

**Progress Report**  
**Third Quarter, 2014**  
**Implementation of Action Plan, Stage 2 New**  
**Ministry of Economy and Finance**

**General Secretariat of Public Financial Management Reform Steering Committee (GSC)**

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## I. Overview

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## II. Introduction

The Royal Government of Cambodia has introduced the Public Financial Management Reform Program (PFMRP) in 2004 with the Ministry of Economy and Finance (MEF) playing a role in management and consolidation, aimed at improving the Public Financial Management System up to the international standard in 2025 by conducting a step-by-step reform from centralized input-oriented public financial management system to decentralized achievement-oriented or output-oriented public financial management system. Nonetheless, this ambitious goal cannot be achieved in a short-term period and without long-term vision. In this sense, PFMRP is a long-term and comprehensive program which is divided into stages with an exact timeframe and goals:

- Stage 1 (2004-2008): budget credibility
- Stage 2 (2009-2015): financial accountability
- Stage 3 (2016-2020): budget-policy linkages
- Stage 4 (2021-2025): Performance Accountability

Stage 1, budget credibility, was successfully completed in 2008, transform the chronic cash deficit into cash surplus through increased income collection and expense rationalization. Even though Stage 1 was successful as expected, public financial reform is still a long way to go according to the stages of the program. In this sense, after budget credibility has been fundamentally maintained, strengthened financial accountability is the main goal of Stage 2 which must be fully implemented in 2009 through the preparation and implementation of action plans of ministries and institutions as well as each general department under the Ministry of Economy and Finance. With a view to improving financial accountability, the action plans in Stage 2 especially focus on increased 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. In Stage 2 is the most important amongst the four stages of the Program and can be considered that the fruition of Stage 2 is the successful factor of the whole reform program. Nowadays, Public Financial Reform Program is still in transition carried out through Consolidated Action Plan 2 in order to complete Stage 2 improved financial accountability and to reach the implementation of Stage 3 budget-policy linkages in 2016.

CAP 2 is planned for one-year and six-month implementation, which means it's for the second semester 2014 and the whole 2015. The Third Quarter Progress Report 2014 is the first quarter report in the framework of MEF's CAP 2 New implementation. This report is different from CAP 2's progress report in the reporting methods of all general departments and evaluating methods of progress of the General Secretariat Steering Committee of the Public Financial Management Reform Program. The progress reports of each general department must follow the new form of report prepared and introduced by the General Secretariat. The evaluating method of the General Secretariat is of two bases:

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

The CAP 2 new's Third Quarter Progress Report 2014 of MEF will present the achieved result in each part up, objectives and priority actions, compared to the indicator, as well as raise some challenges, recommendation and later platform.

### III. The achieved results

#### Part 1: Budget Credibility

Part1 Budget Credibility in CAP 2 New is composed of four objectives (11. Strengthening income management and collecting income, 12. Strengthening debt collection, 13. Strengthening the management of cash and account and 14. Improving budget credibility and strengthening the implementation of expenditure plan) and 14 priority actions while CAP 2 has four objectives and 19 priority actions. The differences between CAP 2 and CAP 2 NEW are following:

- **Objective 11:** in CAP 2, this objective focuses on improving administrative reform and income policy. In CAP 2 New, the emphasis is put on strengthening income management and implementing income collection plan. In CAP 2, each priority action must have support from relevant income collection units, meaning that there is no organization which has only one implementing unit. In particular, in CAP 2 New, each priority action must be responsible by one general department, but each general department must provide mutual cooperation to strengthen income management and the implementation of income collection plan.
- **Objective 14:** in CAP 2 New, improving budget implementation and strengthening income plan implementation focusing expenditure guarantee and payment are not only made in public expenditure procurement but also in non-procurement expenditure, aimed at ensuring short-term procedure and effective and quick process.

According to the achieved plan, this part has achieved 77%, in which Objective 11 is completed 76%, Objective 12 80%, Objective 13 87% and Objective 14 64%. Moreover, priority actions achieved less than 50% are 11.3 and 12.1. At the meantime, as per the six key indicators and indicators of the four objectives to strengthen and support budget credibility, planned indicators have reached the targets.

In relation to the achieved six indicators in the third quarter 2014, there are two indicators which can be compared to targeted indicators as seen in the below results:

1. The total national revenue was implemented 74.8% with an increase of 6.3% exceeding the third quarter 2013. The total national revenue was implemented 99.6% in 2013, thus according to the third quarter's results, it is concluded that the total national revenue for 2014 is achieved about +/-5% of the law.
2. Bad debt is zero, setting the target of not exceeding 2% of the overall expense.

Contrarily, two indicators haven't met the target:

1. Harmony in annual implementation which reflects the ability organizers can implement applicable expense program: 13.4% in the first quarter comparing to 15%,

33.3 % for the second quarter comparing to 45% and 56.2% in the third quarter comparing to 67%.

2. Annual revenue growth 2014 can be exceeding GDP because domestic revenue in the third quarter 2014 is higher than the third quarter 2013 and in 2013 completed 13% of GDP.
3. Expenses by category: the third quarter 2014 is 15.6% lower than the third quarter 2013 in salary; 2.5% for commodities and services and 0.3% for the capitals.

Another indicator doesn't determine specific target as the foundation for measurement and doesn't strengthen the implementation of Treasury Single Account (TSA).

All in all, we can conclude that the budget credibility still maintains in general for 3<sup>rd</sup> Quarter 2014, but not yet increase toward the wanted target. This result reflects the necessity in strengthening the income management and implementation of income collection plan, strengthening debt, cash and accounting management and especially focusing on strengthening and improving budget implementation and expenditure plan.

## 1. Result of Key Performance Indicators

Key performance indicators on budget credibility have achieved as the following:

- Indicator 1 is local revenue collection which in 3<sup>rd</sup> Quarter 2014 implemented 74.8%, increasing more than 3<sup>rd</sup> Quarter 2013 approximately 6.3%. The local revenue for 3<sup>rd</sup> Quarter 2014 increasing compared to 3<sup>rd</sup> Quarter 2013 due to:
  - ✓ Increase of customs revenue about 42% in which the tax on petroleum import increase 38%, tax on goods import for road maintenance increase 23%, specific tax on import goods increase 63% and value added tax on import increase 31%.
  - ✓ Increase on tax revenue approximately 34% in which tax on profit tax increase 48%, salary tax increase 44%, tax on land and house increase 26% and value added tax increase 22%.
  - ✓ Increase on casino tax about 31%.
  - ✓ Increase on non-tax revenue about 51% in which enterprise and property rent increase 18%, public enterprise benefit increase 72%, income from Civil Aviation increase 33% and embassy tax increase 10%.
- **Indicator 2** which the target determined the arrears no more than 2% of the total expense. The actual practice in the next five years the arrears has been omitted namely the cash has been guaranteed for the whole expense. The arrears should be gradually monitored although the cash situation has been guaranteed for the whole expense because the monitoring is the way in measuring the budget credibility in the positive and negative situations.
- **Indicator 3** which the target determined in the expense implementation for 3<sup>rd</sup> Quarter of each year is not less than 67%. The actual practice in 3<sup>rd</sup> Quarter 2014 the expense implementation achieve only 56.2% lower than the target about

10.8% and lower than the expense implementation for the 3<sup>rd</sup> Quarter 2013 about 12.6%. The practice lower than the target due to the improving of expense procedure implementation to get the efficiency better than before. The budget expense practice lower than the plan derive from restriction the expense guarantee policy and public procurement in order to strengthen the efficiency in expense practice. Owing to this reason making the budget expense implementation slow. Ministry and some institutions that have been slow are follows: 1. Ministry of land management, urban planning and construction, 2. State Secretariat of Civil Aviation, 3. Ministry of Rural Development and 4. Ministry of Water Resource.

- **Indicator 4** determines the expense in categories including salary, goods and services and capital expenses. For 3<sup>rd</sup> Quarter 2014 the salary expense implemented for 74.3%, goods and service for 43.7% and capital expenses for 48.5%. The implementation in 3<sup>rd</sup> Quarter 2014 lower than the practice of 3<sup>rd</sup> Quarter 2013 about 15.6% for salary, 2.5% for goods and service and 0.3% for capital expense. The budget expense practice lower than the plan due to the restriction for the provision of guarantee payment and public procurement as well as some reform such as salary through banking system on time. Owing to the strengthening of effectiveness in expense practice making the budget expense implementation slow.
- **Indicator 5** determines the percentage of tax revenue and annual non-tax revenue contribution to the GDP need to increase 0.5%. The practice in the 3<sup>rd</sup> Quarter 2014 the tax income implemented for 81.5% and non-tax revenue 63.6% over the practice in 3<sup>rd</sup> Quarter 2013 for 10% for the tax revenue and 5.5% for non-tax revenue. The increase of revenue derive from:
  - ✓ The increase of customs revenue about 36% in which tax on petroleum import increase 11%, tax on goods import for road maintenance increase 9%, tax on export increase 59%, specific tax on imported goods increase 40% and value added tax on import increase 35%.
  - ✓ Increase of customs revenue about 21% in which tax on profit increase 27%, tax on salary increase 31%, tax on land capital, house increase 39%, specific tax on domestic product increase 11% and value added tax increase 14%.
  - ✓ Increase of non-tax revenue about 31% in which forest concession increase 22%, benefit from public enterprise increase 101%, income from civil aviation increase 21%, product quality examination increase 58% and embassy tax increase 8%.
- **Indicator 6** is strengthening the Treasury Single Account starting from 2008 the treasury single account was gradually strengthened. The account that ministry, various institutions opened was closed and moves to use the treasury single account for revenue and expense transaction. The bank account for 1.735 accounts were closed in several past years and until now there is no account closing as there is no new account without permission from Ministry of Economy and Finance. Separately, General department of National Treasury will continue to follow up especially project account of the development partner that has no action.

The below table show the summary of the result based on indicator:

Indicator	Target	3 <sup>rd</sup> Quarterly Progress for 2013	3 <sup>rd</sup> Quarterly Progress for 2014
1. Revenue out-turn increasingly close to targeted level in approved budget	Revenue outturn achieve +/-5% compared the approved target under the law	Domestic revenue achieve: - 1st Quarter: 21.3% - 2nd Quarter: 48.1% - 3rd Quarter: 68.5%	Domestic revenue achieve: - 1st Quarter: 22% - 2nd Quarter: 50.5% - 3rd Quarter: 74.8%
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: - 1 <sup>st</sup> Quarter: 15% - 2 <sup>nd</sup> Quarter: 45% - 3 <sup>rd</sup> Quarter: 67% - 4 <sup>th</sup> Quarter: 96% Percentage of payments to creditors and staff made through banking system to be not less than 80% by value  Percentage of tax revenue collected through Banks to be not less than 60% by value	National budget expense achieve: - 1st Quarter: 19% - 2nd Quarter: 37.3% - 3 <sup>rd</sup> Quarter: 60.5%  The payment through banking system achieve: - 1st Quarter: 93% - 2nd Quarter: 92.5% - 3rd Quarter: 92.3%  • 39 Ministries have collected salary through banking system (only leaders in central level)  1st Quarter: - Customs revenue: 91.5% - Tax revenue: 99.1 %  2 <sup>nd</sup> Quarter: - Customs revenue: 93% - Tax revenue: 93.8 %  3 <sup>rd</sup> Quarter: - Customs revenue: 91% - Tax revenue: 87.1 %	National budget expense achieve : - 1st Quarter: 13.4% - 2nd Quarter: 33.3% - 3rd Quarter: 56.2%  The payment through banking system achieve: - 1st Quarter: 100% - 2nd Quarter: 100% - 3rd Quarter: 100%  • 39 Ministries have collected salary through banking system (general civil servant except the National Assembly)  1st Quarter: - Customs revenue: 89.7% - Tax revenue: 100 %  2 <sup>nd</sup> Quarter: - Customs revenue: 91% - Tax revenue: 97.5



			% 3 <sup>rd</sup> Quarter: - Customs revenue: 93% - Tax revenue: 92.3 %
4. Composition of expenditure by type (staff costs) close to approved budget	Outturn compared to budget to be not less than: - Salary: 98% -Goods/service: 95% - Capital: 85%	National budget expense achieved: 1 <sup>st</sup> Quarter: - Salary: 16.6% Goods/service: 10.01% - Capital: 11.4% 2 <sup>nd</sup> Quarter: - Salary: 54% - Goods/service: 26.2% - Capital: 29.0% 3 <sup>rd</sup> Quarter: - Salary: 89.9% - Goods/service: 46.2% - Capital: 48.8%	National budget expense achieved: 1 <sup>st</sup> Quarter: - Salary: 22.9% - Goods/service: 12.1% - Capital: 11.2% 2 <sup>nd</sup> Quarter: - Salary: 48.4% - Goods/service: 22.6% - Capital: 41.2% 3 <sup>rd</sup> Quarter: - Salary: 74.3% - Goods/service: 43.7% - Capital: 48.5%
5. Better yield achieved from tax base through improved collection efficiency and planned use of nontax sources.	Progressive improvement in revenue yield compared to GDP by 0.5% per annum.	✓ 1 <sup>st</sup> Quarter: • Tax revenue: 27% • Non-tax revenue: 25.9% ✓ 2 <sup>nd</sup> Quarter: • Tax revenue: 49.1% - Direct Tax: 59.9% - Indirect Tax: 48.5% • Non-tax revenue: 42.4% ✓ 3 <sup>rd</sup> Quarter: • Tax revenue: 71.5% - Direct Tax: 78.3% - Indirect Tax: 73.4% • Non-tax revenue: 58.1%	✓ 1 <sup>st</sup> Quarter: • Tax revenue: 24.2% - Direct Tax: 22.5% - Indirect Tax: 22.9% • Non-tax revenue: 16.1% ✓ 2 <sup>nd</sup> Quarter: • Tax revenue: 54.2% - Direct Tax: 64.3% - Indirect Tax: 47.4% • Non-tax revenue: 43.2% ✓ 3 <sup>rd</sup> Quarter: • Tax revenue: 81.5% - Direct Tax: 88.1% - Indirect Tax: 75.2% • Non-tax revenue: 63.6%
6. All significant area of both	No significant areas of omission	Treasury Single Account have been	Treasury Single Account have

reverse and expenditure captured in both the budget and accounts of the government		further strengthened	been further strengthened
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## 2. Outcomes of Key Activities in Furthering Budget Credibility Improvement

Besides the 6 key activities mentioned above, additional activities were implemented to strengthen budget credibility in accordance with **Budget Credibility Improvement** which is the strategic objectives 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.

Implementation of activities in budget credibility improvement results in certain outcomes as stated below:

### 2.1 Strengthening Revenue Management and Implementing Revenue Collection

In CAP 2, the Objective 11 of the Budget Credibility focuses on further improvement of revenue administration and policy. This objective was subsequently replaced by strengthening revenue management and implementing revenue collection in CAP 2 New. On the other hand, the Activities 6 was reduced to Activities 4 in which each action is responsible by the revenue agencies of each line-department under the Minister of Economy and Finance. The general department of revenue collection (custom, tax and non-tax revenue) shall establish activities to strengthen forecasting capacity, management capacity, and efficiency of revenue collection. Furthermore general department of economy policy and public finance shall strengthen forecasting accuracy and effectiveness of revenue framework and policy implementation (Top-Down Approach) in order to enable revenue agencies to develop and implement their annual revenue collection (Bottom-Up Approach).

In short, based on achieved activities, 76.34% of objectives have been accomplished. In particular, the Activity 11.3 has reached only 50% of if its objectives.

Moreover, based on the result of the 4 indicators in Activities of the Objective 11 for third quarter 2014, only 2 indicators have been accomplished:

1. Challenges related to data and information of tax base in revenue forecasting model were identified. Draft of revenue stabilization strategy in 2014-2018 was established.
2. Strengthen the management system by establishing Cambodia National Single Window and improving ASACUDA.

The other two unsuccessful indicators are:

1. Study the forecasting tax revenue model. Establish and modify legal framework of taxation.
2. Establish and modify legal framework of state properties and non-tax revenue.

In short, the strengthening of revenue management and the implementation of revenue collection plan have been achieved for the third semester of 2014, but it does not reach the stable state set in the objective due to the lateness of some activities in the Activities 11.3. Such result reflects the requirement for further improving and strengthening the capacity to establish the accuracy of revenue forecasting and efficiency of framework implementation and revenue policy; strengthening the forecasting capacity, management capacity, and effectiveness of collection of custom and excise revenue, tax revenue and non-tax revenue to strengthen the revenue management and effectively implement revenue collection.

## **2.2 Strengthening Debt Management**

Objectives and activities of strengthening debt management in the objective 2 of Budget Credibility remain unchanged in CAP 2.

The objective 2 focuses on strengthening debt management and consists of 3 activities including Activity 12.1: review and improve legal framework and institutional framework as well as roles and responsibilities in debt management, Activity 12.2: establish and promulgate debt management strategy and Activity 12.3: increase efficiency and effectiveness of the use of debt data. In overall, based on result of the activities, this objective has been achieved by 80%. However the Activity 12.1 has been achieved by less than 50%.

Based on the 3 indicators of the activities in the objective 12 for the third quarter 2014, it is observed that 2 indicators have reached the objective:

1. Establish the draft of updating debt management strategy 2014-2018 and developing institutional capacity and human resources. Also, the report on Debt Sustainability Analysis (DSA) has been updated.
2. Install the debt management system DMFAS 6.0 and train on the basic usage before implementing the project in the fourth trimester.

The unachieved indicator is the draft on principle and procedure of lending management. This is because of lateness of drafting.

Hence, based on activities and result, it concludes that debt management was strengthened for the third quarter in 2014. However this achievement does not ensure the accuracy of debt sustainability report due to the lack of data, institutional capacity, human resources, and legal framework and institutional framework. Additionally the roles and responsibilities in debt management shall be further improved. Such result reflects requirement for further development of institution and human resource and also increasing accuracy of debt sustainability analysis report to deal with challenges and the lack of some DSA data.

## **2.3 Strengthening Cash and Account Management**

Objectives and activities of Strengthening Cash and Account Management in the objective 13 of Budget Credibility remain unchanged in the CAP 2.

Objective 13 of Budget Credibility aims at strengthening the management of cash and account by the means of 4 activities such as Activity 13.1: collect bank accounts of the government and single account of the National Treasury, Activity 13.2: further strengthen and broaden the use of bank system to operate public revenue and expenditure, Activity 13.3: collect and improve cash plan (from quarterly/monthly to weekly/daily) and Activity 13.4:

monitor arrears and its duration. In overall, based on the achieved activity, the objective has been achieved by 87%. In specific, the achievement rate of the 4 activities is 100%, 99%, 50% and 100% respectively.

Based on the achievement of the 4 indicators in the Activities of objective 13 for third quarter 2014 it is observed that 3 indicators have reached the goal:

1. Non-STA accounts that have no approval from ministry of economy and finance in national bank and commercial bank 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 trough bank system has been done 100% and payment transfer through E-Transfer was studied and salary account has been regularly monitored.
3. Payment warrant is monitored and offer fast and on time. Arrear integration has been studied.

Separately, one indicator which did not achieve goal is the data collection to test daily and weekly cash plan preparation and cash management follow-up. It didn't achieve as determined goal because the prediction was far from real balance sheet in the gap +/-5% or +/-10% and un-relevant units didn't provide information and report on time as suggested.

Overall, it is concluded that improving Cash and Accounting Management still can be maintained for the third trimester in 2014 but has not reached a stable level as demanded because indicators in activity 13.3 of the third trimester did not achieve as determined goal and the prediction of balance sheet was not perfect and providing information and report was late. This result highlights the need to improve and strengthen the concentration of cash plans (from quarterly/monthly leading to weekly/daily)

#### 2.4- Improvement of Budget Implementation and Strengthening the Implementation of Spending Plans

In CAP 2, goal 14 of the budget credibility focuses on the continuous public procurement in which the same goal was adjusted to improve the implementation of budget and strengthen the implementation of spending plans in CAP 2 New. Whereas in the level of activity, the number of activities was reduced from 6 to only 3 in each activity in CAP 2 New. Goal 14 in CAP 2 New has bigger coverage scope over the strengthening of spending plan implementation than goal 14 in CAP 2 New because in CAP 2, strengthening the implementation of spending plan focuses only on relevant public procurement. Whereas in CAP 2 New, improving budget implementation and strengthening the spending plans focus on from the spending guarantee to payment not only in the procedure of public procurement spending but also for spending outside the public procurement as well, aiming to guarantee short procedures to operate quickly and effectively.

Goal 14 of the budget credibility has 3 activities focusing on improving spending implementation and strengthening spending plans through activity 14.1, improving and strengthening the implementation of the legal framework on public procurement and improving the efficiency and effectiveness of public procurement, 14.2 improving and strengthening the efficiency and effectiveness of the payment provision procedure. Overall, if

based on activities that achieved goals, it realized 64% in which activity 14.1 realized 54%, 73% in activity 14.2 and 65% in activity 14.3.

At the same time, if we review the achieved results of the 3 indicators in activities of goal 14 for the third trimester in 2014 showed that the 3 indicators did not achieve their goals due to 3 reasons 1: drafted Sub-decrees and Prakas were reviewed and discussed and procurement manual was updated 2: the drafted policy on guarantee provision on spending for investment projects and public infrastructure maintenance program was prepared and spending guarantee implemented spending plans and 3: the method of payment for investment and public infrastructure maintenance program was organized and the spending payment was implemented according to spending plan.

So it can be concluded that improving budget implementation and strengthening spending plans could not achieve as determined goals in the third trimester in 2014 due to imperfect activity preparation and indicator determination and incomplete consistency to respond to activities and determined goals.

## Part 2: Financial Accountability

In CAP 2 section 2, financial accountability is supported by 8 objectives and 49 activities and in CAP 2 New has 60 goals (such as 21. introduction of new budget contents and account plans, 22.) introduction of new budget system and procedure operation, 23.) introduction of new accounting and transparency system, 24.) introduction of tools and mechanisms to increase responsibilities and accountabilities, 25.) strengthening and increasing budget integration and 26.) strengthening internal audit and inspection) and 28 activities. At the same time, in the purpose of accelerating the implementation of public financial management reform, especially the successful ending for the second stage of the financial accounting in which the public financial management committee leading the reform work has founded and introduced the implementation of strategy 3+2 in March 2010. This 3+2 strategy is supported by main 5 catalysts which are implemented by 3 institutions such as General Department of National Treasury, Budget Department (currently the General Department of Budget) and Department of Information Technology. The above 5 catalysts are supported, and the key third catalyst is the accounting line, accounting standard and the implementation of budget with 2 additional main catalysts which are the information system for financial management and capacity building. 2004 was the last year which had to finish the implementation of 3+2 strategy focusing on the preparation of information technology system for operating the treasury (Treasury Centric Module) and shall start operating in the early 2015.

In this part, the different point between CAP 2 is that in CAP 2 New there is the introduction of full implementation of at least new budget categories such as economy, geography and administration. On the other hand, continuous comprehensive improvement and budget integration which were implemented in objective 32 in section 3 of CAP 2 were adjusted to become objective 25 of financial accounting section.

Overall, based on achieved objectives, this section achieved 64% in which 70% for the first objective, 83% for the second objective, 40% for the third objective, 9% for the fourth objective, 100% for the fifth objective and 80% for the sixth objective. Separately the activities which achieved less than 50% are activities 21.4, 23.2, 23.3, 23.4, 24.1, 24.2, 24.3, 24.4 and 26.3. At the same time if we review the achieved results of indicators of the six objectives to strengthen and support financial accounting, we saw that it achieved as

determined goals of indicators but need to prepare activities and indicators in order to support the above un-achieved goals.

In overall, it concludes that financial accountability has been achieved for the third quarter in 2014, but it does not reach the stable state set in the objective. Such result reflects the requirement of the implementation of new account system, new noting system, new reporting system, and transparency system; and introduction of instruments and mechanism to increase responsibility and accountability in purpose to strengthen financial accountability.

### **1. Implementation of New Budget Content and New Account Plan**

Further improvement of new budget content and new account plan has been applied in the objective 23 of Financial Accountability of CAP 2 through 4 activities. To strengthen financial accountability, it is critical to establish and implement new budget account and new account plan that have not been achieved in the CAP 2. The difference between CAP 2 and CAP 2 New is the implementation of the complete financial classification: economy, geography and administration.

To achieve the goal, 4 activities have been implemented. These activities include Activity 21.1: review and improve new account plan, Activity 21.2: review and improve new financial classification (geography, operation and administration agencies, program, and economy), Activity 21.3: study and provide option for function classification, foundation, and project, and Activity 21.4: study and provide option for moving to accrual account step by step. In overall, based on the activities in the third quarter 2014, the objectives have been achieved by 70%. In particular, the Activity 21.4 has been achieved by less than 50%.

According to the result of the 4 indicators in the Activities of objective 21 for 3<sup>rd</sup> quarter, three indicators are reported to reach the target:

1. The differences and similarities of CoA and TOEF were studied. The differences and similarities between CoA and GFS were studied. Communication requirement and new account content were released and implemented in 2015.
2. Geographic, functional, administrative, program and economic classifications are reviewed and improved.
3. Alternative program, functional and financing source classifications are studied.

Separately, Indicator 1—IPSAP Cash Basis report—which cannot be achieved according to the target, was piloted. The failure in this Objective is due to lack of experts to study and seek alternatives for testing accrual accounting system step by step.

To sum up, it is concluded that the rollout of the new budget content and chart of account is still maintained for 3<sup>rd</sup> Quarter 2014. However, the desired target is not yet achieved because the 3<sup>rd</sup> Quarter of Activity 21.4 is not succeeded as expected due to lack of experts to study and provide alternatives for testing accrual accounting system step by step. This result reflects the necessity in further improving the new chart of account and new budget classifications to be implemented (at least 4: geographic, functional and administration, program and economic) and in studying to introduce more functional, financing and project classifications and recruit experts in timely manner to further study and suggest alternatives for testing accrual accounting system step by step.

## **2. Roll-out of New Budget System and New Executive Process**

Improved budgeting process and operation for the CAP 2 Objective 24 was modified as the Objective 22: Introduction of New Budget System and Operation Process in CAP 2 New. This objective focuses on 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; 22.2 improving MEF/ministry-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 and capacity of FMIS to MEF, ministries-institutions and sub national government; 22.4 building the FMIS project management capacity including MEF, ministries, institutions and sub national units; 22.5 prepare consolidated implementation plan (piloting and expanding) including MEF, ministries-institutions and subnational units; 22.6 planning and preparing trainings as well as the training documents for further training to officials of FMIS at MEF, ministries-institutions and subnational units; and 22.7 piloting first step implementation and FMIS expansion (core module and budget module).

In sum, based on the accomplished action, this objective achieved 83% with Activity 22.1: 66%, Activity 22.2: 75%, Activity 22.3: 100%, Activity 22.4: 75%, Activity 22.5: 93%, Activity 22.6: 100% and Activity 22.7: 65%.

Considering the outcome of seven indicators of Objective 2 Activities for Quarter 3 2014, the seven indicators have achieved the target as follows:

1. Context for current expense was prepared;
2. Budget implementation standard of other countries through PEMNA to further strengthen budget implementation in accordance with the international standard was studied;
3. MEF officials' capacity in FMIS was increased through extensive publication on website and press bulletins, direct interview, workshop and training;
4. FMIS project managers' capacity in database was further strengthen;
5. Draft implementation plan for Stage 1 FMIS integrated system was prepared;
6. Draft training plan for Stage 1 FMIS project was improved;
7. FMIS Training room, the draft procedural document for To-Be Business Process and draft impact evaluation documents were prepared.

In conclusion, based on the actions and indicators set forth in Stage 2 Action Plan New of the general department/unit, the introduction of new budget implementation system and new operation process can be maintained for the 3<sup>rd</sup> Quarter 2014, but in reality Indicator 7 preparation (such as draft procedural documents for To-Be Business Process and draft impact evaluation documents were prepared) didn't meet the set schedule because in the 3<sup>rd</sup> Quarter at least To-Be Business Process procedures, change management strategy and impact evaluation documents for the FMIS project should be prepared by the beginning of 3<sup>rd</sup> Quarter 2014 to move forward to prepare and go live FMIS project in July 2015 as scheduled. However, going live cannot be achieved because the above three points are not ready in the

3<sup>rd</sup> Quarter 2014 and the FMIS contractor's capacity is still limited. Therefore, in order to prepare and go live according to the schedule, FMIS project should be reviewed.

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

The rollout of new accounting, recording, reporting and transparency systems included in Objective 23 of financial accountability have no deviation from CAP 2 both the level of objectives and Activities.

This objective is comprised of five Activities focusing on the rollout of new accounting, recording and transparency systems through Activity 23.1, reviewing IPSAS, GAPP and realistic evaluation and appropriate orders in the introduction of accounting standard by expanding the use of FMIS; Activity 23.2 Implementation of quarterly budget progress reports commenting on stage of completion reached, results achieved and any delays and remedial action proposed: From line Ministries to MEF and within line ministries from internal budget entities to senior management; 23.3 improving budget implementation report format to be submitted the Council of Ministers and legislative body; 23.4 improving reporting format and information exchange with the public; and 23.5 the rollout of mechanism to finish state property inventory registration and regular update. In sum, based on the accomplished result, this objective has achieved 40% in which Activity 23.1 and 23.5 have achieved 100%, but the other three Activities: 23.2, 23.3 and 23.4 have no applicable actions.

Meanwhile, taking into account the achieved result of the five indicators of Objective 3 Activities for the 3<sup>rd</sup> Quarter 2014, the five indicators have achieved two targets:

1. Financial report standard under the cash basis was prepared
2. Draft directive on inventory adopted by K.R.M.

Separately, the other three indicators cannot be measured because relevant general departments didn't prepare actions and indicators to support the above Activities and indicators.

In conclusion, the introduction of new accounting, recording, reporting and transparency systems are not secured and maintained for the 3<sup>rd</sup> Quarter 2014 because the actions contributing to the achievement of the set Activities 23.2, 23.3 and 23.4 are not prepared. As a result, relevant general departments need to prepare the actions to support Activities 23.2, 23.3 and 23.4 aimed at introducing new accounting, recording, reporting and transparency systems as determined in Stage 2 New consolidated action plan.

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

The rollout of tools and mechanism to increase responsibility and accountability in Objective 24 of financial accountability is not different from CAP 2 both level of Objectives and Activities.

Financial accountability Objective 4 of three Activities focuses on the rollout of tools and mechanism to increase responsibility and accountability through Activity 24.1 (Establish appropriate sanctions for wrong, inappropriate or inefficient management of resources, build into law and give wide circulation and advice; Activity 24.2 Establish a list of freedoms and



flexibilities to be given to those budget entities that meet agreed criteria with regards to satisfactory resource management systems; 24.3 Conduct regular review of standards of resource management achieved by individual budget entities as a basis for extending those freedoms and flexibilities; and 24.4 Implementation of quarterly budget progress reports commenting on stage of completion reached, results achieved and any delays and remedial action proposed: From line Ministries to MEF and within line ministries from internal budget entities to senior management. In overall, based on the achieved result, this Objective has achieved 9%, but the other three Activities (24.2, 24.3 and 24.4) didn't have implemented actions.

Meanwhile, if we look at the achieved results of the four indicators of Objective 4 Activities for 3<sup>rd</sup> Quarter 2014, it is immeasurable due to the budget general department didn't prepare any actions and indicators to support the four Activities and indicators.

In overall, it is concluded that the rollout of tools and mechanism to increase responsibility and accountability cannot be secured and maintained for 3<sup>rd</sup> Quarter 2014 due to actions contributing to the achievement of the set Activities 24.2, 24.3 and 24.4 were not prepared. Based on this result, relevant general departments need to prepare some actions to support Activities 24.2, 24.3 and 24.4 aimed at introducing the tools and mechanism to increase the responsibility and accountability as specified in the Stage 2 New consolidated action plan.

## **5. Strengthen and improve budget comprehensiveness and integration**

Improving budget comprehensiveness and integration can be carried out through Objective 32 of Part 3 which is about Activities for the Next Step of CAP2, implementing two priority activities. Due to the fact that this objective is yet to be achieved, it will be undertaken in CAP New.

In this objective, two priority activities are implemented. The Priority Activity 25.1 is preparing policy for budget integration; continuing to integrate current and capital budgets by continuously adopting Medium Term Expenditure Framework (MTEF), Budget Strategy Plan (BSP) and Budget Program (BP); reflecting poverty reduction aspect and gender in the Guideline on Budget Strategy Plan and program-based budget. The Priority Action 25.2 is continuing to put income outside budget into annual budget, gradually depositing funds from development partners into annual budget. In overall, according to activities performed in the third quarter of 2014, this objective has completed by 100%, in which Priority Action 25.1 doesn't reach the time to be implemented and Priority Action 25.2 has finished by 100% with Financial Reform Indicator prepared.

As per activities and results achieved, it is concluded that strengthening and improving budget comprehensiveness and integration are still maintained for the third quarter of 2014, aimed at ensuring consistency and planned budget; however, budget comprehensiveness and integration are still not fully completed. This result indicates the necessity that relevant general departments shall continuously make an effort to effectively implement the two priority actions, especially integrate current and capital budget from development partners into annual budget.

## **6. Strengthen internal audit and inspection**

Strengthening internal audit and inspect which is the Objective 26 of financial accountability is no difference from CAP 2, in terms of objectives and priority actions.

The Objective 26 of financial accountability has determined and introduced four priority actions by focusing on internal audit and inspection. The Priority Action 26.1 is fully operating Internal Audit Unit in all ministries and institutions; the Priority Action 26.2 improving mechanisms to ensure effective response to results of audit and inspection in budget units; the Priority Action 26.3 organizing and improving audit/inspection annual plans of ministries and institutions, based on risk assessment criteria recommended by MEF; and for 26.4, MEF will review and improve the adequacy of audit/inspection report. In overall, according to completed activities, this objective has reached 80%. Instead, the activities lower than 50% are Priority Action 26.3.

In the meantime, according to the result from the four indicators of Objective 26's priority action for the third quarters of 2014, three indicator has reached the goals:

1. Audit authorities at ministries and institutions which are yet to be established has been formed in accordance with the procedures/ criteria and guidelines of the Department of Internal Audit of MEF
2. Mechanisms and procedures to consult and improve audit and inspection report of ministries and institution are created and implemented
3. Annual audit and inspection plans of ministries and institution have been developed

In particular, Priority Action 26.2's indicator in the third quarter of 2014 is seen difficult to be measured and implemented because the indicator of the action designed to support this Priority Action is not adequate, neutral and consistent.

In conclusion, strengthening internal audit and inspection is maintained in the third quarter of 2014. Nonetheless, it can't reach the stability as needed. This result reflects the necessity to continuously develop the full process of internal audit in all ministries and institutions, design annual audit/inspection improvement plans of the ministries and institutions, review the adequacy of audit/inspection reports and especially improve mechanism to effectively respond to audit/inspection in budget units.

### **Part 3: Preparedness for the Next Step**

Part 3: Preparedness for the Next Step in CAP 2 New is supported by four objectives and 19 priority actions and in CAP 2 by two objectives and five priority actions. The four objectives include: 31. Strengthen and expand program-based budget implementation, 32. Prepare and introduce accountability system (between the legislature and executive, MEF and ministries-intuitions and in the framework of ministries and institutions), 33. Strengthen and prepare policy and public financial institutions and 34. Strengthen centralized financial policy. Amongst the four objectives in CAP 2 New, there is only Objective 31 which is not different from CAP 2. Besides this, Objective 32 was formed to support the process of full budget program implementation and the introduction of budget units in ten ministries in 2014. Objective 33 was also newly created to solidify macro-economic policy and long-term public financial budgeting. In particular, Objective 34 on the preparation of centralized financial policy and strategy is shifted from Part 2 of CAP 2 to Part 3 of CAP 2 New which is the preparedness for the next step in order to reach the implementation of Stage 3: improving budget linkages to policy, focusing on the implementation of centralized financial policy.

Overall, according to achieved Objectives, this part has accomplished by 75%, in which the first objective is 65%, the second objective 70%, the third objective 83% and the fourth objective 80%. Noticeably, the priority actions reaching less than 50% are 31.1, 32.2, 32.4, and 34.6. At the same time, if looking at the result of the four objectives' indicator, strengthening and supporting preparedness for the next step, the determined indicator was accomplished; however, it is necessary to organize activities and indicators to support priority actions unsuccessful priority actions.

To sum up, Preparedness for the next step is still maintained for the third quarter of 2014, but it cannot reach desired goals. This result reflects the necessity to strengthen, organize and introduce accountability system (between the legislature and executive, MEF and ministries-intuitions and in the framework of ministries and institutions) and strengthen and prepare policy and public financial institutions with a view to successfully and sustainably being prepared for the next step.

### **1. Strengthening and expanding the implementation of budget program**

Strengthening and expanding the implementation of budget program which is the Objective 32 of the Part "Preparedness for the next step" are not different from CAP 2 in terms of objectives and priority actions.

The first objective of the Part "Preparedness for the next step" has two priority actions: 31.1 is to review and improve program-based budget implementation, 31.2 to design the strategy to expand program-based budget and 31.3 to implement training and capacity building plans for program-based implementation. In conclusion, based on activities achieved in the third quarter of 2014, this objective was accomplished by 64%, in which prepared activities of Priority Action 31.2 does not reach the implementation period. Furthermore, the Priority Action achieved less than 50% is 31.1.

Also, as per the three indicators' result in the priority actions of the first Objective for the third quarter of 2014, it is indicated that one indicator reached the goal, teaching documents on budget program shall be updated to implement training and capacity building plans for program-based budget implementation.

In Particular, indicator of Priority Action 31.1 which is not achieved is on "the Draft Guidelines on program-based budget expenditure procedure is organized". Failing to reach the goal is due to fact that preparation preparing activities and identifying indicators are not accurate yet (inadequate time). Indicator of Priority Action 31.2 does not reach the implementation period.

In conclusion, strengthening and expanding program budget implementation is still maintained for the third quarter of 2014, yet it has not reached the desired goal, owing to the delay of draft guidelines. This result reflects the necessity to strengthen the preparation of the Guidelines on program-based budget expenditure procedure, so it can be submitted to the leadership for approval on time at the end of 2014.

### **2. Prepare and introduce accountability system (between the legislature and executive, MEF and ministries-intuitions and in the framework of ministries and institutions)**

Objective 32 was established in CAP 2 new to support the process of full budget program implementation and introduction of budget units in 10 ministries in 2015.

This objective has six priority actions, focusing on preparing and introducing accountability system through Priority Action 32.1, reviewing and amending law and regulations which determine roles and responsibility for the government public financial management; through 32.2, clearly identifying accountability line in annual budget preparation and public investment programs and determining clear responsibilities of each ministry and institution such as MEF, the Ministry of Planning and the Council of the Development of Cambodia; through 32.3, identifying budget units at the national and sub-national level; through 32.4, determining responsibilities at all levels; through 32.5, compiling and publishing guidelines which explain empowerment and responsibility to budget units and budget managers and disseminate this through training course and seminars; through 32.6, improving organizational structure which can respond to the new working system and continue to send financial inspectors to ministries and institutions by clearly setting out the roles in centralized framework. Overall, based on activities achieved in the third quarter of 2014, this objective has accomplished by 70%, in which Priority Action 32.1 does not reach the implementation period. Remarkably, activities of priority action 32.2 and 32.4 are not prepared.

At the same time, considering the achieved outcome of the six indicators of Objective 2 Activities for Quarter 3 2014, there are two indicators that achieved the target.

- 1- The working group for studying expenditure items shall delegate financial controllers to endorse payment warrant;
- 2- Assessment policy to identify budget entity for budget implementation institutions and ministries was established.

In particular, the indicators of other four Activities have not been achieved as the target because it is not the time to implement the prepared indicator of Activities 32.1; the indicators of the Activities 32.2 and 32.4 cannot be measured as the activities and indicators had not been prepared and the indicator of Activities 32.5 could not achieve the set target.

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 ministry and institution) could not guarantee and abide by the set target of the 3<sup>rd</sup> Quarter 2014 because the preparation of activities and indicators were not accurate and inconsistent with the needs of the set Activities and objectives in the consolidated action plan Stage 2 in particular Activity 32.2 which determined a clear accountability line in preparing the annual budget and the public investment program; Activity 32.4 identify management responsibilities at all levels and Activities; and 32.5 preparation and circulation of guidelines which explain the empowerment and responsibility of the budget entity and budget manager. The result reflects the necessity of revising the activities to respond to Activities 32.2, 32.4 and 32.5 of Objective 2, the preparation for next step activities as specified in the consolidated action plan, Stage 2 New.

### **3. Strengthen the preparation of policy and public financial plan**

Objective 33 of this section was newly established in the CAP 2 New aimed at strengthening the preparation of macroeconomic policy and long-term public financial plan in which this work has also been specified in the CAP 2 but only for short-term.

This objective comprises of three Activities focusing on strengthening the preparation of policy and public financial plan through Activities 33.1 strengthening the capacity in

preparation and increase the efficiency and effectiveness of macroeconomic policy framework; 33.2 strengthening the capacity in preparation and increase efficiency and effectiveness of the medium term expenditure framework and 33.3 strengthening the capacity in analyzing and forecasting the economic and financial conditions. All in all, based on the completed activities this objective has been achieved up to 83% in which Activity 33.1 and 33.3 were achieved 100% and Activity 33.2 was achieved 50%.

Meanwhile, if we look at the achievement of the three indicators of Activities of the objective 33 of 3<sup>rd</sup> Quarter 2014, we found out that the three indicators were not able to achieve as set target as below:

- 1- Economic and financial data and statistics are being continued to collect and compile
- 2- The medium term expenditure framework for 2012-2014 was reviewed and determined the shortfall in improvement through the Top-Down Approach
- 3- The study on macroeconomic model equation has been finalized and the analytical form and GDP data has been compiled.

Failing to achieve the aforementioned three indicators was due to some difficulties in collecting data as well as its consistency and accuracy and the time constraint in implementing such activities.

Therefore, we can conclude that strengthening on the preparation of policy and public financial plan could not be maintained and achieved for 3<sup>rd</sup> Quarter 2014 due to the fact that the defined supporting activities contribute to the achievement of Activities 33.1, 33.2 and 33.3 were not implemented as scheduled. This result reflects the necessity in strengthening the capacity to prepare and increase efficiency and effectiveness of the macroeconomic policy framework, continue to strengthen the capacity to prepare and increase efficiency and effectiveness of the medium term expenditure framework and continue to strengthen the capacity in analyzing and forecasting the economic and financial conditions.

#### **4- Strengthening the financial decentralization policy implementation**

The preparation of policy and financial decentralization strategy has been implemented in the objective 27 of the financial accountability in CAP 2 through the implementation of the eight Activities. Separately, in the CAP 2 New, this objective is defined in the third section, the preparation for next step activities in order to initiate the implementation of stage 3 i.e. to establish the linkage between budget and policy focusing on the strengthening of financial decentralization policy implementation as this policy and financial decentralization policy had already been prepared in the consolidated action plan stage 2.

This objective consists of seven Activities such as: 34.1 continue to prepare the royal decree, Prakas, circular, directive required by law on financial regime and property management of sub national administration, 34.2, prepare and implement the policy on financial decentralization for medium and long term, 34.3, establish and improve the instruments, supporting governance and public budget implementation of sub national administration, 34.4, study, prepare and implement direct revenue collection of sub national administration, 34.5, establish the investment instrument for sub national investment facility (SNIF) 34.6, prepare budget strategic plan from subnational administration and 43.7, prepare capacity building for both national and sub national officials especially the implementation of FMIS.

In sum, based on the actions achieved in 3<sup>rd</sup> Quarter 2014, it achieved 80%. Anyway, the Activities achieved less than 50% are the Activities 34.6.

Meanwhile, if we look at the achievable result of the seven indicators of the Actions in the 4<sup>th</sup> objective for 3<sup>rd</sup> Quarter 2014 found that there are four indicators of the Activities: 34.3, 34.4, 34.5 and 34.7 achieve the target as following:

1. The regulation on preparation and existing budget implementation of sub national administration has been modified and determined.
2. The policy draft on direct revenue collection of sub national administration has been prepared.
3. The conceptual draft on investment instruments of sub national administration has been arranged.
4. The capacity building plan for national and sub national officials especially the implementation of FMIS has been finalized.

In particular, the two indicators that failed to achieve its target are: 1, the various regulations has been prepared, approved and published to implement and 2, the guideline draft on preparation of the budget strategic plan for sub national administration has been prepared. Failing to achieve the target due to the time constraint and the capacity of the officials are still limited in preparation the document. On the other hand, the indication of the Activities 34.2 is not yet to implement for 3<sup>rd</sup> Quarter.

So according to the assessment of action and result achieved, we conclude that strengthening the financial decentralization policy implementation is still keep its target for 3<sup>rd</sup> Quarter 2014 even though the action implementation and some Activities are still slow and cannot achieve the targets. This result reflects the necessity that requires more effort especially to finalize the draft law on budget strategic plan for sub national officials. To achieve this indicator the relevant general departments shall request additional technical assistances from the budget general departments or financial general secretariats.

#### **Section 4: Supporting for successful and sustainable reform program implementation**

Section 4 established for supporting to successful and sustainable reform program implementation through two objectives including 41, increase leadership, management capacity and build will of reform as well as increase ownership and responsibility and 42, increase effectiveness and capacity building and encouragement measure. Each objective was supported by two implementation Activities. The objective 41 is the one that has been established in CAP 2 New aimed at to increase leadership and management capacity and build reform will as well as increase leadership and responsibility of the institution, unit and civil servants. Anyway, the objective 42, which focusing on increasing the effectiveness of the capacity building and encouragement measure is not different from CAP 2 but this objective is different in the Activities regarding the point CAP 2, supporting Activities t up to 10 have been trimmed into two, Activities in the CAP 2 New.

In sum, focusing on the achievable objective, this section achieved 91% in which the objective 1 can be achieved 100% and the objective 2, 82%. Meanwhile, if we look at the achievable result of indicator in both objectives for supporting the successful and sustainable

reform program implementation that can achieve by its target for the determined indicator but need to prepare the action and indicator in order to support the Activities and objective to be enough, perfect and consistent.

So we conclude that supporting to the successful and sustainable reform program implementation can be kept for 3<sup>rd</sup> Quarter 2014 but it is not leading to achieve its wanted target. This result can reflect the necessity in strengthening enough and management leadership and increase will of reform, ownership and responsibility and review the effectiveness and efficiency of the training and the new capacity building plan.

### **1. Increase leadership, enough capacity, and reform will as well as increase the ownership and responsibility**

The objective 41 of the supporting section to successful and sustainable reform program implementation has two Activities including the Activities 41.1, strengthening leadership and management capacity and 41.2, increase will of reform in leadership and responsibility. All in all, if we focusing on the achievable action this objective can be achieved 100%.

Meanwhile, if we look at the achievable result of the two indicators regarding the Activities of the objective 1 for 3<sup>rd</sup> Quarter 2014 found that enough capacity has been increased through preparation the referring conditions from job and internal regulation as well as training and participation in the workshop. As for will of ownership and responsibility also seen through participating from general department/unit in the public financial management reform program especially action plan preparation of the general departments/unit to respond to consolidated action plan in stage 2 new. The will of ownership and responsibility has been expanded through establishing working group and guideline/form for monitoring and evaluating the achievement. The prepared action indicator although achieves the target in 3<sup>rd</sup> Quarter 2014, but it is yet to respond to the indicator of the determined Activities.

So we conclude that the increase of leadership, management capacity and will of reform as well as ownership and responsibility can be kept for 3<sup>rd</sup> Quarter 2014 that is not lead to the wanted target stability. Through this result it also reflects the necessity in strengthening and improving the action plan preparation to be perfect and consistent in order to respond to the Activities 41.1 and 41.2 with the objective to support the reform program implementation.

### **2. Increase the effectiveness and capacity building and incentive measure**

The objective 2 of the supporting section to the successful and sustainable reform program implementation have two Activities including Activities 42.1, review the effectiveness and efficiency of the training and prepare new capacity building and 42.2, review the mechanism and approach of providing past incentive and prepare the mechanism and new approach in providing incentive in equal and consistent manners. In sum, based on the achievable action the objective can be achieved 82%.

Meanwhile, if we look at the achievable result of the two indicators regarding the Activities of the objective 2 for 3<sup>rd</sup> Quarter 2014 found that the efficiency of the training and new capacity building plan has been supported by preparing the training document. The mechanism and new approach on providing incentive which has equity and consistency were established by regulations namely Prakas No. 616 SHV. BK dated 04 June 2014 and directive No. 008 on the implementation the Prakas No. 616 SHV BK as well as creating committee for evaluating achievement and incentive of the Ministry of Economy and Finance and the

committee for evaluating achievement and incentive of the general department/unit. But the indicator of the action which supporting the indicator of Activity 42.1, training requirement and previous training were prepared and evaluate that are not perfect and enough due to the previous training is not evaluated mechanism and joint methodology of the training evaluation of the general department/unit under the Ministry of Economy and Finance in the future that are not prepared.

So, in sum, we conclude that increase effectiveness of the capacity building and incentive measure can be kept for 3<sup>rd</sup> Quarter 2014 that is not lead to stability to what wanted target. This result reflects the priority in preparing the evaluating the achievement of the previous training and preparation of mechanism and methods to evaluation training requirement of general departments/units under the supervision of MEF with the purpose of supporting sustainable and effective reform.

#### **IV. Challenges**

- Lack of capacity to design a model to project income of revenue collecting unit;
- Economic and Public Finance Policy Department is not well informed by the General Department of Taxation and General Department of Customs and Excise of Cambodia in order to improve income projecting model;
- Lack of data to analyze sustainable debt
- Work procedures and procurement are too slow
- Slow preparation of to-be business process procedure and FMIS impact assessment documents
- Lack of FMIS contractor's capacity for preparing FMIS project
- Limited capacity of officials in preparing a guideline on the preparation of budget strategic plan for subnational administration.
- Preparing actions and setting indicators are not fully accurate and consistent with defined Activities and objectives
- Effective and efficient trainings and capacity building plan
- Lack of due diligence for work reform (late and poor report)
- Cooperation and information exchange as well as coordination between units and institutions are not effective and efficient.

#### **V. Recommendation**

- Request for quarterly progress report on time
- Separate daily work from reform work



- Independent of action plan
- Newly established general department made up of integrated department/units shall prepare internal coordination mechanism to support reform work
- Performance evaluation on training program of general departments/units should be prepared
- Should prepare actions and indicators that are not accurate and consistent with Activities and objective set forth in consolidated action plan Stage 2 (CAP 2 New)
- Shall review the re-organization of FMIS project leading to preparation and introduction of (Go Live) FMIS project in July 2015 as determined.

## **VI. Conclusion**

Overall, progressive report for the third trimester in 2014 showed that the implementation of activity plan of public financial management reform program in the third trimester in 2014 still can be maintained even though it didn't achieve goal of key performance inclusively. This result came from the effort of public financial management steering committee and it also highlighted some challenges needed to be solved urgently in the purpose of achieving determined key performance for consecutive trimesters and key performance indicator of activity plans as a whole as well.

So we can conclude that the public financial management reform program is still on the right track as planned. Meanwhile, the public financial management reform program which is more comprehensive and complicated demand to resolve immediately and change the ineffective way of working in line with the program budget implementation starting in 2015. Based on experience from the past reform program, the implementation shows that leadership and management capacity, efficiency of using of the officials are still limited. This demands to delegate function and tasks more appropriately and clearly as well as policy implementation such as strict discipline which is a foundation to ensure good performance, efficiency and effectiveness. On the other hand, ownership, responsibility and accountability were deemed as the key principle for this stage.

Finally, in performance of duty, leading, preparing, coordinating, monitoring and overseeing the public financial management reform program from the Royal Government as well as coordination, the cooperation with relevant developing partners, steering committee for public financial management reform commit to continue to implement in order to achieve the action plan which are the key tools for supporting the success of the stage 2 to move forward to implement the stage 3, budget connection to the policy by taking "result or performance" which is an approach of action implementation in a good governance target that is the core of Rectangular strategic plan phase 3.