

*Unofficial Translation*

**Ministry of Economy and Finance**

**General Secretariat of Public Financial Management Reform Steering Committee**

**Progress Report**

**Third Quarter, 2015**

**Implementation of Consolidated Action Plan, Stage 2 New**

December 2015

# Content

I. Introduction.....	2
II. The Achieved Results .....	2
III. Challenges .....	17
IV. Recommendation .....	17
V. Conclusion .....	17
Appendix A: Progress Report, Third Quarter, 2015	

## I. Introduction

Public Financial Management Reform Program (PFMRP) 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 PFMRP 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.

There are 2 methods for evaluating the progress of the implementation of consolidated action plan:

1. For activities: Achieved work activities compared to plan
2. For indicators: Achieved results compared to targeted indicators.

In addition, there are 4 levels of evaluation:

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

## II. 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 expenditure plan which are supported by 14 activities.

In overall, this part has achieved 76% of which the objective #11 and #12 have achieved less than 80% while the objective # 13 and #14 are in good grade.

## 1. Results of Key Performance Indicators

Indicator	Targets	Third quarterly Progress for 2014	Third quarterly Progress for 2015
1. Total domestic revenue out-turns increasingly close to approved targets under the financial laws.	Total domestic revenue achieves +/- 5% compared to the approved targets under the laws.	<p>Achievement of Domestic revenue:</p> <input type="checkbox"/> Third quarter: 76.7% <ul style="list-style-type: none"> <li>• Recurrent Revenue: 78%</li> <li>• Capital Revenue: 16.7%</li> </ul> <p>Achievement of Revenue collection versus Q3 plan:</p> <ul style="list-style-type: none"> <li>• Custom and Excise: 114.26%</li> <li>• Tax: 119.05%</li> <li>• State property: 89.93%</li> <li>• Financial Industry: 123.83%</li> </ul>	<p>Achievement of Domestic revenue:</p> <input type="checkbox"/> Third quarter: 77.4% <ul style="list-style-type: none"> <li>• Recurrent Revenue: 77.7%</li> <li>• Capital Revenue: 53.8%</li> </ul> <p>Achievement of Revenue collection versus Q3 plan:</p> <ul style="list-style-type: none"> <li>• Custom and Excise: 102.5%</li> <li>• Tax: 96.9%</li> <li>• State property: 115.46%</li> <li>• Financial Industry: 114.17%</li> </ul>
2. No accumulation of new arrears	Arrears are required to be 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	<p>Expenditure must not be less than:</p> <ul style="list-style-type: none"> <li>- 1st Quarter: 15%</li> <li>- 2nd Quarter: 45%</li> <li>- 3rd Quarter: 67%</li> <li>- 4th Quarter: 96%</li> </ul> <p>Percentage of payments to creditors and staff made through banking system must not be less than 80% of total expenditure.</p> <p>Percentage of revenue collection through banking system must not be less than 60% of total expenditure.</p>	<p>National budget expenditure achieves in:</p> <input type="checkbox"/> First quarter: 15.6% <input type="checkbox"/> Second quarter: 33.2% <input type="checkbox"/> Third quarter: 56% <p>The payment through banking system achieves:</p> <input type="checkbox"/> Third quarter: 100% <ul style="list-style-type: none"> <li>▪ 36 line ministries used payroll service via banking system.</li> </ul> <p>Third quarter:</p> <ul style="list-style-type: none"> <li>• Custom &amp; Excise revenue via banking system: 92% was collected from household and 8% from officials.</li> <li>• Tax revenue collection via banking system: 87.1% was directly paid by taxpayers and 12.9% was made by officials.</li> </ul>	<p>National budget expenditure achieves in:</p> <input type="checkbox"/> First quarter: 15.4% <input type="checkbox"/> Second quarter: 30.4% <input type="checkbox"/> Third quarter: 57.4% <p>The payment through banking system achieves:</p> <input type="checkbox"/> Third quarter: 100% <ul style="list-style-type: none"> <li>▪ 37 line ministries used payroll service via banking system.</li> </ul> <p>Third quarter:</p> <ul style="list-style-type: none"> <li>• Custom &amp; Excise revenue via banking system: 92.6% was collected from household and 7.4% from officials.</li> <li>• Tax revenue collection via banking system: 98.9% was directly paid by taxpayers and 1.1% was made by officials.</li> </ul>

Indicator	Targets	Third quarterly Progress for 2014	Third quarterly Progress for 2015
4. Expenditure by category (Staff Charge) is close to approved budget.	Actual expenditure compared to the approved budget must not be less than: - Salary: 98% - Goods/Services: 95% - Capital: 85%	National budget expenditure achieved: 3rd Quarter: - Salary: 74.5% - Goods/Services: 43.5% - Capital: 62.4%	National budget expense achieved: 3rd Quarter: - Salary: 72.2% - Goods/Services: 41.3% - Capital: 49.0%
5. The tax-based yield is more efficient through the improvement of collection and the non-tax revenue-based expenditure plan.	The total revenue collection is yearly increased by 0.5% of GDP.	Third quarter: <input type="checkbox"/> Tax Revenue: 80.3% • Direct Tax: 88.1% • Indirect Tax: 75.2% <input type="checkbox"/> Non-tax revenue: 65.1%	Third quarter: <input type="checkbox"/> Tax Revenue: 80.9% • Direct Tax: 95.9% • Indirect Tax: 76.2% <input type="checkbox"/> Non-tax revenue: 57.1%
6. All significant areas of both public revenue and expenditure are captured in both the budget and accounts of the government.	No significant areas of omission.	- Third quarter: 81 total accounts.	- Third quarter: 82 total accounts.

❖ **The domestic revenue collection has been increased because of:**

- Based on the data of General Department of National Treasury (GDNT), General Department of Custom and Excise (GDCE) has collected the revenue in this quarter for 102.5% against plan which is accounted for 25.79% of budget law 2015. However, according to the data of own GD, they have achieved 121.06% against plan because of the efficiency of monitoring tool, and of implementation on the custom&excise revenue collection and penalties of non-tax (existing) vehicles.

- General Department of Taxation (GDT) has collected the revenue in this quarter for 96.9% against plan, which is 24.02% of budget law 2015 (based on the data of GDNT). However, according to their own department, they have achieved for 98.64% against plan which is mainly contributed from the income tax collection (110.28%) and property income tax collection (164.98%).

- General Department of Financial Industry (GDFI) has collected the revenue in this quarter for 114.17% against plan, which is 28.39% of budget law 2015 (based on the data of GDNT). However, according to their own department, they have achieved for 113.43% against plan which are mainly contributed from the revenue of license fee of new casinos.

- General Department of State Property and Non-Tax Revenue (GDSPNTR) has collected 115.46% against plan, which is 25.14% of budget law 2015 (based on the data of GDNT). However, according to their own data, they have achieved 116.72% because of the revenue growth of forest/land concession, confiscation of illegal forest tradings, mine concession, and telecom service and freight fee.

❖ **The national expenditure:**

- It is achieved by 57,4% against plan which is 1.4% greater than the result in Q3 previous year. It can be explained that the expenditure and cash plan is more efficient.

❖ **The expenditure by category:**

- For staff charge, it is approachable to the plan which accounts for 72.2% in this quarter but it is slightly decreased for 2.3% comparing to last year result of the same period.
- For goods and services, it was achieved for 41.3% against plan but it is decreased for 13.4% comparing to last year result of the same period.
- For capital, it was achieved for 29% against plan but is decreased for 13.4% comparing to last year result of the same period.

❖ **The recurrent revenue:** It has been increased for 13.1% in this quarter due to the fiscal revenue collection is increased for 16% that is contributed by:

- Custom revenue: for 10.1% increased
- Tax revenue: for 22.3% increased
- Other fiscal revenue: for 26.1% increased

## **2. Outcomes of Key Activities in Furthering Budget Credibility Enhancement**

Besides, the above 6 key performance indicators which are the key highlights of the progress of implementation to strengthen the budget credibility, there are other key activities being planned to ensure the performance of this pattern which is mainly referred to the improvement of the financial accountability which is the strategic objective of this PFMRP stage 2.

These activities have been planned under 4 objectives and 14 activity groups to enhance budget credibility which is one of the most important parts of PFMRP Stage 2 New.

The results of these activities have been described as following:

### **2.1 Strengthening Revenue Management and Implementing Revenue Collection**

Objective 11 of the budget credibility consists of 4 activities. As the result, this objective has achieved 62% of the target in which the activities 11.1, 11.2, 11.3, and 11.4 have reached 60%, 45%, 81% and 62% of the set plan respectively. In addition, key highlight 3 indicators of the above 4 activities have been completely done against plan as follows:

1. Revenue projection model is more comprehensive and has been reviewed by Fiscal Affair Department of IMF.

2. The data format has been reformed and the centric data program has been rolled out.
3. Drafted Prakas on “De-registration for enterprises that are missed or do not declare the recurrent tax payers, and the accuracy improvement of the list of tax payers of legal enterprises” has been finalized by GDT.

On the other hand, the other 8 indicators have not been achieved as below:

1. Evaluation Report on the implementation of Revenue Management Strategy (RMS) has not been prepared.
2. Projection model of GDT and GDCE has not been prepared.
3. Drafted law on “Tax of the operation of petroleum and gas” has not been discussed in inter-ministerial meeting.
4. Drafted law on “Tax of the operation of natural mineral resources such as gold, charcoal, and copper” has not been discussed in inter-ministerial meeting
5. 84% of tax payers who are required self-declaration have achieved only 43%.
6. Drafted law on “state property management” has not been submitted for approval of the council of ministers.
7. Drafted law on “non-tax revenue management” has not been submitted for approval of the council of ministers.
8. Drafted law on “Casino management” has not been submitted for approval of the council of ministers.

Based on the above results, the key challenges for not achieving the target indicators are explained by the preparation of action plan and identification of indicators have not been discussed clearly within the implementing agencies of GDCE and GDSPNT, which requires the full collaboration. In addition, the General Department of Economics and Public Finance Policy (GDEPPF) has slow progress in preparing the evaluation report on implementation of RMS, as well as the GDT was challenging in changing the behavior of tax payers from lump-sum-based tax payment to real tax payment because of the complexity of tax declaration process, family-based businesses, unclear financial reports, and limited understanding on the accounting management. Moreover, lack of the technical assistance and expertise in preparing the revenue projection of the GDT and GDCE.

The target objective of the revenue collection which must be around +/-5% of the plan is not achievable in this quarter.

In brief, the enhancement on revenue collection and its implementation have not been well achieved due to the projection is not accurate as well as the speed of supporting activities is still slow which requires the participation from all relevant stakeholders to achieve the targets.

## **2.2 Strengthening Debt Management**

Strengthening debt management which is the objective 12 of budget credibility consists of 3 activities. As result, there is only Activities 12.1 that has been reached the target by 100%. Interestingly, the Activities 12.2 is immeasurable due to no supporting activities have

been planned in this quarter and some activities have been accomplished since last quarter but reported in this quarter while the Activities 12.3 has no progress.

In addition, in terms of the target indicators, there is one indicator that has been achieved comparing to the plan; it is the preparation of third drafted Prakas on “manual and procedure for the public debt management policy and procedure of government guarantee”. However, another indicator related to final drafted bulletin to be prepared has not been achieved.

It can be therefore concluded that strengthening debt management was still maintained for the third quarter of 2015. This result reflects the importance of further efforts of relevant stakeholders for more effective debt management 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. As a result, the objective has been achieved by 95% in which 13.1, 13.2, 13.3, and 13.4; is 100%, 100%, 87% and 93% respectively.

Regarding the achieved indicators, there are two as followings:

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 studied.
2. The national 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.

On the other hand, the other two indicators which have not been achieved (1) the improvement of the daily, weekly, and quarterly cash flow management report and monitoring cash management due to the training on Online Web-Based Application to line ministries is planned in quarter 4 because of there are many changes in the system which is required more time for pilot test and the gap of cash inflow is around 9,42% and of cash outflow is around 14,03% in average; and the error level of projection on revenue and expenditure is between 3.6%<X<15.2% for cash inflow, and -7.7%<X<-20.3% for cash outflow; (2) the implementation of the integration plan is on track, although it is not 100% due to lack of enough time for both GDNT and GDB to achieve the DMFAS system, during the budget preparation stage of the line ministries for the year 2016.

In overall, it is concluded that the strengthening cash and accounting management can be maintained in the third quarter of 2015 and will be reaching the stability due to the Online Web-based Application has been prepared while only await for the training to line ministries since the last quarter of 2015, as well as the efficiency level of cash projection is maintained reaching the level of accuracy. Moreover, the payroll through banking system and non-TSA account management will become the routine task for GDNT.



## **2.4 Improving the Budget Implementation and Strengthening the Implementation of Spending Plans**

Objective 14 of the budget credibility consists of 3 activities. As result, this objective has reached 80% of the target in which Activities 14.1, 14.2, and 14.3 have achieved 66%, 75%, and 100% respectively.

In terms of target indicators, there is only one achieved indicator of this objective; it is the implementation of expenditure payment due to the GDNT has improved the quality and efficiency of the P.O monitoring, and the compliance of procedure with the financial manual.

However, two indicators have not been reached the target:

1. Drafted sub decree and other prakas are required to be approved and released while the fact is different such as the drafted sub-decree on “the complaint procedure and the trouble shooting procedure relating to legal conflict” has just lately submitted by the General Department of Public Procurement (GDPP) to the legal department of MEF. The other prakas related to the contract pricing amendment, other prakas related to the procurement have not been prepared. Furthermore, the drafted manual on “the implementation rule and regulation of public procurement (IRRPP)” has been just reviewed and adjusted for 3 chapters because of the time constraint and lack of commitment of relevant officials of GDPP. As well, the improvement on standard bidding documents (SBDs) has slow progress and therefore it should have the enforcement tool to develop the public procurement management information system (PPMIS) by releasing the first draft manual of PPMIS before submitting for approval from top management.
2. Final drafted operational manual for investment project preparation and implementation which is to be done in this quarter has been completed the 2<sup>nd</sup> draft by the General Department of Budget (GDB). Advance should be paid for 70% in this quarter however it reach only 36%. Hence, GDB should reinforce the payment to reach the level at least 70% at the end of the year.

Therefore, the improvement on budget implementation and strengthening spending plans could not be achieved by plan of this quarter because (1) internal control of responsible department towards these set activities is limited and their set indicators have not been clear which are not responded to the set Activities and objectives, (2) the lack of cooperation among relevant general departments (GDB & GDPP) to update the procurement manual on “the Implementation rule and Regulation of Public Procurement (IRRPP) by harmonizing with Standard Operating Procedure (SOPs)”, (3) the lateness in establishing public procurement management IT system (PPMIS), and (4) the lateness in improving the effectiveness of payment operation of GDNT.

## **Part 2: Financial Accountability**

In section 2 of CAP 2 New, financial accountability is improved by set 6 objectives such as introduction of new budget contents and new Chart of Account (CoA); introduction of new budget system and new operational process; introduction of new accounting system, recordings, 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.

As result, this section achieved 83% in which there is no objective has been 100% while 4 objectives have been achieved more than 80%, 1 objective less than 80%, and another 1 objective immeasurable. Among the 25 Activities, there are 15 Activities achieving more than 80%, 4 Activities achieving more than 50%, 2 Activities achieving less than or equal to 50%, and 3 Activities immeasurable.

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

Objective 21 of Financial Accountability consists of 4 activities. As result, this objective has been achieved by 90% in which the activities 21.1, 21.2, 21.3, and 21.4 have been achieved by 93%, 95%, 100%, and 70% respectively.

In terms of target indicators, 3 indicators have been accomplished as followings:

1. All data and the operation outside the national treasury system are continuously integrated into the government accounting system.
2. Administrative classifications have been reviewed and improved and ready to launch the geographical classification.
3. The information related to functional structure and services of the ministries and institutions has been updated.

Two indicators that have not reached the target are:

1. The launch on the implementation of prakas on economic classification for sub-national administration while this prakas has just been drafted and not been discussed within the relevant stakeholders.
2. Preparing the IPSAS report and the on-going preparation on cash-basis accounting standard. The key challenges are the complexity of data collection and data migration into IPSAS report while the current data base is not well responded to the needs of the IPSAS system.

To sum up, it is concluded that the readiness of implementation of new budget content and new chart of account is still on track in this quarter although some indicators have not been achieved.

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

The improvement of 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 quarter is not noticeably far different from the implementation of the previous quarter of 2015 through the introduction of activities and indicators, especially the introduction of FMIS system. On the other hand, the Activities of 8 objectives in CAP 2 shall be tailored to seven in CAP 2 New including: 22.1 further shortening the time for expense commitment and payment in the ministries and institutions; 22.2 improving MEF/line ministries in consistence with new CoA and accounting

standard as well as verifying the bank account regularly; 22.3 raising the awareness of participation and increasing ownership and capacity of FMIS to MEF, line ministries and sub national administrations; 22.4 building the FMIS project management capacity including MEF, line ministries, and sub national administration; 22.5 preparing consolidated implementation plan (piloting and expanding) including MEF, line ministries, and sub national administrations; 22.6 planning and preparing trainings as well as the training documents for further training to officials of FMIS at MEF, line ministries, and sub national administrations; and 22.7 piloting first step implementation and FMIS expansion (core module and budget module).

As the result, this objective has been achieved by 85% in which the Activities 22.1, 22.2, 22.3, 22.4, 22.5, 22.6, and 22.7 have been achieved 96%, 89%, 81%, 81%, 91%, 100%, and 76% respectively.

According to above result, it can be explained that the Activities 22.1, 22.2, 22.4 and 22.6 are essentially maintained comparing to the last quarter, in which there are 41 Activities of this objective have been reached 100% comparing to the plan; while only 17 Activities are under plan; because of the new expenditure concept-based FMIS has been studied and prepared, the pension fund has been paid on time, the capacity development for relevant officials has been improved and so on. However, some activities should be improved such as the launch of FMIS and implementation plan has not been well spread to the target implementers due to the FMIS installment plan has been changed.

In conclusion, based on the targeted Activities and indicators in Action Plan, Stage 2 New of the general departments/units, the introduction of new budget implementation system and new operation process is better and better which is accounted for the efficiency level of implementation. However, all relevant GDs of MEF who have the set activities and indicators supporting this objective should be accountable and improve to achieve the set target especially the launch of new budget system and the new operation process according to the FMIS implementation in July. In addition, all set indicators need to be reviewed and improved to ensure the achievement at the end of the year.

### **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, this objective has been achieved by 53% in which the activities 23.1, and 23.5 have been achieved by 75% and 32% respectively while the activities 23.3 and 23.4 are immeasurable.

In terms of target indicators, all indicators of this objective have not been reached the target:

1. The implementation of the action plan to improve current accounting process and case-based financial report has not been finalized and integrated into FMIS because of the late recruitment of technical assistant to help in the task.
2. The new consolidation of state property information nationwide is limited due to the registration of state property was achieved only 84% in national and sub-

national level, and public enterprise for 9 months have been received for 963/1152 entities. In addition, the preparation of state property management system has not been developed because there is no plan for budget.

All in all, it can be concluded that the introduction of new accounting, recordings, reporting and transparency systems are not yet secured and maintained for the third quarter 2015 because the activities contributing to the achievement of the Activities 23.3 have not been prepared, and the improvement of current accounting process and standard financial report on cash basis has not also been prepared, and (3) the registration of state property management has not been finished, and the state property management system has not been developed.

#### **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 88% in which the activity 24.1 has been achieved by 50%, activity 24.2, 24.3 and 24.4 have been reached 100% of the target.

In terms of target indicators, there is one indicator which has not been achieved. It is the manual on the preparation of the punishment mechanism for inappropriate public resource management of MEF.

In overall, it is concluded that the rollout of tools and mechanism to increase responsibility and accountability cannot be secured and maintained in this quarter because of activities supporting to develop the punishment mechanism for inappropriate public resource management has not been done comparing to the set target.

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

Objective 25 of Financial Accountability consists of 2 activities. These activities were immeasurable because there is no planned activity in this quarter. For the Activities 25.1 in which the indicator related to manual on improvement of BSP preparation, and the assessment criteria for BSP preparation have not yet done until this quarter because of time constraint while the plan is set to be done in Q2. However, for the Activities 25.2 in which the indicator related to the dissemination of circulation on annual BSP to integrate the recurrent budget, capital budget and public enterprise budget has been done since previous quarter and still reported in this quarter.

In short, strengthening and improving budget comprehensiveness and integration for the third quarter of 2015 have still been maintained although one indicator has not been achieved since last quarter until now because of the time constraint.

#### **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 line ministries; Activities 26.2 improving mechanisms to ensure effective response to recommendation of audit and inspection by

budget entities; Activities 26.3 organizing and improving annual audit/inspection plans of the line ministries based on risk assessment criteria recommended by MEF; and activities 26.4 regarding MEF will review and improve the adequacy of audit/inspection report.

For the implementation of the third quarter of 2015, this objective has been achieved by 100% in which the activities 26.1, 26.2, 26.3, and 26.4 have been achieved by 104%, 88%, 100%, and 107% respectively. According to this result, it can be explained that the implementation of the relevant GDs in this quarter are still on track because of 30 supporting activities have been reached 100% of the target due to the well implementation of General Department of Internal Audit (GDIA) and General Inspector (GI) over their set activities and indicators. However, there are still poor performance in some indicators such as the reinforcement of recommendation of internal audit is still not finished comparing to the target. Interestingly, It is a general remark for the GDIA and GI that have better improvement in this quarter.

In brief, based on the activity implementation, it can be concluded that strengthening internal audit and inspection has been improved and expanded at all relevant ministries and institutions by this third quarter; nonetheless, an essential and necessary task is to strengthen and to increase the effectiveness of internal monitoring and improve the implementation of relevant stakeholders based on audit recommendation in order to reach set target in next quarter.

### **Part 3: Readiness for Further Step**

Readiness for Further Step is supported by four objectives and 19 Activities. The four objectives include strengthening and expanding program budgeting implementation; preparing and introducing accountability system (between the legislature and executive, MEF and line ministries and internal line ministries); strengthening the preparation of policy and public financial planning; and strengthening the implementation of financial decentralization policy.

As result, this part has accomplished by 93%, in which one objective has achieved by less than 80% is objective 34. Furthermore, there are 13/19 Activities have been achieved more than 80%, 3 activities more than 50%, and other 3 activities are unable to be measured.

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

Objective 31 of Readiness for Further Step consists of 3 activities. As the result, this objective has been reached 100% of the target in which the Activities 31.2 and 31.3 have been done 100% while only 31.1 related to the review and improvement on the implementation of program budgeting is not measurable because most of supporting Activities have been planned in quarter 4 of 2015 such as the evaluation and recommendation for 10 line ministries that will implement Program Budgeting.

In terms of target indicators, there are two indicators have been reached the target:

1. 15 line ministries have been recommended for implementing program budgeting in year 2016 and some in previous year, and will be all in 2018.

2. Provided training on program budgeting to line ministries who are going to implement full PBs in 2016.

Based on the report of GDB, although there are technical support and supporting training program for PB implementation 2016 to line ministries, there are some LMs who are not ready to this PB implementation mechanism which still require more training to them as well as provincial municipalities.

In overall, it can be concluded that the implementation of program budgeting has been increasingly strengthened and expanded by the third quarter of 2015 although the implementation is not smooth yet and has faced some challenges. This result requires further efforts, especially to improve budget spending and implementation of program budgeting for LMs who are going to implement PB and needs more technical support including training especially to LMs that will implement full PB in 2016.

## **2. Preparing and introducing accountability system (between the legislature and executive, MEF and line ministries, and internal line ministries)**

Objective 32 of Readiness for Further Step consists of 6 activities. As result, this objective has been achieved by 75% in which the activities 32.1, 32.3, 32.5 and 32.6 have been achieved by 100%, 100%, 100% and 75% respectively. However, for the Activity 32.2, the related general department has not prepared the action plan to support while the activity 32.4 has been implemented in other activities, and GSC has decided to delete it from Consolidated Action Plan, Stage 3.

In terms of target indicators, there are 3 indicators that have been accomplished:

1. Legal advisory opinions in the framework of Public Financial Management Reform Program have been provided upon request.
2. Budget entities of 10 LMs implementing full program budgeting have been reviewed and prepared.
3. The legal framework for segregation of duties and responsibilities for budget entities of 10 LMs has been prepared and launched for implementation.

On the other hand, one indicator of activities 32.6 that has not been fully achieved is financial controllers of line ministries have not yet been delegated the level of authority and endorsement for expenditure commitment and payment order on some expenditure category and ceiling; this activity should be done since previous quarter. Furthermore, the indicators of activities 32.2 and 32.4 could not be measured because of the above reasons.

In brief, the preparation and implementation of the accountability system (between legislative and executive among MEF and line ministries, and internal line ministries) has not yet been fully implemented to reach the set target for this third 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 requires the further efforts especially on preparing the action plan and indicators in order to respond to activities 32.2. In particular, it is concluded that the segregation of duties of financial controllers of line ministries is not fully delegated.

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

Objective 33 of this part 3 consists of 3 activities. As result, this objective has been achieved by 99% in which the activity 33.1 has been achieved by 97%; the activity 33.2 has been achieved by 100%; and the activity 33.3 has been achieved by 100%.

In terms of target indicators, there are 3 indicators that have been reached the target as below:

1. The guideline for collecting feedback from the data and statistic information users has been prepared and implemented.
2. The technical and mechanism of TOFE/GFS which are implemented for ensuring the consistency with new CoA, fund information have been improved to be consistent with the revenue and expenditure data of sub-national administration by integrating into TOFE/GSF.
3. Macroeconomic model has been reviewed, and financial programming and policies model has been prepared.

Therefore, we can conclude that strengthening on the preparation of policy and public financial plan could be guaranteed and maintained in this third 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 Readiness for Further Step consists of 7 activities. As result, this objective has been achieved by 80% in which the Activities 34.1, 34.2, 34.3, 34.4, 34.5, 34.6, and 34.7 have achieved by 85%, 100%, 53%, 70%, 90%, 87%, and 70% respectively.

In terms of target indicators, there are 4 indicators that have reached the target as following:

1. First Drafted Prakas on “organizational structure and the working process of the working group of D&D in MEF” has been discussed inter-general departments.
2. Policy document on “medium term and long term financial decentralization” has been completely prepared.
3. Policy document on “conditional fund disbursement to sub national administration” has been finalized.
4. Manual on “preparation of BSP for sub national administration” has been reviewed and improved; and the training to the relevant entities of sub national administration has been provided.

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

1. Drafted manual on “the budget preparation and implementation of sub national administration” has been discussed with relevant stakeholders (achieved 60%) and

- drafted sub decree “for implementation of financial system in commune/sangkat level” has been discussed with Ministry of Interior and NCDD (achieved 30%).
2. Drafted sub decree/prakas “for implementation on direct revenue collection of sub national administration” has been discussed with relevant stakeholders (achieved 70%).
  3. Preparation on the training program and capacity building plan for officials of both national and sub national administration (achieved 80%).

Therefore, it is concluded that the implementation of financial decentralization policy has been further strengthened and expanded in accordance with the objective 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 the Activities in which the indicators have not reached the above targets.

#### **Part 4: Support to PFM implementation for the success and the sustainability**

Part 4 is Support to PFM implementation for the success and the sustainability being implemented through two objectives including 41 “Enhance leadership, management capability and develop reform passion as well as to increase ownership and responsibilities” and 42 “increasing effectiveness of capacity building and encouragement measure.” Each objective was supported by two implementation activities. As result, this part has achieved 62% in which the objective 41 and 42 have achieved 62% and 61% respectively.

In short, this part still has limitation because of lack of strong involvement and comment of stakeholders. This requires serious action to improve and enhance the commitment, ownership and leadership of top management.

##### **1. Enhance leadership, management capability and develop reform passion as well as to increase ownership and responsibilities**

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. As result, this objective has been achieved by only 62% in which activities 4.1 has been achieved by 77% while the Activities 4.2 has been achieved by only 48%. The key achievements are highlighted such as the target such as the code of conduct of tax officials has been released and implemented via the letter number 6992 dated 14 September 2015, and the manual on “discipline of tax officials” has been released and implemented via the letter number 7077 dated 16 September 2015. Anyways, some key factors which result the poor performance in this objective are because of 6 legal documents which are related to custom sector, financial industrial sector, public procurement sector, accounting sector, working process of MEF, and civil service sector, have not been published and postponed to next year 2016. In addition, General Department of Sub National of Administrative Finance (GDSNAF) has not started to implement the activity which is related to the dissemination of reform action plan and the enforcement tool of the implementation in order to reach the set objective.



All in all, we can conclude that this objective has not been fully and comprehensively implemented yet for 2015. Moreover, more than half entities have not planned the activities to support this objective in order to strengthen leadership management capacity, increase reform program awareness which lead the ownership and responsibility is still at low level.

## **2. Increasing the effectiveness of capacity building and incentive measure**

This objective is supported by 2 activities including 42.1 - Reviewing the effectiveness and efficiency of the training and developing new capacity building plan and 42.2 - Reviewing the mechanism and approach methodology on existing incentive system by following equal and consistent manners. In overall, based on the achieved activities, this Activities has been achieved by 61%.

As result, this objective has been implemented by only 61% in which activities 42.1 has been achieved by 54%, while activities 42.2 has been achieved by only 68%. Some key factors which result the poor performance in this objective are because of GDSNAF has not implemented the two activities relating to the preparation of beginning data collection for the purpose of performance assessment of officials after training and new capacity development plan, further performance monitoring tool, the recruitment process for the purpose of incentive scheme ensuring the equality and effectiveness as well as the punishment rule for inactive officials. There are 5 activities under General Secretariat of MEF have not been implemented such as Research and Development (R&D) to prepare training documents relating to economic and financial management; the preparation and facilitation of the exchange of international experiences on leadership in public sector and the reform program to management and staff of line ministries; the international best practice of leadership in public sector and reform program to technical management team and staff, the exchange of international experiences on leadership in public sector and reform program to top management (department heads and secretary of state level); the training on leadership, change management, financial reform program (public accounting, public procurement, audit, budgeting and inspection) to officials of municipality and line ministries. Although some activities have not yet done, GS of MEF has improved and approved one legal document related to the new criteria of new mutual friendship association. In addition, General Department of Financial Industry (GDFI) has not implemented two activities related to training for officials who are in charge of financial policy such as microfinance, fund for SMEs, credit guarantee for SMEs, integration and financial market; and the internal and external training have not been arranged to support the performance assessment. On the other hand, regarding GDNT's unachievable activity, the task related to all national treasury officials (both national and provincial level) who are required to well understand in using the document management program has not been comprehensively accomplished because only officials at national level have used E-doc.

Therefore, this second objective of this section is still in limit due to the training curriculum and other training-related tasks have not been reviewed and improved, and the documents for training to information system auditors have not been prepared.

All in all, 30% of the planned activities have not well implemented to respond the set objective of this section. Therefore, all general departments need to further strengthen and improve their implementation in order to ensure that the section reaches the sustainability especially in stage 3. Therefore, all relevant activities should be prepared by the general departments to support this section and the GDs/LMs will become a strong actor in succeeding the PFMRP with sustainability.

### III. Challenges

- Slow progress on preparation of monitoring and evaluation report on the implementation on medium term revenue management strategy (RMS).
- Lack of technical assistance and limitation of capacity of relevant officials.
- Slow progress on recruiting TA for preparation the internal standard accounting system (IPSAS)
- Lack of cooperation in harmonizing the updated public procurement manual and standard operating procedure (SOP).
- Some activities have not been implemented by responsible general departments.

### IV. Recommendation

- General department who have not planned the supporting activities in the CAP2 New should prepare and implement in CAP3.
- Activities/indicators that have been done in previous quarter should not report against as achievement in the current quarter.
- Term of Reference (TOR) for top management of budget entities of MEF should be prepared.

### V. Conclusion

According to the above results and rationalities, this is concluded and summarized as followings:

- **Budget Credibility** (76% achieved): It is essentially maintained and further moved toward sustainability.
- **Financial Accountability** (83% Achieved): the financial accountability is still on the right track but it may face challenges if all key indicators are not reached the target.
- **Readiness for further steps** (93% Achieved): It still has the good progress but not fully implemented as planned.
- **Support to PFM implementation for the success and the sustainability** (62% Achieved): it is not fully maintained, as some GDs and LMs have not developed/implemented supporting activities in this part.

To put in a nut shell, there are a lot of progress and improvement in this quarter and some key challenges in the previous quarter have been solved. However, there still need further efforts from the relevant stakeholders for ensuring the sustainability of PFMRP.