



ROYAL GOVERNMENT OF CAMBODIA
STEERING COMMITTEE OF THE PUBLIC
FINANCIAL MANAGEMENT REFORM

2020 Progress Report of Implementing the Public Financial Management

Reform Program- Stage 3

(Unofficial Translation from Khmer Report)

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Abbreviations

ADB	Asian Development Bank
BSP	Budget Strategic Plan
BSRS	Budget System Reform Strategy
CAP	Consolidated Action Plan
CoA	Chart of Accounts
DMFAS	Debt management and financial analysis system
EFI	Economics and Finance Institute
EFMS	Education Financial Management System
FMIS	Financial Management Information System
FMWG	FMIS project Management Working Group
GDB	General Department of Budget
GDCE	General Department of Customs and Excise
GDIA	General Department of Internal Audit
GDICDM	General Department of International Cooperation and Debt Management
GDNT	General Department of National Treasury
GDP	General Department of Policy/ Gross Domestic Product
GDPP	General Department of Public Procurement
GDSNAF	General Department of Sub-National Administration Finance
GDSPNR	General Department of State Property and Non-Tax Revenue
GDT	General Department of Taxation
GFS	Government Financial Statistics
GSC	General Secretariat of Public Financial Management Reform Steering Committee
IMF	International Monetary Fund
LCs	Legal Council Secretariat
LM	Line ministry
MEF	Ministry of Economy and Finance
MoEYS	Ministry of Education, Youth and Sport
MTBF	Medium-Term Budget Framework
MTFF	Medium-Term Fiscal Framework
NAA	National Audit Authority
NAC	National Accounting Council
NRMIS	Non-tax Revenue Management Information System
NSDP	National Strategic Development Plan
PB	Program Budgeting
PFM	Public Financial Management
PFMRC	Public Financial Management Reform Commission
PFMSC	Public Financial Management Reform Steering Committee
SARMIS	State Asset Register Management Information System
TOFE	Table of Fiscal and Economic Operations of the Government
WB	World Bank

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Executive Summary

1. Well-being of the Public Financial Management (PFM) system is the backbone in supporting successful and sustainable policy implementation of the Royal Government of Cambodia (RGC). Since 2005, the PFM Reform Program (PFMRP) has been developing “system, regulatory framework, institutional mechanism, and human resource¹”, which are critical factors for determining success, discipline, transparency, accountability, efficiency and effectiveness in the PFM system.
2. Objective of the 2020 progress report of implementing the PFMRP is not only to review effectiveness of implementing the reform action plan, but also to promote participation from all relevant entities, including entities under Ministry of Economy and Finance (MEF), Line Ministries (LMs), and Development Partners (DPs) in providing input and reflecting their comments on status of the reform as well as the PFM system. On this basis, the 2020 report which is prepared and consolidated by General Secretariat of PFM Reform Steer Committee (GSC), belongs to all stakeholders of the PFMRP.
3. In 2020, MEF formulated and proposed for adoption of 4 laws, including (1) law state property management and utilization, (2) law on commercial gambling management, (3) law on government bond, and (4) Law on the Organization and Functioning of the Non-Banking Financial Service Authority. Adoption of the 4 law shall contribute to strengthening Cambodian PFM system.

Part 1: Further Strengthened Budget Credibility

4. State revenue collection (both current and capital revenue) achieved KHR 23,483,237 million equal to 89.21% of the 2020 budget law in which current revenue was collected in an amount of approximately KHR 23,297,993 million equal to 89.16% of budget law and domestic capital revenue achieved KHR 185 244 million equal to 95.81% of budget law.
5. Tax revenue collection at national level reached KHR 19 259 040 million equal to 91.31% of the budget law in which the tax revenue collection by the General Department of Taxation (GDT) achieved KHR 9,586,819 million equal to 101.50% of the budget law and by the General Department of Customs and Excise of Cambodia (GDCE) achieved KHR 9,672,220 million equal to 83.05% of budget law. The positive growth was supported by the positive increase in corporate income tax, which was partly as a result of the economic activities in 2019, and partly because the Covid-19 has slightly impact on the sectors that are direct tax basis. On the other hand, the overall domestic indirect tax revenue declined, reflecting in the decrease of consumption and personal incomes. The revenue collection by the GDCE is lower than plan due to decreasing in overall international trade flows reflecting the decline in domestic consumption and especially for imported luxury goods.
6. The non-tax revenue collection achieved KHR 1,946,523million equal to 69.16% of the 2020 budget law. This is lower than plan because the Covid-19 pandemic seriously affected sources of the non-tax revenue which are mostly associated to tourism activities (1) benefits from sale of ticket for visiting Angkor Wat temple, (2) benefits from civil aviation, and (3) revenue generated from embassies.
7. Capital and provincial administrations achieved KHR 2,092,431 million equal to 93.76% of the budget law. Of which, tax revenue was collected KHR 1,896 million equal to 92.93% of budget law because of slowdown in sale and purchase of real estate; non-tax revenue was collected KHR 153,671 million or 105.72% of budget law
8. The 2020 budget execution was in the amount of KHR 25,060,047 million equal to 91.84% of the budget law (if compared with budget after rationalization, it executed 93.78%). Quarterly budget execution was slower than targets (Q1=15%, Q2=45%, Q3=67%, and Q4=96%) set in PFMRP, except for Quarter 1 of 2020. For budget execution by type of expenditures (target is set that salary must be at least 98%,

¹ - “system” is not only referred to IT system, but it also refers to operation of LMs in line with the reform context.

- “institutional mechanism” is referred to establishment of mechanism to address issue and implement reform priorities.

- “regulatory framework” is referred to preparing of law, sub-degree, prakas, circular etc. for guiding the reform implementation.

- “human resource” is referred to building and strengthening capacity in leadership, management and technical skills related for enabling effective public financial management reform.

goods/services must be at least 95%, and capital expense must be at least 85%), all are met targets in which salary achieved 98.88%, goods/services achieved 84.51% (if comparison with budget after rationalization, it executed 96.03%) and capital achieved 95.70%.

9. **Fiscal policy implementation:** Despite the impact of the covid-19 pandemic, revenue collection management remains optimistic and will be improved in 2021 and subsequent years with the strengthened expenditure's efficiency. The revenue collection shall be strengthened by further modernizing revenue administration and implementing tax policy, improving key tax functions such as educating taxpayer to increase the compliance levels, managing tax declarations and tax arrears, diversifying new revenue and mobilizing non-tax revenue to reach its potential. The expenditure shall be considered on the priority policy to address the impact of covid-19 pandemic and on the payroll management; while to implement MTFF and MTBF, and to strengthen public investment management and the efficiency of contingent liability management for PPP project.

Part 2: Further Strengthened Financial Accountability

10. The FMIS project was developed and implemented in the 1st phase in 2014 and 2nd phase in 2017. Core modules and budget classifications are incorporated into FMIS in line with its strategic stage.
11. All LMs, 25 capital/provincial departments of economy and finance, 25 capital/provincial treasuries operationalized FMIS. Financial entities and all authorized budget entities operationalized FMIS which comprised 1,662 users by 2020, with a total of 120 sites, in which 70 at central level and 50 at local level (25 capital/provincial departments of economy and finance and 25 capital/provincial treasuries). Moreover, FMIS infrastructures have been installed in 2 additional sites which is the authorized budget entities namely (1) National Council for Social Protection and (2) Supreme National Economic Council. The 2nd phase of FMIS focuses on (1) expanding the FMIS using, (2) developing financial statements exported from FMIS, (3) developing new FMIS modules, (4) further interface with other systems and (5) business process streamlining.
12. Two new modules (budget planning and procurement) will be piloted in 2021 at MEF and Ministry of Woman's Affairs. On the other hand, it is necessary to further strengthen the budget classifications including functional, project, and source of fund classifications.
13. **Reporting and appendices for budget settlement law:** reports and appendices for budget settlement law have been developed per the requirements as well as tested for data accuracy. Additionally, the compliance level of 2019 accounting report in line with IPSAS standard has increased due to two components were improved: 1. disclosure of budget approval times and 2. Disclosure of discrepancies of exchange rates for bank accounts in foreign currencies
14. **The interfacing of FMIS and other IT systems:** FMIS also with DMFAS, ACYCUDA, Tax Data System, NRMIS, NBC, and bank statements of Commercial Banks including (CANADIA, ACLEDA, VATHANAC, CAMPU, J-Trust, and Sathapana bank).
15. The strategic plan for business process streamlining 2020-2025 was adopted in PFMRC meeting on 16 March 2020. Along with this strategic plan, 8 LMs including (1) the Ministry of Economy and Finance, (2) the Ministry of Agriculture, Forestry and Fisheries, (3) the Ministry of Posts and Telecommunications, (4) the Ministry of Labor and Vocational Training, (5) the Ministry of Civil Service, (6) the Ministry of Industry, Science, Technology and Innovation, (7) the Ministry of Health, and (8) the Ministry of Education, Youth and Sports operationalized New business process for payment on salaries and direct payment with low risk (first level).
16. The FMIS blueprint phase 3 (2021-2025) will be launched in the 1st of 2021², covering the expansion of implementing core modules to the 25 capital/provincial administrations, all priority line departments, the full authorized budget entities at the central level, new local levels, and public entities, expanding the implementation of budget planning and procurement modules at all LMs, and further planning and development of state asset and inventory management modules in FMIS. Moreover, it covers on

² Plan to be launched on 25 February 2021, but it was postponed due to the covid-19 outbreak.

strengthening FMIS through further implementing revenue-expenditures automated process and procurement via FMIS as well as strengthening the capacity and system security.

17. State Asset Register Management Information System (SARMIS) has been initiated since 2016 for the purpose of efficient controlling, recording and managing state property at LMs and other using entities. As a result, SARMIS was disseminated and operationalized in first phase in LMs, capital/provincial administrations, and other public entities on 29th December 2020.
18. In order to reinforce the issue of ownership titles for state land, the government adopted Inter-Ministerial prakas no. 1198 MEF-BrK dated 24 December 2020 on the establishment of the inter-ministerial commission to examine and update the location of registered state land at the central level in order to issue ownership titles and Inter-Ministerial Prakas no. 1197 MEF-BrK to examine and update the location of registered state land at sub-national level in order to issue ownership titles. For a detailed action plan, these inter-ministerial commissions will prepare in 2nd quarter of 2021. Meanwhile, GDSPNR will develop a master plan on state property management in medium/long-term in order the strengthen the state propt management sytematically based on decision of PFMRC meeting on 18 February 2021.

Part 3: Budget-Policy Linkage

19. Program budget was introduced in all LMs in 2015-2018 and all capital/provincial administrations in 2017-2021. Totally, there were 914 budget entities; of which 311 were at central level (61 authorized budget entities, 250 are normal budget entities); 603 capital/provincial line departments are all authorized budget entities. 4 LMs are leading in establishing budget entities and upgrading to authorized budget entities. Those LMs include: (1) the Ministry of Economy and Finance (10 authorized budget entities), (2) the Ministry of Education, Youth, and Sport (10 authorized budget entities), (3) the Ministry of Health (10 authorized budget entities), and (4) Ministry of Environment (6 authorized budget entities).
20. Current and capital expenditures are integrated into BSP and PB for three ministries, including the Ministry of Rural Development, the Ministry of Public Works and Transport, and the Ministry of Water Resources and Meteorology. Next stage will be the Ministry of Agriculture, Forestry and Fisheries and the Ministry of Education, Youth and Sports, based on the budget ceiling set in circular on formulating BSP and annual budgeting.

Part 4: Readiness for the Next Stage

21. In the section on readiness for the next stage, MEF has completed formulating main legal documents, including Sub-Decree on Framework, Functions, and Tasks of Inspection and Internal Audit, guiding principle on performance audit, guiding principle on ICT audit, and guiding principle on preparing performance-informed budgeting. MEF has been formulating draft law on public finance system³ (new) and revising sub-decree No. 81 ANKr.BK and sub-decree No. 82 ANKr.BK⁴. In this scene, the readiness for next stage needs more time so that the consolidated action plan stage 3 +2 is a key to build the concrete foundation for platform 4.

Part 5: Support Successful and Sustainable Reform Programs

22. Participating in PFM RP, which is reflected in preparation of action plans (GDAP3/MAP3) and regular progress reports, demonstrated the willingness and responsibility for reform. However, the internal mechanisms for PFM working group at entities under MEF and LMs need to be further strengthened.
23. Incentive scheme for PFM working groups was implemented: PFM RP funds were provided to 467 persons of entities under MEF to 354 persons in LMs. In raising awareness aspect, the Covid-19 pandemic has affected organization of short-term training courses and workshops, but the effect did not impede momentum of the reform.
24. For Capacity Development, EFI shall continue to consider the certificate program in linking with appointment in order to ensure training efficiency in supporting the PFM RP.

³ It will be submitted to Legal Council of MEF in 2nd quarter, to the Council of Minister in 4th quarter of 2021, and to legislative body in 1st of 2022)

⁴ These two sub-decrees are planned along the draft law on public finance system)

25. The financial and technical supports were consolidated in order to ensure the reform momentum and to promote the cooperation with DPs. The DPs' supports both in technical and financial (grant and loan) aspect contribute in addressing challenges of implementing PFMRP as well as for the readiness for next stage. In the stage 3 of PFMRP, DPs, who continued to support PFMRP, include EU, ADB, UNICEF, WB, IMF, France Ministry for the Economy and Finance, SIDA, and the US Treasury Department.

Result of Assessing Public Expenditure and Financial Accountability

26. **Review the progress of PEFA assessment for 3 periods from 2010 to 2020:** Framework for PEFA 2011 is used to review the progress of 3 successive assessments in particular comparison with the results in 2015. According PEFA Assessment with PEFA 2011 framework, the results have shown the improved PFM system by increasing score of 10 PIs including PI-2, PI-6, PI-7, PI-10, PI-13, PI-14, PI-19, PI-21, PI-23 and PI-25. Based on PEFA 2020 by using 2016 framework, it shows that **(1) Fiscal discipline:** Expenditure management shows better control; however, the RGC needs to address expenditure arrears (definition of expenditure arrears and old foreign debt), further strengthen revenue forecasting and tax administration (tax payer compliance, and risk assessment), and monitor PAEs and PEs for financial management. **(2) Strategic allocation of resources:** orderly and timely prepare annual budget in accordance with budget calendar; however, it is important to strengthen comprehensiveness of budget document. Medium-term budget is in the development stage, i.e. MTBF is in the piloted stage and MTFB is drafting. **3. Efficient service delivery:** it could not be effectively assessed because of lacking monitoring and evaluation system, limited transparency/competitiveness in public procurement, and limited publishing of budget documents by service delivering LMs.
27. The RGC made many key achievements in building PFM system in line with international standard and best practice. In 2020, implementation of PFM reform program encountered some challenges that need to be addressed as following:
 - (1) Even though the revenue mobilization was affected by covid-19 pandemic, but it achieved good results. The tax revenue structure is yet not strong that could ensure long-term sustainability. Collection of non-tax revenue still has much potential to explore. Most importantly, institutionalization of non-tax revenue collection and management could be further improved.
 - (2) **FMIS is a core system of financial accountability.** It has been rolling out to all LMs. Expenditure-revenues at both national and sub-national levels have been completely recorded in FMIS system by seven budget classifications and chart of accounts. Monthly, quarterly, semi-annual and annual financial reports and balance sheet can be produced from FMIS system. However, it has not been able to produce comprehensive reports and to automate the budget execution. It means that the budget execution has done through both in the system and the paperwork.
 - (3) **PB and budget entity implementation:** MEF pays attention to improving guideline for implementing program budget and strengthening implementation of circular content in an attempt to transform public finance system into a policy tool for efficient and effective resource allocation and utilization. Despite the fact that PB is implemented in all line ministries, its quality is still limited in term of content, structure, and performance. Moreover, preparation of PB in some LMs still follow administrative structure, resulting in weak linkage of program with policy objective, and the linkage between program and actual implementation. Furthermore, some LMs continue to centrally manage its budget by allowing for a few budget entities, and thus, little budget is allocated to manage by implementers. In this regard, LMs should strengthen capacity of budget entities and review feasibility of qualification for increasing the normal and authorized budget entities.
 - (4) Procedures for executing budget have been streamlined, but it is not able to ensure timeliness, compliance and predictability yet. This is not the work of MEF alone, but also of the LMs. MEF has revised some procedures already, so LMs need to streamline their respective internal procedures to enhance effectiveness and transparency.

- (5) The state property management, which is a part of public resource management, remains a challenge. The management of state assets, both financial and non-financial assets, requires more attention as other reform areas are well advancing.
 - (6) MTBF was piloted in 2019 and was gradually implemented to guide the BSP preparation. MTFF was finalized within MEF and was not sent to Council of Minister for review and adoption. Both MTBF and MTFF attempts to set medium-term budget by sector and LMs.
 - (7) Strengthening internal control is not yet effective. While budget formulation is based on program, organizational management needs to further modernized by delegating more authorities to the implementers that leadership and management of the program shall be responsible for performance monitoring and achievement of the performance targets. In term of financial accountability, there should be strengthened functions of internal audit and inspection in the LMs.
 - (8) It is necessary to build capacity for financial management, both at national and sub-national administrations, so as to support and respond to the needs of PFM reform, particular toward the performance informed budgeting.
28. Based on result of 2020 monitoring report, the PFM Reform Steering Committee evaluates the progress of implementing the PFM reform action plans and conclude that:
- ◆ **Budget remains credible that has become a catalyst to support and reinforce economic growth, but albeit the effect of Covid-19 pandemic, effort should be dedicated to diversify revenue and strengthen efficiency in budget execution.**
 - ◆ **Key pre-requisites for financial accountability** is built and further strengthened to ensure accountability and internal control system so that financial resources are used effectively, efficiently and transparently. FMIS has been strengthened in term of budget classification implementation and coverage of government entities to significantly facilitate budget and cash management.
 - ◆ **Program budgeting framework has been developed**, strengthened, and expanded for implementation; and has become a tool for linking budget with government policy.
 - ◆ **Key pre-requisites for performance accountability are progressively built**, but still remain in elementary stage. Nonetheless, key prerequisites are identified and incorporated into CAP3+2.
 - ◆ **Capacity of line ministry's officials in PFM is progressively strengthened** and their awareness and involvement in the PFMRP have also increased.

1. Introduction

1.1. Overall Aspects of Public Financial Management Reform Program

1. The Public Financial Management Reform Program (PFMRP) was launched under the leadership of **Samdach Akka Moha Sena Padey Techo Hun Sen, Prime Minister of Kingdom of Cambodia**, on 05th December 2004 in an attempt to transform Cambodian PFM system toward international best practices. The reform was well-designed and embraces the Platform Approach for carrying out in four stages.
2. Implementing during 2004-2008, **Stage 1 “Budget Credibility”** addressed the chronic cash shortages through completely eliminating expenditure arrears that adversely affected the timeliness and regularity of payroll to civil servants and arm forces. Creating Treasury Single Account (TSA) to consolidate all accounts of the Royal Government (RGC) was an important basis for stepping toward Stage 2.
3. **Stage 2 “Financial Accountability”** has been implemented during 2009-2015, and in the period, the RGC improved budget execution procedures, implemented new budget classifications and new Chart of Accounts (COA), and subsequently launched the Financial Management Information System (FMIS).
4. **Implementing in 2016-2020, Stage 3 “Budget-Policy Linkage”** has gradually changed the budget system from “an input and centralized basis” toward “a performance and decentralized basis” through expanding and strengthening the implementation of Budget Strategic Plan (BSP), Program Budgeting (PB), budget entities, and the continued implementation of Stage 1 and Stage 2 reform agenda. The Stage 3 of PFMRP is delayed for two years to finalize all unfinished works and to build the concrete foundation in the Stage 1, Stage 2, and Stage 3.
5. The delay in transition to Stage 4 aims to build all pre-requisites for implementing performance -informed budgeting which is the key to incubate “performance culture” in the whole government. A consolidated action plan for the period 2021-2022 (CAP3+2) is formulated based on a review of CAP3 structure, revision of activity bundles, and change in focus from reform activities to reform performances. This change is a foundation for preparing the CAP4 in 2023-2027.
6. **Stage 4 “Performance Accountability”** is expected to get implemented in 2023-2027. The Budget System Reform Strategy (BSRS) 2018-2025 sets “Performance-Informed Budgeting” as the model to direct budget system reform. The strategy has retained original objective of implementing full-fledged program budget for linking budget with policy in 2020, and then, will start to implement performance budgeting from 2022 onwards by gradually strengthening performance/outcome information and accountability to have adequate time and sufficient readiness for implementing full performance budgeting in 2025. In early 2019 under the BSRS framework, the RGC adopted four strategies: (1) Revenue Mobilization Strategy 2019-2023 to modernize revenue collection system and sustain revenue growth, (2) Public Investment Management Reform Strategy 2019-2025 to develop a national public investment management system for enhancing responsiveness, efficiency, effectiveness, transparency, accountability in distributing and utilizing public resources in line with international context and best practices so as to contribute for accelerating economic diversification and competitiveness, (3) Budget System Reform Strategy for Sub-national Administration 2019-2025 to focus on enhancing efficiency, transparency and accountability in public resources management by reforming sub-national administration in phases responsive to and consistent with principles for formulating and executing one national budget system, and by integrating and aligning development programs of sub-national administrations with sectoral policies and the development priorities of the locality, (4) Public Procurement System Reform Strategy 2019-2025 to focus on increasing efficiency, transparency, accountability in managing budget executing operation, especially through increasing the threshold for decision making to responsible procurement entities in line ministries, sub-national administrations and other public organizations.

Table 1: The modification of CAP in PFMRP Stage 2, 3 and 3+2

Structure of CAP	CAP2	CAP2 New	CAP3 2016-2020	CAP3 2017-2020	CAP3 2018-2020	CAP3+2
Parts	3	4	5	5	5	5
Objectives	14	16	21	21	21	19
Cluster Activities	62	71	68	69	68	59

1.2. Economic Status

7. Following more than two decades of strong economic growth, Cambodia has attained the lower-middle-income status in 2015 and was called “New Tiger Economy” in Asia in 2016. The achievement of economic growth in average of 7% per annum has distributed the benefits to government officials and arm forces through the increase of annual salary and to people through job creation and infrastructure development. The RGC has vision to develop Cambodia into “higher-middle-income status” in 2030 and “high income status” in 2050.
8. The Cambodian economy grew at around 7.1% in 2019 as driven by garment, construction, real estate, retail, and transportation and telecommunication. The inflation rate was approximately 1.8% and the exchange rate around 4055 riels/USD. The growth caused GDP per capita to grow to USD 1,700. However, due to effects of covid-19 pandemic, withdrawal of EBA and flood, the economic growth in 2020 was -3.1%. Agriculture sector grew by 0.5%; industrial sector dipped by 1.2%; and the service sector dropped by 6.7%.

Table 2: Economic Indicators 2016-2020

Economic Indicators	2016	2017	2018	2019	2020 Proj.
GDP at current price (Million USD)	20,159	22,180	24,640	27,016	26,731
Real GDP (% increase)	6.9	7.0	7.5	7.1	-3.1
Agriculture Sector	1.3	1.7	1.1	-0.5	0.5
Industry Sector	10.6	9.7	11.6	11.3	-1.2
Service Sector	6.8	7.0	6.8	6.2	-6.7
GDP Per Capita (USD)	1,308	1,429	1,563	1,700	1,653
Inflation in Riels (% increase, year average)	3.0	2.9	2.5	1.8	2.9
Exchange rate (riels/USD)	4,056	4,045	4,045	4,055	4,065
Current account balance (% of GDP) (including transfer)	-19.2	-19.3	-23.7	-28.7	18.3
Foreign reserve (months of importing G&S)	6.6	8.0	8.0	7.9	11.6

Source: (1) macroeconomic and public financial policy framework for preparing the 2021 draft budget law, (2) 2019 monitoring report of Cambodia macroeconomics, (3) presentation documents about Cambodian economic status and outlook in 2020-2021.

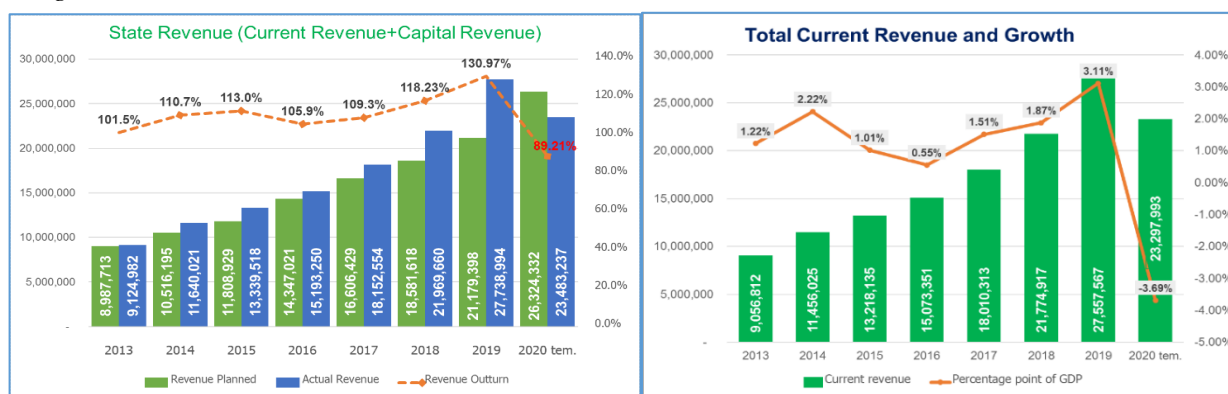
9. As an economic prospect and covid-19 recovery plan, the RGC has uphold three approaches to stimulate the economy in 2021-2023:
 - ◆ **Survival:** stimulate economic recovery, fight off covid-19 infection, stabilize living condition and business in hard-hit sectors as well as sectors of high potential for job creation and domestic consumption. In this framework, the RGC will continue to provide existing social assistances and cash for works.

- ◆ **Reform:** (1) accelerate production, service and market diversification, (2) increase competitiveness by focusing on improving enabling environment and trade facilitation for investment and business, and (3) promote digital economy to overturn effect of covid-19 into opportunity.
- ◆ **Resilience:** develop inclusive and sustainable economy through (1) strengthen institutional capacity, investment in key infrastructure, human resource development, social protection and health system, (2) ensuring sufficiency of domestic resources by expanding fiscal space, resiliency of financial sector, and increasing domestic sources of finance (e.g. government bond), and (3) reducing dependence on external market by diversifying and building domestic economy, including green growth to balance between development and climate change.

1.3. Public Financial Management Status

- In an economic status as lower-middle-income country, Cambodia faces major challenges such as (1) decrease of grant and concessional loan for financing public investment, (2) rising burden in expenditure for government official, (3) rising needs in public investment for supporting economy while the regulatory frameworks for managing the investment are being developed.
- State revenue collection (both current and capital revenue) achieved KHR 23,483,237 million equal to 89.21% of the 2020 budget law in which current revenue was collected in an amount of approximately KHR 23,297,993 million equal to 89.16% of budget law and domestic capital revenue achieved KHR 185 244 million equal to 95.81% of budget law.
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- The non-tax revenue collection achieved KHR 1,946,523million equal to 69,16% of the 2020 budget law. This is lower than plan because the Covid-19 pandemic seriously affected sources of the non-tax revenue which are mostly associated to tourism activities (1) benefits from sale of ticket for visiting Angkor Wat temple, (2) benefits from civil aviation, and (3) revenue generated from embassies.
- Capital and provincial administrations achieved KHR 2,092,431 million qual to 93.76% of the budget law. Of which, tax revenue was collected KHR 1,896 million qual to 92.93% of budget law because of slowdown in sale and purchase of real estate; non-tax revenue was collected KHR 153,671 million or 105.72% of budget law as explained in paragraph #13 and illustrated in diagram #1.

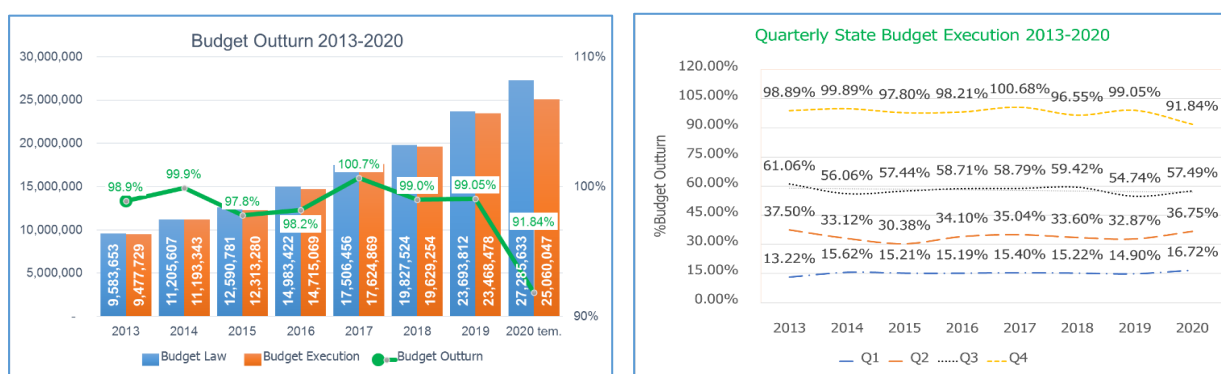
Diagram 1: Revenue Collection 2013-2020



Source: GDNT and GDP (the 2020 data is updated on 29th January 2021)

15. Diagram #2 below shows a contemporary data that the 2020 budget execution was in the amount of KHR 25,060,047 million equal to 91.84% of the budget law (if compared with budget after rationalization, it executed 93,78%). Quarterly budget execution was slower than targets (Q1=15%, Q2=45%, Q3=67%, and Q4=96%) set in PFMRP, except for Quarter 1 of 2020. For budget execution by type of expenditures (target is set that salary must be at least 98%, goods/services must be at least 95%, and capital expense must be at least 85%), all are met targets in which salary achieved 98.88%, goods/services achieved 84,51% (if comparison with budget after rationalization, it executed 96,03%) and capital achieved 95.70%. Many factors cause the accumulation/pile-up/delay of expenditure to Quarter 4, including capacity of budget entities, unclear preparation of budget plan, many instances of budget adjustment and regulation across program, sub-program and activity, slow settlement of cash advance and incentives, and slow start of domestically funded investment projects etc. In order to address the Q4 expenditure pile-up, MEF has taken some intervention measures, including (1) line ministries (LMs) must attach table of petty cash and procurement plan along with their annual budget proposal, (2) MRD, MPWT, and MOWRAM must prepare recurrent and capital budget proposals simultaneously while preparing 2021 budget proposal, (3) LMs shall clearly prepare their expenditure program with participation from financial and implementing entities (normal budget entities and authorized budget entities), strengthen the annual budget plan, accelerate disbursement since beginning of the year, and reduce procedures for review or accelerate the flow of internal documentation.

Diagram 2: Budget Execution in 2013-2020



Source: GDNT (as of 29th January 2021)

16. In managing public debt, the RGC embraces a prudential manner by strictly upholding 5 key principles in the Public Debt Management Strategy 2019-2023. The status of Cambodian public debt is gradually improved. Evidently, based on debt sustainability analysis, ratio of the five debt-management indicators is below thresholds (Table #3). Based on international standard, the figures suggest that status of Cambodian debt is “sustainable” and “low risk”.

Table 3: Public Debt Management Indicator 2018-2020

Indicators	Threshold	2018	2019	2020 est.
1. Present value of total public debt				
As % of GDP	55	21.48	20.78	24.04
2. Present value of public and publicly guarantee external debt				
As % of GDP	40	21.46	20.78	24.04
As % of Revenue	180	28.4	26.7	32.8
3. Public and publicly guarantee external debt service				
As % of Export	15	1.4	1.5	1.8
As % of Revenue	18	4.9	4.5	6.3

Source: Public Debt Statistical Bulletin volume 10 (page 12)

17. Passing the difficulty of 2020, the Cambodian PFM status appeared good, reflected in the sustainability of collection of revenue that did not fall in landslide and the capability of re-allocate in-year expenditure to respond with emerging priorities for addressing economic and social challenges. This resiliency clearly illustrates that effort of PFM reform yield positive result in building a financial system that serves as a “policy instrument” for socio-economic development.

1.4. Rationales and Objectives

18. The 2020 annual progress report of implementing PFMRP Stage 3 does not only review the implementation of the reform action plans, but it also increases the participation of the reform stakeholders such as entities under MEF (including provincial departments of MEF), LMs, and development partners. On this basis, the 2020 report belongs to all actors of the PFMRP.
19. The 2020 report is prepared through a comprehensive methodology. First, GSC prepares questionnaires with focus on KPIs of the reform for MEF entities and LMs to provide information. GSC also asks development partners to provide comments/inputs related to status of PFM reform in revenue mobilization/management, FMIS implementation, BSP/PB implementation, capacity development, and preparation for transitioning to the next PFMRP stage.
20. The 2020 report is organized as following:
- ◆ Progress of implementing PFM reform
 - Implementing the executive orders of PFM reform steering committee in 2020⁵
 - Managing revenue and expenditure in the context of uncertain economy
 - Interfacing of FMIS and other IT systems with focus on progress, challenge and resolution
 - Preparing financial and performance reports at line ministries
 - Sub-national budget system (focusing on financial and functional delegation)
 - ◆ Content of discussion with line ministries via video conference and with Phnom Penh, Kandal, Kep, Sihanouk Vile, and Prey Veng departments of economy and finance
 - ◆ Result of evaluating PFM system by comparing progress made in PEFA 2010, 2015 and 2020
21. Based on the review of progress in implementing the CAP, performances of the reform by LMs and MEF entities are consolidated by Objective and Part, but scope of the consolidation covers only the LMs in social and economic sectors, and focuses on key areas such as (1) improving efficiency of state property management, (2) strengthening and expanding the implementation of FMIS, (3) enhancing the effective implementation of program budget, (4) strengthening the preparation and implementation of annual audit and inspection program (oversight system), audit and inspection plans at LMs, and submission of reports to National Audit Authority.

⁵ In the executive orders, GSC selected from all parts of the CAP3.

2. Annual Progress of Implementing PFMRP in 2020

2.1. Implementation of Consolidated Action Plan Stage 3

Part 1: Further Strengthened Budget Credibility

22. **Part 1: “Further Strengthened Budget Credibility” focuses on four objectives**, including (1) strengthening revenue management and collection implementation, (2) further strengthening debt management, (3) strengthening account and cash management, and (4) improving budget execution and strengthening implementation of budget execution plan. Moreover, this part examines smooth and predictable execution of quarterly and annual revenue and expenditure, which shall variate between +/- 5% of the budget law.

Objective 11: strengthened revenue management and collection implementation

23. **Reviewing the implementation of Revenue Mobilization Strategy (RMS) 2019-2023:** General Department of Policy (GDP) prepared semester and annual report of implementing the RMS in 2019 and 2020. As of first semester of 2020, the RMS implementation achieved 78 activities or 61% of the total 129 activities to be implemented in 2019-2023. The 2020 annual outputs are pending consolidation in quarter 1 of 2021.
24. **Strengthening the analysis and forecast:** GDP forecasts revenue using Elasticity Approach. This forecasting model⁶ provides projection of six types of revenue: (1) corporate income tax, (2) domestic indirect tax, (3) indirect import tax, (4) international trade tax, (5) sub-national tax, and (6) non-tax revenue, and it is based on economic progress that provides proxy tax base. Data circulation between GDP and General Department of Taxation (GDT) and General Department of Custom and Excise (GDCE) still needs to have formal request letter. The submission of progress reports and sharing of information and data to RMS Secretariat is not timely that affects smooth monitoring of RMS implementation.
25. **Registration and updating of enterprises information in 2020:** GDT registered 11,528 or 39.9% of 28 835 enterprises that are unregistered in the enterprise survey in 2017 and 2018.
26. **Modernization of tax administration system:** GDT finished the development and operation of Double Tax Avoidance (DTA), online DTA, E-filing, E-payment, e-VAT refund, and tax arrears systems.
27. **Interfacing of Tax Data System and ASYCUDA:** GDT and GDCE agreed to pilot the interfacing of the systems on 25th November 2020 after successful technical tests and expected to be officially launched in January 2021. Data requested and transferred through the interfaced system are: enterprise registration data, tax declaration data, sale-purchase journal, information of custom declaration on import and export of goods and some other types of data. The exchange of data is important for effective, efficient, accountable and transparent collection of tax revenue, and to ensure level-playing-field in the business competition because it could prevent tax fraud and evasion.
28. **Interfacing of Tax Data System and FMIS:** on 23rd September 2020, MEF operationalized the interfaced system between tax data system and FMIS, which automatized two important functions: (1) the transmission of revenue budget data from the tax data system to FMIS, which replaced the lengthy and paper-based process of issuing vouchers for payment of revenue by national and sub-national administrations, and (2) the transmission of tax revenue data after withholding by General Department of National Treasury (GDNT) and Capital-Provincial Treasury from FMIS to tax management system with clear and detailed specification of tax types.
29. **Reducing the total collectable tax arrears:** GDT reviewed and verified the tax arrears of some enterprises that had been settled and disputed, and sent the tax arrears data in Excel file along with reference documents to get entered into the new tax arrears system. In addition, MEF adopted the Prakas 962/MEF dated on 20th November 2020 to manage tax arrears and develop new tax arrears system for collecting and managing tax revenue in IT system. GDT also modified business process for entering tax arrears data into the system and took measures to address unsettled tax arrears. 498 enterprises of priority

⁶ The forecasting model provides to two benefits: (1) the model is simple that it is easy for operating, and particularly fit with existing data set, and (2) the model is flexible for incorporating or calculating add-on factors that affect tax policies and structure, strengthens tax payer's compliance, and other one-off factors.

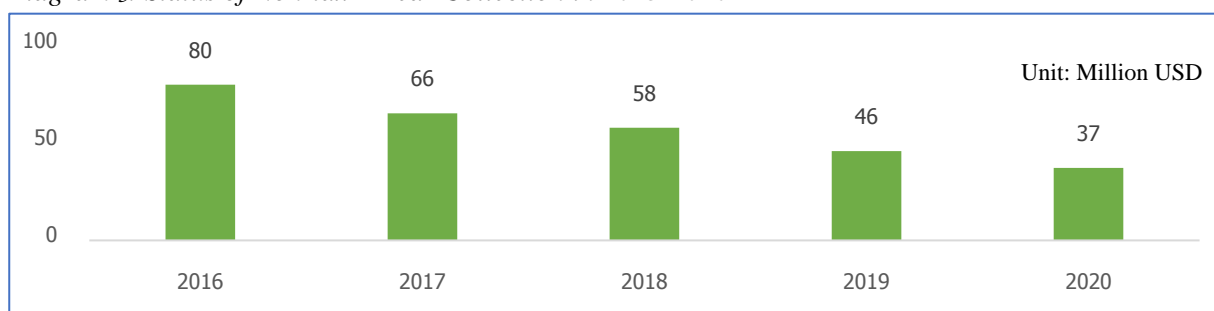
arrears were strictly reinforced to pay the tax arrears. In 2020, GDT collected 1 141 731 million riel of tax arrears and the collection in 2019 was KHR 1 089 910 million. Moreover, GDT classified enterprises with the tax arrears into 3,199 collectables (aging less than 3 years) enterprises and 5,085 uncollectable (aging more than 3 years) enterprises as shown in table 4.

Table 4: Number of Enterprise with Collectable and Uncollectable Tax Arrear

No.	Description	Number of Enterprises		
		Total	Large	Small-Medium
1	Collectable tax arrears (age less than 3 years)	3,199	1,050	2,149
2	Uncollectable tax arrears (age more than 3 years)	5,085	1,361	3,724

30. **Simplifying and modernizing custom business process and operation:** GDCE reformed business process and operation by: modernizing the IT system, operationalizing one-window service, revising guideline and process of container scanning, implementing the sub-degree about goods in the ban and limitation list to facilitate trade by managing risk, accepting certificate of origin from recognized exporters, and addressing challenges and requests of private sector in the Custom-Private Sector Partnership Mechanism. Furthermore, in implementing the measure to increase Best Businessmen and Authorized Economic Operators (AEO), MEF recognized 10 additional companies as Best Businessmen members, that totally there are 40 Best Traders now.
31. **Modernizing the custom operation management system:** GDCE improved the electronic transaction function and operationalized it with Canadian Bank and Acleda Bank.
32. **Expanding the scope of implementing National Single Window (NSW):** NSW was operationalized by GDCE, Council for Development of Cambodia (CDC), Ministry of Health, Ministry of Industry Science Technology and Innovation (MISTI), Ministry of Commerce (MOC), and in 2021, Ministry of Agriculture Forestry and Fisheries (MAFF) will operationalize the NSW as well.
33. **Reducing the collectable non-tax arrears:** MEF adopted the Prakas 1195 dated on 22nd December 2020 to determine the measures and procedure for managing, strictly reinforcing collection, and writing off non-tax arrears. For the time being, the preparation of non-tax arrears classification table is not yet finished. In 2016, the non-tax arrears amount USD 80,236 679 were reduced to USD 37,325,155 in 2020.

Diagram 3: Status of Non-tax Arrear Collection in 2013-2020



Source: GDSPNR

34. **Strengthening the state property management:** Law on state property management and utilization was effective on 14th November 2020, and will be implemented through preparation of regulatory framework such as: (1) sub-decree on procedure for transfer to be state property, (2) sub-decree on detailed procedure for transforming action, (3) sub-decree on procedures for confiscation into state property, (4) sub-decree on measures and procedures for leasing state public property and state private property, (5) sub-decree on measures and procedures for sale and exchange of state private property, sub-decree on measures and procedures for sale, purchase, exchange, and leasing of state property abroad, (6) sub-decree on measures and procedures for restitution, (7) sub-decree on measures and procedures for providing economic and social concessional lands, (8) sub-decree on measures and procedures on provision, management and

monitoring of public service, and (9) sub-degree on measures and procedures for payment of revenue on management and utilization of state property.

35. **Law on commercial gambling management:** the law was adopted by the National Assembly on 05th November 2020 and put for implementation on 14th November 2020. Currently, a sub-degree on establishing the general secretariat of Cambodian Bond Committee and the Prakas for establishing associated departments of the general secretariat are being drafted.
36. **Expanding the utilization of Non-tax Revenue Management Information System (NRMIS):** In 2020, all 23 revenue-collecting ministries and provincial departments operationalized the NRMIS. However, utilization of NRMIS in MAFF (economic concessional land) and in Ministry of Mine and Energy (mine resource) was not fully operational because a few more functions need to be supplemented. In 2021, NRMIS was operationalized in Phnom Penh Capital Administration, and later, the NRMIS will be operationalized at District-Khan Administration in 2022, and at Commune/Sangkat in 2023. This expansion is progressing very fast that needs to be cautious and strengthens the management capacity.
37. **Using electronic payment (e-Payment):** General Department of State Property and Non-tax Revenue (GDSPNR) has developed and operationalized e-payment for non-tax revenue collection in Phase One in three LMs: MEF, Ministry of Land Management, Urbanization and Construction, and MAFF through a MEF circular 010 and instruction 030 on 10th November 2020. 10 additional LMs will operationalize the e-payment in 2021, and another 10 additional LMs will also operationalize the e-payment in 2022.
38. **Reviewing the contract of all economic land concession:** in compliance with adopted legislations and rental fee of leasing economic land, specialized office and inter-ministerial working group have reviewed and revised leasing contract of 67 companies in 2020, which are among the total 229 companies that received the economic land concession.
39. **Preparing request for approval on setting leasing rental fee and conditions for leasing contract of state property:** in the covid-19 context, the request was delayed until situation gets better. This delay was approved by Deputy Prime Minister, Minister of Economy and Finance.
40. **Preparing draft law on non-tax revenue management:** this draft law was consulted among Management Member of MEF entities and with Legal Council of MEF for many times in Quarter 4 to ensure comprehensiveness of technical content and cover an implementable scope before submitting to MEF Management. The law consists of non-tax revenue such as revenue from state property, revenue from state-owned enterprise and other financially autonomous entities, revenue from public service, revenue from fine and penalty, and other types of non-tax revenue. This draft law will be submitted to Council of Minister in 2021 and the Legislative bodies in 2022.
41. **Amending royal decree about general conditions of state-owned enterprises:** GDSPNR has amended the royal decree by inserting new contents based on advices obtained through two-round of meeting among Working Group members. This amendment will be finalized in 2022.
42. **Preparing the blueprint for non-tax revenue system reform:** this work receives technical support from expert in World Bank, and an inception report has been finalized. Technical working group continues to prepare the blueprint. This blueprint is an important document to guide the preparation of regulatory frameworks for non-tax revenue management, so it should be finalized in Semester One of 2021.
43. **Preparing the Public Financial Management Manual (PFMM) of the RGC:** GSC convened first consultation workshop on the draft PFMM with entities under MEF, LMs, Public Administration Entities, State-own Enterprise, Sub-national administration, specialized provincial departments and development partners. GSC plans to convene the second consultation workshop before submitting to PFM Reform Commission and PFM Reform Steering Committee for review and advice. The PFMM will be finalized in 2021.
44. **Definition of expenditure arrears:** technical working group⁷ for preparing roadmap and action plan to address expenditure arrear was established through Decision Order No.085. MEF dated on 31st December 2020. The working group is preparing procedure for revising contract of consultants, who is working on PFMM, so that the consultants can also work on the Expenditure Arrear work. This work will be finalized in 2021 and adopted for implementation in 2022.

⁷ This working group consists of members, including GSC, GDNT, GDB, GDPP, GDSNAF, GDP, GDIA, GI, and FMWG.

45. **Transferring mission allowance through banking system:** The MEF issues a Circular No. 012 dated on 29th December 2014 on the direct transfer of mission allowance to payroll account of government officials, but implementation is under the authority of individual LM and entities responsible for implementing the circular. Only 8 LMs implemented the disbursement of mission allowance through bank accounts while Ministry of Education Youth and Sport started to implement this disbursement for domestic mission for budget entities at capital/provincial departments of education, youth, and sport in 2015, and for central level in 2021.

Objective 12: Further Strengthened Debt Management

46. **Monitoring the implementation of Public Debt Management Strategy 2019-2023:** GDICDM, an operational arm of Public Debt Management Steering Committee prepared quarterly and annual report of the debt strategy implementation and issues regularly the quarterly and annual bulletin on Cambodian Public Debt Statistics. Moreover, the draft updated Standard Operation Procedures for public debt management and updated Prakas for implementing the guideline and procedures for managing fund disbursement to state-owned enterprise, public institutions, public entity, and banking institution were prepared and expected to be endorsed by quarter 4 2021.
47. **Developing information system for managing contingent liability:** Inter-ministerial working group was established through decision No. 017/MEF dated on 12th March 2020 to study and compile data related to contingent liability. Likewise, GDICDM has developed and is piloting a contingent liability management information system.
48. **Managing government bond sector:** In order to push for developing government bond, the RGC has developed new law on government bond launched on 26 December 2020 instead of 2007 law on government bond (old). In addition, MEF has established the technical work group to formulate the policy framework on government bond development through decision 071 MEF dated 06 November 2020. With the support of key development partners, this technical working group has been preparing a preliminary draft of the policy framework, which is a roadmap for the developing government bonds. Next step, this draft will be put for consultation with LMs and relevant DPs and submitted to PFM Reform Steering Committee or Public Debt Management Commission or Economic and Financial Policy Steering Committee before submitting to prime minister for endorsement in end of 2021. MEF will draft sub-degree on issuing and managing government bond, sub-degree on committee for managing the government bond, draft strategy about Cambodian government bond development, draft Prakas about operation of the government bond, draft guideline for operating government bond, checklist on sufficiency for operating government bond in Cambodia, and draft roadmap for issuing government bond.

Objective 13: Strengthened cash and account management

49. **Continuing the improvement and strengthening the preparation of cash plan⁸:** Cash plan implementation enhances cash management based on principle and procedure for entities in LMs to accurately and timely forecast cash flow and day-end balance at Treasury Single Account (TSA). The forecast has been improved to manage the cash flow at around +/-5%, and the cash plan has been prepared regularly to have data table for uses. The Online Web-based Application has been continuously piloted with 37 LMs. Capacity of officer using the Online Web-based Application at LMs is limited. GDNT could know the size/volume of cash flow at LMs and could forecast the cash requirement in advance to make cash flow more efficiently and timely in line with the PFM reform.
50. **Cash plan of LMs could be entered into the cash management system:** 23 LMs have entered data into the cash management system. However, 11 other LMs have not; they are: (1) MEF, (2) Council of Ministers (COM), (3) Ministry of Defense (MOD), (4) MoEYS, (5) MISTI, (6) Secretariat of Civil Aviation (SCA), (7) Ministry of National Assembly-Senate Relations and Inspection (MONASRI), (8) Ministry of Cult and Religion (MCR), (9) National Audit Authority (NAA), (10) Ministry of Social Affairs, Veterans and Youth Rehabilitation (MOSAVYR), and (11) Ministry of Planning (MOP). Other three ministries could be not contacted; they are Ministry of Interior (MOI), Ministry of Commerce (MOC), and Ministry of Culture and Fine Art (MOCFA). Failure to enter this date could affect coordination or assignment of officer in the LMs.
51. **Payment via electronic transfer (E-transfer):** Key functions and importance of the E-transfer⁹ are to facilitate direct and timely transfer of cash to client accounts by reducing time of bring cheque to bank for processing the transfer. E-transfer function is already interfaced between online banking system (OBS)

⁸ Preparing revenue-expenditure program and preparing cash plan are not the same. Revenue-expenditure program is summation of all revenue-expenditure in the total budget. Cash plan, however, is summation of executed revenue-expenditure.

⁹ Number of text characters are increased to 256.

in National Bank of Cambodia and the FMIS. It enables all payments to the clients to be processed from FMIS to OBS, and then GDNT will transfer the payment from OBS to clients account. Currently, GDNT is cooperating with Canadian Bank and IT Department of MEF to interface with E-transfer of Canadian Bank and to expand the E-transfer to capital and provincial treasury in 2021. As a way forward, 50% of total expenditure will be processed through E-transfer in 2021-2022.

52. **Accelerating cash advance settlement:** Cash advance has been recorded in detail by all individual LM for regular monitoring and analysis. As of 14th December 2020, balance of cash advance at LMs, that was not settled in 2017-2019, amounted to KHR 172.34 billion. This work will be continuously implemented in CAP3+2.
53. **Strengthening petty cash expenditure:** In 2020, GDNT cooperated with relevant GDs/MEF to revise and adopt the Prakas No.663.MEF dated on 28th July 2020 about procedure of petty cash expenditure at national administration in 2021, which sets the maximum rate and threshold for each account of spending category and also reduces the maximum spending receipt from 5 million riels to 3 million riels.
54. The RGC has been successfully disbursing payroll via banking system. However, disbursing mission allowance via banking system is limitedly progressing that only 8 LMs prepared and implemented the disbursement via banking system; they are (1) CDC, (2) Ministry of Civil Service (MCS), (3) SCA, (4) MOC, (5) Ministry of Royal Palace (MRP), (6) The Supreme Council of Magistracy (SCM), (7) MOI-general administration, and (8) MEF.

Objective 14: Improved Budget Execution and Budget Expenditure Plan

55. Objective 14 focuses on implementing the Public Procurement System Reform Strategy 2019-2025 and the Public Investment Management System Reform Strategy 2019-2025. Detailed action plan of the two strategies was adopted by PFM Reform Steering Committee on 16th March 2020.
56. **Implementing circular about preparing annual procurement plan:** As of 30th December 2020, budget entities and procurement units that submitted their 2021 draft procurement plan to MEF got their plan adopted as following:
 - **Procurement unit:** 106 units (93.80%) submitted the procurement plan, and the plan of 103 units (97.17%) was completely approved.
 - **Budget entities:** 570 entities (89.48%) submitted their procurement plan, and the plan of 544 entities (95.44%) was completely approved.
57. **Submitting the 2020 procurement report to MEF:** As of 29th January 2021, six LMs have not submitted the report to MEF; they are: MRD, MOWRAM, MLMUC, Ministry of Foreign Affairs and International Cooperation (MFAIC)¹⁰, MOI-public security, and the Kandal provincial administration. Additionally, 305 budget entities (47.74%) have not submitted the 2020 procurement report to MEF. This work needs to be addressed before implementing phase two of procurement decentralization in 2022¹¹, phase three of procurement decentralization in 2025, and for ensuring transparency and accountability.
58. **Developing standard pricing system for implementing public procurement:** General Department of Public Procurement (GDPP) has prepared Term of Reference for selecting local companies for developing standard pricing system for implementing public procurement.
59. **Conducting Feasibility Study about electronic government procurement system (e-GP):** working group of GDPP has cooperated with working group of KSP-ITC in Republic of Korea to research about the development of e-GP, and has prepared a report to outline the development of e-GP for Cambodia.
60. **Amending the public procurement law:** working group of GDPP has been researching documents and related legal framework to base for drafting the new public procurement law. Moreover, because international consultant for amending the law has not been able to recruit yet, the amendment is progressing slowly. As an intervention, GSC is coordinating with GDPP and EU to recruit an international consultant that could be placed for work in the end of Quarter One of 2021.
61. **Strengthening the preparation and execution of budget expenditure:** General Department of Budget (GDB) has revised and put a new format of program-based revenue and expenditure for implementation. The format was previously implemented based on Function Budget Classification only. As a way forward, GDB will develop a format in 2021-2022 for LMs to prepare their operational plan and to pilot the implementation in 2023.

¹⁰ MFAIC submitted the procurement report to MEF by 02 February 2021.

¹¹ Procurement decentralization is carried out in three phases: phase 1 in 2019, phase 2 in 2022, and phase 3 in 2025. MEF has already decentralized the phase 1 of procurement by increasing amount of procurement fund to be responsible by LMs with direct procurement, as stipulated in Prakas No. 010 MEF dated on 14th January 2019 on threshold fund for public procurement decision.

62. **Reviewing and updating regulatory framework for petty cash expenditure:** relevant entities convened a meeting about synchronizing the procedure and recording transactions in the FMIS, and as result, knowledge of the meeting was put for implementation in the 2020 petty cash expenditure of the LMs. The meeting also discussed challenges in executing the petty cash expenditure procedures.
63. **Finalizing the draft law on public private partnership:** the draft law was put for consultation in inter-ministerial committee 3 times as of January 2020. Central PPP Unit is revising the draft based on comments of the meeting. The Central PPP Unit also has drafted Standard Operating Procedure (SOP) for adoption, but only 3 out of 10 guidelines in the SOP was fully drafted. The remaining works shall be finished and put for adoption in simultaneously with the PPP law.
64. **Strengthening effective public investment by central government budget:** The RGC adopted the sub-degree 41 dated on 25th March 2020 for managing public investment projects. Moreover, GDB is also drafting guideline for preparing and executing budget in public infrastructure repair and maintenance (sub-account: road 61053). The draft is under discussion and subject to further revision¹².
65. **As a conclusion, Part 1 “Further Strengthened Budget Credibility” has maintained its strength which could be reflected in resiliency of the reformed PFM system in the face of Covid-19 pandemic, EBA withdrawal, and flooding disaster. On this basis, the strengthening of revenue mobilization plan and management should gear toward new sources of revenue diversification, optimal mobilization of potential revenue, especially from Telecommunication and Mine (oil) sources. On the other hand, efficient budget expenditure should be strengthened in Salary, Goods/Service, and Investment through formulation and implementation of regulatory frameworks as set in the Action Plan of Public Investment Management System Reform Strategy 2019-2025.**

Way Forward

- ◆ Implementing action plan of the Revenue Mobilization Strategy 2019-2023
- ◆ Implementing action plan of the Public Procurement System Reform Strategy 2019-2025
- ◆ Implementing action plan of the Public Investment Management System Reform Strategy 2019-2025, and reinforcing the preparation and implementation of such legislation and sub-legislations as followings:
 - Prakas for establishing public investment committee
 - Prakas on implementing the Guideline about managing the maintenance of public road (2021)
 - Prakas on implementing the SOP for managing, preparing, and implementing public investment projects funded by sub-national budget (Direct Investment Project) (2022)
 - Prakas on implementing the Guideline about managing the maintenance of irrigation infrastructure (2022)
 - Sub-degree on implementing the SOP for preparing and managing PPP-based public investment project (2021)
 - Law on the Public-Private Partnership (2021)
 - Information System for managing development projects funded by national budget, development partners, and other partners, that the projects are implemented by government agencies and vetted by MEF (2021)

Part 2: Further Strengthened Financial Accountability

66. **Strengthening of financial accountability focuses on 5 objectives namely:** (1) Strengthening budget execution and implementation of the new chart of accounts, (2) Strengthening the new budget system and operating procedure, (3) Strengthened new accounting, recording and reporting systems, (4) Strengthened implementation of responsibility and accountability improving instruments and mechanisms, and (5) Enhanced budget transparency.
67. FMIS Phase 3 expansion plan focuses on rolling out FMIS to central and local level institutions; continued streamlining of business processes for payroll and payment as plan; rolling out FMIS to Districts, Municipalities, Khan administrations; development of 2 new modules (Asset and inventory Management),

¹² Because consultant has not been recruited yet.

step by step introducing budget preparation and procurement module, and other necessary objectives such as developing User Management App, further interfacing with external systems, and encouraging payment via EFT, implementing 7 budget classifications and using reports exported from FMIS).

Objective 21: Strengthened budget execution and implementation of the new chart of accounts

68. Improving and implementation of functional, geographical and project classifications for sub-national administrations

◆ **Implementation of functional classification for national-level institutions:** All LMs started implementing functional classification in 2018 with the support of IMF expert. At the national level, the structure of functional classification consists of 3 levels: 10 functions, 69 sub-functions and 109 sub-sub-functions. In practice, functional classification is implemented at the function level but not fully implemented at sub-sub-function levels. This means functional classification is not yet fully used for budget preparation, reporting or other analyses. Challenges remain for functional classification as follow:

- For each activity cluster, there are multiple sub-sub-functions
- Payroll expenditure is under only one activity cluster
- Support programs have more than 50% credit and no clear functionality
- LMs adjust their program structures frequently
- Facilitation and cooperation of LMs in implementing functional classification are limited
- FMWG finds difficult in coding sub-sub-functions into activity clusters in FMIS

As the direction of functional classification implementation, working group of budget classification will discuss with LMs to find ways to classify functions that are consistent with actual expenditure of LMs.

◆ **The implementation of functional classification in sub-national administrations:** The structure of functional classification which consists of functions, sub-functions and sub-sub-functions per Prakas no. 996 MEF-PrK dated 11 October 2017, does not fit program structures of capital and provincial administrations, thus requiring additional consideration. Furthermore, functions to be implemented by sub-national administrations are constantly evolving as more functions are being transferred from the national level. The design of functional classifications for Districts, Municipalities and commune/sangkat levels are being studied as these levels of sub-national administrations are yet to implement program budgeting, leading to challenges. Therefore, the General Department of Sub-National Administration Finance (GDSNAF) will revise Prakas no. 996 MEF-PrK dated 11 October 2017 above.

◆ **The implementation of project classification for sub-national administrations:** faces challenges namely: (1). The number of projects per year of each administration are numerous, (2). Public infrastructure and services projects are annual projects (none multi-year), (3). Projects of commune/sangkat administrations require prior compliance checks from capital/provincial administrations and most are small projects in terms of budget but are numerous in number, making classifying projects difficult. Therefore, GDB will first implement project classification at capital/provincial administration level. GDB will explore the possibility of implementing this classification at Districts/Municipalities and Communes/Sangkat levels later.

69. Strengthening implementation of public chart of accounts: MEF prepared and issued Prakas no.121 MEF.PrkK dated 10 February 2020 on further establishing accounts and sub-account of budget content and account content of COA, adding 7 account and sub-accounts and also launched Prakas no. 790 MEF.PrK dated 14 October 2020 on the addition of sub-accounts in the budget and account classifications of the public chart of accounts by adding the following sub-accounts: (1). Sub-account 65016 “grant for sub-national administrations for conditional financial transfers” and (2). Subaccount 75016 “grant from LMs for conditional financial transfers”.

70. Launch of the new procedure of budget execution for public administrative establishments: Until 2020, 27 out of the total of 30 public administrative establishment (PAE) has started implementing the new procedure of budget execution per the Royal Decree on the legal statute of public administrative

entities. All PAEs must implement the new procedure from 2020 onwards. However, some PAEs have not fully implemented all the processes required by the new procedure, especially the reporting requirement of finance and budget execution of each PAE to MEF. Furthermore, expenditure from direct revenue does not go through financial controller attached at each PAE. This results in incomplete data at the Financial Affairs Department of MEF that may be used for reporting and evaluation purposes. MEF will notify PAEs to increase compliance with the new procedure and take actions on PAEs that refuse to comply. As for bookkeeping, some PAEs have also not fully complied with the regulations as there are still confusion between the use of petty cash accounts and current accounts at commercial banks, incomplete understanding of transaction entries and the use of incorrect accounts from one journal to the other.

Objective 22: Strengthened the new budget execution system and operating procedure

71. **Delay of end-of-fiscal-year account closure:** Account closure relies on halt of budget execution. However, in current practice, budget execution is still allowed 3 to 6 months past the end of the fiscal year as payment orders on the previous-year budgets continue arriving at the treasuries, including payment orders with taxes withheld to be recorded as revenue, thus negatively affecting account closure. The use of FMIS has seen various business process revisions such as the change from One Book to Multiple Book, thus requiring multiple testing before accounts can be closed. Currently, account closure can take up to 6-9 months after the end of the fiscal year.
72. **Implementation of FMIS Phase 2:** Strategic Plan for Business Process Streamlining 2020-2025 was approved on 16 March 2020. FMIS was rolled out to 17 additional LMs and 13 authorized budget entities. Documents on business process streamlining on FMIS have been drafted along with the completion of key documents on the development and deployment plan for Budget Preparation and Procurement modules. The General Secretariat of the National Council for Social Protection (GSNCSP) and the Supreme National Economic Council (SNEC) will implement FMIS in 2021.
73. **Adjusting expenditure processes at LMs in line with FMIS:** per the Strategic Plan for Business Process Streamlining 2020-2025 prepared by FMWG, low risk payment types (payroll and general payment) are identified and piloted at MEF, to serve as a guide for expansion to other LMs. MEF has since started implementing the new FMIS business process for payroll expenditure including salaries and other payroll-related predetermined expenditures, and low-risk general payments. 7 other LMs (MAFF, MPTC, MLVT, MCS, MISTI, MoH and MoEYS) have also started implementing this new process via FMIS. *As a next step, level 3 payment procedure will be implemented at MEF, and level 1 and 2 at all other LMs.*
74. **Capacity building for FMIS:** relevant staffs of 17 LMs and 13 authorized budget entities have received on-site training on the use of FMIS while 200 FMIS users from LMs, PDEF and capital and provincial treasuries have received additional training online via Skype for Business. Training for the 13 authorised budget entities took place between 02 November 2020 and 01 February 2021.
75. **Interfacing between FMIS and Payroll system:** To achieve this indicator, an inter-ministerial working group (MEF and MCS) was formed by a Joint Decision no. 049 MEF dated 28 July 2020 on the formation of an inter-ministerial working group for the interfacing of FMIS and payroll system. The working group has prepared a template to collect necessary data for analysis and a method for data exchange. The working group has also arranged managerial and technical meetings to follow up on the progress of the adjustment of the payroll system so it can be interfaced with FMIS. The official launching of the completion of FMIS-payroll system interfacing is planned for 1st quarter of 2021.
76. **Reporting and appendices for budget settlement law:** Reports and appendices for budget settlement law have been developed per the requirements as well as tested for data accuracy. Daily transaction monitor reports include: R01 Balance Table, Q03 Total Payment Order Report, R39 General Ledger Transaction Report have been developed with revisions and updates per the requirements. Nevertheless, LMs still are not able to produce monthly, quarterly, semester and yearly budget reports that are based on budget commitments, hence a need to manually record the data.
77. **FMIS blueprint Phase 3 (2021-2025)** was formulated and approved in principle from MEF management on 7 October 2020. This plan will be finalised in 1st quarter of 2021.

78. **Budget Preparation (annual budget preparation) and Full Procurement modules:** These modules have been developed, user-tested in relevant GDs and entities with reports on the results of the tests submitted to the management.
- ◆ Budget Preparation module has been systematically developed with sufficient features to be user-tested. Per the confirmation of FMWG (Appendix 4), the supporting infrastructure is already in place while users are already trained.
 - ◆ Full Procurement module is being developed with progress reported at 75% with 3 sub-modules reported as developed and tested, namely bidder list management, procurement plan and procurement process management parts. FMWG will finalise this module in February 2021, to be followed by infrastructure deployment and user training.

Objective 23: Strengthened of new accounting, recording, and reporting systems

79. **Designing public accounting standards to align with IPSAS:** The 2019-2031 Strategic Plan on Implementing Cambodian Public Accounting Standards - Accrual Basis has been drafted. The General Secretariat of the National Accounting Council (GSNAC) has been working with IMF expert on this draft and expect it to be approved by 2nd of 2021.
80. **Implementation of mechanisms to finalise registration and regular update of state assets:** Prakas on the detailed procedure of the identification of state asset user entities and Prakas on the detailed procedure of state asset disposal were issued on 06 January 2020. For base-year state asset registers (2019 and prepared every 5 years), 87% of using entities (2,595 of 2985) have submitted them to MEF.
81. **Expanding implementation of SARMIS:** GDSNR launched SARMIS and began first-phase training relevant staffs at LMs, capital and provincial administrations and public legal entities on 29 December 2020 right after the issuance of Circular no. 012 MEF dated 28 December 2020 on the launch of SARMIS Phase 1. This phase allows recording of 4 state asset types namely, 1. Land and Building, 2. Machineries, 3. Cars and Motorcycles and 4. Office Equipment. Other types of state assets such as infrastructure will be considered after 2023. The plan is for SARMIS to be expanded nationwide to all national and sub-national institutions and administrations by 2023, of which the number currently stands at 2998 user entities. Prakas no. 558 MEF.PrK, dated 09 July 2020, on the criteria for identification of state asset user entities was also issued.
82. As a special case, MoEYS is studying the possibility of interfacing SARMIS with MoEYS State Asset Management Information System. The preliminary result shows that it is difficult to interface these systems as MoEYS's system will need to be reworked. Data on properties in 6 provinces have been collected. For MoEYS, there are 9442 properties across the country, 2740 of which are registered with land titles and 1246 are located within pagodas.
83. **Financial reporting per IPSAS:** 2019 financial reports prepared per IPSAS have been evaluated and recognised by IMF expert and NAC to be in line with IPSAS Case Basis. Two components were improved: 1. disclosure of budget approval times and 2. Disclosure of discrepancies of exchange rates for bank accounts in foreign currencies. Nonetheless, shortcomings remain which include reports cannot be finalised within 6 months past the fiscal year; cash management at LMs, particularly petty cash; and flexibility in financial reporting such as possible amendments of accounting standards, changes in budget execution outturns and flexibility in financial disclosure, which require continued monitoring and comprehensive data analysis.
84. **Preparing reports per IPSAS Cash Basis based on FMIS:** Components in IPSAS reports were improved to increase compliance. IPSAS Cash Basis reports have been revised on formulas and some additional criteria and are being reconciled with data by the technical working group (ITD & GDNT). Data quality with the use of functional and geographical classifications in FMIS needs to be strengthened. To do so, GDB has prepared a concept note on linking program with functional classifications. A study plan for the implementation of functional and geographical classifications at sub-national administrations is being prepared.

85. **Finalising the accounting standards to record account payable:** The final draft of accounting standards on recording account payable is completed and approved at the Public Accounting Standards Technical Working Group level at the end of December 2020.
86. **Study and implementation of the interface between FMIS and external systems:** along with sprouting development and use of ICT systems for revenue and expenditure management, interfacing FMIS with other external systems are crucial. This includes:
- Interfacing FMIS with NBC, Canadia Bank, ACLEDA Bank Plc., Campu Bank, Vattanac Bank and ANZ Royal Bank for bank statements
 - Interfacing FMIS with EFT system of NBC (Done)
 - Interfacing FMIS with ASYCUDA (Done)
 - Interfacing FMIS with DMFAS (Continue improvement)
 - Interfacing FMIS with tax data systems (Done)
 - Interfacing FMIS with NRMIS (Done)
 - Interfacing FMIS with EFMS is in study stage
 - Interfacing FMIS with MCS's payroll system: the inter-ministerial working group has finalised and tested sending data from payroll system to FMIS. Currently, data are being reconciled and the working group is working on info sharing sessions on the process of interfacing the two systems. As a next step, the working group will work on forms in XML files for payment orders from LMs and capital and provincial administrations, and work on interfacing the two systems via VPN on DPLC Connection that ensure data safety and seamlessness of data exchange without connecting to the Internet.
87. **Registration (titles) of state-owned properties:** Inter-ministerial Prakas no. 1198 MEF.PrK dated 24 December 2020 on the formation of an inter-ministerial committee for the review and update of state lands that are registered in LMs' state asset registers for central institutions for registering land titles. This committee will survey and update actual state lands that are registered in state asset registers but are not yet registered for land titles and submit a report to the management of the two ministries leading the committee and further to the Prime Minister. 3 groups are formed under this Prakas. Inter-ministerial Prakas no. 1197 MEF.PrK dated 24 December 2020 on the formation of an inter-ministerial committee for the review and update of state lands that are registered in state asset registers of LMs' provincial departments and sub-national administrations, for registering land titles. This committee's work is the same as the other one above, differing only on geographical coverage of work. These committees will formulate detailed plans in 2021. Therefore, LMs will need to plan actions to be included in their respective MAP3. The current statistics on land title registration for state lands shows that the using entities has already issued title for 9,503 sites, or 47% of the total 20,128 locations. The other 10,625 locations, or 53%, have not yet been issued.

Objective 24: Strengthened of implementation of responsibility and accountability enhancing tools and mechanisms

88. **Administrative punishments for wrongdoing or inappropriate and inefficient handling of public resources:** This will be considered and added into the draft law on public financial system.
89. **Drafting and roll out of quarterly, semester and annual progress reports:** All budget entities of LMs have prepared quarterly and semester financial and performance reports.
90. **Strengthening of IT audits:** GDIA has audited on FMIS in 8 provincial treasuries namely Battambang, Preah Sihanouk, Kandal, Steung Treng, Banteay Meanchey, Koh Kong and Ratanakkiri.

Objective 25: Increased budget transparency

91. **MEF continues placing importance on transparency** to increase participation from private sector, DPs, researchers, students, the public, NGOs, national and international press network in various public forums related with the budget process. MEF also publicly discloses more information in budget documentations

in order to improve efficiency of budget allocation and effective, transparent and accountable use of resources.

92. **Increasing public participation in the budget process:** To promote the participation, GDP and GDB have organized a public forum on macroeconomic and 2020 budget frameworks on 30 January 2020.
93. **Increasing publicity of budget documentation:** MEF regularly publishes the following budget documentations on its websites: 1. Macroeconomic and fiscal policy frameworks, 2. Circular on the preparation of budget strategic plan and annual budget, 3. Executive summary of draft budget laws, 4. Budget in briefs, 4. Circular on the implementation of the 2020 budget law, 5. TOFE & GFS reports, 6. 2019 budget settlement law, 7. Monthly socio-economic trend reports, 8 quarterly economic and financial statistics journals and 9. Public debt statistics journals no. 9 and 10. For sub-national administrations, 2020 budget in briefs for sub-national administrations, semester 1 budget execution reports, and all 4 circulars were published GDSNAF and MEF's websites. NAA has also published audit report on the 2018 public financial management on its website. In 2021, GSC is considering the possibility of a public dissemination of the draft budget law before its submission to the National Assembly.
94. **Increasing public procurement transparency:** GDPP published the 2019 public procurement statistics journal on its website on 24 July 2020, as well as the 2020 procurement plans, and monitoring reports on procurement execution in 2019 and 2018.
95. **The conclusion for Part 2 "Financial Accountability", FMIS components are continually built, creating a foundation for PFM. Nonetheless, FMIS users have other additional requirements for financial statements produced from the system to target the interests of the entities. FMIS users face challenges in producing monthly, quarterly and annual reports for internal use. Furthermore, state asset management remains fragmented and not yet institutionalized, thus requiring medium and long-term master plans**

Way Forward

- ◆ Implementing the FMIS Phase 3
- ◆ Drafting and implementing the 2019-2031 strategic plan for implementing Cambodian public accounting standard – accrual basis, and increasing compliance of reporting with IPSAS - cash basis
- ◆ Preparing the budget execution reports with all 7 budget classifications (5 are fully operational while 2 other classifications are not)
- ◆ Expanding the implementation of SARMIS for LMS, capital and provincial departments and sub-national administrations.

Part 3: Budget-Policy Linkages

96. This part 3 focuses on 5 objectives: (1) Strengthened and further rolling out program budgeting and budget reviews, (2) Comprehensiveness of budget preparation and budget integration, (3) Develop and implement a system of lines of accountability, (4) Strengthened policy formulation and fiscal planning and (5) Strengthened of fiscal decentralisation policies.

Objective 31: Strengthened and further rolling out program budgeting and budget reviews

97. **Program budgeting implementation roll-out to LMs and capital/provincial administrations:** all LMs started implementing program budgeting between 2015-2018 and all capital/provincial administrations between 2017-2020. Phnom Penh Capital Administration started implementing program budgeting in 2021. Challenges arise with program budgeting implementation. These include: program structures in 3-year rolling public investment programs are not consistent with those in 3-year rolling investment plans; designing outcome indicators for programs were difficult due to lack of data; capacity of staffs responsible for the formulation of BSPs and annual budgets is limited; and come provincial administrations have not prepared program budget execution on time. GDSNAF has considered these

challenges and planned to study the effectiveness of program budget implementation at all 25 capital/provincial administrations in 2021.

Table 5: Plan for Program Budgeting Implementation at Capital/Provincial Administrations ¹³

2017	2018	2019	2020	2021
Kampong Speu	Kampong Chhnang	Kandal	Kampong Cham	Phnom Penh
Kep	Pursat	Battambang	Kampong Thom	
Koh Kong	Takeo	Banteay Meanchey	Preah Vihear	
Pailin	Kampot	Svay Rieng	Oddor Meanchey	
Kratie	Prey Veng	Tbong Khmum	Siem Reap	
Steung Treng	Ratanakiri	Monduliri	Preah Sihanouk	

98. **Semester and annual budget execution reports preparation:** Semester and annual performance reports are tools to reflect on the progress of program budget implementation at LMs which serves as a basis for error correction during the execution stage. Performance reports also provide information for budget allocation decisions to be taken for the following fiscal years. All LMs must submit performance reports.
99. For the 2020 budget, 28 LMs submitted their semester performance reports to Budget Formulation Department of GDB. Per the Guideline on Program Budgeting Execution and the circular on the preparation of BSP, LMs must prepare and submit semester and annual performance reports to BFD of GDB, but in practice, many have not submitted or submitted late. MEF has issued additional notices to LMs to meet their obligations. As a next step and looking ahead to the implementation of performance informed budgeting, evaluation exercises on performance reports should be undertaken.
100. The MEF has prepared the circular on annual budget preparation which specified that procurement plans and petty cash appendices must be attached with the budget. MEF has also amended Prakas on the procedure of petty cash expenditure by issuing Prakas no. 663 MEF.PrK dated 28 July 2020. To align with this amendment, MEF has replaced the Sub-decrees on missions with Sub-decree no. 216 ANKr.BK on domestic and international mission allowances for national and sub-national administrations and amended Prakas no. 1598 MEF.PrK on mission allowances expenditure procedure; and amended Prakas no. 838 MEF.PrK on training and seminar expenditure.
101. As for car maintenance expenditure at LMs, GDB and GDP have not prepared corporate agreement.

Objective 32: Comprehensiveness of budget preparation and budget integration

102. **Quality control on budget strategic plans and annual budgets:** Policy-budget linkages have been reviewed at 10 LMs, where the policies include the Rectangular Strategy Stage 4 and NSDP. The quality of BSPs of 15 LMs have also been evaluated. MoEYS has only 4.2% discrepancy between its 2021-2023 BSP and 2021 Budget.
103. **Budget classification of COA for donor/externally funded project/program under the new chart of accounts:** 4 forms of financial reports with the budget classifications under the new chart of accounts have been developed and disseminated for use on 30 November 2020 for donor/externally funded projects/programs.
104. **Aligning execution reports of projects with donor/external funding to the national budget classification:** inter-general department working group under MEF has finalised the forms of reports and planned to arrange a guiding dissemination on the method of reporting in quarter 3 of 2020. GDICDM has shown a roadmap of integration of donor/external funds into FMIS where this integration involves only recording and reporting in FMIS, and not related with the business process as donor/external funds are executed outside the TSA. This is due to agreements with international financial institutions requiring separate accounts for donor/external funds outside the TSA, unlike budget support. The recording and reporting of these funds will also not be directly keyed into FMIS. Instead, it is done via Peachtree, after which an exported excel file is imported in FMIS. This has been agreed to be formulated as a roadmap

¹³ In current practice, capital and provincial administrations are budget entities.

(added into GDICDM's GDAP) to be implemented from 2020-2023 at a meeting on 23 July 2020 where relevant stakeholders were also present such as GDNT, GSNAC, GSC, GDP and FMWG. GDICDM will evaluate the quality of reports from the system, after which in 2022, GDICDM will request FMWG to study the feasibility of direct recording on FMIS.

105. In 2020, there were 914 budget entities; of which 311 were at central level (61 authorized budget entities, 250 are normal budget entities); 603 capital/provincial line departments are all authorized budget entities. 4 LMs are champions of budget entities creation and delegation, namely MEF with 12, MoEYS with 10, MoH with 10 and MOE with 6 authorised budget entities. In current practice, creation and delegation to budget entities are based on voluntary decisions of the ministers/heads of LMs without strict demands from MEF on the creation and delegation of budget entities. Budget execution is usually slow/delayed, particularly at LMs without clear delegation to entities under their structures (except authorised budget entities).
106. **Review of program budgeting implementation at LMs with the objective to increase the number of delegated budget entities and delegation to budget entities:** GDB has received principle approval from Deputy Minister, Minister of Economy and Finance in increasing the number and delegation to budget entities. In order to strengthen effectiveness of program budgeting, moving towards performance-informed budgeting in 2022 as well as improving the execution of roles and responsibilities of budget entities, LMs should:
 - ◆ Review internal entities (at the general department level or equivalent) meeting a set of criteria to be created as budget entities.
 - ◆ Delegate more power to budget entities with good track record in the budget process to be authorised budget entities.
 - ◆ Financial Affairs Department of GDB is revising Prakas no. 1282 MEF.PrK dated 27 October 2016 on the power and responsibility and the procedure of program budget execution of budget entities as to allow for more automatic power such as allowing budget entities to handle advances and execute petty cash.
107. Efficiency of budget execution remains limited and in general, payment orders accumulate in quarter 4 of the fiscal year. This is due to: 1. Capacity of budget entities, 2. Expenditure procedure, 3. Public investment as those funded by the national budget can only be implemented at the end of quarter 2 or early quarter 3. In this sense, budget entities are created at LMs but do not have power to execute their budgets per the regulations. Facilitation from financial entities of LMs for budget entities in all stages of the budget process shall be added into LMs' MAP3.

Objective 33: Develop and implement a system of lines of accountability

108. **Clear definition of the line of accountability in the public investment programs (PIPs) to ensure consistency in annual budget:** Per the 2019-2025 Public Investment Management Reform Strategic Plan, supporting regulations will be drafted and issued to strengthen efficiency, effectiveness and accountability of public investment management. Sub-decree no. 41 ANKr.BK dated 25 March 2020 on the management of public investments specifies the following objectives: 1. Principles and criteria, 2. Overall stages of public investment projects, 3. Roles and responsibilities of LMs, public entities and sub-national administrations, 4. Linkage between investment plans and budgeting for investments, 5. Operating procedure for the formulation and management and 6. Reporting obligations.

Objective 34: Strengthened policy formulation and fiscal planning

109. **Preparation of draft medium-term fiscal framework (MTFF):** Draft 2021-2023 MTFF has been submitted to MEF management but its issuance was delayed due to the uncertainties of COVID-19 pandemic. The decision of MEF management is to issue MTFF in 2022 for the formulation of 2023-2025 BSPs and 2023 budgets.
110. **Preparation of draft medium-term budget framework (MTBF) 2020-2022:** MTBF has been formulated and piloted for national administrations with clear budget ceilings for annual budgets. This indicator will remain to be monitored.

111. **Macroeconomic monitoring:** GDP has prepared 2019 and mid-2020 reports on Cambodia Macroeconomic Monitor-CMM in a comprehensive manner. Reports on the discrepancies of 2019 revenue forecasts in the macroeconomic policy and fiscal frameworks for the 4 major sectors (Year N-1) as bases for defining budget ceilings for the following 3 years (Year N+3); reports on the discrepancies of macroeconomic forecasts (Year N-1) and other technical documents with regards to multi-year macroeconomic forecasts; the quarterly reports on economic surveillance; and the quarterly report on review of risks in Cambodia's property sector were also prepared.
112. Budget-policy linkages are achieved through program budgeting implementation at the national and sub-national levels. However, linkages are limited due to several factors: 1. LMs within the same sector face difficulties in formulating cross-cutting policies, not to mention indicators, targets or facilitation; 2. Integration between current and capital expenditures; 3. Formulation of policy objectives, program structures and key performance indicators for LMs.
113. **Integration of current and capital expenditures in BSP:** LMs' BSP formulation faces many challenges, where BSPs are not complete, comprehensive nor linked to the annual budgets. Furthermore, due to timing mismatch, investment projects are planned *after* the budget law is promulgated, thus making infrastructure and budget executions are delayed and lack efficiency.
114. This integration will provide several benefits such as comprehensive BSPs that can directly link to annual budgets while both investment projects and current expenditures can be consolidated at the same time into the budget law. In this sense, LMs have sufficient time to request expenditure commitments for investment project implementations. The 2020 budget was the first year of pilot testing of capital and current expenditure integration that was carried out in 3 major LMs, using approximately 70% of the total annual state budget namely, MPWT, MRD and MOWRAM. This pilot testing will bring experience and challenges to be used as bases for improvement and full integration in all other LMs in later years. Currently, other than the 3 LMs above, there are no inter-ministerial mechanisms for project identification for prioritisation and selection of projects.
115. **Strengthening of economic and financial analysis and forecasting capabilities:** GFS statistics has contributed to the strengthening of PFM via the information provided in the forms of statistics that comply with international standards for the review, monitoring and evaluation of the efficiency of PFM (revenue collection, expenditure allocation, investment, management and use of financial assets and debts).
116. **GFS was introduced into FMIS¹⁴:** GFS statistics working group has done a feasibility study on the use of FMIS to prepare GFS statistics. Currently, revenue statistics table (Table 1) can be produced directly from the system under the name, "Report R-40" with the following details:
- National Administration Revenue Table (GFS-Table-1-BCG)
 - Capital/Provincial Administration Revenue Table (GFS-Table-1-LG-1)
 - Districts/Municipalities/Khan Administration Revenue Table (GFS-Table-1-LG-2)
 - Commune/Sangkat Administration Revenue Table (GFS-Table-1-LG-3)
 - Pre-consolidated Subnational Administration Revenue Table (GFS-Table-1-LG-4)
 - Post-consolidated Subnational Administration Revenue Table (GFS-Table-1-LG-5)
 - Pre-consolidated National and Subnational Revenue Table (GFS-Table-1-GG-1)
 - Post-consolidated National and Subnational Revenue Table (GFS-Table-1-GG-2).
- As a next step, technical working group of GDP will continue working with FMWG to interface expenditure tables (Table 2) and other tables of GFS with FMIS.

Objective 35: Strengthened of fiscal decentralization policy

117. **Piloting and expanding of subnational investment funds (SNIF):** In 2020, 60 krong administrations in 9 provinces implemented SNIF, out of which 56 submitted documents to the Secretariat of the Management Council of SNIF to bid for projects; 2 did not submit any documents namely Srok Borset administration in Kampong Speu and Srok Krokro administration in Pursat; and 2 others are exempted from submission of documents, namely Srok Talo Sen Chey administration in Pursat and Srok Borey

¹⁴ Revenue data tables in GFS-Table-1 LG-5 and GFS-Table-1 GG-2 are not yet interfaced because of complicated consolidation method in extracting double operations at each administration (that FMIS could not be implemented).

O'Steay administration in Steung Treng, per the decision in the 3rd Council meeting, as they are newly established. Within the 12 srok administrations with the highest scores, only Srok Thala Borivat (Steung Treng) completed all 12 pre-requirements of the guideline. The other 11 srok administrations, completed 10 or 11 of the pre-requirements with reasons include: delay of srok council meeting and approval as the administrations await new elections and frequent staff changes and misplacement of documents. In this manner, only Srok Thala Borivat administration has met all the requirements and received KHR 459 million for its project execution, whereas the remaining KHR 5,541million is brought forward for the following year's bidding.

118. **Fiscal decentralisation:** to facilitate budget execution at Commune/Sangkat administrations, GDSNAF has revised Sub-decree no. 51 on the transfer of state budget to Commune/Sangkat fund by changing quarterly allocations as follow: quarter 1 – 25%, quarter 2 – 25%, quarter 3 – 40% and quarter 4 – 10%. Furthermore, the RGC has also raised salaries for phum personnel per Sub-decree no. 35 ANKr.BK dated 16 March 2020. GDSNAF has drafted an inter-ministerial prakas on the selection and management of financial assistant to Commune/Sangkat administrations (at GDSNAF stage), sub-decree on Commune/Sangkat fund (consulted with LMs), and prakas on sub-national administration public investment management (consulted with capital/provincial administrations on 25 December 2020).
119. **Implementing Budget System Reform Strategy for Subnational administration 2019-2025:** this strategic has an objective to strengthen and expand program budgeting implementation step by step to full program budgeting that ensures budget-policy linkages where policy objectives at the sub-national level must align with national policies and administration structures that mandate the roles, power and responsibilities of sub-national administrations. Action plan to implement this strategy has been formulated and is being implemented. As a support for this implementation, new staffs are recruited at GDSNAF for the training of BSP and annual budget formulation at all 25 capital/provincial administrations.
120. MEF has issued and disseminated the guideline for annual performance evaluation for District/Municipality/Khan administrations. Guidelines on the preparation of these reports are being drafted at GDSNAF.
121. The implementation of this strategic plan has seen incompleteness as follows:
 - Draft of program-based budget negotiation between MEF and capital/provincial administrations (planned to be completed in quarter 1 of 2021)
 - Draft of framework and procedure for reporting and monitoring of budget execution (planned to be completed in 2021)
 - Inter-ministerial prakas on the selection and management of financial assistants for Commune/Sangkat administrations drafted and being consulted with relevant GDs of MEF and MOI (planned to complete in quarter 1 of 2021)
 - Formulation and issuance of MTBF for capital/provincial administrations (planned to be completed in 2021)
 - Revision of Sub-decree no. 16 on Commune/Sangkat Fund, Sub-decree no. 26 on management system for Commune/Sangkat Fund, and Sub-decree on the form and process of Commune/Sangkat Fund (delayed as these actions are complex, requiring participation from all key stakeholders)
 - Draft of procedure for formulation and management of subnational administration public investment projects are being consulted with other ministries (planned to complete in quarter 2 of 2021)
 - Draft of a comprehensive and clear regulation governing petty cash expenditure for sub-national administrations (delayed to be completed in quarter 1 of 2021).
122. **Fiscal decentralisation reforms:** per the approval of Samdech Techo Prime Minister on 25 march 2019 on MEF's letter no. 1841 MEF.GDSNR dated 18 March 2019, a mechanism for distribution of non-tax revenue to sub-national administrations was formed, which covers revenue from administrative services delivered by central administrations (LMs) and capital/provincial departments as delivered by the One-Window Service Entities under the capital/provincial administration, as well as revenue from state assets.
123. Distribution of these revenues have not been fully implemented as challenges arise with regards to functional and regulatory revision at LMs. To facilitate this, the RGC issued Sub-decree no. 25 ANKr.BK dated 09 March 2020 on the management of revenue from services delivered at the One-Window-Service

Entities of capital/provincial administrations. To implement this sub-decree, MEF issued Circular no. 006 MEF dated 13 August 2020 on the procedure and journal entries of revenue from services delivered at the One-Window-Service Entities of capital/provincial administrations and revenue from services delivered at and fines issued by capital/provincial departments. Circular no. 006 MEF has transferred recording of revenue and expenditure (of incentive) from capital/provincial departments to capital/provincial administrations, requiring petty cash holders at capital/provincial administrations to handle journal entries and general ledgers. Currently, there are 21 LMs (excluding MEF) with 87 inter-ministerial prakas in effect, pertaining to this service delivery. These prakas will be subject to revision.

124. In order to resolve the need to revise regulations related to this reform, GSC facilitated a meeting on 10 February 2021 with GDSNR, GDB, GDSNAF and GDNT. As a result, an agreement was reached and to be submitted to the SC of PFMRP for approval and advice, with details as follow:

- GSC will cooperate with all GDs of MEF to draft an MEF prakas to outline the overall guidelines for the management and distribution of non-tax revenue (GDSNR has prepared a preliminary draft). This prakas will be the basis for further discussion with LMs for the revision of the above 87 inter-ministerial prakas (it will also cover the case of functional transfer and/or revenue sharing from national institutions to sub-national administrations).
- An inter-general department working group of MEF will work with the Secretariat of NCDD to evaluate service delivery at the one-window service centers at MLMUPC, MPWT and MME.
- GDSNR will prepare a workplan for this next step of subnational finance reform (on the part of the management of non-tax revenue).

29. **All in all, MTBF has been formulated and piloted; the MTFF is planned to be submitted to the Council of Ministers in 2022 for the 2023-2025 BSP and 2023 budget preparation which is expected to help LMs in their budget preparation as budget ceilings are clearly defined at the sectorial and ministerial levels, with both current and capital expenditures integrated. Challenges faced by the sub-national administration finances reforms must be tackled systematically and in a holistic approach.**

Way Forward

- ◆ MTFF 2023-2025 should be formulated and submitted to the management for approval
- ◆ MTBF with sectorial and ministerial budget ceilings will be submitted for approval from the RGC from 2022 onwards
- ◆ Salary expenditure will be allocated into each program of LMs from 2022 onwards
- ◆ All LMs must prepare progress reports on the creation of budget entities (review and revision per changes in organisational structure and capacity building)
- ◆ A mechanism for monitoring and evaluation of program budget execution
- ◆ Increasing the number of and the delegation to central level budget entities
- ◆ Enhance quality of key performance indicators at both national and sub-national administrations
- ◆ Increasing linkages between program and organisational structures
- ◆ Continuing pilot testing of integration of investment budget into programs
- ◆ Definition of lines of accountability between the Legislative and Executive branches, MEF and LMs which remain blurry
- ◆ Alignment of BSPs of sub-national administrations: between capital/provincial administrations and capital/provincial departments
- ◆ Delegation to adjust the budget across subaccounts and accounts of the same chapter of the economic classification of the budget classifications (within the same activity cluster), and across subaccounts of the same account (across activity clusters within the same subprogram) for capital/provincial administrations via issuance of decisions of the governor of the capital/provincial administrations.

Part 4: Readiness for the Next Stage

125. **Reading for the next platform focuses on 4 objectives:** (1) develop a performance-informed budgeting framework, (2) Develop and implement of performance accountability framework, (3) Strengthened the effectiveness of internal control system, and (4) Develop and implement of capacity building plan (including for the Legislative body and NAA).
126. **Progress of implementing Budget System Reform Strategy 2018-2025:** 52 actions were completed, 4 were not completed (7.1% of total number of actions). The incomplete actions are:
- ◆ Draft law on the new public finance system: requires careful review for comprehensiveness thus more time is needed
 - ◆ Form of revenue-expenditure cash plan with program classification: no guidance was yet given to LMs on preparation of revenue-expenditure cash plan with program classification
 - ◆ Human resource development: trainings and study visits on the experience of other countries with performance budgeting were delayed due to COVID-19
 - ◆ Testing preparation of progress reports based on reports of LMs: GDB has been working on forms of a progress report based on the reports from LMs but many have submitted late whereas several have not submitted at all.

Objective 41: Develop a performance-informed budgeting framework

127. **Drafting of regulations for the implementation of performance budgeting:** The 2008 Law on Public Finance System allowed for the RGC to pilot test implementation of program budgeting as a steppingstone towards performance budgeting and decentralisation. Performance budgeting can be implemented only with clear and comprehensive regulations and thus the law on public finance system must be amended.¹⁵
128. The guideline for the formulation of performance budgeting was approved and issued on 12 March 2020. This guideline will be used for the preparation of 2022-2024 BSP and 2022 annual budget.
129. Draft law on the new public finance system will include several key areas that will enable implementation of performance-informed budgeting as follow:
- ◆ Chapter-based and program-based budget ceilings as appendices to the annual budget law
 - ◆ The requirement for non-financial information to be included in the annual budget law
 - ◆ Definition of major principles of roles of program heads, budget managers, finance officers of LMs, budget officers/financial controllers and public accountants
 - ◆ Defining Cambodian public accounting system to cover budget accounting (cash basis) and general accounting (accrual basis)
 - ◆ Overall salary expenditure management at LMs
 - ◆ Outlining major principles of roles and responsibilities on performance of ministers and program heads, with details to be specified in a sub-decree
 - ◆ Definition major principles related with heads of finance entities
 - ◆ Outlining the guidelines of budget execution
 - ◆ The formulation of contingency or reserve credits as a budget package under the RGC for the use in case of urgency/emergency
 - ◆ Setting FMIS as the national budget implementation system (for both revenue and expenditure, current and investment).
130. Draft law on the new public finance system also includes business process streamlining such as: roles and responsibilities of entities related to program execution to pave ways for the new Sub-decrees no. 81 and 82 that will define procedure, roles and responsibilities of relevant entities, namely program heads, budget managers, finance entities, budget/financial controllers and public accountants.
131. The drafting of the law on the new public finance system faces challenges leading to delays as follow:

¹⁵ In Budget System Reform Strategy 2018-2025, timeframe for amending the public finance system law is between 2018-2020.

- ◆ Time constraint: members of the technical working group were required at budget meetings for the 2021 draft law of financial management, coupled with the spread of the COVID-19 pandemic where meetings with the French specialists for inputs into the new draft law were delayed.
 - ◆ Coverage: this law will cover the whole finance system; therefore, all relevant stakeholders must understand the many principles and be involved in the process as to ensure legal consistency.
132. **The revision of Sub-decree no. 81 ANKr.BK** on the establishment of financial control on state budget expenditure at ministries, provinces, krong, autonomous krong, Phnom Penh capital and public agencies: GDB has finalised a draft at the GDB level with inputs from finance expert from the French Republic Ministry of Finance. The roles of budget controllers will be specified in this sub-decree.
133. **The revision of Sub-decree no. 82 ANKr.BK on the general command of public accounting:** in line with the evolution of Cambodian budget system, this revision will specify clear roles and responsibilities of relevant entities, for example between budget managers and public accountants and other GDs; clear rules on account and expenditure clearance to smoothen and remove double works in the expenditure process; response to the globalisation trend that allows for digitalisation of the process to reduce or transform paperwork to digital documents for timesaving and efficiency; definition of Cambodian public accounting system – accrual basis, with budget accounting (cash basis) that fits the budget that is currently based on cash; managerial accounting for measurement and evaluation of the management of budget managers for both the national administrations at LMs, their underlying entities and public administrative entities. The main contents of this new sub-decree include:s
- ◆ Changes to the responsibilities of public accountants: no role in revenue collection, additional function for clearing direct invoice and general payment, bureaucratic expenditure transaction review method, specification of list of required documents for each type of expenditure and the new procedure for petty cash management
 - ◆ New budget execution entities: budget controller, financial controller, program head, and the delegation of power to these entities in the execution stage
 - ◆ FMIS, automation and digitalisation, payment automation such as EFT and E-invoicing
 - ◆ New public accounting system namely budget accounting, general accounting, and managerial accounting
 - ◆ Account quality, state reports and recognition of the reports by the NAA
 - ◆ New law of budget settlement
 - ◆ Internal control and internal audit
 - ◆ Definitions of technical terms as an appendix to this new sub-decree, etc.
134. The sub-decree on budget management and public accounting working group at GDNT has drafted this sub-decree in two languages (Khmer and English) with 128 chapters (where the inputs of the French specialists were in English) and the technical working group continues working with the specialists and other relevant departments to gather more inputs to ensure comprehensiveness. The challenges faced in this process include: 1. Ambiguity and shallowness of contents of some chapters of this draft as copied from the old sub-decree where they were written based on French regulations (GBCP 2012); 2. Lack of French-speaking officers where many contents were translated from a 2012 French sub-decree on the rules and regulations of financial management and public accounting (GBCP 2012) requiring more research and meeting with the French specialists for clarification; 3. Lack of supporting regulations of the old sub-decree to serve as aide in the revision.

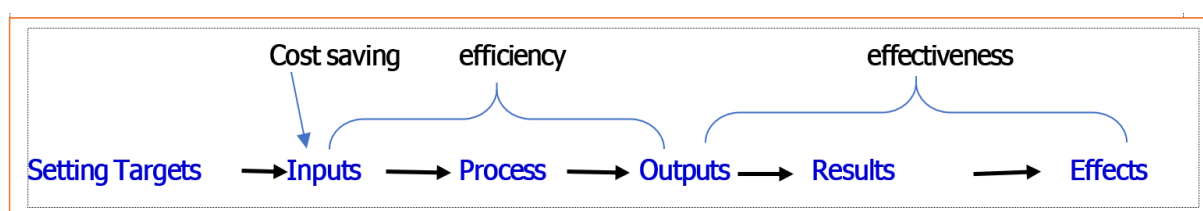
Objective 42: Develop and implement performance accountability framework

135. Mechanisms for LMs to monitor and evaluate program budget execution: MoT does not have a working group to monitor and evaluate performance of program budget execution. However, the ministry requires all budget entities to execute the budget in line with the policy objectives of the ministry and hold review meetings. Facilitation mechanism between finance entity and budget entities is weak, thus must be strengthened through PFM reform working group at the ministry together with the start of performance audit which is new for the internal audit department.

Objective 43: Strengthened the effectiveness of internal control system

136. **Formulation of comprehensive auditing (performance, IT, compliance and finance audits):** Prakas no. 551 MEF.PrK dated 30 June 2020 on the implementation of guidelines on IT audit and Prakas no. 543 MEF.PrK dated 30 June 2020 on the implementation of guidelines on performance audit were issued and disseminated.
137. **Integrity of internal control system:** IT audit has an objective to provide a reasonable opinion on the appropriateness, security, completeness, and usability of data and information management system and that transactions recorded in the system work and reports can be produced and are valid, compliant, reasonable, complete and accurate. To ensure integrity of the internal control system of FMIS, FMWG must finalise FMIS management and user manual, authorise a read-only access to the system per the requests of auditors, allow auditors to test the systems directly on user PCs, and create and authorise auditors to access audit logs based on audit recommendations with strong passwords.
138. **Implementation of IT audit guidelines:** to push for effective implementation of IT auditing at LMs, LMs should train IT auditors, continue pilot testing IT and FMIS auditing at budget entities of LMs until some LMs can handle this work themselves.
139. **Implementation of performance audit guidelines:** Performance auditing may cover projects, programs, activities and transactions that are executed by LMs, entities or working groups. Performance auditing aims to evaluate whether targets are achieved efficiently, effectively and with the least costs.

Diagram 4: Summary of Performance Audit Process



140. **In 2020, GDIA:** 1. Piloted a performance auditing on the enterprise survey project and GDT work automation project at GDT; 2. Piloted successfully IT auditing at two sites (one on management information system at Finance Department of MoEYS and another on the efficiency of work automation system at GDT).
141. **Review of internal audit functions at LMs:** GDIA has reviewed internal audit functions at 8 LMs (MOI, MOC, MCR, MME, MLVT, MOWRAM, MRNASI, and General Secretariat of Senate).
142. **Monitoring of the internal audit process:** GDIA has monitored execution of internal audit process with 31 LMs of which only 22 LMs have audit strategic plans and annual audit plans. GDIA monitored the implementation of audit recommendations of internal audit entities at LMs for N-1 (2018); entities under MEF with 44 entities and there are 544 recommendations including: fully implemented 334 (equal to 61%), Partially implemented 196 (equal to 36%), not implemented 2 (equal to 1%), and non-relevant recommendations 12 (equal to 2%). GDIA has also followed up on the implementation of audit recommendations at 5 LMs with 47 entities for 2018 fiscal year with a total of 220 recommendations:
- MoT followed up on 8 entities with a total of 49 recommendations (complete: 32 ~ 65%, partial: 16 ~ 33% and incomplete: 1 ~ 2%)
 - MOC followed up on 11 entities with a total of 47 recommendations (complete: 23 ~ 49%, partial: 15 ~ 32% and incomplete: 9 ~ 19%)
 - MLVT followed up in 19 entities with a total of 74 recommendations (complete: 58 ~ 78%, partial: 14 ~ 19% and incomplete: 2 ~ 3%)
 - MRNASI followed up in 9 entities with a total of 50 recommendations (complete: 37 ~ 74%, partial: 3 ~ 6% and incomplete: 10 ~ 20%)
 - MCR followed up in 2 entities with a total of 8 recommendations (complete: 0 ~ 0%, partial: 6 ~ 75% and incomplete: 2 ~ 25%)

As for MoEYS, the Internal Audit Entity of MoEYS has audited 142 entities ~ 29.89% of all entities due to COVID-19 where missions were restricted. Auditors have recommended 178 points out of which 57% were fully implemented.

143. 2 officers of GDIA participated in the first “Certified Internal Audit-CIA” training based in Singapore held between 09-10 March 2020. Challenges facing internal auditors at LMs include limited understanding and skills particularly for performance auditing that does not have standards and are complex based on analytical results that are open to complaint; LMs are not focusing on internal audit functions; and internal audit entities of LMs submitted their audit reports to NAA late.¹⁶
144. **Expanding internal audit function:** LMs must bestow more power and responsibilities to internal auditors so they can perform their roles per Sub-decree no. 40 ANKr.BK dated 15 February 2005 on the establishment and process of internal audit at LMs and public enterprises.
145. **Formulating an inspection framework:** Sub-decree no. 168 ANKr.BK dated 8 October 2020 on the framework of function and responsibilities of internal audit and inspection specified a small section of the overall internal audit and inspection system frameworks, thus a clear separation of functions was not achieved. GI of MEF has drafted financial inspection standards alongside the implementation of financial inspection code of conduct whereas the 2021-2025 financial inspection strategic plan was launched on 05 April 2021. Sub-decree on the rules and processes of financial inspection was put on hold per decision of MEF management.
146. **Strengthening external audit function:** NAA continues to conduct performance audit at 5 institutions for fiscal year 2019: 1. Mine excise revenue at Prey Veng Provincial Administration, 2. Budget preparation and execution at Kampot Provincial Administration, 3. Tourism sector management at MoT, 4. Land title registration management at Mondulhiri Provincial Administration, and 5. Development project management at Kampong Chhnang Provincial Administration. NAA conduct audits on FMIS for fiscal year 2020 at 4 LMs, namely MLVT, MoEYS, MAFF and MPTC, after which reports were submitted to the Legislative branch and relevant institutions. As for capacity building, NAA has finalised auditor training program and documents on the process of auditing, and updated guidelines on financial report auditing. 23 LMs, public enterprises and public administrative establishments have submitted internal audit reports to NAA.

Objective 44: Drafting and implementation of capacity building plan

147. Capacity building plan under the PFMRP covers all LMs at the national level and all sub-national administrations, public administrative establishments as well as the Legislative branch. EFI has submitted this final draft strategic plan to all GDs of MEF and DPs for opinions. This strategic plan has been submitted to Deputy Prime Minister, Minister of Economy and Finance in 1st quarter 2021.
148. **Certification program:** Medium-length technical skill training for PFM has been conducted since 2018 with duration and minimum trainee specifications, under the initiative and agreement with EU. As a next step, EFI will draft a prakas on qualification framework for civil servant training at both national and sub-national level to ensure officers working with public finances are qualified. Trainings will be certified to ensure effectiveness and success of the PFMRP.
149. **All in all, based on the progress reported above, Readiness for the next platform will require additional time to finalise the new law on public finance system, the revisions of Sub-decree no. 81 and 82 ANKr.BK, as well as the formulation of performance-informed budgeting framework. Moreover, attention must be placed on strengthening internal audit function, especially IT and performance audits.**

¹⁶ Sub-decree 40 dated on 15th February 2005 about establishing and functioning of internal audit in line ministries and state-owned enterprises.

Way Forward

- Drafting of the new law on public finance system
- Revision of Sub-decrees no. 81 ANKr.BK and 82 ANKr.BK
- Drafting of guidelines on performance budgeting implementation
- Drafting of performance agreement
- Drafting of monitoring and evaluation framework
- Designing the functions and responsibilities of internal audit and inspection at LMs
- Designing an inspection framework.

Part 5: Support the successful and sustainable reform programs

150. **Support for the success and sustainability of implementation of PFMRP part focuses on 3 objectives:** (1) Increasing leadership, management capacity, and instilling willingness for reform as well as strengthening ownership and responsibilities; (2) Increasing effectiveness of capacity building and incentive mechanism; and (3) Strengthening capacity building for Stage 3 PFMRP implementation.
151. **Efficiency and effectiveness of public institutions reflects capacity of those institutions:** leadership and execution, functional and institutional facilitation, capacity building both in quantity and quality, and incentive/performance/merits.

Objective 51: Enhanced leadership, management capacity, and instilling willingness for reform as well as strengthening ownership and responsibilities

152. **GDAP3/MAP3 preparation and regular reports of progress on participation, willingness, and responsibility in reforms:** All 18 GDs of MEF and 41 LMs have prepared and discussed at the technical level with GSC their action plans (GDAP3/MAP3). These entities have submitted their quarterly and annual progress reports to GSC to be consolidated and submitted for review at the meeting of Steering Committee of PFMRP and DPs. For the 2020 progress report of PFMRP, out of 41 LMs, 32 have submitted their reports on time per the RGC's Circular no. 09 CR.
153. **Change management for FMIS:** 2020 communication and change management plan for FMIS has been finalised; these actions were executed with progress reports prepared and submitted to the management together with the preparation of quarter 1, 2 and 3 of 2020 journals, videos and posters related to FMIS published on its websites and social media.
154. **Legal Guide:** LCS has finalised the Legal Guide related to revenue and expenditure, updated the MEF Lexicon, and developed a virtual library.

Objective 52: Enhanced effectiveness of capacity building and incentive mechanism

155. **In principle, the Steering Committee for PFMRP has achieved 3 primary tasks:** 1. Strengthening of revenue collection and expenditure management, 2. Strengthening and expansion of FMIS at LMs, and 3. Strengthening of implementation of BSP and program budget. To support PFMRP activities, LMs are allocated 30,000USD each, where most used these funds to arrange workshops and short-term trainings.
156. Incentive scheme for working groups for PFMRP
- Phase 1 PFMRP Fund provided incentives to 354 members of the working groups for PFMRP at LMs, totalling 5,095 mil riels
 - 467 members of the working groups for PFMRP of MEF received 9,162 mil riels
 - GSC will evaluate the effectiveness of the implementation of this incentive scheme in 2021 as input for the design of a comprehensive PFMRP fund. This design will cover financial support and the efficiency and effectiveness of this support.

Objective 53: Strengthened capacity building for PFMRP Stage 3 implementation

157. **Capacity building for PFM:** Certificate level medium-length technical trainings of 78-90 hours that focus on PFM per the Stage 3 capacity building and development strategic plan have been conducted for 55 sessions with 2,209 participants, out of which 1,463 passed the qualification exams at the end of the courses in 2018 and 2019 and 300 are being trained in 2020. These technical trainings are designed for

officers who will be working in public finance related posts such as public procurement officers, petty cash officers, financial officers, state asset register officers, payroll officers of budget entities at the national and sub-national levels, including public administrative establishments and public enterprises.

158. **As reforms results become entrenched:** Reforms 3+1 (PFM, Public Administration, D&D and law and legal system) play an increasing role in enabling success of the overall reform effort. GSC has drafted a joint vision and strategy and plans to prepare detailed action plans to implement this strategy.
159. **All in all, Part 5 has faced major challenges, particularly on short-term trainings and dissemination workshops due to COVID-19, yet the progress of PFMRP was not affected. The working groups at MEF and LMs for PFMRP could execute their planned actions and report their progress on schedule.**

Way Forward

- Finalise the capacity building and development strategic plan (under PFMRP)
- Design a comprehensive PFMRP fund.

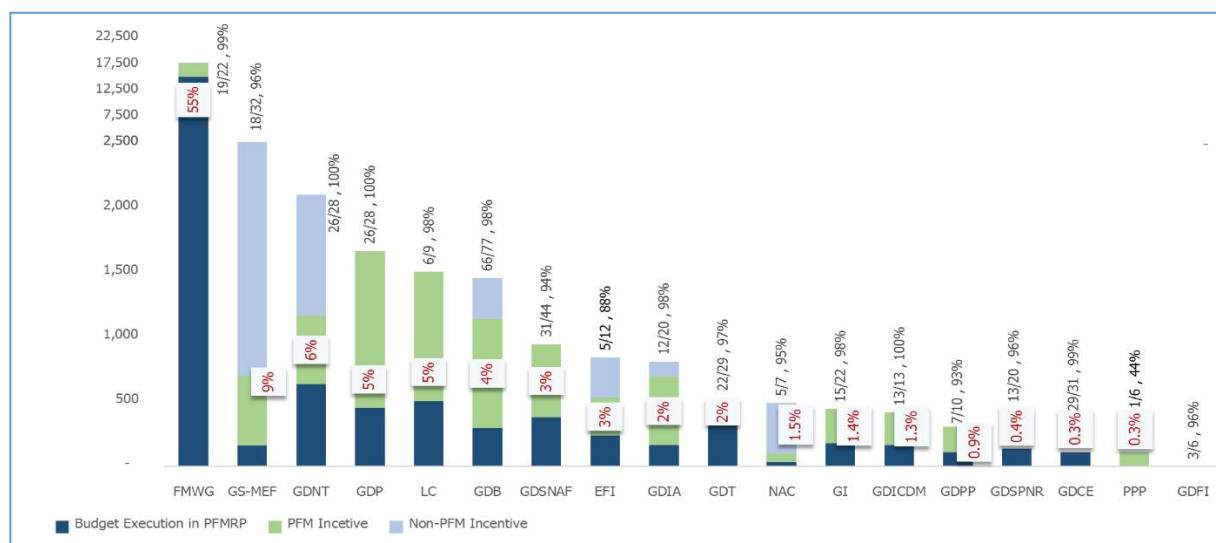
2.2 Progress at LMs and GDs under MEF

160. This review report is a result of consolidation from action plans and indicators in 2020 from 18 GDs of MEF.
161. **The general scoring principles: Scoring method used in quarterly and annual review reports are based on 2 bases:** 1. Actions completed against action plan and 2. Progress achieved against targets of indicators. Based on these scores, grades are given for objectives and activity clusters as follow: Excellent (96%-100%), Good (86%-95%), Above Average (71%-85%), Average (61%-10%) and Poor (under 60%).
162. **Additional scoring principles for 2020:** Activities affected by COVID-19 namely workshops, trainings, auditing, domestic and international missions and regulations formulation requiring foreign specialists are excluded from being scored. Activities requested to be delayed due to other reasons (time constraint, capacity and resources) are still being scored accordingly.

2.2.1 Progress for GDs of MEF

163. The 2020 progress report reflects performance of the 18 GDs of MEF. Progress achieved by 17 GDs were excellent (above 86%) whereas that by CPPP Unit stood at 44% as shown in Diagram 5.

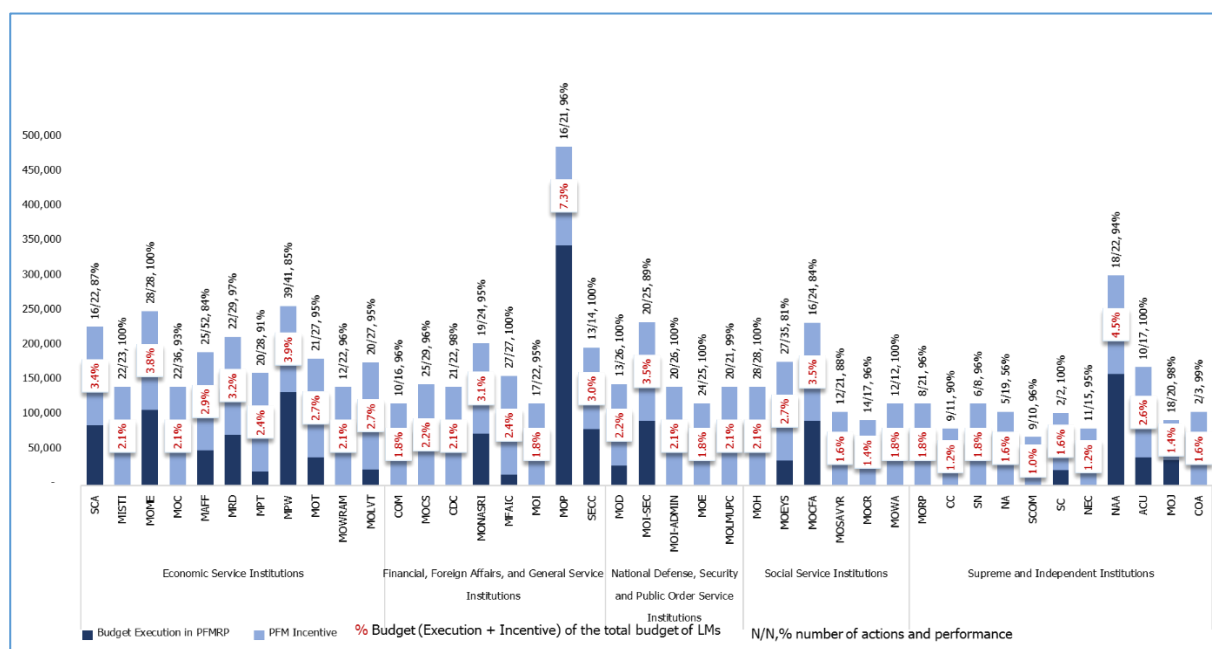
Diagram 5: Progress (%) for GDs of MEF



2.2.2 Progress for LMs

164. **MAP progress report for 40 LMs:** There are 5 classifications of LMs based on sectors under PFMRP are as follow: 1. Economic service institutions (11), 2. Financial, foreign affairs and general services institutions (8), 3. National defence, security and public order services institutions (5), 4. Social service institutions (6), and 5. Supreme and independent institutions (11).
165. Based on the results of the monitoring and review of MAP3 execution, the quality of MAP3 has improved yet most actions are routine non-reform actions. Therefore, MAP3 preparation should focus on actions of priority that will contribute to strengthening of finance system of LMs.
166. As the roles of LMs in implementing PFMRP, especially in Stage 3 and 4, capacity building and development of entities under LMs (finance entity and budget entities) should be an area of focus to be pushed for, under the active, proactive and interactive facilitation of finance entities. LMs in the same sector should formulate cross-cutting policies so as to achieve outcomes, hence budget-policy linkages. Prioritising actions for MAP3 in 2020, particularly the preparation and implementation of “strengthening of revenue collection and expenditure management”, “improving financial accountability”, and “budget-policy linkage”. Progress in percentages at LMs are mostly above 86% except MAFF, MPWT, MCFA, MoEYS and General Secretariat of NA per Diagram 6 below.

Diagram 6: Progress (%) of LMs



2.3. Contributions from Development Partners on the PFMRP

167. Development partners' support to PFM reform began since 1994, and until now, modality of support has evolved in line with Cambodia's changing development context. In 1990s, the support was mostly technical assistance and trainings delivered to MEF staff by IMF, UNDP, ADB, DFID of the United Kingdom and Netherland. In 2004, as the Royal Government embarked on Public Financial Management Reform Program, SIDA, EU, DFID of the United Kingdom and Australia pooled their funding support together into a Multi-Donor Trust Fund (MDTF). The MDTF was managed by the World Bank to advance the reform in such areas as strengthening revenues mobilization, managing public resources, and improving budget execution processes through the implementation of FMIS. In 2016, the EU member states developed a joint cooperation strategy and provided a Budget Support program for the PFMRP stage three. The Budget Support is accompanied by ADB's loan for strengthening linkage between budget and policy, and the technical assistance by World Bank and IMF. The change in cooperation modality reflects growing government's ownership and leadership in managing partnership to harmonize and align the development partners' support.

168. In this section of the 2020 PFMRP report, development partners express personal notices of progress, challenge, and suggestion to reinforce objectives of the reform in parts of the CAP. The notes reflect perception of the development partners based on their individual experience in interacting and collaborating with implementing entities of the PFMRP.

2.3.1. Cooperation Framework

169. In 2020, GSC has leveraged the utilization of development partners' support to achieve most of the 2020 PFM reform targets.

- With the EU, GSC closely monitored the implementation of the Budget Support by all implementing entities, and as a result, 8 out of 11 performance indicators are progressing to meet achievement target. other 3 indicators including (1) Draft PFS law, (2) Sub-degree on SOP for managing PPP projects, and (3) Strategic Capacity Development Plan (SCDP) under PFMRP did not achieve which are the subject for reducing budget support by 1,5 million Euro for 2021.
- With the ADB, joint assessment on the Strengthening Public Financial Management Project (SPFMP) found that by achieving most of the performance indicators (except a few indicators about PFS and PPP laws), the SPFMP has contributed to develop policy and regulatory framework for expenditure and revenue management, and strengthened capacity of LMs and NAA in implementing the reformed budgeting, expenditure management, and independent auditing.
- With UNICEF, IMF, World Bank, and other partners, GSC coordinated technical assistances to harmonize and align the support with the needs of PFMRP's implementing entities. Through numerous dialogues and contentious follow-ups, GSC has sought and placed 12 international experts to help in key reform areas as listed in table 7.

Table 6: Technical Assistances for PFMRP

N.	TA Support for Key Reform Areas	Requesting Entities	Providing Entities
1	Review the Draft Strategy for the Implementation of Accrual Basis Cambodian Public Sector Accounting Standards 2019-2031	NAC	IMF
2	Improve trade-related statistical analysis	GDCE	GIZ
3	Develop e-Manifest logistic system		
4	Amend the 2012 public procumbent law	GDPP	EU
5	Develop analytical capacity using tools such as PER, PETS, QSDS, Gender Budgeting etc.	GSC	EU & WB & IMF
6	Draft Communication and Engagement Strategy for PFMRP	GSC	WB
7	Strengthen M&E system and study impact of PFMRP on service delivery/development outcomes	GSC	EU & WB
8	Develop blueprint for strengthening non-tax revenue management	GDSPNTR	WB
9	Conduct TADAT assessment	GSC	EU & WB
10	Strengthen capacity in preparing and implementing guideline on auditing of externally funded projects	GDIA	IMF
11	Strengthen capacity in utilizing and audit FMIS	GDIA	
12	Review and comment on readiness to transition to CAP4 and key reform priorities for CAP3+2	GSC	WB, EU & AusAid

170. Cooperation in 2020 marked many significant achievements that could become another turning point in the PFMRP, but considering new challenges emerged out of Covid-19 crisis, the immediate task is to reframe the development partnership to meet with the latest development cooperation context.

2.3.2. Revenue Mobilization

171. By strengthening revenue administrations, the Royal Government has managed to greatly boost revenue collection and built up relatively large fiscal space in the form of government savings. However, due to Covid-19 pandemic, revenue collection in 2020 declined. Except corporate income tax which was buoyed due to 2019 profit tax filing occurred in April 2020, domestic revenue collection experienced an across-the-board decline. Taxes on goods and services and taxes on international trade, together non-tax revenue were hardest hit and may not recover this year.
172. Multifold challenges in revenue collection have emerged. The decline in economic activity reduces ability of firms and businesses to pay corporate income taxes, while subdued construction activity and domestic consumption constrain imports of construction materials, and durable goods and non-durable goods, thus limiting collection of domestic and import value added tax (VAT) and excises. Trade taxes are being eroded by ASEAN Free Trade Agreement (and CCTFA), while non-tax revenue shrank due to mainly to the collapse of the services sector, especially the tourism sector. With shrinking (vehicle and construction materials) imports, revenues from VAT, excises, and import duties collected by the General Department of Customs and Excises (GDCE) is estimated to decline.
173. While it may not be feasible to promptly boost revenue during the coronavirus pandemic, efforts could be made to (1) diversify revenue base, (2) continue to move toward a more progressive tax system, and (3) to further strengthen revenue administration and forecasting. The World Bank recommends that:
174. **Recommendation 1: to underpin the current collection of taxes and excises such as corporate income tax, VAT, excises, and import duties it is crucial to further promote formal businesses and to strengthen anti-smuggling efforts.** In this regard, embarking on doing business reforms and introducing competitive investment law, while further facilitating trade and investment to improve compliance. Efforts have been made to modernize tax and customs administration (and strengthen capacity building), but a lot remains to be done, if measured against the country's rankings in global competitiveness, doing business and logistics performance. Trade and tariff policies need to be reviewed as it is important to look beyond immediate benefits in the form of customs revenue. For instance, permitting the imports of very old and poor fuel economy motor vehicles and trucks entail high maintenance, operational and environmental costs as well as road accidents which ultimately cost the economy (and life) much more than the initial revenue collected. For the same reason, duties and taxes on imports of alcohol, beer and cigarettes must be also reviewed.
175. **Recommendation 2: addressing challenges facing the collection of property taxes, unused land taxes and property transfer taxes as identified under RMS II is recommended.** For property and unused land taxes, it is time to start collecting more revenue by expanding coverage nationwide (not just urban centers), while strengthening compliances. Property transfer tax exemption may be eliminated. With the scheduled completion of many property (residential and commercial) development projects, property purchases and sales are expected to surge as FDI is gradually picking up. Timely introduction of the 20 percent capital gains tax (CGT) is a step in the right direction. The CGT will likely dampen property and land speculation; this will help redirect scarce financial resources from buy-and-hold property, especially small land plots for speculative gains to finance productive and tradable sectors that underpin job creation and boost exports.
176. **Recommendation 3: it is necessary to further broaden revenue base. Potential sources of revenue may include (but not limited to) e-commerce and shadow banking business activities.** Introducing e-commerce taxes may boost collection as e-commerce transactions are booming, thanks travel restrictions. Shadow banking activity such as those of pawnshops and leasing firms has also surged. Registering on-line businesses, pawnshops and leasing firms (including vehicle dealerships) may be an important first step before appropriate taxes and excises are levied. It may be useful to complete the preparation for implementation of PIT.

2.3.3. Implementation of FMIS Phase 2 and Transition to FMIS Phase 3

177. As part of PFMRP, the FMIS has been implemented in two phases that in phase 1, the treasury-focused FMIS solution (PeopleSoft) and its core functionality was rolled out to the MEF, and in phase 2, the rollout of the system was expanded to all of central government while utilization of the system capability become more fully by simplifying and modernizing PFM business process. Phase 3 will see a significant expansion of the system functionality and also aim to extend the system to the subnational level.
178. In term of utilization, the FMIS is mainly used for payment processing, transaction accounting and fiscal reporting. A dedicated program of business process simplification has seen a reduction in process steps for payroll in pilot central ministries and for regular payment types (such as utilities). A risk-based approach is being applied to these reforms, where business process simplification in relatively low-risk transaction types is demonstrated to be effective in pilot ministries before further roll-out and prior to tackling the simplification of more complex processes. Other positive developments include, a pilot on integrating into the FMIS development partner-funded expenditure reporting, establishing closing of accounts procedures (to stabilize in-year reporting), and enabling IPSAS cash-based reports to be extracted from the system.
179. However, progress has been slow with activating basic accounting and reporting functionality for line ministries and redesigning other key business processes. Line Ministries do not yet use the system for their own budget management and reporting needs. The list of needed business process reforms in MEF is long and includes the use of commitment controls for capital budget management, eliminating the use of bank accounts for accounting and control purposes, development of consolidation procedures for the production of financial statements, and decreasing the use of petty cash and other advances. There is also a need to improve banking services to government and to develop further capacity to transmit batched electronic fund transfers through the interbank clearing house.
180. As the FMIS is currently transitioning to Phase III, new modules for Budget Planning and Procurement are being developed and piloted. Business process modernization are planned to accompany the rollout of a solution for connecting sub-national government. In light of this, IMF recommends that:
181. **Recommendation 1: Change management remains essential and will need to focus on activating FMIS functionality for line ministries and strengthening business process reforms.** Line ministries need to be able to use the FMIS for their own internal budget management and reporting needs, not just for transacting payments through the Treasury. If not, MEF risks that line ministries will opt to develop their own financial management system, which has already been the case with the Ministry of Education. Line ministries integration will also require an expansion of the chart of accounts classifications. While new business processes are gradually being adopted within MEF, such as for the payment process, MEF departments should commit to a program of reforms aimed at further activating system functionality. This, while manual processes which are often still being maintained in parallel, should be discontinued. The FMIS roll-out has an established change management infrastructure, and senior management oversight is effective. However, change management should focus more on activation of functionality and encourage a more strategic role of line ministries in the FMIS reform and greater accountability of MEF departments in modernizing business processes.
182. **Recommendation 2: The expansion strategy in phase III should take into account that activation of phase I and II functionality is still ongoing – technical roll-out should not advance too rapidly.** The sizeable agenda with respect to basic functionality in line ministries and on more intermediate and advanced business process improvements in MEF has implication for the speed and direction of system expansion. New modules are already being developed for budget planning and procurement. These are sizeable reforms as they would include significant, additional business process redesign, for this reason the introduction of other modules, such as for asset management and HR, and the expansion of the FMIS to subnational government should only be initiated if the processes can be adequately managed and stakeholders can absorb the associated reforms. For the decentralization agenda, further study on user needs, costs, staff capacity constraints and project management capacity for various potential solutions would seem warranted.

183. **Recommendation 3: The reporting coverage of the FMIS should be expanded with development partner-funded expenditure.** For overall fiscal management and reporting, but also for project management purposes, the in-year and end-of-year reporting on investment projects funded by development partners should be integrated into the FMIS. This will greatly facilitate budget planning and enhance insight in capital budget execution, project management, need for interventions and planning of reallocation of expenditure. Development partners should be urged to follow their international commitments to support use of Cambodia's national systems for expenditure reporting and in due course budget execution.
184. **Recommendation 4: MEF should develop standards for interface requirements with the FMIS and support interface development with existing and new systems.** An interface will need to be developed with the Ministry of Education Youth and Sport's EFMS system, but also with existing and emerging systems such as the debt management package, DMFAS, public investment planning and monitoring systems, the new budget planning and procurement modules under development, and other. This will ensure data consistency across government, improve data recording efficiency and expand functionality of new applications.

2.3.4. Implementation of BSP and PB

185. *Program Budgeting and Performance-Based Budgeting reform* started in 2008 with the gradual introduction of program budgets (PBs) and the 3-year rolling programmatic Budget Strategic Plans (BSPs) at 8 LMs. Since 2018 all LMs prepare BSPs and PBs, and the MEF is now drafting a new Public Finance System (PFS) Law that will give a legal basis to the Program Budget.
186. BSP and PB implementation are appropriate tools to strengthen policy-budgeting links and to develop medium term budgeting. There has been progress since the first BSPs in 2010, and the BSP has been determinant in helping LMs develop their program/sub-program structure, linking logically with the ministries' policy objectives and program structure. They all include detailed performance frameworks with indicators down to the sub-program level, and budget requirements are presented by sub-program. However, there is still room for improvement of the BSPs in respect of analytical information, performance frameworks, and use of outer years as part of the prioritization and allocation of funding. On this basis, the EU recommends that:
187. **Recommendation 1: Complete the amendment to the PFS Law** to support further modernization of Cambodia's PFM framework, including submission and approval of the budget reflecting medium term program and performance structure, delegate Line Ministries with greater budgetary responsibilities including being authorizing officers of their budgets and define clearly the specific roles and responsibilities of public accountants.
188. **Recommendation 2: Integrate capital expenditure into BSPs and link individual projects to budget programs through a capital investment sub-program, or to sub-programs through a cluster of activities.** Whereas integration of recurrent and capital expenditure was a stated objective when the BSP were introduced in 2010, and this was repeatedly reaffirmed in several strategic documents including the BSRS 2018-2025, this has not yet materialized. In practice, BSPs are focused almost exclusively on the recurrent budget as the capital investment budget functions outside the annual budget process. Some of the BSPs reviewed do show capital requirements (domestically and externally funded), but the amounts presented appear to be incomplete or inaccurate. The absence of capital expenditure limits the potential of the BSP as a medium-term planning tool.
189. **Recommendation 3: Reinforce multi-year perspective in budget discussions, formulation and documentation.** Although LMs put significant efforts in developing their BSPs, budget discussions mainly focus on annual work plan and budget. Upon completion and submission to MEF, the BSP process almost comes to an end. BSPs are formally presented at the beginning of the annual budget hearings, but there is limited use of them during the annual budget discussions as the focus of internal discussions during BSP preparation is clearly on year n+1. To become operational, the BSP would need to be fully incorporated into the budget process and converted into the MTBF bottom-up process, which is about the way in which national and sectoral strategic plans are translated into budgetary plans.

190. **Recommendation 4: Revise the BSP guidelines to provide more analysis in the Achievements, Challenges, and Financial sections of the BSP and link achievements section to annual M&E reports.** *Achievements* section of BSPs consist mainly in long lists of activities undertaken in the previous year. There is a lack of comparative data to support more effective analysis of variances (i.e. between planned and actual data, financial and non-financial) and trends over time. In most BSPs, financial data on budget execution by program/sub-program is lacking, thus providing no evidence of ability to spend (often a pragmatic consideration for a Ministry of Finance). The *Challenges* sections have no substantive identification and/or assessment of underlying factors for “challenges” impacting achievement of policy objectives. Big variations are sometimes observed in the *Financial Requirements* table, but with no written explanation and rationale for them. The BSP Circular should be revised to require LMs to provide more analysis in the *Achievements*, *Challenges*, and *Financial* sections of the BSP.
191. **Recommendation 5: Improve the performance frameworks to limit number of indicators, include baselines, means of calculation/methodology, means of verification, and targets for years n+2 and n+3; Request LMs to develop basic internal information systems to support recording, monitoring, analysis and reporting of non-financial indicator data.** Improving the quality of the BSP performance frameworks is a priority as MEF has announced its intention to start focusing more on non-financial information during budget discussions in 2020. Most BSP performance frameworks reviewed show a certain confusion between the very notions of what is an objective, what is an indicator, and what is a target. The BSP template does not include baselines, means of calculation/methodology, means of verification, and targets for years n+2 and n+3. In addition, the BSPs are overwhelmed with too many indicators, often not well defined or overly administrative and input oriented.

Establishing effective non-financial performance indicators and targets for programs and sub-programs is probably one of the most challenging tasks for BSP (and PB) preparation. Meanwhile, attention given to non-financial indicators by MEF has been limited. As a result, LM departments have limited incentives to give greater attention to non-financial indicators in the budget context.

Finally, changes in outcome indicators can take a very long time to become evident, and performance is heavily dependent upon the behavior of the service recipients and the external factors impacting upon them.

2.3.5. Capacity Development in PFMRP Framework

192. Thanks to the strong ownership and commitment of the government to PFM reform under the platform approach, PFM systems have been substantially strengthened including improved revenue collection and overall expenditure management. Key to this has been the effort to build capacity for achieving performance under the PFMRP.
193. Capacity development is instrumental to sustaining impact of PFM reform. Strong emphasis has been placed on quality of human resources with training on specific public finance management skills provided to relevant stakeholders in PFM. Between 2013 and 2020, a total of 22,874 civil servants from central and provincial level including financial management officers, public procurement officers, Advanced Petty Cashier, Revenue Petty Cashier, Payment Officer and alternate Payment Officer have been trained on preparation and implementation of program budgeting, financial accounting, financial reporting, credit movement recording, public procurement, public asset management and FMIS. Notable success in capacity development is reflected in the successful implementation of FMIS (and FMIS rollout to LMs), the management of public debt, and more. This has resulted in south-south exchange and study visits by Laos PDR and Myanmar to learn from Cambodia’s experience.
194. While a lot has been achieved, it is useful to consider not only technical training of specific PFM skills but also capacity for reform management as a whole and focus on real world impact. This requires adequate attention to capacity for managing reform and changes associated with the reform more broadly.
195. **Main issues:** while a lot of technical training has been delivered, challenges for quality delivery remain an ongoing issue. Key challenges include inadequacy of budgetary resource, lack of systematic training/capacity building activities, and adequacy of quality training for trainers (See Strategic Capacity Development Plan of EFI). In addition, successful training completion rate of about 70% could be further improved. For example, out of 353 people who joined training in October 2019, 247 successfully passed the competency exam; 92 did not fulfill requirements for taking exam; 2 failed to show up during exam, and 12 failed the exam.
196. **Capacity development** could usefully consider non-technical dimension of reform. The platform approach was built with performance related focus, which is supported by four pillars of support for the reform: technical, human resource capacity, organizational, and motivational development to enable

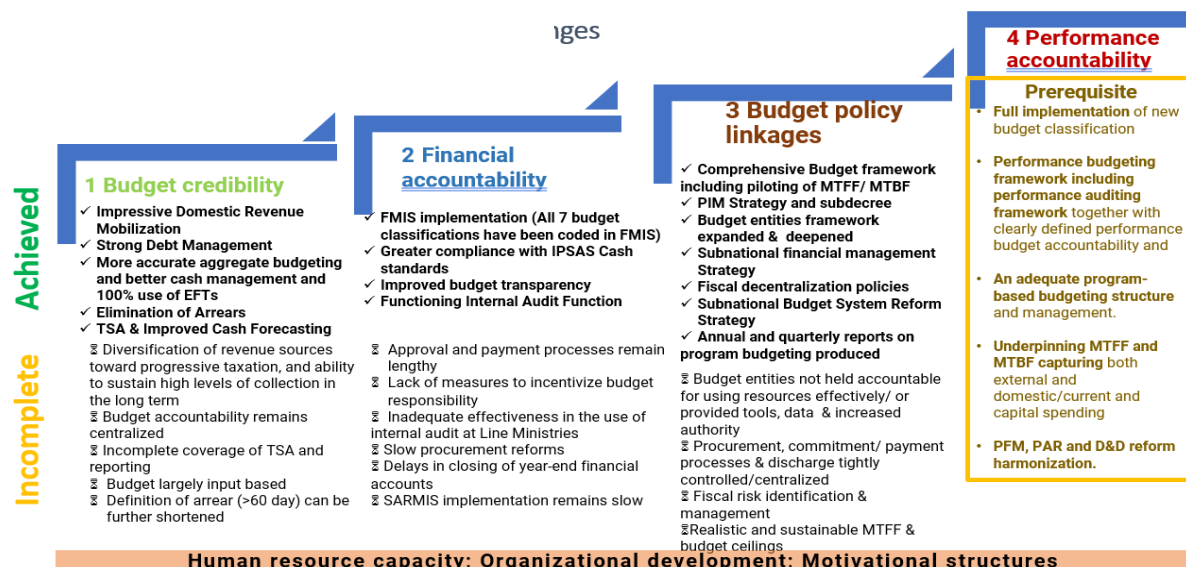
sustained progress in reform effort. These last three are also important to successful reform management toward desired reform objectives. Attention to these non-technical 'pillars' appears to have been weaker as the program moved onto subsequent platforms. While some work was done on training and other aspects of human resource development such as retention and rotation policy, reform management capacity could be further improved including capacity in change management, Monitoring and Evaluation (M&E), and coordination.

197. **M&E:** Part of the program management under the platform approach was that reform program performance is reviewed annually (annual retreat). These retreats provided an opportunity to step back and consider the impact of what was being done and whether it was enough to achieve targeted results. The annual reviews were supported by reviews carried out by the External Advisory Panel (EAP) to give it a candid view of progress and achievement. However, attention to real impact has tended to become weaker as the EAP focused more on activity completion rather than impact on overall platform achievement and later the EAP mechanism appeared to have ceased.
198. **Coordination** has been and continues to be a key challenge and involvement from high level leadership remains significant to help push through reforms. The success of the platform approach in creating momentum has also led to problems in that PFM reforms have tended to run ahead of change in other areas such as broader public sector management reform. The running ahead of public sector reform also contributes to the relative weakness of the 3 pillars of capacity development, organizational change and motivational development. PFM reform can contribute to solving these problems but cannot solve them on its own.
199. **Recommendations:** going forward, the World Bank recommends that the PFMRP could benefit from increasing investment in capacity development, strengthening of quality of technical training, and stronger focus on strengthening broader reform management capacity in the Strategic Capacity Development Plan (SCDP) and its implementation. Technical training could also include performance management (among other things already listed in the SCDP) for budget managers, heads of units or departments who will be later in charge of budget performance implementation and monitoring. This may require closer coordination with PAR.
200. For broader reform management, it is useful to strengthen change management capacity of key stakeholders leading the reform; build more effective capacity for coordination of reform activities with another cross-cutting public sector reform; and an enhanced M&E capacity. Specific to M&E, it is important to improve M&E framework with clear KPIs focusing on impact of activities and adequate capacity for monitoring of progress of implementation regularly through regular technical working group meeting and annual reviews/retreats focusing on the impact of reforms being carried out and completed. It is suggested that this is done at two levels (1) the extent to which the platform is being successfully constructed and (2) whether what is emerging from the platform will achieve a step change in the way that PFM systems perform in contributing to national objectives. Revitalizing the EAP review focusing on the two points could help to further strengthen the M&E process.

2.3.6. Readiness to CAP4

201. The past 15 years of PFM reforms have delivered substantial improvements in public financial management and this has assisted the Government in realizing economic and social progress over this period. The government has followed a process of building "platforms", each of which represents a step change in performance. This approach has been followed consistently and has proved effective in coordinating and prioritizing PFM reforms. PFM reforms under the platform approach have progressed from platform 1, focused on strengthening budget credibility, through platform 2, focused on improved financial accountability to platform 3, focused on strengthening the links between policy and the budget.
202. Although most major elements of platforms 1 and 2 have been successfully implemented, further work remains to be done on both platforms while platform 3 is substantially further from completion. Recent reviews have identified constraints outside the PFM system that, until they are addressed, will limit government's ability to complete stage 3 and move ahead to stage 4. See Diagram 7 for a summary of complete and incomplete elements under each platform.

Diagram 7: Progress and Unfinished Reform Areas



203. With many incomplete elements, the World Bank recommends the Royal Government to focus on consolidation of platforms 1, 2, and 3, by emphasizing on underpinning elements (pre-requisite) thereby providing a robust basis to move forward with the implementation of platform 4. In addition, PFM reform priorities should be informed by the government's more immediate needs. This means addressing weaknesses and bottlenecks in PFM that impact the government's ability to implement policies successfully and equipping government to formulate effective fiscal responses to the economic and social impacts of COVID-19. Underpinning elements that support successful CAP4 implementation may include:

- Amendment of the PFM law providing Line Ministries with greater budgetary responsibilities including being authorizing officers of their budgets and defining roles and responsibilities of public accountants.
- Adoption of measures to diversify the revenue base, carrying out rapid budget re-prioritization (spending reviews) to address economic and fiscal impact of COVID-19, improving capital budgeting, and enhancing risk identification and management to weather impact of unexpected internal developments and external pressure.
- Streamlining transaction approval and payment processes to accompany a robust FMIS implementation for further improved budget execution
- Expansion of the Chart of Accounts and full implementation of budget classifications, which provides a fundamental building blocks of sound budget management system that facilitate decision making and contribute to accountability improvement.
- Establishing performance informed budgeting framework, including performance-based management, measurement of program results, performance accountability, transparent reporting and a performance auditing framework. This would include increased devolution of budgetary powers and responsibilities to managers of programs and activities; increased transparency and improved reporting on program performance; capacity building for PFM related skills; and development of HRM processes that reinforce accountability through individual objective setting and performance reporting linked to policy/program objectives and results. This would require an increase in complementarity of other interconnected reforms.
- Strengthening Public Investment Management by harmonizing and integrating domestically financed and externally financed public investment management systems. This will need to be supported by clear and adequate PIM legislation (including PIM Sub-decree and related Prakases) to provide clear definition of the PIM cycle, institutional arrangement, and basic appraisal guideline; PIM Standard Appraisal Manual and PIM Standard Implementation Manual to provide uniform procedures for

managing project execution at all line ministries; and improved capacity of MEF, Ministry of Planning, and line ministries to prepare and assess more effective and efficient investment projects, in connection with the strategic priorities defined in the Budget Strategic Plan and MTEF.

- Establishing medium-term fiscal framework (MTFF) and medium-term budget framework (MTBF) and develop realistic ceiling for guiding budget formulation to support improvement in fiscal and budgetary discipline by having fiscal targets and improved forecasting models.

204. Further, it is important to strengthen PFM reform management including:

- Adequate monitoring and evaluation with the use of outcome focus Key Performance Indicators and the periodic use of external panel review on progress.
- Improving change management for reform processes with stronger emphasis organizational/functional improvement (a key bottleneck preventing meaningful implementation of program-based budgeting), and motivational development to support the reform effort.
- Human resource development to define new competencies and develop the new skills required to support a modern performance-oriented budget system, through job analysis, recruitment, training, and career management.
- Harmonizing the three key reform programs, namely PFM, PAR and D&D (i.e. Financial accountability and budgetary performance targeted by PFM reform program will align with scope of D&D and support human resource management and development under PAR).

2.4. Results of Implementing Budget Support Agreement between the RGC and EU in 2020

205. The 2020 progress report of implementing the EU Budget Support Indicators shows that out of the total 11 indicators, 7 indicators have been completed with 100% achievement; 3 indicators including (1) draft PFS law, (2) Sub decree on the SOP for managing PPP projects, and (3) Strategic Capacity Development Plan (SCDP) of the PFMRP missed the achievement targets; and another one indicator (FMIS Module) is in motoring in 2nd quarter 2021.
206. As of 2020, PFS law is fully drafted but technical working group reviewing this law finishes and agrees on 2 out of total 9 chapters of the draft. Meanwhile, based on the decision made by Deputy Prime Minister, Minister of Economy and Finance in PFMRC meeting on 18 February 2021, GDB has to send the draft to the COM by 4th quarter of 2021, and to the legislative body by 1st quarter 2022. This indicator is subject to be reduced the budget support by EUR 0.75 million for 2021.
207. Sub-decree on the SOP for managing PPP projects consists of 10 guidelines, but only 3 guidelines are fully drafted while the sub-degree for the guidelines still wait for passage of PPP law. In this regard, the disbursement of EU budget support is subject to be reduced EUR 0.25 million for 2021.
208. The Strategic Capacity Development Plan (SCDP) of the PFMRP is fully drafted and put for consultation with GSC, entities under MEF, capital/provincial departments of economy and finance, capital/provincial administrations and development partners. However, the revision of this SCDP is delayed to 04 April 2021 to be submitted for endorsement by Deputy Prime Minister, Minister of Economy and Finance. Therefore, this indicator is subject for reducing budget support by EUR 0.5 million.

3. Results of PFM System Assessment

209. PEFA 2020 is used both framework for PEFA 2011 and 2016 in which PEFA 2011 is for comparison with the successive assessment since 2010 and PEFA 2016 is to meet current standard as a baseline for next assessment.

3.1. Results of PEFA Assessment by Using Framework for PEFA 2011

210. Review the progress of PEFA assessment for 3 periods from 2010 to 2020: Framework for PEFA 2011 is used to review the progress of 3 successive assessments in particular comparison with the results in 2015. According PEFA Assessment with PEFA 2011 framework, the results have shown the improved PFM system by increasing score of 9 PIs including PI-2, PI-6, PI-7, PI-10, PI-13, PI-14, PI-19, PI-23 and PI-25. However, PI-3 gets lower score since a big deviation between plan and outturn, and PI-11 also

deteriorate. PI-26 related to the external audit function is not assessed as PI-30 in section 3 and the 3 performance indicators related to Development partners (D1-D3) are not assessed as the assessment is focusing on the areas of RGC PFM reform and ODA is covered by RGC PFM systems.

3.1.1 Fiscal discipline

211. Aggregate fiscal discipline is reflected in a combination of the coverage of the budget documentation and the ability to deliver the budget aggregates as planned. It is important for macro-economic management of the national economy. A number of PFM systems assist the Government in achieving such results.
212. Cambodia is performing well on budget outturn at the aggregate level on the expenditure side (PI-1, rated 'A') but revenue outturn (PI-3, rated 'D') has a big deviation that needs to strengthen revenue forecasting. Since previous assessment, three significant weaknesses are still noted on the comprehensiveness of the budget, namely (a) indications of significant amounts of expenditure arrears (PI-4 dim (i), rated 'D'), and (b) incomplete coverage of non-tax revenue - particularly from public administration of establishments (PI-7 dim(i), rated 'B'). Transfer of collected revenue to the Treasury can be improved (PI-15. Dim (ii), rated 'A') as all tax revenue is transferred to the treasury accounts daily. These deficiencies mean that outturn data on the budget does not entirely reflect the aggregate performance on the government's overall fiscal operations.
213. An orderly and timely budget preparation process ensures that all budget entities have ownership of their budgets and know their final budget allocations well before the start of the fiscal year, but budgets are submitted without final hard budget ceilings (PI-11, rated 'B+') and alignment to strategic sector plans is limited to 2 LMs (PI-12 rated 'C+'). Timely budget execution reports are produced monthly and are vital for monitoring of aggregate revenue and expenditure (PI-24 'C+'). Cash flow forecasts provide reliable information to line ministries and facilitate the planning of their expenditure commitments (PI-16, 'C+'). The oversight of public enterprises, public administrations of establishments and Communes/Sangkats has ensured that such entities have not required unplanned demands on government resources (PI-9, 'C+').
214. On the other hand, weaknesses remain in many PFM system elements which are important for ensuring aggregate fiscal discipline. Revenue administration systems do not ensure effective registration of taxpayers (the RGC developed an IT Platform for business registrations in accordance with Sub-decree no.84 ANKr.BK dated 10 June 2020), or control of their tax liabilities (PI-14, rated 'C+') and significant levels of tax arrears are outstanding with little progress in reducing them. The lack of an effective tracking system for invoices for goods and services means that the extent and trajectory of arrears on payments to suppliers is not known (PI-4 dim (ii), 'C').
215. Other systems should help the government avoid unexpected demands on government resources in the medium term. In this category, monitoring of debt is adequate, given the moderate debt levels (PI-17 dim(iii), rated 'C' and PI-12 dim(ii), rated 'A'. The medium-term fiscal framework is still in its early stages of development with weak links from one budget cycle to the next (PI-12 dim(i), rated 'C' & (iv), rated 'C'). An overview of fiscal risks that could point to future demands from PEs and other fiscal operations is not being prepared (PI-9, rated 'C+').
216. These weaknesses suggest that the good performance on aggregate budget outturns for expenditure side could be at risk under estimation of revenue and short-term shocks to government revenue or drops in economic growth over the medium-term due to pandemic Covid-19 withdrawal EBA, Natural disaster. This indicates revenue collection entities must pay attention to collect all potential source of revenue especially in e-commerce, mine sector (oil) and others.

3.1.2 Strategic Allocation of Resources

217. Strategic allocation of resources reflects the government's ability to provide the required financial resources to the institutions that deliver public services and to mobilize financial resources from citizens and enterprises, in both cases in line with policy objectives and targets.
218. Systems strengths include the orderly and participatory approach to the annual budget formulation, including a timely and well-organized legislative review (PI-11, rated 'A') as well as reliable and timely

information provided on the transfers to Communes and Sangkats, which prepare their own budgets independently (PI-8 dim (i) 'A' & (ii) 'A').

219. However, the achievement of high-level policy objectives in public service delivery requires strong policy-budget links in resource allocation also over the medium term. The PFM systems do not support this well, as strategic sector planning remains weak, except for health and education (PI-12 dim(iii), rated 'C'), resulting in weak links to selection of capital investment projects and lacking consideration of the recurrent budget implications of completed projects (PI-12 dim(iv), rated 'C'). Also, the medium-term expenditure framework is not fully developed and integrated into the budgeting process, with clear links from one budgeting cycle to the next except for budget aggregates (PI-12 dim(i), rated 'C'). Currently, the RGC initiated to develop the piloting MTBF and integrate recurrent and capital expenditure in budget process for 3 LMs; namely: Ministry of Rural Development, Ministry of Public Work and Transport, and Ministry of Water Resources and Meteorology. In addition, MEF is drafting the MTFF to be submitted to CoM in 2022 for BSP 2023-2025 and annual budget 2022 preparation.
220. Furthermore, monitoring of budget allocations and their use is undermined by the lack of a unified chart of accounts which reflects classifications based on sector, function and program (PI-5, rated 'C') and lack of detailed reporting on implementation of externally funded projects. However, it becomes better performance the available to track to what extent resources reach service delivery units (PI-23, rated 'B').
221. The system is also subject to frequent and significant in-year reallocations (PI-16 dim(iii), rated 'C+'), facilitated by extensive powers given to the Minister of MEF by the legislation. However, the actual allocation of resources is not to deviate significantly from the policy intent reflected in the government's budget proposals (PI-2, rated 'B+'), and the legislature has to approve only very minor amendments to the annual budget.

3.1.3 Efficient Service Delivery

222. Efficient service delivery reflects that financial resources are used to create value for money in the provision of public services and that waste is avoided. This is essential for maximizing the level of public services that can be delivered in relation to the revenue mobilized, and therefore for the accountability for use of public resources at all levels.
223. The high level of predictability in funds available to line ministries and agencies during budget execution (PI-16 dim(ii), rated 'B') and to Communes/Sangkats (PI-8 dim(ii), 'A') support efficient service delivery. It is uncertain, however, how strong the system would perform in the case of major shocks affecting aggregate revenue intake, as the commitment control systems are incomplete (PI-20 dim(i), rated 'C'). This hints that PFM system face difficulty during crisis.
224. Of particular concern for efficient use of resources is the lack of monitoring and transparency of the procurement systems as well as strengthen public procurement complaints mechanism (PI-19, rated 'D+'). Combined with the apparently significant delays in paying suppliers for goods and services (PI-4, rated 'D+') – who are likely to raise prices to cover financing of outstanding invoices - the government is unlikely to generate good value for money on much of its expenditure.
225. Deficiencies in the internal control systems (PI-18 dim(iv), rated 'D', PI-20 dim(ii), rated 'C' & (iii), rated 'C' and PI-21, rated 'C') as well as lack of audit of payroll (PI-18, rated 'D+') and limited extent of public transparency (PI-10, rated B) reinforces the view that much could be done to improve efficiency in use of public resources.

3.1.4 Integrity of Fiscal Information

226. The assessment of many of the performance indicators referred to above rely on the fiscal data available. However, this fiscal data may not always be reliable. Some of the performance indicators help to understand the integrity of the available fiscal information.
227. In this respect, a number of weaknesses should be noted. Apart from incomplete coverage of government operations by budget documentation (PI-7, rated 'B') and failure to comprehensively monitor expenditure arrears (PI-4, rated 'D+'), weaknesses are found in the data reconciliation and reporting functions (PI-22, rated 'C' and PI-25, rated 'C+'). Furthermore, significant weaknesses have also been identified in the

functions that are supposed to regularly monitor the comprehensiveness and accuracy of revenue and expenditure records and lead to mitigation of control weaknesses, including the internal audit function (PI-21, rated 'C'), and the response to external audits (PI-26).

Table 7: Comparison the results of PEFA assessment by using framework for PEFA 2011

PFM Performance Indicator		Scoring Method	2011	2015	2020	Performance change
A. PFM OUTTURNS: Credibility of the budget						
PI-1	Aggregate expenditure out-turn compared to original approved budget	M1	B	A	A	No change
PI-2	Composition of expenditure out-turn compared to original approved budget	M1	D	D+	B+	↑
PI-3	Aggregate revenue out-turn compared to original approved budget	M1	A	A	D	↓
PI-4	Stock and monitoring of expenditure payment arrears	M1	C+	D+	D+	No change
B. KEY CROSS-CUTTING ISSUES: Comprehensiveness and Transparency						
PI-5	Classification of the budget	M1	C	C	C	No change
PI-6	Comprehensiveness of information included in budget documentation	M1	B	C	B	↑
PI-7	Extent of unreported government operations	M1	C	C	B	↑
PI-8	Transparency of inter-governmental fiscal relations	M2	C+	B	B	No change
PI-9	Oversight of aggregate fiscal risk from other public sector entities	M1	C+	C+	C+	No change
PI-10	Public access to key fiscal information	M1	C	D	B	↑
C. BUDGET CYCLE						
C(i) Policy-Based Budgeting						
PI-11	Orderliness and participation in the annual budget process	M2	A	A	B+	↓
PI-12	Multi-year perspective in fiscal planning, expenditure policy and budgeting	M2	B	C+	C+	No change
C(ii) Predictability and Control in Budget Execution						
PI-13	Transparency of taxpayer obligations and liabilities	M2	B	C+	B	↑
PI-14	Effectiveness of measures for taxpayer registration and tax assessment	M2	C	D+	C+	↑
PI-15	Effectiveness in collection of tax payments	M1	D+	D+	NR	Not comparable
PI-16	Predictability in the availability of funds for commitment of expenditures	M1	C+	C+	C+	No change
PI-17	Recording and management of cash balances, debt and guarantees	M2	C+	C+	C+	No change
PI-18	Effectiveness of payroll controls	M1	D+	D+	D+	No change
PI-19	Competition, value for money and controls in procurement	M2	C	D+	D+	No change

PFM Performance Indicator		Scoring Method	2011	2015	2020	Performance change
PI-20	Effectiveness of internal controls for non-salary expenditure	M1	C	C	C	No change
PI-21	Effectiveness of internal audit	M1	D+	C	C	No change
C(iii) Accounting, Recording and Reporting						
PI-22	Timeliness and regularity of accounts reconciliation	M2	C	C	C	No change
PI-23	Availability of information on resources received by service delivery units	M1	C	D	B	No change
PI-24	Quality and timeliness of in-year budget reports	M1	C+	C+	C+	No change
PI-25	Quality and timeliness of annual financial statements	M1	D+	D+	C+	↑
C(iv) External Scrutiny and Audit						
PI-26	Scope, nature and follow-up of external audit	M1	D+	NR	NR	Not comparable
PI-27	Legislative scrutiny of the annual budget law	M1	NU	C+	NA	Not comparable
PI-28	Legislative scrutiny of external audit reports	M1	NU	B	NA	Not comparable
D. DONOR PRACTICES						
D-1	Predictability of Direct Budget Support	M1	C	D	NU	Not comparable
D-2	Financial info provided by donors on project/program aid	M1	D	D+	NU	Not comparable
D-3	Proportion of aid that is managed by use of national procedures	M1	D	D	NU	Not comparable

3.2 Result of PEFA Assessment by using Framework for PEFA 2016

228. Based on PEFA 2020 by using 2016 framework, it shows that (1) Fiscal discipline: Expenditure management shows better control; however, the RGC needs to address expenditure arrears (definition of expenditure arrears and old foreign debt), further strengthen revenue forecasting and tax administration (tax payer compliance, and risk assessment), and monitor PAEs and PEs for financial management. (2) Strategic allocation of resources: orderly and timely prepare annual budget in accordance with budget calendar; however, it is important to strengthen comprehensiveness of budget document. Medium-term budget is in the development stage, i.e. MTBF is in the piloted stage and MTFF is drafting. 3. Efficient service delivery: it is showed for weak performance of monitoring and assessing tool, limited transparency for public procurement, publish budget of LMs especially service delivery units. In addition, strengthening internal audit functions would enhance internal control system so it will be effect on budget spending and performance.

Table 8: PEFA Assessment by using Framework for PEFA 2016

PFM performance indicator		Scoring method	Dimension ratings				Overall Rating
			i.	ii.	iii.	iv.	
Pillar I: Budget reliability							
PI-1	Aggregate expenditure outturn	M1	A				A
PI-2	Expenditure composition outturn	M1	C	B	A		C+
PI-3	Revenue outturn	M2	D	B			C

PFM performance indicator		Scoring method	Dimension ratings				Overall Ra
			i.	ii.	iii.	iv.	
Pillar II: Transparency of public finances							
PI-4	Budget classification		C				C
PI-5	Budget documentation		B				B
PI-6	Central government operations outside financial	M2	B	B	D		C+
PI-7	Transfers to sub-national governments	M2	A	A			A
PI-8	Performance information for service delivery	M2	C	C	B	C	C+
PI-9	Public access to fiscal information		D				D
Pillar III: Management of assets and liabilities							
PI-10	Fiscal risk reporting	M2	C	D	D		D+
PI-11	Public investment management	M2	C	D	D	C	D+
PI-12	Public asset management	M2	C	C	C		C
PI-13	Debt management	M2	C	A	A		B+
Pillar IV: Policy-based fiscal strategy and budgeting							
PI-14	Macroeconomic and fiscal forecasting	M2	B	C	C		C+
PI-15	Fiscal strategy	M2	C	C	B		C+
PI-16	Medium-term perspective in expenditure	M2	D	C	C	D	D+
PI-17	Budget preparation process	M2	A	C	A		B+
PI-18	Legislative scrutiny of budgets	M1	C	C	A	A	C+
Pillar V: Predictability and control in budget execution							
PI-19	Revenue administration	M2	A	B	C	D*	C+
PI-20	Accounting for revenue	M1	A	A	C		C+
PI-21	Predictability of in-year resource allocation	M2	C	B	B	C	C+
PI-22	Expenditure arrears	M1	D	C			D+
PI-23	Payroll controls	M1	B	B	B	D	D+
PI-24	Procurement	M2	D	D	D	A	D+
PI-25	Internal controls on non-salary expenditure	M2	C	C	C		C
PI-26	Internal audit	M1	A	B	C	C	C+
Pillar VI: Accounting and reporting							
PI-27	Financial data integrity	M2	B	D	C	B	C+
PI-28	In-year budget reports	M1	C	B	C		C+
PI-29	Annual financial reports	M1	C	D	B		D+
Pillar VII: External scrutiny and audit							
PI-30	External audit	M1	NU	NU	NU	NU	NU
PI-31	Legislative scrutiny of audit reports	M2	NA	NA	NA	NA	NA

229. Based on PFM system assessment by using PEFA tool, it states Cambodian PFM system has gradually improved; however, if comparison with standard and international best practice, it still has gaps to be improved and strengthened in the budget cycle including state property management and transparency. In fact, these reforms need to address step-by-step as mention in key strategies in PFM reform as a core of PFM RP.

Table 9: Key notes to be strengthened in budget cycle

PEFA Pillar	Ongoing monitoring of identified key weaknesses
I. Budget reliability	<ul style="list-style-type: none"> • Further strengthen revenue forecasting to achieve target +/-5%. MEF GDT, GDCE and GDSPNR needs to have their own revenue forecasting model.
II. Transparency of public finances	<ul style="list-style-type: none"> • Quality data of functional classification and cost allocation of salary and non-salary expenditure through program classification. • Comprehensiveness of budget document by including debt stock, fiscal risk statement, and breakdown of tax expenditure to insert budget statement to parliament. • Develop monitoring and evaluation system for assessing performance of quality of service delivery as well as resource allocation to front line service delivery units in health and education sectors.
III. Management of assets and liabilities	<ul style="list-style-type: none"> • Closely monitor the PAEs and PEs as well as assessment of contingent liability. • Develop framework for financial assets to ensure well management assets. • Develop state asset registration management information system (SARMIS) for utilizing national and subnational administrations. This system is able to produce annual state property inventory book and principle inventory book. • Strengthen public investment management including pre-appraisal and appraisal of projects based in economic criteria and monitoring of project implementation. Develop the PIM system then interface with FMIS.
IV. Policy-based fiscal strategy and budgeting	<ul style="list-style-type: none"> • Develop comprehensive medium-term budgeting (MTFF and MTBF) by integration of recurrent and capital expenditure and public investment management. This mechanism is allowed LMs to well prepare BSP and PB. • Clearly identify accountable for outputs and outcomes to develop performance culture by introducing the Public Finance System Law (new).
V. Predictability and control in budget execution	<ul style="list-style-type: none"> • Modernize tax system (using e-filling and e-payment) and tax arrears management. • Focus on risk assessment and compliant as well as improve compliant by having compliant activity plan for revenue collection entities, in particular GDT and GDCE. • Monitoring of expenditure arrears following international standards. • Strengthening procurement in terms of management regulations, competitiveness and transparency. • Conduct payroll audit to ensure integrity of payroll system and HRMIS. • Upgrade both payroll system and HRMIS as well as move from offline to online. • Improve internal audit capacity of LMs for performance and information and communication technology (ICT) audit in context of implementing program budget, FMIS and performance-informed budgeting.

PEFA Pillar	Ongoing monitoring of identified key weaknesses
	<ul style="list-style-type: none"> Improve budget expenditure control by revising Sub-decree no.81 ANKr.BK and 82 ANKr.BK.
VI. Accounting and reporting	<ul style="list-style-type: none"> Advances are cleared for both types of expenditure, recurrent and capital expenditure on time. Strengthen internal control of FMIS to ensure PFM process is integrity. Automated FMIS by starting process low risk expense through the system and business streamline. Reduce duration of closing accounting book and preparing draft budget settlement law to send it to NAA on time. Further improve compliant of IPSAS cash basis.
VII. External scrutiny and audit	<ul style="list-style-type: none"> Strengthen capacity of external audit. Develop follow up tracking system for external audit recommendations. In-depth budget hearings by involving auditees.

4. Challenges and Measures for Reinforcement

230. The PFM stage 3 was expected to complete in 2020, but the PFM Reform Steering Committee decided to delay for 2 years in an attempt to complete unfinished works in the CAP1-3, to prepare for transition to the next platform, and to synchronize with other reform programs of the RGC.
231. This section of the 2020 annual progress report of implementing the PFM stage 3, challenges and resolving effort will look back to the reform implementation between 2016 and 2020. It is worth noting that the identified challenges and resolutions are incorporated into the executive orders of the PFM Reform Steering Committee for continued monitoring and regular reinforcement.
232. Important works that require much attention are: changing structure and chronic in distinction between daily work and reform work, that leads to a questioning about level of understanding and motivation for reform by the reform stakeholders. As a principle for PFM reform, reform works are classified into 4 categories, namely developing/improving (1) system, (2) regulatory framework, (3) coordination mechanism, and (4) human resource. GSC has been taking measures to coordinate the implementation of LMs action plan (MAPs), and organizing workshops to raise awareness and increase engagement in the PRMRP stage 3. And to promote effective implementation of the CAP3+2 and CAP4, GSC is preparing concept note to draw on effective communication strategy for further engaging stakeholders in the PFM stage 3 implementation. It is expected that effective communication and engagement strategy will not only distinguish between daily/reform works, but also conduce all stakeholders to be a driver in their organizational PFM reform.
233. **Environment of program budget implementation is familiarized:** MEF has convened workshops and training annually to disseminate the role and function of budget entities, and share experience of LMs in implementing the program budget. GSC plans to organize workshop disseminating experience of initial 10 LMs which fully implemented program budget in 2015. The workshop will highlight status of preparing and implementing program budget, showcase how financial and performance monitoring and evaluation conducted, and explore some on-going challenges to reflect for resolution. The workshop could be the basis for LMs to improve their internal coordination for strengthening program budget implementation. The workshop is planned after relief of the covid-19 situation.
234. **Financially incentivizing the PFM working group in MEF and LMs:** incentive mechanism for PFM working group in MEF and LMs reflect quality of preparing the reform action plans and timeliness of submitting quarterly and annual progress report. GDAP and MAP have to be consistent with objective and activity bundle of the CAP, and implementation has to be regularly monitored based on the KPI.

235. MEF continues paying attention to preparing new law on public finance system, law on non-tax revenue management, and law on public private partnership. Delay in these regulatory frameworks will affect the implementation of PFM reform. Regular monitoring should be carried out to ensure comprehensiveness of the laws.
236. **Improving quality of preparing action plans and identifying KPIs and target for the LMs:** until 2020, quality of MAP3 is improved and its result framework is getting clearer, meaning that the whole reform program is getting aligned between top-down and bottom-up approaches. Priorities for further improvement include (1) increasing authorized budget entities, (2) transferring decision making right to the budget entities, (3) improving quality of BSP and PB, (4) evaluating the qualification of budget entities for supporting their weakness (current effort is limited and is not responsive to the CAP3 that could affect the PFMRP and its preparation for the next platform). In this regard, there should be strengthened cooperation between GSC, entities under MEF and entities under LMs in preparing action plan, setting KPS and target for the LMs. s
237. Regulatory documents of public procurement that are identified in BSRS 2018-2025 have been finalized along with increasing the threshold for LMs and sub-national administrations to decide on their procurement. Nonetheless, continued implementation of public procurement system reform strategy 2019-2025 is a priority work.
238. **Implementing BSP and PB:** coordination between financial entities and budget entities of MEF is limited that requires reinforcement by MEF and a review of BSP/PB implementation to serve as the basis for addressing technical issue and to prepare for full implementation of program budgeting. To strengthen organization and budget entities, LMs should carefully review qualification before establishing budgeting entities; this is to ensure effective and efficient functioning of the budget entities.
239. **Non-tax revenue management:** payment of non-tax revenue is done via banking system yet, and it causes difficulty for verifying figures. NRMIS is implemented in 23 LMs collecting non-tax revenue and 18 capital/provincial line departments. Separately, E-Payment was implemented with three LMs in the first phase. NRMIS and E-payment are continuing to strengthen the implementation and expand the scope of use to all LMs collecting non-tax revenue.
240. **Points below make little progress:**
- ◆ **LMs have not review the implementation and qualification of budget entities;** this shall be institutional capacity mechanism to be incorporated into CAP3+2.
 - ◆ **Harmonize internal audit and inspection functions:** this has been raised for many times, and even though there was progress, many works need to be further implemented. Disharmonizes of the functions received much complaint by national and sub-national entities that were audited/inspected.
 - ◆ Request all LMs to disburse mission allowance via bank account, and if encounter with specific, the LMs should seek intervention from MEF.
 - ◆ Many training courses have been delivered, but effectiveness of the trainings remains an unsolved question. There should be monitoring and evaluation exercise conducted to examine the effectiveness of the trainings in PFM reform program.
 - ◆ Changes in organizational structure of LMs requires much coordination time and effort to introduce and engage new stakeholders in the reform program. Currently, coordination between MEF and LM in preparing and implementing program bugeting is limitedly progressing.
241. Followings are briefing of key challenges found in the 2020 annual progress report of implementing PFMRP stage 3, and proposed measures for resolution and transitioning to CAP3+2.

Status	Measures
Part 1: Further Strengthening Budget Credibility	
A. Managing State Property and Non-Tax Revenue	
1. Management of state property is fragmented that it is not yet systematically managed (i.e. the state property management and utilization law need	GDSPNR will develop a master plan on state property management in medium/

Status	Measures
many sub-legislations to implement; commissions have been established on the ad hoc basis; SARMIS is not fully operationalized and is managed by utilizing entities). All these decelerate the effort of making ownership title of state property ¹⁷ that only 9 525 of 20 581 locations (46%) have the ownership titles. The other 11 057 locations do not have the ownership title.	long-term in order the strengthen the state property management systematically
2. Even though GDSPNR has been drafting the blueprint for non-tax revenue management with the support of TA of World Bank with coordination of GSC, the drafting is progressing slowly. The blueprint will enhance the efficiency of non-tax revenue management and potential revenue mobilization, especially through determination of leasing fee and conditions of state property leasing contract. Likewise, some leasing contracts do not have/kick start economic activities that need to be taken action against.	GDSPNR will finish preparing blueprint on non-tax revenue management system reform and will review and revise the investment project/state property leasing contracts once the covid-19 pandemic has relieved.
B. Efficient Management of Budget Execution	
3. Annual budget expenditure data shows that approximately 40% of the expenditure was accumulated/piled up in Quarter 4 of the year. This practice affects efficiency of budget management and execution.	The study of budget expenditure accumulated in year-end will be incorporating in ToR of working group on preparing overarching framework, roadmap and action plan for addressing expenditure arrears.
Part 2: Financial Accountability	
C. Financial Management Information System (FMIS)	
4. Line ministries encounter difficulty in producing budget execution report from FMIS for timely submitting to their Management. As a result, line ministries have to manually prepare the monthly, quarterly and semester and annual reports.	Request FMWG to cooperate with PFM working group in LMs, especially MRD, to address the issue. In necessary case, GSC could coordinate.
5. Quality of budget data in the seven budget classifications has not been assessed. The assessment will contribute to increasing the use of FMIS and improving quality of data generated from the FMIS. (Note: all 7 budget classifications are operationalized in the FMIS, but only 3 budget classifications are fully used, namely economic, administration, and program.	<ul style="list-style-type: none"> - Request FMWG to cooperate with relevant entities under MEF to increase the usage of other budget classifications. - Request all GDs to assess the quality of data generated in all budget classifications, and put forward a plan to improve its quality.
6. Accuracy of FMIS data is not yet fully ensured because of lacking information on ICT audit.	Request FMWG and GDIA to discuss, set scope of work, and address the challenges. In necessary case, GSC could coordinate.
7. In-house for FMIS phase should be considered in order to ensure the data security and budget saving.	Request the FMWG to consider the in-house for FMIS phase3.
Part 3: Budget-Policy Linkage	

¹⁷ This is temporary figure that could be changed because the all state property holders have not prepared inventory list and report yet.

Status	Measures
<i>D. Implementing the Program Budgeting</i>	
8. Discussion with representatives from line ministries found that establishment of budget entities, which is either delegating authority or not, is based on decision and will of Management of each line ministry. Some of the representatives said that if this work is reinforced by MEF, it could be achieved. Based on an approved note by DPM on 10th Sept 2020, 48 budget entities should be established in 2021.	GDB will prepare (1) an action plan for reinforcing the establishment of budget entities, (2) finish preparing Prakas related to the determination of authority in financial management of budget entities, and (3) develop legal regulation to reinforce the transfer of authority to budget entities based on the precise criteria.
9. Capital and provincial administrations have been implementing since 2017-2021, but each of the administration has only one budget entity.	GDSNAF will review and study the availability of increasing budget entities at sub-national administrations and prepare a clear action plan for increasing budget entities.
<i>E. Reforming Financial Decentralization and Sub-national Budget System</i>	
10. Based on approved note by SD Prime Minister on a letter on 18 th March 2019, there is a mechanism to share non-tax revenues to sub-national administrations, including revenue from central administrations (line ministries), and revenue from provincial departments of line ministries that is collected at capital and provincial one-window service and by leasing of state property. The sharing is not comprehensively carried out because there are issues related to revision of functions and regulatory framework in line ministries.	GSC will coordinate with GDSPNR to finish preparing inter-ministerial prakas on non-tax revenue management in condition of transferring and sharing non-tax revenue from line ministries to sub-national administrations. The action plan for revising the relevant inter-ministerial prakas will be developed.
<i>Part 4: Readiness for the Next Stage</i>	
<i>F. Monitoring System</i>	
11. clear distinction between audit and inspection functions in LMs is necessary to ensure efficient oversight.	GI and GDIA will review and coordinate the functional division of internal audit and inspection at line ministries
<i>Others:</i>	
<i>G. Implementing Functions of the Provincial Departments of Economy and Finance</i>	
12. Provincial departments of economy and finance (PDEF)'s role in coordinating the works of GDs/MEF at sub-national administrations is limitedly implemented, including the role in managing state property, functioning as financial controller based on legal documents.	GSMEF will coordinate the establishment of inter general departments of MEF's working group to study and evaluate the functions of capital/provincial departments of economy and finance and the relevant legal regulations.

5. Requests

242. In an attempt to strengthen implementation and management of PFMRP, GSC requests PFM Reform Steering Committee to consider and decide on the following:

- ◆ In the 2020 annual review of MEF's budget execution led by DPM on 2nd Feb 2021, two executive orders were:
 - (1). The nation-wide evaluation of budget execution framework (national and subnational): this work should be incorporated into GDAP of all relevant entities and should set a time for reviewing the mid-year and annual report.

(2). The formulation of MEF vision: request to set timeframe and action plan for finalizing this work.

- ◆ Request GDB disseminate guideline on preparing performance-informed budget and training line ministries to prepare for implementing performance-informed budgeting efficiently.
- ◆ In order to increase budget transparency, LMs, especially line ministries in social sector, should convene public forum to disseminate information about their annual budget to the public.
- ◆ As a practice in PFMRP, MEF entities that directly receive TA from development partners have not shared the information to GSC (through quarterly and annual report). This affects the efficiency in determining technical support resources and the coordination with development partners for mobilizing technical and financial support. GSC requests all MEF entities to submit quarterly and annual reports to GSC regularly.
- ◆ Review and update members of (1) PFM reform steering committee, (2) MEF's PFM reform commission, (3) PFM working group in MEF, and (4) PFM working group in LM, to align with context and structure.

Note: PFM Reform Steering Committee has approved all of the above requests and report of the meeting is attached in the Appendix.

6. Conclusion

243. The 2020 progress report of PFMRP stage 3 provides an assessment and analysis about the reform implementation and evaluation of strength and weakness of the PFM system. Based on the 2020 reporting, the implementation of PFMRP action plan yields good result that reflects the effort of all implementing entities in striving to achieve the reform targets. This progress will contribute to improving the new budget system, efficiency in budget allocation and execution, and effectiveness in public service delivery.
244. To create a clear pathway for the PFM reform, the RGC has adopted some key strategies and their detailed action plan, including Budget System Reform Strategy 2018-2025, Revenue Mobilization Strategy 2019-2025, Public Debt Management Strategy 2019-2025, Public Investment Management System Reform Strategy 2019-2025, Sub-national Budget System Reform Strategy 2019-2025, and the Public Procurement System Reform Strategy 2019-2025. In that direction, the Cambodian budget system will become Performance-informed Budget System in 2025. Despite progress and clear direction, some of the reform activities were delayed that might affect other reform activities.
245. **Implementing fiscal policy:** budget remains credible and become resilient due to strengthened management of revenue mobilization (e.g. modernization of tax policy and revenue administrations) while medium-term fiscal framework is being improved to enable efficient medium-term budget framework. There has been enhancement of key tax functions such as educating taxpayers to increase compliance, managing tax declaration and tax arrears. In the moment of increasing domestic investment expenditure and effort to manage contingent liability incurred through PPP, enhancing efficiency in the public investment management shall continue the focus on implementing public investment management system reform strategy 2019-2025.
246. **PFMRP stage 3: “budget-policy linkage”** retains some unfinished works such as: (1) institutional factor: there is increasing awareness, engagement, and willingness for reforming, but the increase is not sufficient to drive the reform, especially at top management level. (2) role of LMs: need to strengthen the engagement in the PFM reform, especially in areas related to state property management, FMIS implementation, BSP/PB implementation, and the implementation of PFM regulatory frameworks.
247. **On capacity development,** EFI shall develop certificate programs that could be linked to condition for appointing new budget/finance officers and skills development in analysis and public policy. Human resource development is an important factor to manage performance and advance for performance accountability. The Strategic Capacity Development Plan (SCDP) for PFMRP shall conduct need analysis and improve the support for delivering training programs. SCDP has to reflect the skills needed in each PFM reform strategy, and its implementation needs to contribute to effective and efficient implementation of MAP/GDAP.

248. While many reform activities were successfully carried out, some activities were not and they impede the transition to the next platform. Quality of MAP/GDAP preparation and implementation is improving, and reflective of key reform areas. The unfinished reform activities will be the reform priorities in the CAP3+2.
249. Latest result of PEFA assessment found that Cambodian PFM system is improving and remained reform agendas are progressing in a clear direction based on country context and in line with international standard and best practices. Covid-19 pandemic impedes some reform activities, but it is also an assessment to test the resilience of Cambodian PFM system.
250. If compared with international standard and best practices, Cambodian PFM system still have gap that needs to further improve budget cycle and state property management. Moreover, the socio-economic development remains far-reaching from achieving visions, and in the process, opportunity and challenges continue to emerge. Thus, PFM reform needs to further strengthen and adapt in response to covid-19 and to advance for performance accountability.
251. The PFM Steering Committee evaluates the progress of implementing the PFM reform action plans and conclude that:
- ◆ Budget remains credible that has become a catalyst to support and reinforce economic growth, but albeit the effect of Covid-19 pandemic, effort should be dedicated to diversify revenue and strengthen efficiency in budget execution.
 - ◆ Key pre-requisites for financial accountability is built and further strengthened to ensure accountability and oversight of internal system so that financial resources are used effectively, efficiently and transparently.
 - ◆ Program budgeting framework has been developed, strengthened, and expanded for implementation; and has become a tool for linking budget with government policy.
 - ◆ Key pre-requisites for performance accountability are progressively built, but still remain in elementary stage. Nonetheless, key prerequisites are identified and incorporated into CAP3+2.
 - ◆ Capacity of line ministry's officers in public financial management is progressively strengthened and their awareness and involvement in the PFMRP have also increased.
252. Effective and efficient public financial management is the basis for reinforcing national development and poverty reduction, especially through achievement of inclusive economic growth and quality of public service delivery. The PFMRP will contribute to achieving long-term vision transforming Cambodia into middle-income country in 2030 and high-income country in 2050.

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