



BUDGET SYSTEM REFORM IN CAMBODIA

PARADIGM SHIFT

From Centralized And Input Based Budgeting
To Decentralized and Performance Budgeting
THE STRATEGIC PLANNING

SIEM REAP, 02 MAY 2018



KEY TIMELINE OF BUDGET REFORM

Cambodia is at transition from input-based budgeting
to performance budgeting

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| 2004 | PFM started |
| 2007-2014 | Partial program budgeting at 8 LMs |
| 2008 | Public Financial System Law Adopted, key features: <ul style="list-style-type: none">○ Article 25: Allows for pilot program budgeting○ Article 39: Introduces macroeconomic and public finance policy framework and Budget Strategic Plan (BSP) in the timeline of budget preparation |
| 2013 | “Concept note on direction of the budget system reform 2013-2020” toward Performance based budgeting endorsed by PM |
| 2014 | Finalized base line legal frameworks for PB implementation |
| 2015 | Full program budgeting started at 10 LMs (dual process) <ul style="list-style-type: none">○ Input based budgeting (Law)○ Policy/program-based budgeting (Budget Entity introduced) |



KEY TIMELINE OF BUDGET REFORM (Continue)

- 2018**
 - **Full program budgeting at all LMs (budget law remains input based)**
 - **Budget System Reform Strategy 2018-2025 toward Performance Budgeting approved by the Plenary Meeting of the Council of Ministers.**
- 2020**
 - Public Financial Management System Law to be amended for Performance Budgeting (PB), model Performance Informed Budgeting
 - Two key government sub-decrees for PB implementation to be issued
- 2021**
 - New Approach of MTFF and MTBF to be started
 - New format of budget law to be submitted to the Council of Ministers
 - Digitalization through FMIS to be rolled out
- 2022**

Annual Budget Law to be adopted in new format: by policy/program and simplified economic classification
- 2024**

Performance indicators to be included as part of budget law
- 2025**

PB and performance accountability to be fully operationalized



THE STRATEGIC PLANNING – Current status

Cambodia has included a medium-term perspective in preparing its Annual National Budget:

Early March of the current year (n), the macroeconomic and public finance policy framework for the preparation of next year's (n+1) budget is approved by PM based on MEF's proposal. It also gives indicative numbers for the next two years (n+2, n+3). It comprises of:

- Macroeconomics policy framework: GDP growth by sectors, internal and external risks, inflation, exchange rate, current account balance, and short term and long-term policy measures.
- Public Finance policy framework:
 - Policy objectives,
 - Key indicators to achieve the policy objectives, including aggregate revenue, expenditures, recurrent budget surplus, overall deficit, debt....
 - Policy measures to achieve the key indicators regarding the revenues (tax, custom, non-tax) and expenditures



THE STRATEGIC PLANNING – Current status (Continue)

Early April, based on medium term macroeconomic and public finance framework, Government issues circular on the preparation of Budget Strategic Plan: (BSP) and budget for the next 3-years (medium-term)

- BSP is a three-year rolling plan prepared annually by LMs by linking policy priorities of the Ministries and Agencies to sectoral goals and National Strategic Development Plan
- BSP is structured along policy objectives, programs/sub-programs, activities, and actions with clear explanations and descriptions of objectives, types of financing. Key performance indicators will help to monitor performance, performance objectives, and budget utilization.
- The BSP is prepared based on the indicative medium-term expenditure ceiling prescribed in the macroeconomic and public finance policy framework.
- BSPs are supposed to be comprehensive, covering of all sources of revenue, and all types of expenditure.



THE STRATEGIC PLANNING – The objectives for 2025

Medium-term fiscal framework (MTFF):

- The quality of macroeconomic forecasting will be improved, especially by:
 - Sustaining and strengthening the capacity of the MEF General Department of Policy
 - Facilitating and exchanging information between relevant government agencies, especially MEF, NBC, MOP.
- MTFF will be strengthened, especially by strengthening and institutionalizing the medium term aggregates, such as:
 - Revenue mobilizing strategy (General Department of Policy),
 - Wage and social protection spending (Strengthen and institutionalize cooperation between MEF, MPF and other relevant ministries),
 - Capital spending (Finalize and apply PIM)
 - Debt strategy (to be updated regularly)
- The Macroeconomic policy framework and MTFF will be submitted to the Plenary Session of the Council of Ministers for review and approval before MTBF is officially issued.



THE STRATEGIC PLANNING - The objectives for 2025 (Continue)

Medium term budget framework (MTBF)

- MTBF determines the medium-term ceiling/envelope by sector and line ministry, according to brief economic classifications, including wage, non-wage, capital expenditure, financial investments, loan guarantees, etc.
- The ceiling/envelope under MTBF will become a concrete benchmark for Ministries and Institutions to prepare their budget strategic plans and annual budget.
- The MTBF will be prepared in consultation with line ministries, considering the need for ongoing program expenditures, and adjustments in expenditure priorities, and estimation of spending requirements for new programs or policies
- MTBF will be made comprehensive through the integration of recurrent and capital budgets
- MTBF will be prepared by MEF and decided by the Prime Minister
- The framework will be prepared and updated annually on a three-year rolling perspective.



THE STRATEGIC PLANNING - The objectives for 2025 (Continue)

Budget Strategic Plan (BSP):

- The BSP will strictly be based on the expenditure ceiling prescribed in MTBF
- When preparing BSP, it is also necessary to consider the requirement for program funding (e.g. wage expenditure, office operation expenses, building maintenance, utilities etc.)
- The formulation of policy and other activities which are not directly related to outcomes, ministries and agencies may, subject to prior approval of MEF, prepare programs using part of the BSP, but will be based on inputs, outputs and improving the efficiency of operations, rather than policy performance and program effectiveness.
- BSPs need to be comprehensive through progressive expansion by including coverage of all sources of revenue (e.g. state budget, DP budgets, self-generated revenues etc.) and all types of expenditure (e.g. current expenditure, capital expenditure, grant financing, subsidies, resource transfers etc.).



Challenges and opportunity

Key challenges:

- National policy – NSDP to be improved and applied
- Institutional Capacity of LMs to be strengthened and sustained
- Program Structure of the LMs to be reviewed
- Rule and regulation to be enforced
- Budget management to be computerized

Opportunities

- Strong and stable government
- Strong, capable, and committed MEF with the unwavering support and regular instruction from Prime Minister
- Performance Agreement has been initiated and will be Institutionalized
- Momentum has been built up for long time: Lately, there is a sense of ownership and understanding of the benefits of the reform, especially program budgeting



Thank you for the attention!