

**The Public Financial Management Reform Program (PFMRP)  
The Public Financial Management Steering Committee**

**Annual Progress Report 2010**

**The Secretariat of the Reform Steering Committee**

This annual report presents the reform progress for 2010 by highlighting activities done, challenges and issues for 2010; in addition, the key indicators related to maintaining budget credibility will be also monitored.

**1- Progress based on indicators in key sectors of Platform 1/Stage 1**

The budget credibility has been further monitored in the stage 2 through reviewing quantitative indicators of the Platform 1 which is shown as follows:

<b>Indicators</b>	<b>Target</b>	<b>Year of 2010</b>	<b>Year of 2009</b>
1. Revenue out-turn increasingly close to targeted level in approved budget	Revenue outturn within + or - 5% of forecast used for budget.	Domestic revenue: 103 %	Domestic revenue: 96.2 %
2. No accumulation of new arrears and steadily declining stock	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	Achieved :  - 1 <sup>st</sup> Quarter: 16.3% - 2 <sup>nd</sup> Quarter: 39% - 3 <sup>rd</sup> Quarter: 69.9% - 4 <sup>th</sup> Quarter: 93.7%  - The payment through banking system: 84.10%  - 39 Ministries have opened bank accounts for salary payment  - Customs revenue: 96.4% - Tax revenue: 97.2 %	Achieved:  - 1 <sup>st</sup> Quarter: 17.9% - 2 <sup>nd</sup> Quarter: 41.7% - 3 <sup>rd</sup> Quarter: 71.2% - 4 <sup>th</sup> Quarter: 105%  - The payment through banking system: 80.97%  - Up to the end of 2009, 26 LMs have opened bank accounts for salary payment  - Customs revenue: 99.5% - Tax revenue: 84.6 %
4. Composition of expenditure by type (staff costs, non-staff costs etc) close to approved	Outturn compared to budget to be not less than: - Salary: 98% - Goods/Services: 95%	Achieved:  - Salary: 97.3% - Goods/service: 103%	Achieved:  - Salary: 119.3% - Goods/service: 114.6%

budget.	- Capital: 85%	- Capital: 89.2%	- Capital: 92.8%
5. Better yield achieved from tax base through improved collection efficiency and planned use of non-tax sources.	Progressive improvement in revenue yield compared to GDP by 0.5% per annum.	- Achieved 12.94% of GDP - Tax revenue: 96.9% - Direct Tax: 82.6% - Indirect Tax: 92.2% - Non-tax revenue: 121.5%	- Achieved 12.12% of GDP - Tax revenue: 97.3% - Direct Tax: 99.6% - Indirect Tax: 84.6% - Non-tax revenue: 90.9%
6. All significant areas of both revenue and expenditure captured in both the budget and accounts of the government.	No significant areas of omission	- TSA and government bank accounts consolidation have been further strengthened  - New chart of account, new budget classification and budget strategic plan have been further improved  - DMFAS has further been improved	- TSA and government bank accounts consolidation, new chart of account, new budget classification and budget strategic plan have been further strengthened to incorporate revenue and expenditure into the government accounts.  - Revenue and expenditure of state-owned enterprises, administrative entities and DPs' off budget have been urged to be incorporated in BSP 2010-2012.  - Data system (DMFAS) has been implemented to improve overseas financial management and monitoring.

## 2. Performance measurement of Stage 2 activities implementation

18 Activities under 04 Objectives were implemented to strengthen the budget credibility in order to achieve the strategic objective of Stage 2 which is **to improve the financial accountability**.

### 2.1. Further improved revenue policy and administration

Remarkable progresses include:

- Finalized Revenue Policy with two versions: Khmer and English;
- Developed the economic model for forecasting revenue distribution from oil and gas;
- Developed second draft law on oil taxation ; Draft Trust Law, first draft law on mineral exploitation, draft law on insurance; and were submitted to the Council of Ministers;
- Draft law on Casino was reviewed by Joint Working Group of the Ministry of Economy and Finance and the Ministry of Interior;
- Draft law on Real Estate Management was being developed.

Other Legal papers developed include:

- Prakas on the collection of tax from oil exploitation
- Prakas on the management of revenue from lottery
- Circular on temporary small scale insurance licensing
- Prakas on the National Receipt and Circular on the use of National Receipt
- Sub Degree on State Bond
- Procedure in monitoring government sub-loan in micro-finance sector
- Rate of Commission fees of real estate service and Appraisal Company
- Code of Conduct for real estate service and Appraisal Company
- Law on State Property Management
- Manual on the preparation of inventory
- Circular on management and control of contracts and agreements with regards to the management of State Property
- Inter-Ministerial Prakas on fees for 06 services; and other 7 services were being prepared
- Sub Degree on the decrease of VAT ceiling to be incorporated into Self-Declared Tax Regime
- Information Technology policy on tax.
- Drafting State property management law and
- Policy framework and strategy for micro-finance.

Mechanisms to strengthen revenue collection were in place, including:

- Developed mechanism to check the legality of Casino and automatic data system to manage casino and lottery
- Expanded the use of ASYCUDA by installing optic cable at certain inland port in Phnom Penh.
- Categorized enterprises into different types of businesses
- Strengthened rules of debt claims
- Preparation for census of large taxpayers (2010-2013)
- Dissemination of guideline on obligations and rights of taxpayers
- Further improved the networking at central and Khan Tax Branches
- Implementation of revenue data collection program from tax branches nationwide
- Implementation of Prakas on revenue collection from Property tax and prepared manual on types of tax
- Piloted the hosting of webpage for Taxation
- Improved Prakas on the procedure of complaints
- Further strengthened mechanism for management and non tax revenue collection by actual control and debt claims rules.

## **2.2. Further improved debt management**

- DMFAS was operational and further improved. Debt Sustainable Analysis (DSA) was integrated into Debt Management Office and a national expert in charge was recruited. The draft of Divisional Operation Manual for Debt Management Office was developed and reviewed.
- Management and implementation procedures and procurement management procedure for projects financed by Development Partners were reviewed and updated.
- 8<sup>th</sup> Draft sub degree on public debt management was developed and consulted within the Ministry of Economy and Finance.
- Final debt management strategy was developed and reviewed for internal consultation.
- Monthly, quarterly and annual reports on debt were regularly issued.
- Capacity for officials was further strengthened via workshops, domestic and external trainings on debt stability analysis, concessionality and grant element analysis, medium term debt management strategy (MDTS), foreign debt management and the development of capacity building portal posted in MEF's webpage.

## **2.3. Further improved cash and bank account management**

- As of 31 December 2010 there were 90 current accounts across the country. Those were authorized sub-national accounts (at the end of 2009 there were 82 sub-national accounts). Accounts for the General Departments of Taxation and Customs and Excise remain ZERO balance at the end of every day.
- The use of commercial banks (Aceda Bank and Canadia Bank) for revenue and expenditure transactions were expanded to 11 provinces: Banteay Meanchey, Kandal, Koh Kong, Kompong Cham, Mondulhiri, Stoeng Treng, Oudormeanchey, Preah Vihear, Preah Sihanouk, Battambang, and Siem Reap (There were only 2 in 2009)
- Cash transfer from Treasury Single Account of the General Department of National Treasury to Provincial Treasuries, current deposit account, salary through bank service, information and report transfer and procedure for cash flow were implemented.
- Report format of Cash Status report, revenue and expenditure spreadsheet for ministries by chapter, data entry for 2010 were developed and updated.
- Daily, weekly, and monthly Report on State cash balance was developed.
- Revenue and Expenditure forecasting was improved.
- Since 2007 there have not been any arrears based on regular report of revenue-expenditure operation and reviewing payment order life.

## **2.4. Further improved public procurement**

- First draft of Public Procurement Law in Khmer was developed and discussed by inter-departments within MEF.
- Prakas on the implementation of Implementing Rules and Regulations Governing Public Procurement (IRRPP) was disseminated and implemented.
- Standard Bidding Documents (SBDs) was improved.

- Circular on developing procurement plan for 2011 was developed
- Prakas on the management of procurement at Capital and provinces to be in line with the Law on Administrative Management of the Capital, provinces, Municipalities, Districts and Khans was issued; and questionnaires for data collection of sending agencies were designed.
- Capacity building for procurement agencies and officials were also strengthened.

### **3. Improved Financial Accountability**

49 activities under 08 objectives were implemented in order to improve financial accountability. The progress for each objective is as follows:

#### **3.1. Improved lines of accountability by clarifying roles, functions, and responsibilities of LMs, levels, and within institutions**

- Business process illustrating the current flow of process starting from commitment to payment which included business process template, business outline/process steps and organizational chart template was developed based on FMIS.
- Financial controllers were attached to 11 line ministries.
- Capacity building for FMIS was strengthened.
- Establishment of Budget entities was in underway. Several activities were completed such as: organizational structures for LMs were prepared (except Ministry of Interior and Council of Ministers); in order to establish the budget entities; guideline for budget entities was disseminated; training on the budget entities was conducted; and the framework for the budget entities was planned to be in place for budget preparation 2012.

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

- Rationalization of expenditure on salary, remuneration, functional allowances for advisors, Government officials in LMs who work in more than one institution; and saving measures to reduce cost on administration was developed and implemented.
- Draft of manual on commitment process, payment orders, and procedure for financial control was developed and submitted to the management of MEF for comments.
- Data collection of resources and equipment belonging to LMs related to the consumption of electricity and petrol was further implemented as the basis for taking saving measures and using State resources more effectively.
- Circular on extra pay for overtime teaching in educational institutions was issued and the amendment of Circular No.10 on rates for domestic and internal missions was also made.
- Financial inspection operation program was developed
- Pending Technical Assistant, financial inspection standard was being considered.
- Code of conduct and professional responsibilities for Financial Inspectors was being developed.

### **3.3. Further improve the implementation of new budget classification and new chart of account**

- The preparation of budget classification and new Chart of Account was progressively moving forward such as: established and changed some account numbers at the National Bank of Cambodia opened by the General Department of National Treasury.
- Modified Chart of Account for commune sangkat, year-end report cash advance, TOFE, and program budget classification. Functional classification was pending the operation of FMIS.
- Budget Classification was reviewed and gradually improved by selecting 12 sub accounts to be established as sub sub-accounts for expenditure and 07 sub accounts as sub sub-accounts for revenue.
- Table of comparison between revenue and expenditure classifications was developed by incorporated the 10 characteristics of COFOG
- Functional classification was improved
- Instruction of using economic classification was improved.
- Training of trainers for new budget classification was conducted.

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

- 14 LMs were identified and selected to streamline commitment process for the first step and 05 LMs to streamline payment process.
- Sub degree on the improvement of current and capital expenditure procedure for cash advance was in use.
- Spending over budget available was not allowed.
- Committed expenditure credit was reduced.
- 12 Business analysts were recruited.
- Progress of FMIS operation included: Training plan for 2010 was developed; the evaluation of software and hardware for second stage bidding document was finished; “to be business process” paper was developed and revised to fit with Cambodian context; change management strategy was finalized; draft of leadership mobilization plan was finalized; dissemination of change management concept to concerned agencies and officials was conducted; procedure for change of revenue and expenditure process once FMIS is operated was studied; concerned budget classification and account balance table was studied; chart of account for FMIS was prepared; and FMIS training was conducted.

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

- DMFAS was in operation. Improved quality of information about capital expenditure financed by development partners and the integration of investment project executed by Development Partners into Budget Strategy Plan and budget reporting were also carried out.
- Manual for inventory listing and inventory exercise was gradually put in place in Capital and provinces.

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

Progress in this section included:

- Comment on the different roles and tasks between internal audit and inspection in LMs.
- Further monitored the working process Internal Audit Departments in LMs and Public Enterprises (26 LMs created their Internal Audit Departments, of which 23 was operational; 04 Public Enterprises and Cambodian Bond Commission)
- Prepared work plan to oversee internal auditing in LMs and Public Enterprises
- Manual for Internal audit for General Departments of Customs and Excise and Taxation; manual for general internal audit; manual for audit strategy plan (3 years) with new procedure was developed
- Documented legal paper concerning public financial management for printing
- Reviewed and revised Annual Audit Plan 2010 for 04 LMs
- Documented audit reports, lessons learnt and other related paper
- Finished the dissemination of Audit Mail Box
- Contracted 04 IT staff to assist auditing
- Conducted training on internal audit methodology for 62 officials
- Conducted training on Government internal audit procedure for 96 officials
- Conducted training on selection of audit format and audit profession for 58 officials.

### **3.7. Strengthen and develop fiscal decentralization policy and strategy**

Progress of strengthening and developing fiscal decentralization policy and strategy included:

- Improved procedure for budget preparation and execution for Capital and Provincial Governor Offices to in conformity with the Law on Administrative Management of the Capital, Provinces, Municipalities, Districts and Khans
- Improve technical procedure for budget preparation and execution and budget outturn by issuing circulars on the budget execution and preparation for Capital and Provinces 2010.
- Improved the non tax management strategy in Capital and Provinces in order to be in line with the Law on Administrative Management of the Capital, Provinces, Municipalities, Districts and Khans and the Draft Law on Financial Regime and Property Management for Sub-National Administration which was already submitted to the National Assembly for approval
- Studied options of budget procedure and level of autonomy of unified budget in Capital and Provinces
- Improved the mechanism for tax revenue sharing for sub-national administration
- improved budget execution for commune Sangkat
- Developed short term fiscal decentralization strategy (2009-2011) and long term (2011-2018)

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

Institutional capacity building and incentive measures were carried out partly by individual unit and by the Economics and Finance Institute. Progress for this section included:

- Conducted 22 training courses for officials of MEF and LMs with the total of 1659 trainees.
- Assisted 15 LMs to develop their Capacity Development Plan
- Conducted the recruitment of 12 business analysts for Information Technology Department
- Conducted training on ASYCUDA
- Organized National Seminar on Intellectual Property Rights for Customs Officers
- Organized extensive training course for officials of the General Department of Customs and Excise.
- Sent 96 officials to attend trainings/seminars in the country
- Sent 45 official to attend trainings/seminars abroad.
- Stage 2 Core training plan for tax officers was developed and training on information technology for 06 provinces was conducted.
- Developed curriculum for 09 subjects
- Developed TOR for recruiting international training partners, TOR for recruiting Local Trainers for 05 subjects
- Cooperated with Civil Service College of Singapore for training program
- Finished data collection for trainings based on actual needs
- Paper on the management of civil servants and management structure for the Ministry of Economy and Finance was developed and printed
- Organized seminar on the need of training and management and human resource development
- Implemented Human Development and Management policy for the Ministry of Economy and Finance
- Almost completed the computerization of data for civil servant in the Ministry of Economy and Finance
- Prepared for the implementation of Priority Operation Cost for the Public Financial Management Reform Program
- Developed the business process for FMIS stage 1
- Conducted training on budget strategy plan program budgeting, budget entities and budget classification
- Conducted study tour on budget reform in New Zealand
- Conducted study tour Human resource management in public sector in Singapore.
- Certain officials of the Ministry of Economy and Finance were also sent abroad to attend training courses and seminars on taxation, public procurement, management and leadership, budget, management and human resource development
- 96 Officials were sent to attend training courses and seminars under the Public Financial Management Reform Program

#### **4. Activities for later platform**

05 activities under 02 objectives were implemented in Stage 2 in order to be ready for next stage. The progress for this section included:

##### **4.1. Improving and expanding the implementation of program budgeting**



Action plan to improve and expand program budgeting was continuously implemented:

- Developed program budget classification
- Developed guideline to implement unified program budgeting
- Strengthened the piloting of program budgeting in 08 LMs and 24 Capital and provincial Department of Education Youth and Sports under the supervision of the Ministry of Education Youth and Sports
- Strengthened capacity on program budgeting in Departments of the Ministry of Economy and Finance and concerned Units in LMs by attending training and seminar.

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

Progress in this section included:

- improved guideline for budget strategy plan and to be printed for dissemination to LMs
- Disseminated and trained officials of the Ministry of Economy and Finance and LMs on guideline for budget strategy plan
- Developed public investment program 2010-2012 by highlighting the estimate of domestic resource of investment expenditure.
- Improved procedure of scoring and evaluation of budget strategy plan 2011-2013 for LMs; and input derived from the above procedure will be used to prepare circular on the draft Finance Law
- Studied the possibility to improve annex table showing budget for public administrative institutions, public enterprises,
- Studied the mechanism for information collection about off-budget revenue and expenditure, and revenue and expenditure from Development Partners.
- Verified public investment program against budget strategy plan 2011-2013.
- Almost all LMs prepared their budget strategy plan.

#### **5. Issues and challenges**

Certain challenges raised in 2010 included:

- The recruitment of national and international advisors and contracted technical officials were not on time as planned
- Lack of cooperation among entities within the Ministry of Economy and Finance and from LMs as well as from Development Partners in terms of information sharing and supports
- The supplies of office equipment were not on time, disabling the implementation of certain activities
- The preparation and implementation of incentive mechanism was slow and interrupted
- Budget approval for missions or study tours was slow
- Certain training programs did not take place as needed by departments.
- Qualified and capable staff are still limited

- Certain action plans were not clearly developed in line with reality and work context.

