relevant general departments are 22.1 and 22.4:

1. Shortening the time for requesting the secured expense and payment in the ministries and institutions.
2. Building the FMIS project management capacity including MEF, ministries and institutions, and sub national units.

In conclusion, it can be concluded that based on the actions and indicators set forth in Action Plan, Stage 2 New of the general department/unit, the introduction of new budget implementation system and new operation process are in better condition which can create the possibility to effectively implement the works in order to achieve the targets. However, the above-activities setting and the introduction the above two indicators require the increase of higher attention in order to achieve the roll-out of new budget system and new operational process along with the introduction of FMIS in July. It doesn't mean that the above activities and two indicators will be the obstacles for the achievement of consolidated objectives; however, they require higher will and effectiveness in order to support the full implementation of FMIS system now and in the upcoming October.

3. Introduction of New Accounting System, New Recording System, New Reporting System and Transparency System

Objective 23 of Financial Accountability consists of 4 activities. In overall, based on the achieved activities, this objective has been achieved by 39% in which the activities 23.1 has been achieved by 34%; the activities 23.5 has been achieved by 83%; and the activities 23.3 and 23.5 could not be measured.

According to the achieved result of the indicators of the activities for this second quarter, all indicators have not reached the target:

1. Preparation of action plan in order to improve actual accounting standard and financial report standard based on the cash bases were monitored and evaluated.
2. Continue to inform to all relevant ministries and institutions about the improvement of budget implementation report format to be submitted the Council of Ministers and legislative body.
3. Public relation working groups have been established at the ministries and institutions.

All in all, it can be concluded that the introduction of new accounting, recording, reporting and transparency systems are not yet secured and maintained for the second quarter 2015 because the actions contributing to the achievement of the activities 23.3 are not prepared, and financial report standard based on the cash bases which is monitored and evaluated has not reached the target.

4. Introduction of the tools and mechanism to increase responsibility and accountability

Objective 24 of Financial Accountability consists of 4 activities. In overall, based on the achieved activities, this objective has been achieved by 25% in which the activities 24.1 and 24.2 has been by 50%.

According to the achieved result of the indicators of the activities for this second quarter, there is not indicator reaching the target just yet such as:

1. Guidelines on the establishment of appropriate sanctions for wrong, inappropriate or inefficient management of public resources were prepared by Ministry of Economy and Finance.
2. Principles on the freedoms and responsibility of the budget entities were prepared.
3. Regular review on standards of resource management achieved by each individual budget entities as a basis for extending those freedoms and flexibilities was conduct quarterly.
4. Quarterly budget progress reports commenting on stage of completion reached, results achieved and any delays and remedial action proposed: from ministries and institutions to MEF and within ministries and institutions from internal budget entities to senior management were updated.

In overall, it is concluded that the rollout of tools and mechanism to increase responsibility and accountability cannot be secured and maintained for the second quarter of 2015 due to the fact that the actions contributing to the achievement of the set activities were not implemented aligned with the plans. Based on this result, relevant general departments need to implement the activities under this objective.

5. Strengthen and improve budget comprehensiveness and integration

Objective 25 of Financial Accountability consists of 2 activities. In overall, based on the achieved activities, this objective has been achieved by 99% in which the activities 25.1 has been by 97%, the activities 25.2 has been by 100% .

According to the achieved result of the indicators of the activities for this second quarter, it is seen that there is one indicator reaching the target:

1. Criteria of the classification methods for the preparation of BSP have been reviewed and edited.
However, one indicator which has not fully achieved the target yet is that:
 1. Guidelines on preparing budget strategic plan have not been updated in accordance with the set target.

As a result, it is concluded that strengthening and improving budget comprehensiveness and integration for the second quarter of 2015 have still been implementing, aimed at ensuring the set target. This result indicates the necessity to continuously make further efforts, especially to finalize improving and updating guidelines on preparing BSP and to continue integrating current and capital budgets.

6. Strengthening internal audit and inspection

The Objective 6, strengthening internal audit and inspection, has determined and introduced four activities by focusing on internal audit and inspection through activities 26.1 fully operating Internal Audit Unit in all ministries and institutions, activities 26.2 improving mechanisms to ensure effective response to results of audit and inspection in budget units, activities 26.3 organizing and improving annual audit/inspection plans of the ministries and institutions, based on risk assessment criteria recommended by MEF, and activities 26.4, MEF will review and improve the adequacy of audit/inspection report.

For the implementation of the second semester of 2015, this objective has been achieved by 90% in which the activities 26.1 has been achieved by 96%; the activities 26.2 has been achieved by 86%; the activities 26.3 has been achieved by 100%; and the activities 26.4 has been achieved by 80%. According to the achieved result of the 4 indicators of the activities of objective 6 for this second quarter of 2015, it is indicated that determining and introducing quarterly activities and indicators of the two general departments, Inspectorate and General Department of Internal Audit, can be implemented and achieved based on the target, and there is no indicator being late or not being able to be implemented. Hence, in overall, the key performance indicators of this objective 6 which are efficiency and effectiveness of the internal monitoring system and mechanisms (internal audit and inspection at all ministries and institutions) can achieve the target.

In overall, based on the activity implementation, it can be concluded that strengthening internal audit and inspection has been strengthened and expanded at all relevant ministries and institutions by this second quarter; nonetheless, an essential and necessary task is to strengthen and to increase the effectiveness of internal monitoring for the non-salary and salary spending aiming to achieve the planned targets; specifically, strengthening the capacity of officials and the whole institutions is still the challenge because of the lack of budget and technical experts. These achieved results also reflect the actual need to further increase the will and to be committed to further improve the effectiveness of the system and internal monitoring mechanisms which are related to budget implementation, especially at budget units.

Part 3: Preparedness for the Next Step

Preparedness for the Next Step is supported by four objectives and 19 activities. The four objectives include: strengthening and expanding program-based budget implementation, preparing and introducing accountability system (between the legislature and executive, MEF and ministries and institutions and in the framework of ministries and institutions), strengthening the preparation of policy and public financial planning, and strengthening the implementation of centralized financial policy.

According to achieved objectives, this part has accomplished by 80%, in which one objective has accomplished by more than 80%, and one objective has accomplished by more than 50%. Moreover, among all 19 activities, there are 5 activities accomplishing more than

80%, 4 activities accomplishing more than 50%, 9 activities accomplishing less than or equal to 50%, and 1 activities being immeasurable.

1. Strengthening and expanding the implementation of program based budget

Objective 31 of Preparedness for the Next Step consists of 3 activities. Based on the achieved activities, this objective has been achieved by 67% in which the activities 31.2 and 31.3 has been achieved by 100% whereas the activities 31.1 has been achieved by 0% because the general departments relevant to this activity implementation have not reported.

According to the achieved result of the indicators of the activities for this second quarter, it is showed that 2 indicators has reached the target:

1. 5,000 guideline books on the preparation of program based budget were printed.
2. Officials' awareness capacity has been strengthened at the ministries and institutions which need to fully implement program based budget.

On the other hand, for the implementation of relevant activities and activities 31.1, reviewing and improving the implementation of program based budget, relevant general departments have not reported the achieved progress in the second quarter.

In overall, it can be concluded that the implementation of program-based budget has been increasingly strengthened and expanded by the second quarter of 2015 although the implementation is not smooth just yet and has faced some challenges. This result reflects the necessity to make further efforts, especially to deal with the challenges faced by budget spending and implementation of program-based budget.

2. Preparing and introducing accountability system (between the legislature and executive, MEF and ministries and institutions and in the framework of ministries and institutions)

Objective 32 of Preparedness for the Next Step consists of 6 activities. Based on the achieved activities in the second quarter of 2015, this objective has been achieved by 64% in which the activities 32.1 has been achieved by 100%; the activities 32.3 has been achieved by 100%; the activities 32.5 has been achieved by 100%; and the activities 32.6 has been achieved by 85%. On the other hand, for activities 32.2, the relevant general departments have not prepared the detail action plan to support this activity, and the activities supporting activities 32.4 have been implemented in other activities, and General Department of Financial Management has decided to delete it from Consolidated Action Plan, Stage 3.

According to the achieved result of the indicators of the activities for this second quarter, it is showed that 3 indicators has fully reached the target:

1. Legal advisory opinions in the framework of Public Financial Management Reform Program have been provided upon request.
2. Principles/tables on authority setting and responsibilities of budget units of the ministries and institutions have been prepared, and budget units for the 10 ministries fully implementing budget have been monitored and prepared.

3. Legal framework for exercising financial power in budget units of the 10 ministries has been prepared for discussion and advisory meeting.

On the other hand, one indicators of activities 32.6 which have not been fully achieved is that financial controllers directly attached to the ministries and institutions have not yet been delegated more powers to endorse payment warrant and payment term for some spending and with the planned amount of money. Plus, the indicators of activities 32.2 and 32.4 could not be measured because of the reasons mentioned above.

All in all, we can conclude that the preparation and implementation of the accountability system (between legislative and executive among MEF, ministries, institutions and in the framework of ministries and institutions) has not yet been fully implemented to reach the set target for this second quarter of 2015 because the preparation of action plan and the determination of indicators were not accurate and inconsistent with the needs of the set activities and objectives. This result reflects the necessity to further implement and especially prepare the action plan and indicators in order to respond to activities 32.2 as well as to conclude the activities not fully implemented which is the delegation of more power to the financial controllers directly attached to the ministries and institutions.

3. Strengthening the preparation of policy and public financial plan

Objective 33 of this part 3 consists of 6 activities. If based on the achieved activities, this objective has been achieved by 98% in which the activities 33.1 has been achieved by 94%; the activities 33.2 has been achieved by 100%; and the activities 33.3 has been achieved by 100%.

According to the achieved result of the indicators of the activities for this second quarter, it is showed that 3 indicators has reached the target as below:

1. Guiding documents of data management and statistic information compilation have been prepared,
2. Both national and sub-national data and statistic in TOFE/GFS have been improved to be consistent with CoA, and the first draft of TOFE's guiding documents in the framework of Table of Economic-Classification-based Financial Operation (TOFEECO) have been prepared.
3. Macroeconomic model has been piloted.

Therefore, we can conclude that strengthening on the preparation of policy and public financial plan could be guaranteed and maintained in this second quarter of 2015 due to the fact that most of the defined supporting activities have already reached the target, and there have been only small amount of activities that have not reached the target yet; for instance, monthly newsletter has not been well prepared and piloted according to the target.

4- Strengthening the implementation of financial decentralization policy

Objective 34 of Preparedness for the Next Step consists of 7 activities. Based on the achieved activities in the second quarter of 2015, this objective has been achieved by 78% in which the activities 34.1 has been achieved by 70%; the activities 34.2 has been achieved by

100%; the activities 34.3 has been achieved by 58%; the activities 34.4 has been achieved by 90%; the activities 34.5 has been achieved by 60%; the activities 34.6 has been achieved by 100%, and the activities 34.7 has been achieved by 65%.

According to the achieved result of the indicators of the activities for this second quarter, it is showed that 3 indicators has fully reached the target as follow:

1. Drafted policy on financial decentralization for medium and long term has been discussed in the inter ministry framework between MEF, Ministry of Interior, and NCDD.
2. Policy document on direct revenue sources of sub national administration has been finalized.
3. Guidelines to implement sub-national administration's budget strategic plan have been published, and some sub-national administrations have been selected to implement budget strategic plans.

On the other hand, 4 indicators which have not reached the target are:

1. The preparation drafted sub-decree on commune-Sangkat financial system has not reached the target (achieved by only 30%).
2. Discussion meeting about the policy documents on funding with conditions for sub-national administration with the relevant units under the inter-ministry framework has not reached the target.
3. Preparation of conceptual documents on officials' capacity development GDSNAF to analyze financial decentralization policies has not reached the target (achieved by 50%).
4. And relevant indicators and implementation of activities 34.1.

So according to the assessment of action and result achieved, we can conclude that in the second quarter of 2015, the implementation of financial decentralization policy has been further strengthened and expanded in accordance with the target of Financial Management Reform Program, Stage 2 even though the implementation has not yet been smooth, and some activities have not reached the target. This result reflects the necessity to make further efforts, especially to conclude the activities for the indicators which have not reached the above targets.

Part 4: Supporting the successful and sustainable reform program implementation

Part 4 was established to support the successful and sustainable reform program implementation through two objectives including 41 “increasing leadership and management capacity and building the will of reform as well as increasing ownership and responsibility” and 42 “increasing effectiveness of capacity building and encouragement measure.” Each objective was supported by two implementation activities.

According to the achievability of both objectives, this part has achieved 64% in which the objective 41 has achieved 63% and the objective 42 has achieved 65%, and the detail information will be specified in the following points. We can conclude that the activities supporting the successful and sustainable reform program implementation are at a not-so-active

level, and high commitment of all general departments under Ministry of Economy and Finance, especially the increase of capacity building and incentive measures, is still low and concerned and has not maximally respond.

1. Increasing leadership, adequate capacity, and reform will as well as increasing the ownership and responsibility

This objective is supported by two activities including 4.1 strengthening leadership and management capacity and 4.2 increasing the will of reform in leadership and responsibility. Based on the achieved activities this objective has been achieved by only 63% in which activities 4.1 has been achieved by 64%, and activities 4.2 has been achieved by only 61%. The factors leading this objective to achieve the low percentage compared to the target is that the 3 units; General Secretariat, General Department of Sub-National Finance, and General Department of Customs and Excise of Cambodia; have not implemented the 3 introduced activities, and two activities which have to be implemented by General Secretariat of Ministry of Economy and Finance have been achieved by 50% down.

All in all, we can conclude that this objective 1 has not been fully and comprehensively implemented yet for 2015. Moreover, more than half of the units have not prepared the supporting activities to strengthen leadership management capacity and reform will cultivation, and increasing the ownership and responsibility is still at low level, which indicates that some units have not highly valued or been aware of what they need to do to support this objective.

2. Increasing the effectiveness of capacity building and incentive measure

This objective is supported by 2 activities including 4.2.1 reviewing the effectiveness and efficiency of the training and prepare new capacity building and 4.2.2 reviewing the mechanism and approach of providing past incentive and prepare the mechanism and new approach in providing incentive in equal and consistent manners. In overall, based on the achieved activities, this activities has been achieved by 65%.

Based on the achieved results this objective has been implemented by only 65% in which activities 4.2.1 has been achieved by 57%, and activities 4.2.2 has been achieved by only 73%. The factors leading this objective to achieve the low percentage compared to the target is that the 3 units; General Department of Financial Industry, General Department of Internal Audit, and General Department of Sub-National Administration Finance; have not implemented the 5 introduced activities, and 12 activities which have to be implemented by General Secretariat of Ministry of Economy and Finance, General Department of Taxation, General Department of Financial Industry, General Department of Internal Audit, and General Department of Sub-National Administration Finance have been achieved by 50% down.

Hence, we can conclude that this objective 2 is at the level not fully responding to the introduced target. Thee 3 main reasons are still limited: (1) Not yet reviewing the need of trainings as well as the use of resources after the trainings, (2) Training documents have not been well prepared, and (3) Some Training courses have not been adequately prepared in accordance with the target.

All in all, for this section, we can conclude that although many activities have or have not been fully achieved, if we look closely, we can see that 30% of the introduced activities is still not strong enough to serve the real interests of this section. Therefore, all general departments need to further strengthen and increase the certain and sharp activities in order to assure that supporting the successful and sustainable reform program implementation will be achieved; specifically for stage 3, the general departments who have not prepared the supporting activities need to make efforts to prepare the activities in order that all general departments simultaneously become the driving forces to smoothly promote reform program implementation.

IV. Challenges

- Some general departments have not held regular internal meeting in order to monitor the progress of reform.
- Some general departments have not implemented the activities introduced in the plan and have not reported the progress of the introduced action plan.
- Some general departments have not prepared any activities to support the objectives of CAP 2-New (especially 41 and 42)
- Some general departments have sent the reports to General Department of Financial Management late.

V. Recommendation

- General departments which have not held the monthly meeting on the reform should prepare the meeting plan in order to monitor and track the introduced reform activities.
- Prepare the detail action plans to implement medium-term revenue mobilizing strategies.
- Revenue collection units need to strengthen and accelerate the preparation of effective revenue projection model.
- Have the mechanisms to coordinate the preparation of consolidated procedure (preparing and implementing) of the implementation of program-based budgets between General Department of Budget, General Department of National Treasury, and General Department of Procurement.
- General departments which have not prepared ant activities supporting the main objectives of CAP 2-New should prepare the action plans in CAP 3.
- Request for the preparation of accurate quarterly progress report.

VI. Conclusion

Progressive report for the second quarter of 2015 of the implementation of action plan, stage 2 new of public financial management reform program in this second quarter of 2015 showed that:

- **Budget Credibility** has been achieved by 91% of the objective. Budget credibility has still been essentially guaranteed, but it is not yet stable by.
- **Financial accountability** has been achieved by 76%. Financial accountability has still been guaranteed can be slowed down and faces the challenges in the upcoming future if the indicator objectives that have not been achieved is not quickly achieved.

- **Preparedness for the next step** has been achieved by 83%. This section is still good, but the implementation has not fully reached the required target just yet.
- **Supporting the implementation of successful and sustainable reform program** has been achieved 61%. This section has not yet been guaranteed in this second quarter because some general departments have not prepared any activities supporting this section.

In overall, progress result for the second quarter of 2015 of the implementation of public financial management reform program has still been maintained even though it has not reached the target of the comprehensive key performance indicators just yet, and it is necessary to deal with the raised challenges and to follow the provided recommendations.