

Royal Government of Cambodia
Ministry of Economy and Finance
Public Financial Management Reform Program
MDTF No TF 054547-KH & IDA Grant H241-KH
Financial Monitoring Report: Analysis of Financial Performance
For the Period: Second Quarter Ended June 30, 2011

Financial Monitoring Report (FMR) is produced quarterly and form part of overall project reporting with financial arrangements of Multi-Donor Trust Fund and IDA grant through the World Bank and Royal Government of Cambodia. The attached reports provide information on the program financial position, financial expenditures, program performance and report on procurement process monitoring on goods and consultant services.

The Financial Reports (FMR1, FMR2, and FMR3) summarize funds received from the World Bank and Royal Government of Cambodia, and program uses of fund by expenditure type and component (group/function). The report explains the variance of the actual expenses against estimated budget for current quarter and year to date budget. However for first and second quarter of this year there is no explanation on the budget variance due to the delay of approval process on annual budget plan 2011 until 16 March 2011 and after the budget approval the program received comments from the bank on issue of recipient MDTF extension and ask to postpone some activities including oversea training, workshop and study tour. The report only presents actual expenditures incurred in quarter 2.

The Procurement Monitoring Reports (FMR4 and FMR5) describe the status of the procurement implementation comparing with the procurement plan. Annex I to Annex IV supporting to the financial report describes in details on the current quarter and cumulative contract expenditure reports of consultants; goods; training/workshop; and International Procurement Agent (IPA) since the program started until reporting date. Annex V describes the quarterly program progress report and its issues.

Summary Sources of Fund

The World Bank-MDTF TF054547-KH

Project designated account is a pooled account containing fund received from Multi-Donor Trust Fund and IDA Grant. Fund is received regularly through the replenishment mechanism and direct payment. There is fund shortage for current quarter due to slow process extension of recipient MDTF financing agreement. When program submitted withdrawal application for replenishment, fund was recovered by the Bank and some withdrawal application from the program was hold in the World Bank at Manila. In financial statement (FMR2-A and FMR2-B) indicates that MDTF is payable to IDA fund \$198,379.69.

The disbursement from the World Bank-MDTF into project designed account for the current quarter and cumulative to date is \$524,487.67 and \$ 8,253,105.11 respectively. Disbursement rate has reached 84% of total agreed funding per financing agreement (according to the latest modification of grant agreement effective from 10 June 2011, financing amount from parents MDTF to recipient MDTF increases from \$8,035,000 to \$9,835,000).

The World Bank-IDA Grant H241-KH

The project received fund amounted \$450,290 for current quarter through the replenishment mechanism and directly payment from the World Bank. The cumulative expenditure to date is \$7,458,852. The disbursement rate has reached 53.28% of total agreed funding per financing agreement (14,000,000\$).

Counterpart Fund

Project received fund totally 425,520\$ from the Royal Government of Cambodia in contribution with Multi-Donor Trust Fund for MBPI payment from 2005 to December 2009 as agreed in the financing agreement. However the MBPI terminated to follow the Royal Government of Cambodia's decision with effective from January 1, 2010 regardless the source of financing.

The World Bank- PHRD Grant (JPN 54627-KH)

The cumulative disbursement is 24,069\$. The grant was closed. It was reported details in annual report 2006.

Analysis by Expenditure Type

As stated in earlier there is no current quarter budget presents in the financial report, the report only presents actual expenditures incurred in the quarter. The expenses incurred are from committed expenses (contract already signed as of 31 December 2010 or approved procurement plan 2010); expenses on incremental operation cost to support daily implementation of the program; and some other expenses received approval from the World Bank as exceptional case and current approval on budget plan 2011. Total actual expenses incurred are \$1,282,462.82 and \$15,471,750.81 for current quarter and cumulative to date respectively.

Summary Uses of Fund by Category

| | Current Quarter Actual | Year to Date Actual | Cumulative to date Actual |
|--------------------------------|---------------------------|------------------------|------------------------------|
| Goods | 288,246.17 | 594,892.93 | 2,685,290.83 |
| Consultant's service | 208,534.97 | 429,609.52 | 2,888,510.80 |
| Training/Workshops | 416,746.14 | 631,785.34 | 3,477,666.65 |
| Incremental Operating Costs | 24,108.52 | 49,682.94 | 303,422.86 |
| Merit Based Pay Initiative Pay | 0.00 | 0.00 | 3,111,829.61 |
| Inter. Procurement Agent | 344,827.02 | 1,447,772.98 | 3,005,030.06 |
| Total Uses of Fund | 1,282,462.82 | 3,153,743.71 | 15,471,750.81 |

Goods

For current quarter the program spent \$288,246.17 on Computer and Sever Equipments for DPP, IAD and GDCE; training equipment for IT Department; 6 scanners for Budget Department; and 500 users Microsoft Office 2010 Professional Plus for MEF and line ministries. Only procurement of 6 scanners were completed in this quarter and other procurement of goods were slow down until July 2011 (see procurement process monitoring for details in FMR4 and annex I-contract expenditure report).

Consultants' service

The amount of \$208,534.97 in the financial report for current quarter reflected the expenses for the consultant services on FMIS Functional Advisor; Change Management Information System Consultant; International Audit Advisor; Accounting and Reporting Advisor, service for financial audit (Ernst & Young Indochina Limited); local audit specialist; local IT Auditors and Local consultants to support SCS administration and operation.

The Program completed the procurement process and contract signing for Budget Execution and Control adviser. Process of signing contract of 12 business analysis and amendment to consultant contract which exceeded 15 January 2012 delayed to July 2011 (See other progress of procurement process monitoring for details in FMR5 and contract expenditure report in annex II).

Training/Workshop

The amount of \$ 416,746.14 and \$3,477,666.65 in the financial report indicated the expenses for training and workshop related to the PFM reform program and financing to students for long term oversea training degree for the first quarter and accumulative to date respectively. Significant training and workshop received under PFM reform program are: (1) oversea trainings: ICT professional training and Contract Management at New Horizon Singapore to IT Department; training course on Tax Analysis and revenue forecasting at Duke University; training on Innovative Growth at WB Institute, Washington D.C; training on capacity building and HRD provision of public Infrastructure & PPP at ENA, Paris, France; training course on Comparative tax policy at Harvard Kennedy School; training on risk-based operating auditing treasury function in Singapore and Training/Workshop on OECD on taxation of Financial Instrument at Revenue Development. (2) Oversea study tours: study visit on capacity building at Shanghai, china; study visit to Washington D.C, on budget accountability and comprehensive, study visit on the implementation for fiscal decentralization in Philippines and (3) local training/workshops: GDNT and GDT have provided basic IT training to some provinces of provincial national treasury and provincial tax office respectively; conducted training/workshop on public consultation on the draft of Public Procurement; conducted training/workshop on resolving the difference between Cambodia Public Sector Accounting and IPSAS and conducted training/workshop on Human resources in Public sector at Preak Sihanouk province. The details of training and workshop received can be found in Annex III.

Merit Base Pay Initiative (no longer exist since January 2010)

Cumulative expense on MBPI is 3,111,829\$ including 425,520\$ financed by counter part fund.

International Procurement Agents

The current quarter and cumulative expense to date on IPA are \$344,827.02 and \$3,005,030.06 respectively including IPA 1 and IPA2 (see contract expenditure report in Annex IV). The progress report on procurement performance is reported by both IPAs to DIC and the World Bank directly.

Analysis by Program Group (by function/departments of MEF structure)

The program is divided into main five components of MEF structure. They are Revenue Management; Budget Formulation; Budget Execution; Policy Group and General Support Group. Under each component there are spending category on goods; consultant service; training/workshop; and MBPI/POC. Incremental operation costs are included in General Support Group; Policy Group; and Budget Execution under sub component of program management; IT department; and General Department of National Treasury respectively. Expenditure report on IPA and Line Ministry is additional sub-component to PFM reform program. The table below indicates actual expenses for the said component for current quarter and cumulative to date.

Summary uses of fund by Group (component)

| Group (component) | Current Quarter Actual | Year to Date Actual | Cumulative to Date Actual |
|---------------------------|---------------------------|------------------------|------------------------------|
| Revenue Management Group | 73,834.05 | 108,693.66 | 979,512.94 |
| Budget Formulation Group | 114,775.83 | 255,748.04 | 1,706,690.32 |
| Budget Execution Group | 106,376.48 | 227,629.32 | 1,874,116.29 |
| Policy Group | 368,474.22 | 544,222.85 | 3,400,647.66 |
| General Support Group | 224,477.32 | 393,656.94 | 4,159,582.75 |
| Line Ministries | 49,697.90 | 176,019.92 | 346,170.79 |
| Inter. Procurement Agent | 344,827.02 | 1,447,772.98 | 3,005,030.06 |
| Total Uses of Fund | 1,282,462.82 | 3,153,743.71 | 15,471,750.81 |

Key Issues and Its Impact on the Overall Project Implementation

We focus on the issues related to financial management and procurement. The issues and challenges for the program implementation will be reported separately in the Progress Report (Annex V).

Recipient Multi-Donor Trust Fund TF 54547-KH and IDA Grant H241-KH

Recipient MDTF TF 54547-KH financing agreement was extended for two months to 11 August 2011. 2 months extension with limited expense to \$1.8 million, we need to cut not only overseas trainings/workshops/study visits but also to delay some procurement of goods and consultant's services.

The IDA agreement is signed between WB and Government and will be ended by January 15, 2012, we need to amend all contracts back to end by December 2011. Bank has no clear position at this point.

The whole program funding can not be obtained since the bilateral arrangement funds are spent directly by DPs including the WB spent \$2.9 million out of MDTF as of today (Total MDTF and IDA is \$ 32 million).

Capacity Development: new arrangement on twinning program has been establishing and submitted to the Bank since April 2011. The proposal is under reviewing by the World Bank.

Steering Committee Secretariat Manager

Sok Saravuth

Date: 10 August 2011