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

Public Expenditure and Financial Accountability (PEFA) Performance Assessment Report 2021

Based on PEFA 2016 Methodology

General Secretariat of
Public Financial Management Reform Steering Committee

06 July 2021

Royal Government of Cambodia

Public Expenditure and Financial Accountability (PEFA) Performance Assessment Report

The quality assurance process followed in the production of the PEFA report satisfies all the requirements of the PEFA Secretariat and hence receives the '**PEFA CHECK'**.

PEFA Secretariat,

June 14, 2021

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List of Abbreviation and Acronyms

ABE	Authorised budget entity
ACU	Anti-corruption Unit
ADB	Asian Development Bank
AOP	Annual operating plan
ARDB	Agricultural and Rural Development Bank
ASEAN	Association of Southeast Asian Nations
BSP	BSP
BCG	Budget central government
BSRS	Budget system reform strategy
CA	Controlling Authority
CAP	Consolidated action plan
CDC	Council for the Development of Cambodia
CMTC	Cash Management Technical Committee
CG	Central government
CNSW	Cambodian National Single Window
CoA	Chart of accounts
CoM	Council of Ministers
COFOG	Classification of the Functions of Government
CPSAS	Cambodian Public Sector Accounting Standard
C/P	Capital/provinces
C/PDEF	Capital/Provincial Departments of Economy and Finance
C/POE	Capital and Provincial Department of Education Youth and Sport
C/S	Communes/Sangkats
D&D	De-concentration and Decentralization
DI	Department of Investment
D/M/K	District/Municipality/Khan
DeMPA	Debt Management Performance Assessment
DMFAS	Debt Management and Financial Analysis System
DSA	Debt Sustainability Analysis
EBA	Everything but Arms
Ecosocc	Economic, Social, and Cultural Council
EDC	Electricite du Cambodge (Electricity of Cambodia)
EFMS	Education Finance Management System
EFPC	Economic and Financial Policy Committee
EFT	Electronic fund transfer
ESP	Education Strategic Plan
EU	European Union
FAD	Financial Affair Department
FMIS	Financial Management Information System
FMWG	FMIS Management Working Group
FY	Fiscal year
GFS	Government financial statistics
GDB	General Department of Budget
GDCE	General Department of Customs and Excises of Cambodia
DTA	Double tax agreement
GDNT	General Department of National Treasury
GDSNAF	General Department of Subnational Administration Finance
GDPP	General Department of Public Procurement
GDIA	General Department of Internal Audit
GDICDM	General Department of International Cooperation and Debt Management
GDP	General Department of Policy or Gross domestic product
GDSNR	General Department of State Property and Nontax Revenue

GDT	General Department of Taxation
GFS	Government Financial Statistics
GID	General Inspectorate Department
GSC	General Secretariat of Public Financial Management Reform Steering Committee
HRMIS	Human resource management information system
IA	Implementing Agency
IDA	International Development Association
IMF	International Monetary Fund
INTOSAI	International Organization of Supreme Audit Institution
IPSAS	International Public Sector Accounting Standards
ISSAI	International Standard of Supreme Audit Institution
KHR	Cambodian Riel
KPI	Key Performance Indicator
LM	Line Ministry
LOC	Law on Customs
LOT	Law on Taxation
MA	Managing authority
MAFF	Ministry of Agriculture, Forestry and Fisheries
MCS	Ministry of Civil Service
MEF	Ministry of Economy and Finance
MFPF	Macroeconomic and fiscal policy framework
MFI	Microfinance institution
MoC	Ministry of Commerce
MoEYS	Ministry of Education Youth and Sport
MoH	Ministry of Health
MoI	Ministry of Interior
MoP	Ministry of Planning
MoWRAM	Ministry of Water Resources and Meteorology
MPWT	Ministry of Public Work and Transport
MRD	Ministry of Rural Development
MTBF	Medium-term budget framework
MTFF	Medium-term fiscal framework
NA	Not applicable
NAA	National Audit Authority
NAC	National Accounting Council
NBC	National Bank of Cambodia
NCDD	National Committee for Subnational Democratic Development
NPAR	National Public Administration Reform
NSDP	National Strategic Development Plan
NP-SNDD	National Program on Subnational Democratic Development
ODA	Official Development Assistance
OD	Operational district
PA	Performance audit
PAE	Public administration of establishment
PDM	Public debt management
PE	Public enterprise
PED	Public Enterprise Department
PEFA	Public expenditure and financial accountability
PETS-QSDS	Public expenditure tracking and quality of service delivery survey in the education sector
PFM	Public financial management
PFM-RC	Public Financial Management Reform Commission
PFMRP	Public Financial Management Reform Program
PFMR-SC	Public Financial Management Reform Steering Committee

PI	PEFA Indicators
PIM	Public investment management
PIP	Public investment program
PPP	Public-Private Partnership
RGC	Royal Government of Cambodia
RMS	Revenue mobilization strategy
RS	Rectangular strategy
SARMIS	State asset registration management information system
SD	Service delivery
SDR	Special Drawing Right
SMART	Specific, Measurable, Achievable, Relevant, and Timebound
SNA	Subnational Administration
SNAO	Swedish National Audit Office
SNIF	Subnational investment fund
SOF	School operating fund
SOP	Standard operating procedure
SOE	State-owned enterprise
SPC	Special purpose company
SWS	Single window service
TIN	Tax identification number
TOFE	Table of fiscal and economic operations of the government
TSA	Treasury single account
UNCTAD	United Nations Conference on Trade and Development
UNICEF	United Nations Children's Fund
USD	United States dollar
VAT	Value added tax
WB	World Bank

Currency and indicative exchange rate:

Khmer riel (KHR): Exchange rate, as of Q3 in 2019: 4,055 KHR per USD

Fiscal Year: 01 January-31 December

Executive Summary

Since 2004, the Royal Government of Cambodia (RGC) has been carrying out an ambitious and sequenced Public Financial Management Reform Program (PFMRP) to modernize and harmonize its public financial management systems and practices. The PFMRP was designed as a comprehensive, long-term vision in four plateforms or stages. In each plateform and stage, the Ministry of Economy and Finance (MEF) formulates Consolidated Action Plans (CAP) providing orientations and milestones so that Line Ministries (LMs) and institutions including all entities under MEF can prepare their specific detailed action plans to align to the government CAP.

The PFMRP has provided since 2004 for a gradual and step-by-step approach to PFM reform, to evolve from a centralized and input-based management to programmatic planning and budgeting, unified Treasury procedures and accounting and reporting standards and has built credibility in the government budget process and significantly improved technical capacity within the government institutions. The RGC has applied the Public Expenditure and Financial Accountability (PEFA) framework to assess its Public Financial Management (PFM) systems and guide its reform process since 2010. The first PEFA assessment was undertaken in 2010, the second in 2015. This 2021 assessment is the third assessment undertaken by the MEF with technical support from the European Union (EU).

Purpose, and management of the assessment

The main purpose of this 2021 national PEFA peformance assessment is to provide the RGC with an objective, evidence-based and up-to-date diagnostic of the national level PFM performance based on internationally recognized PEFA methodology. The RGC and development partners, and other stakeholders are able to identify gaps or deficiencies in the current PFM system, as well as validating the efficiency and effectiveness of reforms to date. The results of this assessment are important inputs for the RGC, development partners, and other stakeholders in identifying gaps or deficiencies in the current PFM system, as well as validating the effectiveness of reforms to date. The findings of this PEFA assessment assist the RGC to formulate further reforms in 'CAP3+2' and 'CAP 4' and discuss further related assistance with development partners. The PEFA report also provides a new baseline for future PFM assessments.

The MEF is leading the implementation and monitoring progress of the PFMRP based on the PEFA framework. This PEFA exercise has been carried out as a self-assessment whereby "the Government evaluation team (GSC team) prepares this assessment report, while the international experts review the quality and provide feedback to improve reports in line with PEFA standards." This approach is to ensure the full government ownership in the process and strengthens the MEF and relevant entities' technical capacity and knowledge in PFM systems.

Assessment coverage and timing

This assessment is based on the 2016 PEFA methodology revised and issued by the PEFA Secretariat in February 2016; and applies the guidance on tracking performance change since the previous 2015 Cambodia PEFA assessment, using the 2011 PEFA Framework, in Annex 4. The timeframe of the assessment covers the three completed fiscal years from 2017 to 2019 for budget execution, 2020 for the last budget preparation and takes into account the data available and PFM reform progress until July 2020 as the cutoff date for the assessment.

The assessment covers LMs/institutions at central/national and subnational administrations (only level 1, capital and provincial administration). It also includes public enterprises (PEs), and extra budgetary entities known as public administration of establishments (PAEs), in line with requirements for PI-6 and

PI-10. As the main line ministry driving the PFM reform in the government, the MEF provided most documentation on budgets, fiscal reports, medium-term development plans, financial reports, legal documentation relating to PFM, and other relevant information necessary for this assessment. The revenue authority, the supreme audit institution, public institutions, and other line ministries and agencies were also consulted. The analysis provided a reasonable basis to understand the PFM arrangements and support the assessment of all 31 PEFA indicators except PI-30[1] and PI-31.

Impact of PFM systems on the three main budgetary outcomes

Overall, the results of the PEFA assessment show that PFM systems in Cambodia have significantly improved in the areas related to fiscal and budget management but improvements are still needed in areas related to fiscal transparency and reporting, public investment management, medium-term budgeting, expenditure arrears, and payroll. The assessment shows that 5 of the 31 indicators score either "A" or "B", for a performance considered above the basic alignment with good practice; 16 indicators score "C" or "C+" that suggests basic alignment with the international PFM standards; and 8 indicators scored "D" or "D+" that suggest weak performance, 1 indicator (PI-30) is 'NU' and 1 indicator (PI-31) is 'NA' as indicated under Table 0.2. A summary of findings on the individual elements of the PFM system – indicator by indicator – can be found in section 4.1 of the report and is reflected in the table of scores at the end of this executive summary.

Aggregate Fiscal Discipline

Overall, aggregate fiscal discipline is assessed as solid, reflected in an effective control over spending during the assessment period despite an underestimation leading to basic performance in revenue collection. The aggregated budget execution rate is within 5% (PI-1, rated 'A') and the expenditure composition outturn by function and economic type is above average (PI-2, rated 'C+') with a score 'C' for variance on administrative classification, 'B' on economic classification, and use of contingency rated 'A' On the revenue side, performance is average (PI-3, rated 'C') however, management of tax revenue arrears are an issue (PI-19.4), rated 'D*').

Few critical weaknesses of the PFM system undermine the aggregate fiscal discipline. The management of expenditure arrears is still an issue due to the lack of an effective tracking and monitoring system for invoices for goods and services, preventing the ageing of arrears on payments to suppliers to be monitored correctly (PI-22.2, rated 'C'). The financial reporting and monitoring of PAEs and PEs financial performance is still in its transitional phase for PAEs (PI-6, rated 'C+') as well as monitoring of fiscal risks from other public sector entities (PI-10, rated 'D+'), and the monitoring of contingent liabilities and 'Public Private Partnerships-PPP' needs critical improvement (PI-10.3, rated 'D') and PEs (PI-10.1, rated 'C').

In addition, the Public Investment Management (PIM) function is in its early stage of development for investment financing by the national budget since the MEF is preparing a set of rules and regulations and integrated framework to manage PIM (PI-11, rated 'D+').

Public asset management can be further strengthened (PI-12, rated 'C') due to the lack of a comprehensive and reliable procedure for recording, valuation and depreciation of non-financial assets.

[1] The indicator narrative was formulated by the MEF GSC assessment team based on available information. However, the National Audit Authority did not allow the scoring of the PI-30 pursuant to Article 40 (New) of Cambodian Audit Law, stipulating that only the National Assembly may decide to establish a special commission to review the activities and operations of the National Audit Authority. This step was not undertaken for this PEFA assessment and the narrative is therefore maintained as information but does not enter the assessment as such.

On the other hand, debt management is strong and reconciliation with creditor is solid and carried out on an annual basis (PI-13.1, rated C).

Internal control on nonsalary expenditure is partially effective and there is a need to strengthen the effectiveness of expenditure controls and compliance with payment rules and procedures (PI-25, rated 'C').

The reliability of in-year fiscal reporting will greatly benefit from a timely daily, monthly and annual closing of account procedures. The present in-year budget reporting does not include all donor- financed project expenditure. The annual financial statements would need to be submitted to the NAA earlier after the closure of accounts as currently it takes more than 9 months to complete (PI-28, rated 'C+') and send them to the NAA. Too many payment orders are delayed in the last quarter of the fiscal year resulting in a delayed closing of accounts and affect the effectiveness of the budget execution. Financial data integrity (PI-27, rated 'C+') is still a concern and there is a need to improve timely clearance of suspense accounts (PI-27.2, rated 'D'), and advance accounts (PI-27.3), rated 'C').

Strategic Allocation of Resources

Systemic PFM strengths include the orderly and participatory approach to the annual budget formulation, including a timely and well organized legislative review (PI-17, PI-18 and 31, rated 'B+', 'C+' and 'C+' respectively) as well as reliable and timely information provided on the budget allocations and transfers to Capital/Provincial (C/P), District/Municipality (D/M) and Commune/Sangkat (C/S) administrations (PI-7, rated 'A'). The comprehensiveness of the budget documentation (PI-5, rated 'B'), and its classification is in accordance with basic standards but can still be improved (PI-4, rated 'C').

The five indicators concerned with 'policy-based fiscal strategy and budgeting', (PIs 14 to 18) are all reflecting a basic performance and alignment to PFM standards. The medium-term budget expenditure is still in the developing stages with weak links from one budget cycle to the next (PI-16, rated 'D+'). An overview of fiscal risks that could point to future financing demands from PEs and other fiscal operations is currently not being prepared (PI-10, rated 'D+') but debt reconciliation process is performed annually with all creditors (PI-13.1, rated 'C'). There is a needto further improve public investment management (PIM) across the whole infrastructure project life cycle (PI-11, rated 'D+').

The alignment of medium-term budgets and sectoral strategic plans and BSP needs further strengthening (PI-16.3, rated 'C'). Flexibility to adjust the budget is built on extensive powers given to the MEF by the legislation to adjust the budget (PI-21.4 rated 'C'). Revenue forecasts as endorsed by the NA and integrated in the budget process need to be more realistic to allow for a more effective use of the public resources (PI-3.1, rated 'D').

The Chart of Accounts (CoA) reform needs to be further improved to align with the budget classification framework for functional and programmatic classifications in order to serve as a useful management and reporting tool for line ministries, and to be integrated with the Financial Management Information System (FMIS). This includes streamlining budget execution procedures and payments processes both in the MEF and line ministries and the removal of parallel paper processes. The extension of the administrative classification would also support a better monitoring of the sectors' budget execution with a full mapping of the functional classification (PI-4, rated 'C'). Challenges need to be addressed to improve the quality of programmatic financial data further.

Efficiency in Use of Resources for Service Delivery

The high predictability in funds available to LMs/institutions and local governments during budget execution (PI-21. 2, rated 'B') and to SNAs (PI-7.2, rated 'A') support efficient service delivery. It is however needed to strengthen the system further in order to ensure that public resources can be effectively prioritized in the case of major shocks affecting aggregate revenue collection[2] (such as the covid-19-shock, withdrawal of the EBA, or natural disaster). While the commitment control systems are solid (PI-25.2, rated 'C'), the government currently focuses on revenue diversification policies, optimal mobilization of potential domestic revenue, especially from telecommunication, mine and oil sources. In parallel, it aims at improving spending efficiency in areas such as Salary, Goods/Service, and Public Investment.

Of particular concern to guarantee an efficient use of public resources is the lack of monitoring and transparency of the procurement systems (PI-24, rated 'D+') combined with the poor performance in management of expenditure arrears (PI-22, rated 'D+'). Strengthening in these two areas is key to improve the Value for Money on public spending.

The performance monitoring and evaluation systems for service delivery have to be improved for key LMs (PI-8, rated 'C+') and linked with basic performance of public asset management (PI-12, rated 'C'). In general, the PEFA assessment reveals that use of resources could be better monitored for an efficient and effective use of resources by LMs (PI-8, rated 'C+').

In addition, deficiencies in the internal control systems (PI-23.4, rated 'D', PI-25.2, rated 'C' and PI-25.3, rated 'C' and PI-26, rated 'C+') and limitation in availability of public information and overall fiscal transparency (PI-9, rated 'D') despite timely and orderly reviews by the legislature (PI-31.1, rated 'NA') that have a negative impact on the overall efficiency and effectiveness in use of public resources.

Performance changes since the previous assessment PEFA (2015)

The 2021 PEFA assessment includes tracking the PFM performance since the previous 2015 PEFA assessment and identifies performance changes using the previous 2011 version of the PEFA framework so that it is possible to compare both sets of score directly. Performance improvements have been identified in nine indicators PI-2, PI-6, PI-7, PI-10, PI-13, PI-14, PI-19, PI-23 and PI-25. On the other hand, PI-3 received a lower score as the deviation between revenue planned and outturn is large, 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's PFM reform and ODA is covered by RGC PFM systems. The changes in the indicator scores are presented under sub-section 4.4 and Annex 4.

The comparison between 2015 and 2021 has highlighted the following impact on the three budgetary outcomes:

- ***Aggregate fiscal discipline*** has improved as well as budget credibility in terms of expenditure and revenue administration management, PAEs' monitoring, transparency of taxpayer obligations and liabilities. There have been improvements to both budget classification and the associated documentation: top-down budget (MTBF) is piloted for recurrent expenditure, and information on resources received by schools and hospitals. However, limited information on contingent liabilities is still an issue and fiscal risk remains unreported. Revenue forecasts approved in the budget are systematically underestimated (PI-3 rated 'D'). Revenue administration systems do not control fully tax liabilities (PI-14, rated 'C+') and significant levels of tax arrears are still outstanding need to focus PI-15. Dim (i) rated 'NR'). The lack of an effective tracking system for invoices for goods and services received from suppliers remains (PI-4 Dim(ii), rated 'C') and the need to adopt a defintion of expenditure arrears that aligns with international

[2] Since 2013, the RGC has strengthened its revenue collection systems and is able to create fiscal space for the absorption of fiscal shocks such as covid-19 crisis, EU EBA withdrawal, etc. This is also reflected in the effective resiliency of the reformed PFM systems (budget formulation, fiscal and macroeconomic modeling, financial repoting, etc.).

standard. The RGC also needs to further strengthen its tax administration risk management systems (taxpayers' compliance, and risk assessment), and monitor PAEs and PEs for timely and comprehensive financial reporting.

- ***Strategic allocation of resources*** has improved and variance in expenditure composition has reduced confirming the orderly and participatory approach to the annual budget formulation in accordance with a well-established budget calendar, including a timely and well-organized legislative review as well as reliable and timely information provided on the transfers to C/P, D/M and C/S (PI-8, rated 'B'). However, strategic sector planning remains overall weak, except for health and education (PI-12, rated 'C+'). Also, the medium-term expenditure framework is not fully developed and integrated in the formulation of annual recurrent and capital budgets, with the absence of clear links in budget allocations from one budgeting cycle to the next. Next to the BSP and the PB under implementation, a formal Medium-term expenditure budget framework needs to be defined[3].
- ***Efficient Service Delivery*** has improved that there has been significant progress in the information available on resources received by schools and hospitals (PI-23, rated 'B') and public access to key fiscal information (PI-10, rated 'B')[4]. However, other weaknesses remain in the monitoring and evaluation of performance of service delivery units and policy-budget linkage (PI-12. Dim (i) rated 'C').

Ongoing and planned PFMRP

The past 15 years of PFM reforms have delivered substantial improvements in PFM and contributed to the economic and social development over the period. The government has followed a process of building "platforms", each of which represents a step change in PFM systemic 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 'budget credibility', platform 2 'financial accountability', platform 3, 'policy-budget linkage', and upcoming platform 4 'performance accountability'.

The PFMRP-Stage 3 relating to the 2021 PEFA assessment period, has been set out by the PFM Reform Steering Committee (PFMR-SC) with three priority objectives including: (1) strengthened management and implementation of expenditure and revenue collection, (2) strengthened and extended FMIS and (3) strengthened and expanded program budget.

In this stage, 6 core strategies were endorsed for driving PFM reform to achieve its vision, namely **Budget System Reform Strategy 2018-2025**, **Revenue Mobilization Strategy 2019-2023**, **Public Investment Management System Reform Strategy 2019-2025**, **Budget System Reform Strategy for Sub-National Administration 2019-2025**, **Public Procurement System Reform Strategy 2019-2025, and Business Streamline Strategic Plan for FMIS 2019-2025** with respective detailed action plans. Beside these core strategies, the results of this 2021 PEFA assessment are to be used as a complementary tool that highlights strengths and weaknesses to be addressed within the sequencing PFM reform, and to help formulate CAP3+2 (2021-2022) and CAP4 (2023-2027).

Based on the results of this 2021 PEFA assessment, a number of weaknesses have been highlighted to be addressed in the CAP3+2 and CAP4 as follows:

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[3] A Medium-Term Budget Framework is in the pilot stage and a Medium-Term Fiscal Framework is currently being drafted.
[4] The score is still a 'D' in the 2020 PEFA assessment as the 2016 PEFA framework requirements are more demanding.

Table 0.1: Key PFM Weaknesses identified in the 2021 PEFA Assessment

PEFA Pillar	Ongoing monitoring of identified key weaknesses
I. Budget reliability	• Large deviation between revenue forecast and actual revenue outturn. This need to 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	• Quality data of functional classification and cost allocation of salary and nonsalary 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	• 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	• Develop comprehensive medium-term budgeting (MTFF and MTBF) by integration of recurrent and capital expenditure and public investment management. This mechanism is allowed LMs/institutions to well prepare BSP and PB. • Clearly indentify accountable for outputs and outcomes to develop performance culture by introducing the Public Finance System Law (new).
V. Predictability and control in budget execution	• 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.

PEFA Pillar	Ongoing monitoring of identified key weaknesses
	• 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. • Improve budget expenditure control by revising Sub-decree no.81 ANKr.BK and 82 ANKr.BK.
VI. Accounting and reporting	• Advances are cleared for both types of expenditure, recurrent and capital expenditure on time. • Strength 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	• Strengthen capacity of external audit. • Develop follow up tracking system for external audit recommendations. • In-depth budget hearings by involving auditees.

The 2021 PEFA assessment has shown overall that most of the RGC PFM systems are aligned with basic standards and few even meets requirements for good practice. The next CAP3+2 PFM reform phase will need to focus on targeted reform priorities as well as key weaknesses identified such as credibility of revenue forecasts adopted in the budget, alignment of medium-term budget expenditure to strategic priorities, PIM, state property management, and comprehensiveness and inclusiveness of fiscal and financial reporting, and internal audit functions.

The weaknesses identified above will be addressed in the next CAP-4 platform to ensure that PFM functions are operating more effectively and contribute to achieve the 3 budgetary outcomes (fiscal discipline, strategic allocation of resources and efficiency in use of resources for service delivery).

Last but not least, the RGC is more than ever committed to strengthen PFM functions further in order to operate effectively, efficiently, and transparently and be accountable. This PEFA assessment will support the implementation of the next stage of the PFMRP to improve and develop the PFM legal framework, institutional mechanisms and build capable human resources to contribute to sustainable PFM systems. The results of PFM reform need to contribute to achieve the three fiscal outcomes; namely fiscal discipline, strategic allocation of resources, and efficiency in use of resources for service delivery.

Table 0.2: Overview of the scores of the PEFA indicators (based on the 2016 the PEFA methodology)

PFM performance indicator		Scoring method	Dimension ratings				Overall Rating
			i.	ii.	iii.	iv.	
Pillar I: Budget reliability							
PI-1	Aggregate expenditure outturn	M1[5]	**A**				**A**
PI-2	Expenditure composition outturn	M1	C	B	A		**C+**
PI-3	Revenue outturn	M2[6]	D	B			**C**
Pillar II: Transparency of public finances							
PI-4	Budget classification	M1	C				**C**
PI-5	Budget documentation	M1	B				**B**
PI-6	Central government operations outside financial reports	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	M1	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 budgeting	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	D	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**

[5] **'Weakest link': M1 (WL)** is used for multidimensional indicators where poor performance on one dimension is likely to undermine the impact of good performance on other dimensions of the same indicator.
[6] **'Averaging': M2 (AV)** uses a table provided by the PEFA Secretariat to determine the overall score, based on the individual dimensions.

1. Introduction

1.1 Rationale and purpose

Beginning in 2004, the RGC embarked on an ambitious PFMRP, designed to improve the country's PFM systems to meet international standards and best practice – over time – by using a 'platform approach', starting from a centralized and input-based budget system and working towards systems based on outputs and performance and combined with more delegation of functions and decentralization.

The PFMRP was designed as a comprehensive, long-term undertaking with four platforms/stages (known as 'Consolidated Action Plans': 'CAPs'). Briefly, the first stage which was completed successfully in late 2008, focused on building budget credibility and preparing for financial accountability. The first PEFA assessment, published in February 2010 identified challenges to further strengthened the credibility of the budget, including weak linkages between recurrent and capital budgets. These findings contributed to the formulation of a revised 'CAP 2', which began early in 2010. The 2015 PEFA assessment was undertaken by the RGC using the 2011 PFM Performance Measurement Framework methodology and with the assistance of the International Monetary Fund (IMF) Regional Adviser and three experienced assessors. The assessment covered the years 2013-2015 and included the PFM systems of the central government, transfers to subnational administrations, and public administration of establishments. It supported the design of 'CAP 3' initiated in 2016, with a focus on strengthening budget credibility and financial accountability, by linking the budget to policy. Notably, PFMR-SC decided to extent PFMRP- Stage 3 for 2 years from 2021-2023 (so called CAP3+2) to complete remaining tasks in each stage 1, 2 and 3 as well as to align with other key reforms programs; namely: Public Administrative Reform (PAR), Deconcentration and Decentralization Reform (D&D); and Legal and Juridical Reform. Beside this National PEFA Performance Assessment Report 2021, the MEF is assessing PEFA SNA for Phnom Penh Capital Administration (in the process of reviewing quality by peer-reviewers) with support by IMF, Public Investment Management Assessment (PIMA) by IMF, Debt Management Performance Assessment (DeMPA) by World Bank (WB), and Public Expenditure Review (PER) by WB.

The results of this National PEFA Performance Assessment 2021 with technical assistant support from EU provide critical inputs for the RGC, development partners, and other stakeholders in identifying gaps or deficiencies in the current PFM systems, as well as validating the efficiency and effectiveness of reforms to date. Analysis of these gaps or deficiencies provide inputs to the RGC to formulate further reforms in 'CAP3+2' and 'CAP 4', raise awareness of LMs and institutions and link CAP3+2 and CAP4 with detailed reform action plan and assist development partners to design and calibrate their assistance adequately as well as provide a new baseline for future PFM assessment.

1.2 Assessment management and quality assurance

This PEFA Performance Assessment 2021 is conducted under the direction of the Public Financial Management Reform Steering Committee (PFMR-SC), with implementation and coordination by the General Secretariat of Public Financial Management Reform Steering Committee (GSC) and technical support from international expertise – Mr. Philip Sinnett and Ms. Sylvie Zaitra Beck – experienced PEFA assessors financed by the EU.[7]

To ensure the PEFA assessment's quality, internal and external peer reviews were involved in the review. A formal peer review process following the requirements for PEFA check was carried out through

[7] The amount of the EU TA contract is not disclosed and all the other funding arrangements have been covered by the RGC.

consultations and draft review by a range of development partners, including the EU, WB, Asian Development Bank (ADB) and United Nations Children's Fund (UNICEF) and IMF, in addition to the circulation across entities under the MEF and line ministries as PEFA working group for validation and endorsement. This exercise establishes a strong ownership approach as "the Government evaluation team prepares this assessment report, while the international experts review the quality and provide feedback to improve reports in line with PEFA standards." This approach ensured ownership and enhanced the MEF and relevant entities' technical capacity.

The Oversight Team and PEFA Assessment Working Group (also called the PEFA team) was established through the Executive Order no.008 MEF, dated 10 February 2020, with the following key roles and responsibilities:

- to assess the performance based on the PEFA 2016 methodology and prepare PEFA Assessment Report and submit it to the PFMR-SC for approval
- to use findings from the assessment as inputs for preparation of CAP3+2 and CAP4.

Box 1.1: Assessment management and quality assurance arrangements

PEFA Assessment Management Organization

- **Oversight team**
  - Led by H.E. Ros Seilava, Chairman, Secretary of State of Economy and Finance, and Secretary General of GSC
  - 18 entities under MEF
  - 40 LMs
- **Assessment team**
  - Led by H.E. Yeth Vinel, Head of Assessment Team, Under-Secretary of State of Economy and Finance and Deputy Secretary General of GSC
  - List of the GSC team members who supported the assessment:
    - Mr. UM Youthy, Head of Administration Finance and Monitoring and Evaluation Division
    - Ms. TEB Borita, Financial Controller
    - Ms. HEANG Sinourn, Senior Accountant Specialist
    - Mr. HUY Sovannara, Senior Procurement Specialist
    - Mr. LY Vong, PFM Senior Specialist
    - Mr. OUCH Sophorn, PFM Senior Specialist
    - Mr. YORN Malimchheng, PFM Senior Specialist
    - Ms. SOKUN Chakriya, PFM Senior Specialist
    - Mr. POM Laiheng, PFM Senior Specialist
    - Mr. HEANG Soyaro, PFM Senior Specialist
    - Mr. UNG Makara, PFM Senior Specialist
    - Mr. CHHUN Mardy, PFM Specialist
    - Mr. VUTHY Sastra, PFM Specialist
    - Mr. METH Ramorn, PFM Specialist
    - Mr. ROS Dalin, PFM Specialist
    - Ms. PHENG Sokmai, PFM Specialist
    - Mr. LEM Sokheng, PFM Specialist
    - Ms. KONG Chhomkeovoleak, PFM Specialist
    - Mr. SRON Ratha, PFM Assistant to Specialist
    - Ms. SUNTEARAK Soriya, Administrative Officer
    - Ms. LOEUNG Sovandy, Budget Officer
    - Ms. UNG Voleaktevy, PFM Assistant to Specialist
    - Ms. LENG Chanphuong, PFM Assistant to Specialist

Review of Concept Note on National PEFA Performance Assessment

- Draft of concept note was prepared by GSC, with assistance from international experts
- Reviewers included representative of EU, IMF, WB, ADB, UNICE and PEFA Secretariat
- Invited reviewers:
  - Mr. Javier CASTILLO ALVAREZ, Attache, Aid Effectiveness, Budget Support and Public Finance Management (comment)
  - Mr. Sokbunthoeun So, Senior Public Sector Specialist, Governance Global Practice (comment)
  - Mr. Chamroen Ouch, Senior Programs Officer (Governance), Cambodia Resident Mission, Asian Development Bank (comment)
  - Mr. Suhas Joshi, Regional Treasury Advisor, Bangkok, Thailand (comment)
  - Mr. Kimsong Chea, Social Policy Specialist, United Nations Children's Fund (comment)
  - PEFA Secretariat (comment)
- Final concept note approved by oversight team during February, 2020
- Final revised concept note endorsed by PEFA Secretariat on 26 May 2020 and was shared to PEFA Working Group and Peer-Reviewers

Review of the Assessment Report

- Assessment report draft circulated on 11 September 2020
- Invited reviewers:
  - Mrs. Julia Dhimitri, PEFA Secretariat (comments received on 5th October 2020)
  - Mr. Javier CASTILLO ALVAREZ, Attache, Aid Effectiveness, Budget Support and Public Finance Management (Comment received)
  - Mr. Sokbunthoeun So, Senior Public Sector Specialist, Governance Global Practice, World Bank (Comment received)
  - Mr. Chamroen Ouch, Senior Programs Officer (Governance), Cambodia Resident Mission, Asian Development Bank (Comment received)
  - Mr. Suhas Joshi, IMF Regional Treasury Advisor, Bangkok, Thailand (Comment received)
  - Mr. Kimsong Chea, Social Policy Specialist, United Nations Children's Fund (Comment received)
- Final report completed and sent to PEFA Secretariat with the follow up matrix on 19 May 2021
- PEFA check received on 14 June 2021
- Final report endorsed by the PFM-SC on 06 July 2021
- Publication of the report on July 2021

1.3 Assessment methodology

Scope and coverage of the assessment

The assessment is based on the upgraded 2016 Framework issued by the PEFA Secretariat in February 2016; and a supplementary Annex was prepared, in line with the 2016 PEFA guidance, to track performances change since the 2015 assessment using the previous 2011 version of the PEFA Framework (see Annex 4).

The 2021 PEFA performance assessment covered all PFM systems at national administration and transfers to SNAs. The assessment therefore covers LMs/Institutions, as well as PEs in order to assess the impact of PFM performance on service delivery, and overall consolidated fiscal risk. The report was prepared in accordance with the PEFA handbook, Vol. I and II and guidelines available on PEFA Secretariat's website (www.pefa.org). The assessment team worked closely with the PEFA Secretariat to seek guidance and clarifications when required.

The report follows the structure recommended by the PEFA methodology applied to the 31 PIs to assess the strengths and weaknesses of PFM performance. These PIs are further grouped into seven 'pillars', which are then summarized into the three fiscal outcomes, namely aggregate fiscal discipline, strategic allocation of resources, and efficient service delivery.

The PEFA experts delivered a PEFA launching workshop for relevant officials from the PEFA working group responsible for supporting the assessment, as well as other senior officials responsible for policies covered by the PEFA assessment. The workshop provided an introduction to the PEFA methodology, and explained the purpose of the assessment, the roles and responsibilities of the various entities, and provide an overview of the methodology for each PI, data collection, and writing a performance assessment report.

The main LMs/institutions in budget terms and the MEF provided most documentation on budgets, fiscal reports, medium-term development plans, financial reports, legal documentation relating to PFM, and any other relevant information necessary for this assessment. The revenue collection entities, the supreme audit institution, public enterprises, PAEs, key LMs/institutions and SNAs were also consulted, with a view to provide evidence in support of the PEFA scores and a reasonable basis to understand the country PFM arrangements and support the assessment of PFM performance against 28 PIs, i.e. all the PIs except PI-30 and PI-31. The PI-30 were not scored upon request of National Audit Authority (NAA). According to Article 40 (New) of Audit Law, only the National Assembly may decide to establish special commission to review the activities and operations of the NAA. As a consequence, and according to the PEFA methodology, PI-31 was not scored but the performance narrative was maintained.

Table 1.1: The coverage and timeframe of the assessment

Period covered for the analysis	Fiscal years in reference
Last three years' financial report	2017, 2018 and 2019
Last budget submitted to the legislative body	2020
Last annual financial report submitted for audit	2018
Last three completed fiscal years	2017, 2018 and 2019
Last completed fiscal year	2019
At time of Assessment	March-July 2020
Cutoff date	31 July 2020

Data collection and evidence information were provided mostly by GSC team. The PEFA team with the experts met with government officials and other institutions during their mission and prepared an indicative list of data requirements for the assessment of each performance indicator prior to the start of the field work. The list of persons interviewed and documents obtained from the different departments and institutions is available under Annex 3.

Due to the Covid-19 travel restrictions in March-June 2020, the rest of the technical support by the experts was provided through video conference between March and December 2020 included clarification, verification of the evidence and information and obtain additional information regarding the financial management arrangements and discussed preliminary findings regarding each of the 31 PEFA indicators, PEFA Secretariat and peer-reviewers' comments, and quality and consistency of narrative PEFA report.

The PEFA team drafted the 2021 PEFA performance assessment report and after peer-reviewers quality review submitted it to the PEFA Secretariat for quality assurance review to ensure that the PEFA methodology has been appropriately applied. It was simultaneously submitted to the PFMR-SC to endorse this report.

As this is a successive national PEFA assessment, comparison with the 2015 assessment and performance changes is tracked based on PIs' scores from previous 2015 assessment consolidated under Annex 4 comparing the results to the prior assessment in accordance with PEFA Secretariat's guidance on tracking performance change since a previous assessment.

Table 1.2: Timetable of the assessment November 2019 – July 2021

Stages	Action Plans	Dates
1. Planning Stage (November to May 2020)	Invited all stakeholders to discuss the PEFA assessment process	November 2019
	Workshop and training on PEFA methodolgy for all stakeholders in cooperation with PEFA experts	December 2019
	Created PEFA National Level Assessment Working Group	10 February 2020
	Developed Concept Note on PEFA Assessment	- January 2020: GSC team prepared the draft concept note - 14 February 2020: GSC team received comments from DPs - 04 March 2020: PFMR-SC approved the concept note - 06 March 2020: GSC team sent to PEFA Secretariat and peer reviewers - 18 March 2020: GSC team received feedback from PEFA Secretariat - 08 May 2020: GSC team sent to PEFA Secretariat - 26 May 2020: GSC team received final endorsement by PEFA Secretariat and shared to PEFA working group and peer-reviewers
2. Data collection and Field Work (January – April 2020)	Collected all relevant background documentation to PFM	January 2020
	Prepared questionnaires by cooperation with PEFA experts	January- February 2020
	Assessment team visited to relevant entities under the MEF	13-17 February 2020
	Team visits relevant LMs/institutions	17-27 February 2020
	Further discussion of technical meetings with General Department of National Treasury (GDNT) and General Department of Budget (GDB)	02 to 10 April 2020

Stages	Action Plans	Dates
	Completion of data post-discussion with TA and review	March-April 2020
3. Drafting and performance validation (May-September 2020)	PEFA working group's zero draft PEFA report is sent to PEFA Experts for review	27 May 2020
	Met PEFA experts discuss findings via video conference – Identify data gaps	04-05 June 2020
	Validation with technical departments and adjustments to draft report information by PEFA experts	04 to 15 June 2020
	Conducted validation workshop with PEFA Working Group	-13 July 2020 -25 January 2021
	Circulation of the zero draft for peer review (Secretariat, EU, ADB, WB, IMF, UNICEF)	11 September 2020
4. Quality assurance of PEFA national report by PEFA Secretariat (June-July 2021)	Submitted National PEFA Peformance Assessment Report to PEFA Secretariat	-May-June 2021 -14 June 2021: PEFA Working Group received the PEFA Check from PEFA Secretariat
	Discussed PEFA performance assessment report in the PFMR-SC/submit summary findings to H.E.Dr. Deputy Prime Minister, Minister of Economy and Finance for endorsement	06 July 2021
	Publication of report after ensuring quality of both Khmer and English versions	By July 2021 for English version and Khmer version plans in 2022.

It is important to notice that the PFMR-SC decided to provide recommendations to each PI of PEFA assessment. This assists PEFA working group to formulate the reform action plans and provide inputs for CAP3+2 and CAP4. On the other hand, this aims to inform all reform stakeholders to pay attention to key weaknesses as well as next PFM reform agenda.

2. Cambodia background information

2.1 Country economic situation

Over the past two decades, Cambodia has undergone a significant transition, reaching lower middle-income status in 2015 and aspiring to attain upper middle-income status by 2030 and high-income country by 2050. Driven by garment exports and tourism, Cambodia's economy has sustained an average growth rate of 7.9 percent between 1998 and 2018, making it one of the fastest-growing economies in the world. According to Cambodia Macroeconomic Monitor Report 2019 by MEF GDP, Cambodia's economy has achieved a solid and rapid growth with a rate of 7.1 percent with subdued inflation, despite softer growth of the global economy in 2019. This momentum growth is reflected by the continued favorable growth in external demand on Cambodia's garment products and non-garment products, robust investment in construction, real estate and other industry sector, solid performance in domestic demand despite a decelerated growth in hotel and restaurant sector. Despites the high growth, inflation continuously eased to 1.8 percent from 2.5 percent in the previous year largely due to modest growth of food prices and the slowdown growth of international oil price. In 2020, on the other hand, it is projected to decelerated growth at a rate of 3.1 percent while inflation is anticipated to edge up to 2.9 percent due to the expected impact of COVID-19 outbreak.

Cambodia has a population of approximately 16.2 million (in 2020) with an estimated 23.8% living in urban areas. Life expectancy is 65 years, and GDP per capita was USD 1,700 (in 2019). Although poverty continues to fall in Cambodia, about 90% of the poor live in the countryside. According to official estimates, the poverty rate in 2014 was 13.5 percent compared to 47.8 percent in 2007. While Cambodia achieved in 2009 the Millennium Development Goal of halving poverty, the vast majority of families who escaped poverty did so by a small margin. Around 4.5 million people remain near-poor, vulnerable to falling back into poverty when exposed to economic and other external shocks. Because of the COVID-19 pandemic, poverty in 2020 could increase among households involved in key sectors like tourism, construction, trade, manufacturing and the garment industry.

The maternal mortality ratio per 100,000 live births decreased from 472 in 2005 to 170 in 2014; the under-five mortality rate decreased from 83 per 1,000 live births in 2005 to 35 per 1,000 live births in 2014; and infant mortality rate decreased from 66 per 1,000 live births in 2005 to 28 per 1,000 live births in 2014.

Despite the progress in health and education outcomes, human capital indicators lag behind lower middle-income countries. A child born in Cambodia today will be only 49% as productive when grown as she could be if she enjoyed full quality education, good health, and proper nutrition during childhood. An estimated 1 in 3 children under the age of five suffer from stunting and only 36% of children between three and five years old are enrolled in early education.

While net enrolment in primary education increased from 82% in 1997 to 97% in 2016, lower secondary completion rates, at 57% in 2017, are significantly below the average for lower middle-income countries. As of 2017, 21% of Cambodia's population (3.4 million people) did not have access to improved water, and 34% (5.4 million people) did not have access to improved sanitation.

Cambodia continues to have faced infrastructure gap and would benefit from greater connectivity and investments in rural and urban infrastructure. Further diversification of the economy will require fostering entrepreneurship, expanding the use of technology and building new skills to address emerging labour market needs. The efficient public institution is an important agenda for the National Public Administrative Reform (NPAR) to meeting the evolving needs of citizens and the private sector. Notably, the quality of human capital will be of utmost importance to achieve Cambodia's ambitious goal of reaching middle-income status by 2030 and high-income country by 2050.

On the macroeconomic and fiscal front, the country overall external position remains strong despite the deterioration in current account balance, thanks to the continued increase in exports and despite a slower growth of imports. Current account deficit remarkably widened to 16.3 percent of GDP in 2019 from 11.4 percent of GDP in 2018 and is considered to be narrow in 2020 to 13.0 percent of GDP. The deterioration of the current account deficit in 2019 is mainly attributed to a large deficit in trade balance, which grew by 28.7 percent compared to 23.7 percent in 2018. International reserve cumulated to about USD 18 billion in 2019, which could cover 7.9 months of the country's year imports.

Deposit growth remained solid and credit growth rebound in 2018 after experiencing slower growth in 2016 thanks to a number of macro-prudential measures adopted by the NBC. Credit in 2019 grew by 26.6 percent compared to 24.5 percent in 2018 which is largely driven by credit to construction and real estate, credit to wholesale and retail trade and consumption. Deposit, on the other hand, exhibited decelerated growth, grew by 15.0 percent in 2019 from 26.5 percent in 2018.

To enhance economic diversification, the RGC is committed to continue to strengthen the existing growth engines by effectively and efficiently implementing the "Industrial Development Policy 2015-2025", particularly the preparation of master plan to transform Sihanouk Province into a model multi-purposed Special Economic Zone, as well as launching of Garment and Footwear Sector Development Strategy to move up value chain of the sector. On top of upgrading the existing growth engines, a new source of growth needs to be identified. In addition, to improve competitiveness, the government should work to improve the business environment through reducing the cost of doing business including logistic cost and electricity cost, trade facilitation, promoting tax reform based on principles such as growth-enhancing, fairness, equity, improved services, good governance and enhanced compliance and improving transportation, energy and digital connectivity.

The global shock triggered by the COVID-19 pandemic has significantly impacted Cambodia's economy in 2020 at a time when Cambodia also faces the partial suspension of preferential access to the EU market under the "Everything but Arms (EBA)" initiative. In 2020, the RGC implemented 7 rounds of intervention measures to mitigate the impacts of Covid-19 on garment sector, tourism sector, aviation sector, vulnerable group (poor 1 and poor 2) and growth supporting measures through tax relief scheme, credit relief or financing scheme, information technology business registration platform, and subsidies (wage).

Table 2.1: Selected economic indicators 2015–2019

Main macroecomic indicators	2015	2016	2017	2018	2019
Real GDP Growth (percent)	7.0	6.9	7.0	7.5	7.1
Nominal GDP in Million USD	18,242	20,159	22,180	24,640	27,016
GDP Per Capita (USD)	1,218	1,308	1,429	1,563	1,700
Inflation rate in year average (percent)	1.2	3.0	2.9	2.5	1.8
Exchange rate (Riel/USD)	4,062	4,056	4,045	4,045	4,055
Export (percent of GDP)	51.6	51.3	50.6	52.7	55.9
Import (percent of GDP)	73.5	70.5	69.8	76.4	84.6
Trade Balance (percent of GDP)	-21.8	-19.2	-19.3	-23.7	-28.7
Current Account Balance (including official transfer) (percent of GDP)	-8.7	-8.4	-7.8	-11.4	-16.3
Gross international reserve (Months of Import)	4.5	6.6	8.0	8.0	7.9

Source: Cambodia macroeconomic monitor report in 2019

Table 2.2: GDP and sectorial growth (in percent) 2015–2019

Sector	2015	2016	2017	2018	2019
GDP	7.0	6.9	7.0	7.5	7.1
Agriculture	0.2	1.3	1.7	1.1	-0.5
Crops	0.3	2.0	2.2	1.3	0.6
Other agriculture	0.06	0.6	1.2	0.9	-1.9
Industry	11.5	10.6	9.7	11.6	11.3
Garment	9.8	6.7	5.8	9.6	6.6
Construction	18.2	20.6	17.9	17.5	20.8
Other industry	9.3	10.2	10.3	9.2	10.3
Service	7.1	6.8	7.0	6.8	6.2
Hotel	2.4	2.6	5.9	5.5	3.1
Wholesale and retail trade	7.7	6.4	6.5	6.2	6.5
Transportation and communication	8.0	7.7	8.0	8.0	8.4
Real estate and business	11.9	9.9	8.7	8.5	7.0

Source: Cambodia macroeconomic assessment in 2019

2.2 Fiscal and budgetary trends

- **Fiscal performance**

Fiscal performance in 2017 was considerably stronger than anticipated with a deficit of 1.1% of GDP compared to 3.9% in the budget law. Tax revenues grew 26% in nominal terms, with revenue over performance partly due to one-off factors. Wage spending grew to more than 7% of GDP as the government fulfilled its election promise of raising public wages. The fiscal stance turned expansionary in 2018. Both current and capital expenditure increased, although tax revenue grew by only 0.1% of GDP, reflecting VAT exemptions and import tariff reductions for fuel and basic foods. As a result, the deficit will widen to 2.2% of GDP, resulting in lower government deposits (Cambodia macroeconomic monitor report in 2019).

Table 2.3: Aggregate Fiscal data 2015-2019 (actuals)

	STATEMENT OF GOVERNMENT OPERATIONS (in percent of GDP)	2015	2016	2017	2018	2019
	GDP at Current Price	73,423,000	81,242,000	89,831,000	99,544,000	110,014,000
1	**Revenue ....**	**18.51%**	**21.93%**	**24.97%**	**29.90%**	**37.14%**
11	Taxes	14.58%	16.40%	19.32%	23.12%	29.57%
13	Grants	1.94%	2.74%	2.32%	2.90%	2.99%
14	Other revenue	1.99%	2.79%	3.33%	3.89%	4.59%
2	**Expense ....**	**12.04%**	**14.35%**	**17.20%**	**19.69%**	**23.64%**
21	Compensation of employees	5.34%	6.56%	8.11%	9.53%	10.70%
22	Use of goods and services	2.94%	3.30%	3.77%	4.16%	4.33%
24	Interest	0.30%	0.40%	0.39%	0.46%	0.50%
25	Subsidies	0.03%	0.11%	0.31%	0.01%	0.83%
26	Grants	1.19%	1.25%	1.66%	1.79%	3.20%
27	Social benefits	1.52%	1.61%	1.67%	2.08%	2.28%
28	Other expense	0.72%	1.12%	1.28%	1.66%	1.79%
NOB	***Net operating balance (1-2+NOBz) c/........***	**6.47%**	**7.58%**	**7.77%**	**10.22%**	**13.51%**
31	**Net Acquisition of Nonfinancial Assets ....**	7.34%	8.01%	8.77%	9.71%	10.24%
2M	***Expenditure (2+31) ....***	19.37%	22.36%	25.97%	29.40%	33.87%
NLB	***Net lending (+) / Net borrowing (-) (1-2-31) or (1-2M) ....***	**-0.87%**	**-0.43%**	**-1.00%**	**0.51%**	**3.27%**
	TRANSACTIONS IN FINANCIAL ASSETS AND LIABILITIES (FINANCING):					
32	**Net acquisition of financial assets ....**	2.20%	2.14%	2.58%	2.99%	6.57%
33	**Net incurrence of liabilities ....**	3.06%	2.57%	2.41%	2.56%	3.38%
	Memorandum items:					
1411	Other Revenue: Interest	0.10%	0.11%	0.13%	0.17%	0.17%
	Net Acquisition of Nonfinancial Assets (Externally Financed	5.26%	5.61%	6.18%	6.33%	7.46%
	Primary Operating Balance	6.77%	7.98%	8.17%	10.68%	14.00%
	Primary Deficit (for gross debt sustainability)	-0.56%	-0.03%	-0.61%	0.97%	3.77%
	Primary Deficit (for net debt sustainability)	-0.67%	-0.15%	-0.74%	0.79%	3.60%

Source: MEF GDP in 2020

In 2019, domestic revenue amount to KHR 27,429 billion equivalent to 24.9 percent of GDP, supported by strong current revenue growth of 25.2 percent over the high growth of 20.9 percent a year earlier. Driven by the robustness of business activities, current revenue in 2019 is ticked at 24.8 percent of GDP - an increase of 2.9 percentage points of GDP. This strong revenue performance is attributed to the improvement of tax administration and the increasing understanding of tax culture which have contributed to more tax compliance as well as changes of some tax policies, namely car's taxable base and property tax base.

Non-tax revenue increased by only 13.1 percent due to the challenges that arise from the slowdown of the tourism sector. Revenue from tourist activities has dropped by 16.1 percent. Nonetheless, this momentum was offset by the increase of revenue from casinos and dividends from state-owned enterprises.

99.5% of the 2019 annual budget in which current expenditure achieved approximately 96.1 percent of the plan, at 15.6 percent of GDP (compared to 16.3 percent of GDP) while capital expenditure reached 107.6 percent of the plan, at 9.1 percent of GDP (compared to 8.4 percent of GDP). The slightly overspending in capital expenditure is attributed to the higher-than-expected allocation of domestic financing (approximately 132.8 percent of the plan) to investment projects in prioritized areas.

Current expenditure accounted for 17,212 billion riels with a slower growth of 5.7 percent compared to 15.8 percent in 2018, mainly due to 2018 being a one-off year in which a sub-decree on government official salary increase was implemented – a part of continued public administration reform – which accelerated the growth and base of wage expense in 2018. On top of the one-off factor, non-wage expenditure also contributed to the slowdown of current expenditure growth as it witnessed a continuous improvement in expenditure efficiency. All in all, the RGC continues to focus its current expenditure on ensuring better quality, scope, and accessibility of public service delivery as well as enhancing living standards of government officials to further bolster competitiveness and nurture economic growth.

- **Allocation of resource**

Budget allocations for the assessment period is presented based on economic, and program classification. There was a functional classification; however, it is not compliant with COFOG beyond a broad sector classification into general administration, national defense and public order, social affairs, and economic sectors, and miscellaneous. Therefore, functional classification of expenditure is available only by main sectors for the period covered by this assessment as follows:

Table 2.4: Actual budgetary allocations by economic classification (as a percentage of total expenditure) 2017-2019

Type of expenditures	2017	2018	2019
Current Expenditures	**66.21%**	**66.97%**	**69.78%**
Wages and Salaries	31.22%	32.41%	31.58%
Goods and Services	14.52%	14.16%	12.80%
Interest Payments	1.51%	1.57%	1.47%
Transfers	7.58%	6.14%	11.91%
Others	11.38%	12.69%	12.01%
Capital Expenditures	**33.79%**	**33.03%**	**30.22%**

Source: MEF GDP

Table 2.5: Budget allocation by sectors (main functions) 2015–2019

Main sectors	2017	2018	2019
General administration sector	19.35%	16.62%	18.00%
National defense and public order sector	25.11%	25.60%	23.78%
Social affair sector	36.93%	38.51%	35.32%
Economic sector	10.12%	9.20%	8.69%
Others	8.50%	10.07%	14.20%

Source: MEF GDNT

2.3 Legal and regulatory arrangements for PFM

Cambodia's Constitution was adopted by the Constitutional Assembly on September 21, 1993, and is the supreme law of the Kingdom of Cambodia and organizes Cambodia's government and institutions. All laws and regulations derive from the Constitution's provisions and must conform to it. Article 51 of the 1993 Constitution and its amendments in 1999 ensure that Cambodian citizens hold all powers to be exercised through the National Assembly, the Senate, the Royal Government (Council of Ministers-CoM) and the judiciary, and guarantees the separation of these bodies. The Constitution addresses questions of sovereignty, the role and status of the king, the fundamental rights of Khmer citizens, the economy, education, culture and social affairs, and the Constitutional Council.

- **Legislative system**

The National Assembly and the Senate share the legislative power. Senators, members of the National Assembly and the Prime Minister have the right to initiate legislation by making draft laws or proposed laws. Laws are enacted after an absolute majority of the National Assembly votes to adopt the law.

When the parliament approves a law, the King promulgates it through a decree ('Royal Kram'). The law is put into effect through a series of sub-decrees approved by the CoM. Detailed orders or regulations (called sub-decree, prakas, circulars, executive orders) are issued by the heads of relevant LMs/institutions. There is a strict hierarchy of laws.

- **Judiciary system**

The Cambodian judicial system is composed of courts of first instance, appeals courts, and a Supreme Court. According to Article 128 of the Constitution, the judiciary is independent, guaranteeing and upholding impartiality and protecting the rights and freedoms of the citizens. The judicial power shall not be granted to the legislative or executive branches and shall cover all lawsuits, including administrative ones. At present, there are 28 courts, including 23 provincial/municipal courts, four appeal courts jurisdictions in Phnom Penh Capital, Preah Sihanouk, Battambang and Tboung Khmum provinces, and 1 Supreme Court in Phnom Penh.

- **Executive body**

The executive of government is led by the CoM, chaired by the Prime Minister and compositions of CoM are Deputy Prime Ministers, Senior Ministers and Ministers of LMs are members. Members of the Royal Government shall be collectively responsible to the National Assembly for the overall policy of the Royal Government. Each member of the Royal Government shall be individually responsible to the Prime Minister and the National Assembly for his/her own conduct. The CoM has a meet every week in plenary session or in a working session. The Prime Minister chairs the plenary sessions and may assign a Deputy Prime Minister to preside over the working sessions. In addition, the Prime Minister has the right to delegate his power to a Deputy Prime Minister or to any member of the Royal Government.

- **Structure of the Public Sector**

The central government comprises 38 LMs/institutions. Each LM/institution is composed of general departments, departments of which some are deconcentrated through technical departments at the C/P administrations. The principal ministries responsible for PFM are the MEF and the Ministry of Planning (MoP). The main oversight agency is the NAA.

Central government also includes 28 PAEs or extra-budgetary units that are required to reports both finance and performance to technical LMs and the MEF. Central government also controls 13 PEs, which are wholly, or majority owned, in addition to the National Bank of Cambodia (NBC).

- **Subnational administrations**

Related PFM at SNAs, Law on Financial Regime and Management of State Properties of SNAs (2011) is stipulated to govern. Only C/P administrations are required for developing the budget strategic plan (BSP), and annual budget. Only D/M and C/S administrations prepare the annual budget. They are responsible for budget management and revenue of its budget execution, especially shall ensure accountability for determination and the performance of policy implementation in line with the policy of the Royal Government.

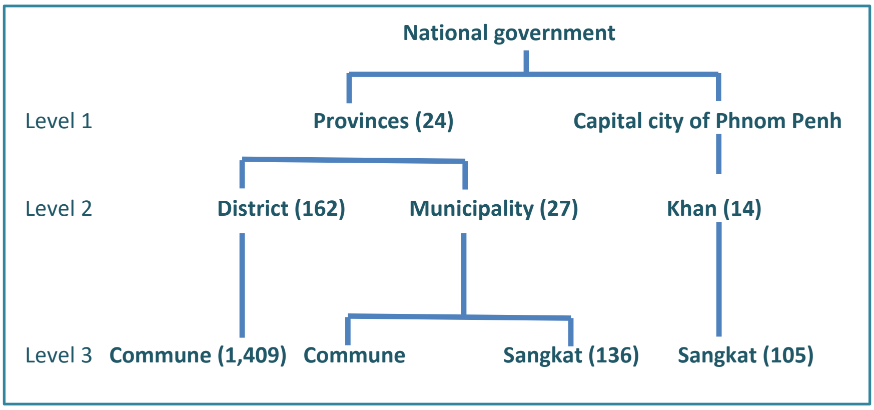
The territory of the Kingdom of Cambodia is divided into capital city, provinces, municipalities, districts, khans, communes and sangkats. They are administered according to the conditions provided by Constitution.

There are three levels of SNAs (see Diagram 2.1). Level 1 comprises 25 C/P administrations. Level 1 and Level 2 jurisdictions of SNAs are controlled by the national level through an appointed governor and a board of governors for each entity. Level 2 jurisdictions also have councils with "indirectly elected" councilors (elected by C/S council members) with a five-year mandate. The C/P governors, in charge of administration, are representatives of the central government and LMs/institutions at SNAs in accordance with the provision of Law on Administrative Management of Capital, Province, Municipal, District and Khan (2009).

Members of councils for the C/P and D/M/K administrations are determined, respectively, by general elections, by Royal Decree, by sub-decree, and by prakas. In addition, governors of C/P, and D/M/K administrations are appointed by Royal Decree, sub-decree, and prakas accordingly. The heads of C/P line departments of LMs are appointed by respective LM ministers by request of governors. Head of administrative entities below C/P departments of LMs are appointed by governors.

The subnational administration consists of three levels, level 1 comprising the provincial administrations and the capital city, level 2 the municipal and district administrations and level 3 the communes and sangkats. It comprises 25 capital/provinces, 27 municipalities, 14 Khan, 162 districts, 241 sangkats, 1,405 communes, and 14,383 villages.

Diagram 2.1: Subnational administrations structure



At the local level, the governor is responsible for setting policy priorities, planning, execution and monitoring of the budget. The budget is adopted by C/P Councils and then submitted to the MEF for verifying the legality of the budget, referring mainly to compliance with regulations governing processes and documentation.

In addition, central government covers the provincial and municipality/districts levels of the SNAs hierarchy. C/S operates as a subnational administrative level with independent governance arrangements. Their expenditure budgets account for about 2.5% of total government sector expenditure, almost exclusively funded by transfers from the central government budget.

Legal and regulatory framework for PFM

The Law on Public Finance System was promulgated on 13 May 2008. This law has its scope as a fundamental law served as basis and required compliance by national and subnational PFM in the

Kingdom of Cambodia. This fundamental law states clearly to procedure to formulate and execute namely (1) Law on Annual Finance Management, (2). Amendment to the Annual Budget Law; and (3). Law on Annual Budget Settlement. The MEF is responsible to provide reports on macroeconomic and public financial situations to the National Assembly and the Senate twice a year.

Budget formulation process

Article 39 of the Law on Public Finance System (2008) states the budget preparation calendar through three main stages: (1) BSP Phase, March–May, (2) Preparation of Annual Budget, June-September, and (3) Budget Approval, October-December.

Budget adjustment and transfer

Adjustments to the annual budget appropriations are regulated through an amended annual budget law, or by sub-decrees in some case by prakas and/or circulars, issued by heads of ministries. An amended annual budget law or sub-decree is required for transfer of appropriation from one public entity to another; amendment to the annual budget law is also required in the event of natural disasters or emergencies, although it is possible instead to reflect the amendment in the draft annual budget law for the following fiscal year.

A sub-decree is required for transfer of appropriation from one Chapter to another (e.g. purchases of goods under Chapter 60 in the CoA to purchases of services under Chapter 61), but is not allowed for transfer of capital expenditure appropriation (Chapter 21) to recurrent expenditure appropriation (Chapters 60-65). A sub-decree is required for transfer of appropriation from the reserve fund (Chapter 99, "unexpected expenditures") to other expenditure chapters. Transfer of appropriation from one account or sub-account (representing economic classification in more detail) within a Chapter requires a prakas issued by the MEF.

Taxation and Customs Laws

The Law on Taxation (LoT) was adopted by the National Assembly on 08 January 1997. There are 15 types of taxes that are collected, including Tax on Income, Minimum Tax, Withholding Tax, Tax on Salary, Stamp tax, Value Added Tax, Specific Tax on Certain Merchandises and Services, Registration Tax or Stamp duty, Public Lighting Tax, Accommodation Tax, Tax on Property, Tax on Unused Land, Tax on Means of Transportation, Prepayment of Profit Tax and Tax on Property Rental. Before budget law 2016 instructed, there were 3 types of taxation regime which were officially put in place: real regime (self-assessment regime), estimated regime and simplified tax regime. But after budget law 2016 was adopted, the GDT eliminated the estimated regime and officially put in place only one real regime called self-assessment regime. Based on self-assessment regime, the taxpayer is classified according to the level of turnover. Within this regime, taxpayers are divided into 3 types: small taxpayers, medium taxpayers and large taxpayers. Small taxpayer is a sole proprietorship or joint venture enterprise with annual returns from KHR 250 million to KHR 700 million. Medium taxpayer is an enterprise with the annual return from 700 million riels to KHR 4,000 million and the large taxpayer is an enterprise with the annual return more than KHR 4,000 million. Provisions for industries in mining, oil, and gas sector were promulgated in the Law on Financial Management 2018. The GDT is responsible for collecting tax revenue includes include direct and indirect taxes.

The Law on Customs (LoC), which was adopted by the National Assembly on the 22 June 2007 is to (1) provide the right for the administration, control and collection of duties, taxes and fees on imported and exported goods, (2) provide for the control and regulation of the movement, storage and transit of such goods, (3) promote the prevention and suppression of fraud and smuggling, (4) participate in implementing the international trade policy of the RGC, and (5) promote the application of international standards and best practices regarding customs control and trade facilitation. The GDCE is responsible for administration, control and collection of duties, taxes and fees on imported and exported goods in accordance with Customs and other laws and regulations. Furthermore, the GDCE promotes the prevention and suppression of tax evasion, participates in international trade policy and promotes best practices relating to customs controls and trade facilitation, especially in the implementation of trade facilitation policies through risk management and customs automation. To facilitate clearance of goods, importers/exporters or their agents prepare and lodge declaration using a standard Single Administrative Document (SAD) through customs automation system.

- **Non-Tax Revenue and state property management**

Collection of non-tax revenue is governed by a Government Order, issued in November 2006, and various prakas have been issued concerning the technical and administrative details of each type of non-tax revenue. In addition, the RGC issued Sub-decree no. 72 ANKr.BK, dated 07 June 2018, on Non-tax Revenue Management aiming to determine the mechanisms, rules and procdedures of collection, payment, recording and monitoring of non-tax revnue as well as reinforcement of impleting contract and revenue arrears management. The MEF adopted the Prakas no.1195 PrK.MEF, dated 22 December 2020, to determine the measures and procedure for managing, strictly reinforcing collection, and writing off non-tax arrears. Next, the RGC is preparing the draft Law on Non-tax Revenue Management.

The Law on state property management and utilization became effective on 14 November 2020, and other rules and regulations are under preparation to support this law. Inter-ministerial Prakas no. 1198 MEF.PrK was also issued on the formation of an inter-ministerial committee for the review and update of state lands that are registered in LMs, C/P line departments and SNAs' state property registers for registering land titles.

- **Public Procurement**

The Law on Public Procurement was promulgated on 14 January 2012. Previously, the public procurement had been governed by a fragmented legal framework spread out over several sub-decrees, prakas, and internal guidelines. The new law is more comprehensive and applied to all procurement from government funds, but does not cover some aspects of more advanced international standards in procurement legislation such as procurement planning, implementation monitoring, procurement methods, and independent mechanism for settling procurement complaints.

- **Internal and external audit**

The internal audit function is governed by the Audit Law, promulgated under Royal Kram no. CS/RKM/0300/10 dated 03 March 2000, together with Sub-decree no.40 ANKr.BK, dated 15 February 2005, on the Organization and Functioning of Internal Audit in LMs/Institutions and PEs. Most of LMs and institutions have internal audit units and there is no internal audit unit within the SNAs. An Internal audit unit of MoI conducts audit at SNAs.

- **Internal control framework**

The Internal Control framework is mostly established and controlled by the Law on Public Finance System (2008) and Law on Financial Regime and state property of SNAs (2011) with detailed rules and regulations in the form of sub-decrees, prakas, circulars as well as executive orders. The effectiveness of internal control is still a concern and lacks mechanism enforcement in line ministries. Internal audit function is created under Audit Law and an internal audit department is established in each LM/institution, state enterprise and PAE. The MEF and the Council of Ministers are the authorized bodies for PFM rules and regulations and MEF centralizes most of the control functions over the key phases of the PFM cycle. The role of financial comptrollers embedded in LMs and reporting to MEF illustrates the MEF powers over the

LMs/institutions, as they are responsible to review and authorize budget expenditure and confirm whether there is enough appropriation, definition at program, sub-program level and whether the expenditure is eligible or not.

2.4 Institutional arrangements for PFM

- **National Assembly and Senate**

Second Commission of Economy, Finance, Banking and Audit is not involved in any setting of long or medium-term priorities or fiscal policy. The Second Commission scrutinizes draft Law on Annual finance management, draft Amendment to the Annual Budget Law; and draft Law on Annual Budget Settlement from the RGC and the audits report of the NAA.

The National Assembly enacts a law, the Senate reviews a law and declared effective by Royal Kram and published to be implemented as a Law of the Kingdom of Cambodia.

- **Ministry of Economy and Finance**

The MEF was established by Royal Kram no.NS/RKM/0196/18, dated 24 January 1996, and Sub-decree no. 488 ANKr.BK on Organizing and Conducting of MEF, dated 16 October 2020, which indicates the roles and responsibilities for economy and finance, including prepare economic and fiscal plan, and monitor the implementation of economic and financial policies of the Royal Government, manage and facilitate economic and financial restructuring, build public financial systems, establish financial rules and regulations, formulate and manage state's budgets, manage and properly mobilize and allocate resources, manage state's assets, and manage and supervise the affairs of other stakeholders (public procurement, public investment, serve as a public accountant of the Royal Government) and conduct financial inspections to LMs/institutions or public entities, similar to PEs and SNAs.

GDNT and C/P Treasuries are the sole institutions in charge of paying suppliers and government personnel. The annual financial statements include: (i) a trial balance of accounts as per results of the account aggregation by public accountants, (ii) status of budget revenue, (iii) status of budgetary expenditures showing, for each ministerial department, the amount of expenditure per chapter certified by the relevant ministry, (iv) status of operations recorded in special treasury accounts, and (v) income statements.

GDB manages the preparation of the current (recurrent) and capital budget for domestic investment and the in-year budget implementation framework. The MOP is in charge of the Public investment program (PIP) based on the NSDP 2019-2023. All capital project proposals from line ministries are supposed to be vetted by MOP in terms of whether they should be included in the PIP. In practice, as most of the capital budget is funded by DPs, line ministries tend to deal directly with DPs, or indirectly via Council for the Development of Cambodia (CDC), whose main roles are to mobilize external funding for projects as well as to maintain a database on these projects. The introduction of program budgeting in priority areas in 2014 and strategic development plans have promoted the integration of current and capital budgeting.

General Department of International Cooperation and Debt Management (GDICDM) in the MEF has the overall responsibility for overseeing the financial performance of all externally financed projects/programs including the formulation of project and program budgets in accordance with the Standard Operating Procedures (SOP) on Financial Management, Budget Process Guidelines, Budget Strategic Plan and PFM Reforms issued by the MEF. The GDICDM ensures appropriate bank accounts are established with the NBC and commercial banks acceptable to development partners for all externally financed projects/programs. It also provides support and advice to the LMs/institutions in establishing and implementing sound accounting and financial management systems and procedures as well as satisfactory internal and external auditing arrangements. The GDICDM participates as a committee member in project procurement review to ensure compliance with the Government and Development Partners' guidelines and provisions. The GDICDM also processes, monitors and provide guidance on loan/grant withdrawals and replenishment applications submitted by the concerned LMs/institutions.

The GDT and GDCE are the main revenue agencies under the MEF are regulated by the Law on Taxation and the Law on Customs respectively.

Currently, the MEF is responsible, on behalf of LMs/institutions, for defending the draft Annual Budget Law, both in the Second Committee and at the Plenary Session of the Legislative body, in accordance with the Law on Public Finance System 2008.

Ministry of Planning

MoP is responsible for coordination preparing the NSDP, PIP and statistics as well as monitoring the implementation NSDP and Cambodia Sustainable Development Goal.

National Bank of Cambodia

The NBC is the monetary and supervisory authority. The mission of the NBC is to determine and direct the monetary policy aimed at maintaining price stability in order to facilitate economic development within the framework of the kingdom's economic and financial policy. The NBC has the authority to license, delicense, regulate and supervise banks and financial institutions in Cambodia. The NBC also conducts regular economic and monetary analysis, publishes various publications, oversees the nation's payment systems, establishes balance of payments, and participates in the management of external debt claims.

Line ministries and institutions

The LMs/institutions play a critical role in the PFM system. The LMs/institutions' responsibilities include sector policy strategic, budgets preparation (the BSP and annual budget) and their management, public procurement, budget management, state property management, supervision of PEs, PAEs and internal control.

National Audit Authority

The NAA was established under the Audit Law of 2000, as amended in November 2000 (Royal Kram no. NS/ RKM /1100/11) and in August 2006 (Royal Kram no. NS/ RKM /0806/024). The NAA has its own budget funded by the national budget and is subject to the public finance regulations (Article 17), but is answerable to the National Assembly, Senate and the Royal Government (Article 14). Its reports are deemed to be public documents (Article 29), unless publication is deemed contrary to the public interest (Article 37). The Auditor-General has rank and privileges equivalent to a Senior Minister and the Deputy Auditor-General has rank and privileges equivalent to a Minister. The Auditor-General and the Deputy Auditor-Generals are appointed by royal decree on the recommendation of the Royal Government and approved by a two-thirds majority of all members of the National Assembly (Article 18). The Auditor-General has the authority to determine the salaries of the NAA audit staff, and has a mandate to audit all government institutions, including local administration, and other entities, including PEs, receiving concessions, benefits or interests from the Government.

Anti-Corruption Unit

In 1999 and 2006, the Royal government issued a Sub-decree on the Establishment of Anti-Corruption Unit (ACU) under the management of the Office of the COM, having a role as the implementing agency in fighting against corruption using transitional law under UNTAC as its tool.

To fight corruption more effectively, the Anti-Corruption Law was adopted and promulgated on 17 April 2010 and was amended and came into force on 2 August 2011. The promulgation of Law on Anti-

Corruption led to the establishment of the "Anti-Corruption Institution" consisting of two bodies: The National Council against Corruption as the policymaker and the Anti-Corruption Unit as the operator of anti-corruption work based on three-pronged approach: Education, prevention and law enforcement with the participation and support of the public and international cooperation. This law aims to promote effectiveness of all forms of services and strengthen good governance and rule of law in leadership and state governance as well as to maintain integrity and justice which is fundamental for social development and poverty reduction. This law is applicable to all forms of corruption in all sections and at all levels throughout the Kingdom of Cambodia, which take place after the law comes into effect.

Citizens can file corruption cases to the ACU through direct submission, white boxes, post office, email and telephone, and cases with hints and evidences of corruption will lead to investigations, arrests, and imprisonments.

The ACU has continued to develop its capabilities. ACU's work program includes (i) internal capacity development; (ii) disseminating the Anti-Corruption Law and developing anti-corruption education curriculum; (iii) mobilizing line ministries, public institutions, and the private sector to work toward eliminating illegal payments and improving public service delivery through issuing joint proclamation on public service delivery and incentive by the MEF and respective public service delivery ministries; (iv) scrutinizing examinations to recruit civil servants and exams of senior high school students; (v) developing a draft code of conduct for public officials with relevant stakeholders; (vi) making arrests which resulted in prosecutions by the courts and imprisonments of some high ranking police, court and government officials; (vii) leading on the work of the United Nations Convention Against Corruption Implementation Review in Cambodia. The ACU has signed about 100 memoranda of understandings with the chambers of commerce, Special Economic Zones, Associations, local and international private companies, which in total consists of around 1,000 companies and institutions as their members, to combat corruptions and attract private investment. Notably, the ACU participates and observes public procurement process to ensure transparency.

Table 2.6: summary of PFM responsibilities by key institutions of the national administration in Cambodia

Institutions	Major functions
Ministry of Economy and Finance	• Macroeconomic management • State economic policy • Fiscal and budget management (in the budget cycle) • Revenue collection • Public debt management • Public investment management • Public procurement management • State property management • Public-private partnership (PPP) • Develop internal audit regulations • Financial inspection • Financial management in PAEs
Ministry of Planning	Coordinate and consolidate NSDP, PIP, and national statistics
Council of Ministers	Budget cycle (including Approve draft budget law and budget settlement law, etc.)
National Audit Authority	External audit
Second Commission of National Assembly	Scrutiny the budget preparation and audit reports of NAA

Tables 2.6 to 2.8 below show the structure of the RGC public sector and central government in terms of number of units of general government and expenditure. There are 28 PAEs and 13 PEs.

As described in the previous paragraph, SNAs have a three-tier government structure. Details are provided in the assessment of indicator PI-7.

Table 2.7: Structure of the public sector (number of entities and financial turn-over)

Fiscal Year: 2019	Public sector				
	Government Subsector		Social security fund	Public corporation subsector	
	Budgetary unit	Extrabudgetary units		Nonfinancial public corporations	Financial public corporations
Central level	38	28		13	1
1st tier SNAs	25	0	0	0	0
Lower tier (s) of SNA	1,849	0	0	0	0

Source: MEF

Table 2.8: Financial structure of central government—budget estimates (Unit: KHR million)

Fiscal Year: 2019	Central government			
	Budgetary unit	Extrabudgetary units (PAEs)	Social security funds	Total aggregated
Revenue	21,179,398.00	2,403,502.79*	N/A	23,582,900.79
Expenditure	29,903,906.90	822,184.71*	N/A	30,726,091.60
Transfers to (-) and from (+) other units of general government	N/A	N/A	N/A	N/A
Liabilities	N/A	N/A	N/A	N/A
Financial assets	N/A	N/A	N/A	N/A
Nonfinancial assets	N/A	N/A	N/A	N/A

Source: MEF GDNT and GDB

*Note: *Budget planning own revenue and expenditure of PAEs, excluding subsidy*

Table 2.9: Financial structure of central government—actual expenditure (Unit: KHR million)

Fiscal Year: 2019	Central government			
	Budgetary unit	Extrabudgetary units (PAEs)	Social security funds	Total aggregated
Revenue	29,783,727.63	1,061,359.27*	NA	30,845,086.89
Expenditure	29,694,375.96	1,140,519.47*	NA	30,834,895.43
Transfers to (-) and from (+) other units of general government	NA	NA	NA	NA
Liabilities	2,483,817.46	NA	NA	2,483,817.46
Financial assets	4,826,411.74	NA	NA	4,826,411.74
Nonfinancial assets	7,516,026.39	NA	NA	7,516,026.39

Source: MEF GDNT, GDB, and GDP

*Note: *actual own source revenue and expenditure of PAEs, excluding subsidy*

2.5 Other important features of PFM and its operating environment

Despite the ongoing decentralization reform in Cambodia, PFM systems are highly centralized and rely on central government. The MEF is responsible for making all the arrangements for fiscal decentralization including revision of the legal framework and development of new legislation and regulations. It comprises the development of a fiscal decentralization policy framework (designated at the "Medium and Long-term Fiscal Decentralization Policy" in CAP3), consisting and funding mechanisms for the C/P, D/M and C/S administrations. The legal framework comprises: Law on Administrative Management of Provinces, Municipalities, Districts, and Khans; and (ii) Law on Financial Regime and State Property Management for Subnational Administrations.

SNAs have main 5 types of revenue namely: (i) taxes for which revenues are assigned to C/P administration (i.e. so-called “C/P taxes[8]”, which can also involve revenue sharing arrangements involving the lower tiers of SNAs (but with control over tax rates and bases being fully retained by central government); (ii) nontax revenues; (iii) formula based unconditional transfers from central government; (iv) conditional transfers from the national level to SNAs (including SNIF); and (v) others, including development partner funds.

It is noticed that SNAs’ budget processes are being gradually reformed to shift from an input-based system toward a program-based budget system, with increasing focus on monitoring results to strengthen budget-policy linkages and to move toward the goal of substantive performance accountability by 2025. In future, when the budget management system has improved to the level of international best practices and capacity of related entities increased, the public accountant’s function at the capital/provincial Treasuries will be integrated with the functions of budget control of the C/PDEF in order to ensure effectiveness and responsibility under the MEF, which will be a pre-requisite condition for SNAs to improve their financial and performance accountability. For D/M and C/S budget, the budget control shall be carried out by C/P Treasuries in their role as public accountants. Additionally, to accelerate and facilitate the implementation of the budget, especially to streamline the disbursement process, a public accountant could be recruited at the D/M administrations eventually based on capacity and necessity. The budget execution of D/M administrations and C/S administrations is subject to post-reviews.

[8] There are 9 types of taxes: Patent tax, Public lighting tax, Accommodation tax, Tax on means of transportation, Tax on unused land, Transfer tax, Property tax, Tax on property and rental and Stamp registration tax.

3. Assessment of PFM performance

PILLAR ONE: Budget reliability

Pillar One assesses whether the government budget is realistic and implemented as intended. This is measured by comparing actual revenues and expenditures (the immediate results of the PFM system) with the original approved budget. Realistic and reliable budgets underpin good fiscal management and are essential for long term fiscal sustainability.

Pillar one has three indicators:

- PI-1. Aggregate budget outturn
- PI-2. Expenditure composition outturn
- PI-3. Revenue outturn

PI-1. Aggregate expenditure outturn

This indicator measures the extent to which aggregate budget expenditure outturn reflects the amount originally approved by National Assembly, as defined in government budget documentation and fiscal reports. As per PEFA 2016 methodology, actual aggregate expenditures include the ODA budget (loans and grants from DPs) and exclude the contingency reserves and the interest on debt. There is one dimension for this indicator-dimension 1.1 Aggregate expenditure outturn.

Table 3.1 presents the original budgets compared to the actual budget outturns for 2017-2019. The budget outturn that achieved closely to approved budget was 97.9 percent in 2017, 99.4 percent in 2018, and 99.3 percent in 2019. Increasing trends in RGC budget figures reflect the government's commitment to expand expenditure and the wage policy agenda for civil servants and armed forces to more than one million riels by 2018. Relative salary expenditure therefore increased and accounted for 40.64 percent, 42.27 percent and 47.4 percent of the national current budget in 2017, 2018 and 2019 respectively. In addition, capital expenditure increased annually at rate 15 percent (2017), 27 percent (2018) and 35 percent (2019) to further support the government's priority policies and sustain medium- and long-term economic growth through mainly expanding and strengthening quality of physical infrastructures, roads, railways, ports, irrigation, electricity, and transport systems, etc.

It is noticed that good performance of budget expenditure is a result of implementing program budgeting in all LMs/institutions from 2015-2018 and continues to be rolled out in C/P administrations from 2017-2021. In addition, to improve in-year spending[9], the RGC has taken some measures by instructing LMs/ institutions to attach petty cash and procurement plan with annual budget proposal.

Table 3.1: Aggregate expenditure outturn and approved budget (actuals/estimates)

KHR million	2017		2018		2019	
	Budget	Outturn	Budget	Outturn	Budget	Outturn
Total Expenditure	21,641,093	21,193,016	24,579,529	24,441,829	29,903,907	29,694,376
Deviation	**97.9%**		**99.4%**		**99.3%**	

Source: MEF GDB and GDNT

The indicator is scored A because outturn relative to budget was the deviation was between 95 percent and 105 percent from 2017-2019.

[9] In 2020, integrate current and capital and expenditure for three LMs, namely MPWT, MRD and MoRAWM for 2021 budget

Table 3.2: Score for PI-1

PI	Dimension	Score	Brief justification for score
PI-1	Aggregate expenditure outturn and approved budget	A	The outturn relative to budget was 97.9%, 99.4% and 99.3% in 2017, 2018 and 2019 respectively that deviation was less than 5% from approved budget in the three fiscal years.

Box 3.1: Ongoing reform activities

The MEF plans to introduce detailed expenditure by program and economic classifications in the draft Financial Management Law to submit to CoM in 2021 and to parliament in 2022. The draft Financial Management Law (new) also includes performance agreements between LMs and MEF to be submitted to CoM and legislative body in 2024.

PI-2. Expenditure composition outturn

This indicator measures the extent to which reallocations between the main budget categories during execution have contributed to variance in expenditure composition. It contains the following three dimensions and uses the M1 (WL) method for aggregating dimension scores:

Dimension 2.1. Expenditure composition outturn by administration
Dimension 2.2. Expenditure composition outturn by economic type
Dimension 2.3. Expenditure from contingency reserves

Dimension 2.1. Expenditure composition outturn by administration

This dimension measures the difference between the originally approved budget and end-of-year outturn in expenditure composition by administrative classification during the last three years, including ODA (loans and grants from DPs in LMs' budget) and excluding reserve unearmarked, and interest on debt. Administrative budget allocations are calculated as approved by the legislature and execution reports for 2017, 2018 and 2019. The functional classification could not be used for this dimension because the current functional classification serves the need for only budget analysis at divisions level but for groups and classes are not comprehensive enough.

The composition of budgeted and reported expenditure by administrative head for each of the 21 largest budget heads as set out in Table 3.3 shows that variance in expenditure composition by administrative was 10.6%, 13.0% and 21.8% in 2017, 2018 and 2019. The ODA included under each LM budget head represents about 24% to 27% of the total national expenditure in the last 3 years.

The main reasons for the highest deviation in 2018 relate to (i) the settlement of accrued advance expenditure of the Phnom Penh Capital Administration from 2007 to 2014 with the adjustment of operating expenditure for the management of 2018 as stipulated in Budget Law 2019; (ii) the impact of the government's transfer of movable and unmovable property tax revenue to the C/P administrations, which was not planned by the law, and led to a high unanticipated increase in revenue. As a result, the C/P administrations requested to the MEF for reallocation budget during the year in the form of a revised budget for development projects.

Article 11 of the Annual Finance Management Law for 2020 regularized the additional operational budget for fiscal year 2019 as follows:

- To Agricultural and Rural Development Bank (ARDB) KHR 204,200 million to offset the need for rice mill credit to buy rice from farmers in the harvest season at the end of the 2018 and raising capital to meet requirements for commercial bank licenses;

- Regularization by granted additional SNAs budget operations to finance basic development expenditure for C/P administrations amount KHR 342,450 million, D/M administrations amount KHR 11,345 million and C/S administrations amount KHR 137,203 million; and
- Offset for investment expenditure of construction of 400 MW electricity power plant amount KHR 1,230,000 million.

Table 3.3: Expenditure composition outturn by administrative classification

Administrative Budget Head	Variance		
	2017	2018	2019
1. Ministry of Education, Youth and Sport	7.8%	1.9%	0.4%
2. Ministry of Defense	4.2%	1.6%	1.8%
3. Ministry of Health	1.5%	17.6%	5.9%
4. Ministry of Interior (Public Security Section)	1.5%	4.3%	4.0%
5. Ministry of Social Affairs, Veterans and Youth Rehabilitation	8.1%	1.8%	2.5%
6. Ministry of Economy and Finance	1.5%	4.1%	2.5%
7. Office of the Council of Ministers	14.8%	26.5%	21.2%
8. Ministry of Public Work and Transport	16.4%	19.4%	18.6%
9. Ministry of Labor and Vocational Training	21.8%	7.2%	14.9%
10. Ministry of Agriculture, Forestry and Fisheries	13.9%	2.6%	8.8%
11. Ministry of Culture and Fine Arts	1.7%	2.9%	3.4%
12. National Election Committee	12.0%	14.0%	21.9%
13. General Secretariat of National Assembly	2.2%	0.6%	0.3%
14. Ministry of Rural Development	11.5%	21.8%	30.8%
15. Ministry of Interior (General Administration)	0.1%	3.5%	0.7%
16. Ministry of Land Management, Urban Planning and Construction	10.9%	22.7%	20.6%
17. Ministry of Justice	7.2%	6.4%	1.8%
Reserve Earmark	7.0%	5.4%	1.8%
Capital administration	5.8%	44.5%	20.8%
Provincial administrations	17.8%	94.0%	37.8%
Other 21 Line Ministries	27.7%	19.7%	14.1%
Total allocated expenditure (Variance PI-2)	**10.6%**	**13.0%**	**8.9%**

Source: MEF GDB and GDNT

Other deviations in 2017 and 2019 are due to various numerous factors, such as allocation of contingencies by the MEF, settlements of pending advances at provincial administrations, etc. At LM level, deviations reflect the allocations of ODA loans and grants throughout execution. In the budget settlement law, ministry's investment projects include the financed and unfinanced projects and some projects were delayed or suspended during execution resulting in a deviation between actual versus plan. On the other hand, the grants from DPs were not included in the BSP and PB for budget formulation. The grants were provided directly to line ministries to run investment projects without passing through the MEF so recorded only at the time of execution. Nevertheless, all financing agreements are signed by the MEF and DPs provide a forecast of disbursements to a database managed by CDC.

The dimension is scored C because the variance in expenditure composition by administrative classification was higher than 10% in two of the last three years and less than 15%. A higher score would require flexibility of implementation in the program budget, a specific guidance for preparation of current and capital expenditure as well as alignment with the plan.

Dimension 2.2. Expenditure composition outturn by economic type

This dimension measures the difference between the original approved budget and end-of-year outturn in expenditure composition by economic classification during the last three years including interest on debt but excluding contingency items.

Generally, the procedure for planning interest charges in Chapter 66: Financial charges includes 6601: Interest on domestic liabilities and 6602: foreign liabilities, but in practice it also covers 6698: other financial charges (foreign exchange losses). The GFS classification does not classify foreign exchange losses as interest expense while the annual settlement law classified all Chapter 66 as interest expense. In addition, interest charges are planned based on the total loan outstanding plus loan disbursement amount, while normally the annual loan implementation is on average 30% lower than plan due to late disbursement.

The main deviation in subsidies in 2017 relate to the RCG practice to resort to the use of subsidies for implementing unplanned government policy, as a mechanism to finance emergency issues. In 2017, the government implemented a mechanism to solve the falling rice price by releasing subsidies to stabilize rice prices and boost local rice purchases. At the same time the government also built storage infrastructure for a total budget of KHR 215,000 million which was not planned in the budget.

Other expenses (2017-2019) included (i) actual expenses on pro-poor programs, (ii) sport awards and (iii) the student's awards and compensations to fire victims.

Table 3.4: Expenditure composition outturn by economic classification variance

Economic Head	Variance		
	2017	2018	2019
1. Compensation of employees	5.6%	1.8%	0.1%
2. Use of goods and services	5.5%	3.7%	0.9%
3. Consumption of fixed capital	n.a	n.a	n.a
4. Interest	19.3%	14.2%	31.4%
5. Subsidies	1,874.7%	5.6%	[10]5,366.0%
6. Grants	4.8%	6.2%	[11]78.3%
7. Social benefits	0.4%	0.9%	3.1%
8. Other expenses	48.9%	21.4%	23.2%
Total Expenditure Composition (Variance PI-2)	**9.1%**	**4.2%**	**13.6%**

Source: MEF GDP

The dimension is scored B because the variance in expenditure composition by economic classification was less than 10% two years in the last three years. A higher score would require that reserve earmark is to reduce or allowed related LMs/institutions to plan in annual budget.

Dimension 2.3. Expenditure from contingency reserves

This dimension measures the average amount of expenditure actually charged to a contingency vote over the last three years. Most allocated expenditures are earmarked, including: current expenditure in investment implementation, interest payment, subsidies to SNAs, debt payable, investment project, investment contribution and budget support and reserve-earmarked.

[10 &11] The deviation of subsidies and grants in 2019 are detailed in dimension 2.1

Table 3.5 sets out the percentage of actual expenditure for the last three years to 2019 charged to the budgeted un-earmarked reserve (or the contingency heading), which constitutes one line in the budget. The reserve of un-earmarked funds covers miscellaneous expenditures such as national ceremonies celebration, expense on security and defense agencies in the sixth national elections and expenses on scholarships to poor students, etc.

Table 3.5: Percentage of actual expenditure charged to budgeted contingency vote

Budget Heads	2017	2018	2019
Reserve Un-earmarked	0.2%	0.6%	0.5%
Average period 2017-2019		0.4%	

This dimension is scored A because the actual expenditure charge to a contingency vote was on average less than 3% of the original budget in the last 3 years.

Table 3.6: Scores for PI-2

PI	Dimension	Score	Brief justification for score
PI-2	**Expenditure composition outturn**	**C+**	**Scoring Method M1**
2.1	Expenditure composition outturn by administration	C	The variance in expenditure composition by administrative classification was 10.6%, 13.0% and 8.9% in 2017, 2018 and 2019 respectively less than 15% but higher than 10% in two of last three years.
2.2	Expenditure composition outturn by economic type	B	The variance in expenditure composition by economic classification was 9.1%, 4.2%, and 13.6% in 2017, 2018 and 2019 respectively, less than 10% but more than 5% in two of the last three years.
2.3	Expenditure from contingency reserves	A	The actual expenditure charge to a contingency vote was on average 0.4%, on average less than 3% of the original budget in the last three completed fiscal years.

Box 3.2: Ongoing reform activities

The MEF is working with LMs to improve the quality of BSP and PB structure to align with the national strategies (RS and NSDP). In addition, the MEF plans to integrate the timeline of current and capital expenditure starting FY 2021 budget.

PI-3. Revenue outturn

This indicator measures the change in revenue between the original approved budget and end-of-year outturn. It contains the following two dimensions and uses the M2 (AV) method for aggregating dimension scores:

Dimension 3.1. Aggregate revenue outturn

Dimension 3.2. Revenue composition outturn

Accurate revenue forecasts are a key input to the preparation of a credible budget. Revenues allow the government to finance expenditures and deliver services to its citizens. Government revenue is categorized into four categories: (i) compulsory levies in the form of taxes and certain types of social contributions; (ii) property income derived from ownership of assets; (iii) sales of goods and services; and (iv) other transfers receivable from other units.

Dimension 3.1. Aggregate revenue outturn

This dimension measures the extent to which revenue outturns deviate from the originally approved MEF GDP forecasts revenue using Elasticity Approach. This forecasting model[12] 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. GDP forecasts revenue in consultation with the GDT and GDCE for taxation revenue and with General Department of Subnational Administration Finance (GDSNAF) and General Department of State Property and Non-tax Revenue (GDSPNR) and General Department of Financial Industry (GDFI) for non-tax revenue and SNAs.

The Royal Government has launched the Medium-Term Revenue Mobilization Strategy (RMS) 2014-2018, aimed at strengthening current revenue collection and respond to development needs by strengthening tax and non-tax administration, improving revenue policy and institutional framework, and strengthening monitoring and evaluation. Through this effort, the current revenue growth significantly increased from 20.08% of GDP in 2017 to 22.07% of GDP in 2018 as well as higher target set by 0.5 percentage point of GDP in average. This is the result of the efforts made by the RGC to strengthen the customs, tax and non-tax administrations[13]. In 2019, the RGC has launched the RMS 2019-2023 to ensure the sustainability of economic growth, maintain revenue stability, ensure fair collection of revenues, ensure equity among taxpayers, and especially serve as a basis for the effectiveness of revenue collection management. The objectives of the RMS 2019-2023 are to modernize the tax and non-tax revenue administration and policy to ensure effective and efficient revenue collection, improve investment climate, orient investments, enhance competitiveness, and promote diversification of the national economy. The RMS 2019-2023 aims to achieve two main targets: (1) to annually increase the current revenue at least 0.3% of GDP on average, and (2) to improve service quality and productivity in providing all types of services regarding tax and non-tax revenue collection administration.

Regarding non-tax revenue collection, 23 LMs are responsible for collecting non-tax revenue growing at around 5% -10% annually and deviation within +/- 10% compared revenue outturn to estimation. Major non-tax revenue sources are from civil aviation, tourism activity, postal and telecommunications and casino, etc.

In the last three years from 2017 to 2019, customs and tax revenue contributed in average for 80% of the total domestic revenue, which GDCE shared 45% and GDT shared 35%. The growth of custom revenue is because of increasing of economic activities, especially import and export (domestic consumption and export support), and imports cover some essential commodities such as automobiles, oil and gasoline and construction materials. Tax revenue has shown a good performance due to strong economic growth and increasing tax compliance culture that contributed to growth of major tax categories, domestic VAT, tax on income, property tax and tax on salaries.

Table 3.7 presents the aggregate revenue outturn compared to the original approved budget for 2017, 2018, and 2019 including grants from Development Partners but not borrowing on concessional terms. On average, for the three years, tax revenues contributed 78.8% of total domestic revenues. Trade taxes

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[12] 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-payers compliance, and other one-off factors.

[13] Detailed reform of revenue administration is described under PI-19.

contributed the highest share of revenues – an average of 44.5% of total domestic revenues; tax is 34.3%. Other sources are from non-tax revenue (including capital revenue) which is 13.5%, C/P administrations (both tax and non-tax) for 6.9%, and grant for 0.8% in average for last the three fiscal years.

Table 3.7: Aggregate revenue outturn

KHR Billions	2017			2018			2019			% of total Revenue
	Budget	Outturn	Variance	Budget	Outturn	Variance	Budget	Outturn	Variance	
Revenue collected by GDCE	**7,309.0**	**7,634.5**	**104.5%**	**8,330.0**	**10,102.2**	**121.3%**	**9,094.0**	**12,897.4**	**141.8%**	**46.2 %**
Import duties	2,112.8	1,920.7	90.9%	2,075.2	2,303.1	111.0%	2,348.5	2,848.3	121.3%	
Export duties	49.3	45.5	92.3%	45.3	51.5	113.6%	49.5	48.8	98.5%	
Specific tax on some materials	2,280.0	2,880.9	126.4%	3,165.0	4,103.7	129.7%	3,152.0	5,347.2	169.6%	
Value added tax-VAT (Import)	2,829.4	2,776.4	98.1%	3,023.5	3,627.6	120.0%	3,531.0	4,637.3	131.3%	
Other tax	37.5	11.0	29.4%	21.0	16.3	77.7%	13.0	15.9	122.0%	
Revenue collected by GDT	**5,900.1**	**6,886.2**	**116.7%**	**6,745.6**	**7,193.8**	**106.6%**	**7,785.0**	**9,155.5**	**117.6%**	**32.8%**
Profit Tax	2,400.0	2,841.3	118.4%	2,872.0	3,354.3	116.8%	3,460.0	4,197.4	121.3%	
Salary Tax	620.6	677.5	109.2%	724.0	704.9	97.4%	870.0	847.8	97.5%	
Land and housing tax	256.0	279.5	109.2%	303.3	-	0.0%				
Specific tax on some materials (domestic)	780.0	795.1	101.9%	809.0	865.3	107.0%	985.0	1,130.5	114.8%	
Value added tax-VAT (Internal Regime)	1,745.0	2,159.9	123.8%	1,938.8	2,101.2	108.4%	2,370.5	2,772.8	117.0%	
Other tax	98.5	132.9	134.9%	98.5	168.1	170.7%	99.5	207.1	208.2%	
Revenue from C/P administra-tions	**956.5**	**1,043.6**	**109.1%**	**941.4**	**1,628.2**	**172.9%**	**1,393.1**	**2,163.5**	**155.3%**	**6.9%**
Non-tax revenue (Including capital revenue-domestic revenue)	**2,440.8**	**2,588.2**	**106.0%**	**2,564.6**	**3,045.4**	**118.7%**	**2,907.3**	**3,523.4**	**121.2%**	**13.5%**
Grants	**88.0**	**107.6**	**122.2%**	**125.0**	**280.2**	**224.1%**	**125.0**	**168.4**	**134.7%**	**0.8%**
Total Revenue	**16,694.4**	**18,260.1**	**109.4%**	**18,706.6**	**22,249.8**	**118.9%**	**21,304.4**	**27,908.2**	**131.0%**	**100%**

Source: MEF GDNT

The dimension is scored D because the total revenue outturn compared to approved budget was above 116% in two of the last three years. A higher score would require that aggregate revenue outturn be closer to the revenue forecasts in the approved budget.

Dimension 3.2. Revenue composition outturn

This dimension measures the variance in revenue composition during the last three years. This dimension attempts to capture the accuracy of forecasts of the revenue structure and the ability of the government to collect the amounts of each category of revenues as intended.

Overall, the variance of the aggregate revenue outturn to the approved budget was 9.7%, 9.0% and 11.8% for 2017, 2018 and 2019 respectively.

Table 3.8: Revenue composition outturn

Variance in revenue composition	Composition variance		
	2017	2018	2019
Composition variance	9.7%	9.0%	11.8%

The dimension is scored B as the variance in revenue composition was less than 10% in two of the last three years.

Table 3.9: Scores for PI-3

PI	Dimension	Score	Brief justification for score
PI-3	**Revenue outturn**	**C**	**Scoring Method M2**
3.1	Aggregate revenue outturn	D	Total revenue outturn compared to approved budget was 109.4%, 118.9% and 131.0% in 2017, 2018, and 2019 respectively.
3.2	Revenue composition outturn	B	Variance in revenue composition was 9.7%, 9.0% and 11.8% in 2017, 2018 and 2019 respectively, i.e lower than 10% in two of the last 3 years.

Box 3.3: Ongoing reform activities

The RMS 2019-2023 set policy and administrative reform for revenue collecting entities as follows:

- GDCE contains five strategic goals: (1) customs revenue collection efficiency, (2) compliance and law enforcement, (3) modernization of information technology systems and trade facilitation, (4) customs cooperation, and (5) human resource management and institutional development.
- GDT seeks to modernize its instructional and governance framework, core operational functions by improvements of: (1) operational efficiency, (2) voluntary compliance, (3) quality service, and (4) KPI-based monitoring and evaluation.
- Non-tax revenue entities:
  - Implementation of NRMIS for national and subnational administrations
  - The review and revision of the agreement, contracts and licenses
  - The extension of implementation new legal statute and financial procedures of PAE until the beginning of 2020 due to the lack of human resources at some entities and the procedures have not been seamless
  - Preparation of the draft Law on Non-Tax Revenue Management and rules and regulations under Law on State Property Management and Utilization.

PILLAR TWO: Transparency of public finances

Pillar II assesses whether information on PFM is comprehensive, consistent, and accessible to users. This is achieved through comprehensive budget classification, the transparency of all government revenue and expenditure including intergovernmental transfers, published information on service delivery performance, and ready access to fiscal and budget documentation.

Pillar II has six indicators:

- PI-4. Budget classification
- PI-5. Budget documentation
- PI-6. Central government operations outside financial reports
- PI-7. Transfers to subnational government
- PI-8. Performance information for service delivery
- PI-9. Public access to fiscal information

PI-4. Budget classification

This indicator assesses to the extent to which the government budget and accounts classification is consistent with international standards. There is one dimension for this indicator-dimension 4.1 Budget classification. The assessment is based on the last completed fiscal year i.e. FY2019.

In current Cambodia PFM System, the MEF issues Prakas on implementing 7 budget classifications and classifiers - (1) the economic classification, (2) the administrative classification, (3) the geographic classification, (4) the functional classification, (5) the program classification, (6) the project classification, and (7) the source of fund classification. These classifications are implemented in budget formulation, execution and reporting. Annual budget law consists of 6 annexes and annual budget settlement law is composed of 14 annexes that serve as a reference for government use of budget classification.

In practice, there are only 3 out of the 7 budget classifications (economic, administrative, and program classifications) that are fully implemented for budget preparation, budget execution and reporting, while other 4 budget classifications are used only for reporting purposes.

The economic classification is fully used in budget formulation, execution and revenue/expense reporting made by LMs, General Departments, and relevant entities at central and sub-national levels. The classification is divided into 4 levels namely: chapter, account, sub-account and group/type and it is shown in annex “A1 & A2” of the annual budget law, and in annex “B1, B2, B3, B4, C1, & C4” of the budget settlement law. The CoA has been updated and revised annually since 2007 in accordance with the international standards. It can produce statistics largely consistent with GFS 2001 as evidenced by the government reporting produced monthly based on GFS 2001 standards since 2011. For this purpose, a CoA - Table of fiscal and economic operations (TOFE) - GFS 2001 bridge table is produced and used to reconcile both government reports. The GFS implementation in Cambodia has been improving since last 2015 PEFA. GDP updated the bridging process between the new CoA to GFSM 2014[14] codes and is able to publish a Budgetary Central Government GFSM 2014 report (with detailed report and tables) also TOFE based.

The revised administrative classification was issued for implementation on 03 August 2017 to the execution of expenditure and revenue by entities at national and sub-national levels. At the national level, four digit- budget levels are used as LM-2 digits, general directorate under LMs/institutions-4 digits, C/P departments-3 digits, and department in city/province-5 digits. At the sub-national administration, 3

[14] GFSM 2014 is used to compile current fiscal statistics and it could capture both cash based and accrual-based accounting.

levels are used as C/P-3 digits, D/M-5 digits, and C/S-7digits. Per assessment, the administrative classification is used by level 1 and it shows in annex “B1, B2, C1 & C2” of the annual budget law and in annex “C2 & C3” of the budget settlement law.

The project classification was introduced on 07 September 2017 to illustrate the budget by projects of external and internal funding. It is fully used in budget formulation and reporting by line ministries. It shows in annex “C1” of the annual budget law and in annex “C3” of the budget settlement law.

The geographic classification was issued on 27 February 2015 and was revised on 22 May 2017. This classification is broken down to 3 levels – level (1) C/P-2 digits, level (2) D/M/K-4 digits, level (3) C/S-6 digits. This classification is shown in the budget settlement law (annex “C5”) at level 1 only.

The functional classification is used to illustrate the purpose of the expenditure by sector or sub-sector and has revised by Prakas issued on 11 October 2017. The functional classification has divided into 3 levels: function (division), sub-function (group) and sub sub-function (classes). In practice, only function (division) level at all LMs/institutions were used. This classification is based on four sectors (main functions) including general administrations, national defense, security and public order, social affairs and economy. Currently, functional classification is limited use since at subsubfuntion level is not comprehensive. This happens because of some challenges such as many clusters in subsubfunctions, allowance in one cluster activity, support program with appropriation more than 50% does not have clear function, often revised program structure, and coordination with LMs to capture functional classification is not smooth. Therefore, the implementation of the functional classification is not comprehensive and compliant with COFOG and serves to formulate and report on the distribution of expenditures by sectors or sub-sectors.

Table 3.10: Overview of the classification of the 2019 Budget

Categories	FY 2019			Remarks
	Budget formulation	Budget execution	Budget reporting	
Economic	yes	yes	yes	• It is used at national & subnational level. • 3 levels (Chapter, Account, Subaccount). • Annex “A1 & A2” of the annual budget law, and in annex. • Annex “B1, B2, B3, B4, C1, & C4” of the budget settlement law.
Administrative	yes	yes	yes	4 levels: level (1) LM-2 digits, level (2) general directorate under line ministries-4 digits, and level (4) line department in city/province-5 digits. It is used by level 1 and it shows in annex “B1, B2, C1 & C2” of the annual budget law and in annex “C2 & C3” of the budget settlement law.
Geographic	no	no	yes	This classification has 3 levels – 1. C/P, (2 digits), 2. D/M/K (4 digits), and 3. C/S (6 digits). It is currently used only level 1.
Functional	no	no	no	Only using 4 sectors (general administrations, national defense, security and public order, social affairs and economy)/functions i.e. not COFOG compliant.
Programmatic	yes	yes	yes	Coding structure is not consistent with GFS and produces GFS compliant information by means of a bridge table.

Categories	FY 2019			Remarks
	Budget formulation	Budget execution	Budget reporting	
Project	yes	yes	yes	It shows in annex "C1" of the annual budget law and in annex "C3" of the budget settlement law.
Source of Fund	no	no	no	It indicated the source of fund, government, and DPs.

The indicator is scored C because both budgeting and accounting classification of the budget are based on administrative and economic classifications using GFS 2001 standards since 2011. A higher score would require that a functional classification be consistent with COFOG and applied for budget formulation, budget execution, and budget reporting.

Table 3.11: Score for PI-4

PI	Dimension	Score	Brief justification for score
PI-4	Classification of the budget	C	The classification used for budgeting and accounting purposes in FY2019 was based on administrative, program and economic classifications using GSF 2001 standards since 2011.

Box 3.4: Ongoing reform activities

To stenthen comprehenshiveness of budget classification, the MEF will assess the quality of 7 budget classifications. This will contribute to improve quality of data.

PI-5. Budget documentation

This indicator assesses the extent to which annual budget documentation as submitted to the Legislature for scrutiny and approval allows a complete picture of central government fiscal forecasts, budget proposals and out-turn of previous years. The assessment is based on the last budget presented to the legislature i.e. for fiscal year 2020. There is one dimension for this indicator-dimension 5.1. Budget document.

The 2020 annual budget documentation is assessed to measure against the PEFA specified list of basic and additional elements in the table 3.12.

Table 3.12: Presentation of elements in budget documentation for 2020

No.	Elements	Score	Explanations
Basic elements			
1	Forecast of the fiscal deficit or surplus or accrual operating result.	Yes	Macroeconomic and fiscal policy framework (MFPF) include forecasts of the fiscal deficit and surplus are presented in the sent to the parliament.
2	Previous year's budget outturn, presented in the same format as the budget proposal.	Yes	Previous year's budget outturn is presented in the same format as the budget proposal in the summary table 1 "2020 national balance sheet". The figures are presented at the same aggregate level of revenue and expenditure and made comparison outturn and budget.

No.	Elements	Score	Explanations
3	Current fiscal year's budget presented in the same format as the budget proposal.	Yes	Current fiscal year's budget is presented in the same format as the budget proposal in the summary table 1 "2020 national balance sheet" of H.E.Dr. Deputy Prime Minister's speech. The figures presented the same aggregate level of revenue and expenditure comparison.
4	Aggregated budget data for both revenue and expenditure according to the main heads of the classifications used, including data for the current and previous year with a detailed breakdown of revenue and expenditure estimates. (Budget classification is covered in PI-4.)	Yes	Aggregated budget data presented in the same main administrative classification used with a detailed breakdown for the previous year and current year.
Additional elements			
5	Deficit financing, describing its anticipated composition.	Yes	Deficit financing is described and the intended three types/sources for deficit financing used by government: foreign financing, budget support fund and government deposits.
6	Macroeconomic assumptions, including at least estimates of GDP growth, inflation, interest rates, and the exchange rate.	Yes	Macroeconomic assumptions are summarized in the annual MFPF 2020 and budget statement to National Assembly.
7	Debt stock, including details at least for the beginning of the current fiscal year presented in accordance with GFS or another comparable standard.	No[15]	Debt stock is not presented in the budget document. However, the MEF prepared debt bulletin that published twice per year on its website. https://mef.gov.kh/public-debt-bulletin.html
8	Financial assets, including details at least for the beginning of the current fiscal year presented in accordance with GFS or other comparable standards.	No	It does not show information on cash balances and long-term obligations. Currently, GDNT prepared the International Public Sector Accounting Standards (IPSAS) cash basis report shows the status of financial assets and GDP prepared in-year budget execution by follow the GFS, which is available on website of MEF https://mef.gov.kh/economic-finance-statistic-bulletin.html
9	Summary information of fiscal risks, including contingent liabilities such as guarantees, and contingent obligations embedded in structure financing instruments such as public-private partnership (PPP) contracts, and so on.	No	There is no fiscal risk analysis that will be included in MTFF.
10	Explanation of budget implications of new policy initiatives and major new public investments, with estimates of the budgetary impact of all major revenue policy changes and/or major changes to expenditure programs. In this element, for all major revenue	No	The budget documentation does not include specific and quantified estimates of the policy changes and initiatives, however, the annual budget statement (speech of the Deputy Prime Minister to National Assembly) on the annual budget proposal includes a narrative providing some explanation on new budget orientations but

[15] It should be noted that this information is nevertheless available in the 9th published Cambodian Public Debt Bulletin, issued on March 25, 2019. The MEF prepares the debt report twice per year, which are submitted to Legislative body.

No.	Elements	Score	Explanations
	policy changes and/or major new public investments, assessors may cross check references with indicators PI-15 and PI-11.		it does not specify the quantitative impact of new policies
11	Documentation on the medium-term fiscal forecasts. In this element, the content of the documentation on the medium-term forecast should include as a minimum medium-term projection of expenditure, revenue, and fiscal balance.	Yes	Documentation on the medium-term fiscal forecasts is summarized in the DPM's speech as well as MFPF to legislative body. It is published on the MEF's website[16].
12	Quantification of tax expenditures. In this element, tax expenditures refer to revenue foregone due to preferential tax treatments such as exemptions, deductions, credits, tax breaks, etc.	No	Tax expenditures are not calculated.

This indicator is scored B as all four basic elements and three additional elements of budget documentation are met. A higher score would require that budget document fulfills at least 10 elements.

Table 3.13: Score for PI-5

PI	Dimension	Score	Brief justification for score
PI-5	Budget documentation	B	Four basic documents and three additional elements were included in the 2020 budget submission.

PI-6. Central government operations outside financial reports

This indicator measures the extent to which government revenue and expenditure are reported outside central government financial reports. The assessment covers the last completed fiscal year. It contains the following three dimensions and uses the M2 (AV) method for aggregating dimension scores:

Dimension 6.1. Expenditure outside financial reports
Dimension 6.2. Revenue outside financial reports
Dimension 6.3. Financial reports of extrabudgetary units

All revenue and expenditures by budgetary entities and externally funded projects and activities are all reported in central government financial reports. Various LMs/institutions are authorized – through specific inter-ministerial *prakas* signed between MEF and the respective LM - to collect their own non-tax revenues. Revenues collected by budgetary institutions such as LMs are paid directly to GDNT and included in government fiscal reports, except for the MoEYS which collects school fees. This own revenue collected by budgetary institutions cover all types of fees such as tuition, medical services, aviation services, tourism, telecommunication, TV and radio licenses, visas as well as dividends, concessions and fines or penalties. Altogether, the consolidated and reported amount of the non-tax revenue collection from government budgetary institutions (including capital revenue) for 2019 amounts to KHR 285 billion corresponding to 13.5% of total RGC revenue. Moreover, the General Inspectorate Department of the MEF and LMs/institutions financial controllers and Internal Audit units are responsible to verify the recording of these revenues into the TSA and accounts.

[16] Link to macroeconomic and fiscal policy framework: https://mef.gov.kh/documents/mustsee/Macroeconomic_and_Fiscal_Policy_Framework_2020-2022.pdf

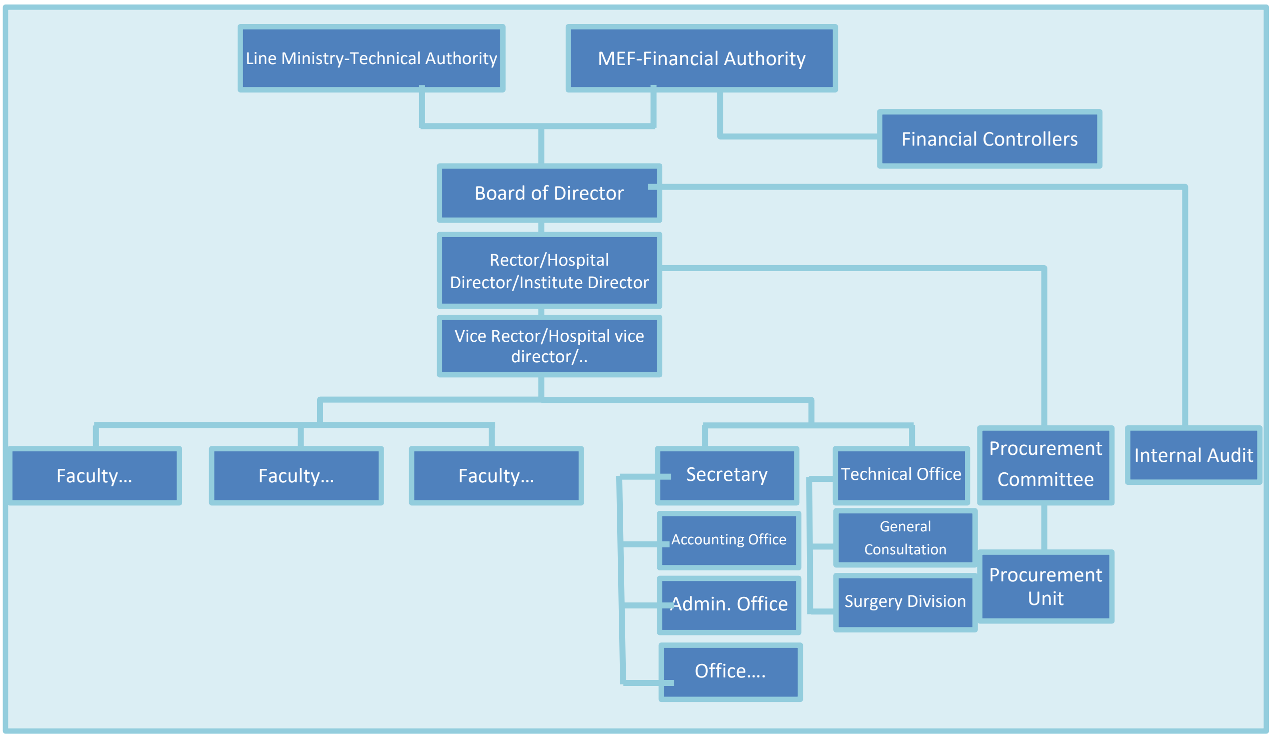
Article 49 of Royal Decree no.0518/590 instructs that all public institutions earning income from regular sources (e.g. tuition fee, health service fee, etc.) must be established as a PAE. PAEs that receive sufficient revenues and no longer need a state subsidy due to providing services with commercial and competitive characteristics comparable to private sector entities must be transformed to the PEs.

Unreported revenues and expenditures can therefore be incurred by extrabudgetary units, known as PAEs. The regime of PAEs is governed by the Law on Public Finance System (2008) and the Royal Decree (2015) on the Legal and Regulatory Frameworks for PAEs establishes rules and regulations for PAEs.[17] PAEs receive subsidies from the CG state budget and collect their own revenue. They are fully integrated into the state budget cycle and are following the same budget and reporting process as their associated LMs/ or umbrella institutions. Budget authority is delegated to them based on agreements between the head of LMs/institutions and PAEs. Article 6 of Royal Decree no. 0518/590 states that all PAEs shall be established through Royal Decree or Sub-Decree based on the proposal of the technical LMs, institutions and the MEF. Article 26 assigns the head of the PAEs as the delegated budget authority from the ministers of the umbrella LMs.

Article 32 defines that PAEs' budget, with any state subsidy, shall be recorded in the treasury single account (TSA) with exemption to be approved by MEF, whereby PAEs can open and use one or more commercial bank's accounts to manage the revenue from their activities or other sources of fund. PAEs' accountants shall be recognized by prakas of MEF and MEF assigns one financial controller to each PAE.

In 2019, there are 28 PAEs, of which 9 PAEs are under MoH, 4 PAEs are under Ministry of Culture and Fine Arts, 2 PAEs are under Ministry of Education, Youth and Sport, 5 PAEs are under Ministry of Agriculture, Forestry and Fisheries, 2 PAEs are under Ministry of Labour and Vocational Training, 3 PAEs are under Ministry of Social Affairs, Veterans and Youth Rehabilitation, and 1 each PAE is under CoM, Ministry of Tourism, and Ministry of Defense.

Diagram 3.1: Example of the structure of a PAE under MoH



[17] Royal Decree no. 0518/590, dated 28 May 2018, on the Amendments to the Royal Decree on the Legal and Regulatory Frameworks for PAEs.

Dimension 6.1. Expenditure outside financial reports

This dimension assesses the magnitude of the expenditures incurred by budgetary and extra-budgetary units (including social security funds) that are not reported in the government financial report. Such expenditures may include expenditures from fees and charge collected and retained by budgetary and extra-budgetary units.

As in PEFA 2015, for MoEYS is the only budgetary entity and LM with unreported revenue as government schools collect various revenues based on local school's board decisions to cover for the school operations outside the school grant cash transfers (school feeding program, land rent, etc.). This revenue is collected directly by each school and not reported through the MoEYS financial reporting systems. It is estimated by MoEYS that the amount concerned represents less than 1% of the RGC expenditure[18]. On the other hand, MoH collect also own revenue but monitors service fees collected by all the government hospitals, health posts and clinics (not PAEs), which fees are regulated in consultation with community and local authorities and which expenditure allocation is governed by an inter-ministerial *prakas.*

Other collected revenues and expenditures are estimated to be all reported in the RGC's financial reports, including funds from externally-funded projects and activities, which are estimated in RGC's budget.

PAEs are required to report to MEF and to their respective LMs and should submit their budget execution report to GDB FAD and financial reports to GDNT on a monthly basis. When PAEs comply, they report only on the actual expenditure against the CG's subsidy received via GDB FAD and do not generally report on expenditure against their own revenue, as these expenditures are not allocated by the central government.

However, the full amount of these unreported expenditures is submitted to MEF through the annual budget process and includes planned and actual expenditures from own revenue. This information is processed by GDB FAD and consolidated in an internal table with a breakdown of all revenue received by PAEs and corresponding expenditure by economic classification. From this table, the assessment team could estimate in Table 3.14 below the estimated expenditure outside the government financial report, amounting to less than 3 percent of total budget of central government.

Table 3.14: Size of expenditure outside financial reports in 2019

Description (Unit: KHR billion)	Actual expenditure
Expenditure of PAEs' budget (I)	822.2
Subsidy from CG	1,140.5
Actual expenditure of CG	29,694.4
% of (I)/CG	2.8%

Source: GDB FAD's budget execution reports of 28 PAEs in 2019

This dimension is scored B as unreported expenditure and expenditure from budgetary (MoEYS for less than 1%) and extra-budgetary units, or PAEs' expenditure (for 2.8%), outside CG's financial reports represent less than 5 percent of total budget of central government expenditure. A higher score would require that PAEs and MoEYS report all expenditures from own sources to MEF GDB and GDNT.

Dimension 6.2. Revenue outside financial reports

This dimension assesses the magnitude of revenues received by budgetary and extra-budgetary units (including social security funds) that are not reported in the government's financial reports.

Some PAEs received their revenue from externally financed donor-funded projects, and collect fees and charges outside amounts approved by the central government budget, but these are not reported in the central government financial reports. However, during the annual budget formulation, PAEs incorporated

[18] From MoEYS source and financial reports (same as PEFA 2015).

all sources of revenue and total expenditures and submit to the MEF for budget negotiation. Table 3.15 shows that revenue collection outside financial reports by PAEs is estimated at 3.8 percent of total revenue outturn of central government. As mentioned above it is estimated that MoEYS government schools collect various fees and charges for less than 1 percent of the CG's revenue.

Table 3.15: Size of revenue outside financial report

Description (Unit: KHR million)	Actual revenue collection
Actual revenue collection by PAEs (i)	1,061.4
Subsidy from CG	1,141.5
Actual revenue collection of CG	27,908.2
% of revenue collection by PAEs (i)/ CG	3.8%

Source: GDB's Report of revenue of 28 PAEs (2019)

This dimension is scored B as PAEs' (for 3.8%) and budgetary entities' (MoEYS for less than 1%) revenue outside financial reports represent less than 5% of total CG revenue. A higher score would require that PAEs and MoEYS report all types of revenue sources to MEF GDB and GDNT.

Dimension 6.3. Financial reports of extra-budgetary

This dimension assesses the extent to which ex-post financial reports of extra-budgetary units are provided to central government.

PAEs must submit three types of reports[19] to the MEF, namely budget execution report, performance report, and financial report.

PAEs' budget execution reports provide an analysis on budget execution by economic and/or program classification on a monthly, quarterly, semester and annual basis, in compliance with the template report of PAEs. The PAEs' reports show the results achieved in fiscal year compared with the performance in previous years. These reports are submitted to GDB FAD on monthly basis.

PAEs' financial reports provide information on the financial status of PAEs at a specific time. Financial reports include balance sheets (assets, liabilities), revenue and expenditure reports (result reports), and other necessary information determined by the MEF. However, these financial reports are not submitted to GDNT.

PAEs' performance reports describe progress achieved against the policy objectives and results by program, sub-program, or activities. PAEs send performance reports to LMs as technical authority.

Although some PAEs are voluntary implementing the new procedure, few of them has yet submitted the comprehensive reports compliant with template of the MEF. Some of them still implement their own accounting system and face challenge related to limited capacity to prepare financial report; as a result, the MEF is not able to consolidate of financial reports.

This dimension is scored D because the majority of PAEs have not submitted financial reports to GDNT; however, they submitted monthly budget execution reports to GDB FAD. A higher score would require that all PAEs provide detailed financial reports and submit to GDNT in a timely manner.

[19] Prakas no. 171 MEF.PrK, dated on 16 April 2017, on Procedures of Budget Execution of PAEs.

Table 3.16: Scores for PI-6

PI	Dimension	Score	Brief justification for score
PI-6	**Central government operations outside financial reports**	**C+**	**Scoring Method M2**
6.1	Expenditure outside financial reports	B	PAEs' and MoEYS' expenditure outside financial reports is estimated at less than 3.81 percent, i.e. less than 5 percent of central government expenditure for 2019.
6.2	Revenue outside financial reports	B	PAEs' and MoEYS' revenue outside financial reports represent less than 4.8 percent of total CG revenue.
6.3	Financial reports of extrabudgetary	D	Most PAEs did not submit their financial report to GDNT as requested for 2019.

Box 3.5: Ongoing reform activities

By 2020, all PAEs will have to compulsorily comply with the new financial procedure. The detailed instruction for budget preparation and execution for PAEs will be included the budget circular. To improve financial management PAEs are required for using FMIS Phase 3.

PI-7. Transfers to subnational administrations

This indicator assesses the transparency and timeliness of transfers from central government to SNAs with direct financial relationships to it. It considers the basis for transfers from central government and whether SNAs receive information on their allocations in time to facilitate budget planning. This indicator is assessed by two dimensions using the M2 (AV) method to score:

Dimension 7.1. System for allocating transfers
Dimension 7.2. Timeliness of information on transfers

SNAs refer to three different levels: C/P administrations as level 1, D/M/K administrations as level 2, and C/S administrations as level 3 and all levels are administered by different councils[20]. Level 2 exclude D/M administrations are allocated through the MEF and C/S budget is under coordination of C/P administrations.

The councils of D/M and C/P administrations are entitled to earn revenue from the three major sources, including local, national and other sources that required by law or related legal documents. The councils of C/S have budget to perform C/S' functions and duties within the capital and municipal budgets.

Dimension 7.1. System for allocating transfers

This dimension assesses the extent to which transparent, rulebased systems are applied to budgeting and the actual allocation of conditional and unconditional transfers.

The horizontal allocation to SNAs is determined by the 3 sub-decrees for both unconditional and conditional transfers (1) sub-decree on the conditional financial transfer to subnational, (2) sub-decree on the financial transfer to municipal/district level, and (3) sub-decree on the financial transfer to C/S level.

[20] Article 4 of Law on Public Financial System (2008)

The MEF has established six fiscal transfer instruments as foreseen in the NP-SNDD: a D/M Fund, a formula-based provincial transfer mechanism, a C/S Fund, a SNIF, tax sharing (introduced gradually), and in 2020 conditional grants are being envisaged which had been piloted on a limited scale so far.

- **The C/P budgets** consist of own-source revenue (tax and non-tax sharing) and a transfer from the State Budget based on a formula. Transfers can be used for both recurrent and capital expenditures. The formula-based transfer however is due to be replaced by 2021 by an increase in tax/non-tax revenue.
- **The D/M Fund** was established in 2017. It provides unconditional grants to districts and municipalities through a formula based on population size, poverty index, and number of C/S. Grants can be used for both recurrent and capital expenditures. A Sub-Decree of April 2018 increases gradually the national budget allocation[21] to the D/M Fund from 1.0% of domestic revenues in 2018 to 1.5% in 2023.
- **The C/S Fund** was established in 2002. It provides unconditional grants to C/S through a formula based on population size, poverty index, and number of villages. The C/S Fund will receive 3.1% of national current revenues in 2020, and this share will gradually increase to 3.4% by 2023. In addition, a C/S Investment Fund was established in 2019, with resources coming from the State Budget (1% of national revenue) and 4% of the provincial tax and nontax revenue.
- **The SNIF[22]** has been established by Sub-Decree in February 2016 to finance priority investment projects in SNAs (Districts have 3-year rolling investment plans). The SNIF Secretariat is operational since May 2017. Guidelines for project preparation and performance assessment have been developed and approved by the MEF and NCDDS, the latest in June 2019, and a training programme implemented in about 60 districts every year. The first financing operations were implemented in 2018. 36 districts have received SNIF financing since then. A percentage of the national budget was allocated to the SNIF: 0.06% in 2019 (approximately USD 1.5 million). Additional funding has been provided by ADB since 2018, so far only for administrative support to the SNIF Secretariat.
- **Tax and non-tax revenue sharing arrangements between national and SNAs**. MEF is gradually introducing revenue sharing arrangements through a series of Prakas, one of which approved in 2017 sharing the product of eight taxes from provinces to D/M and C/S, effective as of Budget 2018. 4% of the revenue pool is shared between D/M, and 1% between C/S. In what represents a remarkable increase of funds available to SNAs, this latter percentage will be raised to 4% as of 2020, and gradually up to 5.5% by 2023. The allocation among them is based on a formula (50% equal share, 50% based on population). Funds can only be used for investment projects.
- **Conditional grants**: In addition to the above, SNAs are to receive specific-purpose grants to cover the costs of functions assigned or delegated to them, or for special projects. Until 2019 however, functional transfers have only occurred for very limited public services such as orphanages and waste management. A Joint Prakas of MoI, MoH and MEF was approved on 25 February 2020 to fix the modalities of the conditional grants to provincial administrations for the health sector. In addition, a Sub-Decree of December 2019 endorsed the transfer of all Line Ministries' district offices staff to the D/M.

The horizontal distribution is determined by a formula specific to each level of SNA as follow:

[21] In percentage of domestic revenue budgeted for the year during which the next year budget is being prepared.

[22] SNIF selects the eligible districts for funding in a given year. Selection is based on the annual performance assessments of districts to identify eligible SNAs under the SNIF and so project areas may therefore vary from year to year. This fund is not equally distributed among SNAs based on the level of their eligibilities.

C/P administrations:

- C/P administrations receive three sources of revenue from central government including shared revenue, fund transferred and fees as an agent of their own ministry.
- Shared revenue is the revenue that are shared between central government and related SNAs. Types of the revenue and the distribution ratio are determined by law or sub-degree through a request of MEF after having agreement with MoI.

D/M administrations:

- D/M fund divided into two components: General Administrative Operations and Local development.
- General Administrative operation component consisted of two packages. First package was allowances and salaries of D/M councilors and officials. Second package was operational expenditure which was not more than 25% of total D/M fund minus first package. The operation resource was calculated and allocated on formula basis of 40%-equal share, 30%-number of councilors, 30%- number of D/M officials.
- Local development component was the residual of total D/M fund minus the resource of General Administrative operation component. The resource of D/M local development component was calculated and allocated on a formula basis of 40%-equal share, 20%-population, and 40%-poverty index.

C/S administrations:

- C/S fund divided into two components: General Administrative Operations and Local development.
- General Administrative Operations component consisted of two packages, first package was allowances of C/S councilors and village officials and second package was operational expenditure which was not more than 17% of total C/S fund minus first package. The operation resource was calculated and allocated on formula basis of 35%-equal share and 65%-number of councilors.
- Local development component was the residual of total C/S fund – resource of admin component. The resource of C/S local development was calculated and allocated to each C/S on formula basis of 30%-equal share, 30%-population, 30%-poverty index and 10%-number of villages.

Transfer of the subsidy takes place in four quarterly instalments of equal size, 25% each. The first installment is transferred in first week of the fiscal year. Subsequent transfers take place upon submission of an expenditure report for the previous quarter by the C/S to the C/P administrations[23].

Table 3.17: Composition of transfer of three levels of SNAs (KHR million)

Fund transfers	2019		% of total actual
	Budget	Actual	
Revenue of C/P administrations			
Taxes revenue transfer from central	1,352	2,114	65%
Nontax revenues	33	40	1%
Formula-based unconditional transfers from central level (D/M Fund)	204	1,087	33%
Conditional transfers from central level (including SNIF)	1	4	0.10%
Total	**1,590**	**3,244**	**100%**
Revenue of D/M/Khan administrations			

[23] There is flexibility for SNAs. Subsidy to referral hospitals takes place once a year, and fund transfer to public schools (kindergartens, building, teacher training college) take place twice a year.

Fund transfers	2019		% of total actual
	Budget	Actual	
Nontax revenues	15	33	13%
Formula-based unconditional transfers from central level (D/M Fund)	237	191	77%
Conditional transfers from central level (including SNIF)	8	18	8%
Conditional and unconditional transfers from province and Phnom Penh (which directly funds its Khans)	6	6	2%
Total	**260**	**242**	**100%**
Revenue of C/S administrations			
Conditional and unconditional transfers from district, municipality and khan administrations.	14	14	4%
Formula-based unconditional transfers from central level (C/S Fund)	288	288	96%
Total	**301**	**301**	**100%**

Source: MEF GDSNAF

More than 90% of the transfers are horizontally allocated across SNAs allocated from central government with transparent and rule-based systems. This dimension is scored A.

Dimension 7.2. Timeliness of information on transfers

This dimension assesses the timeliness of reliable information provided to subnational governments on their allocations from central government for the coming year.

Every year the MEF issues circulars on both BSP and annual budget formulation set out the main steps of the budget calendar[24] for local budget formulation. Only C/P administrations prepare BSP and annual budget while D/M and C/S administrations prepare only annual budget.

SNAs' annual budgets are prepared based on expected annual growth of current revenues from central government transfers and own source revenues, local development priorities, as well as any expected salary increases and net increase in the number of personnel.

The Governor submits to the MEF by July 15. The MEF consolidates the budget plans of the SNAs for each year. In the whole month of August, the MEF conducts the legality of SNAs' budget with participation by representative of MoI, NCDDS and related general departments of MEF, Governors of SNAs. In the process of conducting budget reviews, MEF GDSNAF checks on the following principles:

- the budget plan is prepared according to the defined budget classification format, formality and procedures.
- the process of budget preparation is participated by public and other stakeholders.
- appropriation plan is based on the mandatory expenditures.
- the budget plan is prepared in line with the conditions set for the utilization of resources from specifically defined sources
- a balance is guaranteed between revenues and expenditures.
- there have a discussion and approval of budget plan in a public meeting of the local council.

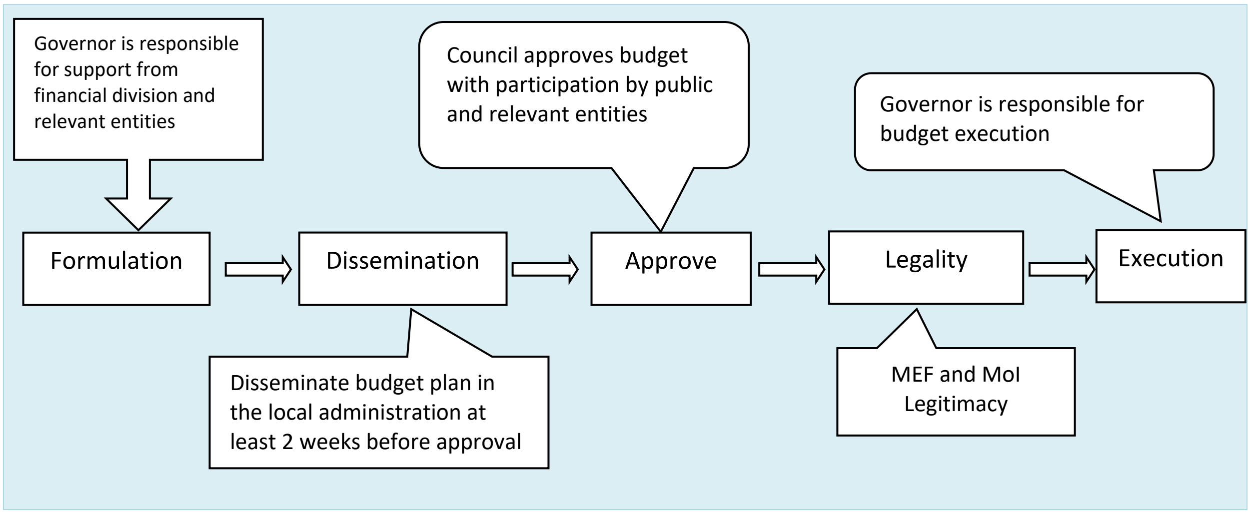
In the event that the MEF or the delegated authority finds any SNAs' budget plans to deviate from the above principles of legitimacy, they shall revise and inform the governors of the SNAs in writing to revise

[24] Article of the Law on Financial Regime and Property Management for SNAs (2011)

their budget plan.

The process of budget approval of SNAs takes place from October to December. The MEF submits the finalized budget of SNA to the Cabinet for review and decision in the first week of October. Therefore, budget planning of the SNAs needs to be consolidated and sent to the MEF by 15 August for the latest.

Diagram 3.2: Summary budget approval process



In order to prepare the budget planning, SNAs need the information on annual allocation from central government well in advance of the completion of their own budget-preparation processes. There are three main types of budget transferred from central government to SNAs including Fund transferred from central government, tax and non-tax revenue allocation, and SNIF.

- **Fund transferred**: According to the Law [25], The Minister of the MEF shall prepare the circular on technique of Budgeting specifying the procedures for budgeting and related documents to be attached and sent to the SNAs to prepare their revenue and expenditure within the first week of June. In practice, the circular is attached with preliminary budget allocation and budget meeting schedule to all SNAs. In 2020, the MEF issued a Circular no.005 to all SNAs on June 25, 2020 and attached with letter of preliminary budget and meeting invitation letters to all SNAs. Therefore, SNAs received information of their annual transfers more than six weeks to complete their budget planning before submitting to the MEF (by 15 August for the latest).
- **Tax and nontax revenue allocation**: The information of these revenue allocations only transfer to capital and provincial administrations in advance. The information of these allocation is the preliminary budget attached with the circular that the MEF shared within the first week of June. In this regard, the duration to prepare this budget plan is at least six weeks before submitting to the MEF (by 15 August for the latest). D/M and C/S administrations are not required to prepare and submit this budget plan to the MEF due to the avoidance of duplication with the preparation of capital and provincial administration. However, D/M and C/S administrations are informed about these revenue allocations during August or September for them to prepare their action plan.
- **SNIF**: All SNAs are not required to prepare and submit this budget plan to the MEF. The fund will transfer to the selected eligible districts after the budget law is approved. Therefore, there is no

[25]Article 35 of Law on Financial Regime and Asset Management of Sub-National Administrations (2011).

information provided in advance of payment but the SNIF transfers represent less than 1% of total transfers from CG to SNAs.

This dimension is scored A because SNAs receive information all their annual transfer fund at least six weeks through regular budget calendar before SNAs complete their annual budget preparation.

Table 3.18: Scores for PI-7

PI	Dimension	Score	Brief justification for score
PI-7	**Transfers to Subnational administrations**	**A**	**Score Method M2**
7.1	System for allocating transfers	A	SNAs' budgets are allocated from central government with transparent and rulebased systems.
7.2	Timeliness of information on transfers	A	SNAs receive information on annual transfer fund at least six weeks through regular budget calendar before SNAs complete their annual budget preparation.

Box 3.6: Ongoing reform activities

Subnational BSRS 2019-2025 indicates a significant development with broad agenda for actions, including:

- Preparation of "integrated BSP" integrating subnational strategic budget planning processes inclusive of the three SNA tiers and deconcentrated LMs' C/P line departments through coordination mechanisms at C/P level ("technical committee", chaired by Governor and coordinated by capital/ provincial departments of MoP, with representation from each LM C/P department)
- Supporting implementation of more results-based program budgeting framework for consolidated subnational spending, including both budget planning and reporting
- Extending implementation of FMIS to C/P administrations (by 2022) and the use of functional and program budget classification segments among SNA tiers
- Implementing delegation (over a medium-term horizon) of responsibilities for financial management and control to C/PDEF and C/P Treasuries.

PI-8. Performance information for service delivery

This indicator examines the service delivery performance information in the executive's budget proposal or its supporting and documentation in year-end reports. It determines whether performance audits or evaluations are carried out. It also assesses the extent to which information on resources received by service delivery units is collected and recorded. It contains the following four dimensions and uses the M2 (AV) method for aggregating dimension scores:

Dimension 8.1. Performance plans for service delivery
Dimension 8.2. Performance achieved for service delivery
Dimension 8.3. Resources received by service delivery units
Dimension 8.4. Performance evaluation for service delivery

Five LMs are assessed as Service Delivery line ministries and covered under this indicator: (1) Ministry of Education, Youth and Sport (MoEYS), (2) MoH, (3) MPWT, (4) Ministry of Agriculture Forestry and Fisheries (MAFF), and (5) Ministry of Rural Development (MRD). The performance information available on service delivery sectors can be extracted from the BSP, the 5-year plan and medium-term budget plans for 2019, providing details on the key performance indicators and planned outputs and outcomes of service delivery spending, disaggregated by programs or by functions. The BSPs' and LMs sector strategies' performance frameworks are aligned.

Ministry of Education, Youth and Sport

To respond to the vision of Cambodia's socio-economic development and the National Development Strategic Plan, MoEYS develops Education Strategic Plan (ESP) with two main education policies: (1) To ensure inclusive and equitable quality education and promote life-long learning opportunities for all; and (2) To Ensure effective leadership and management of education officials at all levels. The ESP is a five-year comprehensive plan for each education sub-sector and the current ESP is for the period 2019-2023. The ESP has spelled out the specific sub-sector objectives and strategy for its seven sub-sectors in line with the main education policy objectives. The seven sub-sectors include Early Childhood Education, Primary Education, Secondary Education, Higher Education, Non-Formal Education, Youth Development and Physical Education and Sport. The PFM reform agenda of the RGC also forms part of the MoEYS reforms which cut across all sub-sectors. The MoEYS's PB structure is based on five programs. The 5-program classification has a semblance of a sub-sectoral classification. The sub-program under each program refers to central departments of MoEYS; thus, it reflects the administrative structure of the Ministry. Program budget at SNAs which is under the budget of the C/P Office of Education (C/POE) is lumped sum under a different sub-program under each relevant program.

Ministry of Health

The MoH has mandated to "lead and manage the whole health sector", including public health and governance on private health. The framework of the health sector development has a policy objective "Improved health outcome of people and increase financial risk protection in accessing health service". Strategic Health Plan 2016-2020 aims to "sustain and improve access to healthcare services and coverage of services, mainly focusing on improvement of service quality in all geographical areas and increase prevention of financial risk in access to health services needed by people that have different socio-economic status". MoH's BSP and PB are structured into 4 programs and 22 sub-programs.

Ministry of Public Work and Transport

The MPWT is responsible for construction and maintenance of roads, bridges, sewage systems, solid waste treatment systems, ports, railways, and waterways. Additionally, the ministry provides services related to vehicle registration and technical inspections, driver's licenses, and transport licensing. MPWT's BSP and PB structures include one policy objective and two programs, namely Program 1 consists of 7 sub-programs and Program 2 consists of 5 sub-programs with total 39 KPIs.

Ministry of Agriculture Forestry and Fisheries

The agricultural development policy aims to promote the agricultural sector as a leading sector for economic growth. To achieve the strategic goals and priority areas of the RGC, the MAFF's policy strategic goals cover contribution to growth, employment, equity and efficiency to achieve poverty reduction goals and improve people's living standards. To achieve the above priority policy objectives and strategies, the MAFF developed 5 programs, and 35 sub-programs with total 13 KPIs.

Ministry of Rural Development

Since 2014-2018, the MRD has been designed the long-term vision to eliminate maximized rural poverty and promoted rural economic similar to urban by 2025. Hence, the MRD set up two policies; namely, (1) Ensure improving rural livelihood to be reach urban by 2025; (2) Promote rural economic through integrating rural development participatory by national and international communities. These policies consist of three programs.

The summary of performance data on planned SD is available under table 3.19.

Dimension 8.1. Performance plans for service delivery

This dimension assesses the extent to which key performance indicators for the planned outputs and outcomes of the programs or service that are financed through the budget are included in the executive's budget proposal or related documents. BSP is a 3-year rolling budget plan and serves as a basis for the assessment of this dimension.

Both MoEYS and MoH set output and outcome indicators and targets to monitor the progress and performance of the implementation of programs, sub-programs, and each policy objective and also define the implementer/entities for taking responsibility by programs and sub-program.

The MoEYS has developed 5 main programs and 48 sub-programs to ensure the connection of the education policy of the youth and sport sector with the budget planning and performance reporting. The BSP is broken down by program for recurrent, wage, non-wage, and capital investment and costed for the categories of expenditure for national and sub-national levels. The financing requirements for implementation of all five programs for three years is available.

The MoH's four programs are (1) Reproductive, youth, maternal, newborn and child health and nutrition, (2) Communicable disease control, (3) Non-communicable disease control and other public health issues, and (4) Health system strengthening subdivided into 23 sub-programs. The BSP budget costings are presented at sub-program level only, except for provincial level budgets which are presented at activity level (replicating the sub-program structure. Each sub-program and activity budget provide wages and non-wages cost with additional amounts for investment projects (capital) and technical assistance (ODA) projects[26]. Indicators and targets are well defined for the health sector and reflect long-term national and international commitments. Shorter-term indicators and goals are derived from long-term goals.

The MPWT's two programs are defined but broadly, each containing elements of the wide range of objectives and services the ministry is responsible for delivering—across sectors and sub-sectors, according to EU's evaluation report-2020. Programs and sub-programs are not titled clearly, and mostly have no indicator and planned performance.

The MRD has been developed strategic goals and policies for the Rural Development Five-Year Strategic Framework 2019-2023 by changed policy to" Improve quality and value of left of the rural people inclusiveness in economic, social, and culture "to contribute to the implementation of sectoral policies, the Royal Government's overall policy for employment growth, equity and efficiency to achieve poverty reduction goals and improving better livelihoods of rural people. The MRD's strategic framework consists of 4 programs, 21 sub-programs, 175 activities, 700 actions and 24 KPIs[27].

Table 3.19: Performance data on planned service delivery (2020)

Ministry	Budget Allocation (2020) Unit: KHR Million		Performance data for planned service delivery (SD) Program					
	Total	Service Delivery (SD) Program	No. of SD program	SD Program Objective Y/N and number	Perfor-mance Indicators	Planned Performance		
						Outputs	Outcomes	Activities
MoEYS	3,207,220.0	3,207,220.0	5	Yes -5	Yes - 5	Yes - 5	Yes - 4	Yes - 198
MoH	1,636,498.0	1,636,498.0	4	Yes - 4	Yes - 4	Yes - 4	Yes - 4	Yes - 207
MPWT	406,902.0	286,474.0	1	Yes - 1	No - 0	No - 0	No - 0	Yes - 47

[26] MoH's BSP and PB analysis report-February 2020, page 4.
[27] MRD's BSP 2020-2022

Ministry	Budget Allocation (2020) Unit: KHR Million		Performance data for planned service delivery (SD) Program					
	Total	Service Delivery (SD) Program	No. of SD program	SD Program Objective Y/N and number	Perfor-mance Indicators	Planned Performance		
						Outputs	Outcomes	Activities
MAFF	283,076.0	49,068.20	2	Yes - 2	Yes - 2	Yes - 2	Yes - 2	Yes - 83
MRD	196,723.0	136,796.50	3	Yes - 3	Yes - 3	Yes - 3	Yes - 3	Yes - 127
Total	**5,730,419.0**	**5,316,056.7**						
% of SD LMs compliant by value				**100%**	94.6% (5,029,582.7/ 5,316,056.7)	**94.6%**	94.6% (5,029,582.7/ 5,316,056.7)	**100%**

Source: BSP 2020-2022

This dimension is scored C because performance information on activities by SD LMs is available for most (94.6%) of LMs but only 3 LMs published it annually on their respective websites, namely, MoEYS, MRD and MAFF, representing 64% of all Service Delivery LMs. A higher score would require that most LMs publish their BSP and PB based on clear KPIs and targets of outputs and outcomes.

Dimension 8.2. Performance achieved for service delivery

This dimension examines the extent to which performance results achieved for outputs and outcomes are presented either in the executive's budget proposal or in an annual report or other public document, in a format and at a level (program or unit) that is comparable to the plans previously adopted within the annual or medium-term budget.

Article 23 of Prakas no. 1282 MEF.PrK, dated 27 October 2016, on Budget Authority, Responsibilities and Procedures of Implementing the Program Budget states that performance report shall reflects of the measurement of results and the assessment of the progress of implementation of cluster activities, sub-programs, or programs of budget entities to contribute to achieve policy objectives of LMs and institutions. Budget entities of LMs/institutions must monitor the progress of implementing their own budget and outcome indicators to be compliant with table and reporting format of LMs and institutions. The 1st Semester performance reports must be sent within 20 days after completing period and annual performance reports must be sent to the MEF no later than March next year. According to audit report of the NAA, it states LMs/institutions have not prepared performance report to align with the MEF's guideline on the implementation program budgeting yet.

This assessment is based on the information in Law on Budget Settlement (2018) and BSP 2018-2020 for the number of SD program. The performance information on execution of SD Program- KPIs (outputs and outcomes indicators) was assessed based on BSP 2020-2022.

Table 3.20: Performance information on execution of SD Program (2018)

Ministry	Budget Allocation (2018) Unit: KHR Million		No. of SD program	KPIs		Activities
	Total	Service Delivery (SD) Program		Output indicators	Outcome indicators	
MoEYS	2,705,456.5	2,705,456.5	5	Y	Y	Y
MoH	1,393,974.1	1,393,974.1	4	Y	Y	Y
MoPWT	399,443.7	285,441.0	1	N	N	Y
MAFF	245,009.0	46,015.2	2	Y	Y	Y
MRD	169,137.0	115,006.50	2	Y	Y	Y
Materiality based on number of compliant LMs	**4,913,020**	**4,545,893**	100%	93.72%	93.7%	100%

Source: BSP 2020-2022 and BSP-2018-2020

The MoEYS prepares its performance report for the annual education congress in March each year and provides a detailed review of activities and progress against ESP reform priorities. The consolidated reports are published on the website of MoEYS[28].

The MoH also prepares an annual performance report describing progress, result, and outcome achievement by programs and activities against the Health Sector Strategic Plan (HSP). The consolidated reports of MoH are published annually on the website of MoH[29].

Reporting on performance information by both MoEYS and MoH is consolidated in annual reports describing achievement and progress related to the activities and targets within the sector strategic plan. However, the assessment of BSPs achievements consists mainly of long lists of activities undertaken and related inputs but does not include a monitoring of the key performance indicators, based on comparison to original targets and explanation of variances.

The MPWT's BSP 2020-2020 does not describe the performance information achieved at program and most sub-program level. It describes only the result achieved at activities level. There are brief description of achievements and challenges provided on either the achievements or the challenges sections of BSP. In addition, apart from the broader policy objectives, the BSP does not provide any specific information regarding the country's infrastructure needs, or the ministry's specific plan or strategy for addressing such needs. Additionally, the achievements presented in BSP are not linked to the ministry's programs, making it difficult to measure the services delivered by programs and/or sub-programs.[30]

The MRD's BSP 2020-2022 described the performance and achievement compared to the year indicators 2018 at program level. In 2020, the MRD published performance report of PB implementation on the its website[31] which shows the results and budget implementation against with the planned indictors at program, sub-progam and activity level. In addition, the MRD published monthly performance reports by summarizing the achievements by programs and sub-programs.

Table 3.19: Performance data on achieved service delivery (2018)

Ministry	Budget Allocation (2018) Unit: KHR Million		Actual Performance. No. of SD Programs (Yes: existence of data for SD programs and number of SD programs covered by data)		
	Total	Service Delivery (SD) Program	No. of SD program	SD Program Objective Y/N and number	Performance Indicators
MoEYS	2,705,456.5	2,705,456.5	5	Yes -5	Yes - 5
MoH	1,393,974.1	1,393,974.1	4	Yes - 4	Yes - 4
MPWT	399,443.7	285,441.0	1	Yes - 1	No - 0
MAFF	245,009.0	46,015.2	2	Yes - 2	Yes - 2
MRD	169,137.0	115,006.50	2	Yes - 2	Yes - 2
Total	**4,913,020**	**4,545,893**			
% of SD LMs compliant by value				**100%**	**93.7%** (4,260,452.30/ 4,545,893.30)

This dimension is scored C as most of the SD line ministries (93.7%) report on achieved performance based on the programs and sub-program structure that comparable to the plan formulated in the previous year (2018). All LMs/institutions published annual information on implementation at activity level. A higher

[28] Link to MoEYS's performance report 2019: http://www.moeys.gov.kh/index.php/en/education-congress-2019
[29] Link to MoH's performance report 2018 http://moh.gov.kh/content/uploads/2017/05/2019_MoH-Final01-Low.pdf
[30] EU's assessment on MPWT's BSP 2020, page 3.
[31] https://www.mrd.gov.kh/ministryreportanddocuments/

score would require that outputs and outcomes are to be assessed against indicators and published the report on their websites.

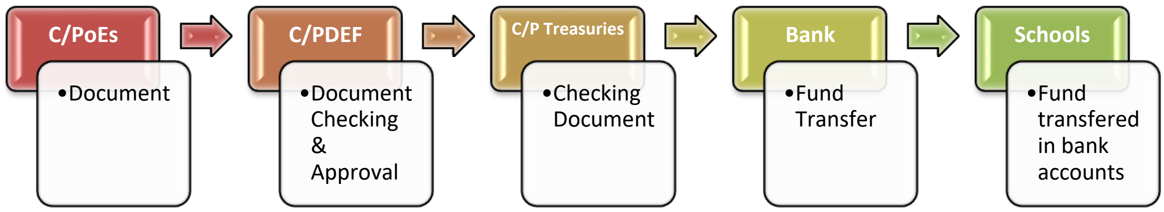
Dimension 8.3. Resources received by service delivery units

This dimension measures the extent to which information is available on the level of resources actually received by service delivery units of at least two large ministries (such as schools and primary health clinics) and the source of those funds.

Ministry of Education Youth and Sport

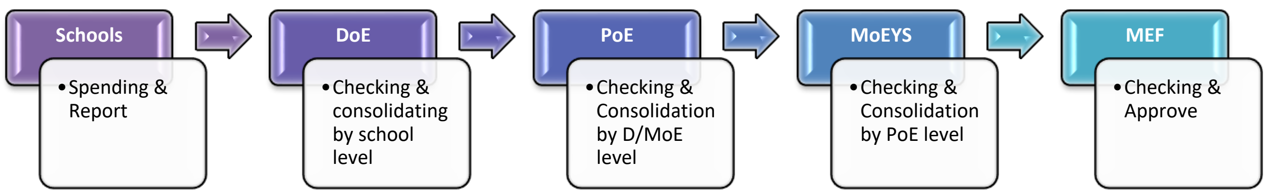
The MoEYS has developed its own budget planning and financial reporting for all budget entities under MoEYS and public schools. Each school receives School Operating Fund (SOF) based on its reported student enrolment rate. Fund for public school operation is transferred to bank account of school through the following process: PoEs request to Capital/Provincial Departments of Economy and Finance (C/PDEF) for advance attached with the school expenditure programs. The C/PDEF check and approve on the request then submit to C/P Treasury for budget transferring into bank accounts of schools.

Diagram 3.3: Public school budget transfer mechanism



The MoEYS has developed its own budget planning a financial reporting system call EFMS (Education Financial Management System) covering all MoEYS budget entities and public schools. The interface between EFMS and MEF FMIS is under study. Schools' funding is covered by a new IT system since 2017, through which schools report to MoEYS on resources received, broken down by source (Government, NGOs and the community) and by nature, cash and in-kind revenue. The school records expenditure of all sources of funds and send the report to D/M Offices of Education, Youth and Sport (D/MoE). The D/MoEs consolidate the school reports and submit to C/P Departments of Education Youth and Sport (C/PoE) for consolidation and submission to MoEYS on a quarterly basis.

Diagram 3.4: Public schools quarterly reporting



In the health sector, Health centers also have established a new financial reporting system since 2015. Health centers report to their operational districts (ODs) and ODs report to their Provincial Health Departments, which in turn report to the MoH Office of Health Information on a monthly basis on revenue and expenditure. The reporting covers details of staffing, patient numbers classified by source of funding (Health Equity Fund, Health Card, fees, etc.). At MoH level, information on revenue and expenditure is reported at aggregated level at provincial, district level, not for individual health center. The sources of revenue are disclosed as the health sector receives technical and financial support from numerous Development Partners and NGOs. The MoH's progress report 2018 provided the breakdown of funding and expenditure of projects financed by national budget, WB, grants received from Australian, German, Korean governments, Global Fund, GAVI, and ADB [32].

This dimension is scored B as there is detailed information on resources received by front line service delivery units for at least one LM, MoEYS (for pre-schools=4,049, primary schools=7,282, secondary schools= 1,247, and high schools=544, total 13,122 public schools). The information on MoH is disaggregated by source of funds but not disaggregated by SD units in an annual report (for a total of 1,493, in which CPA3 are 20, CPA2 are 37, CPA1 are 60, Health Centers with less than 10,000 persons are 403, Health Centers with more than 10,000 persons are 854, Health Posts are 119). A higher score would require that the MoH is to collect information resources and disaggregated by source of fund.

Dimension 8.4. Performance evaluation for service delivery

This dimension considers the extent to which the design of public services and the appropriateness, efficiency, and the effectiveness of those services is assessed in a systematic way through program or performance evaluation.

In 2018, the RGC issued a Sub-degree no.54 ANKr.BK on the Evaluation and Recognition Good Service Delivery Entity in the Education and Health Sectors, in order to promote the quality of services in these two sectors. The sub-decree has the purpose to: (1) encourage the competition on improving the quality of public service delivery toward citizens; (2) provide key concepts to public service delivery entity to improve its service to a high standard using a list of evaluation criteria covering all aspects on quality of school and hospital management; (3) provide support and encourage to local schools and hospitals that provide good quality of public service to people and (4) promote the mutual learning to exchange good experiences for improving public service delivery and to gain trust from citizens.

Monitoring and evaluation system on public service delivery is defined in the Public Administration Reform Strategy 2015-2018. The Ministry of Civil Service (MCS) cooperated with Ministry of Post and Telecommunication achieved and officially launched of the Public Service GATEWAY website to enable access to the public service information of all line ministries. The standard for evaluation public service delivery is defined. Yet, there is no official report on evaluation or measurement on quality of public service delivery.

Ministry of Health

The health sector has a well-developed monitoring and evaluation system. The MoH Monitoring and Evaluation Unit of the Planning Department conducts comprehensive and regular monitoring of all programs' activities, outputs and outcomes. These activities are supported by development partners who support the M&E performance reporting on all donor funded programs by strengthening capacity building to the national monitoring and evaluation structures at all levels of government.[33]

The baseline study report on "Impact Evaluation of Service Delivery Grants to Improve Quality of Health Care Delivery in Cambodia" (Somil N et al. April 2019) assesses Health facility and infrastructure as one component of an effective health service and reports that quality of health facilities and infrastructure in Cambodia is rated at an average level.

[32] Progress report of MoH 2018, P94-96. http://moh.gov.kh/content/uploads/2017/05/2019_MoH-Final01-Low.pdf

[33] MoH's BSP and PB analysis Report, February 2020, p15.

Ministry of Education, Youth and Sport

The MoEYS General Department of Policy and Planning monitors the implementation of policies, plans, programs, education youth and sport development program at all levels, and produces regular evaluation reports. Other General Departments monitor at program levels focusing on the achievement of indicators (or outcome indicators). The MoEYS produces regular expenditure reports in accordance with MEF's guidelines. Extensive annual statistics from the school census are available on an annual basis from the Education Management Information System (EMIS) report published in March each year and prepares an annual report in April each year. These two reporting processes produce performance information in a timeline that feeds into the BSP and PB formulation process.

The WB conducted in 2018 a Public Expenditure Tracking and Quality of Service Delivery Survey in the Education sector[34] (PETS-QSDS). The report examines flows of funds and materials from the central government to local service providers via regional and local governments through multi-purpose surveys, assesses the efficiency of frontline service delivery and the dissipation of resources.

Furthermore, the 2019 Cambodia Public Expenditure Review by the WB on improving the effectiveness of public finance[35], provides an analysis of public spending performance in Education, Agriculture and Road infrastructure spending and progress against the 2011 PER recommendations. It covers a general assessment of cost and expenditure efficiency, and VFM analysis and presents a series of cross-cutting constraints or bottlenecks to the quality of public spending of these three main service delivery sectors.

The WB report noted that the sector expenditure management has made an improvement after PB has been implemented. PB was first piloted at the MoEYS in 2007 and formally introduced in 2015 as part of PFMRP Stage 3, improving the linkage of budget and policy performance. As a result, the rate of primary enrollments rose from 82 percent in 1997 to 94 percent in 2015, comparing to the rate of developed countries. Introducing program budgeting is supposed to increase flow of funding for the sector but challenges persist related to poor budget preparation due to weak linkages between education policy and funding. The estimated budget in the BSP by budget entity is unrealistic or not consistent with the planning, making BSP less effective. To address this issue, the MoEYS is developing the Budget Policy Bridging Table System which will link the annual budget and annual operating plan (AOP) to the BSP and ESP. Intended users of the system are central budget entities and C/P Offices of Education (C/POEs). The system will record both the AB, AOP and actual expenditures. The system will also be interfaced with EFMS. At the school level, the school EFMS is installed where schools prepare their budget plan submitted to DOEs and consolidated school budget is submitted to C/POE and forms part of the C/POE budget. The school excel EFMS records both government school operating fund (SOF) and grants from development partners which can be disaggregated by source of fund.

According to the Summative GPE country Program Evaluation[36] (Universalia, 2019), Cambodia has made some progress in strengthening education access during the 2014-2019. This progress refers to improvement on education equity and quality via scholarship providing for primary and lower secondary students, number increasing of state and community preschools, improvement of study curricular, and ongoing reforms to promote teacher qualification, recruitment and training. Likewise, the learning outcomes, equity and gender equality have made progress and Cambodia is evaluated to closely achieve

[34]http://documents.worldbank.org/curated/en/190241557291007563/Cambodia-Education-Sector-Public-Expenditure-Tracking-and-Quality-of-Service-Delivery-Survey
[35]http://documents.worldbank.org/curated/en/387991561557367581/Improving-the-Effectiveness-of-Public-Finance-Cambodia-Public-Expenditure-Review
[36]https://www.globalpartnership.org/sites/default/files/document/file/2019-08-summative-gpe-country-program-evaluation-for-cambodia.pdf

its goal of universal primary education, the decrease in rate of primary and lower secondary education dropout, as well as gender equity enrollment progress.

This dimension is scored C as evaluations of efficiency and effectiveness of service delivery has been carried out for two service delivery LMs at least once in the last three years. A higher score would require that most SD LMs assessed the efficiency and effectiveness of service delivery and published at leaset once in the last three years.

Table 3.20: Scores for PI-8

PI	Dimension	Score	Brief justification for score
PI-8	**Performance information for service delivery**	**C+**	**Scoring Method M2**
8.1	Performance plans for service delivery	C	Performance information including outputs or outcomes is available for the majority of SD line ministries and published on their respective websites.
8.2	Performance achieved for service delivery	C	Performances are assessed by LMs based on activities' implementation; not against performance indicators and targets. The majority (65%) of LMs published performance report based on activities achieved on their respective websites.
8.3	Resources received by service delivery units	B	The MoEYS has its planning and financial reporting system that improve financial management for schools as well as disaggregated by source of funds. The MoH monitoring systems can provide the information on resources received by health centers and hospitals but not specifically.
8.4	Performance evaluation for service delivery	C	Evaluation of efficiency and effectiveness of service delivery has been carried out for at least 2 SD line ministries (representing majority of SD) at least once within the last three years.

Box 3.7: Ongoing reform activities

The MEF plans to develop monitoring and evaluation system and performance agreement with LMs to pilot reporting on outputs in 2019 and plans to focus on outcomes' performance reporting in 2023. In addition, the MEF plans to submit the draft of annual budget law attaching performance information to the CoM and Legislative Body starting in 2022.

PI-9. Public access to fiscal information

This indicator assesses the comprehensiveness of fiscal information available to the public based on specified elements of information to which public access is considered critical. There is one dimension – 9.1 Public access to fiscal information.

Fiscal transparency has improved since the 2015 PEFA through various mechanism initiated by the RGC. Budget documentations are mostly available online which provides open access to the public. The MEF also organized various workshops and public forums to share the information of the government's budget formulation process as well as to promote the culture of discussion among relevant key actors. In addition, the MEF organized public forum on macroeconomic and annual budget framework in the early 2019 and consultation on budget with DPs, researchers and non-government organization.

Table 3.21: Elements of information and expected timeliness of the availability of information to public access based on international good practices

Elements of information	Criterion met	Remarks
Basic elements		
1. Annual executive budget proposal documentation	No	The RGC submits two types of document, draft budget law and budget speech, to National Assembly. The draft Budget Law is not published. The Executive Budget proposal is considered as the endorsed Budget Law as approved by National Assembly. In general practice, Second Commission organizes a meeting in November, in which the Minister of Economy and Finance addressed the National Assembly during the legislature's review of the draft budget law, were open to the civil society, development partners and media. https://mef.gov.kh/documents/mustsee/Executive_Summary_2019_Final.pdf
2. Enacted budget	Yes	The Budget Law 2020 was published on 12 January 2020 within two weeks after the budget law. The citizen's budget for FY2020 was publicized on the MEF's website on 15 January 2020 after budget approval. https://mef.gov.kh/documents/laws_regulation/3-Budget-Law-2020.pdf
3. In-year budget execution reports	Yes	The monthly in-year reports are based on the format of the TOFE and is systematically publicized within 4 weeks from end of the reporting period[37], including for the last 2019 December report. https://mef.gov.kh/tofe.html
4. Annual budget execution report	No	The report is made available to the public but not within six months of the fiscal year's end. The State General Budget Settlement Law for Administration 2018 on the 2017 Budget execution was approved by National Assembly on 15 November 2018, completely reviewed by Senate on 9 December 2018, and promulgated on 20 December 2018. It was divided into 3 chapters which chapter 1 is budget operation at national level, chapter 2 is budget operation at SNAs, and chapter 3 is final provision. In addition, the State General Budget Settlement Law for Administration 2018 was published to the public on 27 December 2019. http://www.treasury.gov.kh/download-document/100
5. Audited annual financial report incorporating or accompanied by the external auditor's report.	No	Audit report on budget settlement law is not available.
Additional elements		
6. Prebudget Statement	No	The broad parameters for the executive budget proposal regarding expenditure, planned revenue, and debt is made available to the public but not at least four months before the start of the fiscal year. https://mef.gov.kh/documents/mustsee/Macroeconomic_and_Fiscal_Policy_Framework_2020-2022.pdf
7. Other external audit reports	No	The latest PFM audit report is a consolidation of findings on the financial reports and other audits for the financial execution for FY2018. It was completed in 28 February 2020 and published on

[37] It is available on the website of MEF: https://www.mef.gov.kh/tofe.html

Elements of information	Criterion met	Remarks
		3 March 2020. In addition, at present, an individual audit nonconfidential report is not published. http://naacambodia.com/wp-content/uploads/2020/03/public_audit_report_2018_kh.pdf
8. Summary of the budget proposal	Yes	A clear, simple summary of the executive budget proposal or the enacted budget accessible to the nonbudget experts, often referred to as a 'citizens' budget,' is publicly available but not within two weeks of the executive budget proposal's submission to the legislature and within one month of the budget's approval. https://mef.gov.kh/documents/mustsee/Executive_Summary_2019_Final.pdf
9. Macroeconomic forecasts	No	The macroeconomic forecasts are available but not within one week of RGC endorsement. For 2020, the forecasts were available on MEF's website on 27 June 2019 for 2020, i.e. 3 months after Prime Minister's approval for the budget process. https://mef.gov.kh/documents/mustsee/Macroeconomic_and_Fiscal_Policy_Framework_2020-2022.pdf

On the basis of the results above, the indicator was scored D because public access fiscal information is available only for 2 basic elements and 1 additional element. A higher score would require that at least 4 basic elements are available.

Table 3.22: Scores for PI-9

PI	Dimension	Score	Brief justification for score
PI-9	Public access to fiscal information	D	There are 2 basic elements and 1 additional elements have been met in accordance with the specified timeframes.

Box 3.8: Ongoing reform activities

The MEF continues to organize a public forum on macroeconomic and annual budget framework as well as dissemination the PFMRP to government officials at national and subnational administrations, and university students. In addition, in 2021 GSC will study the study transparency, in particular to engage public participation.

PILLAR THREE: Public asset and liabilities

Effective management of assets and liabilities ensures that risks are adequately identified and monitored, public investments provide value-for-money, financial investments offer appropriate returns, asset maintenance is well planned, and asset disposal follows clear rules. It also ensures that debt service costs are optimized and fiscal risks are adequately monitored so that timely mitigating measures may be taken.

Pillar Three has four indicators:

- PI-10. Fiscal risk reporting
- PI-11. Public investment management
- PI-12. Public asset management
- PI-13. Debt management

PI-10. Fiscal risk reporting

This indicator measures the extent to which fiscal risks is reported. This indicator contains the following three dimensions, which are assessed on the basis of the last 12 months, and uses the M2 (AV) method for aggregating dimension scores:

Dimension 10.1 Monitoring of public corporations
Dimension 10.2 Monitoring of lower level governments
Dimension 10.3 Contingent liabilities and other fiscal risks

Fiscal risks can arise from adverse macroeconomic situations, financial positions of SNAs or public companies, and contingent liabilities from the public enterprises (PEs) and the investment projects. They can also arise from other implicit and external risks such as market failure and natural disasters. The MEF is a body for the RGC to govern and monitor fiscal risks, while GDB, GDSPNR, GDP, GDNT, GDICDM, and PPP Unit are the specific bodies involving the fiscal risk monitoring from various sources.

Dimension 10.1. Monitoring public corporation

This dimension assesses the extent to which information on the financial performance and associated fiscal risks of the central government’s public corporations is available through audited annual financial statements. It also assesses the extent to which the central government publishes a consolidated report on the financial performance of the public corporation sector annually.

The NBC follows the Law on Establishment and Functioning of NBC, dated 26 January 1996, establishing NBC as an autonomous public body, managing its own revenue, budget, and operations, and reporting to the RGC and parliament semi-annually or upon request. NBC board consists of one Governor, one deputy governor and five members. NBC’s capital is determined by sub-decree, registered and solely controlled by the government. The NBC does not depend on government’s subsidy. Due to the independence of functional and financial factors, the NBC is not included this assessment.

PEs abide by the Law on PEs, dated 28 May 1996, royal decree or sub-decree establishing PEs, Sub-decree no.41 ANKr.BK, dated 06 August 1997, on the implementation of the general statute for PEs, and Sub-decree no.71 ANKr.BK, dated 22 April 2011, on complementary Sub-decree no.41 ANKr.BK. PEs are categorized as: public establishment with economic characteristics, state companies, and join ventures. PEs’ Council Administration members must not exceed seven with the representatives of technical and financial supervisory ministerial representatives. The representative from the MEF is the financial controller. PEs are the legal entities with financial autonomy; however, regular reporting is indicated in the law, and the establishing sub-decree. PEs have obligation to seek the approval on the annual budget from Minister of Economy and Finance.

PEs are required to provide audit annual financial report to the MEF in six months after completed fiscal year. GDSPNR Public Enterprise Department (PED) is the appointed body to monitor the PEs, in charge of collecting PEs' annual audited financial reports and the asset inventory updates from PEs and produces a consolidated report on PEs' performance submitted to the MEF.

In 2019, 3 PEs audited financial reports were published, while other 10 PEs financial reports were reported to PED of GDSPNR without exact date of reception of the document.

Table 3.23: Financial reports of PEs (2019)

Public corporations	Year of last audited financial statements	Financial statement audited? (Y/N)	Date of reception of the report	Report published Yes or No and date of latest published report available	Total expenditure (in million KHR)	As a % of total expenditure of public Corporation	Are contingent liabilities of the public corporation disclosed in the financial report? (Y/N)
Phnom Penh Water Supply Authority	2019	Y	24/04/2020	Yes[38] (13/08/2020)	176,030.69	2.64%	Yes
Siem Reap Water Supply Authority	2019	Y	28/04/2020	No	13,429.83	0.20%	No
Publishing and Distribution House	2019	N	28/04/2020	No	19,880.05	0.30%	No
Construction and Public Work Laboratory	2019	N	30/04/2020	No	1,861.42	0.03%	No
Telecom Cambodia	2019	N	20/05/2020	No	55,761.89	0.83%	No
Phnom Penh Autonomous Port	2019	Y	24/04/2020	Yes[39] (01/04/2020)	80,066.99	1.20%	Yes
Sihanoukville Autonomous Port	2019	Y	28/04/2020	Yes[40] (01/04/2020)	272,903.53	4.09%	Yes
EDC	2019	Y	28/04/2020	No	5,928,366.73	88.77%	No
Cambodia Post	2019	N	28/04/2020	No	47,555.51	0.71%	No
Rural Development Bank	2019	Y	5/5/2020	No	21,543.71	0.32%	No
GreenTrade	2019	N	28/04/2020	No	16,251.01	0.24%	No
Cambodia Re Insurance	2019	Y	22/05/2020	No	37,157.12	0.56%	No
Cambodia Securities Exchange (CSX)	2019	Y	28/04/2020	No	7,637.85	0.11%	No

Source: GDSPNR (2020) and CSX website (http://csx.com.kh/)

This dimension is scored C because all PEs' financial reports are submitted to MEF GDSPNR within nine months of the fiscal year but the three PEs, namely Phnom Penh Water Supply Authority, Phnom Penh

[38] http://csx.com.kh/company/report/listPosts.do?MNCD=50506
[39] http://csx.com.kh/company/annualreportppap/viewPost.do?MNCD=50803&postId=22#.YEm0MVUzaUk
[40] http://csx.com.kh/company/annualreportpas/viewPost.do?MNCD=50804&postId=23#.YEm0eVUzaUk

Autonomous Port, and Sihanoukville Autonomous Port that published their financial reports represent less than 10 percent of the total PEs. A higher score would require that all PEs publish a consolidated report on the financial performance of PEs annually.

Dimension 10.2. Monitoring of Subnational administrations

This dimension assesses the extent to which information on financial performance, including the central government's potential exposure to fiscal risks, is available through the audited annual financial statements of SNAs.

SNAs' budget is mainly subsidy or transfer from the central government, except C/P administrations. C/P administrations are required to prepare a rolling three years BSPs, five years' development plans, and rolling three-year PIP. C/S and D/M administrations prepare their annual budget plans referring to the higher level of government's planning framework mentioned above.

Based on Circular no.009 MEF, dated 30 December 2019, on the implementation of financial management law (2020) of SNAs, the reports on revenue and expenditure at C/P and municipal/khan/district shall be consolidated and submitted to MoI, MEF, and C/PDEF by monthly, quarterly, semi-annually, and annually. The report shall be sent not later than 15 days of each ending period (N+15 days). At the C/S administrations, the consolidated reports on revenue and expenditure shall be prepared and sent to Governors of Boards of C/P administrations, and further sent to MEF through C/PDEF by quarterly, semi-annually, and annually. The report shall be sent not later than 15 days of each ending period (N+15).

Prakas no.167 MEF.PrK, dated 14 February 2017, on the Guideline of Program Budget Implementation for SNAs instructs SNAs to submit two main types of reports to the central government (MEF GDSNAF and GDNT): (i) financial report, and (ii) the report on outputs achieved on PB implementation. The financial reports include:

- The revenue and expenditure monthly report in accordance to economic classification shall be reported within 10th day after the completed month.
- The quarterly progress report by programs, sub programs, activities shall be reported within 15th day after completed quarter.
- The revenue and expenditure mid-year report in accordance to economic classification shall be reported by 15th July each year
- The annual expenditure report shall be reported by 15th January after completed fiscal year.

The NAA conducts financial audits but these reports are not published. The NAA consolidated all findings in one audit report known as audit report on PFM once per year. However, budget execution reports (central and only C/P administrations) are published monthly incorporated with TOFE (see PI.28.2) on the website of MEF.

This dimension is scored D because there is partially published unaudited on financial report for SNAs. A higher score would require that audited financial statements are published within nine months of the end of fiscal year.

Dimension 10.3. Contingent liabilities and other fiscal risks

This dimension assesses mainly the risk from government explicit contingent liabilities and other quantified fiscal risks to be reported in the financial statements. It includes potential liabilities from existing government guarantees, insurance funds, litigations, etc.

Based on article 34 of the Law on Public Finance System (2008), Minister of Economy anf Finance is solely responsible to manage the revenue, expenditure, borrowing, lending, and government guarantees of all government entities, and fiscal risk from these sources is monitored directly for the government. However, fiscal risk from in PPP projects, PEs' payment guarantee, social security funds, and government bonds[41] are not managed and monitored centrally.

Based on Article IV of IMF 2019, Debt Sustainability Analysis (DSA) showed that the debt sustainability and materialization of contingent liabilities are vulnerable to export and growth shock (such as covid-19 shock). Debt service-to-revenue ratio will increase from 5% in 2019 to 16% in 2022 due to financial stress, and the realization of contingent liabilities related to PPPs.

Quantifying the contingent liabilities to the RGC remains an issue as reported for the implementation of Public Debt Strategy 2019-2023. The analysis carried out could not estimate and value the risk due to incomplete data regarding the government guarantees on the sectors beside energy and transport, government terminated projects, and contingent liabilities in the banking sector. Contingent liabilities are quantified and reported quarterly along with progress of Public Debt Management Strategy 2019-2023 objectives to the Public Debt Management Committee.

A system to record contingent liabilities is planned to be set up under the action plan of Public Debt Management Strategy 2019-2023. As progress, Decision no.017 MEF, dated on 12 March 2020, on the Inter-Ministerial Technical Working Group to study and compile information and data related the contingent liabilities.

This dimension is scored D due to lack of a system to collect data on contingent liability and fiscal risk. A higher score would require that financial reports include an assessment of contingent liability and fiscal risk.

Table 3.24: Scores for PI-10

PI	Dimension	Score	Brief justification for score
PI-10	**Fiscal risk reporting**	**D+**	**Scoring Method M2**
10.1	Monitoring of public corporations	C	Only 3 of 11 audited/financial statements of PEs are published.
10.2	Monitoring of subnational administrations	D	The financial reports from SNAs are received by the central government. No audited or unaudited financial reports of SNAs are published.
10.3	Contingent liabilities and other fiscal risks	D	Part of contingent liabilities is quantified and quarterly reported. No contingent liabilities are presented in the financial report.

[41] Government bond is managed under the law on government bond, dated 23 January 2007. However, the operation of the government bond is not operated yet.

Box 3.9: Ongoing reform activities

The financial risk document will be attached to the medium-term fiscal framework and aims to show the possibility of changes in the budget outcomes resulting from changes of the macroeconomic conditions and assumptions. The MEF will be responsible for assessing and reporting financial risks. Other ministries/institutions including the NBC and ministries and institutions which possess state owned enterprises and subnational administrations shall also be responsible for identifying risk targets and putting them under control. A coordinating mechanism will be established to exchange, track, and monitor information on fiscal risks with all line ministries and agencies. The MTFF and risks statement will be submitted to the Plenary Session of the Council of Ministers for review and approval before formulating budget strategic plans and annual budget.

PI-11. Public investment management

This indicator assesses the economic appraisal, selection, costing, and monitoring of public investment projects by the government, with emphasis on the largest and most significant projects. The indicator contains the following four dimensions, which are assessed on the last 12 months, and uses the M2 (AV) method for aggregating dimension scores:

Dimension 11.1 Economic analysis of investment projects
Dimension 11.2 Investment project selection
Dimension 11.3 Investment project costing
Dimension 11.4 Investment project monitoring

Public investment in Cambodia plays a crucial role in the economic development in Cambodia; the public investment falls to the categories of the physical infrastructure including provincial roads, sewage systems, waterway infrastructures, etc. In Cambodia, the public investment projects are funded from domestic, foreign sources, and through the PPP mechanism. The RS and NSDP, along with sectoral plans, are to guide and anchor the LMs and its agencies to prepare, pre-screen, and appraise the projects.

In Cambodian context, the definition of “major investment projects” is not determined. To assess this indicator, “major investment projects” are defined as projects meeting the following criteria according the PEFA framework 2016:

- The total investment cost of the project amounts to 1 percent or more of total annual budget expenditure; and
- The project is among the largest 10 projects (by total investment cost) measured by the units’ investment project expenditure.

Law on Road no. NS/RKM/0514/008, dated 04 May 2014, designates the road type and classification and distributes road network management responsibilities among MPWT, MRD, and local administration. The network is divided into six categories of roads: (i) expressways, (ii) national, (iii) provincial, (iv) rural, (v) urban, and (vi) special roads. The MPWT is responsible for the development and maintenance of expressways, national and provincial roads; MRD is responsible for rural roads; C/P administrations are responsible for urban roads. Notably, the MPWT manages both national roads and provincial roads, and is also in charge of enforcing transportation regulation.

In 2019, the domestic investment budget in the annual budget plan amounts to USD 453.18 million, representing 7% of the total budget, and 34.9% of externally funded budget on the public investment. As the projects funded with domestic resources are smaller in amount than required criteria, top 10 most funds projects, which in total accounts for only 7% of total national domestic funded investment budget.

There are two on-going PPP projects: (1) Phnom Penh – Sihanouk Ville Expressway Project (USD 1,870 million), and (2) Sihanouk Ville Cruise Terminal (USD 25 million) that are not financed from the government budget and have no implication for the public portfolio of investment; hence these projects are not included in this assessment.

From the portfolio of projects listed in the 2019 budget, the 10 investment projects are indicated in Table 3.25.

Table 3.25: List of investment projects funded by national budget in 2019

No.	Projects	Project Owner (LM)	Project Year	DPs Funds	Project Cost	Economic analysis	Funded Sources
1	DBST pavement repair, for 22.2 kilometers length, 11 meters width and traffic diagram between (km 073 + 000) to (km 095 + 200) (along national road no. 41)	MPWT	2019	China	3.194	Yes	National budget
2	Rehabilitation of front and rear shores of Ta Hen water gate and concrete structures in Kdol Ta Hen commune, Bor Vel district, Battambang province	MOWRAM	2019	Korean Loan (2009-2011)	3.081	Yes	National budget
3	Section 1: construct by widening the road and filling the foundation and paving (AC rubber overlay for 1,550 meters length, 22 meters width, between (km 14 + 200) to (km 15 + 750) Section 2: construct by widening the road and filling the foundation and pouring 0.23 meters thick reinforced concrete for 920 meters length, 15 meters width, between (km 15 + 750) to (km 16 + 670) (along national road no. 4)	MPWT	2019	World Bank	3.072	Yes	National budget
4	Repair DBST for 10 kilometers length, with 10 meters wide and build the drainage system on both sides (along national road no. 7)	MPWT	2019	Bilateral	2.457	Yes	National budget
5	Rehabilitate from (km 210 + 800) to (km 212 + 000), from (km 214 + 700) to (km 215 + 550) and from (km 86 + 500) to km (87 + 000) (along national road no. 4)	MPWT	2019	Bilateral	1.966	Yes	National budget
6	Construction of Spillway 280m on Tom Nob Thmey dam reservoir in Trapang Tav commune, Anlong Veng district, Oddar Meanchey province	MOWRAM	2019	World Bank (2004-2005)	1.564	Yes	National budget
7	Rehabilitation of Kok Mlu main canal 4.000m and 5 concrete structures in Chroy Banteay and Saum commune, Prek Prosob district, Kratie province	MOWRAM	2019	APIP (2003-2004)	1.497	Yes	National budget

No.	Projects	Project Owner (LM)	Project Year	DPs Funds	Project Cost	Economic analysis	Funded Sources
8	Repair DBST road, 7.92 kilometers length, 7 meters width, between (km 00 + 830) to (km 08 + 750) (along national road no. 33)	MPWT	2019	Bilateral	1.351	Yes	National budget
9	Repair by paving concrete AC for 1 kilometer length, 18.5 meters wide, pave the sidewalk and prepare the drainage system on both sides of the road from Lok Ta Dambang Kranhong roundabout to the new stone bridge in Battambang city. (along national road no. 5)	MPWT	2019	Japan	0.983	Yes	National budget
10	Build concrete road for 1.80 kilometers length, 10 meters width and equipped with road equipment at Sangkat Chong Kal from (km 49 + 000) to (km 50 + 000), Sangkat O Smach from (km 108 + 000) to (km 110 + 950), Sangkat O Smach from (km 110 + 950) to (km 112 + 150) (along national road no. 68)	MPWT	2019	Bilateral	0.983	Yes	National budget

Source: GDB (2019)

The medium-term investment plans for financing by borrowings, a large share of capital budget coming from direct external financing, is prepared separately for each partner through the MEF cooperation. These investments are integrated into the lists of the Three-Year Rolling PIP by the MoP, together with the public investment projects financed under grants from development partners through the CDC. The MEF is responsible for the preparation of the annual budget for capital expenditures for investments financed by external financing based on three-year rolling lists of PIP. The medium-term investment plans were prepared for piloting since 2019 and later formally in 2020 by line ministries for the annual budget negotiation.

Dimension 11.1. Economic analysis of investment proposals

This dimension assesses the extent to which robust appraisal methods, based on economic analysis are used to conduct feasibility or prefeasibility studies for major investment projects on the basis of an analysis of its economic, financial, and other effects; whether the results of analyses are published, and whether the analyses are reviewed by an entity other than the sponsoring entity.

PIP is a 3-years rolling investment plan under the coordination between the MOP, MEF, and CDC. PIP is regulated by Sub-decree no.36 ANKr.BK, dated 14 June 2000, to guide on the selection and monitoring and evaluation of PIP.

LMs/institutions' budget need to prepare their annual PIP and upload their information into PIP database of MOP. The project proposal requires the detailed project justified information including: the capacity required, donor involvement, disaster risk reduction, gender analysis, social and environmental impact, feasibility study status, benefit, and the total project costs and funding sources over five years and estimated recurrent cost. In the current government practice, the projects in PIP database are presented to mobilize external donor funding. Even though the PIP Sub-decree specifies the institutional arrangements for the formulation of the PIP, it does not refer specifically to guidelines or manuals defining criteria and requirements for projects to be included in the PIM framework.

Coordination between central and local administrations on their investment plans was limited until the approval of Public investment Management System Reform Strategy (PIMSRS) in 2019. In practice, SNAs prepare their investment projects based on their five-year development plan, with little consultation or alignment with central-level planning processes. Their three-year rolling investment programs (total cost and breakdown between projects) are discussed and approved by the MEF.

National domestic funded investment project expenditure is prepared and recorded in Budget chapter 21 and operated in accordance to Parkas no. 2017 MEF.PrK, dated 26 February 2019, on implantation of the guideline on process and procedures of the expenditure for national domestic funded investment projects. Inter-ministerial committees are the mechanism to appraise, track, monitor and evaluate the projects, e.g. the inter-ministerial committee between the MEF and MPWT on building and maintenance roads, railways, and seaports by Prakas no. 242 MEF.PrK, dated 06 March 2019. The project proposals are submitted to and discussed by inter-ministerial committees, and the decision on final selection has to be made at the level of CoM; only the total investment figure is presented in the draft annual budget law. Domestic funded projects have a nature as upgrading, and rehabilitation for the previous public investment project which the economic analysis procedures were conducted. In 2020, a fundamental sub-decree on public investment management[42] was adopted. One (Phase 2) of 8 phases of public investment project cycle required of feasibility study, appraisal and preparation of formal project proposal. Meanwhile, article 5 of this sub-decree emphasizes the economic and financial viability is one of the 6 principles for project selection and budgeting.

The legal framework for Cambodia’s capital investment program remains insufficient; however, it has been improved for each phase of the PIM. Critical stages in policy, planning, and budgeting still have limited regulations for project approval, financing, and execution. For domestic projects by national budget, there is no specific and comprehensive guideline on project identification and design as a basic for line ministries. Little information on project identification and design is stated in the circular on BSP.

Law on Concessions was promulgated in 2007, but the draft sub-decree to support the implementation of this law has not yet been approved. However, over the past years, public investment projects through PPP mechanism, especially projects in the fields of energy and aviation, have been prepared and implemented by ad hoc mechanism. The use of this mechanism has created a number of challenges: the quality of the financial risk assessment of the project, the effectiveness of socio-economic impacts from the investment project, and the equity of the dividends and risks shared between the government and the private, etc. In this regard, the RGC issued the “Policy Paper on the Development of PPP Mechanism for Public Investment Project Management 2016-2020” in order to create a management system in accordance with the international best practices and the context of Cambodia, to strengthen the management of the contingent liabilities arising from the implementation of public investment projects through PPP mechanism, and in particular, to eliminate the ad hoc mechanism.

In current practice for PPP, for solicited proposals, the government, represented by the Implementing Agency (IA), will be responsible for the project preparation including the project feasibility studies (mostly outsourced to consultants), carrying out tendering process, PPP contract signing, and all aspects of contract management. For unsolicited proposal during the project preparation, the IA will involve the consultants/expert to perform the due diligence on the studies proposed and if the feasibility of the

[42] Sub-decree no.41 ANKr.BK dated 25 March 2020 on Public Investment Management

project is agreed by the IA, the contracting of the private partner will be negotiated. The IA, representing the government, will sign the PPP Contract with the Private Partner with MEF as witness. Subsequently, the IA will create a Project Management Unit to oversee the progress of the project until the concession period is over, and asset is transferred to the government according to the terms of the PPP agreement.

Specifically, during the project preparation phase the responsibilities of the government include: Once a project has been identified and selected as an eligible project; its proposal will be evaluated and if necessary, the MEF can provide funding for the project preparation including the feasibility study and procurement process; which is reimbursed by the private partner. The IA will then lead the PPP Contract negotiation and Contract signing, which will specify further government obligations within the PPP Contract.

During the transitional stage, Inter-ministerial Steering Committee for the implementation of policy on the development of PPP mechanism was established to (1) review the relevant provisions and laws as well as making amendments, if necessary, (2) develop relevant legal documents and SOP for investment projects through PPP mechanism, and (3) review and approve the list of priority projects through PPP mechanism, the results of the feasibility study of those priority projects, and pilot projects.

The investment projects funded by the national budget and selected for the assessment are mainly upgrades and rehabilitation of investment projects that have been initially funded by donors and have been covered, at the time of their selection and design, by a feasibility and economic analysis under previous donor-funded projects. It should be noted that in practice, domestic investments that are initiated through the national budget, for much smaller amounts, are not analyzed for economic feasibility and sustainability for lack of legal requirement and financial resources. However, in 2020 the Sub-decree on PIM indicates the economic analysis requirement. These projects represent 30 percent of the capital projects allocated under the 2019 Budget.

This dimension is scored C as the investment projects funded by national budget are upgraded and rehabilitated investment projects that have been studied economic analysis financed and managed by donors and the studies are available for more than 25 percent of the major projects selected. A higher score would require that national investment guidelines for feasibility and economic analysis are in place, covering most major investment projects and some results of the studies are published.

Dimension 11.2. Investment project selection

This dimension assesses the extent to which the project-selection process prioritizes investment projects against clearly defined criteria to ensure that selected projects are aligned with government priorities.

Projects are formulated and included to PIP and BSPs based on the NSDP and the RS. The Inter-Ministerial Committees work technically to formulate the projects proposal with a justification of economic, social, and environmental benefits, and related feasibility studies. At the level of the CoM, Economic, Social, and Cultural Council (Ecosocc) as a technical coordinator is responsible for submitting the investment projects.

The selection and approval of the budget for each public investment project is based on the annual management finance law and decision mechanism of the Inter-ministerial Committee as an executive body unit in preparing the list of priority projects and submitting it to the head of the RGC for approval.

Whilst there are some investment projects that require combined funding from domestic and external sources budgeting for investment from the two sources are largely separated. Project selection is based on whether the projects are ongoing or planned, and in the latter case if funding has already been committed for the project (by an external agency) or funding remains unidentified (ref. PIP 2020-2022).

The RGC lacks comprehensive formal guidelines, and standard criteria for the identification and selection of domestically financed projects as well as formal processes for integrating the recurrent costs of the investment and maintenance of projects. Before 2020, although the process of project preparation and appraisal begin early, the final approval of investment projects is after the annual budget law. In 2020, formal standard criteria are adopted to select projects as indicated in article 5 of Sub-decree no.41 as follows:

- Rationality: The project must be essential to the economy, society and environment, to meet the national development strategic planning priorities, sectoral development strategies, sectoral master plans, geographical master plans, as well as other relevant policies and strategies of the Royal Government,
- Economic and Financial Viability: The project must demonstrate the economic and financial benefits of investment. However, judgments on this principle are also based on a balance of the importance and necessity of public service and social equity principles for public investment projects that are socially acceptable,
- Best Option: The project must have comparative advantage, higher economic and social performance compared to other project options,
- Affordability principles,
- Deliverability principle, and
- Readiness principle for project implementation.

This dimension is scored D because the process of project preparation and appraisal begin early, the final approval of investment projects is after the annual budget law. However, there is a clear lack of PIM legal and regulatory requirements for investment project selection. A higher score would require the prior to LMs inclusion in the budget of all major investment projects are prioritized on the basis of published standard criteria for project selection.

Dimension 11.3. Investment project costing

This dimension evaluates whether the budget documentation includes medium-term projections of investment projects on a full-cost basis and whether the budget process for capital and recurrent spending is fully integrated.

The investment projects are costed as the total cost, with an annual breakdown, and recurrent cost are not estimated in the project documents.

Recurrent cost of operation and maintenance is incorporated into the RGC's budget planning on an annual basis at the time when the investment project is completed and the assets require funding for operation and maintenance. For the roads and irrigation sectors are recurrent budget funding specifically have been allocated to LMs (specifically account 6105) but insufficient to support. The ceiling set for current expenditure in the Circulars on BSP and PB preparation is based on a breakdown at high-level administrative heads, PAEs, and all capital expenditure is allocated as a lump sum amount. The maintenance expenditure for 3 prioritized LMs (MPWT, MRD and MOWRAM) are KHR 414,750,998,600 in 2017; KHR 413,282,698,450 in 2018; and KHR 441,154,786,200 in 2019.

This dimension is scored D because the investment project costing includes a consolidated amount for estimated capital costs but does not systematically include recurrent expenditure and a breakdown by projects and projections for the forthcoming year linked to the budget. A higher score would require that projections for the major projects for the annual budget and the forthcoming year are included in the annual budget. The maximum score requires that the total life-cycle cost of major investment projects, including both capital and recurrent costs together with a year-by-year breakdown of the costs for at least the next three years, are included in the budget law.

Dimension 11.4. Investment project monitoring

This dimension assesses the extent to which prudent project monitoring and reporting arrangements are in place to ensure value for money and fiduciary integrity.

Regarding to improved monitoring of investment projects, there are 2 statements in PIM Sub-Decree—one is in Chapter 2 Article 5 in point of Project Readiness stated that for a project to be selected and budgeted, it shall be many supporting documents attached including procurement plan and another statement is in Chapter 3 Article 8 Public Investment Project Cycle Stage 6, which intensively emphasizes of the MEF and LMs in regard to project monitoring. As stated in PIM Chapter 4 Article 11, the role of MEF is emphasized and strengthened in overall project management as well as in project appraisal and selection whereas the capital budget integration into annual budget law shows greater transparency.

Both physical and financial progress of the investment projects are monitored at ministry level and above. Prakas no. 242 MEF.PrK, dated 06 March 2019, on the establishment of inter-ministerial committee of the program/project on roads, bridges, rails, and ports development, rehabilitation and maintenance indicates the monitoring process of the public investment. Two sub committees are established: (1) for project related to roads, rails, and bridges, and (2) for project related to railways. The two sub committees are responsible for physical progress monitoring, and the meeting shall be conducted once every two months to report to the inter-ministerial committee.

Based on Prakas no.207 MEF.PrK, dated on 26 February 2019, on the procedure guideline of implementing on public investment project funded from national budget, the MEF financially monitors the project and report quarterly, semi-annually, and annually. The report consists of the accumulated data on budget execution of Chapter 61 and 21 with the indication of expenditure commitment, cheques, and advance clearance.

In the project implementation process, the project owners play a crucial role in monitoring and evaluating the project implementation in accordance with relevant technical standards and norms in place. At the same time, the MEF as a financial controller reviews and evaluates the project based on the terms of the contract in force.

At the finishing stage of the project, both project owner and the MEF jointly verify the project specifications and proceed to hand-over process. Hand-over documents are prepared with the information of the project such as: specification, quality check and assurance.

With regard to the PPP project monitoring, the procedure has been included in the PPP Contract which imposes the reporting requirement both during the construction and the operation periods.

During project implementation, if specified within the PPP Contract the PPP Project may receive Government supports in the form of assets contributions, investment incentives, and/or VGF to reduce capital expenditures, while increasing the financial viability of a Project. In special cases, guarnteesmay be provided to address potential impacts from unforeseen circumstances and/or risks as stipulated in the PPP contract. Depending on the nature of each PPP Project, the Government may grant government guarantees such as performance guarantee, political risks guarantee and others. Current Projects within the Priority PPP Projects List are not provided with guarantees.

During the construction period, the private partner/concessionaire is required to provide the monthly progress report on the status of the project that will describe: (1) the numbers of workers involved in the project and (2) the Special Purpose Company's (SPC) proposals to the government to resolve certain delays or issues encountered by the SPC during the course of construction. Separately, the government has the right to select the Contract Engineer to advise the government in regard to all aspects of the

Project and monitor the construction works on behalf of the government. In addition, the government and SPC appoint the Independent Engineer to provide impartial and independent decision to both the government and the SPC. Main responsibilities include the issuance of completion certificate, final overhaul requirements, determination of costs and time extensions and dispute resolution. Based on the Commercial Operation Date, as instructed by the government, the SPC shall provide monthly, quarterly or semi-annual and annual period progress reports to the government which include traffic levels, (toll – non-toll) revenues, work-related accidents and other incidents, vehicle accidents, fatalities, injuries, involvement of police, claims made by or against the SPC and any other information requested by the government.

During the concession period, the government has the right to engage a qualified, independent party to audit the SPC's compliance with its material obligations under the PPP Contract. At the same time, the government has also set up the project management unit within the IA to oversee the project implementation and act on behalf of the IA to monitor the progress of the project.

This dimension is scored C because progress of the major investment projects is monitored and reported monthly based on LMs' internal SOPs. In some case the Inter-Ministerial Committee meeting will conduct to review the financial and physical progress reports. A higher score would require that there be a high level of compliance with the SOP in place and the reports are published.

Table 3.26: Scores for PI-11

PI	Dimension	Score	Brief justification for score
PI-11	**Public investment management**	**D+**	**Scoring Method M2**
11.1	Economic analysis of investment projects	C	The investment projects funded by national budget are upgraded and rehabilitated investment projects that have been studied economic analysis financed and managed by donors and the studies are available for
11.2	Investment project selection	D	The process of project preparation and appraisal begin early, the final approval of investment projects is after the annual budget law. However, there is a clear lack of PIM legal and regulatory requirements for investment project selection. No standard of criteria is presented. The central entity bases on the broad policy criteria in the annual budget circular. The budget is approved first then the LMs prepare the project.
11.3	Investment project costing	D	The investment project costing includes a consolidated amount for estimated capital costs but does not systematically include recurrent expenditure and a breakdown by projects and projections for the forthcoming year linked to the budget.
11.4	Investment project monitoring	C	Progress of the major investment projects is monitored and reported monthly based on LMs' internal SOPs. In some case the Inter-Ministerial Committee meeting will conduct to review the financial and physical progress reports.

Box 3.10: Ongoing reform activities

Strengthening PIM 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.

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.

The RGC approved the PIM System Reform Strategy 2019-2025.The PIM regulatory that will be prepared as follows:

- PPP law and Sub-decree on SOP for Public Private Partnerships to be approved in 2020 and 2021.
- Prakas on SOP for Domestically Financed Public Investment to be approved in 2022
- Prakas on SOP for Public Investment of SNAs to be approved in 2021
- Guideline on project preparation and prioritization to be approved in 2021.
- Maintenance Guideline on Roads to be approved in 2021

PI-12. Public asset management

This indicator assesses the management and monitoring of government assets and the transparency of asset disposal. It contains the following three dimensions, which are assessed on the last 12 months, and uses the M2 (AV) method for aggregating dimension scores:

Dimension 12.1. Financial asset monitoring
Dimension 12.2. Nonfinancial asset monitoring
Dimension 12.3. Transparency of asset disposal

Public asset is categorized into two: the financial asset and nonfinancial asset. Financial asset refers to cash, securities, loans, government equity, foreign reserves, etc. While the nonfinancial asset refers to physical goods, buildings, land, also the non-renewable natural resource including the mines, oil, gas, etc.

Article 17 of Law on Public Finance System (2008) mentions that state assets are categorized into two types “Public State Assets and Private State Assets”. Sub-decree no.66 ANKr.BK dated 27 April 2017 on Rules and Procedures on Managing State Property Inventory List indicates the overall aspects of managing state property including the roles of stakeholders, and key procedures on recording, reporting, clearance, and monitoring and evaluation.

Three layers of authority are indicated as a controlling authority (CA), managing authorities (MAs), and utilizing authorities (UAs). The MEF is a CA, who is responsible for regulating, monitoring, inspecting the all level of authorities. MAs refers to line ministries, institutions, SNAs, and other qualified public entities, etc. MAs have numbers of UAs; UAs are reporting to MAs, and MAs are reporting to CA.

Article 254-255 of Law on Administrative Management of the Capital, Provinces, Municipalities, Districts and Khans states that state properties of the SNAs include the transferring to the administrations and their own property. SNAs have no right to sell or transfer ownership and transfer the utilization without the agreement from Minister of the MoI and the approval from Minister of the Economy and Finance.

Dimension 12.1. Financial asset monitoring

This dimension assesses the nature of financial asset monitoring, which is critical to identifying and effectively managing the key financial exposures and risks to overall fiscal management.

Cambodia's financial assets holdings are composed of cash, foreign reserves, equity in PEs, government bond, and loans. Cash, government equity in PCs, and loans are monitored and reported by MEF, while foreign reserve is monitored and reported by the NBC.

Government equity in PEs in form of financial assets, or capital is monitored by MEF GDSPNR. As a financial supervising agency, PEs are obligated to report audited financial statement annually, cash is monitored by MEF GDNT through the TSA; and loans and public debt are monitored by MEF GDICDM.

On yearly basis, GDNT prepares trial balance, which presents the opening and ending balance of current assets (cash at NBC, C/P Treasuries, etc.), non-current assets, capital and reserves, current liabilities, non-current liabilities (domestic borrowings, financial market borrowings, etc, valued at fair value). This is used for internal MEF stakeholders.

MEF GDP is preparing to two additional tables (Table 6. Functional expenditure complaint with COFOG and Table 7. Integrated Statement of Flows and Stocks in Assets and Liabilities) of government financial statistics to IMF's GFS 2014 manual. MEF monthly published GFS report on its website[43]. However, PEAs' financial reports have been integrated in the GFS.

This dimension is scored C because the RGC maintains a record of its holding assets, which are recognized at fair value. A higher score would require that information on the financial assets are recorded in line with Cambodian Public Sector Accounting Standard (CPSAS) and information on performance is published annually.

Dimension 12.2. Nonfinancial asset monitoring

This dimension assesses the features of nonfinancial asset monitoring for BCG. Reporting on nonfinancial assets should identify the assets and their use. Maintaining a register of fixed assets is a basic requirement; up-to-date registers allow government to better utilize assets such as infrastructure and to plan investment programs and maintenance.

Nonfinancial asset management in Cambodia follows the regulations under Circular no.001 dated 10 January 2003 and Circular no.005 dated 20 January 2005 on Revision of List of State Property Inventory, and Circular no. 07 dated 30 June 2014 on Preparation of List of State Property Inventory sub decree 66, dated 27 April 2017 on Rule and Procedure of State Property Register List Management. There are four types of state property: (1) lands and buildings, (2) technical and industrial equipment, (3) vehicles and machinery, (4) office equipment and furniture, (5) others.

The land and buildings category consist of five sub-categories: TUB, TUN, TRH, TRA, and ESP. According to the guideline on five year-inventory book and the annually updated inventory list, for recognizing as a Fixed Asset Register, the land and buildings category report do not cover the cultural immoveable properties, mines and oils, waters ways and infrastructures, natural assets in the seas, roads, and railroads.

By Circular no.07 MEF dated 30 June 2014 on Preparation of List of State Property Inventory, MAs are required process the Ownership Certificates for all state immovable properties in their own inventories, and list in the inventory book. For the concession agreements on every types of state properties, they shall be updated annually before the end of the first quarter of each fiscal year and send to the MEF.

Two types of document exist, which are (1) five year- inventory book, and (2) annual updated inventory list, are utilized to management the state properties. The two documents compose the reporting on use

[43] https://mef.gov.kh/gfs.html

and management of state property and include an annual updated inventory list and a Fixed Asset Register, which is updated every five years. Both types of documents contain various information based on the assets' category including: (1) the specific entities using the properties, (2) situational status of the property, (3) valuation.

The UAs report annually to MAs on the annual updated inventory list. MAs shall report to CA annually on the annual updated inventory lists, and based inventory book every five years within 3 months after completed fiscal year. GDSPNR's Department of State Property reviews, verifies, and report annually to Minister of Economy and Finance. However, no central consolidating process is in place, information of state property is not published or consolidated at national level.

For naturally occurring assets in Cambodia such as radio spectrum and frequencies, forests, waterways and infrastructure are monitored by technical line ministries, namely: Ministry of Information, MoWRAM, MPTC, etc. These types of assets are not monitored by GDSPNR, and there is no reporting responsibility in the law. For intangible non-produced assets such as contracts or leases on land and buildings, permit to use natural resources, these assets are directly monitored by LMs as the property owners, and the MEF. The contracts and updated contracts shall be copied to the MEF on an annual basis.

Table 3.27: Asset information

Categories	Subcategories	Where captured	Comments
Fixed assets	Buildings and structures	Annual updated inventory list and principle inventory book	These assets are in (1) five year-inventory book, and (2) annual updated inventory list, are utilized to management the state properties.
	Machinery and equipment		
	Other fixed assets		
Inventories	—		
Valuables	—		
Non-produced assets	Land		
	Mineral and energy resources		It is responsible by Ministry of Mine and Energy
	Other naturally occurring assets	At technical LMs	E.g., the radio spectrum licenses are managed by Ministry of Information.
	Intangible non-produced assets	The owner LMs, annual updated inventory list and based inventory book	Contract or lease of land and buildings are kept at the owner lined ministries. It shall be copied to MEF for revenue administrative purposes.

This dimension is scored C as the asset information is recorded in their own MAs and submit to the MEF; however, this information is not consolidated yet and not available for the categories other than vehicle, and IT equipment. A higher score would require that registration all assets and publish annually.

Dimension 12.3. Transparency of asset disposal

This dimension assesses whether the procedures for transfer and disposal of assets are established through legislation, regulation, or approved procedures. It examines whether information is provided to the legislature or the public on transfers and disposals.

According to Circular no.001, dated 10 January 2003, Circular no.005, dated 20 January 2005, on Revision of List of State Property Inventory, and Circular no. 07, dated 30 June 2014, on Preparation of List of State Asset Inventory, procedure for disposal of public asset indicated that the public asset disposal shall proceed upon the approval of MEF, except the minor asset (e.g., desks, chairs, electric fans, and bicycle), which can be proceed to dispose upon the approval of Committee of state asset inventory at LM level or provincial level.

Prakas no.002 MEF.PrK, dated 6 January 2020, on the Detailed Rules and Procedures on State Property Disposal stipulates that the required information regarding the disposal of state property by category property to be disposed, state property management committee set-up, bidding procedure for auction, etc.

Two disposing procedures are indicated: (1) for small assets excluding the luxury furniture (e.g., desks, cabinets, chairs, fans and bikes, which the value is not exceeding KHR 4 million), granting MAs the authority to dispose by themselves; and (2) Other properties (e.g., lands and buildings, technical and industrial equipment, vehicles and machinery, office equipment and furniture, others) for which a request for disposal needs to be submitted to MEF. The state asset disposal committees are formed at the MA level (LMs, SNAs, and public legal entities) and a representative from the MEF shall be presented in every committee.

Disposing state asset shall be carried out through public bidding procedure including a public announcement. The revenue from state asset disposal shall be transferred to state budget after the disposing procedure; each fiscal year line ministries, SNAs, and public legal entities forecast the amount and mentioned in their budget documents.

Financial asset is a new concept for PFMRP to taking consideration for next stage. Currently, there is no legal framework indicated the financial asset disposal.

This dimension is scored C because procedure and rules for the transfer and disposal of nonfinancial assets are established. Revenue from asset disposal is included in revenue report and transfers of nonfinancial asset are found in the financial report. A higher score would require that all transfer and disposal financial assets are included in the financial report or other budget document.

Table 3.28: Scores for PI-12

PI	Dimension	Score	Brief justification for score
PI-12	**Public asset management**	**C**	**Scoring method M2**
12.1	Financial asset monitoring	C	RGC maintains a record of its holding assets, which are recognized at fair value.
12.2	Nonfinancial asset monitoring	C	Asset information is recorded in their own MAs and submit to the MEF; however, this information is not consolidated yet and not available for the categories
12.3	Transparency of asset disposal	C	There are rules and procedures for transfer or disposal of nonfinancial assets. Revenue from asset disposal is included in revenue report and transfers of nonfinancial asset are found in the financial report.

Box 3.11: Ongoing reform activities

GDSPNR is currently adopting a SARMIS to ease the reporting process from MAs and UAs. A SARMIS usage: In 2020, LMs, C/P line departments, and C/P administrations will use offline system, but will go online in 2023. In addition, to strengthen state property management, GDSPNR will develop a medium/long-term plan as a roadmap for connecting current and ongoing activities as a system.

Fixed asset threshold is being defined for registration of asset item especially for those related to class II-3 on furniture and equipment by GDNT.

PI 13. Debt management

This indicator assesses the management of public debt (domestic and external) and guarantees. It seeks to identify whether satisfactory management practices, records, and controls are in place to ensure efficient and effective arrangements for debt management. The indicator includes the following three dimensions, which are assessed on the basis of the last 12 months, and uses the M2 (AV) method for aggregating scores:

Dimension 13.1 Recording and reporting of debt and guarantees
Dimension 13.2 Approval of debt and guarantees
Dimension 13.3 Debt management strategy

Public debt management (PDM) in Cambodia is governed by two main legal frameworks, the Law on Public Financial System 2008, and Sub-decree no. 131 ANKr.BK, dated 23 June 2011, on public debt management. Specifically, Prakas no. 546 MEF.PrK, dated 07 June 2018, on the implementation of SOPs for PDM, provides detailed SOP for the management of public debt operation (public debt management, recording, debt service payment and revenue collection, data validation, reporting including bulletin, analysis, and document management).

Dimension 13.1. Recording and reporting of debt and guarantees

This dimension assesses the integrity and comprehensiveness of domestic, foreign, and guaranteed debt recording and reporting.

GDICDM is responsible for recording data on domestic and external debts. The database used for such recording is the United Nations Conference on Trade and Development (UNCTAD) Debt Management and Financial Analysis System (DMFAS) Version 6 and has been in use since 2014. The system is set up at GDICDM to manage daily operations and connected with GDNT, FAD and GDP for them to access reports. DMFAS has capacity to record debts, cash withdrawals, and debt service. All data inputs are made by GDICDM. GDICDM also developed an in-house Database for PDM for recording and maintaining relevant data in addition to the debt data recorded in DMFAS. This in-house Database for PDM is a customized system supports daily operations such as: recording and monitoring of daily operations, automated notification, and especially automation debt service payment to creditors and collection of debts from debtors. This system was launched through Prakas no.1620 MEF.PrK, dated on 27 December 2018. With the DMFAS and the customized database, PDM is efficient, accurate, and comprehensive and debt data is available for internal and external reporting.

Reconciliations between the DMFAS records and creditors are prepared annually when GDICDM receives bills from creditors. There are only 14 external accounts and a single domestic creditor (a non-tradeable debt on recapitalization of the State Insurance Company). Reports on debt position (including aggregate debt, debt service and management) are prepared monthly and submitted regularly to GDNT and NBC, quarterly to WB, and semi-annually to the Prime Minister, National Assembly, and Senate, and to others on request. The GDICDM has also regularly and timely published twice per year (Mid-year and annual) no later than 3 months after period for Cambodian public debt statistical bulletin.

This dimension is scored C as the reconciliation process is performed annually. Data on total domestic and external debt stocks and flows is accurate and reliable and an overall picture of its composition is available on a quarterly basis or on demand. A higher score would require that debt record is reconciled monthly or quarterly.

Dimension 13.2. Approval of debt and guarantees

This dimension assesses the arrangements for the approval and control of the government's contracting of loans and issuing of guarantees, which is crucial to proper debt management performance.

Article 67 of the Law on Public Finance System (2008) together with Article 5 of Sub-decree no.131 ANKr.BK, dated 23 June 2011, on Public Debt Management indicate that the MEF is the only government entity authorized to contract borrowings and issue government guarantees. The borrowings and guarantee ceilings must be clearly stated in the annual financial management law.

The preparation of debt schedules, financial conditions, loan amounts, issuance of state securities, guarantees, and other financial commitments shall be defined by the Law on Annual Financial Management. The borrowing criteria are clearly defined, and the ceiling of borrowing and government guarantee (payment) are set for medium term. By PDMS 2019-2023 of RGC, the borrowing threshold was indicated in between SDR 1.5 – SDR 2 billion p.a or up to SDR 3 billion p.a (at extreme case), and as mentioned in the measure 6.6 (point 3) of PDMS 2019-2023, the total payment guarantee for new projects shall be capped at maximum of 10% of the national budget revenue. For FY2019, the borrowing amount was approved at SDR 1.4 billion, which is in the limit threshold of PDMS 2019-2023.

This dimension is scored A because the contracting of borrowings and guarantees can be approved only by the MEF. The MEF is the only authorized body. No loan guarantee is existed; however, the SOP on borrowing exists and are implemented.

Dimension 13.3. Debt management strategy

This dimension assesses whether the government has prepared a debt management strategy (DMS) with the long-term objective of contracting debt within robust cost–risk trade-offs.

The RGC issued a PDMS 2011-2018 in 2012, updated PDMS 2015-2018, and recently issued PDMS 2019-2023[44] covering the projections the debt status, and risks. In every five years, the MEF prepares PDMS and submits to Public Debt Management Committee, chaired by the Minister of Economy and Finance, for endorsement before Prime Minister approval.

DSA[45] for external and domestic debt has been undertaken annually by GDICDM. This DSA is compared with the annual DSA undertaken by IMF/IDA as part of IMF's annual Article IV consultations, and reported to the Public Debt Management Committee. According to IMF reports, the two DSAs use broadly similar macro-economic assumptions and have shown that Cambodia remains at low risk of debt distress under the baseline scenario.

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[44] These PDMS are available on the website of GDICDM: https://gdicdm.mef.gov.kh/en/cat/documents-andpublications/strategy-papers

[45] Sub-decree no.131 ANKr.BK states that DSA is conducted every two years.

The portfolio of Cambodia's public debt[46] comprised of more than 99% of external debt and less than 1% of domestic debt which is in form of non-marketable government bonds issued to recapitalize state owned insurance companies. In this context, the cost and risk target in Cambodia's PDMS are set as measure/guidance principal as follows:

- **For cost**: Grant Element for the loan to be at least 35% (following IMF guideline). This means not only Interest Rate is covered but also Maturity and Grace Period of the loan and other cost factors such as Management fee and Commitment Fee, etc.
- **For risk**: Since Cambodia only have public external debt so all loans are of course in foreign currencies. As measure to this, the MEF minimizes borrowing loans with high risk/volatile currencies and have close collaboration with the NBC for hedging mechanism. (All debt related risk measure could be found in the annex 4 of the PDMS)
- Beside this, PDMS set ceiling of key debt indicators for monitor debt sustainability as follows:
  - PV of total public debt to GDP ratio <55%
  - PV of Public and Publicly Guaranteed (PPG) external debt to GDP ratio <40%
  - PPG external debt service to export ratio <180%
  - PPG external debt service to export ratio < 15%
  - PPG external debt service to revenue ratio <18%.

As indicated in Table 3.29, Cambodia remains at low risk of debt distress since performance of public debt indicators are below threshold; as a result, debt remains sustainable.

Table 3.29: Debt indicators 2018-2020

Indicators	Threshold	2018	2019	2020 est.
1. PV of total debt				
to GDP	55	21.48	20.78	23.03
2. PV of Public and Publicly Guaranteed External Debt				
to GDP	40	21.46	20.78	20.3
to exports	180	28.4	26.7	34.1
3. Public and Publicly Guaranteed External Debt Service				
to exports	15	1.4	1.5	1.9
to revenue	18	4.9	4.5	7.6

Source: Cambodia Public Debt Statiscal Bulletin Vollume 10 (Table 2 and page 12)

The PDMS 2019-2023 indicated the range of borrowing as SDR 1.5 billion – SDR 2.0 billion or up to SDR 3 billion at extreme case. The borrowing mentioned in annual budget document was SDR 1.4 billion in 2019 and SDR 1.9 billion in 2020, including additional borrowing ceiling of SDR 500 million, approved by the budget law 2021.

The MEF prepares semi-annually and annual debt reports and submits to the RGC, and parliament, which clearly explain the in-year progress and against PDMS's objective performance on borrowings, the disbursement, the public debt outstanding, and present value (PV of debt).

This dimension is scored A because PDMS 2019-2023 is published on the website of the MEF GDICDM. Twice a year the MEF prepares public debt management reports that are submitted to the RGC and

[46] Recently in 2020, the domestic debt was fully paid since then, the portfolio comprises only external debt, meaning no more domestic debt.

parliament on the overall in-year progress and against the PDMS objectives on performance public debt management.

Table 3.30: Scores for PI-13

PI	Dimension	Score	Brief justification for score
PI-13	**Debt management**	**B+**	**Scoring Method M2**
13.1	Recording and reporting of debt and guarantees	C	A reconciliation process is performed annually. Data on total domestic and external debt stocks and flows is accurate and reliable and an overall picture of its composition is available on a quarterly basis or on demand.
13.2	Approval of debt and guarantees	A	The MEF is a single entity that has right to borrow, issue new debt and provide state guarantee. PDMS 2019-2023 and SOP for PDM are main documents used as guidance to borrow, undertake debt related transaction and monitor debt management transaction. Annual borrowing is approved by parliament in the annual budget law.
13.3	Debt management strategy	A	PDMS 2019-2023 is published on the website of the MEF GDICDM. Twice a year the MEF prepares public debt management reports that are submitted to the RGC and parliament on the overall in-year progress and against the PDMS objectives on performance public debt management.

Box 3.12: Ongoing reform activities

To strengthen contingent liabilities management, the RGC set out in PDMS 2019-2023 the following key measures:

1. Continuing not to provide credit guarantee to private sector.
2. Continuing to allocate budget approximately 5% of total annual debt service to the contingency fund for settling government's payment guarantee that will eventually occur.
3. The total payment guarantee for new projects shall be capped at the maximum of 10% of national budget revenue.
4. The NBC shall continue to study and monitor the situation trends of private sector debt and risk of debt obligation that may arise from banking and financial sector and share the information and data with the MEF, as well as enforce policy implementation, strategies, and relevant provisions rigorously and effectively.

PILLAR FOUR: Policy-based fiscal strategy and budgeting

This pillar is about whether the fiscal strategy and the budget are prepared with due regard to government fiscal policies, strategic plans, and adequate macroeconomic and fiscal projections.

Pillar IV has four indicators:

- PI-14. Macroeconomic and fiscal forecasting
- PI-15. Fiscal strategy
- PI-16. Medium term perspective in expenditure budgeting
- PI-17. Budget preparation process
- PI-18. Legislative scrutiny of budgets

PI-14. Macroeconomic and fiscal forecasting

This indicator measures the ability of a country to develop robust fiscal forecasts, which are crucial to developing a sustainable fiscal strategy and ensuring greater predictability of budget allocations. It contains the following three dimensions, which are assessed and uses the M2 (AV) method for aggregating dimension scores:

Dimension 14.1 Macroeconomic forecasts
Dimension 14.2 Fiscal forecasts
Dimension 14.3 Macro fiscal sensitivity analysis

All dimensions are relevant to the national government as set out in the Circular on Annual Budget/BSP preparation. The MEF developed the annual Macroeconomic and fiscal policy framework (MFPF) through a top-down process and in line with the macroeconomic outlook, the RGC's priority policies, and trends of revenue and expenditure. Underlying assumptions are established which will support the development of a future MTFF along with an MTBF that set the spending ceilings for both national budget entities and SNAs.

The annual MFPF is submitted to the head of the government in early March and triggers the start of the budget formulation process. After the approval of the annual MFPF by the head of the government, the document is then submitted to the Second Commission of the parliament – both the National Assembly and the Senate. The Second Commission of the parliament received the annual MFPF 2019 (25 April 2018) and 2020 (26 March 2019).

Dimension 14.1. Macroeconomic forecasts

This dimension assesses the extent to which comprehensive medium-term macroeconomic forecasts and underlying assumptions are prepared for the purpose of informing the fiscal and budget-planning processes and are submitted to the legislature as part of the annual budget process.

The MEF GDP prepares the annual MFPF for medium-term budget and annual budget planning and formulation (forecast the growth by sector of the economy, inflation, interest rates, exchange rates, and potential revenue and expenditure, GDP, etc.). This MFPF is divided into two main parts, (1). Macroeconomic policy framework and (2). Fiscal policy framework. GDP has prepared the technical note to explain the macroeconomic assumptions in the 2017, 2018 and 2019 for internal MEF discussion purpose.

The macroeconomic policy framework describes the current status of year N-1, N and N+1 at sector level including underlying assumptions for key macroeconomic indicators (GDP, import, export, inflation, exchange rate, deficit in the current account) as well as forecasts for N+2 and N+3. In addition, it also provides a macroeconomic outlook in 2020 and vulnerability to external risks, primarily stemmed from (1) the anticipated impact of COVID-19 pandemic, (2) EBA withdrawal, and (3) the global economic slowdown and (4) the China and US dispute in international trades. Domestic challenges include slow down economic diversification, limited competitiveness and extreme weather condition.

This dimension is scored B because the MEF prepares forecasts of key macroeconomic indicators and provides assumptions and forecasts for year N-1, N and N+1 as well as forcast year N+2, N+3 and keeps updating these figures annually. After Prime Minister approved the annual MFPF, the MEF submits to the National Assembly. A higher score would require that an external or independent Economic and Financial Policy Committee (EFPC) review macro-economic forecasting.

Dimension 14.2. Fiscal forecasts

This dimension assesses whether the government has prepared a fiscal forecast for the budget year and the two following fiscal years based on updated macroeconomic projections and that reflects government-approved expenditure and revenue policy settings.

The MEF has prepared fiscal forecasts for the budget year and the two following years. The forecast of revenue is based on macroeconomic forecasts and key macroeconomic assumptions, and reflect on government policy (e.g. RMS) and historical trend of revenue collections which is explained in annual MFPF. The revenue projections cover tax collection by the GDCE and GDT as well as non-tax revenue. Meanwhile expenditure is broken down into four main sectors – General Administration, National Defense, Security and Public Order, Social Affairs and Economy, but does not provide detailed explanations by policy initiatives. Wage spending is based on government policy and current expenditure growth is based on annual inflation growth. This information is consolidated to prepare the annual budget deficit or surplus and financing.

MEF GDB collects and consolidates all government priority policies and gets an approval from the RGC for the annual budget priorities and levels. It also consults with LMs/institutions during budget defense sessions. For example, the RGC continues to focus on social protection policies through the provision of cash transfer programs to poor pregnant women and children under two years old, free medical treatment and maternity benefits to workers, and investment in human capital and infrastructure development, as well as structural reforms in various areas.

This dimension is scored C because three-year forecasts of fiscal aggregates are prepared annually for the basis of the main economic categories, sectors, and high-level administrative heads. A higher score would require that underlying assumptions be clearly described and that explanation be provided on the main variances between the forecasts made in the previous year included in the annual budget documentation and statement submitted to National Assembly.

Dimension 14.3. Macrofiscal sensitivity analysis

This dimension assesses the capacity of governments to develop and publish alternative fiscal scenarios based on plausible unexpected changes in macroeconomic conditions or other external risk factors that have a potential impact on revenue, expenditure, and debt. Such analyses would typically involve an analysis of debt sustainability.

The annual MFPF provides an overview of the external impact of the global economy variable on Cambodia economy, with a qualitative description of challenges and internal factor risks. It describes the overview of the economic variables used in the projections and assumptions. In the technical note prepared by GDP, the qualitative assumptions are detailed, e.g. the impact on withdrawal of EBA, trade war between USA and China.

This dimension is scored C because the MEF prepares macrofiscal forecasts based on a qualitative assessment of the impact of alternative macroeconomic assumptions including fiscal forecasts and external factors. A higher score would require that the MEF prepares a range of fiscal forecast scenarios based alternative macroeconomic assumptions.

Table 3.31: Scores for PI-14

PI	Dimension	Score	Brief justification for score
PI-14	**Macroeconomic and fiscal forecasting**	**C+**	**Scoring Method M2**
14.1	Macroeconomic forecasts	B	The MEF prepares forecast of key macroeconomic indicators and provides assumptions and forecasts for year N-1, N and N+1 as well as forecast year N+2, N+3 and keeps updating these figures annually. After Prime Minister approved the annual MFPF, the MEF submits to the National Assembly.
14.2	Fiscal forecasts	C	The annual MFPF contains three-year forecasts of fiscal aggregates prepared annually by main economic categories, sectors, and high-level administrative heads.
14.3	Macro fiscal sensitivity analysis	C	The annual MFPF prepared by MEF include a macrofiscal sensitivity analysis with a qualitative assessment of the impact of alternative macroeconomic assumptions, based mostly on fiscal data and external factors.

Box 3.13: Ongoing reform activities

The RGC will establish the MTFF and MTBF (pilot stage) and develop realistic ceiling for guiding budget formulation to support improvement in fiscal and budgetary discipline by having fiscal targets and improved forecasting models.

PI-15. Fiscal strategy

This indicator provides an analysis of the capacity to develop and implement a clear fiscal strategy. It also measures the ability to develop and assess the fiscal impact of revenue and expenditure policy proposals that support the achievement of the government's fiscal goals. It covers the entire national operations and contains the following three dimensions and uses the M2 (AV) method for aggregating dimension scores:

Dimension 15.1 Fiscal impact of policy proposals (the last three fiscal years)
Dimension 15.2 Fiscal strategy adoption (the last fiscal year)
Dimension 15.3 Reporting on fiscal outcomes (the last completed fiscal year)

In practice, the RGC has included a medium-term perspective in preparing its Annual Budget. This preparation of annual MFPF in accordance with article 39 of Law on Public Finance System (2008). The annual MFPF is prepared from top-down and in line with macroeconomic outlook, RGC's priority policies, and trends of revenue and expenditure. In particular, the MTBF is prepared based on MFPF to provide information to the LMs/institutions on the indicative and priority expenditure as well as the potential revenue of the fiscal year and the next two years for the preparation of BSP.

Dimension 15.1. Fiscal impact of policy proposals

This dimension assesses the capacity of the government to estimate the fiscal impact of revenue and expenditure policy proposals developed during budget preparation. The assessment of the fiscal implications of policy changes is critical to ensure that policies are affordable and sustainable.

The main objectives of RGC fiscal policy are to achieve macroeconomic stability, facilitate economic growth with the low inflation (single digit), and support government policies set forth in the official documents: the RS, NSDP, etc. Annually the MEF will allocate the budgets accordingly to prioritized sectors and fiscal policies before sending the draft budget law to CoM and legislature. The fiscal policy framework in the MFPF provides a projection of growth percentage of all sectors for the previous and current budget years. The RMS 2019-2023 foresees a revenue growth of at least 0.3 percentage point of GDP, tax and non-tax revenue policies.

At this stage, and for the last three completed fiscal years, the quantitative impact of the changes in policies and programmes is estimated and discussed with GDB by all LMs/institutions for the annual year as part of the consolidation of the estimates for the MFPF. It covers all expenditure relating to salaries, programmes in order to project the aggregate financing needs. In parallel, the GDP will estimate the fiscal impact of revenue with GDCE and GDT for the annual year.

The annual MFPF document presents the total revenue and expenditure, surplus and deficit from the two previous years until the current budget year. It outlines the fiscal policy framework and impact of revenue and expenditure policies at sector level and disclose indicators to achieve the policy targets based on the planned strategic and policy framework covering the annual budget: (1) revenue policy for tax and non-tax revenues and (2) expenditure policy by main sectors. The estimated impact of policy changes is not included as such in the annual MFPF. The figures in the annex of the annual MFPF present revenue and expense in years N-1, N and N+1 as well as medium-term revenue-expenses in years N-1, N, N+1, N+2 and N+3. The fiscal impact is described by sectors but not in details for each policy initiatives. This table is included in the budget statement submitted to the National Assembly with reference to the RMS also included in the section of fiscal policy framework.

Subsequently, LMs/institutions prepare their BSP based on the MEF circular integrating budget policies and costing estimates in accordance with the annual MFPF and based on the RS and NSDP. However, the BSP does not include the estimated fiscal impact of the policy adjustments for the following fiscal years.

This dimension is scored C because the annual MFPF formulation requires the MEF to collect information from all LMs/institutions and revenue collecting agencies to prepare estimates of the fiscal impact of all proposed changes in revenue and expenditure policies for the upcoming budget year; however, only the aggregates at sector level for the annual budget are submitted for approval. A higher score would require that the MFPF provides explanations for all proposed changes at the initiative level and not only at sector level and also for the next two following years.

Dimension 15.2. Fiscal strategy adoption

This dimension assesses the extent to which government prepares a fiscal strategy that sets out fiscal objectives for at least the budget year and the two following fiscal years.

In practice, the MEF prepares annual macro-economic and fiscal framework that is submit to the RGC for approval. This framework includes both revenue and expenditure. Currently, the MEF is attempting to prepare the MTFF; however, it is postponed to next 2022 budget. The RGC set the debt ceiling that is indicated in the PDMS 2019-2023.

In term of revenue, qualitative and quantitative objectives were set in RMS with five years and its action plan and expenditure side is indicated in the NSDP 2019-2023.

The annual budget law 2019 is prepared based on macroeconomic indicators as follows:

- Real GDP growth to achieve within 7.1%
- GDP per capita expected to increase 1,706 USD

- Inflation is maintained within 3.1%
- Exchange rate is maintained with 4,037 riels/USD
- Deficit of current account is reduced from 7.3% of GDP in 2018 to 7.1% of GDP in 2019
- International reserve is estimated to increase USD 11,059 billion that can be imported 6.5 months in 2019.

This dimension is scored C because the RGC approves the annual MFPF, with qualitative and quantitative expenditure estimate by sectors for the annual budget but not detailed by policy initiatives. A higher score would require incorporating further fiscal analysis and explanations at initiative level and for the two subsequent fiscal years.

Dimension 15.3. Reporting on fiscal outcomes

This dimension assesses the extent to which the government makes available—as part of the annual budget documentation submitted to the legislature—an assessment of its achievements against its stated fiscal objectives and targets.

Article 78 of Law on Public Finance System (2008) states that Minister of Economy and Finance prepares the draft of annual budget settlement law. Article 80 the same law states the draft Law on annual draft budget settlement law reflects public accounting rules as follows:

- Revenue: planning at the beginning period along with changes and actual revenues by group, category, chapter, account, and sub-account.
- Expenditure: planning at the beginning period, new authorization and actual spending at ministries, institutions, or similar public entities and subnational administration.
- Comparison of total amount of the planned revenue and expenditure and changes made.

The RGC submits the draft budget settlement law and annexes (detailed with economic classification and main head of administrative classifications) along with a budget statement to explain budget outturn. In 2020, the budget statement for 2019 budget settlement law provided the explanations of main macroeconomic indicators, budget outturn of national administrations and SNAs and discussion the contribution to achieve the RGC's policy objectives (increasing salary for government officials and police and army, achievement in education, health sectors etc.), assessment of revenue collection both tax and non-tax, the challenges of budget execution, and response to audit and inspection findings.

This dimension is scored B because the MEF prepared the annual budget settlement law attached with an annex with explanations of budget outturn against the fiscal strategy and policy framework of the previous MFPF. A higher score would require publishing the report on fiscal outcomes with the annual budget settlement law.

Table 3.32: Scores for PI-15

PI	Dimension	Score	Brief justification for score
PI-15	**Fiscal strategy**	**C+**	**Scoring Method M2**
15.1	Fiscal impact of policy proposals	C	The annual MFPF formulation requires the MEF to collect information from all LMs and revenue collecting agencies to prepare estimates of the fiscal impact of all proposed changes in revenue and expenditure policies for the upcoming budget year; however, only the aggregates at sector level for the annual budget submitted for approval.

15.2	Fiscal strategy adoption	C	The MFPF is a fiscal strategy with some qualitative and quantitative fiscal policy targets approved by the RGC for the annual budget. It is the basis for the macroeconomic policy framework and the consolidated fiscal policy used for the annual budget preparation from the references of the RMS and the NSDP.
15.3	Reporting on fiscal outcomes	B	The RGC submits the draft budget settlement law and annex (detailed by economic classification and main head administrative classification) along with a budget statement explaining the previous budget outturn against the fiscal framework of the previous budget as well as policy actions to address the deviations, for the scrutiny of the National Assembly.

Box 3.14: Ongoing reform activities

The MEF GDP has initially drafted MTFF and submitted to MEF management. The formulation of MTFF is to strengthen policy-budget linkage and to provide in-depth analysis of financial risk. The MEF GDP will implement as follows:

- Continue to strengthen cooperation in data and information management in LMs
- Continue to improve model for forecasting revenue and expense, which is subject to be affected by internal and external factors, so that there is credibility in the forecast of MTFF in the following years
- Continue to strengthen capacity of technical working groups in preparing the MTFF more responsively to current and future context and better coordination amongst MEF, MOP and NBC.
- Capacity building budget analyst in MEF and LMs.

The Economic and Financial Policy Committee is an effective mechanism to lead the review, discussion and decision-making for MTFF prior to the submission to the CoM for review and final endorsement.

PI-16. Medium-term perspective in expenditure budget

This indicator examines the extent to which expenditure budgets are developed for the medium term within explicit medium-term budget expenditure ceilings. It also examines the extent to which annual budgets are derived from medium-term estimates and the degree of alignment between medium-term budget estimates and strategic plans. It covers the last budget submitted to the Council and contains the following four dimensions and uses the M2 (AV) method for aggregating dimension scores:

Dimension 16.1 Medium-term expenditure estimates
Dimension 16.2 Medium-term expenditure ceilings
Dimension 16.3 Alignment of strategic plans and medium-term budgets
Dimension 16.4 Consistency of budgets with previous year’s estimates

A medium-term perspective in the budget process is mentioned in various articles in the Law on Public Finance System (2008) in different sections (Chapter II, section 2, Chapter III section 1).

LMs and provincial administrations have implemented a full-pilot program budgeting. In fact, 39 LMs have been piloting PB since 2015: 10 LMs in 2015, 15 LMs in 2016, 11 LMs in 2017, and 3 LMs in 2018. Furthermore, 25 C/P administrations have implemented PB from 2017-2021.

After the annual MFPF has been prepared, the Royal Government issues a circular on the preparation of the BSP. This BSP is a 3-year rolling plan formulated through a bottom-up approach and developed annually by LMs, PAEs and the capital/provincial administrations. BSP is a planning tool that integrates current and capital budgets and links policy priorities of the LMs/institutions to sectoral goals and NSDP. The BSP is prepared in accordance with specific policy and program objectives and includes relative descriptions and rationale, sources of financing, key performance targets, performance objectives, timeframe and budget requirements. The BSP is based on the expenditure ceiling prescribed in the medium-term budget framework and is comprehensive as it includes all sources of financing (e.g. state budget, Development Partner budgets, own-sources of revenues etc.) as well as all types of expenditure (e.g. current, capital, grant financing, subsidies, resources transfers, etc.).

Dimension 16.1. Medium-term expenditure estimates

This dimension assesses the extent to which medium-term budget estimates are prepared and updated as part of the annual budget process. The preparation of medium-term estimates is intended to strengthen the strategic allocation of resources and improve predictability of annual budget allocations.

The BSP is prepared in the initial phase of the budget preparation. A BSP Circular instructs LMs/institutions to prepare annual estimates for both revenues and expenditures covering a 3-year horizon using the templates provided (i.e. Table 3 for revenue estimates and Table 4 for expenditure estimates) by economic classification. The content of estimates in the two tables is expected to be comprehensive and to reflect all budget entities, all categories of revenue or expenditure (i.e. current and capital), as well as all sources, including externally funded activities (ODA). The Circular provides guidance (including some quantitative parameters) for estimates of specific expenditures categories (e.g. wage, non-wage), as well as guidance relevant to specific types of budget entities (i.e. central ministry, provincial departments, etc.).

A review of the quality of costing and financial projections in eight BSPs[47] carried out in 2020 highlighted key weaknesses in the BSP framework:

- lack of comprehensive integration of capital expenditure and ODA;
- lack of analytical content: no explanation or rationale for increased financial requirements; no cost analysis; no differentiation between ongoing programs and new initiatives;
- non-apportionment of wages by programs/sub-programs;
- focus on year n+1 leading to incrementalism for years n+2 and n+3;
- Priority to ongoing activities leaving limited incentive and space for new policy initiatives.

This dimension is scored D because the annual budget is effectively prepared based on budget estimates over a 3-year horizon in the BSP and MBTF but covers only the annual budget year with a reliable economic classification at the 2-digit GFS equivalent for both capital and recurrent expenditure. A higher score would require that the BSP be attached to annual budget documentation and provide a consistent administrative and programmatic presentation of the budget with a comprehensive allocation by programs/functions (PB) for the next two following years.

Dimension 16.2. Medium-term expenditure ceilings

This dimension assesses whether expenditure ceilings are applied to the estimates produced by ministries to ensure that expenditure beyond the budget year is consistent with government fiscal policy and budgetary objectives.

The annual MFPF is the entry point for the preparation of the annual budget and includes a MTBF attached to the BSP circular issued the first week of April each year. The MTBF 2020-2022 was developed in March 2019 for 2020 Budget with a baseline (recurrent) expenditure ceiling calculated based on a formula and communicated to LMs/institutions in the BSP Circular (10 April 2019). The baseline ceilings are tabulated using ongoing commitments or recurrent budget from the previous year while taking into consideration

[47] This assessment was commissioned to EU and undertaken by EU experts in 2020.

potential budget variations caused by staff salary increases, inflation and other expenditure drivers. The use of the formula is confined to portions of the budget that are recurrent, while new policy requests along with other budget variations are decided in negotiation between the MEF and LMs/institutions in accordance with budget availability and affordability.

In 2020, the RGC adopted annual MFPF and piloted the MTBF 2020-2022 establishing a ceiling, in terms of GDP, for the four sectors (general administrations, national defense, security and public order, social affairs and economy). Although they are considered "soft" ceilings, aggregate budget ceilings for the annual and the two following budget years are therefore set by the government based on the fiscal policy framework (MFPF) and budgetary objectives (BSP). They are presented in percentage of GDP, for the four sectors and before the annual budget circular is issued through the Financial Management Law in 2020. However, these ceilings both recurrent and capital expenditures are not available at ministry level.

This dimension is scored C. A higher score would require that aggregate expenditure ceilings be adopted at ministry-level for the upcoming budget year and two following fiscal years.

Dimension 16.3. Alignment of strategic plans and medium-term budgets

This dimension measures the extent to which approved expenditure policy proposals align with costed ministry strategic plans or sector strategies.

The Rectangular Strategy phase 4 (RS4) for Growth, Employment, Equity and Efficiency: Building the foundation toward realizing the Vision for Cambodia 2030 and 2050, was adopted in September 2018 by the RGC to define and translate the overarching long term socio-economic development agenda of the country.

A NSDP has been adopted by RGC covering the 5-year period 2019-2023. The preparation was coordinated by the MOP and replaces NSDP 2014-2018. The NSDP covers four main components, each with four sub-components, as well as five overarching strategic areas, including the macro-economic environment. The costing of recurrent expenditures provides aggregates by LMs/institutions whereas capital cost is broken down by components only. It is not possible to link recurrent and capital costs by LMs/institutions, sectors or main functions, and even less to individual programs or sub-functions. Moreover, there is no explanation on how proposed recurrent costs relate to capital costs.

Five-year sector strategies are in place at LMs/institutions' level, for education and health specifically, and include an estimated costing. For example, the ESP 2019-2023 contains projections of recurrent and capital costs for each sub-sector or program (e.g. basic education), the recurrent cost projections being mainly driven by student enrolment and unit cost projections. The projections are broadly consistent with aggregate fiscal forecasts, and consistent with the aggregate estimates of the NSDP. Total education sector spending is 12.4 percent of total primary expenditure in the budget (excluding externally financed projects) in FY2020. The second health sector strategic plan (2008-2020) projects costs, broadly consistent with aggregate fiscal forecasts. Only recurrent costs are projected, under the assumption that existing infrastructure can be utilized. It is mentioned that capital costs will be projected later based on needs. Health spending under the control of MoH amounts to about 10.5 percent of total primary expenditure in the budget (excluding externally financed projects) in FY2020.

In 2020, other line ministries, such as MAFF, MRD and MoWRAM also prepared the strategic plans for five years. All other sectors (LMs/institutions) prepare strategic plans for 3 years as part of the annual BSP process, but there is limited indication that these BSPs include full and detailed costing or are consistent with fiscal aggregates. Capital and recurrent budget integration, primarily through the negotiations and decisions of inter-ministerial committees, initially target the three LMs accounting for a majority of total capital spending (i.e. MPWT, MoWRAM and MRD), with an additional effort to strengthen capital budgeting processes for a 2nd tier of LMs (i.e. MoEYS, MAFF, MoI and Ministry of Labour and Vocational Training). The overview is presented in the tables below.

Table 3.33: Linking BSP to RS and NSDP 2019-2023

Key questions/areas	MAFF	MRD	MoEYS	MoH	MPWT
% of 2019 budget[48]	**1.2**	**2**	**14.5**	**6.9**	**4.5**
Linking to medium term RS4	Yes	Yes	Yes	Yes	Yes
Linking to NSDP	Yes	Yes	No	Yes	No
Linking to sector strategies	Yes	Yes	Yes	Yes	Yes
Analysis reflecting the LM's ability to spend by programme/sub-programme (based on budget execution ratio of year n^{-1})	No	No	No	No	No
Are achievements compared to original financial and non-financial targets?	No	No	No	No	No
Is variance explained?	No	No	No	No	No
Are challenges comprehensively analysed?	No	No	No	No	No

Table 3.34: Quality of BSP

Key questions/areas	MAFF	MRD	MoEYS	MoH	MPWT
Are performance indicators identified for all programmes and sub-programmes	Yes	Yes	Yes	Yes	Yes
Quality of Policy objectives and programs indicators (SMART, outcome)	Medium	Medium	High	High	Low
Quality of sub-programmes indicators (SMART, outputs)	Medium	Medium	High	High	Low

Table 3.35: BSP costing and financial projections

Key questions/areas	MAFF	MRD	MoEYS	MoH	MPWT
Are capital requirements integrated?	Yes	Yes	Yes	No	Yes
Is approved ODA integrated?	Partly	Yes	Partly	Yes	Partly
Are wages apportioned by programme/sub-programme?	Only by program	No	No	No	No
Is costing basis and methodology disclosed?	No	No	No	No	No

This dimension is scored C because medium-term strategic plans are prepared for all major ministries but only the education sector and (to a large extent) the health sector, representing 22.9 percent of the annual 2020 budget have fully costed strategic plans aligned with fiscal aggregates. The rest of the sectors have strategic plans but without full and consistent costing. Overall, only some expenditure proposals in the annual budget estimates are fully aligned with the strategic plans. A higher score would require that

[48] This calculation is excluded the SNAs expenditure, donor funded projects and interest.

most medium-term expenditure of LMs/institution are consistently aligned with strategic plans.

Dimension 16.4. Consistency of budgets with previous year's estimates

This dimension assesses the extent to which the expenditure estimates presented in the last medium-term budget establish the basis for the current medium-term budget and if changes in expenditure estimates are explained.

The 2019 and 2020 medium-term budgets have been adopted that cover only current expenditure; there is no explanation on the change of current and previous medium-term expenditure. The variation of first medium-term budget year (2019-2021) and second medium-term budget (2020-2022) is more than 13% but lack of explanation for the difference between the first year and second year is available.

This dimension is scored D because the variation of medium budget is not explained. A higher score would require that explanations be provided for the comparison of the second year of the previous medium-term budget (2019) and the first year of the current medium-term budget (2020) at the aggregate level.

Table 3.36: Scores for PI-16

PI	Dimension	Score	Brief justification for score
PI-16	**Medium-term perspective in expenditure budgeting**	**D+**	**Scoring Method M2**
16.1	Medium-term expenditure estimates	D	Three-year estimates of expenditure are prepared as a stage of the annual budget preparation in the BSP aligned consistent with the MFPF, but not presented with the annual budget which provides a breakdown by economic classification and capital expenditure aligned to the MFPF and BSP framework only for the annual budget year.
16.2	Medium-term expenditure ceilings	C	For 2020 annual budget, the RGC adopted the annual MFPF and a pilot MTBF 2020-2022, applied to current revenue for main heading administrations and PAEs. Indicative budget ceilings are set and approved by the RGC in the BSP before the issuance of the annual budget circular for the annual and two following budget years. It is presented in terms of GDP, for the four sectors (general administrations, national defense, security and public order, social affairs and economy) but not at ministry level.
16.3	Alignment of strategic plans and medium-term budgets	C	Medium-term strategic plans are prepared for all major ministries but only the education sector and (to a large extent) the health sector have fully costed strategic plans aligned with fiscal aggregates. The rest of the sectors have strategic plans but without full and consistent costing. Overall, more than 25 percent but less than the majority of expenditure proposals in the annual budget estimates are fully aligned with the strategic plans.

PI	Dimension	Score	Brief justification for score
16.4	Consistency of budgets with previous year's estimates	D	The variation between the first medium-term budget year (2019-2021) and second medium-term budget (2020-2022) is more than 13% and lack of explanation on the differences or expenditure policy changes.

Box 3.15: Ongoing reform activities

- Current progress in the preparation of BSP 2021-2023 and annual budget law 2021 is that comprehensive budget ceilings and medium-term expenditure estimates will be captured for recurrent, and capital expenditures, piloted first for 3 LMs: MRD, MoWRAM and MPWT.
- Under the MBTF reforms, the budget ceiling under the framework of MTBF will become the reference for LMs and Institutions to prepare their budget strategic plans and annual budget. The MTBF will be prepared in consultation with line ministries and institutions with respect to new expenditure proposals and adjustments in expenditure priorities under the guidance and decision of the Prime Minister.
- The quality of the BSP will be further improved with focus on two important aspects, (1) review and reinforcement of the program structure, especially in relation to the policies and related programs by ensuring these aligned to the NSDP. The performance information will also be improved as the basis for performance-based management; (2) integration of capital expenditure into the BSP in order to have comprehensive information for both capital and current expenditure.
- Under the PB reform, guidelines for the formulation of performance budgeting were approved and issued on 12 March 2020. They will be applied to the preparation of BSP (2022-2024) and annual budget (2022) and contribute to improve the quality of structure of BSP, PB and respective KPIs.

PI-17. Budget preparation process

The indicator evaluates the effectiveness of stakeholder engagement in the budget preparation process, including political leadership, and whether that participation is orderly and timely. The time period for dimensions 17.1 and 17.2 is the last budget submitted to the legislature (2020) and for 17.3 the last three completed fiscal years (2017, 2018 and 2019). Coverage is Budgetary Central Government.

Dimension 17.1. Budget calendar

This dimension assesses whether a fixed budget calendar exists and the extent to which it is adhered to.

Article 39 of the Law on Public Finance System 2008 defines the budget preparation calendar:

BSP Phase, March–May

During the first week of March, the MEF prepares the medium-term macroeconomic framework and State budget policy consistent with national policy for development and submits to the Royal Government (i.e. CoM) for review and approval.

During the first week of April, the Minister of Economy and Finance issues an instructive circular to ministries and provinces on the preparation of the BSP, based on the medium term macro-economic framework (MFPF)and based on the state budget policy approved by the Government. The BSP shows the link between the projected spending and the National Socio-economic Development Plan and has to include capital spending and therefore has to reflect DP-funded projects. The formal deadline for submission of BSPs is mid-May, allowing six weeks for preparation. However, in the actual implementation in 2019 and 2020, the time for submission was only four weeks (see table 3.37).

Preparation of Annual Budget, June-September

During the first week of June, the MEF prepares a draft instructive circular on budget preparation guidelines, including standard forms and explanatory notes. The circular is submitted to the Government for approval and then sent to ministries and provincial governments. The budget plans have to be submitted by July 15, according to the Law, but in practice, some plans are submitted later in July[22] but the delays do not impact the subsequent steps of the calendar. During August, the MEF discusses the budget plans with LMs and provincial governments. Following the negotiation and agreement, the MEF prepares a draft annual budget law during September.

Budget Approval, October-December

During the first week of October, the MEF sends the draft budget law to the CoM for review and approval and submits to the National Assembly in the first week of November for review and approval. The draft is then submitted to the Senate in the first week of December for review and approval. The draft budget law is approved before the end of December. The budget calendar for fiscal year 2020 is set out in Table 3.37 below.

Table 3.37: Budget calendar as per 2008 Public Finance law and actual dates in 2019 for 2020 budget

Action required	Timing according to law	Actual dates for FY2020 budget preparation
The MEF submits the annual MFPF to the RGC for review and approval.	1st week of March	
The RGC issues an instructive circular on preparation of BSP	1st week of April	10th April 2019
Deadline for submission of BSPs to the MEF	15th May	10th May 2019
The MEF prepares an instructive circular on budget preparation techniques and procedures for the RGC approval – and subsequent distribution to budget entities.	1st week of June	12th June 2019
Budget entities submit budget plans to the MEF	Deadline 15th July	05th July 2019
The MEF invites budget entities to discuss and defend their budget proposals (technical discussions).	Month of July	11-31 July 2019
The MEF prepares draft financial law by reconciling revenue and expenditure (including political level discussions)	Month of September	08 August-06 September 2019
The MEF consolidates budget (National and SNAs)		September 2019
The MEF submitted draft budget law to the CoM for review and approval.	1st week of October	
The RGC submitted an approved draft budget law to the National Assembly for review and enacted.	1st week of November	25th October 2019
The National Assembly submitted draft budget law to the Senate for review and enacted.	1st week of December	26th November 2019
Budget law passed by the National Assembly and Senate	Prior to 25th December	9th December 2019
The King signs the budget law	Prior to 1st January	20th December 2019

Sources: Law on Public Finance System (2008), Budget Law 2020, Circulars on BSP and annual budget preparation for FY2020

This dimension is scored A because a clear budget calendar exists and is generally adhered to and from the budget circulars, all LMs have 7 weeks in total (4 weeks for the BSP and 3 weeks for the PB) to prepare and submit their budgets.

Dimension 17.2. Guidance on budget preparation

This dimension assesses the clarity and comprehensiveness of top-down guidance on the preparation of budget submissions.

As explained above, the budget submission by the ministries and institutions are prepared in two stages, namely the BSP formulation and the detailed budget estimates.

A standard form guides the preparation of the BSP: (i) roles and responsibilities of ministry; (ii) policy objectives; (iii) programs or strategic priorities consistent with objectives, showing projected resource requirements for each of the following three years, divided into wage, non-wage current, and capital spending requirements, including those financed by DPs (one line for each cost category), own-source revenue projections (including from DPs) and strategies for strengthening revenue collection; and (iv) physical indicators and targets for each program/strategic priority.

The guideline document instructs the preparation of the detailed budget. The overall spending ceiling is specified in terms of a percentage of GDP (separately for current and capital). A ceiling is set, in terms of GDP, for the four sectors (General administration, National defense and security and public order, social affairs, and Economic sectors). Aggregate ceilings are defined for all sectors both at the level of recurrent and capital expenditure. They are considered as “soft” ceilings and provide an indicative guideline for LMs/ institutions to align with and justify their detailed budget proposal. The MEF reviews the budget estimates after the budgets are submitted. The main priority areas are mentioned (e.g. education and health).

The main basis for the annual budget preparation is the current year’s budget, adjusted for approved wage rate increases, approved new recruitment less projected retirement, adjustments to the budget and unexpected price developments during the year. Non-discretionary non-wage current expenditure (e.g. utilities) cannot be increased.

In addition, LMs/institutions can request additional resources to finance additional discretionary current expenditure (“procurement” expenditure) consistent with their BSP submission, and up to a percentage growth ceiling, particularly for ministries covered under the program budgeting PB framework. The requests must be defended at the budget discussion meetings with the MEF in August.

This dimension is scored C because comprehensive and clear budget circulars (for BSP and annual budget plans respectively) are issued to LMs/institutions and reflect aggregate ceiling both recurrent and capital expenditure for four sectors approved by the government prior to the circulars being distributed. A higher score would require that the budget circulars reflect ministry/institution ceilings to be submitted.

Dimension 17.3. Budget submission to the legislature

This dimension assesses the timeliness of submission of the annual budget proposal to the legislature or similarly mandated body so that the legislature has adequate time for its budget review and the budget proposal can be approved before the start of the fiscal year.

The RGC adhered to the Law on Public Finance System (2008) by submitting annual budget proposal as follows:

Table 3.38: Timely budget submission to legislative body

Fiscal Year	Date submission to legislative body	Budget law passed by legislative body
2018	31 October 2017	27 November 2018
2019	30 October 2018	29 November 2018
2020	25 October 2019	09 December 2019

This dimension is scored A because the RGC has submitted the annual budget proposal to the legislature more than two months before the start of fiscal year in each of the last three years.

Table 3.39: Scores for PI-17

PI	Dimension	Score	Brief justification for score
PI-17	**Budget preparation process**	**B+**	**Scoring Method M2**
17.1	Budget calendar	A	The RGC issues two circulars for the BSP and the annual budget subsequently. Circulars clearly defined the prioritized policies, guidance for budget preparation. All LMs have between 4 and 5 weeks in order to prepare their budgets for the two stages respectively i.e. about 9 weeks in total.
17.2	Guidance on budget preparation	C	According to the Circular on Annual Budget Preparation, separate aggregated ceilings are issued for current and capital expenditure for each of the four sectors (in terms of percentage of indicative GDP) but not at ministry level. Through the annual budget circular, only indicative soft ceiling for recurrent expenditure are given to LMs. The budget estimates are subsequently reviewed by the MEF.
17.3	Budget submission to the legislature	A	The RGC has submitted the annual budget proposal to the legislature more than two months before the start of fiscal year in each of the last three years.

Box 3.16: Ongoing reform activities

The MEF is developing a new public finance system law and plans to submit to legislative body in the first quarter of 2021. This new law will include several key areas that will enable implementation of performance-informed budgeting as follows:

- 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 genera; 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).

PI-18. Legislative scrutiny of budgets

This indicator assesses the nature and extent of legislative scrutiny of the annual budget. It considers the extent to which the legislature scrutinizes, debates, and approves the annual budget, including the extent to which the legislature's procedures for scrutiny are well established and adhered to. The indicator also assesses the existence of rules for in-year amendments to the budget without ex-ante approval by the legislature. The indicator contains the following four dimensions and uses the M1 (WL) method for aggregating dimension scores:

Dimension 18.1. Scope of budget scrutiny
Dimension 18.2. Legislative procedures for budget scrutiny
Dimension 18.3. Timing of budget approval
Dimension 18.4. Rules for budget adjustments by the executive

The Cambodian legislature consists of two chambers, namely the National Assembly and the Senate. When the National Assembly has reviewed and approved the draft law, the National Assembly sends it to the Senate for approval. The Standing Committee of the National Assembly is comprised of the President of the National Assembly, two Vice-Presidents of the National Assembly, and each Chairperson of Commission.

Dimension 18.1. Scope of budget scrutiny

This dimension assesses the scope of legislative scrutiny. Such scrutiny should cover review of fiscal policies, medium-term fiscal forecasts, and medium-term priorities as well as the specific details of expenditure and revenue estimates.

The legislature receives the draft budget law only when the details of revenue and expenditure have been finalized by the RGC. The legislature is not involved in any setting of long or medium- term priorities or fiscal policy but is informed about such policies by the RGC (i.e. distribution of such policies to the Second Commission) covered in the NSDP and other policy documents, which belong to the RGC's strategy and are not subject to approval by the legislature.

In reviewing the draft budget law, the National Assembly draws on the insights from all members of the Second Commission with additional inputs from an expert attached to the Second Commission and the technical expertise of the Center for Legal Research, which is a technical unit within the National Assembly.

The National Assembly can propose changes and corrections to the draft law and usually does so. However, no substantial changes to the draft have been made in recent years.

This dimension is scored C because the legislature reviews details of expenditure and revenue of detailed budget proposals. A higher score would require that the legislature also reviews fiscal policies and estimated aggregates for the coming year ahead of the finalization of the detailed estimates.

Dimension 18.2. Legislative procedures for budget scrutiny

This dimension assesses the extent to which review procedures are established and adhered to. This includes public consultation arrangements, internal organizational and committee arrangements, technical support, and negotiation procedures.

After the CoM approves the draft annual budget law, the RGC submits this draft budget law to National Assembly. The Standing Committee will assign the Second Commission to review the draft annual budget law and share with other nine commissions. After reviewing, the Second Commission will send comments to the President of Standing Committee of National Assembly. The Second Commission has its calendar that is indicated the main tasks and aligned with calendar in the Law on Public Finance System (2008).

When the National Assembly has received the draft budget law from the RGC, its general secretariat forwards it to the Standing Committee, then after the meeting of Standing Committee, the decision is left to the Second Commission on Economy, Finance, Banking and Audit, equivalent of a public accounts committee. Currently, the Second Commission has nine members. After receiving the draft budget law, the Commission organizes internal meetings for members to review the proposal with inputs from expert attached to the Commission. After the Second Commission's review is completed, the President of the

National Assembly invites the Deputy Prime Minister, Minister of Economy and Finance, and government senior officials together with the Auditor General of the NAA to discuss with the Second Commission and the representatives from all nine Nation Assembly Commissions in a plenary session.

Furthermore, the Second Commission organizes a consultative workshop chaired by the President of the National Assembly and attended by members of the National Assembly and the Senate with representatives from civil society organizations, developing partners (i.e., the EU, WB, ADB, IMF, and UN - UNDP) to get inputs from different stakeholders. The annual budget presentation is made by the Deputy Prime Minister, Minister of Economy and Finance and his senior officials with additional inputs and comments from civil society organizations and development partners.

The Second Commission submits the approval to a vote by its members and prepares a report for the Standing Committee to include in the agenda of the plenary discussion. When the plenary of the National Assembly has adopted the draft annual budget law, it is sent to the Senate which follows its own similar but separate procedures. Based on the feedback from the Second Commission, these procedures are fully respected.

This dimension is scored C because the legislative body has its own formal procedures adopted and adhered to ahead of the budget hearings to the review of budget proposals. A higher score would require that further internal organizational arrangements, specialized review committees, technical support are integrated to the process.

Dimension 18.3. Timing of budget approval

This dimension assesses the timeliness of the scrutiny process in terms of the legislature's ability to approve the budget before the start of the new fiscal year.

According to the official budget calendar – ref. PI-17.1– the legislature has approximately seven weeks from receipt of the draft annual budget law from the MEF until the law has to be passed. In practice, the time taken for this process has taken 3 and 6 weeks for the FY2018, FY2019 and FY2020 budgets respectively to review the draft and pass the budget law. The budget laws 2018, 2019 and 2020 were enacted by legislature on 27 November 2018, 29 November 2018 and 09 December 2019 respectively.

The dimension is scored A because the legislature has approved the annual budget before the start of the year in each of the last three fiscal year.

Dimension 18.4. Rules for budget adjustment by the executive

This dimension assesses arrangements made to consider in-year budget amendments that do not require legislative approval. Such amendments constitute a common feature of annual budget processes.
Adjustments to the annual budget appropriations are regulated through an amended annual budget law, or by sub-decrees in some case by prakas and/or circulars, issued by heads of ministries.
Articles 55 through 62 of the Law on Public Finance System (2008) establish the procedures for amendment to the approved budget. Amendments follow the same procedures as approval of the original budget. In principle, any transfer of appropriations from one budget entity to another requires legislative approval. Also, transfers of appropriations within a budget entity from capital expenditure to recurrent expenditure require legislative approval.
Articale 58 of the Law on Public Finance System establishes that "A sub-decree issued following a request by the MEF can allocate budget credit recorded under unallocated expenditures in forms of additional credit beneficial to various chapters of ministries, institutions, or similar public entities"
However, the RGC is authorized under certain circumstances to make budget re-allocations, in the case of emergency response to natural disasters and national emergencies as well as transfers that keep expenditure within the same expenditure item and economic chapter.

All other re-allocations are made by sub-decree including re-allocation of appropriations under unexpected expenditures i.e. contingencies).

Excess revenue shall be carried forward to the next year unless it is otherwise allocated by amendment to the Budget Law (See PI-21.4 and PI-25.2). The rules for in-year budget amendments without prior legislative approval are respected, and do not allow for expansion of the overall amount of expenditure (even in case of excess revenue collection).

The dimension is scored A because the adjustments to the annual budget appropriations are regulated through an amended annual budget law, or by sub-decrees in some case by prakas and/or circulars, issued by heads of LMs/institutions. The rules for adjustments to the annual budget appropriations are strictly respected.

Table 3.40: Scores for PI-18

PI	Dimension	Score	Brief justification for score
PI-18	**Legislative scrutiny of budgets**	**C+**	**Scoring Method M1**
18.1	Scope of budget scrutiny	C	The legislature reviews details of expenditure and revenue of detailed budget proposals. However, no substantial changes to the draft have been made in recent years.
18.2	Legislative procedures for budget scrutiny	C	Legislative body has its procedures to review budget proposals; however, technical support needs to further strengthen by establishing budget office.
18.3	Timing of budget approval	A	The legislature has approved the annual budget before the start of the year in each of the last three fiscal years.
18.4	Rules for budget adjustments by the executive	A	The adjustments to the annual budget appropriations are regulated through an amended annual budget law, or by sub-decrees in some case by prakas and/or circulars, issued by heads of LMs/institutions. The rules for in-year budget amendments without prior legislative approval are clear and respected, and do not allow for expansion of the overall amount of expenditure (even in case of excess revenue collection).

Box 3.17: Ongoing reform activities

The BSRS 2018-2025 contains a wide range of targets for strengthening use of performance-related information throughout all phases of the budget cycle, including:

- implementation of performance-informed budgeting (PIB) guidelines increasing the quality and scope of non-financial indicators and targets (now expected 2021)
- development of output-based “performance agreements” between the MEF and LMs/institutions (currently at a very preliminary stage of conceptual development)
- inclusion of performance information as an annex to Annual Budget Law, including endorsement by CoM (in 2022) and subsequently for approval by Parliament (in 2024)
- inclusion of performance information in LMs’ routine reporting on budget execution (already initiated in 2019, with a more comprehensive framework under development)
- development of a comprehensive M&E framework/system for budget processes (with initial development starting from 2021).

PILLAR FIVE: Predictability and control in budget execution

This pillar assesses whether the budget is implemented within a system of effective standards, processes, and internal controls, ensuring that resources are obtained and used as intended.

Pillar V has eight indicators:

- PI-19. Revenue administration
- PI-20. Accounting for revenue
- PI-21. Predictability of in-year resource allocation
- PI-22. Expenditure arrears
- PI-23. Payroll controls
- PI-24. Procurement management
- PI-25. Internal controls on nonsalary expenditure
- PI-26. Internal audit

PI-19. Revenue administration

The indicator assesses the procedures used to collect and monitor central government revenues. It relates to the entities that administer central government revenues, which may include tax administration, customs administration, and social security contribution administration. The indicator contains the following four dimensions and uses M2 (AV) method for aggregating dimension scores:

Dimension 19.1. Rights and obligations for revenue measures

Dimension 19.2. Revenue risk management

Dimension 19.3. Revenue audit and investigation

Dimension 19.4. Revenue arrears monitoring

A government's ability to collect revenues is an essential component of any PFM system. This is an area where there is direct interaction between individuals and enterprises on the one hand and the state on the other. Both parties have responsibilities: the government must provide those responsible for providing revenues with a clear understanding of their obligations and the procedures to be followed, while ensuring that mechanisms are in place to enforce compliance from those required to contribute the revenues due.

Most government revenues in Cambodia are administered by the MEF and public revenue is forecasted by MEF GDP in consultation with the 2 main collecting agencies, GDCE and GDT, representing 46.2 percent and 36.8 percent of total collected revenue in 2019 (see Table 3.7 under PI-3). On average, for the three fiscal years (2017-2019), tax revenues contributed 78.8 percent of total domestic revenues, and 79 percent in 2019. Customs excise taxes and duties contributed the highest share of revenue – an average of 44.5 percent of total domestic revenues; tax revenue contributed for an average of 34.3 percent. Other non-tax revenue sources (including capital revenue) represent 13.5 percent, and C/P administrations (both tax and non-tax) contribute for 6.9 percent and grants for 0.8 percent.

The GDT pursues its tax administration modernization reform, including the elimination of loopholes in taxation law, and the harmonization of the legal framework. Cambodia signed its first ever agreement for the avoidance of double taxation and the prevention of fiscal evasion with respect to taxes on income, Double Tax Agreements (DTA) on 20 May 2016 with Singapore. Up-to-date, Cambodia has signed DTAs with nince countries and jurisdiction[49]: Singapore, China, Brunei, Thailand, Indonesia, Vietnam, Hong Kong, Malaysia, and Republic of Korea. On 10 October 2017, the MEF issued Prakas no.986 MEF.PrK. in

[49] There are 6 of 9 that are effective: Singapore, China, Thailand, Brunei, Vietnam, and Hong Kong.

order to combat perceived transfer pricing abuses and loss of tax revenue in the country's state budget. Moreover, tax officials are able to exercise considerable "discretion in the application of tax laws partly due to weaknesses of management systems, processes, and controls, and limited information and assistance to taxpayers".

Cambodia completed the National Single Window Blueprint for the development and implementation of her National Single Window in April 2014 under the support of the WB. The E-Commerce law based on the UNCITRAL Model Law on Electronic Commerce and the UN Electronic Communication Convention is being drafted by the MoC and relevant government agencies for the support of electronic transactions. In addition, the sub degree on the Cambodia National Single Window Steering Committee, which is chaired by the Minister of Economy and Finance, was issued in March 2015. Cambodia has recently completed Needs Assessment and ASW Briefing for Single Window Stakeholders and completed User Acceptance Test based on the agreed technical specification on the exchange of electronic ATIGA Form D, which include:

- A basic National Single Window system setup
- Automated Certificate of Origin application being operated by the Ministry of Commerce (MOC) that conforms to the ASW technical specifications
- Fully automated e-ATIGA Form D Utilization System being operated by the GDCE that conforms to the ASW technical specifications and qualifications for end-to-end testing with participating Member States.

Table 3.41 below shows the other non-tax revenue administered under LMs' authority in accordance with inter-ministries prakas between the MEF and LMs/institutions.

Table 3.41: Non-tax revenue collection entities (extract only main source of revenue)

	Name of Line Ministries/Institutions	Main type of revenue (service delivery)
1.	Ministry of Royal Palace	Selling tickets to visit the Royal Palace
2.	Council of Ministers	Gazette
3.	CDC	Public service fees of Cambodian Investment Board, Cambodian Special Economic Zone, and Cambodian Rehabilitation and Development Board
4.	Ministry of Foreign Affairs and International Cooperation	Visa
5.	MEF	Financial industry (license of casino, lottery, insurance, and real estate)
6.	Ministry of Justice	Condemn certificate for Cambodian citizen, student and foreigners
7.	Ministry of Interior	National affair service, arrival visa, passports, and registration of security company
8.	Ministry of Information	Billboard, and transport broadcasting and frequency of radios and televisions
9.	MoH	Health service
10.	MoEYS	Education service
11.	Ministry of Culture and Fine Arts	Selling tickets to entry museum, and in charge of Apasara Authority
12.	Ministry of Environment	Royalty, fine, and fee from review of assessment of environmental impact and projects monitoring
13.	Ministry of Land Management, Urban Planning, and Construction	Land title and license of construction

Name of Line Ministries/Institutions	Main type of revenue (service delivery)
14. Ministry of Social Affairs, Veterans and Youth Rehabilitation	Child adoption to foreigners
15. Ministry of Labor and Vocational Training	Checkup health for workers
16. Secretariat of State of Civil Aviation	Airport certificate, Air operator certificate requirement, Air operator certificate requirement renewal, and training certificate of Civil Aviation
17. Ministry of Mine and Energy	Royalty of mine and oil and registration electrical production
18. MoC	Certificate of origin, and business registration
19. MAFF	Fee from forestry administration, fisheries administration, and production and medical for animals
20. Ministry of Post and Telecommunication	License of post, and frequency
21. MPWT	Vehicle registration, vehicle inspection, driving license
22. Ministry of Tourism	License and grade hotels, resort activities, tourist guide
23. Ministry of Industry, Science, Technology and Innovation	Factories and SMEs registration, accreditation of standard compliance, and clean water supply

LMs/institutions published regulations by type of services on their own websites. At the central level, a total of 23 LMs/institutions collect non-tax revenue. Currently, all central entities have implemented the standard non-tax revenue system. In 2020, the MEF introduced the non-tax revenue management information system (NRMIS) to manage and record in real time of five types of revenue from administrative and public services, state property, PEs, penalties, and other revenues. The NRMIS is a standardized system can produce secure data and can be interfaced with others financial accouting and reporting systems.

Dimension 19.1. Rights and obligations for revenue measures

This dimension assesses the extent to which individuals and enterprises have access to information about their rights and obligations, and also to administrative procedures and processes that allow redress, such as a fair and independent body outside of the general legal system (ideally a 'tax court') that is able to consider appeals.

The GDCE[50] and GDT[51] have their own websites as well as official pages in social medias to provide taxpayers with access to tax information including tax laws, sub-degrees, prakas, circulars, notifications, procedures and each tax in brief with its explanation and calculation.

The GDT is actively involved in the development and strengthening of tax administration and modernization of its payment interfaces and systems. Multiple platforms are in place physically and online to facilitate and deliver information to taxpayers such as tax information desks, call centers, GDT live chat application, GDT news application, tax application for e-payment, e-filling, notification system, tax calendar, road tax system, etc. An online public service delivery system was launched in 2019, including: E-Registration, E-VAT Refund, E-Tax Service, E-DTA, GDT Live Chat, GDT News, GDT Road Tax Calculation 2019, Cambodia Salary Tax 2019, Cambodia Tax Calendar 2019, GDT Audit Check etc.

[50] http://www.customs.gov.kh/en_gb/
[51] https://www.tax.gov.kh/en/index.php

Table 3.42: Total of workshops and training courses

FY	# of workshops and training courses	# Participants	# Enterprises
2017	151	19,858	4,062
2018	192	20,586	4,597
2019	324	49,256	8,275
Total	**667**	**89,700**	**16,934**

Table 3.43: Taxpayer consultations in 2019

Description	12 Months of 2018	12 Months of 2019
Call Center-1277	6,237	26,526
GDT Live Chat	16,658	34,283
E-mail	1,046	2,501
Face to Face	187	1,834
Facebook Live	-	15
Facebook	26	508
Total	**24,154**	**65,667**

Source: MEF GDT

The GDT is focusing on promoting an environment for a more effective “tax culture”, and has been focusing on establishing efficiency, transparency and accountability in management and collect tax revenue. In order to provide an understanding of taxpayers’ fiscal obligations, the GDT has been offering tax dissemination workshops on tax laws and regulations to taxpayers, posted on the GDT’s website, social media platforms, and public media. It focuses in particular on the promotion of taxes such as annual income tax, tax on means of transportation and property taxes.

The GDT currently has made significant improvements in the registration process such as: a centralized national registration database, an online registration portal has been launched, single and simplified registration form for all taxes has been introduced, national street survey is underway to identify unregistered businesses, patent and tax registration certificate with the new version of the form has a QR code, and more rigorous authentication checks were introduced to improve the accuracy of the register, including identification and place of business checks.

The GDT developed and put in place an online system for the management of VAT in accordance with instruction no.001 MEF, dated 09 January 2019, on the implementation of the online refund and use of VAT credit for VAT management of tax administration. Furthermore, the GDT issued a Notification no.776 GDT, dated 16 January 2019, on the implementation of the request for refund and use of the online VAT Credit for the VAT Management of GDT. After the implementation of the value-added tax management system, the VAT revenue in fiscal year 2019 increased approximately 31.95 percent compared to 2018.

The MEF issued Prakas no.159 MEF.PrK, dated 17 February 2020, on the Implementation of the Sub-decree on Tax Incentives for Small and Medium Enterprises. Tax incentive management system is ready to be launched, in which a taxpayer can choose to make an online application or fill out an application in the form of a manual and online certification. As of December 2019, 29 enterprises have requested tax incentives in priority sectors, 8 of which had been approved while the rest is required to re-submit additional documents to be considered eligible. On 12 January 2021, the MEF issued Prakas no.009 MEF.PrK on the Reclassification of Taxpayers under the Self-Assessment Taxpayer Regime. The purpose of this Prakas no.009 MEF.PrK is to amend the previous classification of taxpayers to ensure that the collection of taxes is carried out in a transparent and equitable manner which is in line with the growth of the Cambodian economy.

The GDCE has also developed and mobile applications for public with the content of Customs Clearance Handbook, Customs Tariff Book, and Vehicle Document Verification. Customs officials have specific mobile applications to access data for enforcement purposes.

The GDCE has an active "Customs Private Sector Partnership Mechanism (CPPM)", established in October 2009, which is a forum created under the RGC's Private Partners Forum chaired by **Samdech Akka MoHa Sena Padie Techno Hun Sen, Prime Minister of the Kingdom of Cambodia**. The CPPM is co-chaired by Director General of the GDCE and Chief Executive of the Cambodia Chamber of Commerce. The CPPM annual meeting has been held since its officially launch in January 2010 and has been playing a key role in strengthening cooperation between customs and all relevant trade stakeholders from the customs and relevant business community and private sector, resolving customs-related matters raised by all parties. At the end of the each meeting a report of the deliberations has been published.

The GDCE has launched Automated System on Customs Data (ASYCUDA) in Customs and Excise offices in a whole country, which covers the entire customs clearance operations. The Electronic Customs System (e-Customs) has also been developed to support and complement specific procedures not covered by the ASYCUDA. Since 2018, there are some arrears that improves include strengthening of intellectual property rights through recognition of patents issued by the European Patent Office; streamlining of procedures for import and export of goods by relieving CAMCONTROL of goods inspection duties that were duplicating functions of the General Directorate of Customs: abolition of the state monopoly on shipping agency services that was held by KAMSAB; and reduction in other trade fees.

In 2019 the Cambodian National Single Window (CNSW) was launched with five LMs connecting to ASYCUDA world. CNSW is a portal for public to apply for permit, certificate, and license which are required for customs clearance. CNSW is also a place to providing customs information, formulation and facilitate the customs procedure. Public could complain and provide feedback through CNSW for further improvement. The GDCE has also established mobile application for public with the content of Customs Tariff Book, Customs Clearance Handbook, and Vehicle Document Verification. Whereas Customs Officers has specific mobile application for law enforcement purpose.

The GDCE also promotes the general public and customs agents' understanding of the customs law and regulations through dissemination programs to ministries and government institutions, development partners and relevant private sectors such as chamber of commerce, customs broker, shipping agency, freight forwarders, exporters-importers and other business associations. This dissemination campaigns are delivered through focus groups meetings, workshops, and information sharing on social media while at the same time publishing handbooks and publication on GDCE's website.

The appeals mechanism for the GDT and GDCE have considerably improved from the previous the PEFA assessment (2015). Sub-degree on Organizing and Functioning of the Committee for Tax Dispute Resolution was enacted and implemented in early 2016 aiming at addressing complaints from private sectors. Taxpayers who are not satisfied with tax reassessment or other decisions by tax administrations have the right to file the complaint to tax administration within 30 working days. Tax administration reviews and resolve or respond to taxpayers within 60 working days after receiving the complaints. In case taxpayers are still not satisfied with the decision or measure decided by tax administration, they have right to file the complaint within 30 working days upon the receipt of the notification letter on the committee's decision to Committee of Tax/Customs Arbitration, which chaired by Minister of Economy and Finance. This committee must review and resolve the complaints within 60 working days. In case, taxpayers are still dissatisfied with the decision made by the committee, taxpayers can seek further recourse from other relevant authorities' and/or in administrative courts within 30 working days. However, the taxpayer's appeal to the court has no power to suspend the committee's decision.

This mechanism plays a significant role to solve tax payers' complaints and as a result, 168, 147, and 156 cases were resolved respectively in 2017, 2018 and 2019.

Table 3.44: Total tax disputes 2017-2019

	2017	2018	2019
Opening case balance	68	56	62
New cases	100	91	94
Total	**168**	**147**	**156**
Solved	112	85	88
Closing case balance	**56**	**62**	**68**

Source: GDT

This dimension is scored A because the GDT and GDCE representing more than 75 percent of 2019 annual revenue collection use multiple channels to provide taxpayers with easy access up-to-date information on their main tax obligations, on their rights and there is an effective redress and appeal procedure system.

Dimension 19.2. Revenue risk management

This dimension assesses the extent to which a comprehensive, structured and systematic approach is used within the revenue entities for assessing and prioritizing compliance risks.

The Law on Commercial Enterprises (2005) and Law on Commercial Rules and Commercial Registration (1995) regulate the registration and filing requirements for all companies, partnerships, representative or branch offices and sole proprietors with registered capital of KHR 4 million or more and operating in the Kingdom of Cambodia.

Taxpayers' risk assessment procedures and methods are defined based on three types of analysis: (1) general analysis (internal and external information), (2) financial report analysis (audit report, fraud recording and financial comparison analysis) and (3) ratio analysis (debt settlement status, cash, capital, profit and another ratio if needed).

Large taxpayers' risk segmentation and classification was implemented through Prakas no.986 MEF.PrK dated 10 October 2017 as indicated in table 3.45.

Table 3.45: Classification of GDT registered large taxpayers according to risk assessment since 2017

Total score	Type of classification	2017	2018	2019	Total
16-20	Gold[52]	51	15	46	112
11-15	Silver[53]			1	1

[52] Validate 2 years, VAT refund below threshold 500 million riels before auditing, once comprehensive audit in every 2 years and without desk and limited audit.
[53] Validate 2 years, VAT refund below threshold 200 million riels before auditing, once comprehensive audit in every 2 years and limited audit once per year; without desk audit.

Total score	Type of classification	2017	2018	2019	Total
1-10	Bronze	-	-	-	
Total		**51**	**15**	**47**	**113**

Source: GDT

The GDCE uses the risk profiling system which is based on risk management criteria and using risk management system to assign the processing Lane for the declaration (blue[54], green[55], yellow[56] and red[57] land). Under the Single Window framework, the Single Administrative Documents (SADs) processed under blue and green lane are subject to post-clearance audit. If customs declaration is under Red and Yellow lane, Customs officer shall verify the selectivity criteria that caused the declaration to be set in these lanes. The system will show special requirements such as requirement for import license, withdrawal of sample and history of smuggling etc.

Best trader incentive mechanism was implemented by Prakas no.452 MEF.PrK.CE, dated 11 April 2013, which provide detail the criteria to select best traders. Until now there are 40 best traders that are recognized by the MEF.

This dimension is scored B because Tax and Customs administration have their own risk assessment system to identify and monitor major compliance risks for their large revenue payers and major taxes, representing at least 50% of the revenue collected. A higher score would require that the approach is developed for all categories of revenues and for a larger tax base of taxpayers covering large and medium taxpayers.

Dimension 19.3. Revenue audit and investigation

This dimension assesses whether sufficient controls are in place to deter evasion and ensure that instances of noncompliance are revealed. Systems for audits and fraud investigations must be managed and reported against a compliance improvement plan to ensure follow up and monitoring of the identified risks.

Procedures and methods defined for GDT tax audits are based on the risk assessment by taxpayers' categories. Companies are selected based on a risk analysis, based on third parties' information, focus of the audit program on a specific tax type or sector, specific cross-checked information on taxpayers' group, location of enterprise, etc. The audit program is established preparation, notification of auditing, required documents for audit, document Review, explanation on audit finding, and notification of tax re-assessment. Specific procedures and methods are also defined for tax investigations and cases of special audit or criminal investigation for tax fraud.

The GDT updated its information technology system for the audit management by adding components of compliance assessment within the provisions of its Prakas on Tax Audit no. 270 MEF.PrK, dated 13 March 2019, sets out the following detailed procedures for audits: (1) eliminate duplicate audits between professional units of the GDT, (2) reducing the tax re-assessment period to the comprehensive audit by

[54] Blue lane: The SAD is provided the same treatment as for GREEN Lane and with specific reasons subject to post-clearance audit.

[55] Green lane: The SAD is automatically assessed and a clearance document issued. The hardcopy SAD may be subject to post-clearance audit (PCA).

[56] Yellow lane: The SAD must be scrutinized (checked against the documents) before re-routing to GREEN lane and assessment by Customs.

[57] Red lane: The SAD must be scrutinized (checked against documents). Goods are subject to physical inspection before re-routing the SAD to GREEN lane and assessment by Customs.

only three years back against the current legal provisions that allow for a comprehensive audit period of 10 years backward, and (3) reducing the monthly interest rate on underpaid tax from 2% to 1.5%.

Table 3.46: Audit progress of GDT in 2019

Year	# Cases	Tax determined (KHR billion)
2017	3,556	3,846.4
2018	4,897	4,294.4
2019	7,649	6,477.8
Total	16,102	14,618.6

Source: GDT

The table shows the number of audit cases and amount of tax audited for the last three years, equivalent to 70.7 percent of the tax collected for that year.

The interface between tax and customs systems has been strengthened. It is important to prevent the revenue avoidance and automatically exchange information. The MEF established a joint working group between the GDT and GDCE (Prakas no.569 MEF.PrK dated 15 June 2018). The interface between the tax system and FMIS has been further strengthened in 2020. The tax database can provide the tax identification number of the company that has already registered the tax according to the list of existing companies extracted from the FMIS and officially launched in 2020.

In the case of GDCE, Customs audits are defined as Post Clearance Audit (PCA), through Prakas no.388 MEF.CE dated 22 May 2008. The PCA by GDCE is an audit, investigation, inspection or control carried out in a systematic manner by competent Customs officers to verify the accuracy and authenticity of Customs declarations through the examination of the relevant documents, books, records, and other business information systems that are kept in accordance with the provision of the Prakas on the Management of Documents, Books, Records and Other Information on Imports and Exports. Table 3.44 indicates that the GDCE prepared and conducted PCA plan to achieve as targets.

The PCA process is built on a risk-based approach in phases of auditees' selection, pre-audit survey and field audits with review and examination of the auditees' books and records. The audit report with findings is submitted to both the auditee and supervisors of the PCA officers.

Table 3.47: Post clearance audits in 2019

Year	# Cases	Unplanned	Planned	Tax determined (KHR)
2017	209	0	209	13,697,062,200
2018	29	0	29	4,425,411,900
2019	342	0	342	8,070,262,900
Total	**580**	**0**	**580**	**26,192,737,000**

Source: GDCE

The GDCE's annual audit plan consists of planned and unplanned activities to improve the compliance of customs agents. It is uses various customs' audit techniques varying from X-Ray scanning, surveillance, third party intelligence, random warehouse inspection, PCA, and anti- smuggling campaigns.

This dimension is scored D. The GDT and GDCE collecting most revenue undertake audits and fraud investigations have established compliance risk-based audit plans. However, they could not provide comprehensive information on the systems in place to monitor and report their audits and fraud investigations' activities or evidence of a documented compliance improvement plan. A higher score would require that the GDT and GDCE establish a formal and systematic monitoring and reporting on their risk-based audits against a documented tax compliance improvement plan.

Dimension 19.4. Revenue arrears monitoring

This dimension assesses the extent of proper management of arrears within the revenue entities by focusing on the level and age of revenue arrears.

The GDT has implemented a Tax Debt Collection and Management Systemand classifies enterprises which are in tax debt into 2 classifications "Tax debt can be collected" and "Tax debt cannot be collected".

According to Article 117 of the LoT, period for collectability and categorization of tax arrears can be defined as follows:

- Within 3 years: (1) after withhold calendar and (2) after letter of self-assessment sent to GDT
- Within 10 Years: After date of letter of self-assessment
- Or any period that agreed by formal letters with taxpayers.

Penalties - Penalties apply for failure to file, late filing or filing of a fraudulent tax return. Taxpayers are subject to penalties of 10%, 25% or 40% and interest of 2% per month on late and underpaid taxes. GDT' ratio for tax arrears' collection ranges from 5% to 10% annually for 2017, 2018 and 2019 as shown in Table 3.48. Recently, GDT classified enterprises with tax arrears into 3,199 collectables (aging less than 3 years) and 5,085 uncollectable (aging more than 3 years) enterprises.

The GDT has established measures to strengthen tax arrears collection, including issuing reminder letters of notification for tax collection, invitation letters in newspapers, and in collaboration with the GDCE can launch a procedure for stopping export-import operation, nullify permit and license. In collaboration with MoC it can block new registration of shareholders with unpaid tax arrears, and with movable and immoveable department of GDT can block transfer of tax.

Table 3.48: Tax revenue arrears

Unit: KHR Billions	Tax arrears collected	Tax revenue collected	% Tax arrears stock compared to tax revenue
2017	454.67	7,906.52	5.77%
2018	615.00	8,791.66	7.00%
2019	1,089.91	11,279.25	9.66%

Source: GDT

In addition, GSC assessment team discussed with representatives of GDCE and there were no customs arrears during last three FYs.

For non-tax revenue arrears management, sectoral working groups have met to address arrear issues and to implement procedures as approved by the RGC to manage postal fees arrear, civil aviation fees arrear, agricultural and mine fees arrear, and enforce the implementation of Sub-degree no.72 ANKr.BK on Non-tax Revenue Collection. Notably, non-tax revenue arrears have dropped from 10% to 20% between 2017 and 2019 as indicated in the table below.

Table 3.49: Stock of Non-tax revenue arrears

Unit: USD	2017	2018	2019
Non-tax arrears	65,516,276.07	58,036,502.21	46,048,203.57

Source: MEF GDSPNR

This dimension is scored D* because data on the stock of revenue arrears at the end of 2019 could not be calculated and there is no detailed ageing balance of the stock of arrears registered for taxation and non-tax revenues.

Table 3.50: Scores for PI-19

PI	Dimension	Score	Brief justification for score
PI-19	**Revenue administration**	**C+**	**Scoring Method M2**
19.1	Rights and obligations for revenue measures	A	The GDT and GDCE representing more than 75 percent of 2019 annual revenue collection use multiple channels to provide taxpayers with easy access up-to-date information on the main tax obligation areas and on their rights and there is an effective redress and appeal procedure system.
19.2	Revenue risk management	B	Tax and Customs administrations have their own risk assessment system to identify and monitor major compliance risks for their large revenue payers and major taxes, representing at least 50% of the revenue collected.
19.3	Revenue audit and investigation	D	The GDT and GDCE collecting most revenue undertake audits and fraud investigations have established compliance risk-based audit plans. However, they could not provide comprehensive information on the systems in place to monitor and report their audits and fraud investigations' activities or evidence of a documented compliance improvement plan.
19.4	Revenue arrears monitoring	D*	Data on the stock of revenue arrears at the end of 2019 could not be calculated and there is no detailed ageing balance of the stock of arrears registered for GDT and non-tax revenues.

Box 3.18: Ongoing reform activities

- Further strengthening of tax revenue arrears management
- GDT has set up registry at the CDC and continues its collaboration with the MoC in exchanging taxpayer information with the GDT.
- GDT has developed a business registration system called Cambodia One Single Business Registration Platform that connects data between the GDT and the CamDX software system. Right now, GDT completed the network infrastructure connection between the GDT and relevant Line ministries.
- In 2021, the non-tax revenue management information system (NRMIS) was operationalized in Phnom Penh Capital Administration, and later, the NRMIS will be operationalized at D/M/K administrations in 2022, and C/S administrations in 2023.
- Preparation of the blueprint for non-tax revenue system reform: This work receives technical support from expert in WB, and an inception report has been finalized. Technical working group continues to prepare the blueprint. This blueprint which is an important document to guide the preparation of regulatory frameworks for non-tax revenue management will be finalized in 2021.

PI-20. Accounting for revenues

This indicator assesses procedures for recording and reporting revenue collections, consolidating revenues collected, and reconciling tax revenue accounts, which covers both tax and nontax revenues collected by central government. The indicator has the following three dimensions, which are assessed on the last three completed fiscal years, and uses the M1 (ML) method for aggregating dimension scores:

Dimension 20.1. Information on revenue collections
Dimension 20.2. Transfer of revenue collections
Dimension 20.3. Revenue accounts reconciliation

This indicator assesses the regularity of bank account reconciliations and regularity and clearance of suspense and imprest accounts. Dimensions to be assessed included: (i) Regularity of bank reconciliations and (ii) Regularity of reconciliation and clearance of suspense accounts and advances. This indicator assesses the situation as at the time of the assessment.

Article 106 of Sub-degree no.82 ANKr.BK dated 16 November 1995 on General Regulations of Public Accounting" regulates the revenue management by revenue collecting agencies and states that budget managers do not have the rights to withdraw collected revenue for spending or delay the transfer of collected revenue to the Treasury TSA and state budget.

The accounting framework has recently been strengthened, and the FMIS is operational in all LMs/institutions, as well as in all C/P Treasuries and C/PDEF. Electronic interfaces have been established across key management information systems (e.g. for customs and debt), as well as with the banking system (both with NBC and commercial banks) through the TSA. Efficiency gains and effective controls have been built across revenue, cash and expenditure management, as well as financial reporting processes.

Dimension 20.1. Information on revenue collections

This dimension assesses the extent to which the MEF coordinates revenue administration activities and collects, accounts for, and reports timely information on collected revenue.

The responsible agency for collecting revenue data is MEF GDNT. The MEF Treasury system is based on a TSA and GDNT can access data on revenues on a daily basis from TSA. Revenue information include all tax revenues and all types of non-tax revenues from decentralized budgetary units. The revenue reporting is produced in the FMIS and provides a detailed breakdown by revenue type in accordance with the CoA. Very few revenue collections from non-tax revenue are not transferred to banking system on a daily basis but transferred at a different period. For instance, revenue collection through the Single Window Service (SWS) is allowed to keep revenue collection below two million riels. Once the threshold is reached, the SWS needs to deposit the cash received to commercial banks to transfer to the treasury accounts. These revenue accounts for less than 10 percent of the total revenue collected. The GDNT consolidates all revenue collection by breakdown revenue type (tax revenue and nontax revenue in a monthly report submitted to MEF senior management. Additionally, the TOFE published on the MEF's website on a monthly basis disclose all revenue by type.

This dimension is scored A because the GDNT central agency responsible for revenue data consolidation receives and reports revenue data from all entities collecting revenue at central government level on a daily basis.

Dimension 20.2. Transfer of revenue collections

This dimension assesses the promptness of transfers to the GDNT TSA accounts or other designated agencies of revenue collected.

The two TSA cash balances and all other government account balances are reported daily by NBC to GDNT. The daily consolidated balance is an input to cash management decisions. TSA coverage has been extended to all provincial treasuries through commercial banks and banking platforms, namely ACLEDA, Canadia Bank, Cambodian Public Bank, ABA, ANZ Royal, Vattanac, Sathapana, FTB, Cambodia Post Bank and Wing.

Tax and non-tax payers make payments through commercial bank partners. Custom tax/non-tax accounts at commercial banks are functioning based on zero balance account. All balances are transferred by 3pm daily to sub-TSA (owned by C/P Treasury) and then transferred again to the main TSA at NBC. The remaining balance after 3pm will be transferred in the following day. Some delay can occur in transfer of non-tax revenue to the TSA when it depends on manual deposits through commercial banks, but nontax revenues account for only around 5% of total revenues. Thus, all of government revenues (more than 90%) are transferred to TSA[58] on a daily basis.

This dimension is rated A because entities collecting most central government revenues transfer the collections directly into TSA controlled by GDNT on daily basis.

Dimension 20.3. Revenue accounts reconciliation

This dimension assesses the extent to which aggregate amounts related to assessments/charges, collections, arrears and transfers to (and receipts by) the GDNT or designated other agencies take place regularly and are reconciled in a timely manner.

The GDNT reconciles in the TSA daily as the bank balances and data, and the accounting systems and ledgers are interfaced within the FMIS. The GDNT accesses an online web portal for electronic bank statement from commercial banks. The data received is uploaded automatically to the FMIS and is the basis for the automatic reconciliation process. The full reconciliation of all revenues transferred to TSA is completed at minimum on a monthly basis for all types of revenues.

At the end of each fiscal year, GDNT completes the reconciliation of all revenue collected within two months after the end of the year after the GDT and GDCE close their own accounts on their collected revenues. The process is completed in March of next fiscal year. However, the amount of revenue

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[58] The bank statement can be used to verify that TSA is in practice.

reconciled in this period of 2 to 3 months is less than 1 percent of total revenues collection as shown in the below table.

Table 3.51: Revenue kept in Temporary Accounts at the end of the fiscal year

Unit: KHR Riels	2017	2018	2019
Temporary Accounts	61,948,794,211	136,712,457,769	85,058,027,476
Total Revenues	14,556,353,565,448	17,341,417,729,989	22,151,103,241,652
%	0.43%	0.79%	0.38%

The dimension is scored C because entities collecting most of government revenue undertake a complete reconciliation within 2 months of the end of the year. A higher score would require that this revenue is reconciled within 4 weeks of the end of the quarter.

Table 3.52: Scores for PI-20

PI	Dimension	Score	Brief justification for score
PI-20	**Accounting for revenues**	**C+**	**Scoring Method M1**
20.1	Information on revenue collections	A	The GDNT central agency responsible for revenue data consolidation receives and reports revenue data from all entities collecting revenue at central government level on a daily basis. A monthly consolidated report with all revenue by type is produced for internal MEF use and the monthly TOFE tables published on the MEF's website the breakdown of all types of revenue.
20.2	Transfer of revenue collections	A	Entities collecting most central government revenues transfer the collections directly into TSA controlled by GDNT on daily basis.
20.3	Revenue accounts reconciliation	C	Entities collecting most of government revenue undertake a complete reconciliation within two months of the end of the year.

PI-21. Predictability of in-year resource allocation

This indicator assesses the extent to which the central MEF has the capacity to forecast cash commitments and requirements and to provide reliable information on the availability of funds to budgetary units for service delivery. It contains four dimensions and uses the M2 (AV) method for aggregating dimension scores:

Dimension 21.1. Consolidation of cash balances
Dimension 21.2. Cash forecasting and monitoring
Dimension 21.3. Information on commitment ceilings
Dimension 21.4. Significance of in-year budget adjustments

Dimension 21.1. Consolidation of cash balances

This dimension assesses the extent to which the MEF can identify and consolidate cash balances as a basis for informing the release of funds.

The GDNT is responsible for consolidation of cash balances based on the government revenue and expense accounts controlled. At the time of the PEFA assessment (2019), the RGC has 99 accounts that the GDNT uses to consolidate central government cash balances. Consolidation of all these cash balances is performed on a daily basis through two main accounts of GDNT TSA and 12 accounts of its sub-TSA. For other accounts that rarely have transactions or receive nonsignificant amounts, consolidation is taking place systematically on a monthly basis. The total value of the accounts consolidated on monthly basis represent more than 10 percent but less than 15 percent of the total value of all TSA accounts, as estimated by GDNT.

All financial operations from donor-funded projects and related transactions are undertaken through commercial banks and can be controlled by GDNT. However, the funds are not directly consolidated through the TSA and are not integrated in the cash balance from Donor Funded Projects. The RGC has already proposed to all DPs to use the TSA system for all financing projects, but most of DPs have not yet agreed. This represents less than one percent of all annual revenue collected (see Table 3.7).

All revenues collected by other government entities are transferred to TSA accounts on a daily or regular basis and consolidated accordingly (see PI-20.2).

This dimension is scored C because all TSAs' balances are consolidated on daily basis, except other accounts representing more than 10 percent of the total revenue collected[59] are consolidated on a monthly basis.

Dimension 21.2. Cash forecasting and monitoring

This dimension assesses the extent to which budgetary unit commitments and cash flows are forecasted and monitored by the MEF.

The MEF has been implementing reforms to progressively improve its cash management and issued Prakas no. 880 MEF.PrK, dated 19 September 2013, on the implementation of the guidelines on cash management. A Manual on Cash Planning was issued in 2013 under Prakas no.617 MEF.PrK. The GDNT prepares a cash flow plan with the purpose to manage its cash resources more effectively and efficiently, and to better monitor in-year cash inflows and outflows.

Cash flow planning is managed by the Cash Management Technical Committee (CMTC) under direct supervision from GDNT's Cash Management Unit. The CMCT is a technical unit acting on behalf of the Budget Management Committee (BMC), comprising representatives from GDNT, NBC, GDB, and the two revenue agencies, GDT and GDCE. It monitors Treasury cash balances daily. Bank balances are reconciled with the ledger balances monthly at the detailed level (see PI-27.1).

LMs/institutions notify CMTC of their annual cash requirements by 15 November, based on a monthly breakdown and detailed by CoA chapter, accounts and sub-accounts. CMTC submits a consolidated cash position report (annual cash plan) to the Minister of Economy and Finance and a copy to BMC so that monthly cash transfers for each LM/ institution can be issued and the timetable included in the budget before it is submitted to the Minister of Economy and Finance by 10 December for his approval. During the year, the cash flow forecasts are updated quarterly to reflect actual receipts and payments for past months, and re-forecast receipts and payments for the remaining months of the year. Recently, the GDNT has developed an online web-based application for all LMs/institutions to make their annual cash planning and submit monthly cash breakdown. However, not all LMs/institutions use this application.

[59] Estimation by GDNT

The GDNT receives monthly reports from LMs of actual receipts and payments, and monthly requests for cash transfers. These are consolidated, and compared with projections of available resources, and the CMTC issues new quarterly cash ceilings.

The Cash Planning Manual requires forecasts of discretionary expenditure (expenditure other than salaries, utilities, and rents) based on individual procurement plans, procurement planning is not sufficiently developed, so forecasts have been based on historical data and cyclical trends and LMs/institutions' forecasts data on revenues and expenditure is not really in use. Cash forecast report shows only records on cash inflows and outflows.

A comprehensive cash plan, which provides analysis of a consolidated cash position (use of cash surplus or mechanism to replenish cash when there are shortages of cash), is not yet available. Monitoring mechanism and reporting, which analyzes actual cash inflows against forecast cash inflows, remain limited in 2019.

This dimension is rated B because annual cash flow forecasts are prepared and updated quarterly based on actual cash inflows and outflows. A higher score would require that cash forecasts are updated at least monthly.

Dimension 21.3. Information on commitment ceilings

This dimension assesses the reliability of in-year information available to budgetary units on ceilings for expenditure commitment for specific periods.

LMs/institutions, including revenue administrations, prepare their quarterly revenue and expenditure programs. After approving the LMs' quarterly revenue and expenditure programs, the MEF notifies LMs/institutions of their respective quarterly revenue and expenditure programs, which constitute cash ceilings for each chapter and each program, and informs the CMU, administration and finance departments and financial controllers at LMs/institutions, LM line departments at C/P administrations, and C/P governors. It should be noted that these are effective cash ceilings, not commitment ceilings, and cover advances (net of recovery of ongoing advances) as well as expenditure (see PI-25.2 on commitment control).

In general, LMs/institutions' capacity for budget implementation is constrained by technical capacity and administrative factors, such as bureaucratic processes and authorizations rather than by shortage of funds. Interviewed MPWT, MoEYS, and MoH, for example, have all agreed that they have not experienced any shortfall in availability of funds for budgeted expenditures, sometimes disbursement is late due to administrative delays.

This dimension is rated B because LMs/institutions have the capacity to prepare their expenditure programs on a quarterly basis. A higher score would require that LMs/institutions are provided reliable information to plan expenditure commitments at least six months in advance.

Dimension 21.4. Significance of in-year budget adjustments

This dimension assesses the frequency and transparency of adjustments to budget allocations.

The MEF exercises a centralized control over expenditures authorized against the approved budget. Line ministries are allowed to switch budget allocations only between activities within the same sub-program and within the same chapter without the MEF approval. All other budget re-allocations require the MEF approval.

Box 3.19: Procedure of budget adjustment in program budget

In practice, annual budget can be adjusted based on priority tasks and time. Appropriation adjustment is implemented through main procedure as below:

- Start from 2nd quarter after finishing 1st quarter
- Transferring appropriation from one chapter to another must be stipulated by sub-degree through the request of the MEF. In this case, LMs/institutions must request to the MEF. However, for Chapter 64 (Personnel Expenditure) are not allowed to transfer to another.
- Transferring appropriation across the expenditure from central administration of LMs to their own specialized line departments, LMs/institutions must request to the MEF.
- Minister/Head of LMs/institutions and C/P line departments do not delegate their authority of transferring appropriation as indicated in the guidelines on implementing procedure of program budget 2015
- The MEF will review on additional appropriations in case issuing new polices that requires extra budget expenditure.

Procedures of budget adjustment for LMs/institutions are implemented as follows:

- **Transfer within one activity cluster**
  - Transfer across account in the same chapter and across sub-account in the same account must be stipulated by Prakas of LMs and copy to MEF GDB and GDNT.
- **Transfer across activity clusters**
  - Transfer across account in the same chapter must be stipulated by Prakas of the MEF
  - Transfer across sub-account of the same account must be stipulated by Prakas of LMs and copy to MEF GDB and GDNT.
- **Transfer across sub-program**
  - Transfer across sub-program can be proceeded by decision of the MEF.
- **Transfer across program**
  - Generally, transferring across programs are not allowed. For necessary case, LMs/institutions can request MEF.

Procedures of budget adjustment for C/P Departments are implemented as follows:

- **Transfer within one activity cluster**
  - Transfer across account in the same chapter and across sub-account in the same account C/P departments must request C/PDEF.
  - Approval letter of C/PDEF must copy to C/P Treasuries and GDB DBF of MEF.
- **Transfer across activity clusters**
  - C/P departments must request their own line ministries and MEF through GDB
  - After receiving the approval letter for transferring across account in the same chapter and across sub-account of the same account C/P departments must request to C/PDEF
  - Approval letter of C/PDEF must copy to C/P Treasuries and GDB DBF of MEF.

The virement rules as defined under Articles 55-57 of the Law on Public Finance Systems (2008) are simple and strict. All increases in the total budgeted expenditure need to be approved by the National Assembly.

Given the low level of flexibility allowed to LMs/institutions, the number of LMs/institutions requests for budget re-allocations is estimated to be high. The number of requests (and the number of unauthorized re-allocations) is not known, but the authorized re-allocations scheduled each year by GDB show that in 2018, 77 applications to MEF were allowed, amounting to KHR 671 billion. In 2018 there were a total of 15 or 16 adjustments in MoEYS, and about 23 in MoH only.

Additionally, many adjustments occur every year from the unallocated chapter (Chapter 9) as allowed by sub-decree issued by the CoM. Though Chapter 9 is intended primarily to cover expenditure for disaster relief and other emergencies, it is also used extensively for allocation of unbudgeted expenditure and is used at the discretion of MEF.

Box 3.20: Virement rules as defined in the Law on Public Finance System (2008)

Article 55

A transfer of credit from one ministry, institution, or similar public entity to another shall be determined by the Law on Public Finance System. However, any necessary transfer of credit from one ministry, institution, or similar public entity to another in order to strengthen the structure or the administration of the Royal Government can be made by sub-decree in case that such transfer would not change items of expenditure and allocation of credit by each chapter.

Article 56

Any transfer of credit from one chapter to another within the budget of a ministry, institution, or similar public entity shall be made by sub-decree given that this will not change capital expenditure credit for investment to current expenditure credit for operations.

Article 57

Transfer of credit from one account or sub-account to another within the same chapter shall be made by prakas issued by the Minister of Economy and Finance.

This dimension is rated C because in-year adjustments can be significant in amount and frequent but are undertaken with transparency and can be partially traced. A higher score would require that in-year adjustments above the level of LMs/institutions decision take place only once or twice per year.

Table 3.53: Scores for PI-21

PI	Dimension	Score	Brief justification for score
PI-21	**Predictability of in-year resource allocation**	**C+**	**Scoring Method M2**
21.1	Consolidation of cash balances	C	All TSAs' balances are consolidated on daily basis, except other accounts that account for 10 percent of the total revenue collected and are consolidated on a monthly basis.
21.2	Cash forecasting and monitoring	B	Annual cash flow forecasts are prepared and updated quarterly based on actual past cash inflows and outflows.
21.3	Information on commit-ment ceilings	B	LMs/institutions can prepare their expenditure programs on a quarterly basis.
21.4	Significance of in-year budget adjustments	C	In-year adjustments are significant in amount and frequent but are undertaken with some transparency and can be partially traced.

Box 3.21: Ongoing reform activities

The MEF will develop a template for LMs/institutions to formulate annual operational plan and disclose their cash and commitments needs. It will be implemented starting from 2023.

PI-22. Expenditure arrears

Expenditure payment arrears are expenditure obligations that have been incurred by the government, for which payment to employees, suppliers, contractors or loan creditors is overdue i.e. it has not been made within the payment delay specified in the respective contract or other relevant legal provision. This indicator measures the extent to which there is a stock of arrears, and the extent to which a systematic problem in this regard is being addressed and brought under control. It contains two dimensions and uses the M1 (WL) method for aggregating dimension scores:

Dimension 22.1 Stock of expenditure arrears
Dimension 22.2 Expenditure arrears monitoring

Internal control on public expenditure is defined according to Law on the Public Finance System (2008), Articles 24, 50 and 64, and promulgated by Sub-decree no.81 ANKr.BK on the establishment of financial control. LM ministers and equivalent public entity heads, as first managers of their budgets, are responsible for authorizing expenditure.

After the budget credit has been approved by the annual financial law, and detailed allocations prepared by the MEF, expenditure units under LMs/institutions and PAEs prepare their budget proposals and are guided by the budget allocation book. The execution of appropriated budgets invloves the following four phases: (1) commitment; (2) delivery/receipt of goods, services, repairs, or construction; (3) clearance, request for payment, and approval of payment order; and (4) payment.

Dimension 22.1. Stock of expenditure arrears

This dimension assesses the extent to which there is a stock of arrears. The stock is preferably identified at the end of the fiscal year and compared to total expenditure for the considered fiscal year.

In general, proposals for the approval of commitments are initiated by expenditure units under LMs/institutions and equivalent public entities (see also under PI-20.1). Financial controllers appointed by prakas issued by MEF are tasked to oversee the expenditure budget (from commitments to payment orders) and make sure that the expenditures meet legal requirements – i.e. credit is within the limit approved by law and in compliance with the existing financial procedures - and technical requirements – i.e. resources are used effectively and efficiently, and commitments and payments are thoroughly checked to avoid loss, damages, wastefulness, and/or wrong recording.

Spending departments submit payment orders for current expenditure to LMs/institutions' Financial Controllers, who are part of the GDB FAD, and deconcentrated to the LMs/institutions. Payment orders for capital expenditure are channeled through GDB DI, for final approval. The two departments within the MEF send payment orders to GDNT who in turn is responsible for payment execution. GDNT settles payment orders if they are supported with sufficient supporting documents and approvals. When payment orders are received and paid, the GDNT stamps them with incoming and payment dates.

The RGC currently considers arrears as payment orders that are outstanding for more than 60 days after receipt by GDNT[60]. This definition differs from the internationally accepted definition of arrears, which is amounts unpaid more than 30 days from the date the invoice is received and registered by the responsible LMs/institutions. It is also different from the standard terms of payment of suppliers' contracts in Cambodia, which are typically 30 days or 45 days after invoice issuance. There is a common understanding that a long and cumbersome process takes place within the LMs/institutions before the payment orders are approved and sent to the GDNT.

Table 3.54 presents estimates of expenditure payment arrears for debt service[61]. It is estimated that debt interest and penalties arising from loans to the old regime from the Russian Federation and United States of America, could amount as much as KHR 2,526.69 billion. This debt is under negotiation and both

[60] The 30-day period: Cambodia cannot close accounts of annual budget in the 13th month (January of Year N+1) based on international standard because GDNT has to continue receiving payment orders until late February or March (Year N+1) and record the settlement as Anti-Date on 31 December of previous (Year N). If arrear is defined as 30-day late settlement, the many payment orders that come in January, February or March (Year N+1) will be regarded as arrears (from the Year N). And this does not reflect anything about GDNT's ability/cash to settle the payment orders; the lateness of settlement is due to delay by LMs in issuing payment order to GDNT.

[61] The improvement is there is no arrears each of the main expenditure groups (a) goods and services, and (b) staff salaries.

principal and interest are expected to be written off, but at present, the interest and penalties component is still part of the RGC recorded expenditure arrears.

This dimension is scored D because of the lack of a reliable estimated for the expenditure arrears and based on the total registered stock of payment arrears exceeding 10% of total expenditure.

Table 3.54: Analysis of expenditure payment arrears

	2017	2018	2019
Total expenditure (KHR billions)	16,973.53	20,119.62	24,536.14
Total expenditure arrears (KHR billion)	2,503.13	2,491.34	2,526.69
As a % of total expenditure	14.75%	12.38%	10.30%
% change		2.36%	2.08%

Source: MEF; excludes externally financed project expenditure

Dimension 22.2. Expenditure arrears monitoring

This dimension assesses the extent to which any expenditure arrears are identified and monitored. It focuses on which aspects of arrears are monitored and how frequently and quickly the information is generated.

FMIS, cited as the "flagship" Part 2 reforms, is operational in almost all LMs/institutions as of 2020, as well as in C/PT and C/PDEF units, and fully replaced the previous GDNT's KIT system from the start of 2017. However, no system is in place to track delay from submission of suppliers/contractors' invoices until the date the payment order is issued by LMs/institutions and forwarded to GDNT.

As of now, the FMIS informs GDNT on the quantity and value of all outstanding payments and disaggregates outstanding payment orders by supplier. It records the payments from the dates GDNT received payment orders and can alert GDNT about any unpaid payment orders. Monthly reports are extracted from the FMIS and analyzed, usually in the first week of each month.

The PEFA methodology established a definition for "expenditure arrears" as "an unpaid claim obligation that is not paid at the date stipulated in the contract or in the corresponding law or regulation". The FMIS system used by GDNT tracks arrears that are older than 60 days from the arrival of the payment order to GDNT. The IMF Ninth Mission (2019) Report for the Rollout of Phase II of the FMIS highlighted that payment voucher can be recorded in the FMIS significantly after goods and services or services are delivered, and suppliers' invoice are received. For the correct and reliable monitoring and control of payment delays, and to avoid expenditure arrears, using the dates when the liability is incurred for the government is critical.

Another issue relates to the consolidation of many types of expenses under a same payment order. For instance, the organization of a workshop is a type of expense that involves several suppliers. Each supplier will issue individual invoice to the LMs/institutions with different times, but the LMs/institutions will issue one payment order consolidating all suppliers' invoices once received. This procedure could exceed 30 days. The time for all suppliers to issue invoice to LMs/institutions, and for LMs/institutions to verify and process them and to issue payment orders are not under GDNT authority and arrears need to be monitored from the LMs/institution level.

Notably, H.E.Dr. Deputy Prime Minister, Minister of Economy and Finance, endorsed the setup of a working group to study the situation of expenditure arrears management systems. This exercise is under coordination by MEF GSC.

This dimension is rated C because the FMIS produces routine reports and data on stock and composition of expenditure arrears is generated annually. The monitoring system in place to estimate amount and stock of expenditure arrears is not based on the international standard but is based on the Cambodian definition.

Table 3.55: Scores for PI-22

PI	Dimension	Score	Brief justification for score
PI-22	**Expenditure arrears**	**D+**	**Scoring Method M1**
22.1	Stock of expenditure arrears	D	There are no salary arrears. However, expenditure arrears on debt interest and penalties are 10.30% of total expenditure in 2019.
22.2	Expenditure arrears monitoring	C	Data maintained on the FMIS can be extracted to generate Excel reports and data on stock and composition of arrears is monitored by GDNT on a regular basis and reported annually. However, the definition of arrears is not aligned to the international definition used in the PEFA methodology.

Box 3.22: Ongoing reform activities

GSC will lead a technical working group to study on expenditure arrears and provides to suggestion to PFM-SC to define the duration and measure arrears in 2021. Technical working group is preparing a roadmap and action plan to address expenditure arrear. This work will be finalized in 2021 and adopted for implementation in 2022.

PI-23. Payroll control

This indicator is concerned with the payroll for public servants only: how it is managed, how changes are handled, and how consistency with personnel records management is achieved. This indicator contains four dimensions and uses the M1 (WL) method for aggregating dimension scores:

Dimension 23.1. Integration of payroll and personnel records
Dimension 23.2. Management of payroll changes
Dimension 23.3. Internal control of payroll
Dimension 23.4. Payroll audit

The National Program for Public Administrative Reform (NPAR) was implemented from 2015-2018. The program focused on improving public service delivery: (i) improving human resources development and management, and (ii) further reforming the pay and compensation system of civil servants.

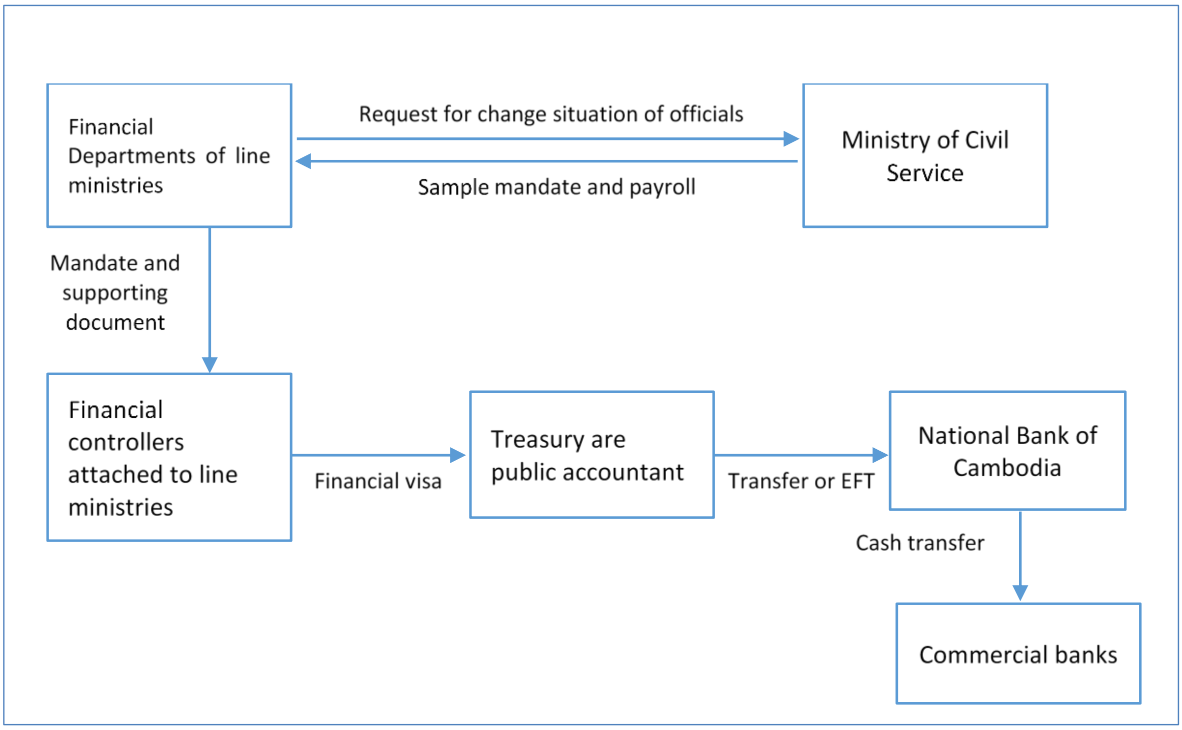
The Ministry of Civil Service (MCS) is responsible for keeping personnel records and managing the government payroll for all civil servants and contracted personnel, i.e. 218,481 in 2019, of whom 214,319 are permanent pensionable staff. Records are kept in the Human Resource Management Information System (HRMIS), using a SQL database. It covers all civil government employees in LMs/institutions (about 18% of the total) and SNAs (82%).

Separate payrolls are maintained by specific line ministries and institutions, namely: Parliament, Ministry of Defense, Ministry of Interior for police, Ministry of Royal Palace, NAA, Embassies, and political level appointments (Deputy Director and higher). The management of these payrolls, which represent about 38% of the total, has not been assessed.

The preparation of the civil payroll is decentralized through LMs to central departments and provinces. For instance, the MoEYS has a total of approximately 115,000 employees, distributed across 33 departments and 25 C/P offices. MoH has more than 20,000 of whom 28% are at central level and 72% at SNAs.

LMs/institutions are responsible for getting all proposed HR decisions approved by the relevant authority, mainly the MCS or, for very senior positions, the Prime Minister. Retirements are actioned automatically through the HRMIS by reference to dates of birth. Other changes can be originated from LMs' HR decisions. The LMs/institutions are not yet linked electronically to the HRMIS. LMs/institutions mostly keep their records on Microsoft Excel spreadsheets and communicate with MCS through paperwork. From their spreadsheets, they compile lists of payroll changes and submit them monthly to MCS. MCS Department for IT and Civil Service Accounts reconciles the LMs' data against the HRMIS database. They are then approved by MCS and a complete payroll is generated monthly for each LM/institution and department and communicated to GDNT for payment. Recently, as part of the program budgeting developments, the verification process has been simplified and after MCS' checks sent for approval by LMs/institutions' Financial Controllers, and then sent to GDNT (see Diagram below).

Diagram 3.5: Flow chart of payroll flow



Source: Strategic Plan for Business Process Streamlining of FMIS 2020-2025

All salaries are paid by GDNT to special salary bank accounts for each LM/institution, and from these salary accounts are transferred directly into the personal accounts of government employees. In some LMs/institutions, the distribution of salaries is outsourced to commercial banks and online banking platforms, such as ANZ Royal Bank, ACLEDA, CAMPU, Wing and Vattanac.

Dimension 23.1. Integration of payroll and personnel records

This dimension assesses the degree of integration between personnel, payroll, and budget data.

The MCS developed HRMIS, which a centralized HR database containing all demographic and career history information of individual civil servants. Only MCS officials have users' name and password to access the Payroll system and HRMIS.

Article 5 of Sub-decree no.26 ANKr.BK, dated 10 February 2016, establishes staffing tables at LMs/institutions' level defining the type of positions, number of staffs, entities, workplace, and period of hiring. This plan is submitted to the MCS before the end of quarter 1 of each year. In addition, article 6 states that LMs/institutions and the MCS must review and request to MEF for approval before the end of quarter 2. The MCS must announce the deployment of staff hiring before the end of quarter 3 of each year. Article 14 clearly defines that LMs/institutions are responsible for providing timely information on staff recruitment, CVs and bank accounts to the MCS to be integrated into the HRMIS payroll and monthly allowances paid.

All changes and updates of civil servants' administrative and family status are submitted to the MCS by the first week of each month. The calculation of the monthly payroll and salary tax rates must be provided by the MCS to all LMs/institutions for them to prepare a monthly payment order for GDNT with all supporting documentation attached.

Data on personnel changes in LMs/institutions are sent to the MCS in hard copy. There is no interface between MCS's HRMIS with FMIS so data consistency relies on manual verification processes. No reports from NAA on payroll issues have been produced.

The MCS updates its payroll and personnel records on a monthly basis, based on the information provided by LMs. However, this does not delay the salary payment as salaries must reach the individual bank accounts twice a month for 15-day payment.

This dimension is scored B because the payroll is supported – every month - by full documentation for all changes (hiring, promotion, relocations, retirements, etc.) made to personnel records and LMs/institutions financial comptrollers check that the month's total pay reconciles with the previous month's total and the total of changes made for the month. A higher score requires that all systems be interfaced to ensure budget control, data consistency and monthly reconciliation between payroll and HRMIS information are automated.

Dimension 23.2. Management of payroll changes

This dimension assesses the timeliness of changes to personnel and payroll data.

The MCS has the responsibility to update the payroll and personnel records on a monthly basis based on the personnel changes reported by LMs/institutions.

LMs/institutions interviewed for the assessment on the effective updating of personnel changes and payroll revealed that the transfer of changes in personnel information and conditions by LMs/institutions can be delayed between one and three months. Personnel departments at LMs/institutions have procedures demanding staff to be physically present to report changes in their personnel information. As a result, employees may receive their correct salaries through retroactive adjustments.

The retroactive salary adjustments have been calculated by MCS associated with changes in the staffing or benefits. It is estimated to amount to 15.5 percent in 2017 and 5.15 percent in 2020.

Table 3.56: Retroactive adjustments to civil servants' payroll in 2017-2020

Year	Month	Total number of civil servants*	Total allowance (KHR Millions)	Total salary* (KHR Millions)	% retroactive adjustment compared to total payroll	Changes by number of positions in the year
2017	January	198,950	74,480	197,242	15.50%	12,737
2017	December	205,499	97,200	227,837		
2018	January	206,869	97,784	243,760	12.06%	11,598
2018	December	211,593	119,845	273,167		
2019	January	211,577	119,863	286,984	5.15%	13,370
2019	December	214,319	128,744	301,786		
2020	January	214,509	128,836	309,898	5.17%	10,633
2020	December	215,087	135,980	325,939		

Source: MCS

Note:

**Total salary, exclude overtime pay or bonuses from the education sector*

**Number of civil servants (official and received basic salary*

This dimension is scored B because personnel records and payroll are updated at least quarterly and require a few (more than 10 but less than 25 percent) retroactive adjustments to the payroll. A higher score would require that the payroll system be interfaced with HRMIS and the frequency of retroactive adjustments be significantly reduced.

Dimension 23.3. Internal control of payroll

This dimension assesses the controls that are applied to the making of changes to personnel and payroll data.

HRMIS and payroll system are established on centralized database. Only MCS officials have users' name and password to access these systems and perform modifications to the systems.

In practice, the MCS verifies payroll and personnel records on a monthly basis against the table of personnel changes reported by LMs/institutions. The verification procedures require concerned LMs to carefully review their payroll and changes to staffing tables before submitting them to the MCS together with the planned staffing tables, comparison tables, and payment orders.

Authority and basis for changes to personnel records and the payroll are clear, though there is no audit trail on changes made month to month. As per PI-23.2 there can be some delays in the updates and adjustments in the payroll, but the integrity of the data entered in the payroll system is high. There has been no report from the NAA on ghost workers or data issues or findings on irregularities in salary payments at LMs/institutions.

The dimension is scored B because authority for changes to personnel records and payroll are clear and adequate. A higher score would require that payroll adjustments result in an audit trail to ensure full integrity data.

Dimension 23.4. Payroll audit

This dimension assesses the degree of integrity of the payroll. Payroll audits should be undertaken regularly to identify ghost workers, fill data gaps, and identify control weaknesses.

The NAA audits LMs/institutions annually, but has not performed specific payroll audits, and NAA reports do not mention any general findings in payroll management. Internal audit controls are also taking place at LMs/institutions. However, audits focus only on personnel and attendance records, not on salary expenditure. At the MPWT, the Internal Audit focuses on areas of risk, such as redundant names and retirees. At MoEYS, the Internal Audit does not undertake any comprehensive salary audit considered outside its scope. Internal Audit investigates questions of compliance with financial regulations. The Department of Inspection investigates all teacher complaints on salaries, but it does not perform payroll audit as it is the mandate of internal audit investigations.

However, the General Inspection Department of MCS has performed some partial controls on its transactions and identified irregularities in salary payments at LMs and SNAs and adjustments were made for amounts corresponding to KHR 4,887,876,400 in 2017, KHR 4,222,261,188 in 2018, and KHR 7,198,135,514 in 2019, around 2 percent of total annual payroll.

The dimension is scored D because there is no comprehensive payroll audit that has been taken place during the last three years. The MCS partial verifications have resulted in adjustments up to 2 percent of the annual payroll. A higher score would require that the NAA performs payroll regular audits of all central government entities and issues recommendations and follow up on them.

Table 3.57: Scores for PI-23

PI	Dimension	Score	Brief justification for score
PI-23	**Payroll control**	**D+**	**Scoring Method M1**
23.1	Integration of payroll and personnel records	B	Each month's payroll is supported by full documentation for changes made, and LMs check that the month's total payroll reconciles with the previous month's total and the total of changes made for the month.
23.2	Management of payroll changes	B	Personnel records and payroll are updated at least quarterly and require a few (more than 10 but less than 25 percent) retroactive adjustments to the payroll.
23.3	Internal control of payroll	B	Authority for changes to personnel records and payroll are clear and adequate.
23.4	Payroll audit	D	There is no comprehensive payroll audit that has been taken place during the last three years. The MCS partial verifications have resulted in adjustments up to 2 percent of the annual payroll.

Box 3.23: Ongoing reform activities

The FMIS Phase 3 is interfaced with personnel records and the database managed by the MCS. Therefore, when the FMIS is fully functional and computerized personnel and payroll database has been upgraded, the management of personnel and payroll records will be more effective and efficient. In addition, the NAA will consider for audit on payroll.

PI-24. Procurement

This indicator examines key aspects of procurement management. It focuses on transparency of arrangement, emphasis on open and competitive procedures, monitoring of procurement results, and access to appeal and redress arrangements. It contains four dimensions and uses the M2 (AV) method for aggregating dimension scores:

Dimension 24.1. Procurement monitoring
Dimension 24.2. Procurement methods
Dimension 24.3. Public access to procurement information
Dimension 24.4. Procurement complaints management

Most public spending (nearly 8% of GDP) takes place through the public procurement system. A well-functioning procurement system ensures that money is used effectively for achieving efficiency in acquiring inputs, and value for money in delivery of programs and services by the government. The legal and regulatory framework for procurement should be clear, and emphasize transparency, with open competition being the preferred method for procurement, information on procurement being available to the public, and a transparent independent appeals mechanism in place.

MEF GDPP is the central agency responsible for procurement using government funds. Procurement for donor-aided projects follows the procurement rules of the relevant donor and is not included in the scope of a PEFA assessment.

The GDPP undertakes no procurement itself. Procurement was decentralized to LMs/institutions and provinces in 2005 (Prakas no.45 MEF.PrK). For procurement below the competitive bidding threshold, which is KHR 500 million (approx. USD 125,000), procuring entities are fully responsible. For contracts over USD 125,000 and up to USD 250,000 for goods or USD 300,000 for works contracts, national competitive bidding is required. Above these thresholds, the international competitive bidding is required. LMs/institutions are required to prepare annual procurement plans in support of their budget proposals and have them approved by the GDPP. Based on Prakas no.10 MEF.PrK, dated 14 January 2019, procurement entities have authority and responsibility for conducting procurement below specific thresholds as follows:

• C/P line departments' budget	< KHR 300 million
• Provincial administrations' budget	<KHR 500 million
• Phnom Penh Capital administration's budget	<KHR 800 million
• LMs/institution and authorized budget entities central level	<KHR 800 million
• PAEs' budget	<KHR 800 million
• Budget of University of Health and Science, and National Institutes of Public Health	<KHR 1,000 million
• Budget of MoI and Ministry of Defense	<KHR 1,000 million
• Budget of MoEYS and MoH	<KHR 1,500 million
• Budget of State-Owned Enterprises	<KHR 1,500 million
• Budget of Phnom Penh Water Supply Authority	<KHR 2,000 million
• Budget of EDC (Cambodia Electricity)	<KHR 3,000 million

The procurement system is not fully used IT system and the GDPP does not have any automatic interface and direct involvement with the implementing LMs/institutions' operations. The GDPP supervision focuses on contracts above these thresholds. This consists of checks applied before the issue of bidding documents, and before contracts are awarded. Procuring entities submit their documents to the GDPP, who checks their adherence to the law and approves them. Contracts below the thresholds are not supervised individually, but the GDPP requires a quarterly report from each procuring entity on all its contracts. However, the GDPP estimates that only 80-90% of all entities are effectively reporting on contracts below the thresholds. The GDPP has little power to enforce the reporting requirements and consolidation of reports is done manually.

The legal framework for national procurement consists of the Law on Public Procurement (2012) and regulations made under this law, along with numerous sub decree and prakas on detail procedures and approach on implementing the procurement. Recently, the Public Procurement System Reform Strategy 2019-2025 has been adopted by the RGC to ensure the reliability, effectiveness, competitiveness and economy of public procurement in Cambodia.

Dimension 24.1. Procurement monitoring

This dimension assesses the extent to which prudent monitoring and reporting systems are in place within government to ensure value for money and promote fiduciary integrity.

The GDPP has been developing a Public Procurement Management Information System (PPMIS) to effectively manage its procurement operations. As of 2019, five functions have already been developed, namely (1) procurement plan management, (2) staff management, (3) bidders list management, (4) delivery management, and (5) visa (e.g. date) of the bidding document management. Two additional functions are being developed for contract management and flow of document managemens.

GDPP receives data manually from procuring entities of LMs/institutions, C/P line departments, and C/P administrations; however, it does not cover the procurement of externally funded projects/programs and procurements are implemented by D/M and C/S administrations.

The reporting system relies on information transferred from all the procurement departments in all government entities to GDPP, which consolidates the contracts awarded on an excel document. The Contract Management Office of GDPP is responsible for consolidating records all procurement contracts (above the threshold/final approval from the MEF) using excel spreadsheets including relevant information of procurement contracts such as: purpose of contact, name of Procurement Entities/Budget Entities, name of suppliers/contactors/service providers, contract value, contract date etc.

In 2019, the Contract Management Office of GDPP recorded a total of 1,235 contracts above the thresholds requiring final approval from the MEF. However, the total value of these contracts could not be calculated against the total annual procurement value as the value of contracts managed by LMs/institutions under thresholds for the MEF authorization could not be estimated.

The NAA’s audit report 2018 on Budget Settlement Law mentions two issues related to procurement, including the lack of compliance for the registration certificate of works contractors and the late of submission of procurement reports to GDPP.

This dimension is scored D because the GDPP maintains records with data on what has been procured, value of the procurement and who has been awarded the contract for all contracts above thresholds but cannot evidence the materiality of these contracts against the total procurement methods for goods, services and works as there is no integrated system to monitor procurement values and records. A higher score would require that a consolidated and reliable procurement database system be maintained for all contracts awarded above and under thresholds.

Dimension 24.2. Procurement methods

This dimension analyzes the percentage of the total value of contracts awarded with and without competition.

Based on the Law on Public Procurement (2012), the MEF issued Prakas no.1866 MEF.PrK, dated 26 December 2014, on Thresholds of Procurement Methods as summarized in table 3.58.

Table 3.58: Procurement methods with thresholds

Procurement Methods	Threshold (KHR Million)		
	Goods	Construction	Services
International Competitive Bidding	From 5,000 up	From 6,000 up	From 4,000 up
National Competitive Bidding	100 – 5,000	100 – 6,000	100 – 4,000
Limited Competitive Bidding	No limit	No limit	No limit
Shopping	20 – 100	20 – 100	20 – 100
Canvassing	Less than 20	Less than 20	Less than 20
Direct Contracts	No limit	No limit	No limit

Source: MEF GDPP

Table 3.59 shows that competitive methods used in public procurement represented less than 50% of the total value of contracts awarded in 2019.

Table 3.59: Procurement methods implementation

No.	Procurement Methods	2019	
		Value of Contracts Threshold (Unit: Million KHR)	%
1	International Competitive Bidding	762,132	16.34%
2	National Competitive Bidding	1,027,658	22.03%
3	Shopping	90,047	1.93%
4	Canvassing	209,766	4.50%
5	Direct Contracts	2,574,297	55.20%
Total		**4,663,900**	**100%**

Source: MEF GDPP

This dimension is rated D because the value of total contracts awarded using competitive methods is less than 60% of the total value of awarded contracts in 2019. A higher score would require that more contracts are awarded based on competitive procurement methods.

Dimension 24.3. Public access to procurement information

This dimension reviews the level of public access to complete, reliable, and timely procurement information.
The Information Technology Office of GDPP is publishing all procurement information on GDPP's website. However, some errors regarding the upload of documents to the website have been identified by the assessment team[62]. Therefore, some documents on procurement information are published and accessible on the website or not in a timely manner.

According to the 2019 public procurement statistics bulletin, 294 out of 639 budget entities (46%) have submitted their report on public procurement implementation.

Key elements of publishing procurement information are listed in Table 3.60 below, in accordance with PEFA Framework specifications.

[62] GDPP has been working on the development of the new GDPP's website, which is planned to complete by the end of 2020.

Table 3.60: Key procurement information published in 2019

Is the following key procurement information available to the public through appropriate means?	
1) Legal and regulatory framework for procurement	Yes
2) Government procurement plans	No, only partially (not timely)
3) Bidding opportunities	Yes
4) Contract awards (purpose, contractor and value)	No, only partially[63]
5) Data on resolution of procurement complaints[64]	Yes
6) Annual procurement statistics	No, only partially[65]

The dimension is scored D because only three of six elements of public procurement information are made available to the public in a complete, reliable, and timely manner and for the 46% of the procurement entities that have reported their statistics in 2019. A higher score would require that all 6 elements are published in a complete, reliable and timely manner for a higher number of procurement entities.

Dimension 24.4. Procurement complaints management

This dimension assesses the existence and effectiveness of an independent, administrative complaint resolution mechanism.

Articles 62 and 63, Chapter 10 on the Law on Public Procurement promulgated by the Royal Decree no. NS/RKM/0112/004, dated 14 January 2012, define the settlement of conflicts and complaints but do not establish an independent institution to review procurement complaints. Recently, the RGC has adopted the Sub-decree no.21 ANKr.BK, dated 21 February 2018, on Rules and Procedures for Complaints and Mechanism of Complaint Resolution. A Committee of Public Procurement Arbitration has been established as an independent committee[66] composed of the Minister of Economy and Finance as a chairman, Secretary of State of Economy and Finance as a vice chairman, Director General of GDPP as a permanent member, and director general of the GDICDM, and Head of the Legal Council Secretariat as members. The GDPP is acting as a technical adviser to the Committee and provides recommendations but the ultimate decision is made above GDPP.

Based on the regulations, in case of a dispute, the appeal/complaint is addressed to the concerned entity involved in the procurement for settlement, but the entity has the obligation to create a procurement arbitration case and the complainant can refer directly to the Committee of Public Procurement Arbitration for resolution. It may then be appealed with the competent court. It should be noted that only a limited number of cases are effectively handled by the Committee as for the period of this assessment, two complaints were received in 2017, two in 2018 and two in 2019. All resolutions on these complaints were resolved and accepted by every party.

Are complaints reviewed by a body which:		Explanations
1) Is not involved in any capacity in procurement transactions or in the process leading to contract award decisions	Yes, as the complaints are recorded as a procurement	The Committee of Public Procurement Arbitration: GDPP is considered independent as it is accessible for all complaints below and above the

[63] The contract awards posted on GDPP has shown all the require information such as: Purpose of the contract, Name of Contractor and Procurement Entities, and Total Contract value.

[64] The data on resolution of procurement complaints were included in the Annual Report of Procurement Post Review which has been posted annually on GDPP website: https://bit.ly/3gJTPM0

[65] https://bit.ly/2DhTfYb

[66] Prakas no.721 MEF.Prk dated 13 August 2019 on Committee of Public Procurement Arbitration

Are complaints reviewed by a body which:		Explanations
	arbitration case when reviewed by the procurement entity and can be submitted to the Committee for Public Procurement Arbitration directly by the complainants.	thresholds and chaired by senior management from other government entities, with GDPP as a technical member of the Committee. In these cases, there is no conflict of interest, GDPP acts as a regulator providing legal advice to the chairman of the Committee and not as an operator of the procurement decisions. All complaints can be lodged directly with the Committee even if in practice only limited cases are registered annually.
2) Does not charge fees that prohibit assess by concerned parties	Yes	No fees charged.
3) Follows process for submission and resolution of complaints that are clearly defined and publicly available	Yes	Article 9, 13 and 16 of Sub-decree no.21 ANKr.BK, dated 21 February 2018, on Rules and Procedures and Resolution Mechanism for Complaints explicitly states the delays for complaints to be lodged and for the Committee of Public Procurement Arbitration to resolve them. These delays are respected.
4) Exercises the authority to suspend the procurement process	Yes	When complaints are lodged, the Public Procurement Committee has the power to suspend the contract award to solve complaints within 15 working days as allowed in Sub-decree no. 21 ANKr.BK.
5) Issues decisions within the timeframe specified in the rules and regulations	Yes	According to past complaints resolved, complaints are always resolved within the timeframe (15 working days or less) as determined in Article 16 and 25 of Sub-decree no. 21 ANKr.BK.
6) Issue decisions that are bidding on every party (without precluding subsequent access to an external higher authority)	Yes	Decisions by the Committee are binding for all parties even if there is an option to appeal in the courts. This situation has not taken place in the assessment period.

The dimension is scored A because the criterion (1) is met and so are all other criteria.

Table 3.61: Scores for PI-24

PI	Dimension	Score	Brief justification for score
PI-24	**Procurement**	**D+**	**Scoring Method M2**
24.1	Procurement monitoring	D	The GDPP maintains records with data on what have been procured, value of the procurement and who has been awarded the contract for all contracts above thresholds but cannot evidence the materiality of these contracts againt the total procurement methods for goods, services and works as there is no integrated system to monitor procurement values and records

24.2	Procurement methods	D	The value of total contracts awarded using competitive methods is less than 60% of the total value of awarded contracts in 2019.
24.3	Public access to procurement information	D	Only three of six elements of public procurement information are made available to the public in a complete, reliable and timely manner and the materiality of the procurement operations involved cannot be confirmed.
24.4	Procurement complaints management	A	The criterion (1) is met and other 5 criteria are met.

Box 3.24: Ongoing reform activities

The Procurement System Reform Strategy 2019-2025 is designed to align with budgetary reforms and its objective is to delegate the full authority for procurement to LMs/institutions. The procurement plans also form part of the budget negotiations process, which are required the submission of the procurement plans by the budget entities to the MEF prior to the budget negotiation process. Procurement plans are approved on 31st December before the start of the budget year. Procurement and budget entities are expected to provide procurement implementation reports to the MEF every month, increase the use of competitive public procurement and increase the thresholds under which GDPP authority is not required.

PI-25. Internal control on nonsalary expenditure

This indicator measures the effectiveness of general internal controls for nonsalary expenditures. Specific expenditure controls on public service salaries are considered in PI-23. The present indicator contains three dimensions and uses the M2 (AV) method for aggregating dimension scores:

Dimension 25.1. Segregation of duties
Dimension 25.2. Effectiveness of expenditure controls
Dimension 25.3. Compliance with payment rules and procedures

Control systems are established through sub-decrees, prakas and circulars and cover most aspects of internal control procedures, financial and non-financial controls. The guidelines on expenditure and financial control procedures cover current expenditure and capital expenditure. Other expenditure monitoring is covered by control systems in the FMIS, for payroll, payments. However, there are no computerized system to manage procurement of goods, services and works or fixed assets.

Control procedures in place are considered cumbersome and consume administrative time at central and decentralized levels and delegation of authority to LMs/institutions is not effective. LMs/ institutions need to request authorizations for expenditure commitments from the MEF. In this administrative procedure, multiple signatures are required, usually going up to the Secretary General or Minister's level. Each additional step creates a rent opportunity. Also, post-expenditure controls have led to overlaps and duplication of checks by MEF General Inspectorate Department and LM/institution internal audit.

Dimension 25.1. Segregation of duties

This dimension assesses the existence of the segregation of duties, which is a fundamental element of internal control to prevent an employee or group of employees from being in a position both to perpetrate and to conceal errors or fraud in the normal course of their duties.

Prakas no.1911 MEF.PrK, dated 31 December 2014, on Implementation of Guideline on Program Budget Implementation set out the clear authorities and responsibilities of LMs/institutions as authorizers, fully delegated authorized budget entities, unauthorized budget entities, finance departments and internal audit department.

Based on the Prakas no. 1282 MEF.PrK, dated 27 October 2016, on Authority, Responsibility and Procedure on Implementing Program Budgeting of Budget Entities, there is a clear segregation of duties between Financial Management Officers, Petty Cash Advance Officers, Revenue Collection Officers, Procurement Officers and Payment Officers for LMs/institutions and spending agencies. Each officer must be appointed by Ministers of LMs/institutions as well as MEF.

For expenditure control, the key control role has been established by MEF with financial controllers under Financial Affair Department (FAD) GDB but attached to each LM/institution or PAE. Every process of commitment and payment orders must be reviewed by financial controllers before submission to the MEF for final approval.

The budget expenditure control of LMs/institutions is implemented through a centralized mechanism in several stages including commitment, procurement, payment order and disbursement. Control are processed manually as the FMIS is not fully operational yet. Until now, the budget controls of LMs/institutions and C/P line departments are implemented based on Sub-decree no.81 ANKr, dated 16 November 1995, on the Establishment of Financial Inspection on the State Budget Expenditure at Line Ministries, Municipalities/Provinces, Autonomous Cities, Phnom Penh Municipality, and Public Administration Entities, and Sub-decree no.82 ANKr.BK, dated 16 November 1995, on General Regulations of Public Accounting. These two Sub-Decrees are not comprehensive enough to respond to the latest development of Budget Control System in line with international best practices, regarding the roles of Financial Comptroller (GDB FAD) and Public Accountant (GDNT) in particular. According to the PFMRP (CAP3+2), both Sub-decrees will be reviewed and eventually revised by 2022.

In early 2020, the Strategic Plan of Business Streamline for the FMIS 2020-2025 started to establish a framework for control procedures on risk-based approach from low- risk to high-risk expenditure. It starts with payroll for specific regimes in MAFF, MoPTC, MoLVT, MCS, MoISTI, MoH and MoEYS.

This dimension is scored C because there is a clear segregation of duties as well as responsibilities for expenditure controls within spending agencies and MEF; however, in practice there still overlap n functions between levels in LMs and between GDB FAD (Financial controllers) and GDNT (Public Accountants) for reviewing payment orders. A higher score would require that more precise definition and streamlining of the control processes take place in accordance with rules and regulations.

Dimension 25.2. Effectiveness of expenditure controls

This dimension is intended to assess the expenditure commitment control system as an important element in financial discipline to contain expenditure within the approved budget without allowing the build-up of arrears (see PI-22 above). A commitment is defined in the Cash Management Manual as an obligation that commits the Government to a future payment. It arises when a formal action such as hiring an employee or awarding a contract is taken and which results in creating an immediate or future liability to pay on behalf of the Government. Such commitments may be of two kinds - recurrent commitments like salaries, utility payments, debt service etc., which do not require a specific contract, and commitments that arise out of placing specific contracts for goods and services – of both capital and recurrent nature. Each kind of commitment has its own procedure.

After annual budget proposal passed legislature, the MEF issued budget books for national budget both in economic (by chapters, accounts, sub-account of economic classifications in fiscal year) and programme (policy objective, program, sub-program, and cluster activities) classifications.

GDB FAD is responsible for supervising the current expenditure commitments and GDB DI oversees capital expenditure commitments. Expenditure commitment control is done manually, i.e there is no computerized system, even though the MEF has an FMIS in place. The MEF has delegated to financial controllers at LMs the authority to review and decide on expenditure other than through procurement procedures, for example, salary expenditure. A prakas in 2006 provides authority to financial controller to authorize expenditure on salaries of established staff, project staff, contract officers, retirees, and resigning staff, and on scholarships. The MEF has developed guidelines on budget program execution procedures on 31 December 2014 and introduced them to LMs/institutions for implementation in 2015 for current expenditure commitments. However, for capital expenditure, the MEF just released the Prakas no.207 MEF.PrK, dated 26 February 2019, on Guideline on Rules and Procedures for Implementing Public Investment Expenditure Financed by National Budget (Direct Projects). Expenditure commitment control is based on the annual budget law and quarterly revenue/expenditure programs. Both guidelines state the expenditure commitment cannot exceed the approved budget.

Urgent or exceptional expenditure commitment proposals do not follow these procedures.

Additionally, GDNT cash management manual indicates that LMs should ensure that no expenditures, including commitments and encumbrances, exceed the available cash limits for each month. However, it provides that major construction project commitments, which may take months or years to complete, need to be scheduled over the relevant months and kept within cash ceilings in those months. Individual expenditure commitment control is not dependent on the actual position of cash available at the GDNT. For domestic capital expenditure control, the MEF issued Prakas no.207 MEF.PrK, dated 26 February 2019, on Guideline on Rules and Procedures of Implementing Capital Expenditure by National Budget which provides clear guidance for each stage: commitment, procurement, project implementation, monitoring, evaluation, receiving and validating projects, payment, accounting procedure, and auditing.

This dimension is scored C because expenditure commitment control procedures exist and are effective to keep commitments within cash availability and approved budget allocations. However, not all revenue and expenditure are covered. A higher score would require that all expenditures are covered effectively.

Dimension 25.3. Compliance with payment rules and procedures

This dimension assesses the extent of compliance with the payment control rules and procedures, based on available evidence.

According to the audit report on budget settlement law 2018 by the NAA, actual current expenditure of national budget amounts to KHR 14,972,500.6 million, and there are issues in settling advances; payments and recordings are not fully compliant with financial principles; LMs reconciled revenue and expenditure late. In addition, for public investment through foreign grants for a total value of KHR 731,858 million, there are not enough documentation to support for audit.

According to the external audit report for 2018, the NAA validated 173 payment orders of the LMs/institutions that were approved for payment by GDNT and found that the majority of exceptions were properly authorized and justified. For others, evidence or supporting documents were missing.

The dimension is scored C because the majority of payments are compliant with regular payments procedures and majority of exceptions are duly authorized or justified. A higher rating would require a significant reduction in non-compliant payments or exceptions.

Table 3.62: Scores for PI-25

PI	Dimension	Score	Brief justification for score
PI-25	**Internal control on nonsalary expenditure**	**C**	**Scoring Method M2**
25.1	Segregation of duties	C	There is a clear segregation of duties as well as responsibilities for expenditure controls within spending agencies and MEF; however, in practice there still overlap n functions between levels in LMs and between GDB FAD (Financial controllers) and GDNT (Public Accountants) for reviewing payment orders.
25.2	Effectiveness of expenditure controls	C	Expenditure commitment control procedures exist and are effective to keep commitments within cash availability and approved budget allocations. However, not all revenue and expenditure are covered.
25.3	Compliance with payment rules and procedures	C	The majority of payments are compliant with regular payments procedures and majority of exceptions are duly authorized or justified.

Box 3.25: Ongoing reform activities

The simplified disbursement control framework and procedures through FMIS, while payment will be disbursed through E-Transfer. The central budget control mechanism, which is under the MEF for both financial and procurement control, will be delegated and attached to the LMs/institutions. The pilot will begin in 2022 and gradually roll out until 2025.
There are main tasks that are going to implement as follows:

- Preparation of performance-informed budgeting guideline for budget execution.
- Preparation of a PFMM for government budgeting has commenced. The manual is expected to include instructions to line ministries to prepare customized financial manuals. It is expected the initial draft will be ready for consideration by MEF in June 2020. After LMs will use it to develop their own FMM.
- Prepare and execute budget operation plan of line ministries-institutions from 2022-2025.

PI-26. Internal audit

This indicator assesses the standards and procedures applied in internal audit. It contains four dimensions and uses the M1 (WL) method for aggregating dimension scores:

Dimension 26.1. Coverage of internal audit
Dimension 26.2. Nature of audits and standards applied
Dimension 26.3. Implementation of internal audits and reporting
Dimension 26.4. Response to internal audits

The internal audit function is established by the Law on Cambodian Audit, dated 03 March 2000, which is published on the website of the MEF General Department of Internal Audit (GDIA) (www.gdia.mef.gov.kh). Articles 1, 41, 42 and 43 of this law require establishing an internal audit unit in each LM/institution and PE, and reporting to their senior managements, with copy to the NAA. Its purpose is to independently examine and evaluate the system of internal controls to provide reasonable assurance on the achievement of operational objectives, accuracy of financial reports, and compliance with all applicable laws and regulations. The organization and functioning of internal audit in line ministries, institutions and public enterprises is defined by Sub-decree no.40 ANKr.BK dated 15 February 2005.

MEF GDIA has a dual role: (1) it is the internal audit department for MEF, covering all its general departments and decentralized offices; (2) it assists other LMs' IA departments by providing guidance, standard report formats and training. However, GDIA does not have supervisory powers over other LMs and generally only approves their plans or receive copies of their reports. Notably, GDIA is a member of the Institute of Internal Auditors and seeks to apply its standards.

Capacity of auditors is an important priority for the MEF as a specialized profession requiring selection of qualified auditors, who have skills in accounting, auditing, and information and communication technology (ICT). As of 2019, the GDIA had 32 staff with qualification and certificates from Bachelor degree to PhD in fields of Economics, Accounting, Audit and Information Technology. The qualification of auditors in LMs/institutions and state-owned enterprises, there is no assessment available, and it is the mandate of each head of individual organization to recruit them. Moreover, there are frequent turnover of auditing officers in the LMs/institutions and state-owned enterprises that makes their qualification assessment difficult.

There is also a General Inspectorate Department in the MEF that examines financial management processes in LMs outside of MEF so that MEF GDIA and the General Inspectorate Departments do not overlap functions. However, in practice, Internal Audit departments and Inspectorates units in most LMs overlap their functions and responsibilities. Recently, the RGC issued a Sub-decree no.168 ANKr.BK, dated 01 October 2019, establishing clear functions, roles and responsibilities for the internal audit and inspection to avoiding overlap.

Dimension 26.1. Coverage of internal audit

This dimension assesses the extent to which government entities are subject to internal audit.

All LMs/institutions and PEs, except special LMs such as Ministry of Royal Place and the NAA, have functioning internal audit departments in place. Within MEF, GDIA mainly focuses on local units. Internal audit units of LMs/institutions cover all the budget entities under their LMs including PAEs. There is a clear regulatory framework in place to define the responsibilities of the Internal Audit units, including submission of a work programs, maintenance of audit documentation, reporting to the senior management and follow up on recommendations.

This dimension is scored A because the internal audit function covers all government agencies, PAEs and PEs. They have formal procedures aligned with the international standards including annual work programmes, definition, maintenance of audit documentation, and follow up on recommendations.

Dimension 26.2. Nature of audits and standards applied

This dimension assesses the nature of audits performed and the extent of adherence to professional standards.

The MEF issued Prakas no.1673 MEF.PrK, dated 30 December 2016, on Internal Audit Manual and has been implemented by all Internal Audit Departments of LMs. The focus of internal auditors is on financial compliance with rules and regulations and the effectiveness of internal control. The GDIA has a role to assist each LM/institution by providing guidance, standard report formats and training. The GDIA does not have authority to supervise or assess the performance of internal audition functions at LMs.

Recently, the MEF issued two prakas to fulfil reform program for strengthen financial accountability and performance accountability, namely Prakas no.542 MEF.PrK, dated 30 June 2020, on Implementing Audit Guideline on Information and Communication Technology Audit; Prakas no.543 MEF.PrK, dated 30 June 2020, on Implementing Audit Guideline on Performance.

This dimension is rated B because internal audit activities are focused on financial compliance and the adequacy and effectiveness of internal controls. A higher score would require that a formal quality assurance process of internal audit functions is in place based on professional standards and that internal audit activities focus on high-risk areas.

Dimension 26.3. Implementation of internal audits and reporting

This dimension assesses specific evidence of an effective internal audit (or systems monitoring) function as shown by the preparation of annual audit programs and their actual implementation including the availability of internal audit reports.

Article 43 of Law on Audit (2000) stipulates that an internal control system should be established by the management of the RGC institutions, LMs and public enterprises to provide reasonable assurance on the effectiveness of operations, reliability of financial reports and compliance with the applicable laws, regulations, policies, procedures and implementation arrangements.

The legal framework on internal audit stipulates that internal auditors must conducts their work independently. This independent function requires line ministries to arrange appropriate organizational management, which requires (1) internal audit is managed directly by head of organization, (2) auditing results are reported directly to head of the organization, (3) budget of internal audit is managed directly by head of organization, and (4) unconstrainted access to necessary information by internal audit.

All internal audit units of LMs/institutions are to prepare annual audit programs as well as a 3-year rolling audit plan. Based on IA departments from LMs/institutions interviewed for the assessment, more than 90 percent of LMs/institutions prepare their annual audit plans and more than 60 percent of all annual audit programs planned are completed by respective internal auditors in LMs/institutions and reports sent to their respective ministers.

As per Audit Law, audit reports prepared by Internal Auditors are sent to audited units for their review to ensure their accuracy and response and to the ministers or secretary of state in charge of internal audit and auditees, as appropriate parties. Circular no.003 MEF, dated 16 January 2014, also requires LMs to submit their audit reports to the MEF on a monthly basis for by GDIA and to the NAA on a quarterly basis for scrutiny.

In practice, the compliance of LMs submission of their internal audit reports to NAA and copy to the MEF varies. For instance, MPWT reports on the completion of each audit to the respective auditee and consolidates its reports quarterly and annually for the Minister as appropriate party and sends a special report to the NAA bi-annually and annually with copy to the MEF. Based on GSC assessment team discussed with internal audit of LMs', NAA and GDIA, around 25 percent of LMs submitted such reports to NAA in 2019 and approximately 20 percent of all internal audit units in LMs and state-owned enterprises submitted their audit reports to MEF GDIA.

The dimension is scored C because internal audit departments of LMs/institutions implement the majority of their annual audit programs as evidenced by their distribution to the LMs' senior management, even if only 20 percent submit their audit reports to the MEF and approximately 25 percent to the NAA in 2019. A higher score would require that all programmed audits be completed and the audit reports distributed to all concerned parties.

Dimension 26.4. Response to internal audits

This dimension assesses the extent to which action is taken by management on internal audit findings.

GDIA sampled the audit reports received from four main internal audit departments in LMs for 2018. Follow up on audit recommendations takes place in a period of 6 to 12 months after dissemination of each audit report, and implementation ratio is within 50 percent as indicated in Table 3.63 below.

Table 3.63: Progress of implementing the audit recommendations in 2019

Line ministries	# of auditees	# of audit recommendations	# of full implementations of audit recommendations	% full implementation of recommendations
MEF	112	1190	658	55%
MoEYS	36	288	136	47%
MAFF	45	503	262	52%
Ministry of Tourism	15	113	63	56%
Ministry of Culture and Fine Art	12	62	32	52%
Total	**220**	**2,156**	**1,191**	**55.2%**

Source: GDIA

Annually GDIA conducts quality assurance checks of internal audit units of LMs/institutions and provides recommendations through letters from the MEF to Ministers/Head of LMs/institutions for improvement of their respective internal audit functions. As per observation by GDIA, internal audits in LMs/institutions have appropriate organizational structure that shows independence of their functions. However, internal audits in a few line ministries are not structured directly under the head of the organizations; they do not report directly to head of their organization; independent access to information is not fully granted. In the case of the internal audit of MEF, the GDIA is under direct supervision of H.E.Dr. Deputy Prime Minister and Minister of Economy and Finance.

The dimension is scored C because in the assessed sample and as per GDIA feedback, managements in LMs/institutions provide partial response to the audit recommendations received from their internal audit unit, and percentage of achievement of audit recommendations is within 50%. A higher score would require that internal audit functions a full response to audit recommendations for all audited entities is received within 12 months if the report being issued.

Table 3.64: Scores for PI-26

PI	Dimension	Score	Brief justification for score
PI-26	**Internal audit**	**C+**	**Scoring Method M1**
26.1	Coverage of internal audit	A	Internal audit function covers all government agencies, PAEs and PEs. They have formal procedures aligned with the international standards including annual work programmes, definition, and maintenance of audit documentation, follow up on recommendations.
26.2	Nature of audits and standards applied	B	Internal audit activities are focused on financial compliance and the adequacy and effectiveness of internal controls.
26.3	Implementation of internal audits and reporting	C	Internal audit departments of LMs/institutions implement the majority of their annual audit programs as evidenced by their distribution to the LMs/institutions' senior management.
26.4	Response to internal audits	C	In the assessed sample and as per GDIA feedback, managements in LMs/institutions provide partial response to the audit recommendations received from their internal audit unit, and percentage of

PI	Dimension	Score	Brief justification for score
			achievement of audit recommendations is within 50%.

Box 3.26: Ongoing reform activities

- Internal audit units of LMs/institutions start to conduct performance audit and ICT audit from 2021 onward.
- Review performance audit function at LMs/institutions.

PILLAR SIX: Accounting and reporting

This pillar assesses the extent to which accurate and reliable records are maintained, and information is produced and disseminated at appropriate times to meet decision-making, management, and reporting needs.

Pillar VI has three indicators:

- PI-27. Financial data integrity
- PI-28. In-year budget reports
- PI 29. Annual financial reports

PI-27. Financial data integrity

This indicator assesses the extent to which treasury bank accounts, suspense accounts, and advance accounts are regularly reconciled and how the processes in place support the integrity of financial data. It contains four dimensions and uses the M2 (AV) method for aggregating dimension scores:

Dimension 27.1. Bank account reconciliation
Dimension 27.2. Suspense accounts
Dimension 27.3. Advance accounts
Dimension 27.4. Financial data integrity processes

Reliable reporting of financial information requires constant checking and verification of recording practices of accountants. The MEF GDNT performs the role as a public accountant with the following duties: (1) to collect or receive revenues, (2) to execute payment orders issued by the line ministries or other entities of the RGC, (3) to manage and release the budget of LMs/institutions, (4) to prepare periodic financial reports, and (5) to file properly all documents, supporting documents, and accounting records of the RGC.

This indicator assesses (1) Regularity of bank reconciliations and (2) Regularity of reconciliation and clearance of suspense accounts and advances. This indicator assesses the situation as at the time of the assessment.

The implementation of the MEF FMIS platform phase-1 started in 2014 and phase-2 in 2017. There are 6 core FMIS functions and modules of FMIS in place as of 2019 as follows: (1) Budget allocation, (2) Accounts payable, (3) Accounts receivable, (4) Cash management, (5) Purchasing, and (6) General ledger. From 2019-2020, the FMIS Management Working Group (FMWG) developed two additional modules, budget formulation and procurement which will be piloted in the MEF and Ministry of Women's Affairs in 2021.

The accounting framework has been strengthened, including the CoA, budget classification and FMIS. The core budget classifications used in the PFM systems have been fully integrated in the FMIS. These core systems support financial accountability scope, quality, and timeliness of financial accounting, recording, and reporting. The FMIS is operational in almost all LMs/institutions as of 2020, as well as in all C/P Treasuries, C/PDEF and the new FMIS core modules have fully replaced the previous in-house KIT system since 2017. Electronic interfaces have also been built across other core systems (e.g for customs and debt), as well as with the banking system (both NBC and commercial banks) and have supported important efficiency gains across a range of PFM operations such as revenue, cash, and expenditure management, as well as financial reporting.

Dimension 27.1. Bank Account Reconciliation

This dimension assesses the regularity of bank reconciliation. There should be regular and timely comparisons between government bank account (central or commercial) transaction data and government cash books.

At the time of this assessment, according to NBC database, there were 99 live government bank accounts (see PI-21.1). The GDNT reconciles the two TSAs (one in riels and one in dollars), nine Treasury Single Subaccounts, thirty-eight MEF budget support accounts and fifty other accounts. The TSAs accounts and subaccounts are reconciled daily with the statement from NBC. FMIS has interfaced with other systems including (1) bank Statement of NBC, CANADIA, ACLEDA, Cambodian Public Bank, Vanttanac, and ANZ Royal Bank, (2) Electronic Fund Transfer (EFT) of NBC, (3) ASYCUDA of GDCE, (4) DMFAS of GDICDM, and (5) NRMIS of GDSPNR.

The GDNT receives soft and hard copy statements of all non-TSA accounts, and performs manual reconciliations, by comparing debit and credit entries against their records, reconcile debit and credit receipts with payment receipts and cash withdrawal receipts from the NBC so that GDNT records of revenues/expenditures and those reflected in the bank statements are equal. GDNT bank reconciliations are completed within the first two weeks from the end of each month. In addition, the GDNT reconciles all accounts on annual basis at the closure of accounts (with stamps) based on year-end bank statements. The GDNT verifies the TSA balance on a daily basis. All other bank accounts, project accounts of the LMs, are reconciled by the respective Project Implementation Units, located in the GDICDM. The total value of the non-TSA accounts is more than 10% of total value of all accounts. The frequency and timing of these reconciliations is on monthly basis and within four weeks of the end of the month.

This dimension is scored B because the TSA is reconciled daily and other Treasury-managed accounts and unmanaged accounts are reconciled monthly within four weeks. A higher score would require that the reconciliation for all active government bank accounts should be done weekly at aggregate and detailed levels.

Dimension 27.2. Suspense Accounts

This dimension evaluates that timeliness and regularity of the reconciliation and clearance of all suspense accounts under the central control management of GDNT.

Suspense accounts are used as temporarily accounts to record revenues or disbursements that have yet to be classified and are fully cleared at least at the end of each year. As revenues are collected by the GDNT and line ministries, accounts clearance is performed monthly, and differences or classifications are duly analyzed and settled. Generally, the remaining balance on these accounts is very low and there is little to follow up on pending differences for reconciliation.

For collected tax, the GDNT firstly records these revenues in suspense account and then clears and records the transactions when the revenue slips are received from tax and non-tax collecting agencies. These clearances are usually performed on a daily and monthly basis and the remaining balances are duly followed upon. However, some of these clearances may be carried over in suspense accounts and cleared only in subsequent (not in-year) years due to the lack of sufficient information to assign them to specific revenue accounts. Usually, the suspense accounts are cleared within three months after the year end. In the current assessment in 2019, suspense accounts were identified as not yet been cleared from the years 2016, 2017, and 2018, though not significant in number.

This dimension is rated D. Even though the verification and clearing of suspense accounts with collecting agencies are taking place on a daily and monthly basis, uncleared amounts remain in suspense accounts after the year-end closure. A high score would require that GDNT clears all suspense accounts within the year.

Dimension 27.3. Advance Accounts

This dimension assesses the extent to which advance accounts are reconciled and cleared.

Most advance accounts are cleared within the 60 days of payment timeframe or within the year, but some can be delayed and cleared only into the following year. This affects the actual amount of recorded expenditures because based on the accounting procedure the GDNT is not able to record them as expenditures unless all the advance payments are duly cleared.

Article 5 of the Sub-degree no.155 ANKr.BK. on the Procedures for Advance Releases for Current and Investment expenditures states that when the previous year advances have not been cleared, the budget credit for the following year would be withheld, and that the clearance has to be completed before the in-year budget execution is completed. For cases of delayed implementation or late completion of projects for which in-year advances could not being cleared, and amount equivalent to the outstanding advance is withheld from the budget of the following year. The settlement of the advances is therefore carried over, allocated and charged against next budget.

The dimension is scored C because advance accounts are settled annually within two months of the end of the year. Some advances can be cleared with delay. When the implementation is delayed, the advance is carried over, budgeted for and cleared in the next year budget. A higher score would require that all advance accounts be cleared in a timely way.

Dimension 27.4. Financial Data Integrity Process

This dimension assesses the extent to which process support the delivery of financial information, as well as the accuracy and completeness of the data delivered.

All Financial Operations are recorded in FMIS based on the guidelines from the FMWG and regulated by GDNT through prakas, guidelines and circulars, etc. Financial reports are produced from FMIS since the system has been set up in 2017 which makes a significant contribution to data quality in terms of timing, transparency, integrity and accuracy.

The business process for transaction entry in the FMIS system has been designed in two basic steps and follows a strict delegation of authority: (1) Data entry by initial creator, (2) Confirmation by approver. These processes are set for all users with access to the system in the FMIS, if a user wants to adjust any transaction, the approver needs to reject it in the FMIS so the creator can edit or adjust. The changes to the records results in an audit trail in the FMIS that allows potential verification of the historical records and ensures the integrity of internal controls in the FMIS.

The dimension is scored B because there is a clear separation of responsibility from entry data to recording in the business process of FMIS which provides information on any access to records and changes to data entry, and results in an audit trail. However, there is no operational unit in charge of the integrity of the system. A higher score would require a technical unit be operationalized to oversee the verification of the integrity of data recorded in FMIS.

Table 3.65: Scores for PI-27

PI	Dimension	Score	Brief justification for score
PI-27	**Financial Data Integrity**	**C+**	**Scoring Method M2**
27.1	Bank account reconciliation	B	TSA is reconciled on a daily basis and other Treasury-managed accounts and commercial banks' accounts are reconciled monthly within four weeks.
27.2	Suspense accounts	D	Even though the verification and clearing of suspense accounts with collecting agencies is taking place on a daily and monthly basis, a remaining uncleared amount is in suspense accounts after the year-end closure.
27.3	Advance accounts	C	Advance accounts are settled annually within two months of the end of the year. Some advances can be cleared with delay. When the implementation is delayed, the advance is carried over, budgeted for and cleared in the next year budget.
27.4	Financial data integrity process	B	There is a clear separation of responsibility from entry data to recording in the business process of FMIS which provides information on any access to records and changes to data entry, and results in an audit trail. However, there is no operational unit in charge of the integrity of the system.

Box 3.27: Ongoing reform activities

Strategic Plan on Streamlining Business Process 2020-2025 identifies business process of settling low risk expenditure (e.g. wage and direct payments) and covering higher risk recurrent expenditure. The business processes are classified into four categories: (1) business process for commitments and payments, (2) business process for budget movement, (3) business process for revenue execution, (4) business process related to public procurement.

FMIS phase 3 (2021-2025) will expand the implementation to 25 C/P administrations, 43 of municipalities, khans and districts administration (27 cities, 14 khans and 2 districts) and 2 line-departments of 25 capital and provinces and ABEs. The FMIS phase 3 will extend the rollout two additional modules (budget planning and full procurement module) to all LMs/institutions, ABEs, C/PDEFs, C/P Administrtaions and C/P line Departments; and to develop two additional modules (inventory and asset management module) in 2024.

PI-28. In-year budget reports

This indicator assesses the comprehensiveness, accuracy and timeliness of information on budget execution. This indicator contains three dimensions and uses the M1 (WL) method for aggregating dimension scores:

Dimension 28.1. Coverage and comparability of reports
Dimension 28.2. Timing of in-year budget reports
Dimension 28.3. Accuracy of in-year budget reports

The ability to execute the budget requires timely and regular information on the actual budget performance to be available both to the MEF and CoM), so that they can monitor performance and if necessary, take necessary actions, and for the LMs/institutions to monitor the implementation of programs and activities and use of resources they are accountable for. The indicator focuses on the ability to produce comprehensive reports from accounting system on all aspects of the budget.

Dimension 28.1. Coverage and comparability of reports

This dimension assesses the extent to which information is presented in in-year reports and in a form that is easily comparable to the original budget (i.e., with the same coverage, basis of accounting, and presentation). The division of responsibility between the MEF and LMs/institutions in the preparation of the reports will depend on the type of accounting and payment system in operation (centralized, deconcentrated or devolved).

There are many types of in-year budget reports prepared by entities under the MEF. However, the Table of fiscal and economic operations (TOFE) reports produced monthly by MEF GDP are the comprehensive in-year ones. They follow the budget classification by administrative and economic classifications. These reports are aggregated reports. The data to prepare the reports is produced by the GDNT, extracted from FMIS.

Besides the report mentioned above, GDB FAD also produced monthly reports showing the accumulated budget execution, broken down by chapter for each LM/institution, and comparing the commitments and payments with the approved budget.

Within LMs/institutions, there is also a monthly internal reporting on the budget execution including provincial departments' budget execution, broken down by program and chapter. For example, based on the interview with MoEYS Department of Finance, monthly budget execution reports were prepared and consolidated by the Department of Finance within 2 weeks of the end of period in 2019.

In addition, the Department of C/P Finance under GDSNAF prepares a monthly report on expenditures and revenues relating to all C/P Treasuries. These reports are based on the processed payment orders issued to C/P Treasuries, which are reconciled with the reports of expenditure and revenues received from each of the C/P Treasuries.

Additionally, GDB DI produces and monthly public investment expenditure reports, broken down by chapter, showing capital expenditure funded domestically, and payment orders submitted to GDNT.

This dimension is scored C because monthly TOFE reports allow a direct comparison to the original budget and provide information for the main administrative headings. A higher score would require that detailed in-year reports are prepared with only partial aggregation and include expenditures made from transfers to deconcentrated units within central government.

Dimension 28.2. Timing of in-year budget reports

This dimension assesses whether this information is submitted in a timely manner and accompanied by an analysis and commentary on budget execution.

TOFE reports[67] are prepared on a monthly basis based on the data from the GDNT, extracted from FMIS for LMs/institutions (including C/P line departments) and SNAs, and issued generally within four weeks of each month. They include a brief analysis of the budget execution.

This dimension is rated B because reports are prepared and issued generally within four weeks of each month on website of MEF. A higher score would require that the report be prepared within 2 weeks of the end of the month.

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[67] It is available on the website of MEF: https://mef.gov.kh/tofe.html

Dimension 28.3. Accuracy of in-year budget reports

This dimension assesses the accuracy of the information submitted, including whether expenditure for both the commitment and the payment stage is provided.

The monthly expenditure reports capture both payment stage and commitment stage in the FMIS. However, the TOFE report captures only expenditures at payment stage, except externally funded expenditures as well as the expenditure of PAEs and PEs (see PI-6.2).

As mentioned in PI-27, there are some delay in the recording of revenue, which has an impact on the reported revenue. There are also delays in recording expenditure advances. Although these issues affect data accuracy, they do not materially affect the usefulness of the reporting for analysis of the budget execution and do not compromise the consistency of the reports during the year.

The dimension is scored C because there are minor concerns about accuracy as some records are delayed (both revenue and advances) or not included (externally-funded projects and PAEs and PEs) in the TOFE execution reports but the usefulness of the reports is not compromised and the data captures expenditure at payment stage. A higher score would require that data quality issues and omissions be highlighted explicitly in the reports or that there were no material concerns and information on expenditure is covered at both payment and commitment stages.

Table 3.66: Scores for PI-28

PI	Dimension	Score	Brief justification for score
PI-28	**In-year budget reports**	**C+**	**Scoring Method M1**
28.1	Coverage and comparability of reports	C	Monthly TOFE reports allow a direct comparison to the original budget and provide information for the main administrative headings.
28.2	Timing of in-year budget reports	B	Reports are prepared and issued and published generally within four weeks of each month on website of MEF.
28.3	Accuracy of in-year budget reports	C	There are minor concerns about accuracy as some records are delayed (both revenue and advances) or not included (externally-funded and PAEs and PEs) in the TOFE execution reports but the usefulness of the reports is not compromised and the data captures expenditure at payment stage.

PI-29. Annual financial reports

This indicator assesses the extent to which annual financial statements are complete, timely, and consistent with generally accepted accounting principles and standards. This is crucial for accountability and transparency in the PFM system. It contains three dimensions and uses the M1 (WL) method for aggregating dimension scores:

Dimension 29.1. Completeness of annual financial reports
Dimension 29.2. Submission of reports for external audit
Dimension 29.3. Accounting standards

Annual budgetary central government financial reports are critical for the accountability and transparency in the PFM system. While certain countries have their own public sector financial reporting standards, set by government or another authorized body, in many cases, national accounting standards for the private sector, regional standards, or international standards such as IPSAS are applied. In any event, the outcome should be a set of financial reports that are both complete and consistent with generally accepted accounting principles and standards. For the purpose of this indicator, the annual financial statements or the budget execution reports produced by the government may be treated as financial reports and used for scoring.

Dimension 29.1. Completeness of annual financial reports

This dimension assesses the completeness of financial reports. Annual financial reports should include an analysis providing for a comparison of the outturn with the initial government budget. Financial reports should include full information on revenue, expenditure, assets, liabilities, guarantees, and long-term obligations. This information can be either incorporated into financial reports in a modified cash or accrual-based system, or presented by way of notes or ad hoc reports, as is often done in a cash-based system. The usefulness of reports depends on whether they are compiled after the clearance of any suspense accounts and after advance and bank account reconciliation, as assessed in PI-27.

Article 113 of Sub-decree no.82 ANKr.BK (1995), states that the budget settlement law (i.e the annual government financial statements) shall be prepared annually by the MEF. The report includes general balances of the aggregated accounts, details of budget revenues, details of budget expenditures by LMs showing amount by chapter approved by respective ministers, cash balances and details of operations from GDNT special accounts. They are comparable with the annual approved budget. IPSAS cash-basis reports have also been introduced in 2017 and are prepared on a pilot basis by GDNT.

This dimension is scored C because financial reports for the RGC are prepared annually, and are comparable with the approved budget, which includes revenue, expenditure, and cash balances. A higher score would require that the reports include information on financial assets, financial liabilities, guarantees, and long-term obligations.

Dimension 29.2. Submission of reports for external audit

The dimension assesses the timeliness of submission of reconciled year-end financial reports for external audit as a key indicator of the effectiveness of the accounting and financial reporting system. In the case of the budgetary central government entities, there are two cases. Some decentralized LMs, departments and deconcentrated units and other public entities issue reports to the MEF and NAA at the same time, which are subsequently consolidated by the MEF and submitted for external audit in a consolidated set of accounts. Less decentralized LMs/institutions and entities have all or part of their financial information for the report already recorded and available at the MEF. The actual date of submission of the annual financial reports to NAA is the date on which the external auditor considers the MEF report complete and available for the audit report. Through this informal mechanism of sharing parts of the draft financial report with NAA in advance of consolidation, the NAA can start the audit process earlier and issue the audit report for the national assembly on time. As a result, if the submission dates of the financial statements formally registered by the NAA show delays, the actual external audit work has actually started much earlier in the year.

Table 3.67: Timeline of submission financial reports

Fiscal year	Submission date	Delay from end of the year
2016	31 October 2017	9-10 Months
2017	30 October 2018	9-10 Months
2018	28 October 2019	9-10 Months

Source: MEF GDNT and NAA

This dimension is rated D because the financial reports are formally submitted for the NAA more than nine months from the fiscal year end. A higher score would require that the full package of budgetary central government final financial statements be submitted to the NAA earlier than the current practice.

Dimension 29.3. Accounting standards

This dimension assesses the extent to which annual financial reports are understandable to the intended users and contribute to accountability and transparency.

The National Accounting Council (NAC) has issued the public accounting standard for Cambodia, Cambodian Public Sector Accounting Standard (CPSAS) - Cash Basis through Prakas no.545 MEF.PrK, dated 06 June 2019. CPSAS-Cash Basis is prepared based on cash-basis IPSAS standards. Prior to this standard, the GDNT has started the preparation of Cash-IPSAS financial Statements for 2016 government financial reports in 2017 and in 2018 for 2017. Based on the IMF assessment on the 2016-2018 financial reports prepared by GDNT based on the CPSAS - cash basis, 43 of 73 standards were found fully compliant with Cash Basis IPSAS as shown in the following table in 2016 and the performance improved in the following years. Two components were improved, namely the disclosure of budget approval times and disclosure of discrepancies of exchange rates for bank accounts in foreign currencies. The latest IMF (April 2020) mission pointed out that the financial statements currently produced by the RGC meet many of the requirements of IPSAS, but with three major omissions: (1) Bank accounts held by ministries outside TSA are not included in the financial statements; (2) The GDNT transfers amounts to bank accounts held by ministries and reports them as advances in the government's financial statements; and (3) the comparisons of budget and actual amounts present income and expenditure separately and do not report on the surplus or deficit.

Table 3.68: Financial statements compliant with IPSAS assessment

Category	2016 Financial Statements		2017 Financial Statements	2018 Financial Statements
Review date	**1st review (2018)**	**2nd review (2019)**	**2019**	**2020**
Compliant	32	43	n.a	n.a
Partial Compliant		12	n.a	n.a
Non-compliant	9	7	n.a	n.a
Unable to assess	24	1	n.a	n.a
Not applicable	13	15	n.a	n.a
Total	78	78	Better performance in the narrative conclusions	Better performance in the narrative conclusions

Source: MEF GDNT and IMF

The dimension is scored B because the accounting standards used to prepare all government financial reports by GDNT are CPSAS-based and therefore consistent with the RGC's legal framework. The majority of IPSAS cash-basis standards have been incorporated into the CPSAS national standards. The annual financial statements in the last there years have been prepared based on the CPSAS and IPSAS[68] and

[68] A specific report is produced presenting the annual financial ststaments on IPSAS standards and variations with CPSAS explained.

variations are explained. The standards used are disclosed in the annual financial reports. A higher score would require that most international standards have been incorporated into the CPSAS.

Table 3.69: Scores for PI-29

PI	Dimension	Score	Brief justification for score
PI-29	**In-year budget reports**	**D+**	**Scoring Method M1**
29.1	Completeness of annual financial reports	C	Financial reports for the RGC are prepared annually, and are comparable with approved budget, which include revenue, expenditure, and cash balance.
29.2	Submission of reports for external audit	D	The financial reports are submitted for the NAA more than nine months from the fiscal year end.
29.3	Accounting standards	B	The standards used by GDNT to prepare all government financial reports are CPSAS-based and majority of IPSAS standards have been incorporated in line with cash-basis IPSAS. In the last three years, the financial statements are prepared based on CPSAS and IPSAS, variations are explained and standards used are disclosed in the annual financial reports.

Box 3.28: Ongoing reform activities

Strategy for Implementation of Cambodia Public Accounting Standards-Accrual Basis 2019-2031 plans to have stages as follows:

- Stage 1: IPSAS based Cash basis 2019-2024
- Stage 2: Cash Modified Basis 2025-2027
- Stage 3: Modified Accrual Basis 2028-2030
- Stage 4: IPSAS Based Accrual Basis 2031 onward.

With the improved FMIS, the financial monitoring will facilitate real-time financial reports based on the user needs. The system will be able to generate weekly, monthly, quarterly and annual reports in any classification required. The financial monitoring will be improved and integrated with the fiscal report.

PILLAR SEVEN: External scrutiny and audit

This pillar assesses whether public finances are independently reviewed and there is external follow-up on the implementation of recommendations for improvement by the executive.

Pillar VII has two indicators:

- PI-30. External audit
- PI-31. Legislative scrutiny of audit reports

PI-30. External audit

Reliable and extensive external audit is an essential requirement for ensuring accountability and creating transparency in the use of public funds. This indicator examines the characteristics of external audit focusing on independence of external audit function and on the audit of government's annual financial reports. It contains four dimensions, covers all government operations, and uses the M1 (WL) method for aggregating dimension scores:

Dimension 30.1. Audit coverage and standards (last three completed fiscal years)
Dimension 30.2. Submission of audit reports to the legislature (last three completed fiscal years)
Dimension 30.3. External audit follow-up (last three completed fiscal years)
Dimension 30.4. Supreme Audit Institution independence (as at time of assessment)

The NAA, the Supreme Audit Institution (SAI) of the Kingdom of Cambodia, was established in 2001 following the promulgation of the Law on Audit of the Kingdom of Cambodia by Royal Kram CS/RKM/0300/10 dated March 03, 2000 and started its operations in 2002.

The NAA is a member of the International Organization of Supreme Audit Institutions (INTOSAI), the Asian Organization of Supreme Audit Institutions (ASOSAI), and the ASEAN Supreme Audit Institutions (ASEANSAI).

The SAl mandate is to carry out audit work on the government expenditures and provide value-added and timely reports to the National Assembly. The work of NAA is linked to the core objectives of good governance of the RS and the NSDP of the RGC.

The NAA actively performs the external audit of the RGC, and report to the National Assembly, Senate and the government, with the aim to promote good governance and improve the efficiency of the public sector, as well as contribute to the successful implementation of government strategies, policies and reform programs. The Audit Law provides the NAA with the mandate to conduct a full scope of audit on the public sector including financial statement audits (ISSAIs 2000), performance audits (ISSAIs 3000) and compliance audits (ISSAIs 4000).

According to article 40 (New) of Audit Law, only the National Assembly has the mandate to decide to establish a special commission to review the activities and operations of the NAA. Therefore, information provided below is not for assessing and scoring the audit function but for information only, and score is NA.

Dimension 30.1. Audit coverage and standards

This dimension assesses key elements of external audit in terms of the scope and coverage of audit, as well as adherence to auditing standards.

The external audit of the financial statement aims to obtain a reasonable assurance that the government consolidated financial statements are free from material misstatements and to express an opinion on whether the financial statements are prepared in all material respect, in accordance with the applicable financial reporting framework. Normally the financial statements comprise of a balance sheet, a profit and loss statement, a cash flow statement, a statement of changes in equity and notes to the accounts. Currently, LMs and institutions at national level and local administrations, the financial statements consist of statement of revenue and expenditure.

Article 1 of the Law on Audit of Kingdom of Cambodia permits the NAA to conduct audits in accordance with the Generally Accepted Auditing Standards and royal government auditing standards. The NAA developed the Public Auditing Standards (PAS), providing basic guiding principles for the implementation of its external audit activities. The NAA adopted the generally accepted Standards of Supreme Audit Institution (ISSAIs) by integrating them into its manuals and guideline with due consideration to the local context. Likewise, the NAA has developed compliance audit guidelines based on ISSAIs 4000. Besides, the NAA has developed a manual for financial audit with the support of the Swedish National Audit Office (SNAO). The manual follows international standards (ISSAIs 2000). The NAA has recently developed a manual for performance audit with the support of SNAO, based on international standards (ISSAIs 3000). The relevant manuals and guidelines can be downloaded from the NAA's website.

The NAA's system for quality control and assurance for financial audits has significantly improved. A quality assurance working group has been set up and assisted by SNAO and works based on review check lists. Audit managers have been trained in quality assessment. Guidelines for conducting quality assurance reviews were developed and implemented in the assessment period.

The NAA audited 64, 63, and 72 entities, covering LMs/institutions, PEs, PAEs, and C/P administrations in 2016, 2017, and 2018 respectively.

Table 3.70: Audit Coverage from 2016-2018 (KHR million)

Financial year audited	Number of entities planned	Number of entities covered	Total expenditure coverage planned	Estimated total expenditure actually covered	Type of audited		
					Number FA	Number CA	Number PA
2016	71	64 (90%)	17,544,477.00	16,927,545.40 (96%)	14	50	0
2017	70	63 (90%)	20,555,854.00	20,016,006.90 (97%)	13	48	2
2018	80	72 (92%)	23,456,148.00	22,551,323.10 (96%)	17	53	2

Source: NAA

Note: Financial audit (FA), Compliance Audit (CA) and Performance (PA)

Dimension 30.2. Submission of audit reports to the legislature

This dimension assesses the timeliness of submission of the audit report(s) on budget execution to the legislature, or those charged with governance of the audited entity, as a key element in ensuring timely accountability of the executive to the legislature and the public.

The MEF closes year-end accounts and prepares the draft of budget settlement law for submission to the NAA in the 3rd quarter after completion of the fiscal year. After receiving it, the NAA audits the financial statements and sends the draft audit report to MEF for response within 28 days. The NAA submits the audit on the budget settlement law (year-end financial statements) to the legislative bodies. The NAA's submission of the audit reporting to legislative bodies has occurred within three months after receiving the draft budget settlement law for each of the last three completed years, as shown in the table below.

Table 3.71: Timeliness of the submission of the NAA reports to National Assembly

Financial year audited	Date of NAA starting mission	Date of NAA receiving temporary account	Date of NAA mission completed	Date of receipt of draft financial statements	Date the NAA submit the report	Number of Months
2016	02 Jan 2017	09 Jan 2017	02 Oct 2017	31 October 2017	08 November 2017	< 1 month
2017	08 Jan 2018	18 Jan 2018	23 Oct 2018	30 October 2018	02 November 2018	< 1 month
2018	10 Jan 2019	21 Jan 2019	18 Oct 2019	28 October 2019	04 November 2019	< 1 month

Dimension 30.3. External audit follow-up

This dimension assesses the extent to which effective and timely follow-up on external audit recommendations or observations is undertaken by the executive or audited entity.

Article 28 of Audit Law requires that after preparing a performance audit report of any institution, the Auditor-General shall send a copy of this proposed report to the head of this institution. If the head of the institution gives the written comments to the Auditor-General within twenty-eight (28) days after receiving the proposed report, the Auditor-General must consider those comments before preparing a final report. Otherwise, if the head of the institution has not replied within the time period specified above, the proposed report shall be considered valid.

The NAA has a mechanism to follow up recommendations from previous audit. The audit reports have a section to follow up the prior year recommendations. It classified recommendations as implemented or outstanding requiring to be followed up in the subsequent period. According to NAA's report, many audited entities had taken corrective action resulting in more than 50% recommendations were implemented in 2018. In addition, the CoM has currently notified LMs/institutions, and SNAs to fully implement the NAA's recommendations.

Dimension 30.4. Supreme audit institution independence

This dimension assesses the independence of the SAI from the executive. Independence is essential for an effective and credible system of financial accountability and should be laid down in the constitution or comparable legal framework.

The NAA was set up and regulated by the Audit Law (2000). The NAA has unrestricted access to the RGC's records, documents, and information. For budget of NAA, it has separated budget and the management of the receipts and expenditure is under the Law on Public Finance System.

To perform its mission and implement the Audit Law (2000), the NAA is empowered to issue decisions, regulations, circulars, and other instructions[69]. According to Circular for Guiding Implementation of the Law on Audit of the Kingdom of Cambodia, dated 07 October 2015, Article 7 under Chapter 3 of the states that the NAA has full discretion in planning, deciding on audited entities selection, audit reporting, distributing the report and publishing audit reports. The NAA's activities and operations cannot be the subject of review or inspection from other institutions except for a certain circumstance that the review can be undertaken by a special commission established by the National Assembly through a proposition from the Permanent Standing Committee of the National Assembly.

[69] Article 15 of Audit Law

The NAA's Auditor-General and Deputy Auditor-General are appointed by royal decree on the recommendation of RGC and approved by majority plus one of all members of national assembly. They shall be appointed for a term of five (5) years and may be reappointed for another five (5) year term only upon the completion of the first term. In case of the Auditor-General or the Deputy Auditor-General (s) die(s), resign(s), disable(s) or commit(s) serious mistake, a new Auditor-General or Deputy Auditor General(s) shall be appointed under the terms and conditions stated in the Audit Law[70].

Auditor General has the power to appoint, replace, apply sanctions, and determine salaries, benefits and bonus of the officials and staff of the NAA. The NAA follows separate statute for senior auditor cadre promulgated by Royal Decree no. NS/RKT/0809/839 dated 19 August 2009.

Table 3.72: Scores for PI-30

PI	Dimension	Score	Brief justification for score
PI-30	**External Audit**	**NU**	**Scoring Method M1**
30.1	Audit coverage and standards	NU	-
30.2	Submission of audit reports to the legislature	NU	-
30.3	External audit follow-up	NU	-
30.4	Supreme audit institution independence	NU	-

Box 3.29: Ongoing reform activities

The NAA's capacity to coach its staff itself and conduct audits in accordance with international standards has increased considerably over time. The NAA is facing challenges with changing from line-item to performance informed budget so there is a need to build and strengthen capacity. In 2020 the NAA aims at preparing the training program and training materials for performance audit.

PI-31. Legislative scrutiny of audit reports

This indicator focuses on legislative scrutiny of the audited financial reports of the audited financial reports of central government, including institutional units, to the extent that either (a) they are required by law to submit audit reports to the legislature or (b) their parent or controlling unit must answer questions and take action on their behalf. It has the following four dimensions, which are assessed on the last three completed fiscal years, and uses the M2 (AV) method for aggregating dimension scores:

Dimension 31.1 Timing of audit report scrutiny
Dimension 31.2 Hearings on audit findings
Dimension 31.3 Recommendations on audit by legislature
Dimension 31.4 Transparency of legislative scrutiny of audit reports

According to the PEFA methodology, this PI-31 cannot be scored because the PI-30 is not scored so the performance narrative is maintained but the score is not applicable (NA).

Dimension 31.1. Timing of audit report scrutiny

This dimension assesses the timeliness of the legislature's scrutiny, which is a key factor in the effectiveness of the accountability function.

[70] Article 18 (New) of Audit Law

The legislature has a key role in exercising scrutiny over the execution of the budget that it has approved. Legislative committee(s) or commission(s) are in place that examine the external audit reports and question responsible parties about the findings of the NAA reports. The operation of the committee(s) will depend on whether they receive adequate financial and technical resources, and on whether sufficient time is allocated to the review of audit reports. The committee may also recommend actions and sanctions to be implemented by the executive, in addition to adopting the recommendations made by the external auditors (ref. PI-30).

The Cambodian Audit Law does not state any deadline for the NAA to submit its reports to NA, nor is there any legal deadline for the Second Commission to complete its scrutiny. The Second Commission holds regular meetings, though dates are flexible, the table below shows the dates on which audit reports on the annual budget settlement reports (consolidated financial statements) were received during the last three years and the dates when the National Assembly passed the Budget Settlement Law, as an approximation to the dates the Second Commission submitted its own reports to the Standing Committee of the National Assembly and the Senate.

Table 3.73: Timeliness of scrutiny of NAA audit reports on annual financial report by National Assembly

Financial year audited	Date of receipt of financial statement by NAA	Date of submission of NAA audit reports to national assembly	Date the National Assembly reviewed the NAA reports and endorsed the accounts for the year	Time to complete legislative scrutiny
2016	31 October 2017	08 November 2017	17 November 2017	< 1 month
2017	30 October 2018	02 November 2018	15 November 2018	< 1 month
2018	28 October 2019	04 November 2019	26 November 2019	< 1 month

Dimension 31.2. Hearings on audit findings

This dimension assesses the extent to which hearings on key findings of the SAI take place.

Hearings are attended by Second Commission and other members of committee of National Assembly, and by representatives of the NAA and MEF. The hearings do not necessarily cover all auditees on whom comments have been made by the NAA. Meetings are closed to the public, but post-hearing briefings may be given by the Chair to media representatives on matters of wide interest. The Second Commission has a General Secretariat support administration, one advisor and four secretaries, but little technical support. During the year, the NAA submitted from 60 to 70 audit reports (Compliant Audit, Financial Audit and Performance Audit) to Second Commission; however, there is no recommendations on audit reports from Second Commission. In practice, Second Commission discussed only on audit report on Annual Budget Settlement Law and follow up the previous findings.

The MEF demonstrates and responds to Second Commission for each point of audit findings before the full plenary session of National Assembly during which Annual Budget Settlement Law and Annual Budget Law are enacted. Auditees of national administrations are 11, 15, 13 in 2016, 2017 and 2018 respectively. The proportion for auditees attending annual hearing is estimated by MEF to be less than 25% and higher than 10%.

Dimension 31.3. Recommendations on audit by legislature

This dimension assesses the extent to which the legislature issues recommendations and follows up on their implementation.

The Second Commission makes its own recommendations, which are followed up at the next hearing with the respective auditee and budget discussion with the MEF. Some are implemented and some are not. The quantitative assessment of the share of recommendations that are implemented is not received.

When the second Commission receives the audited report from the NAA, the Second Commission organizes an internal meeting and then convenes a tripartite meeting with the participation from all members of the second commission and representatives from other nine Committees, the NAA (i.e., Auditor General and Senior Officials) and MEF (Deputy Prime Minister/Minister and Senior Officials). The tripartite meeting provides a space for questions and answers on the audit findings and the MEF has the responsibility to provide clarifications. The recommendations from the Second Commission as well as from the NAA are conveyed to the MEF for further actions with concerned line ministries and institutions. The result of this tripartite meeting was shared through social media of National Assembly and several channels of television which public can reach to such information over the last 3 FYs. Additionally, the Second Commission conducted field visits to LMs/institutions and SNAs not just to follow up the recommendations provided in the auditing report but also to understand the situation and motivate the responsible persons/agencies to implement the budget law. Field visits to relevant government ministries and sub-national level were conducted at least every three months. A field visit report was produced and submitted to the President of the National Assembly and copied to the Prime Minister of the RGC.

Dimension 31.4. Transparency of legislative scrutiny of audit reports

This dimension assesses the transparency of the scrutiny function in terms of public access.

The Second Commission has a mandate to review the NAA audit reports. However, the audit reports have been reviewed only internally and there are no publications of the discussions and no hearings of the review and recommendations from the Second Commission. The NAA organized a public hearing with journalists to present its findings after the report is submitted to National Assembly. Sometimes, closed meetings are organized by Second Commission with specific focused groups (i.e., development partners and civil society organizations) to discuss and share the information in the auditing report, but not systematically

This dimension is rated D because there were no published National Assembly committee's reports in the period of the last 3 FYs and published activities of the Second Commission in the monthly bulletin of the National Assembly's website[71] were limited in coverage and information on the audit review. A higher score would require that hearings are conducted in public with few exceptions in specific circumstances and published on an official website or by any other means easily accessible to the public.

Table 3.74: Scores for PI-31

PI	Dimension	Score	Brief justification for score
PI-31	**Legislative scrutiny of audit reports**	**NA**	**Scoring Method M2**
31.1	Timing of audit report scrutiny	NA	-
31.2	Hearings on audit findings	NA	-
31.3	Recommendations on audit by local legislature	NA	-
31.4	Transparency of legislative scrutiny of audit reports	NA	-

[71] http://national-assembly.org.kh/group-article/12

4. Conclusions of the analysis of PFM systems

4.1 Integrated assessment across the performance indicators

The findings of the 2021 PEFA performance assessment report are summarized below for each of the seven pillars of PFM performance that structure the PEFA framework. Attention is given to the strengths and weaknesses that affect the achievement of the expected budgetary outcomes.

Budget reliability

In order for government budget be useful for policy implementation, it is necessary that it be realistic and implemented as passed.

The RGC manages to maintain aggregate fiscal discipline. Aggregate budget execution is achieved within 5% (PI-1, rated ‘A’) and the expenditure composition outturn is achieved basic performance (PI-2, rated ‘C+’) and there are significant expenditure arrears (P-22, rated ‘D’) which reflects ineffective commitment controls. Significantly, public investment projects by national budget are not adequately managed and lack rules/regulations/guidelines for economic appraisal, selection, costing, and monitoring (PI-11, rated ‘D+’). The MFPF is only provided budget ceilings by 4 main sectors (PI-14, rated ‘C+’), and following by MTBF, ceiling only for recurrent expenditure for LMs/institutions and PAEs (PI-15.1 rated ‘C’) and not budget aggregate ceiling for budget year for high level budget administration (PI-16.1, rated ‘D’). There are also frequently in-year budget adjustments with limited flexibility of budget execution and this impact on budget reallocation (PI-21.4, rated ‘C’). Annual cash flow forecasts are prepared and updated quarterly on the basis of actual past cash flows and re-forecasts for the remainder of the year (PI-21.2, rated ‘B’). This is noticed that the budget execution is required improvements by simplifying spending procedures, clarifying segregations of duty of financial controllers and public accountants, as well as develop the monitoring and management system.

In addition, revenue performance is quite well due to implementing RMS 2014-2018 and RMS 2019-2023; however, there is still need to have accurate forecasting model from the GDCE and GDT (PI-3, rated ‘C’); further strengthening revenue administration on risk management and revenue arrears partly due to improve compliance enforcement (PI-19, rated ‘C+’); and revenue collection is reconciled between the GDNT and revenue collection entities and transfer directly into the TSA on daily basis (PI-20.2, rated ‘A’).

Transparency of public finances

Transparency of information on public finances is necessary to ensure that activities and operations of governments are taking place within the government fiscal policy framework and are subject to adequate budget management and reporting arrangements. Transparency is an important feature that enables external scrutiny of government policies and programs and their implementation.

The MEF issued a prakas on seven budget classifications. The classifications used for budgeting and accounting purposes were administrative, program and economic classifications compliant with GSF 2001 standards; however, since functional classification is not fully compliant with COFOG (PI-4, rated ‘C’). The MEF has published budget information on its website (PI-5, rated ‘B’), although the timeliness could be improved. Since the implementation of program budgeting, the MEF has not assessed service delivery performance as each LMs/institutions prepares its own performance with reflection the achievement of indicators; however, there is no discussion of the outcomes, and only a few LMs/institutions publish this information on their website (PI-8, rated ‘C+’). In addition, the MEF publishes monthly TOFE reports that allow direct comparison to the original budget and information for the only main administrative headings; however, it still lacks information related to donor funded project and PAEs (PI-28, rated ‘C+’).

On the other hand, transfer resources from central government to SNAs is shown transparent and rule-based systems and have enough time to prepare their annual budget (PI-7, rated 'A'). The MFPF is prepared and submitted to Second Commission of parliament (PI-14, rated 'C+').

Public asset and liabilities

Effective management of assets and liabilities ensures that risks are adequately identified and monitored, public investments provide value-for-money, financial investments offer appropriate returns, asset maintenance is well planned, and asset disposal follows clear rules. It also ensures that debt service costs are minimized and fiscal risks are adequately monitored so that timely mitigating measures may be taken.

The management of the public investment is still lack rules/regulations/guidelines (PI-11, rated 'D+'), so economic analyses of investment proposal are not carried out to assess the feasibility of the major investment projects proposed for the next year's budget. However, starting 2020 budget framework the implementation of Medium-Term Budget Planning (3-year-rolling investment plan) with budget ceilings based on budget approved in 2019 for 3 priority ministries (MPWT, MRD, and MoWRAM).

LMs/institutions and PAEs maintain their own lists of state property which are updated annually and prepared every 5-year of principle state asset books; however, the information is not available to the public, nor is it consolidated as the whole government. Furthermore, the value of asset is included in the financial report only when acquired as well as lack of timely asset disposal (PI-12, rated 'C').

Financial reports are prepared annually, and are comparable with approved budget, which include revenue, expenditure, and cash balance. However, it takes more than 9 months from the fiscal year end to complete and submit to the NAA and the compliant financial report with IPSAS-Cash basis needs to further enhance (PI-29, rated 'D+') since there are three major omissions, (i) Bank accounts held by ministries outside TSA are not included in the financial statements; (ii) GDNT transfers amounts to bank accounts held by ministries and reports them as advances in the government's financial statements; and (iii). The comparisons of budget and actual amounts present income and expenditure separately and do not report on the surplus or deficit.

Policy-based fiscal strategy and budgeting

Policy-based fiscal strategy and budgeting processes enable the government to plan the mobilization and use of resources in line with its fiscal policy and strategy.

Progress has been made toward medium term expenditure framework based on the implementation of program budgeting. Consistency of the RS, NSDP, sectoral policies, and BSP is not in place due to lack of comprehensive medium-term expenditure (PI-15, rated 'C' and PI-16, rated 'D+') as well as coordination cross sectors.

The RGC follows a clear budget calendar based on the Law on Public Finance System (2008) and the budget law is submitted to the legislative body and has received the King's assent before 31st December in each of the last three years (PI-17.3, rated A).

The annual MFPF, budget proposals and details of revenue and expenditure are reviewed by the Second Commission of Parliament; however, there is lack of technical support for comprehensive budget scrutiny (PI-18, rated 'C+').

The RGC will take further efforts to adopt a multi-year focus on MTFF and MTBF (now in the piloting stage), in order to improve the quality of the BSP, and PB and support a medium-term budget perspective that can lead to achieve the desired budgetary outcomes. However, introducing MTFF and MTBF which sets fiscal/budgetary targets/ceilings, while aiming at allocating resources to strategic priorities within these targets is often a challenge as it requires: (i) good quality and timeliness of monthly and annual financial records and statements (PI-24, rated 'D+' and PI-25, rated 'C'); (ii) effective medium-term planning and budgeting linkage including public investment management (PI-11, rated 'D+'); and PI-16, rated 'D+') comprehensiveness of information included in budget documentation (PI-6, rated 'C+').

Predictability and control in budget execution

Predictable and controlled budget execution is necessary to ensure that revenue is collected and resources allocated and used as intended by government and approved by the legislature. Effective management of policy and program implementation requires predictability in the availability of resources when they are needed, and control ensures that policies, regulations, and laws are complied with during the process of budget execution.

Cash management is strong. Revenue collected is adequately managed in terms of the flow of funds to the Treasury and recording of transactions. All revenues are paid into the TSA and treasury accounts (PI-20.2, rated 'A'). All accounts are reconciled on a timely basis (PI-20.3, rated 'C'). GDNT can monitor revenues in real time. Payments into the TSA are reconciled daily, monthly, and annually (PI-27.1, rated 'B').

LMs/institutions prepare quarterly revenue and expenditure estimates by program, and these are sent to the MEF; however, this is not effective for commitment ceilings, which means that LMs/institutions can spend the over/under budget (PI-25.2, rated 'C'). In practice, expenditure is under target in the first nine months of the year, and expenditures are accumulated in the final quarter due to the capacity of budget entities in budget planning, as well as movements across programs (and also across sub-program and activities), late cash advances and late implementation of investment projects (PI-27.3, rated 'C').

The payroll is supported by full documentation for all changes made to personnel records each month and checked against the previous month's payroll data. Staff hiring and promotion is controlled by a list of approved staff positions. However, payroll system and HMIS are not integrated yet and no audit trails. Besides, payroll audits have not been undertaken within the last three completed FYs (PI-23, rated 'D+').

The total value of contracts awarded through competitive methods in the last completed FY represents 44.80% (PI-24.2, rated 'D'). However, external audit findings show that most payments are compliant with payment procedures and justification for using method of public procurement, although procurement plans are frequently changed (PI-25.3, rated 'C').

Accounting and reporting

Timely, relevant and reliable financial information is required to support fiscal and budget management and decision-making processes.

The GDNT reconciles revenue and expenditure every month with bank statements, although advance payments not cleared in the FY will be cleared in the next year budget. There is clear work responsibility from entry data to verification in the business process of FMIS (PI-27, rated 'C+').

Budget execution reports are prepared monthly and issued within four weeks of the end of each month by the MEF. These reports can be found on the MEF's website and show expenditure captured at payment stage. Annual financial reports are prepared by the GDNT, and include information on revenue, and expenditure. According to Law on Audit, the MEF is responsible for preparing a financial report (budget settlement law) to NAA for auditing. The budget settlement law was prepared and consistent within the existing legal framework and ensure consistency of reporting over time. For financial report is prepared compliant CPSAS standard (PI-29.3, rated 'B').

External security and audit

Effective external audit and scrutiny by the legislature are enabling factors for holding the government's executive branch to account for its fiscal and expenditure policies and their implementation.

The financial statements are audited using standards based on those of INTOSAI. The financial audit and (few) performance audits that are carried out provide for the evaluation of the timeliness and completeness of budget revenues, productivity, performance, and efficiency of using budget funds. The audits reports have highlighted significant problems detected by auditors but not necessarily material issues. During the last three completed fiscal years, audit reports have been submitted to National Assembly within 3 months after receipt of the report from the MEF. There is a need to allow relevant auditees to join the audit hearing to improve the response and effective follow-up on external and legislative recommendations (PI-31, rated 'NA').

4.2 Effectiveness of the internal control framework

An effective internal control system plays a vital role across every pillar in addressing risks and providing reasonable assurance that operations meet the four control objectives: (i) operations are executed in an orderly, ethical, economical, efficient, and effective manner; (ii) accountability obligations are fulfilled; (iii) applicable laws and regulations are complied with; and (iv) resources are safeguarded against loss, misuse and damage.

The internal control environment needs further improvement as evidenced by the scores on specific control activities of specific PIs across the five internal control components identified by international standards.

The control environment (first control component of the COFOG standards) is clearly defined but requires a more effective application in specific areas such as payroll, procurement and arrears (PI-21 rated 'C+', PI-22 rated 'D+', PI-23 rated 'D+', PI-24 rated 'D+' and PI-25 rated 'C'). The laws and regulations provide the legal framework, and allow for specific roles and responsibilities, segregation of duties, and operating processes The MEF and CoM are the authorized bodies for PFM rules and regulations and MEF centralizes most of the control functions over the key phases of the budget cycle. The role of financial comptrollers illustrates the MEF powers over the LMs/institutions, as review budget expenditure whether enough appropriation, program, sub-program, eligible or not eligible expenditure. The system embeds access controls and audit trails that support the internal control framework. The internal control function is only partially defined and carried out by the internal audits and inspection departments across all government agencies. Most of the responsibility to "set the tone at the top" and display the professional integrity and ethical values lies in the hands of senior management and depends upon their respective authority and leadership within the party.

However, there is no harmonized or consistent approach on competence and culture of public service delivery and little collaboration between institutions on the matter. As a result, each institution depends largely upon its management's understanding and attitude toward internal control, commitment to competence and accountability. The concept of human resource management policies is at a very early stage of development and lacks the institutional and legal framework to operate and achieve the transformative change required. The decision and mechanisms to penalize misbehavior depend highly from a decision "at the top".

A comprehensive performance assessment of human resource management in Cambodian public administration has not yet been undertaken. Specific targeted measures to improve staff morale and motivation and improve quality of public services have taken place, mostly based on an overall policy of civil service salary increase. A specific merit-based and incentive scheme has been driven by the MEF which has led to the recruitment of highly skilled staff. However, further skills upgrade is needed as the government moves forward with its vision for digital government and a more competitive economy.

The core administration demonstrates improving capacity to coordinate the broader public sector human resource regime. Merit has been an increasingly predominant factor in appointments and promotion. Increasing numbers of young and competent candidates have been too recruited and given senior positions in the government. Human resource management is being further strengthened by implementing the Human Resource Policy for the Civil Service (2013). The policy is based on the principles of performance merit, and transparency to enhance the effectiveness and to harmonize human source management and development practices across ministries and institutions. The government is also implementing a new policy to empower SNAs to manage their own staff toward improving service delivery.

The NPAR incorporate key elements of the implementation of Human Resource Policy for the Civil Service (2013). A Sub-decree on Personnel Management for SNAs was adopted (2013) to empower the SNAs to hire, promote, and tire personnel. The sub decree has been implemented within the context of decentralization are being assigned functions and resources for service delivery.

Appointments and promotion of public officials are increasingly merit-based. Appointments requiring political approval are restricted to well-defined groups of positions. Through its HR policy, the government in introducing a Performance Management System to the work effectiveness and beat motivate staff. The system will be linked to HR processes and practices relating to appointment, promotion, rewards, and training and development. The policy involves the assignment of functions, sources, and personnel to SNAs to improve accountability and efficiency in public service delivery.

Integration of risk-assessments and risk-based approaches in PFM systems (second component of COFOG standards) is improving, however, further efforts are required to align the Cambodian system with international good practices (PI-19.2 rated 'B', PI-22.1 rated 'D', PI-26.2 rated 'B', and PI-27.4 rated 'B'). The current compliance-based approach supports continuous improvement in the control environment. This is given by the strengths in commitment controls and associated compliance with rules and procedures.

Emerging risk-based approaches are supported by the development of internal and external audit and oversight function. Risk assessment is becoming an important part of the control framework that applies to internal audit and analysis. Similarly, certain activities, such as advances and procurement receive a level of attention in the ex-ante control process. Audits related to payroll, which is a significant expenditure, are not performed once every three years although there are regular inspections to monitor the eligibility, timeliness and completeness of salary payments.

The concept of risk assessment has been gradually integrated into government's regulations and procedures in the budget execution, Treasury and tax revenue management. Overlaps in and lack of clarity between the internal control functions between the internal audit unit and inspection units within ministries as well as the role of the financial comptroller and public accountants are not clearly defined to avoid overlap functions.

Control activities (third component of the internal control international standards) are generally strong n particular regarding reconciliation of accounts (PI-6 rated 'C+', PI-20 rated 'C+', and PI-27 rated 'C+') with more mixed performance for payroll (PI-23.4 rated 'D'), expenditure arrears (PI-22.1 rated 'D'), public investment management (PI-11 rated 'D+') and procurement (PI-24 rated 'D+'). Segregation of duties are still an issue within MEF and LMs/institutions to ensure they do not overlap functions between Treasury and Budget (public accountants and financial controllers, PI-26 rated 'C+'). Budget rules for supplementary estimates and virement are enforced (PI-21.4 rated 'C'). Control activities are defined and in place and have improved through the consolidation of cash management and payments systems under the GDNT (PI-21, rated 'C+').

Information and communication (fourth control components of international COFOG standards) on internal control awareness is promoted through the activities of bodies dedicated to internal control and internal audit. Awareness on the internal control framework and obligations is raised through training and audits' reviews and reporting

The monitoring function (fifth internal control component) is carried out through the processes of internal and external audit reporting and follow-ups. The monitoring of government performance can be furter improved (PI-8 rated 'C+', PI-26.4 rated 'C', PI-30 rated 'NU' but PI-31 rated 'NA').

The budget execution reporting system that provides information on performance relating to service delivery is solid for the main SD LMs but performance-based analysis and allocation decisions are limited by the volume and quality of the information (PI-26.2 rated 'B'). While internal and external audits are financial and compliance focused, performance audits are still under early stage since MEF GDIA recently issued performance audit guideline. Auditors at LMs are essentially learning by doing.

The level of internal control monitoring is adequate to the extent that transactions are authorized and executed by the relevant individuals within the scope of their authority. However, the limited coverage of the NAA scrutiny and inspection departments' single focus on regularity and compliance reduce their possible impact on the enforcement of control mechanisms. The absence of clear sanctions and penalties in cases of deviations act as a deterrent for strong internal control procedures to ensure public resources are managed in an effective and efficient manner.

The summary of effectiveness of the internal control framework based on the 5 components of the Internal Control Framework is presented in the annex 2.

4.3 PFM strengths and weaknesses

This subsection analyzes the extent to which the performance of the assessed PFM system appears to be supporting or affecting the overall achievement of three important fiscal and budgetary outcomes.

Aggregate Fiscal Discipline

Overall, fiscal discipline is reasonably good due to control over spending as well as (PI-1, rated 'A') but revenue outturn (PI-3, rated 'C') has a big deviation that needs to strengthen revenue forecasting. The expenditure composition outturn is better performance (PI-2, rated 'C+'); expenditure arrears are still challenged by a lack of proper definition for arrears aligned to the international standards and lack of an effective expenditure monitoring process (PI-22, rated 'D+'). On the revenue side, performance is quite good, although underestimate of revenue forecasting (PI-3, rated 'C'); however, revenue arrears (PI-19.4, rated 'D*') must need to take actions seriously actions to measure. On the other hand, weaknesses remain in many PFM system elements which are important for ensuring aggregate fiscal discipline. There is a lack of monitoring the PAEs and PEs since it is in the transitional periods of reforming PAEs (PI-6, rated 'C+') as well as monitoring of fiscal risks from other public sector entities (PI-10, rated 'D+'), especially closely monitor the contingent liabilities.

In addition, it is noticed that PIM is at the early stage of development and for public investment financed through the national budget, there are no formal national guidelines for feasibility studies, economic analysis and selection criteria (PI-11, rated 'D+').

Asset management is weak (PI-12, rated 'C') because of lacking procedure to depreciation as well as system for asset management. On the other hand, for public debt management (PI-13, rated 'B+'), monthly and quarterly reconciliation with creditors is needed.

Internal control on nonsalary expenditure is relatively effective but the effectiveness of expenditure controls and compliance with payment rules and procedures can still be improved (PI-25, rated 'C+').

The reliability of in-year fiscal reporting will greatly benefit from strict end-of-day and end-of-month (and end-of-year) closing of account procedures. The present instability in in-year reporting has a negative impact on budget management. There is a need to send the financial to NAA faster and currently more than 9 months to complete (PI-28, rated 'C+').

Further FMIS development includes streamlining budget execution and payments processes both in the MEF and LMs/institutions and scheduling the removal of parallel paper processes. Rationalizing processing of low risk payments as discussed in the report is a very good first step, however the ambition should be to redesign control processes and use the functionality of the FMIS fully.

Strategic Allocation of Resources

Systems strengths include the orderly and participatory approach to the annual budget formulation, including a timely and well-organized legislative review (PI-18, rated 'C+' and PI-31, rated 'NA') as well as reliable and timely information provided on the transfers to C/S, which prepare their own budgets (PI-7.1 and PI-17.2). The weaknesses still persist with the lack of comprehensiveness of the budget documentation, and its classification is not in accordance with international standards (PI-5 rated 'B' and PI-4 rated 'C').

In addition, the RGC just starts to strengthen the public Investment (PI-11, rated 'D+'). Investment is lack of comprehensive links to selection of capital investment projects and lacking consideration of the recurrent budget implications of completed projects.

The five indicators concerned with 'policy-based fiscal strategy and budgeting', (PIs 14 to 18 except PI-17) received basic overall ratings. The MTFF is still in its early stages of development with weak links from one budget cycle to the next (PI-16, rated 'D+'). It is noticed that fiscal risks attached to PEs, PAEs, SNAs' operations and other fiscal operations is not assessed and monitored adequately (PI-10, rated 'D+').

The RGC needs to further efforts to adopt the multi-year focus on Medium term fiscal framework and MTBF, improve quality of BSP and PB. The medium-term budget expenditure leads to achieve the desired budgetary outcomes.

The system is also subject to frequent and significant in-year reallocations (PI-16.3, rated 'C'), facilitated by extensive powers given to the Minister of Economy and Finance by the legislation (PI-27.4 rated 'B'). Revenue administration needs to strengthen related to risk management and revenue arrears monitoring (PI-19.4 rated 'D*').

Efficiency in Use of Resources for Service Delivery

The high level of predictability in funds available to line ministries and agencies during budget execution (PI-21.2, rated 'B') and to C/S (PI-7.2, rated '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-25.2, rated 'C').

Of particular concern to guarantee an efficient use of resources lack of performance of monitoring and transparency of the procurement systems (PI-24, rated 'D+'). Combined with the expenditure arrears (PI-22, rated 'D+') is unlikely to generate good Value For Money on national expenditure.

The performance monitoring and evaluation systems for service delivery has to be improved for key ministries (PI-8, rated 'C+') and linked with basic performance of public asset management (PI-12, rated 'C'), reveal that use of resources could be better monitored for an efficient and effective use of resources by LMs/institutions.

In addition, deficiencies in the internal control systems (PI-23.4, rated 'D'; PI-25.2 rated 'C' and PI-25.3, rated 'C' and PI-26, rated 'C+') despite timely and orderly reviews by the legislature (PI-31, rated 'NA') and low extent of public transparency (PI-9, rated 'D') to limited of efficiency in use of public resources.

4.4 Performance change since previous assessment

This part of the report compares performance changes between the 2021 PEFA and the previous 2015 PEFA assessment using the previous 2011 version of the Framework in orders to track performance change over time based on same methodology, allowing a direct comparison of scores sets of scores. The performance improvements have been identified mainly in the indicators PI-2, PI-6, PI-7, PI-10, PI-13, PI-14, PI-19, PI-23 and PI-25. PI-3 received a lower score as the deviation between revenue planned and outturn is large, 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's PFM reform and ODA is covered by RGC PFM systems.

The changes in the indicator scores are presented in the Table 4.1 below.

Table 4.1: Performance improvements for nine indicators since previous 2015 assessment

PFM Performance Indicator		Scoring Method	2015	2021	Performance change
A. PFM OUTTURNS: Credibility of the budget					
PI-1	Aggregate expenditure out-turn compared to original approved budget	M1	A	A	No change. Strong performance in budget execution is strengthened by Program Budgeting implemented since 2015. The MEF focuses on program structure and priorities to deliver outputs.
PI-2	Composition of expenditure out-turn compared to original approved budget	M1	D+	B+	Improvement in Dim (i & ii) because the deviation in composition of expenditure outturn decreased and average contingency use compared to actual expenditure has been lower.
PI-3	Aggregate revenue out-turn compared to original approved budget	M1	A	D	Deterioration. The deviation is higher between planned and actual collection of revenue due to underestimation of revenue in the approved budget. Strengthening tax and custom administrations through the implementation RMS 2014-2018 has improved RGC revenue collection capacity.

	PFM Performance Indicator	Scoring Method	2015	2021	Performance change
PI-4	Stock and monitoring of expenditure payment arrears	M1	D+	D+	No change. Stock of arrears has been reduced because of strengthening payroll control and strong performance of revenue collection.
B. KEY CROSS-CUTTING ISSUES: Comprehensiveness and Transparency					
PI-5	Classification of the budget	M1	C	C	No change. 3 budget classifications: administrative, programme and economic classifications have been used for budget formulation, budget execution, and reporting. However, the sector-based classification used is not consistent with COFOG.
PI-6	Comprehensiveness of information included in budget documentation	M1	C	B	Improvement. Six of the nine key elements of budget documentation (#1, 2, 3, 4, 7, and 8) were presented in the draft budget law submission for 2020.
PI-7	Extent of unreported government operations	M1	C	B	Improvement. The MEF updated rules and regulations related to financial management for managing PAEs.
PI-8	Transparency of inter-governmental fiscal relations	M2	B	B	No change. Additional fiscal transfers to SNAs (tax revenue sharing from C/P administrations to D/M and C/S administrations, though SNIF mechanism, and additional transfers) are transparent and rule-based but C/S reporting is not yet based on sector classification.
PI-9	Oversight of aggregate fiscal risk from other public sector entities	M1	C+	C+	No change
PI-10	Public access to key fiscal information	M1	D	B	Improvement. Three elements (#2, 3, and 5) are available to public.
C. BUDGET CYCLE					
C(i) Policy-Based Budgeting					
PI-11	Orderliness and participation in the annual budget process	M2	A	B+	Slight deterioration due to the lack of hard budget ceilings in the annual budget circular.
PI-12	Multi-year perspective in fiscal planning, expenditure policy and budgeting	M2	C+	C+	No change. Medium-term budget expenditure is initiated since 2019 by piloting MTBF and drafting MTFF. Slight deterioration due to the lack of communication of hard

	PFM Performance Indicator	Scoring Method	2015	2021	Performance change
					ceilings approved by CoM for the LMs/institutions and budget entities before they finalize their budget proposal.
C(ii) Predictability and Control in Budget Execution					
PI-13	Transparency of taxpayer obligations and liabilities	M2	C+	B	Improved. Tax administration has improved the use of multiple channels to make information available to taxpayers.
PI-14	Effectiveness of measures for taxpayer registration and tax assessment	M2	D+	C+	Improved. GDT has updated the business registration system and improved the business registration procedure. GDT applies risk assessment criteria to develop its audit plan and conducts its investigation. However, a comprehensive compliance improvement plan is not in place.
PI-15	Effectiveness in collection of tax payments	M1	D+	NR	Not comparable
PI-16	Predictability in the availability of funds for commitment of expenditures	M1	C+	C+	No change
PI-17	Recording and management of cash balances, debt and guarantees	M2	C+	C+	No change
PI-18	Effectiveness of payroll controls	M1	D+	D+	No change
PI-19	Competition, value for money and controls in procurement	M2	D+	D+	No change despite improvement of Dim (iii)
PI-20	Effectiveness of internal controls for non-salary expenditure	M1	C	C	No change
PI-21	Effectiveness of internal audit	M1	C	C	No change
C(iii) Accounting, Recording and Reporting					
PI-22	Timeliness and regularity of accounts reconciliation	M2	C	C	No change
PI-23	Availability of information on resources received by service delivery units	M1	D	B	Improvement. MoEYS has a planning and financial reporting system for schools' financial management which provides resources by source of funds. The MoH monitoring systems can provide the information on resources received by health centers and hospitals but not specifically disaggregated by source of fund.
PI-24	Quality and timeliness of in-year budget reports	M1	C+	C+	No change

	PFM Performance Indicator	Scoring Method	2015	2021	Performance change
PI-25	Quality and timeliness of annual financial statements	M1	D+	C+	Improvement of Dim (i) & (iii) • Dim (i): Financial statements are prepared annually but do not include PAEs revenue and expenditure and financial assets. • Dim (iii): Standards used to prepare CPSAS financial reports by GDNT are in line with cash basis IPSAS and the 2016-2018 financial statements and disclosed.
C(iv) External Scrutiny and Audit					
PI-26	Scope, nature and follow-up of external audit	M1	NR	NR	Not comparable
PI-27	Legislative scrutiny of the annual budget law	M1	C+	NA	Not comparable
PI-28	Legislative scrutiny of external audit reports	M1	B	NA	Not comparable
D. DONOR PRACTICES[72]					
D-1	Predictability of direct budget support	M1	D	NU	Not comparable
D-2	Financial info provided by donors on project/program aid	M1	D+	NU as the 2021 asessment focused on the RGC PFM systems integrating the ODA	Not comparable
D-3	Proportion of aid that is managed by use of national procedures	M1	D	NU	Not comparable

The 2021 PEFA peformance assessment shows an overall improvement in PFM performance and highlights the areas for PFM reform priorities in line with the section 3 based on the 2016 PEFA methodology and the need for CAP3+2 and CAP4 to focus on specific and systemic PFM reform areas.

Based on this, the overview of performance change since 2015 assessment are presented with their impact on the three budgetary outcomes.

Aggregate Fiscal Discipline

Aggregate fiscal discipline has improved as well as budget credibility in terms of expenditure and revenue administration management, PAEs' monitoring, transparency of taxpayer obligations and liabilities, with areas for possible improvements. Budget outturn is closely aligned to budgeted expenditure aggregates (PI-1, rated 'A') but revenue forecasting is underestimated for both customs and taxation revenue in the period - forecasts of domestic revenue collection are significantly and systematically underestimated (PI-3, rated 'D'), despite the strengthening of tax and custom administration systems through the implementation of RMS 2014-2018. The weaknesses have been identified in revenue arrears management. The comprehensiveness of the budget is impacted by: (a)

[72] These PEFA indicators (D1, D2 and D3) were not used for the comparison and performance tracking.

significant amounts of expenditure arrears (PI-4. Dim (i), rated 'D+'), and (b) incomplete coverage of non-tax revenue - particularly from public administrative entities (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.

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 published monthly and are instrumental for monitoring the aggregate revenue and expenditure (PI-24, rated 'C+'). Cash flow forecasts provide reliable information to line ministries and facilitate the planning of their expenditure commitments (PI-16, 'C+'). Oversight of PEs and C/S financial performance allows the MEF to monitor and ensure that such entities are not raising unplanned liabilities (PI-9, rated 'C+'). Revenue administration systems ensure effective registration of taxpayers, and relative control over their tax liabilities (PI-14, rated 'C+') even if tax arrears are not adequately managed and comprehensive reconciliation of revenue accounts takes place only annually. The lack of an effective invoice tracking system for goods and services results in a lack of information on the extent and source of expenditure arrears (PI-4. Dim(ii), rated 'C').

Debt management is adequate, given the moderate debt levels (PI-17. Dim(iii), rated 'C' and PI-12 Dim(ii), rated 'C'). A comprehensive assessment of fiscal risks and future liabilities from PEs and other fiscal operations is still lacking (PI-9. Dim (i), rated 'C') and recordings of loan guarantees is not included in the aggregate expenditure ceilings and not projected in the budget (PI-17. Dim(iii), rated 'C').

Strategic Allocation of Resources

Strategic allocation of resources **has improved and variance in expenditure composition has reduced.** Allocative efficiency is supported by an orderly and participatory approach to the annual budget formulation, including a timely and well-organized legislative review (PI-11 and PI-27. Dim(ii), rated 'B+' and 'C+' respectively) as well as reliable and timely information provided on the intergovernmental fiscal transfers to SNAs, which prepare their own budgets independently (PI-8. Dim (i) & (ii), rated 'A').

However, the achievement of high-level strategic policy objectives in public service delivery requires strong policy-budget links with the resource allocation, including over the medium term. The current planning and budgeting systems can be further strengthened and alignment of annual budget to BSP, as strategic sector planning remains weak, except for health and education (PI-12. Dim(iii), rated 'C'), resulting in weak links between policy and programmatic priorities and selection of capital investment projects and the lack of inclusion of recurrent budget costs (maintenance, etc.) for investment projects (PI-12. Dim (iv), rated 'C'). Also, the medium-term expenditure framework (MBTF and MTEFs) is not fully developed and integrated into the budgeting process. Except for budget aggregates there are no clear links from one budgeting cycle to the next (PI-12. Dim (i), rated 'C').

Furthermore, the monitoring of budget execution to support effective policy-decisions throughout the year could be strengthened if the unified CoA would include a functional classification and not only by sectors, as PB and programmatic classification is in place at CG level (PI-5, rated 'C'). Lack of detailed reporting on implementation of externally funded projects which amount to three quarters of public investments is critical (PI-7. Dim(ii) rated 'C'). Systems to track resources received by service delivery units has improved for 2 LMs- MoEYS and MoH (PI-23, rated 'B').

In-year reallocations are taking place but are transparent and limited at aggregate level (PI-16. Dim(iii), rated 'C'). The actual allocation of resources during budget execution does not deviate from the policy intent reflected in the government's budget proposals (PI-2, rated 'C+'), and the legislature has to approve only very minor amendments to the annual budget.

Efficient Service Delivery

***Efficient Service Delivery* has improved as there has been significant progress in the information available on resources received by schools and hospitals (PI-23, rated 'B') and public access to key fiscal information (PI-10, rated 'B').** The high level of predictability of funds available to line ministries and agencies during budget execution (PI-16. Dim (ii), rated 'B') and to SNAs (PI-8. Dim(ii) rated 'A') is a key support for efficient service delivery. Of particular concern for the efficient use of public resources is the persistent lack of performance of monitoring and transparency of the procurement systems (PI-19, rated 'C+'). Combined with the apparently significant payment delays to suppliers for goods and services resulting in arrears (PI-4, rated 'D+') they can highly undermine the Value For Money of public spending.

Deficiencies identified in the internal control systems for payroll and non-salary expenditures (PI-18. Dim(iv), rated 'D'; PI-20. Dim (ii) & (iii), rated 'C') and limited effectiveness of internal audits (PI-21 rated 'C') need to be addressed as their impact on efficiency in use of public resources is critical. Improvements in the timely and orderly scrutiny by the legislature (PI-28, rated 'B') - and improvement of public transparency (PI-10, rated 'B') are to be highlighted as very positive developments for public accountability and better efficiency in service delivery in the period.

5. Government PFM reform process

5.1 Approach to PFM Reforms

Cambodia has embarked on an ambitious PFMRP with an objective to strengthen public finance management systems to implement Cambodia's development agenda, reduce poverty and improve delivery of public services as set out in the RS Stage 4 and NSDP 2019-2023. The PFMRP consists of four successive stages implemented under four sequenced platforms, or 'Consolidated Action Plans' ('CAPs'):

- Platform 1 (budget credibility: 'CAP 1') 2005-2008 had to develop a credible budget and deliver predictable resources. It included establishing the TSA, strengthening revenue collection and fiscal space, improving revenue forecasting and macro-fiscal modelling to ensure fiscal sustainability, establishing cash management procedures, implementing procurement reform, and finally putting in place a debt management strategy with modern management tools.
- Platform 2 (financial accountability: 'CAP 2') 2009-2015 aimed at providing financial information in a timely manner mainly through FMIS implementation and improving internal control to hold managers accountable. It included implementing a modern CoA based on IPSAS, developing a new budget classification, a transaction coding structure and accounting rules, clarifying responsibilities by linking the budget structure to expenditure assignments, and developing a reporting structure with financial statements that comply with international standards.
- Platform 3 (budget-policy linkage: 'CAP 3', still in progress) 2016-2020 focuses on improving the linkage between economic planning and economic policy priorities as reflected in the NSDP and budget planning. It includes developing a hierarchy of medium-term programming tools and implementing program budgeting with some elements of fiscal decentralization. This platform has been extended for 2 years (2021-2022) in 2020 after recognizing the need to complete remaining tasks in the platform 1, 2 and 3 before starting the CAP 4 activities.
- Platform 4 (performance accountability: 'CAP 4') 2023-2027, currently being designed) intends to deliver broad accountability through better-designed PFM processes and performance-based management.

PFM reforms are coordinated by GSC in charge of coordinating the work of the PFM Reform Working Group of MEF and all line ministries as well as coordinating the cooperation between the RGC and development partners. GSC also provides support to ministries, institutions, and entities under the MEF, both in the implementation and monitoring and evaluation of the implementation of the PFMRP.

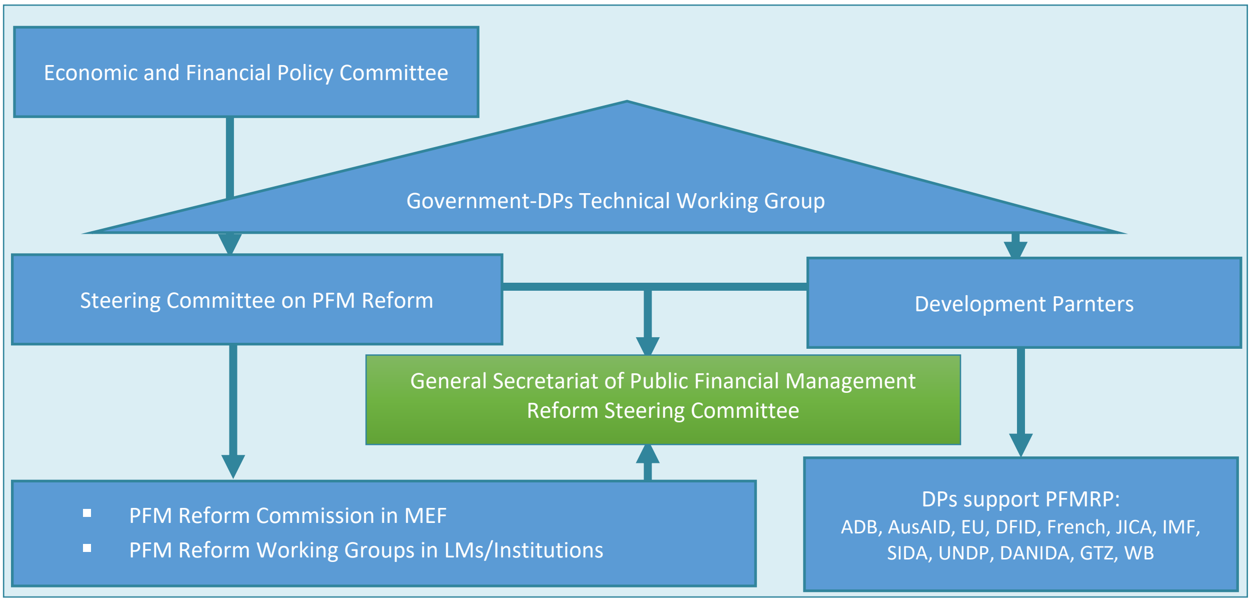
Samdach Akka MoHasena Padei Techo HUN SEN, Prime Minister of Kingdom of Cambodia, gave instructions for all government agencies to improve their organizational management and strengthen their capacity to ensure consistent and coherent PFM progress across Government. SPM emphasized the need to build leadership in all entities so that RGC's decisions through PFMR-SC are effectively implemented to advance on budget-policy linkage.

In the leadership and coordination structure of the RGC, the Royal Decree no. NS/RKT/0719/1024 dated 06 July 2019 stipulates that the EFPC is a top managerial body of the government to oversee the preparation, implementation, monitoring and evaluation of economic and financial policies including PFMRP, financial sector development, private sector development, and development coordination with development partners (DPs) in reforms related to economy and finance.

As shown in Diagram 5.1, the EFPC leads PFMRP through subordination of PFMR-SC and Development Partners as a technical working group. Members of the committees meet annually in the PFM Technical Working Group (PFM-TWG) to review progress of the reform and determine its future direction. All active donors in PFM sector are coordinated by a lead development partner (e.g. currently EU and ADB) in the sector who serves as facilitator in aligning and harmonizing all donors' support to achieve PFMRP progress and development results. On the other hand, PFMR-SC[73] oversees the progress of implementing PFMRP and is responsible for steering the implementation of all implementing agencies (IAs) that include entities within the MEF and those in the LMs/institutions and SNAs.

The GSC is directed by a Secretary General accompanied by other Deputy Secretary-Generals, as necessary. The GSC consists of six Divisions: (1). Budget Formulation and Policy Division, (2). Taxation Revenue Division, (3). Research and Innovation Division, (4). Budget Execution Division, (5). Three Reforms, State Property and Non-tax Revenue Division, and (6). Administration, Finance, and Monitoring and Evaluation Division.

Diagram 5.1: Structure of leadership and coordination mechanism of PFMRP



Source: GSC

The PFMRP has monthly, quarterly and annual monitoring and evaluations mechanisms. Monthly M&E is an internal mechanism of PFM Reform Working Group of entities under the MEF, and all LMs/institutions. The Quarterly M&E is a joint mechanism where the quarterly reports are prepared by GSC based on the reports by the MEF and all LMs/institutions. These quarterly reports are official reports and are published for the public after the approval of the meeting of the PFM-RC of MEF, PFMR-SC, and PFM Reform Technical Working Groups. Annual M&E is a joint mechanism where the annual reports are prepared by GSC based on the reports by the MEF and all LMs/institutions. These annual reports are official reports published after the approval of the meeting of the PFM Reform Commission of MEF, PFMR-SC, and PFM Reform Technical Working Groups.

In addition to this, annual PFM reform progress reports are subject to annual reviews (during a retreat) with evaluation reports of independent evaluators, and are not only for progress review of action plan but also a forum for evaluation of efficiency and effectiveness of the overall reform program, and a mechanism to improve actions or/and strategic directions, that may even lead to adjustment of reform goals, if necessary.

[73] Sub-degree no. 23 ANKr.BK on Establishment of PFMR-SC dated on 17 January 2014.

5.2 Recent and ongoing reforms

Despite Cambodia's strong achievements in PFM performance over the last 15 years, key PFM areas still require further reform implementation. The RGC is committed to PFM reform towards further alignment with international standards, that is to "reform step-by-step from a centralized, input-oriented PFM system to a decentralized, and output-oriented system", through the implementation of its platform approach.

The RGC launched the Medium-term RMS 2014-2018 and the recent RMS 2019-2023 to align with the mandate of the Royal Government.

FMIS phase-1 was prepared and implemented in 2014 and Phase-2 in 2017. The core functions and budget classifications have been installed in the FMIS to align with the approved RGC blueprint. In fact, there are 6 core functions of FMIS as follows (1). budget allocation, (2). account payable, (3). account receivable, (4). cash management, (5). purchasing, and (6). general ledger. From 2019-2020, FMWG will develop additional 2 modules, budget planning, and procurement, which will be piloted in the MEF and Ministry of Women's Affairs in 2021.

The accounting framework has been strengthened, together with core technical systems to support financial accountability (i.e. CoA, budget classification and FMIS). Strengthening both the framework and implementing systems has produced notable improvements in the scope, quality and timeliness of financial accounting, recording and reporting. The FMIS, operational in almost all LMs/institutions as of 2020, as well as in all C/P Treasuries and C/PDEF and FMIS core modules having fully replaced the "legacy" KIT system since 2017. Establishment of electronic interface across other core public financial information systems (e.g. for customs and debt), as well as with the banking system (both NBC and commercial banks) has also supported important efficiency gains across a range of PFM operations (including revenue, cash and expenditure management, as well as financial reporting). In addition, CoA both national and subnational administrations is harmonized; however, raising PFM capacity at SNAs would be further strengthened.

The strategic plan for business process streamlining 2020-2025 was adopted in PFMRC meeting on 16 March 2020. New business process for payment on salaries and expenses for staff with a clear set of regulations (low risk payment) have been formally operationalized in the MEF and other seven LMs including (1) MAFF, (2) Ministry of Posts and Telecommunications, (3) Ministry of Labor and Vocational Training, (4) MCS, (5) Ministry of Industry, Science, Technology and Innovation, (6) MoH, and (7) MoEYS.

The FMIS blueprint phase 3 (2021-2025), 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/institutions, and further planning and development of state asset and inventory management modules in FMIS.

The 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, the SARMIS was disseminated and operationalized in first phase in LMs, capital/provincial administrations, and other public entities on 29 December 2020.

LMs/institutions have implemented a full-pilot program budgeting by gradual, 10 in 2015, 15 in 2016, 11 in 2017, and 3 in 2018. Furthermore, 25 C/P administrations will be integrated in the PB from 2017-2021. Recently, 12 provincial administrations, in which 6 provincial administrations have been added in 2017 and the others in 2018.

Program budget was introduced in all LMs/institutions in 2015-2018 and all C/P 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. Four LMs are leading in establishing budget entities and upgrading to authorized budget entities. Those LMs include: (1) The MEF has 12 authorized budget entities, (2) MoEYS has 10 authorized budget entities, (3) MoH has 10 authorized budget entities, and (4) Ministry of Environment has 6 authorized budget entities.

Current and capital expenditures are integrated into BSP and PB for three ministries, including the MRD, MPWT, and MoWRAM. Next stage will be the MAFF and MoEYS, based on the budget ceiling set in circular on formulating BSP and annual budgeting.

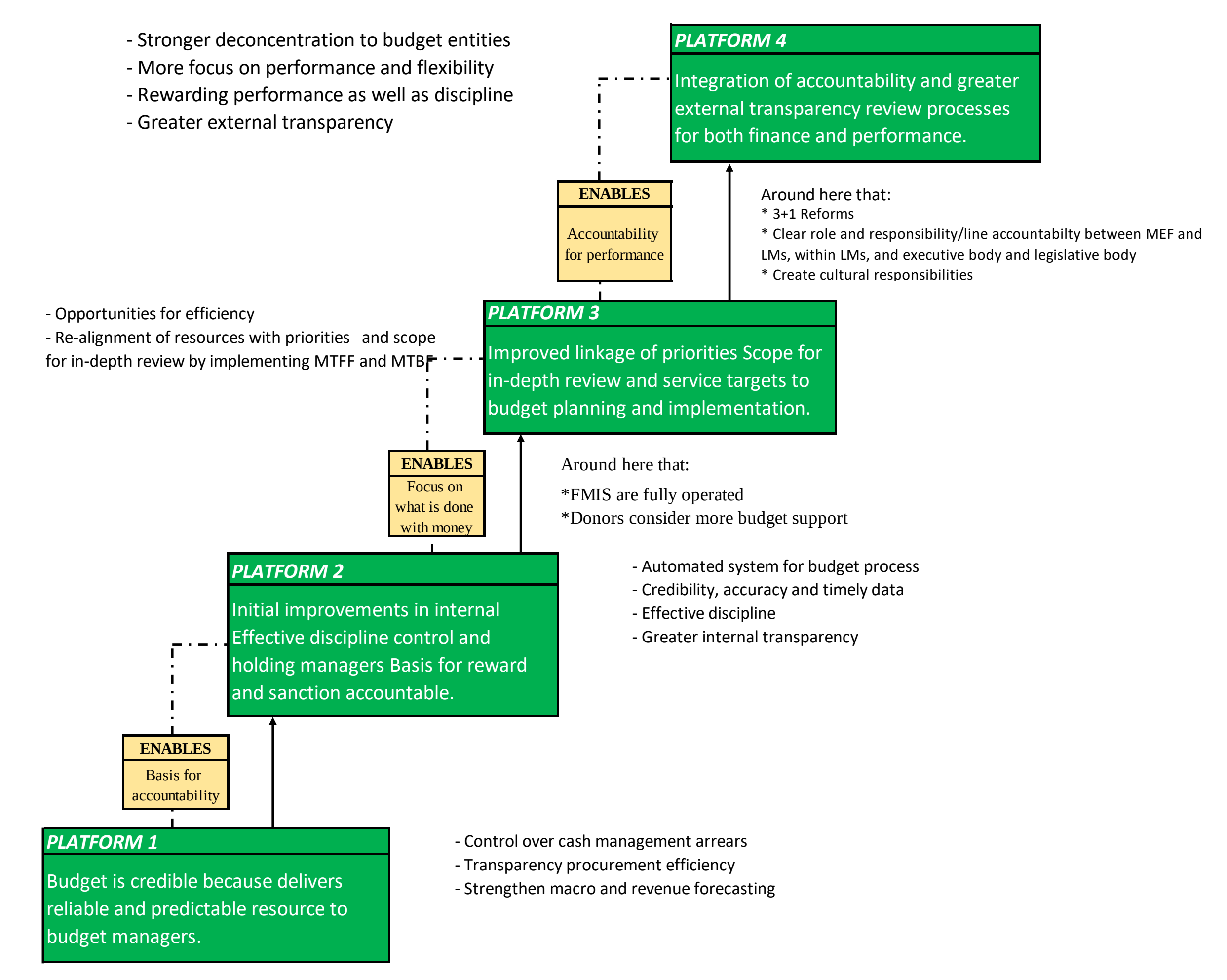
In January 2018, the CoM endorsed the BSRS 2018-2025 that incorporates a more focused and realistic set of goals and timeframe. Based on a thorough analysis of PB reforms in different countries, the Strategy endorsed a shift from ***performance-based budgeting*** **to** ***performance-informed budgeting***. With performance-informed budgeting, resources are not directly related to performance, as was envisaged in the previous budget reform strategy, but performance information is used in the budget allocation process.

To support an acceleration of PFMRP implementation to achieve the current CAP3 targets and to help guide the development and implementation of CAP3+2 and CAP4, the RGC has recently developed and approved a number of medium/long-term PFM component-specific strategies, including:

- BSRS 2018-2025 – supporting the continued transformation from input-based budgeting toward the goal of performance-informed budgeting;
- RMS 2019-2023 – targeting sustained annual revenue growth (with a target of increasing current revenue by at least 0.3 percentage points of GDP on average per annum) through strengthening/ broadening the base and improving administration of both tax and nontax revenues, while also highlighting improvements in the quality of taxpayer services and compliance;
- Public Procurement System Reform Strategy 2019-2025 – setting out plans for gradually delegating procurement responsibilities to LMs, SNAs and authorized (qualified) public entities by 2025;
- Public Investment Management System Reform Strategy 2019-2025 – focusing on establishing and implementing a comprehensive legal framework, procedures and technical capacity for effective public investment planning, financing, coordination, project implementation and monitoring
- Subnational BSRS 2019-2025 – targeting subnational planning and budgeting processes with goal of strengthening the integration of strategic planning and budgeting processes across the three SNA tiers together with deconcentrated C/P line departments.

Currently, the PFMRP-Stage 3 (CAP3) has been delayed for two years to finalize all unfinished works and to build the concrete foundation in the Stage 1, Stage 2, and Stage 3. The delay in transition to Stage 4 aims to build all pre-requisites for implementing the PIB 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.
Further, GSC has improved the quality of CAP by introducing additional points, including measurement, baseline, reference document as well as outputs and outcomes. Follows the platform approach, GSC reviews the key factors that are impact on the whole of PFM system in each stage as indicated in diagram 5.2.

Diagram 5.2: Cambodia PFMRP- Sequence of platform



The results of PEFA assessment 2021 have highlighted most of key weaknesses of PFM systems and they have been integrated into the core strategic reforms under PFMRP framework. All the findings and other core strategic reforms have been used for inputs to structure the CAP3+2 and next CAP4, at the end of 2020.

Table 5.1: Key weaknesses of PFM systems

PEFA Pillar	Ongoing monitoring of identified key weaknesses
I. Budget reliability	• Further strengthen revenue forecasting to achieve target +/-5%. GDT, GDCE and GDSPNR needs to have their own revenue forecasting model.
II. Transparency of public finances	• Quality data of functional classification and cost allocation of salary and nonsalary 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.

PEFA Pillar	Ongoing monitoring of identified key weaknesses
III. Management of assets and liabilities	• 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	• Develop comprehensive medium-term budgeting (MTFF and MTBF) by integration of recurrent and capital expenditure and public investment management. This mechanism is allowed LMs/institutions to well prepare BSP and PB. • Clearly indentify accountable for outputs and outcomes to develop performance culture by introducing the Public Finance System Law (new).
V. Predictability and control in budget execution	• 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/institutions for performance and information and communication technology (ICT) audit in context of implementing program budget, FMIS and performance-informed budgeting. • Improve budget expenditure control by revising Sub-decree no.81 ANKr.BK and 82 ANKr.BK.
VI. Accounting and reporting	• 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.

PEFA Pillar	Ongoing monitoring of identified key weaknesses
	• 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	• Strengthen capacity of external audit. • Develop follow up tracking system for external audit recommendations. • In-depth budget hearings by involving auditees.

In this regard, the structure of CAP3+2 is designed to closely with PEFA 2016 framework (Pillars, PIs and Dimension) to align the PFM reform with international standards. This CAP3+2 introduced baseline, methodology, clear outputs and outcomes, and supporting documents. This will be strengthening the quality of GDAP/MAP and KPIs monitoring. The implementation of CAP3+2 will require co-responsibility of Line Ministries to achieve most of the targets, structured in 5 parts: part 1 (4 objectives), part 2 (5 objectives), part 3 (4 objectives), part 4 (4 objectives) and part 5 (3 objectives). This should set a solid foundation for next stage 'performance accountability' by completing the outstanding activities in stage 1, 2 and 3 as well as to address the government's more immediate needs, to formulate effective fiscal responses to the economic and social impact of COVID-19.

Table 5.2: Inputs for structuring CAP3+2

Part 1: Further Strengthened Budget Credibility	Part 2: Further Strengthened Financial Accountability	Part 3: Strengthened Budget-Policy Linkages	Part 4: Performance Accountability	Part 5: Supporting the implementation of PFMRP and other crossing cutting reforms
11. Further strengthened revenue management and revenue collection implementation	21. Strengthened and expanded the implementation of FMIS	31. Developed and implemented Medium-Term Fiscal and Budget Frameworks	41. Implemented performance-informed budgeting	51. Enhance leadership, management capacity, reform willingness, ownership and responsibilities
12. Strengthened budget execution and implementation of expenditure planning	22.Strengthened the implementation of new accounting, recording and reporting systems	32. Strengthened public investment management	42. Implemented system to monitor and review performance in LMs/institutions	52. Ensured the momentum of the PFMRP

13. Improved budget execution process	23. Strengthened public asset management (non-current assets)	33. Strengthened the implementation of program budgeting (PB) and budget strategic plan (BSP)	43. Strengthened the effectiveness of performance monitoring system (internal audit, financial inspection and independent audit)	53. Strengthened the implementation of cross-cutting issue actions
	24. Strengthened public debt management including the risk of contingent liabilities and other related debt risk sustainably	34. Reinforce the implementation of decentralization for SNAs	44. Enhanced budget transparency	
	25. Strengthened financial accountability of PAEs and PEs			

5.3 Institutional considerations

The PFMRP is one of the most essential reforms in the RGC's RS and NSDP. Cambodia is implementing centralized and input-based budget management system, in compliance with the Law on Public Finance System (2008) and this law sets a stage for the government to prepare for program budgeting, a step towards performance and decentralized budgeting system.

The FMIS will automate the budget preparation process, facilitate the transfer of approved budget allocations to budget entities, and will gradually become the main tool for managing and controlling expenditures of the LMs including capital and provincial administrations by 2025.

Annual budget preparation process: Annual budget will reflect both the linkages between sector policies and MTFF and between MTBF and budget strategic plan. Some sectoral policies are developed based on the national policies and organizational management structure (leadership, management, and technical level) with clear roles and responsibilities, in transparent and accountable manner.

Budget Scrutiny and Approval: In 2025, the LMs/institutions will be responsible for defending their budgets at the program level at the respective specialized Committee meetings. The annual budget discussion at the Plenary Session of the Legislative Bodies will focus on policy objectives at the ministry/institutional level and the overall budget envelop. The MEF will be responsible for defending the ministerial level budget envelop in the Second Committee and at the Plenary Session of the Legislative Bodies. The Second Committee meeting will decide on the overall budget preparation before the draft Annual Budget Law is presented to the Plenary Session of the Legislative Bodies. In addition, the draft Annual Budget Law will include performance information as an annex, which will play an important role in providing program information for scrutiny purposes. Budget office for technical support the second committee is under consideration.

Budget Execution and Control: By 2025, once the Budget Law is approved, the budget will be the basis of authorization for spending commitment of the LMs/institutions for the whole year. The authorization for spending commitment will be based on quarter/semester expenditure allotment up to the agreed budget limit, except for exceptional, uncleared and/or specific spending items, which will be subject to prior approval of commitment from the MEF. The quarter/semester expenditure allotment refers to the distribution of resources based on programs, budget entities, spending items, and periods. The procedures of budget implementation will be modernized and streamlined through FMIS for automated monitoring and controlling functions aiming to increase operational efficiency and at the same time provide greater flexibility for budget management and execution. In addition, the MEF plans to simplify the budget control system by putting in place a clear and short procedure for budget control both at the LMs and at the MEF. This mechanism for national budget control will be implemented by establishing a centralized mechanism for budget execution control at the LMs/institutions, which combine both financial control and procurement functions, under direct supervision of the MEF and a mechanism for budget execution at the C/PDEF by delegating authorities and responsibilities for financial control and procurement.

To ensure checks and balances, the roles of public accountants will be kept as currently practice, to verify the compliance with public accounting and cash management rules but shall be reduced to the minimum by preparing concise and efficient legal framework as well as the implementation of FMIS and E-Transfer. As soon as system of budget management is improved to the international best practices and the capacity of institutions is getting better, public accountants shall decentralize their roles to the LMs/institutions to improve the efficiency of the control mechanism, which is a precondition for the LMs/institutions having full accountability on financial and nonfinancial performance. In addition to the budget control function, the above mechanism shall also encompass the monitoring non-tax revenue collection and state properties management.

Public procurement management: The MEF will become procurement regulator and the procurement. Complaints and grievance handling mechanisms will be improved and made independent with the creation of a sanction regime. The rules, regulations and procedures for public procurement will be harmonized to increase competitiveness, transparency and efficiency.

Monitoring and evaluation of performance: The MEF monitors program execution and may carry out basic review of program performance based on budget execution data and performance, in order to use this information to assist in budget allocation but will not be a factor in deciding the allocation.

- ***Government leadership and ownership***

Through lessons learn of PFMRP in the past 15 years, the RGC has achieved (i) a clearly defined vision, (ii) strong political commitment, (iii) smart leadership and advancement, (iv) active involvement of line ministries and related agencies, (v) strong support from development partners, and (vi) strategic tools of management, following up, monitoring with effectively and efficiency.

As previously stated, the RGC is committed to reform its PFM systems step by step in order to align with international standards by gradually transforming the system from dependence on the inputs management and centralization to be results-based and decentralized through the implementation of long term and in depth reform and the four step and/or stage strategies such as (1) Improved budget credibility, (2) Improved financial accountability, (3) Improved budget policy linkages, and (4) expanded performance of the accountability. The vision of PFMRP is clearer to achieve main elements of PFM system determining in the core strategic reforms of PFM System with specific action and time plan.

The PFMRP received fully political support from the royal government. Under the leadership of RGC Prime Minister, PFM system strengthening is perceived as 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. This demonstrates a strong ownership and leadership of the reforms from the highest levels in the Government and administration has demonstrated genuine and unflagging commitment. More than a decade on, the reform program continues to be a flagship program of Government and clearly viewed as underpinning wider reform. It is seen as 'home grown' and responsibility for its successful implementation accepted internally. Regular and frequent steering group meetings have continued to be held and chaired by the Deputy Prime Minister and Minister of Economy and Finance who makes it clear to implementing agencies that they have accountability in both proposing and carrying out reform activity. Commitment to the program has survived both external pressures such as the current pandemic situation and the 2008 global financial crisis.

- ***Coordination across government***

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 three pillars of capacity development, organizational change and motivational development. PFM reform can contribute to solving these problems but cannot solve them on its own. It is useful to strengthen change management capacity of key stakeholders leading the reform; build more effective capacity for coordination of reform activities with other cross-cutting public sector reforms; 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.

The critical success factors to change includes effective communication on the vision and direction of changes, nature of changes, timeframe, and key areas of change to the LMs and within the LMs, themselves, from management levels to general public servants. Over the CAP3 period, GSC has been implementing many communication activities to raise public awareness about PFMRP and engage key stakeholders into implementing the reform's action plans. This communication strategy will identify effective approach and appropriate channels to not only reach out to the public, but to also engage key stakeholders into supporting the reform agenda.

Another matter is to develop a concept note to drive PFM reform for gender budget in the Cambodian PFM context by cooperation between GDB and GSC. The study aims to (1) lay out specific actions for advancing gender equality and women empowerment through well-articulated and well tracked budget allocation, and (2) strengthen capacity of staff on gender budget.

National Public Administrative Reforms

Good governance is explicitly highlighted in the RGC's RS and NSDP, thus the National Public Administrative Reform Program (PAR) is a core activity to achieve the goals and objectives of the RGC. NPAR is a crucial strategy for the future development of the country, through preservation of peace, political stability and social justice, sustainable development, and the prosperity of the people and the nation. Efficiency and effectiveness of public administration starts from loyalty, strong commitment, professional skills and more importantly, the strong capacity and credibility of institutions. A particular aspect of public administrative reforms concern decentralization and deconcentration.

The NPAR 2015-2018 which was approved by the RGC on 09 January 2015 has three main objectives:

- Promote high quality, simple, effective, reliable, prompt and responsive and convenient public service, with active participation from service users.
- Strengthen human resources management to improve civil servants' performance, with strict adherence to the culture of service, ownership, loyalty and professional consciousness.
- Reform the pay system to ensure equity, improve productivity and work effectiveness as well as to ensure coherence and consistency of salaries and other benefits between civil servants and the armed forces.

In line with the RGC's focus on result-based approach to public sector reforms and the introduction of PB, the MCS has prepared a Vision and Strategy for Public Administration Reform 2019-2028 to transform the public administration into an effective public service provider and a reliable partner towards serving the people better. This Strategy targets a number of key goals:

- Setting up a public service system focused towards human resources management based on the qualifications of the position.
- Develop a planning system for official cadre at the national and sub-national level which is consistent with the budget plan
- Rationalize the size of public service and institutional structures to respond effectively to job requirements
- Develop and implement comprehensive and systemic capacity building programs for leadership, management, and skills enhancement
- Develop and implement incentive-based performance management systems and capacity building programs.
- Develop a salary system which supports productivity, professionalism, leadership and management skills
- Upgrade and make HRMIS fully operational in all ministries, institutions at the national and subnational levels
- Improve the quality of public services through the use of information technology, integration mechanism, and the one-window service mechanism.

The capacity building of the civil servants at national and SNA levels needs to be further improved to meet the requirements of Human Resources for PB. This will involve identification of the skills and qualification requirements. The general upgrading of knowledge and skills in different disciplines will be a mandate of the MCS. Hence, the cooperation and collaboration between the MEF and MCS is necessary.

National Program for Subnational Democratic Development

The RGC has a strong commitment regarding the program of decentralization and deconcentration (D&D) reform. RGC decentralization reform program, started from the reform at C/S administrations in 2002 and at other subnational administrative levels including Phnom Penh, provinces, municipalities, districts and khans since 2009.

The process of the reform is to gradually transfer the responsibilities for administrative and service provision to SNAs, particularly to the administrations of D/M/K and C/S in line with the capacity of the administration of capital/provincial municipality through strategic plan formulation, facilitation, support and oversight. In 2010, the RGC formulated the 10-year National Program for Sub-National Democratic

Development (2010-2019) to be the blueprint for the implementation of D&D Reform. The implementation of this program included three stages managed and facilitated by the National Committee for Sub-National Democratic Development. In Stage 1, the 3-year Action Plan 1 was delayed for another year (2011-2014) to concentrate on system development and work process of SNAs and completed by December 2014. Stage 2 was to start by the beginning of 2015 and continue until 2017, to concentrate on SNAs providing more public services and better develop their local areas in a manner more responsive to the needs of the people. This would be achieved through functional decentralization of necessary service delivery and local development projects (from LMs/institutions and C/P to D/M/K and C/S administrations, improvement of accountability of SNAs, increase in local initiatives and autonomy, and increase in finances for SNAs. This stage is still ongoing.

In addition, there is an intention to increase the scope of functional transfers and delegations by sector. Designated functions planned for transfer from LMs/institutions to SNAs include the following:

- **Ministry of Health:** management of the Provincial Health Department and its health services, and management of district operational health services[74]
- **Ministry of Education Youth and Sport:** The MoEYS has transferred its offices of education at Municipality, District and Khan levels along with functions and resources (Personnel, Finance, and properties) to Municipality, District and Khan administrations. Six sub sectors within education sector (Early Childhood Education, Primary Education, Non-Formal Education, Secondary General Education, Youth and Sport) are delegated and assigned to all districts, municipalities, and khan country wide.
- **Ministry of Public Works and Transport:** management of national and provincial roads located in provincial towns; construction, repair, and maintenance of provincial, municipal, and rural roads; management of vehicle cleaning garages; vehicle registration; vehicle driving license test; management of vehicle repair garages; vehicle technical checking; and boat registration
- **Ministry of Environment and Ministry of Agriculture, Forestry and Fisheries:** management of national resource protected areas and natural resource communities; protection of the environment; sustainable environmental development; environmental awareness raising; management of forests; management of fisheries; management of agronomy, soil, and cultivation; management of agro-industrial cultivation; and management of animal health and production
- **Ministry of Rural Development:** rural sanitation services; clean water supply; and road development
- **Ministry of Social Affairs:** management of state and community orphan centers and monitoring of NGO orphan centers
- **Ministry of Tourism:** management of the tourist industry (e.g., guesthouse, clubs) and development of tourist sites
- **Ministry of Water Resources and Meteorology:** irrigation systems.

In December 2019, a sub-decree was approved to integrate all LMs' offices to be under D/M administrations. The implementation of the Law on Financial Regime and Property Management of SNAs (2011) is being implemented to provide further resources to SNAs and further strengthening the effectiveness and efficiency of public sector operations at subnational levels.

[74] The RGC issued the Sub-decree no.193 ANKr.BK, dated 04 December 2019, on Assigning Health Service Provided and Management to C/P Administrations.

Several functional, capacity, and fiscal challenges have to be addressed. LMs have conducted functional mapping, listing functions under an LM/institution's mandate, as well as functional reviews to identify the functions suitable for transfer to SNAs, but the preparation of the necessary rules and regulations to guide functional transfers is still pending.

To address the challenges above, the RGC has paid attention to cross cutting reform program for '3+1' scope for public sector reforms (PFMRP, National Program for Subnational Democratic Development, National Public Administration Reform Program and Legal and Judicial Reform Program. The RGC plans to develop a 10 years plan for Vision and Mission and identify cross cutting reform needs. This will contribute to build and strengthen good governance across government as a core element of RS4 and NSDP 2019-2023.

- ***A sustainable reform processes***

In supporting the effective and sustainable implementation, part 5 of PFMRP Stage 3 focuses on three objectives: (1) enhance leadership, managerial capacity, and reform willingness as well as enhancing ownership and responsibilities, (2) enhance effectiveness of capacity building and incentive scheme, and (3) strengthen the capacity development for implementing PFMRP Stage 3. These priorities will be maintained to CAP3+2 and CAP4 as medium to support momentum of PFMRP implementation. Effectiveness and comprehensiveness of the capacity building program and the effectiveness of the change management programs are among the most necessary tasks to prevent and resolve risks change institutional structure, delays or hold up the reforms due to lack willingness will impact on the achievement of PFM reforms.

The MEF understands that the PFMRP in future more towards line ministries in term of decentralization and accountability for results is to address their needs and capacity constraints, especially on program budgeting and medium-term budgeting. The EFI has cooperated with Civil Service College of Singapore to assess training and capacity requirements by focusing on existing adopted PFM documents. However, the EFI requires good cooperation from relevant entities under MEF and in LMs/institutions, technical and financial supports from all leading management of all levels.

Develop strategic capacity development plan: the EFI reviewed and evaluated the implementation of Strategic Capacity Development Plan phase 3 and has been developing the strategic plan for phase 4 (2021-2025), consulting with relevant entities under the MEF, LMs/institutions, C/PDEF, and C/P Treasuries. The EFI also encountered some on-going challenges concerning instructors/ trainers/professors in the EFI and modernization of training program. The involvement from development partners is important for mobilizing both financial support and technical assistance. The EFI needs to strengthen its role and mechanism to prepare training plans and prioritization of trainings in line with the PFMRP implementation.

In term of ensuring sustainable fund for implementing PFMRP, the MEF plans to develop a comprehensive PFMRP fund to support for all type of expenditure, including institutional development, implementing GDAP/MAP, incentive for PFM reform working groups in both entities under the MEF and LMs/institutions, and performance. This initiative is under discussion that plans to introduce in 2021.

- **Transparency of the PFM reform program**

Transparency and disclosure are key elements in performance budgeting. The transparency of fiscal management will promote policy responsiveness in a timely and effective manner. The MEF also welcome NGOs/CSOs to take part in the PFMRP. NGOs/CSOs have a specific ToR signed by representatives of NGOs and GSC. They are invited to attend PFMR-SC with development partners.

Increase public involvement in the budget process: with a view to increase public involvement, the GDB organized public forum on macroeconomic and annual budget framework in the early 2019. The GDB also published briefing of annual budget law and explained with supporting documents such as brief elaboration on draft annual budget law. In addition, annually the Second Commission of National Assembly organized a consultative workshop on macroeconomic and annual budget with representatives from civil society organizations, developing partners (i.e., the WB, ADB, IMF, and UN - UNDP) and this workshop is also participated by members of the National Assembly and the Senate.

Increase the dissemination of budget documents: The MEF has published many budget-related documents, including (1) annual budget document, (2) briefing of annual budget law book, (3) circular on the execution of 2020 budget law, (4) Circular on BSP and PB preparation, (5) monthly TOFE and GFS, (6) monthly report on economic context, (7) quarterly finance and economic statistic bulletin, (8) Cambodia Public Debt Statistical Bulletin twice per year, (9) macroeconomic and fiscal policy framework and (10) public procurement document.

Annex 1: Performance indicator summary

PEFA INDICATOR/Dimension Title	Score	Description of requirements met
PI-1. Aggregate expenditure outturn	**A**	The outturn relative to budget was 97.9%, 99.4% and 99.3% in 2017, 2018 and 2019 respectively that deviation was less than 5% from approved budget in the three fiscal years.
PI-2. Expenditure composition outturn	**C+**	**Scoring method M1**
2.1. Expenditure composition outturn by function/administration	C	The variance in expenditure composition by administrative classification was 10.6%, 13.0% and 8.9% in 2017, 2018 and 2019 respectively less than 15% but higher than 10% in two of last three years.
2.2. Expenditure composition outturn by economic type	B	The variance in expenditure composition by economic classification was 9.1%, 4.2%, and 13.6% in 2017, 2018 and 2019 respectively, less than 10% but more than 5% in two of the last three years.
2.3. Expenditure for contingency reserves	A	The actual expenditure charge to a contingency vote was on average 0.4%, on average less than 3% of the original budget in the last three completed fiscal years.
PI-3. Revenue outturn	**C**	**Scoring Method M2**
3.1. Aggregate revenue outturn	D	Total revenue outturn compared to approved budget was 109.4%, 118.9% and 131.0% in 2017, 2018, and 2019 respectively.
3.2. Revenue composition outturn	B	Variance in revenue composition was 9.7%, 9.0% and 11.8% in 2017, 2018 and 2019 respectively, i.e. lower than 10% in two of the last 3 years.
PI-4. Budget classification	**C**	The classification used for budgeting and accounting purposes in FY2019 was based on administrative, program and economic classifications using GSF 2001 standards since 2011.
PI-5. Budget documentation	**B**	Four basic documents and three additional elements were included in the 2020 budget submission.
PI-6. Central government operations outside financial reports	**C+**	**Scoring Method M2**
6.1. Expenditure outside financial reports	B	PAEs' and MoEYS' expenditure outside financial reports is estimated at less than 3.81 percent, i.e. less than 5 percent of central government expenditure for 2019.
6.2. Revenue outside financial reports	B	PAEs' and MoEYS' revenue outside financial reports represent less than 4.8 percent of total CG revenue.

PEFA INDICATOR/Dimension Title	Score	Description of requirements met
6.3. Financial reports of extra-budgetary units	D	Most PAEs did not submit their financial report to GDNT as requested for 2019.
PI-7. Transfers to subnational governments	**A**	**Score Method M2**
7.1. System for allocating transfers	A	SNAs' budgets are allocated from central government with transparent and rule-based systems.
7.2. Timeliness of information on transfers	A	SNAs receive information on annual transfer fund at least six weeks through regular budget calendar before SNAs complete their annual budget preparation.
PI-8. Performance information for service delivery	**C+**	**Scoring Method M2**
8.1. Performance plans for service delivery	C	Performance information including outputs or outcomes is available for the majority of SD line ministries and published on their respective websites.
8.2. Performance achieved for service delivery	C	Performances are assessed by LMs based on activities' implementation; not against performance indicators and targets. The majority (65%) of LMs published performance report based on activities achieved on their respective websites.
8.3. Resources received by service delivery units	B	The MoEYS has its planning and financial reporting system that improve financial management for schools as well as disaggregated by source of funds. The MoH monitoring systems can provide the information on resources received by health centers and hospitals but not specifically.
8.4. Performance evaluation for service delivery	C	Evaluation of efficiency and effectiveness of service delivery has been carried out for at least 2 SD line ministries (representing majority of SD) at least once within the last three years.
PI-9. Public access to fiscal information	**D**	There are 2 basic elements and 1 additional element have been met in accordance with the specified timeframes.
PI-10. Fiscal risk reporting	**D+**	**Scoring Method M2**
10.1. Monitoring of public corporations	C	Only 3 of 11 audited/financial statements of PEs are published.
10.2. Monitoring of Subnational administrations	D	The financial reports from SNAs are received by the central government. No audited or unaudited financial reports of SNAs are published.
10.3. Contingent liabilities and other fiscal risks	D	Part of contingent liabilities is quantified and quarterly reported. No contingent

PEFA INDICATOR/Dimension Title	Score	Description of requirements met
		liabilities are presented in the financial report.
PI-11. Public investment management	D+	Scoring Method M2
11.1. Economic analysis of investment proposals	C	The investment projects funded by national budget are upgraded and rehabilitated investment projects that have been studied economic analysis financed and managed by donors and the studies are available for more than 25 percent of the major projects selected.
11.2. Investment project selection	D	The process of project preparation and appraisal begin early, the final approval of investment projects is after the annual budget law. However, there is a clear lack of PIM legal and regulatory requirements for investment project selection. No standard of criteria is presented. The central entity bases on the broad policy criteria in the annual budget circular. The budget is approved first then the LMs prepare the project.
11.3. Investment project costing	D	The investment project costing includes a consolidated amount for estimated capital costs but does not systematically include recurrent expenditure and a breakdown by projects and projections for the forthcoming year linked to the budget.
11.4. Investment project monitoring	C	Progress of the major investment projects is monitored and reported monthly based on LMs' internal SOPs. In some case the Inter-Ministerial Committee meeting will conduct to review the financial and physical progress reports.
PI-12. Public asset management	C	Scoring Method M2
12.1. Financial asset monitoring	C	The RGC maintains a record of its holding assets, which are recognized at fair value.
12.2. Nonfinancial asset monitoring	C	Asset information is recorded in their own MAs and submit to the MEF; however, this information is not consolidated yet and not available for the categories other than vehicle, and IT equipment.
12.3. Transparency of asset disposal	C	There are rules and procedures for transfer or disposal of nonfinancial assets. Revenue from asset disposal is included in revenue report and transfers of nonfinancial asset are found in the financial report.
PI-13. Debt management	B+	Scoring Method M2
13.1. Recording and reporting of debt and guarantees	C	A reconciliation process is performed annually. Data on total domestic and external debt stocks and flows is accurate

PEFA INDICATOR/Dimension Title	Score	Description of requirements met
		and reliable and an overall picture of its composition is available on a quarterly basis or on demand.
13.2. Approval of debt and guarantees	A	The MEF is a single entity that has right to borrow, issue new debt and provide state guarantee. PDMS 2019-2023 and SOP for PDM are main documents used as guidance to borrow, undertake debt related transaction and monitor debt management transaction. Annual borrowing is approved by parliament in the annual budget law.
13.3. Debt management strategy	A	PDMS 2019-2023 is published on the website of the MEF GDICDM. Twice a year the MEF prepares public debt management reports that are submitted to the RGC and parliament on the overall in-year progress and against the PDMS objectives on performance public debt management.
PI-14. Macroeconomic and fiscal forecasting	**C+**	**Scoring Method M2**
14.1. Macroeconomic forecasts	B	The MEF prepares forecasts of key macroeconomic indicators and provides assumptions and forecasts for year N-1, N and N+1 as well as forecast year N+2, N+3 and keeps updating these figures annually. After Prime Minister approved the annual MFPF, the MEF submits to the National Assembly.
14.2. Fiscal forecasts	C	The annual MFPF contains three-year forecasts of fiscal aggregates prepared annually by main economic categories, sectors, and high-level administrative heads.
14.3. Macro fiscal sensitivity analysis	C	The annual MFPF prepared by MEF include a macrofiscal sensitivity analysis with a qualitative assessment of the impact of alternative macroeconomic assumptions, based mostly on fiscal data and external factors.
PI-15. Fiscal strategy	**C+**	**Scoring Method M2**
15.1. Fiscal impact of policy proposals	C	The annual MFPF formulation requires the MEF to collect information from all LMs and revenue collecting agencies to prepare estimates of the fiscal impact of all proposed changes in revenue and expenditure policies for the upcoming budget year; however, only the aggregates at sector level for the annual budget submitted for approval.

PEFA INDICATOR/Dimension Title	Score	Description of requirements met
15.2. Fiscal strategy adoption	C	The MFPF is a fiscal strategy with some qualitative and quantitative fiscal policy targets approved by the RGC for the annual budget. It is the basis for the macroeconomic policy framework and the consolidated fiscal policy used for the annual budget preparation from the references of the RMS and the NSDP.
15.3. Reporting on fiscal outcomes	B	The RGC submits the draft budget settlement law and annex (detailed by economic classification and main head administrative classification) along with a budget statement explaining the previous budget outturn against the fiscal framework of the previous budget as well as policy actions to address the deviations, for the scrutiny of the National Assembly.
PI-16. Medium-term perspective in expenditure budgeting	**D+**	**Scoring Method M2**
16.1. Medium-term expenditure estimates	D	Three-year estimates of expenditure are prepared as a stage of the annual budget preparation in the BSP aligned consistent with the MFPF, but not presented with the annual budget which provides a breakdown by economic classification and capital expenditure aligned to the MFPF and BSP framework only for the annual budget year.
16.2. Medium-term expenditure ceilings	C	For 2020 annual budget, the RGC adopted the annual MFPF and a pilot MTBF 2020-2022, applied to current revenue for main heading administrations and PAEs. Indicative budget ceilings are set and approved by the RGC in the BSP before the issuance of the annual budget circular for the annual and two following budget years. It is presented in terms of GDP, for the four sectors (general administrations, national defense, security and public order, social affairs and economy) but not at LM level.
16.3. Alignment of strategic plans and medium-term budgets	C	Medium-term strategic plans are prepared for all major ministries but only the education sector and (to a large extent) the health sector have fully costed strategic plans aligned with fiscal aggregates. The rest of the sectors have strategic plans but without full and consistent costing. Overall, more than 25 percent but less than the majority of expenditure proposals in the annual budget estimates are fully aligned with the strategic plans.

PEFA INDICATOR/Dimension Title	Score	Description of requirements met
16.4. Consistency of budgets with previous year estimates	D	The variation between the first medium-term budget year (2019-2021) and second medium-term budget (2020-2022) is more than 13% and lack of explanation on the differences or expenditure policy changes.
PI-17. Budget preparation process	**B+**	**Scoring Method M2**
17.1. Budget calendar	A	The RGC issues two circulars subsequently. Circulars are clearly defined the prioritized policies, guidance for budget preparation and provide enough time to LMs. Both stages (BSP and annual budget preparation) include indicative (soft) ceilings approved by the RGC. All LMs have about 4 and 5 weeks in order to prepare their budgets for the two stages respectively i.e. about 9 weeks in total.
17.2. Guidance on budget preparation	C	According to Circular on Annual Budget Preparation, top-down ceilings are imposed for overall expenditure (separately for current and capital) and for the four sectors in terms of percentage of GDP (indicative). The RGC set the soft ceiling for recurrent expenditure to line ministries. In addition, aggregate ceiling both recurrent and capital expenditure is for 4 sectors (general administrations, national defense, security and public order, social affairs and economy).
17.3. Budget submission to the legislature	A	The RGC has submitted the annual budget proposal to the legislature more than two months before the start of fiscal year in each of the last three years.
PI-18. Legislative scrutiny of budgets	**C+**	**Scoring Method M1**
18.1. Scope of budget Scrutiny	C	The legislature reviews details of expenditure and revenue of detailed budget proposals. However, no substantial changes to the draft have been made in recent years.
18.2. Legislative procedures for budget scrutiny	C	Legislative body has its procedures to review budget proposals; however, technical support needs to further strengthen by establishing budget office.
18.3. Timing of budget approval	A	The legislature has approved the annual budget before the start of the year in each of the last three fiscal years.
18.4. Rules for budget adjustments by the executive	A	The adjustments to the annual budget appropriations are regulated through an amended annual budget law, or by sub-decrees in some case by prakas and/or circulars, issued by heads of ministries. The rules for in-year budget amendments without prior legislative approval are clear and respected, and do not allow for

PEFA INDICATOR/Dimension Title	Score	Description of requirements met
		expansion of the overall amount of expenditure (even in case of excess revenue collection).
PI-19. Revenue administration	C+	Scoring Method M2
19.1. Rights and obligations for revenue measures	A	The GDT and GDCE representing more than 75 percent of 2019 annual revenue collection use multiple channels to provide taxpayers with easy access up-to-date information on the main tax obligation areas and on their rights and there is an effective redress and appeal procedure system.
19.2. Revenue risk management	B	Tax and Customs administrations have their own risk assessment system to identify and monitor major compliance risks for their large revenue payers and major taxes, representing at least 50% of the revenue collected.
19.3. Revenue audit and investigation	D	GDT and GDCE collecting most revenue undertake audits and fraud investigations have established compliance risk-based audit plans. However, they could not provide comprehensive information on the systems in place to monitor and report their audits and fraud investigations' activities or evidence of a documented compliance improvement plan.
19.4. Revenue arrears monitoring	D*	Data on the stock of revenue arrears at the end of 2019 could not be calculated and there is no detailed ageing balance of the stock of arrears registered for GDT and non-tax revenues.
PI-20. Accounting for revenues	C+	Scoring Method M1
20.1. Information on revenue collections	A	The GDNT central agency responsible for revenue data consolidation receives and reports revenue data from all entities collecting revenue at central government level on a daily basis.
20.2. Transfer of revenue collections	A	Entities collecting most central government revenues transfer the collections directly into TSA controlled by GDNT on daily basis.
20.3. Revenue accounts reconciliation	C	Entities collecting most of government revenue undertake a complete reconciliation within two months of the end of the year.
PI-21. Predictability of in-year resource allocation	C+	Scoring Method M2
21.1. Consolidation of cash balances	C	All TSAs' balances are consolidated on daily basis, except other accounts that account for 10 percent of the total revenue collected and are consolidated on a monthly basis.

PEFA INDICATOR/Dimension Title	Score	Description of requirements met
21.2. Cash forecasting and monitoring	B	Annual cash flow forecasts are prepared and updated quarterly based on actual past cash inflows and outflows.
21.3. Information on commitment ceilings	B	LMs can prepare their expenditure programs on a quarterly basis.
21.4. Significance of in-year budget adjustments	C	In-year adjustments are significant in amount and frequent but are undertaken with some transparency and can be partially traced.
PI-22. Expenditure arrears	**D+**	**Scoring Method M1**
22.1. Stock of expenditure arrears	D	There are no salary arrears. However, expenditure arrears on debt interest and penalties are 10.30% of total expenditure in 2019.
22.2. Expenditure arrears monitoring	C	Data maintained on the FMIS can be extracted to generate Excel reports and data on stock and composition of arrears is monitored by GDNT on a regular basis and reported annually. However, the definition of arrears is not aligned to the international definition used in the PEFA methodology.
PI-23. Payroll controls	**D+**	**Scoring Method M1**
23.1. Integration of payroll and personnel records	B	Each month's payroll is supported by full documentation for changes made, and LMs check that the month's total payroll reconciles with the previous month's total and the total of changes made for the month.
23.2. Management of payroll changes	B	Personnel records and payroll are updated at least quarterly and require a few (more than 10 but less than 25 percent) retroactive adjustments to the payroll.
23.3. Internal control of payroll	B	Authority for changes to personnel records and payroll are clear and adequate.
23.4. Payroll audit	D	There is no comprehensive payroll audit that has been taken place during the last three years. The MCS partial verifications have resulted in adjustments up to 2 percent of the annual payroll.
PI-24. Procurement	**D+**	**Scoring Method M2**
24.1. Procurement monitoring	D	The GDPP maintains records with data on what have been procured, value of the procurement and who has been awarded the contract for all contracts above thresholds but cannot evidence the materiality of these contracts against the total procurement methods for goods, services and works as there is no integrated system to monitor procurement values and records
24.2. Procurement methods	D	The value of total contracts awarded using competitive methods is less than 60% of the total value of awarded contracts in 2019.

PEFA INDICATOR/Dimension Title	Score	Description of requirements met
24.3. Public access to procurement information	D	Only three of six elements of public procurement information are made available to the public in a complete, reliable and timely manner and the materiality of the procurement operations involved cannot be confirmed.
24.4. Procurement complaints management	A	The criterion (1) is met and other 5 criteria are met.
PI-25. Internal controls on non-salary expenditure	**C**	**Scoring Method M2**
25.1. Segregation of duties	C	There is a clear segregation of duties as well as responsibilities for expenditure controls within spending agencies and the MEF; however, in practice there still overlap n functions between levels in LMs and between GDB FAD (Financial controllers) and GDNT (Public Accountants) for reviewing payment orders.
25.2. Effectiveness of expenditure commitment controls	C	Expenditure commitment control procedures exist and are effective to keep commitments within cash availability and approved budget allocations. However, not all revenue and expenditure are covered.
25.3. Compliance with payment controls	C	The majority of payments are compliant with regular payments procedures and majority of exceptions are duly authorized or justified.
PI-26. Internal audit	**C+**	**Scoring Method M1**
26.1. Coverage of internal audit	A	Internal audit function covers all government agencies, PAEs and PEs. They have formal procedures aligned with the international standards including annual work programmes, definition, and maintenance of audit documentation, follow up on recommendations.
26.2. Nature of audits and standards applied	B	Internal audit activities are focused on financial compliance and the adequacy and effectiveness of internal controls.
26.3. Internal audit activity and reporting	C	Internal audit departments of LMs/institutions implement the majority of their annual audit programs as evidenced by their distribution to the LMs/institutions' senior management.
26.4. Response to internal audits	C	In the assessed sample and as per GDIA feedback, managements in LMs/institutions provide partial response to the audit recommendations received from their internal audit unit, and percentage of achievement of audit recommendations is within 50%.
PI-27. Financial data integrity	**C+**	**Scoring Method M2**

PEFA INDICATOR/Dimension Title	Score	Description of requirements met
27.1. Bank account reconciliation	B	TSA is reconciled on a daily basis and other Treasury-managed accounts and commercial banks' accounts are reconciled monthly within four weeks.
27.2. Suspense accounts	D	Even though the verification and clearing of suspense accounts with collecting agencies is taking place on a daily and monthly basis, a remaining uncleared amount is in suspense accounts after the year-end closure.
27.3. Advance accounts	C	Advance accounts are settled annually within two months of the end of the year. Some advances can be cleared with delay. When the implementation is delayed, the advance is carried over, budgeted for and cleared in the next year budget.
27.4. Financial data integrity processes	B	There is a clear separation of responsibility from entry data to recording in the business process of FMIS which provides information on any access to records and changes to data entry, and results in an audit trail. However, there is no operational unit in charge of the integrity of the system.
PI-28. In-year budget reports	C+	Scoring Method M1
28.1. Coverage and comparability of reports	C	Monthly TOFE reports allow a direct comparison to the original budget and provide information for the main administrative headings.
28.2. Timing of in-year budget reports	B	Reports are prepared and issued and published generally within four weeks of each month on website of MEF.
28.3. Accuracy of in-year budget reports	C	There are minor concerns about accuracy as some records are delayed (both revenue and advances) or not included (externally-funded and PAEs and PEs) in the TOFE execution reports but the usefulness of the reports is not compromised and the data captures expenditure at payment stage.
PI-29. Annual financial reports	D+	Scoring Method M1
29.1. Completeness of annual financial reports	C	Financial reports for the RGC are prepared annually, and are comparable with approved budget, which include revenue, expenditure, and cash balance.
29.2. Submission of reports for external audit	D	The financial reports are submitted for the NAA more than 9 months from the fiscal year end.
29.3. Accounting standards	B	The standards used to prepare all government financial reports by GDNT are CPSAS-based and in line with cash-basis IPSAS and the financial statements are prepared and are consistent with the

PEFA INDICATOR/Dimension Title	Score	Description of requirements met
		majority of international accounting standards and disclosed in the annual financial reports.
PI-30. External audit	NU	Scoring Method M1
30.1. Audit coverage and standards	NU	-
30.2. Submission of audit reports to the legislature	NU	-
30.3. External audit follow-up	NU	-
30.4. Supreme Audit Institution (SAI) independence	NU	-
PI-31. Legislative scrutiny of audit reports	NA	Scoring Method M2
31.1. Timing of audit report Scrutiny	NA	-
31.2. Hearings on audit findings	NA	-
31.3. Recommendations on audit by the legislature	NA	-
31.4. Transparency of legislative scrutiny of audit reports	NA	-

Annex 2: Summary of observations on the internal control framework

Internal control components and elements	Summary of observations
1.Control environment	• Both national and SNAs related financial aspects are managed and controlled by the Law on Public Finance System (2008) and Law on Financial Regime and state property of SNAs (2011) with detailed rules and regulation in the form of sub-decrees, prakas, circulars as well as executive orders. • The effectiveness of internal control is still a concern and lacks mechanism enforcement in line ministries Internal audit function is created under Audit Law and an internal audit department is established in each LM, PE and PAE. Annually, MEF GDIA reviews the audit function in line ministries and the result shows that there are still limitations ins compliance with audit standard procedures, capacity constraints and limited independence within line ministries. So far, overlap function of control system, external audit, internal audit and inspection. Recently, the RGC issued Sub-decree no.168 ANKr.BK, dated 01 October 2019, determined function and roles and responsibilities of internal audit and inspection to avoiding overlap. • The MEF and CoM are the authorized bodies for PFM rules and regulations and MEF centralizes most of the control functions over the key phases of the budget cycle. The role of financial comptrollers illustrates the MEF powers over the line ministries, as review budget expenditure whether enough appropriation, program, sub-program, eligible or not eligible expenditure.
1.1 The personal and professional integrity and ethical values of management and staff, including a supportive attitude toward internal control consistently throughout the organization	• Overall the Cambodian public administration suffers from a lack of performance management culture as well as mechanisms for performance appraisal of government officials. Most LMs do not have a human resources management function and oversee only staff attendance. • The public sector culture places a strong emphasis on disciplinary procedures for those caught by-passing the system. The power of the Anti-Corruption Unit and a number of anti-corruption initiatives have been successfully implemented in Cambodia. There have been two high profile cases where a high-ranking police officer, court officials and government officials were prosecuted and imprisoned. • The introduction of the PB and BSP has started to change the approach to performance as institutions have to deliver on outputs and are held accountable for their results. LMs/institutions reforms, in particular, changes in administrative structure to be consistent with program structure are one of the crucial factors to be considered to ensure effectiveness of performance budgeting implementation. Delays or hold up the reforms due to lack willingness will impact on the achievement of budget system reforms.
1.2 Commitment to competence	• The MEF as an institution is also a good example of commitment to competence. The MEF has a special regime to incentivize and promote technically competent PFM Reform Working under the MEF and LMs. • EFI provide capacity building to civil servants; however, there needs to strengthen the coordinating, mechanism, prioritize training programs, develop certificate program with condition and e-training. • Skills of public servants generally need to be significantly upgraded to operate a performance budgeting system successfully. For officials, performance budgeting often involves a radical change of mind-set, moving the focus of attention away from compliance with rules and fulfilment of the budget, and towards outcomes, efficiency and flexible use of funds to achieve results. A higher level of analytical skills and understanding of public policy is typically demanded of budget officers both in finance ministries and line ministries.

Internal control components and elements	Summary of observations
	• Further focus could be placed on deeper reforms in PFM systems including enhancing processes for identification and management of fiscal risks, to help government weather impact of unexpected internal developments and external pressures. Some work has already been undertaken in this area. Further work will help to ensure that budget managers will be protected as far as possible from violent swings in resource availability which experience suggests is the worst enemy of effective service delivery. This will help the government to maintain budget credibility and strengthen resilience.
1.3 The "tone at the top" (i.e. management's philosophy and operating style)	• The tone at the top varies from one entity to another in Cambodia. In MEF, there is a positive approach to implementing the PFMRP and understanding of the importance of internal controls as evidenced by the adjustment of organizational structure to respond to recommendations on financial management and accounting, procurement, asset management and performance. In other entities, the adherence to the internal control principles varies, depending on the degree of delegation of responsibilities. • 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.
1.4 Organizational structure	• LMs/institutions have their own structure that are adopted by law, sub-decree and prakas. There is a need to review the functions of line ministries by GDT to ensure that they have enough officials to implement mandate of general department/departments/office. • The implementation of the PB is a critically transformative step as it requires a delegated authority and flexibility for budget entities to ensure performance is achieved as planned. MEF will review the budget entity functions whether they meet 7 criteria (state budget entities; entity under structure; enough budget appropriation and sustainability; having performance or outputs, and outcomes; having ability to prepare action plan, BSP and annual budget; ownership; and accountability) • Prakas no. 1911 MEF.PrK, dated 31 December 2014, on the Implementation of Program Budget Procedure Guidelines in point III.2, paragraph 2, states that "the budget entity is responsible for budget implementation and implementation of sub-programs and clustered activities aiming to increase accountability for better spending so Ministers/heads line ministries and institution as principle budget managers through financial entities must allocate budget to budget entities timely. However, there are some line ministries that have not taken measures and followed the previous practice (line-item budget).
1.5 Human resource policies and practices	• The MCS is currently developing a national program to reform of civil servant management, and improve public service for both national and SNAs. • In addition, human resource development is to define new competencies and develop the new skills required to support a modern performance-oriented budget system, through job analysis, recruitment, training, career management etc.

Internal control components and elements	Summary of observations
	• Merit has been an increasingly predominant factor in appointments and promotion. Increasing numbers of young and competent candidates have been too recruited and given senior positions in the government. • The government is also implementing a new policy to empower SNAs to manage their own staff toward improving service delivery. Civil service human resource management is not sufficiently developed that civil servants can be made accountable for performance, in particular: ▪ Job descriptions/ToR are not prepared for LMs/institutions ▪ There is no formalized appraisal/peformance system ▪ High levels of absenteeism etc. indicate that motivation is low • Importantly, harmonizing the three key reform programs, namely PFM, PAR and D&D. 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. Risk assessment	It is not identified in this PEFA report.
2.1 Risk identification	The PEFA assessment has highlighted a number of risks that have been identified related to PFM systems as follows: • Transparency is very limited (PI-9, rated 'D'). • Lack of comprehensiveness of budget since functional classification is not compliant with COFOG (PI-4, rated 'C'). • According to assessments on the performance structure of the strategic frameworks set out in the RS, NSDP, MTBF, PIP and BSP, the strategies remain partially connected, with a large number of objectives and without definitions of clear outputs and outcomes. The improving the quality of the BSP performance frameworks is a priority as the MEF has announced its intention to start focusing more on non-financial information. 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 and 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. • The MTBF was introduced for pilot current expenditure aiming to strengthen budget-policy linkages. However, Most of LMs/institutions have not followed the expenditure ceiling set. The multi-year budget formulation requires official of significant capacity to project budget plan by years. The connection between the programmatic structure and the allocation and costs of specific investment decisions in the budget remains weak (PI-16, rated 'D+'). • Public investment control lacks regulations and economic analyses conducted (PI-11, rated D+). • Article 23 of Sub-decree no. 105 ANKr.BK dated on, 18 October 2006, states procurement body shall submit monthly procurement report to MEF and Circular no.2 MEF/GDPP, dated 14 January 2014, on the public procurement at point number 24 states that the procurement body shall submit its procurement reports quarterly, semester and year to the MEF on a regular basis in the 1st week of each week, April, July, October and January. • Splitting vouchers to avoiding the implementing procurement method: Article 16 of Prakas no.829 MEF.PrK dated 31 December 2014 on Procedures of Petty Cash states that petty cash must be avoided splitting expenses in accordance with any place; objective, time and size of

Internal control components and elements	Summary of observations
	spending, and components of expenditures for the purpose of avoiding public procedures and Prakas no. 1866 MEF.PrK, dated 26 December 2014, on Threshold for Implementing Procurement Method. • Procurement plan is frequently changed and not credible (PI-24, rated 'D+'). • Asset management is not controlled by and IT system and data are not consolidated. The NAA observed that some entities submitted their annual inventory list and principal inventory book to the MEF late (PI-12, rated 'C'). • The BSP program structure still needs improvements, including weak organization and poor descriptions of what is to be delivered (i.e. poor outputs and outcomes) (PI-8, rated 'C+').
2.2 Risk assessment (significance and likelihood)	There is no comprehensive regular risk assessment. See risk identification (2.1 above)
2.3 Risk evaluation	There is not a formal and consistent approach to risk in the PFM systems, but some revenue and expenditure areas are covered by a risk-based approach, as illustrated in PI-19 (Tax and Customs systems, PI-19.2 rated 'B').
2.4 Risk appetite assessment	• The information on financial risks could help managing risks, improving economic efficiency and reducing the cost of borrowing. Presenting accurate and comprehensive financial risk information to decision makers will permit thorough scrutiny and make quality decisions, especially the decision with the regard to the level of risks appetite that the government should take. • Overlap of implementing roles of financial controller and public accountants as well as function of internal audit and inspections. These lead commitment control and control system within LMs/institutions not strong.
2.5 Responses to risk (transfer, tolerance, treatment or termination)	The RGC is committed to enhance PFM system. Each risk has been planned to address in the core PFM reform strategy and CAP3+2.
3. Control activities	• The reform undertook a review of sub-decree no. 81 ANKr.BK on establishing financial control on national expenditure at ministries, provinces, municipalities, autonomous city of Phnom Penh Capital and public organizations, and also sub-decree no. 82 ANKr.BK on general regulations of public accounting. Article 106 of Sub-degree no.82 ANKr.BK states that budget managers do not have rights to withdraw the revenue for spending for their interests or delay for transfer revenue to state budget. • The roll-out of FMIS to LMs/institutions is expected to further improve fiscal and budget management as well as transparency. Steps have been taken to streamline the control processes including devolution of financial and fiscal management and controls under budget entity reforms and fiscal decentralization.
3.1 Authorization and approval procedures	• All agencies applied the rules and regulations that are developed by MEF for budget cycle. • Financial data integrity process not fully ensure due to lack of information from internal and external audits (PI-27.4, rated 'B'). Access and changes to records is restricted and recorded and results in an audit trail. • Domestic and foreign debt and guaranteed debt records are complete, accurate, and updated quarterly. Most information is reconciled quarterly. Comprehensive management and statistical reports covering debt service, stock, and operations are produced and reconciled at least annually (PI-13.1, rated 'C').

Internal control components and elements	Summary of observations
	• The Public Finance System Law (2008) requires all loans or guarantees to be undertaken by the MEF. The National Assembly approves a ceiling for domestic and foreign debt with the budget law (PI-13.2, rated 'A'). • Commitment control applies to all payments made from the TSA. Actual expenditures incurred is in line with approved budget allocations and does not exceed committed amounts and projected available cash resources (PI-25.2, rated 'C'). • Management of payroll changes and personnel records are updated at least quarterly with a few retroactive changes (PI-23.2, rated 'B'). • Budget institutions have clear and detailed rules and procedures for making changes to staff information and payroll, which include signatures of authorized persons but it does not have comprehensive audit and audit trails (PI-23.3, rated 'B').
3.2 Segregation of duties (authorizing, processing, recording, reviewing)	Segregation of duties is prescribed throughout the expenditure process with responsibilities laid down for most key steps. Systematic and consistent definition of rules, regulations and responsibilities are still needed (PI-25.1, rated 'C'). Sub-decree no.81 ANKr.BK and no.82 ANKr.BK will be revised so the roles of financial controllers and public accountants will be clearer.
3.3 Controls over access to resources and records	• Budget classification is one of the fundamental building blocks of a sound budget management system. A budget classification system provides a normative framework for both policy decision making and accountability. To gauge performance elements, policy formulation and allocative efficiency concerns are the basis of a classification of expenditure by function and program. A detailed classification of programs by activity or output is required to assess operational performance. (PI-5, rated 'B'). • Compliance with payment rules and procedures is still needed to strengthen (PI-25.3, rated 'C'). • Evidence shows that basic controls relating to payments are usually complied with, and exceptions duly justified. The NAA reports for the past period concluded unauthorized expenditures not fully compliant with the regular payment procedures. • Financial data is kept in an electronic system in which access and changes to records and data is restricted and recorded through segregation of access in line with duties through controlled passwords; however, we need to have internal/external audit report to proof (PI-27.4, rated 'B').
3.4 Verifications	• Monthly budget execution reports include expenditure at the payment stage with some concern regarding comprehensiveness due to the number of "system transactions" recorded manually at provincial administrations (PI-28.3 rated 'C'). • An overall narrative statement on budget execution at aggregate levels is provided only for mid-year and annual state budget execution reports. • According to audit report for 2018, the NAA validated 173 payment orders of the LMs/institutions that were approved for payment by GDNT. It is found that some mandates did not enough supporting documents (PI-25, rated 'C').
3.5 Reconciliations	• TSA is in place and is reconciled on a monthly basis within four weeks (PI-27.1 rated 'B'). • Suspense accounts are not cleared timely and within year end (PI-27.2), rated 'D').
3.6 Reviews of operating performance	• Revenue audit and investigations needs to improve risk assessment and work plan to improve voluntary compliance (PI-19.3, rated 'D'). The payroll audit is not undertaken (PI-23.4, rated D).
3.7 Reviews of operations, processes and activities	• MEF GDPP is responsible for procurement monitoring and evaluation and publish report annually (PI-24, rated 'D+'). There is no system to consolidate this information to provide a holistic picture of how the

Internal control components and elements	Summary of observations
	procurement system is performing to deliver value of money for government.
3.8 Supervision (assigning, reviewing and approving, guidance and training)	Technical, human resource capacity, organizational, and motivational development were four pillars of support to enable sustained progress in reform effort. The identification of the four pillars required to support each platform has helped the program to take a balanced approach to what needs to be done. The development of activity planning for each platform has sought to address not just technical development, but also human resource, organizational and motivational developments appropriate to that platform.
4. Information and communication	• Information related tax and customs is widely published to public via social media and tax administrations' websites as well as tax-payers are educated. • Public access to fiscal information is still limited since publication is not on time (PI-9, rated 'D'). Currently, even though there has not been any article or provision that makes the publication of Draft Budget Law compulsory prior to the approval by the National Assembly, the current practice has been applicable in a similar manner and considered flexible. For instance, before the draft of the Annual Budget Law is submitted to the Council of Ministers, it firstly has to be submitted to the Supreme Council for Consultation for discussion and getting feedback. In addition, when the draft annual budget law is adopted by the CoM, an executive report on the draft annual budget is immediately published on MEF's website. The executive report highlights the Royal Government's key policy priorities/interventions and budget allocation to those key interventions of the Royal Government and LMs/institutions. • Moreover, at the National Assembly, public forum on "Macroeconomic Management and Budget Law" has been organized every year, by inviting all relevant stakeholders to the Forum, namely Senate and National Assembly's members, DPs, civil societies etc, for the purpose of providing transparency of the budget to the general public. These manifest our dedication to transparency even without a stipulation in any legal framework. • GSC is studying the regional and international practice for draft budget proposal to public before submitting to National Assembly and public participants in the budget process. • GSC is preparing the communication and engagement strategy for PFMRP-Stage 4. In the meantime, GSC is studying to gain understanding on general departments and LMs/institutions' perceptions and concerns on PFMRP's current communication and engagement practices, to gain insights on the general departments and LMs/institutions' current level of understanding on PFMRP's objectives, features, indicators, and strategic initiatives and to identify general deparments and LMs/institutions' expectations on future communication and engagement practices related to PFMRP.
5. Monitoring	The improving of monitoring system of PFM system is one of essential aspect of the PFMRP-Stage 3 and to be readiness for next stage.
5.1 Ongoing monitoring	The budget preparation and execution, financial management and accounting, procurement, internal and external audit, and monitoring and evaluation are the main components of ongoing mornitoring. • Budget classification has not used the functional classification compliant with COFOG. Quality data of functional classification and cost allocation through program budgeting will be addressed next step (PI-4, rated 'C'). • The 1st Semester performance reports must be sent within 20 days after completing period and annual performance reports must be sent to the MEF no later than March next year. According to audit report of the NAA, it states LMs/institutions have not prepared performance report to align with MEF's guideline yet. Assessing service delivery need to have a

Internal control components and elements	Summary of observations
	monitoring and evaluation system as well as resource allocation to in front line service delivery units in health and education sectors (PI-8.4, rated 'C'). • PAEs do not submit the financial report to GDNT to consolidate. Even though SNAs are not created risk, they are quite delay submitting report treasuries and budget report are not published. Currently there is no comprehensive report on contingent liabilities and other fiscal risks was prepared for any of the three fiscal years (PI-10, rated 'D+'). • The total cost and physical progress of major investment projects are monitored by the implementing government unit. Information on implementation of major investment projects is prepared monthly but not published (PI-11.4, rated 'C'). • Consolidation of state assets for the government is still early stage and need to have strong control system in place (PI-12.2), rated 'C'). • Monitoring on revenue arears on tax and non-tax is lack of property system and mechanism to control (PI-19. 4, rated 'D*'). • Expenditure arrears monitoring is not captured and monitored based on a definition aligned with international best practice (PI-22, rated 'D+'). There is need to have clear definition and monitoring system in the FMIS. • Audit on payroll is not conducted by the NAA (PI-23.4, rated 'D). There is need to have an independent audit opinion to improve the system. • The payroll system and HRMIS are not integrated (PI-23. Dim (i), rated 'B' and PI-23.2), rated 'B'. • Procurement monitoring is rated 'C' in 24.1. PEs/Budget Units have submitted the report on public procurement late to the MEF. In this regard, GDPP will continue to reinforce the submission through various mechanisms and measures as following: - preparing the reminder letters to push the PEs/Budget Units to submit the public procurement implementation report 2020 to the MEF. - continue to strictly monitor the implementation of the annual procurement plan by the PEs/Budget Units. - collaborate with GDB to block expenditure commitments or review budget allotments for the next public procurement projects for the PEs/Budget Units which have not submitted their public procurement implementation report to the MEF in a timely manner. • Advances are not cleared timely for both types of expenditure; recurrent and capital expenditure. Both are delayed into the next year budget (PI-27. 3, rated 'C').
5.2 Evaluations	• Performance evaluation for service delivery is not assessed due to lack of monitoring and evaluation system (PI-8.4, rated 'C'). • Investment project selection is lack of comprehensive standard (PI-11.2), rated 'D'). In this regard, prior to their inclusion in the budget, some of the major investment projects were prioritized by a central entity but did not use standard selection criteria.
5.3 Management responses	• Responses to internal audits are not comprehensive and timely (PI-26.4, rated 'C'. Management provides a partial response to audit recommendations for the majority of the departments audited. • Responses by the executive body on the audit recommendations are quite limited and only few auditees prepare action plan and follow mechanism to address properly the weaknesses identified in audit reports by the NAA.

Annex 3: Sources of information

Annex 3A: List of people who are interviewed and consulted

No.	Names	Positions	Line Ministries/ Institutions
1	Mr. Long Chinrith	Director of Procumbent Management Department	GDPP/MEF
2	Mr. Khieu Khemarakcheat	Director of Monitoring and Conflict Resolution Department	GDPP/MEF
3	Mr. You Eang Iav	Deputy Director of Admin, Personnel and Planning Department	GDPP/MEF
4	Mr. Lay Sokheang	Director of Budgeting Department	GDB/MEF
5	Mr. Dary Chetana	Deputy Director of Investment Department	GDB/MEF
6	Mr. Kem Channdoeun	Chief of Investment Office	GDB/MEF
7	Mr. Samon Kontell	Deputy Chief of Investment Office	GDB/MEF
8	Mr. Eng Auntouch	Deputy Direct of Financial Affairs Department	GDB/MEF
9	Mr. Kheng Chanraksmey	Chief of Budgeting Office	GDB/MEF
10	Mr. Bun Hay	Officer	GDB/MEF
11	Mr. Heng Socheat	Officer	GDB/MEF
12	Mr. Suon Vichet	Deputy Director General	GDNT/MEF
13	Mr. Chea Socheat	Deputy Director	GDNT/MEF
14	Mr. Ouk Vannara	Deputy Director	GDNT/MEF
15	Mr. Te Youroath	Office Chief	GDNT/MEF
16	Mr. Hout Sereymongkol	Office Chief	GDNT/MEF
17	Mrs. Hum Sorida	Deputy Director	GDSTNR/MEF
18	Mrs. Khy Srey Sros	Deputy Chief of Office	GDSTNR/MEF
19	Mr. Ly Senlong	Deputy Director	GDSTNR/MEF
20	Mr. Sain Sang	Officer	GDSTNR/MEF
21	Mr. Mok Someth	Officer	GDSTNR/MEF
22	Mr. Sum Phal	Deputy Director	GDIA/MEF
23	Mr. Hun Phirun	Deputy Director	GDIA/MEF
24	Mrs. Nou Simorn	Deputy Director	GDT/MEF
25	Mr. Seng Piseth	Office Chief	GDT/MEF
26	Mrs. Pich Bophaleak	Deputy Chief of Office	GDT/MEF
27	Mr. Kheam Bunseng	Deputy Chief of Office	GDT/MEF
28	Mr. Chea Vanndy	Officer	GDT/MEF
29	Mr. Sok Try	Deputy Director	GDCE/MEF
30	Mr. Chea SamOnn	Office Chief	GDCE/MEF
31	Mrs. Tun Puthimean	Deputy Chief of Office	GDCE/MEF
32	Mr. Sou Sokhon	Deputy Chief of Office	GDCE/MEF
33	Mr. Yang Bunaroth	Officer	GDCE/MEF
34	Mr. Oum Sopheak	Deputy Chief of Office	GDNT/MEF
35	Mr. Peng Sophana	Deputy Director	GDNT/MEF
36	H.E. Dy Khamboly	Deputy Secretary General	MoEYS
37	Mr. Nhum Sinith	Deputy Director General	MoEYS
38	Mr. Sar Sopheap	Director of M & E Department	MoEYS
39	Mr. Ap Kheang	Director	MoEYS
40	Mr. Chey Sith	Deputy Director General	MoEYS
41	Mr. Long Sovath	Deputy Director	MoEYS
42	Mr. Chea Kim	Deputy Director Department	MoEYS
43	Mrs. Nguon Sokcheng	Deputy Director Department	MoEYS
44	Mrs. Suos Sokly	Office Chief	MoEYS
45	Mrs. Hout Thavary	Deputy Chief of Budget and Finance Office	MoH
46	Mr. Heng Sokir	Office Chief	MoH
47	Mr. Khom Meanrith	Office Chief	MoH

No.	Names	Positions	Line Ministries/ Institutions
48	Mr. Kong Phengly	Office Chief	MoH
49	Mrs. So Nari	Chief Budget and Finance Office	MoH
50	Mrs. Kong Sothriry	Director	MAFF
51	Mrs. Keo Phally	Deputy Director Department	MAFF
52	Mrs. Lang Mondul	Office Chief	MAFF
53	Mr. Mok Mony	Office Chief	MAFF
54	Mr. Vonn Vannaroth	Office Chief	MAFF
55	Mr. Leng Phalvisal	Officer	MAFF
56	Mr. Souk Chanmary	Officer	MAFF
57	Mr. Lach Pirum	Deputy Chief of Office	MAFF
58	Mr. Lim My	Office Chief	MAFF
59	Mrs. Lao Neang	Chief of Office Number 3	MAFF
60	Mrs. Long Savoeng	Deputy Chief of Office Number 1	MAFF
61	Mr. Nil Sothon	Deputy Director Department	MAFF
62	Mr. Lay Houtpheng	Deputy Chief of Office Number 3	MAFF
63	Mr. Chim Phirom	Deputy Director of Audit Department	MoWRAM
64	Mr. Heang Meng	Director	MoWRAM
65	Mr. Muy Momin	Director	MoWRAM
66	Mr. Chorn Naraeth	Deputy Director of Planning Department	MoWRAM
67	Mr. Doung Samang	Chief of Financial Affairs Office	MoWRAM
68	Mr. Dy Phanna	Deputy Director Department	MoWRAM
69	Mr. Seang Thirith	Deputy Chief of Office	MoWRAM
70	Mr. Heang Keo Aun	Office Chief	MoWRAM
71	Mr. Lay Plouk	Director of Planning and Finance Department	MPTC
72	Mr. Chea Roth	Office Chief	MPTC
73	Mr. Chea Sopheak	Deputy Director Department	MPTC
74	Mr. Ung Souchresmey	Deputy Director Department	MPTC
75	Mrs. Som Pheachny	Office Chief	MPTC
76	Mrs. Mok Vannkim	Office Chief	MPTC
77	Mr. Khun Sophal	Director	MPTC
78	Mr. Chanty Piseth	Deputy Director Department	MPTC
79	Mr. Nhem Saeryndy	Deputy Director of Internal Audit Department	MPWT
80	Mr. Nhek ChanvaNAAra	Deputy Director of Finance Department	MPWT
81	Mr. Meas Monikanaki	Deputy Director of Finance Department	MPWT
82	Mr. Sun Sambath	Office Chief	MPWT
83	Mr. Tan Thyrith	Deputy Director of Planning Department	MPWT
84	Mr. Ouk Ratana	Chief of Personnel Office	MPWT
85	Mr. Chea Sophat	Director	NAA
86	Mr. Po Bun	Director	NAA
87	Mr. Haw Dara	Director	NAA
88	Mrs. Ney Sokea	Director	NAA
89	Mr. Chhay Nuppakun	Director	NAA
90	Mr. Dun Thavy	Office Chief	NAA
91	Mr. Chey Bunthoeun	Deputy Chief of Office	NAA
92	Mr. Hong Piseth	Deputy Chief of Office	NAA
93	Mr. Ngon Tongheang	Deputy Chief of Office	NAA
94	Mr. Nhem Bunthoen	Officer	NAA
95	Mr. Huth Sopheak	Deputy Director	NAA
96	Mr. Kong Leakhena	Deputy Director	NAA
97	Mrs. Oum Samadet	Director of Audit Department Number 1	NAA
98	Mr. Heng Karo	Deputy Director of Audit Department Number 1	NAA
99	Mr. Hoal Phallin	Deputy Chief of Office	NAA
100	Mr. Ra Borith	Deputy Chief of Audit Office Number 1	NAA
101	Mr. Sur Bunnarith	Deputy Director General	MME

No.	Names	Positions	Line Ministries/ Institutions
102	Mrs. Hang Thavi	Director	MME
103	Mr. Hol Youhouth	Deputy Director Department	MME
104	Mrs. Poy Rathany	Director of Procurement Unit	MME
105	Mr. Korm Vithou	Deputy Director Department.	MME
106	Mr. Sin Song	Officer	MME
107	Mrs. Sorn Dany	Officer	MME
108	Mr. Sem Vannnak	Deputy Director	MCS
109	Mr. Kong Sovathepheap	Director	MCS
110	Mr. Phan Sosatyra	Deputy Director	MCS
111	Mr. Pen Piseth	Deputy Director	MCS
112	Mr. So Vang	Deputy Director	MCS
113	Mr. Phoung Pitou	Deputy Inspector General	MCS
114	Mr. Pao Ratana	Inspector	MCS
115	Mr. Keang Sathavuth	PFM focal person	CDC
116	Mr. Kim Lumangbopata	Deputy Director of Policy Dept.	CDC
117	Mr. Chea Sokpheng	Policy Analysis Officer	CDC
118	Mr. Meak Sambo	ICT Officer	CDC
119	Mrs. Chea Sophy	Deputy Chief of Office	MOP
120	Mr. Hang Serey	Deputy Chief of Office	MOP
121	Mr. Hok Sokha	Office Chief	MOP
122	Mr. Mean Socheat	Deputy Director of Finance Department	MOP
123	Mr. San Vannakreth	Director	MOP
124	Mrs. Heang Somanita	Deputy Director	MOP
125	Mrs. Phai Zaiphouroth	Deputy Chief of Office	MOP
126	Mr. Chann Youvann	Office Chief	MOP

Annex 3B: Sources of information consulted to extract evidence for scoring each indicator

PEFA INDICATORS	Information sources (Document and websites)
PILLAR I: Budget reliability	
PI-1. Aggregate expenditure outturn	- Law on Annual Budget Settlement 2017, 2018 and 2019 - Law on Annual Financial Management 2017, 2018, 2019 and 2020 - Budget speech of Annual Budget Settlement 2017 and 2018 - Budget Speech of Annual Financial Management 2020
PI-2. Expenditure composition outturn	- Law on Annual Budget Settlement 2017, 2018 and 2019 - Contingency data 2017, 2018 and 2019
PI-3. Revenue outturn	- Law on Taxation (1997), and its amendments - Law on Customs - Medium-term RMS 2014-2018 - RMS 2019-2023
PILLAR II: Transparency of public finances	
PI-4. Budget classifications	- Prakas no.189 MEF.PrK, dated 22 February 2013, on Implementation of Economic Classification - Prakas no.242 MEF.PrK, dated 27 February 2015, on Implementation of Geography Code - Prakas no.523 MEF.PrK, dated 09 May 2017, on Implementation of Economic Classification for National Level and Sub-National Level - Prakas no.549 MEF.PrK, dated 22 May 2017, on Revision and Additional Geography Code Implementation - Prakas no.732 MEF.PrK, dated 14 July 2017, on Implementation of Sources of Fund Classification for National Level and Sub-National Level - Prakas no.772 MEF.PrK, dated 03 August 2017, on Implementation of Administrative Classification for national and Subnational administrations - Prakas no.882 MEF.PrK, dated 07 September 2017, on Implementation of Project Classification for National Administrations - Prakas no.996 MEF.PrK, dated 11 October 2017, on Implementation of Functional Classification for National and subnational administrations - Prakas no.1022 MEF.PrK, dated 17 October 2017, on Implementation of Program Classification for National and Sub-national Administrations
PI-5. Budget documentation	- Circular on Instruction of BSP Formulation 2020-2022
PI-6. Central government operations outside financial reports	- Law on Public Finance System (2008) - Law on Financial Regime and Property Management for SNAs (2008) - Royal Decree no. 0518/590, dated 28 May 2018, on the Amendments to the Royal Decree on the Legal and Regulatory Frameworks for PAEs - Sub-decree no. 15 ANKr.BK, dated 31 December 2018, on the Management of Budget and State Assets of Public Administrative Entities (15 January 2019) - Sub-decree no. 100 ANKr.BK, dated 31 December 2018, on the Implementation of Sample of the Sub-Decree on Establishment of PAEs - Circular no.002, dated 12 March 2019, on Accounting Records of the State Subsidy of Public Administrative of Establishments - Revenue and expenditure data of PAEs 2017-2019

PEFA INDICATORS	Information sources (Document and websites)
PI-7. Transfers to subnational Governments	- Rules and Regulations related C/S fund, D/M fund, SNIF, and tax revenue sharing - Sub-decree no.50, dated 11 April 2018, on Resources Transfer from State Budget to D/M Fund - Sub-decree no. 06 ANKr.BK, dated 05 January 2018, on the Conditional Transfer of Finances to SNAs - Sub-decree no. 32 ANKr.BK, dated 29 February 2016, on the Organizing and Functioning of the SNAs' Investment Fund - Sub-decree no. 68 ANKr.BK on General Processes for Transferring Functions and Resources to SNAs - Sub-decree no.36. ANKr.BK on Establishing D/M Fund and Implementing the Operating Procedures - Sub-decree no.285 ANKr.BK on Management of Permissive functions for SNAs - Sub-decree no.32 ANKr.BK on Establishment and Management of the SNIF - Sub-decree no.06 ANKr.BK on Management of Conditional Grants
PI-8. Performance information for service delivery	- Sub-decree no.54 ANKr.BK, dated 30 April 2018, on the Evaluation and Acceptance of Service Delivery Units in Education and Health Sectors - Sub-degree no.54 ANKr.BK on the Evaluation and Recognition Good Service Delivery Entity in the Education and Health Sectors - Inter-ministerial Prakas no.2481, dated 01 June 2018, on Launching on Assessment and Acceptance the Model Service Delivery Units in the Health Sector - Inter-ministerial Prakas no.2481, dated 01 June 2018, on Launching on Assessment and Acceptance the Model Service Delivery Units in the Education Sector
PILLAR III: Management of assets and liabilities	
PI-9. Public access to fiscal Information	- Website of MEF: https://mef.gov.kh - Website of Treasury: https://treasury.gov.kh
PI-10. Fiscal risk reporting	- Law on Public Finance System (2008) - Law on Financial Regime and Property Management for SNAs (2011)
PI-11. Public investment management	- Public Investment Management System Reform Strategy 2019 – 2025 - Sub-decree no.41 ANKr.BK, dated 25 March 2020, on Public Investment Management - Sub-degree no.36 ANKr.BK, dated 14 June 2000, on PIP Management - Joint- Circular no.01, dated 27 May 1999, on PIP Formulation 2000-2002 - Sub-degree no.155 ANKr.BK, dated 15 September 2009, on Advance Payments Procedures for Currents Funding and Public Investments Fund - PPP Policy - Guideline no.207, dated 26 February 2019, on procedure of public investment - Prakas no.242 MEF.PrK, dated 06 March 2019, on establishment of an inter-ministerial committee to let project/Development programs and repair of road, bridges, railway and river ports
PI-12. Public asset management	- Prakas no.839 MEF.PrK, dated 20 September 2019, on procedure of paying dividends of public enterprise and multinational public-owned companies
PI-13. Debt management	- Sub-decree no. 131 ANKr.BK, dated 23 June 2011, on Public Debt Management

PEFA INDICATORS	Information sources (Document and websites)
	- Prakas no. 546 MEF.PrK, dated 7 June 2018, on the implementation of SOP for Public Debt Management - Updated Public Debt Management Strategy 2015-2018 - Public Debt Management Strategy 2019-2023 - Cambodia Public Debt Statistical Bulletin Volume 10
PILLAR IV: Policy-based fiscal strategy and budgeting	
PI-14. Macroeconomic and fiscal forecasting	- RS, NSDP, MFPF and BSP circular
PI-15. Fiscal strategy	- MFPF and MTBF
PI-16. Medium-term perspective in expenditure budgeting	- MFPF and Circular on BSP 2020-2022 preparation
PI-17. Budget preparation process	- Law on Public Finance System (2008) - Law on Financial Regime and Property Management for SNAs (2011)
PI-18. Legislative Scrutiny of budgets	- Law on Election of Members of the National Assembly - Amended Law of Law on Elections of Members of the National Assembly
PILLAR V: Predictability and control in budget execution	
PI-19. Revenue administration	- Law on Taxation (1997) and its subsequent amendments; Sub-decree on VAT; Prakas no.559 MEF.PrK (clarifying the VAT treatment of nontaxable supplies); Prakas on Tax on Profit; 1997 Foreign Exchange Law; Prakas on Registration Tax Collection; Law on Social Security Schemes; Labor Law; Prakas no. 986 MEF.PrK on Guidelines on Transfer Pricing) - Tax treaties: RGC with China, Singapore, Thailand, Brunei, Indonesia and Vietnam - White book, Trade and investment policy recommendation 2016, 2017,2019 - Tax Administration Modernization Priorities 2019-2023 - GDT's report on progress of Tax System Development - Prakas no. 1447 MEF.PrK, dated 26 December 2007, on Provisions and Procedures on Customs Declaration. - Instruction no.1308 GDCE, dated 24 November 2009, on Detailed Procedures and Responsibilities in Functioning Customs Declaration (Single Administrative Documents-SAD) through electronic mean.
PI-20. Accounting for revenues	- Prakas no.545 MEF.PrK, dated 06 June 2019, on implementation of the Cambodia Public Accounting Standards based on Cash Basis - Draft Cambodia Public Accounting strategy 2020-2030
PI-21. Predictability of in-year resource allocation	- Prakas no. 880 MEF.PrK, dated 19 September 2013, on Implementation of Guideline of Cash Planning
PI-22. Expenditure arrears	- Annual Progress Report of the Implementation of PFMRP for 2019 and 2020
PI-23. Payroll controls	- Royal Kram no.06N.S.84, dated 30 October 1994, on Law on Joint Statute of Civil Servant
PI-24. Procurement	- Public Procurement System Reform Strategy 2019-2025 - Law on Public Procurement (2012) - Sub-decree no. 488 ANKr.BK, dated 16 October 2013, on Operation and Functions of the MEF - Sub-degree no.105 ANKr.BK, dated 18 October 2006, on procurement - Sub-degree no.13 ANKr.BK, dated 23 February 2015, on Organizing and Conducting Procurement Entities - Sub-decree no.21, dated 21 February 2018, on Complaint Procedures and Handling Procurement

PEFA INDICATORS	Information sources (Document and websites)
	- Prakas no.249 MEF.PrK, dated 3 March 2015, Procurement Team Formulation under Budget Entity - Prakas no.851 MEF.PrK, dated 28 August 2018, on Procurement Plan Preparation - Prakas no.1613 MEF.PrK, dated 24 December 2018, on Management of Public Procurement Contractual Implementation - Prakas no.10 MEF.PrK on Threshold for Public Procurement - Circulation no.002, dated 14 January 2014, on implementation of Public Procurement - Post review report 2018 on monitoring public procurement
PI-25. Internal controls on non-salary expenditure	- Sub-decree no. 81 ANKr, dated 16 November 1995, on the Establishment of Financial Inspection on the State Budget Expenditure at Ministries, Municipalities/Provinces, Autonomous Cities, Phnom Penh Municipality, and Public Administration Organizations - Sub-decree no.82 ANKr. BK, dated 16 November 1995, on General Regulations of Public Accounting
PI-26. Internal audit	- Law on Audit (2000) - Sub-decree no.40 ANKr.BK on Establishment of Internal Audit Units in LMs/Institutions - Sub-decree no.168 ANKr.BK, dated 01 October 2019, on Functions and Roles and Responsibilities of Internal Audit and Inspection - Prakas no. 1673 MEF.PrK, dated 30 December 2016, on Internal Audit Manual - Circular no.003, dated 16 January 2014, on Internal Report Standard - Prakas no.542 MEF.PrK, dated 30 June 2020, on Implementing Audit Guideline on Information and Communication Technology Audit - Prakas no. 543 MEF.PrK, dated 30 June 2020, on Implementing Audit Guideline on Performance
PILLAR VI: Accounting and reporting	
PI-27. Financial data integrity	- Sub-degree no.426 ANKr.BK, dated 19 June 2013, on Budget entities - Sub-degree no.155 ANKr.BK, dated 15 September 2009, on Procedure of Advance for Currents and Public Investment Costs - Prakas no.1890 MEF.PrK, dated 31 December 2015, on Revenue petty case for National and SNAs - Prakas no.1212 MEF.PrK, dated 23 November 2017, on New COA - Prakas no.1937 MEF.PrK, dated 31 December 2014, on Petty Cash Advance for National Administration - Circular no.07, dated 12 December 2018, on Procedures for Salary Payment Twice Per Month - Circular no.001, dated 03 January 2018, on Accounting Revenue for National and Subnational Administrations - Letter to Acleda open Riel Account for Budget Entity - Letter to Canadia open Riel Account for Budget Entity - MOU between MEF with Wing on Accounting operation
PI-28. In-year budget reports	- TOFE/GFS report (https://mef.gov.kh/tofe.html)
PI-29. Annual financial reports	- Law on Budget Settlement 2017, 2018 and 2019 - IPSAS-2016- Combined financial statement - IPSAS-2017- Combined financial statement - IPSAS-2018- Combined financial statement
PILLAR VII: External scrutiny and audit	

PEFA INDICATORS	Information sources (Document and websites)
PI-30. External audit	- Law on Audit (2000) - Audit Reports on PFM 2016, 2017 and 2018 - NAA's 2019 performance report and 2020 next step - Decree No. NS/RKT 0805/839, dated 24 August 2009, on the Statute of the Auditor General of the NAA
PI-31. Legislative scrutiny of audit reports	- Law on Audit (2000)

Annex 3C: Source of information from analytical studies and reports

General document

1. 2016, 2017, 2018 and 2019 Annual PFM Reform Progress Report
2. Medium-term RMS 2014-2018
3. RMS 2019-2023
4. Consolidated Action Plan Phase 3 Plus 2 and Draft CAP3 Review Report
5. Budget system reform strategy (BSRS) 2018-2025
6. Budget system reform strategy for subnational administration 2019-2025
7. Public procurement system reform strategy 2019-2025
8. Public investment management reform strategy 2019-2025
9. Public debt management strategy 2019-2023
10. Draft strategy for implementing accrual basis Cambodian public sector accounting standard 2019-2031
11. Cambodia public debt statistical bulletin
12. Strategic plan of FMIS for streamlining business process 2020-2025
13. Draft strategic plan for capacity development in the framework of PFMRP
14. Public expenditure review by the WB (2019)
15. Public investment management assessment report (PIMA) 2019
16. Debt management performance assessment (DeMPA) 2018
17. Cambodia's crossing-cutting reform by WB
18. IMF's monitoring report on FMIS
19. IMF Article on Cambodia 2019
20. BSP and PB Review Report for eight LMs supported by EU

Websites

1. www.mef.gov.kh
2. www.pfm.gov.kh
3. www.fmis.gov.kh
4. www.treasury.gov.kh
5. www.gdb.mef.gov.kh
6. www.gdicdm.mef.gov.kh
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23. www.pefa.org

Annex 4: Tracking change in performance based on previous versions of PEFA

Change in performance since previous assessment (Based on the 2011 PEFA Methodology)

No.	Indicators	Score 2015	Score 2021	Brief justification for score	Comparability of scores and explanation of change since previous assessment
A.	**PFM OUTTURNS: Credibility of the budget**				
PI-1	**Aggregate expenditure outturn compared to original approved budget**	**A**	**A**	**The aggregate expenditure outturn was 97.8%, 100.4% and 100.0% in 2017, 2018 and 2019 respectively i.e. the actual expenditure did not deviate from budgeted expenditure by less than 5% in the last three years.**	**No change. Strong performance in budget execution is strengthened by Program Budgeting implemented since 2015. The MEF focuses on program structure and priorities to deliver outputs.**
PI-2	**Composition of expenditure outturn compared to original approved budget**	**D+**	**B+**	**Scoring Method M1**	**Improvement in both Dim (i) and (ii)**
(i)	Variance in expenditure composition, excluding contingency items	D	B	At 3.8%, 8.8.0% and 5.7% respectively in 2017, 2018 and 2019, the variance in expenditure composition does not exceed 10% in no more than one of last three years.	The budget outturns in the period reflect better budget planning. It should be noted that the 2020 PEFA PI-2 under section 3, based on 2016 PEFA framework methodology, includes the ODA (loans and grants from DPs that are included in each LM budget). Despite this, score has improved significantly.
(ii)	The average amount of expenditure actually charged to the contingency vote	B	A	Actual average expenditure charged to the contingency vote averaged 0.51% for 2017, 2018 and 2019, less than 3% of the original budget.	Actual average expenditure charged to the contingency vote is lower than 2015.
PI-3	**Aggregate revenue out-turn compared to original approved budget**	**A**	**D**	**Actual domestic revenue was respectively 109.3%, 118.2% and 131.0% in 2017, 2018, and 2019.**	**The deviation is higher in 2020 as the revenue forecasts approved in the budget are lower than the actual revenue collection in three years. It results from the combination of a very cautious spending approach by the RGC in projected revenue for budget availability and the good performance of GDCE and GDT through the strengthening and modernising of tax and custom administration and progress in implementation of the Medium-term RMS 2014-2018 and RMS 2019-2019.**

No.	Indicators	Score 2015	Score 2021	Brief justification for score	Comparability of scores and explanation of change since previous assessment
PI-4	**Stock and monitoring of expenditure payment arrears**	**D+**	**D+**	**Scoring Method M1**	**Improvement Dim (i): Stock of arrears has been reduced because of strengthening payroll control and payment salary on time.**
(i)	Stock of expenditure payment arrears (as a percentage of actual total expenditure for the corresponding fiscal year) and a recent change in the stock	D	D	Estimated amounts outstanding for more than 60 days on payment orders for arrears on debt interest and penalties suggest that overall the stock of arrears is greater than 10% of total expenditure (14.75% in 2017, 12.38% in 2018, and 10.30% in 2019).	No change in score. However, it should be noted that the stock of expenditure arrears has decreased and there are no more arrears on salaries in 2019.
(ii)	Availability of data for monitoring the stock payment arrears	C	C	Data on unpaid obligations is maintained on the FMIS and can be extracted to Excel to generate reports. However, FMIS data is based on GDNT process and is incomplete as it does not capture data retained by LMs/ institutions and actual date of supplier's invoices giving rise to obligations.	No change in score. However, it should be noted that the GDNT monitors expenditure arrears on a monthly basis and reports on an annual basis.
B.	**KEY CROSS-CUTTING ISSUES: Comprehensiveness and transparency**				
PI-5	**Classification of the budget**	**C**	**C**	**The classifications used for budgeting and accounting purposes were administrative, programmatic and economic classifications in FY2019. However, the functional classification based on sectors is not consistent with COFOG standards.**	**No change in score. However, there is an improvement due to the introduction of programmatic classification used for BSP and PB implementation. The seven segments used for budget classifications are integrated in the FMIS (see PI-4.1)**

No.	Indicators	Score 2015	Score 2021	Brief justification for score	Comparability of scores and explanation of change since previous assessment
PI-6	**Comprehensiveness of information included in budget documentation**	**C**	**B**	**Five of the nine key elements of budget documentation (#1, 2, 3, 4, 7 and 8) were included in the 2020 budget submission: 1. Macro-economic assumptions; 2. Fiscal deficit; 3. Deficit financing; 7. Current year's budget (either the revised budget or the estimated outturn) presented in the same format as the budget proposal; and 8. Summarized budget data for both revenue and expenditure according to the main heads of the budget classifications.**	**Significant improvement in availability of budget information by adding #2, 4, and 7 elements to budget documentation in 2019 for FY2020 budget.**
PI-7	**Extent of unreported government operations**	**C**	**B**	**Scoring Method M1**	**The MEF updated rules and regulations for managing PAEs' financial reporting on income and expenditure.**
(i)	Level of unreported extra-budgetary expenditure	C	B	PAEs' and MoEYS' expenditure outside financial reports is estimated at less than 3.81 percent, i.e. less than 5 percent of central government expenditure for 2019.	Improvement due to integration of extra-budgetary revenue into the TSA and relative decrease of PAEs' and other extra-budgetary unreported budget expenditures, relatively to CG budget in 2019. Donor-funded projects' expenditure contribute for 16.9% of total budget in 2019.
(ii)	Income/expenditure information on donor-funded projects	C	B	All income and expenditure are integrated in the RGC reporting, including funds from externally-funded projects and activities which are estimated in the RGC's budget from the PIP and reported in the RGC's financial reports. Information on income/expenditure of loan financed projects is complete. Based on discussion with LMs/institutions and MEF GDB, it is estimated that at least 50 percent in value of actual project expenditure are covered in budget execution reports and included in end-year financial reports.	Improvement due to a better integration of donor-funded projects in the budget execution and year-end reporting and relative decrease of donor-funded projects expenditure in 2019 compared to a general increase in governement spending.
PI-8	**Transparency of inter-governmental fiscal relations**	**B**	**B**	**Scoring Method M2**	**Additional fiscal transfers have been granted to SNAs (tax revenue sharing from capital/province to SNAs, SNIF, and additional transfer) in a transparent and rule-based manner. All LMs/institutions at CG level**

No.	Indicators	Score 2015	Score 2021	Brief justification for score	Comparability of scores and explanation of change since previous assessment
					have been implementing the PB and C/S administrations are only gradually implementing the PB.
(i)	Transparency and objectivity in the horizontal allocation among SN government	A	A	C/S administrations are entirely dependent on subsidies from the Commune Fund. Both the vertical allocation to the Fund and the horizontal distribution across communes are based on transparent and formula-based systems	No change.
(ii)	Timeliness of reliable information to SN government on their allocations	A	A	C/S administrations are provided firm information on their subsidies for the coming year several months before they complete their budgets, and disbursements follow a fixed schedule with minor delays only for communes that fail to submit quarterly accounts on time.	No change
(iii)	Extent of consolidation of fiscal data for government according to sectoral categories	D	D	Functional or sectoral classification of expenditure is included in the CoA for central government but not for SNAs. It is under preparation.	No change. The functional classification of expenditure is linked with program classification. All LMs/institutions at CG level have been implementing the PB and C/S administrations are only gradually implementing the PB.
PI-9	**Oversight of aggregate fiscal risk from other public sector entities.**	**C+**	**C+**	**Scoring Method M1**	**No change**
(i)	Extent of central government monitoring of AGAs/PEs	C	C	In 2019, MEF GDSPNR received annual reports on all PEs and GDB FAD received most PAEs' reports. A consolidated overview (excluding NBC) is produced but it is incomplete and does not identify and analyze fiscal risks to the central government.	No change. The monitoring of PEs and PAEs by CG has been separated between GDSPNR and GDB FAD respectively. Under new rules and regulations, PAEs are required to report all revenue and expenditure to their respective LMs/institutions and MEF but the information is still incomplete.
(ii)	Extent of central government monitoring of SN governments' fiscal position	A	A	The financial position of all SNAs is monitored quarterly and consolidated into reports for each SNA separately. Whilst these reports do not identify or analyze fiscal risk issues, in practice the SNAs cannot borrow or incur expenditure without CG's approval and create fiscal risks for central government.	No change.

No.	Indicators	Score 2015	Score 2021	Brief justification for score	Comparability of scores and explanation of change since previous assessment
PI-10	**Public access to key fiscal information**	**D**	**B**	**Three of the six criteria (#2, 3 and 5) have been met: 2. In-year budget execution reports published within one month of their completion; 3.Year end financial statements available to the public within six months of the completed audit; 5. Publication of contract awards above 100.000 USD on a quarterly basis.**	**Improvement of transparency as more elements of fiscal information is available to public access in a timely manner.**
C.	**BUDGET CYCLE**				
C(i)	**Policy-based Budgeting**				
PI-11	**Orderliness and participation in the annual budget process**	**A**	**B+**	**Scoring Method M2**	**Slight deterioration due to dim (ii).**
(i)	Existence of and adherence to a fixed budget calendar	A	A	LMs/institutions have about 4 and 3 weeks in order to prepare their budgets for the two stages covering the BSP (including medium term estimates) and annual budget respectively i.e. about seven weeks in total. Both stages include indicative (soft) ceilings approved by the CoM.	No change.

No.	Indicators	Score 2015	Score 2021	Brief justification for score	Comparability of scores and explanation of change since previous assessment
(ii)	Guidance on the Preparation of budget submissions.	A	C	The BSP circular is approved by the Government through its previous approval of the macro-economic framework (MFPF) and related policy revisions/reprioritizations. The detailed budget circular is approved by the Government prior to its distribution to LMs/institutions and C/P administrations. Top-down ceilings are imposed for overall expenditure (separately for current and capital) and for the four sectors as percentage of GDP and are indicative. Detailed estimates prepared by LMs/institutions and C/P administrations are guided by the amounts of allowed increase from the previous year, as stipulated in the guidelines for different economic categories. Budget estimates are reviewed and approved after the detailed estimates have been produced.	Deterioration. Budget ceilings provided to LMs/ institutions and C/S administrations are indicative and are revised and endorsed after submission of detailed budget estimates. Circulars on BSP and Annual Budget preparation has been revised to provide guidance with ceiling in the four sectors and for current expenditure at LM/PAE level.
(iii)	Timely budget approval by the legislature	A	A	The budget law has been approved by the legislature received the King's endorsement before the 31 December in all of the last three years.	No change
PI-12	**Multi-year perspective in fiscal planning, expenditure policy and budgeting**	**C+**	**C+**	**Scoring Method M2**	**No improvement in score. However, it should be noted that the MEF is piloting an MTBF, and the quality of BSP and PB has increased and they are used more and more for policy-based budgeting.**
(i)	Multi-year fiscal forecast and functional allocations	C	C	Three-year forecasts of fiscal aggregates are prepared annually by main economic categories, administration heads (LM level) and sectors. However, there is no breakdown of the budget aggregates by function and changes from one year to the next are not explained in any detail.	No change
(ii)	Scope and frequency of debt sustainability Analysis	A	A	A DSA covering both external and domestic debt is undertaken by the MEF annually. In addition, the DeMPA was conducted in 2018.	No change

No.	Indicators	Score 2015	Score 2021	Brief justification for score	Comparability of scores and explanation of change since previous assessment
(iii)	Existence of costed sector strategies	C	C	The education sector and (to a large extent) the health sector produce fully costed strategic plans aligned with fiscal aggregates. The two sectors account for about 21.36% of total CG primary expenditure. Other sectors have strategic plans but not necessarily comprehensive and not based on a consistent costing.	No change
(iv)	Linkages between investment budgets	C	C	Investment decisions are mainly made on the basis of availability of external funding, rather than on the basis of sector strategies. Recurrent cost implications of investment projects are not included in the budget package. Only in the roads and irrigation sectors are there specific attempts to set aside recurrent budget for O&M related to the investments.	No change in score. It should be noted that the RGC approved the PIMSRS 2019-2025 and Sub-decree no.41 ANKr.BK, dated 25 March 2020, on Public Investment Management to improve the costing and selection of public investments.
C(ii)	**Predictability and control in Budget Execution**				
PI-13	**Transparency of taxpayer obligations and liabilities**	**C+**	**B**	**Scoring Method M2**	**Improvement Dim (iii) since tax administration has established a tax appeal procedure through the Committee of Tax Arbitration**
(i)	Clarity and comprehensiveness of tax liabilities	C	C	There is still scope for more clarity in the legal and regulatory framework of some taxes (regarding the profit tax in particular) and further limitation of GDT discretionary powers, to ensure the regulatory framework is transparent and fair.	No change. It should be noted that GDT and GDCE have focused on strenthening capacity of tax and customs officials over the period to better understand and implement the laws and regulations.
(ii)	Taxpayer access to information on tax liabilities and administrative procedures	B	B	Access to information is readily available on GDT and GDCE's websites. Multiple channels are used such as forums, call centers, live chats and videos live on FB for specific type of taxes and accessible to taxpayers to promote awareness and understanding of all taxpayers on their obligations and how to pay their taxes.	No change in score but the performance of GDT and GDCE has been improved through the RMS 2014-2018 implementation. -GDCE created a Public Relations Unit which is tasked to address specific issues. -GDT created multiple information channels, such as counters, live chats, and published information through social media.

No.	Indicators	Score 2015	Score 2021	Brief justification for score	Comparability of scores and explanation of change since previous assessment
(iii)	Existence and functioning of a tax appeals mechanism	C	B	A system of tax appeals procedures has been established. The RGC created a Committee of Tax Arbitration.	Improvement due to the new role of the Committee to settle registered tax complaints.
PI-14	**Effectiveness of measures for taxpayer registration and tax assessment**	**D+**	**C+**	**Scoring Method M2**	**Improved Dim (i & iii)**
(i)	Controls in taxpayer registration system	D	C	GDT has updated its business registration system and improved the business registration procedure. Some information between tax system and other related LMs systems is directly interfaced. Street surveys are carried out for business registration and there is a dedicated online system for business registrations. However, it still takes a few days to register due to GDT verification procedures.	Improvement due to a better Tax registration systems and processes.
(ii)	Effectiveness of penalties for non-compliance with registration and declaration obligations	C	C	The provisions are not fully effective in promoting compliance for the following reasons: (1) the penalty for non-registration is too low; and (2) there are challenges to do with follow up and enforcement	No change
(iii)	Planning and monitoring of tax audit and fraud investigation programs	C	B	Auditing and investigation practices have improved and risk assessment criteria have been developed and standardized in major tax areas (including profit tax applying self-assessment). Audit and investigation activities are managed and reported against a documented audit plan.	Improvement due to: GDT and GDCE follow the risk assessment criteria and developed a documented audit plan and investigation to report upon.
PI-15	**Effectiveness in collection of tax payments**	**D+**	**NR**	**Scoring Method M1**	Not comparable
(i)	Collection ratio for gross tax arrears, being percentage of tax arrears at the beginning of a fiscal year, which was collected during that fiscal year	D	NR	-	Not comparable
(ii)	Effectiveness of transfer of tax collections to the Treasury by the revenue administration	B	A	All tax revenue is transferred to accounts controlled by GDT on a daily basis including tax revenue at commercial banks transferred to TSA every day after 3pm.	Improvement linked to the fact that almost 100% of taxpayers pay their taxes through the banking system and all accounts are swept into TSA on a daily basis.

No.	Indicators	Score 2015	Score 2021	Brief justification for score	Comparability of scores and explanation of change since previous assessment
(iii)	Frequency of complete accounts reconciliation between tax assessments, collections, arrears records and receipts by the Treasury	C	C	Treasury reconciliation of all TSA accounts takes place daily. Complete reconciliation of tax assessments, collections, registered arrears and transfers to GDT TSA takes place at least annually within 2 months of the end of the year.	No change.
PI-16	**Predictability in the availability of funds for commitment of expenditures**	**C+**	**C+**	**Scoring Method M1**	
(i)	Extent to which cash flows are forecast and monitored	B	B	Cash forecasts from LMs an PAES are updated quarterly on the basis of actual cash inflows and outflows.	No change
(ii)	Reliability and horizon of periodic in-year information to MDAs on ceilings for expenditure commitment.	B	B	LMs are able to prepare their revenue and expenditure programs on a quarterly basis.	No change
(iii)	Frequency and transparency of adjustment to budget allocations, which are decided above the management of Line Ministries	C	C	In-year adjustments are significant in amount and frequent but undertaken with some transparency	No change
PI-17	**Recording and management of cash balances, debt and guarantees**	**C+**	**C+**	**Scoring Method M2**	**No change. However, it should be noted that the DMFAS interfaces with FMIS**
(i)	Quality of debt data recording and reporting	C	C	Domestic and foreign debt records are complete, updated and reconciled with creditor statements annually and data is considered fair.	No change
(ii)	Extent of consolidation of the Government's cash balances	B	B	Most cash balances are calculated and consolidated daily; however, cash balances of PAEs' budget are not consolidated and included in the cash position yet.	FMIS allows daily cash balance consolidation and reconciliation.
(iii)	Systems for contracting loans and issuance of guarantees	C	C	Contracting of loans and guarantees are all approved by MEF and within limits approved for total debt, but guarantees are managed separately.	No change
PI-18	**Effectiveness of payroll controls**	**D+**	**D+**	**Scoring Method M1**	**Improved Dim (ii)**
(i)	Degree of integration and reconciliation between personnel records and payroll data	B	B	Database for personnel records and payroll data are not directly linked but payroll changes are fully documented and reconciled with the previous month's payroll totals.	No change

No.	Indicators	Score 2015	Score 2021	Brief justification for score	Comparability of scores and explanation of change since previous assessment
(ii)	Timeliness of changes to personnel records and the payroll	C	B	Up to 3-month delay can occur to update personnel records and payroll data but affects only a minority of changes and retroactive payments are occasional.	No change. The payroll changes and retroactive adjustments amount to between 5% and 15% of payroll.
(iii)	Internal controls of changes to personnel records and the payroll	B	B	Authority for changes to personnel records and payroll are clear, though there is no audit trail.	No change
(iv)	Existence of payroll audits to identify control weaknesses and /or ghost workers	D	D	There has been no comprehensive payroll audit in the last three years.	No change. However, MCS Inspection found the irregular payment of salary and transfer budget to treasury.
PI-19	**Competition, value for money and controls in procurement**	**D+**	**D+**	**Scoring Method M2**	**No change overall. Improved Dim (iii)**
(i)	Transparency, comprehensiveness and competition in the legal and regulatory framework	B	B	The Law on Procurement (2012) meets four of the six requirements.	No change. The other two unfulfilled criterias have nevertheless improved as follows: (v) there are four information available such as procurement plans bidding opportunities, contract awards; and data on resolution of procurement complaints. (vi) there is a procurement committee that reviews process for handling procurement complaints. However, only from government side.
(ii)	Use of competitive procurement methods	D	D	The value of total contracts issued by using competitive methods is estimated to be 44.80% in 2019 which is less than 60% of total value of contracts.	No change
(iii)	Public access to complete, reliable and timely procurement information	D	C	Four elements of information are available to the public: procurement plans bidding opportunities, and contract awards and data on resolution of procurement complaints; however, not in a timely manner.	Improvement. More information on procurement is made available to the public.
(iv)	Existence of an independent administrative procurement complaints system	D	D	The procurement complaints system meets six criteria but not the 1) one. The Committee of Public Procurement Arbitration was established to handle procurement complaints but members are only from government side.	No change. However, the RGC established the Committee of Public Procurement Arbitration, independent body with clear procedure and mechanism to address complaints. However, there are no members from the civil society or procurement in its composition.

No.	Indicators	Score 2015	Score 2021	Brief justification for score	Comparability of scores and explanation of change since previous assessment
PI-20	**Effectiveness of internal controls for non-salary expenditure**	**C**	**C**	**Scoring Method M1**	**No change**
(i)	Effectiveness of expenditure commitment controls	C	C	The guidelines provide only procedures for current expenditure commitments. Moreover, urgent or exceptional expenditure commitment proposals do not follow these procedures.	No change
(ii)	Comprehensiveness, relevance and understanding of other internal control rules/ procedures	C	C	There is a basic set of controls in place but areas such as capital expenditure and asset management have no clear control guidelines.	No change
(iii)	Degree of compliance with rules for processing and recording transactions	C	C	Rules are complied with in a significant majority of cases even if NAA reports show that non-compliance is an important concern.	No change
PI-21	**Effectiveness of internal audit**	**C**	**C**	**Scoring Method M1**	**No change**
(i)	Coverage and quality of the internal audit function	C	C	The IA function covers all government agencies and undertakes some systems review (over 20% of staff time).	No change
(ii)	Frequency and distribution of reports	C	C	Internal audit of LMs prepare annual audit plan and most programmed audits are completed and distributed to the senior management of the audited entity and of the IA department. However, only some reports are sent to MEF and NAA.	No change. MEF GDIA and NAA tend not to send feedback or respond on IA reports received by ia departments.
(iii)	Extent of management response to internal audit findings	C	C	Managements issued letter to auditees as requested by internal audit unit. The estimated percentage of achievement of audit recommendations is within 50% on major issues.	No change
C(iii)	**Accounting, Recording and Reporting**				
PI-22	**Timeliness and regularity of accounts reconciliation**	**C**	**C**	**Scoring Method M2**	**No change**
(i)	Regularity of Bank reconciliations	B	B	Reconciliations of all Treasury-managed bank accounts representing less than 90% of the accounts is completed daily, however, other	No change

No.	Indicators	Score 2015	Score 2021	Brief justification for score	Comparability of scores and explanation of change since previous assessment
				accounts are reconciled only monthly within four weeks.	
(ii)	Regularity of reconciliation and clearance of suspense accounts and advances	D	D	A significant number of accounts have uncleared balances brought forward. Most advance accounts are cleared within the 60 days of payment timeframe or within the year, but some can be delayed and cleared only into the following year. Reconciliation and clearance of most advance accounts takes longer than two months.	No change
PI-23	**Availability of information on resources received by service delivery units**	**D**	**B**	**The MoEYS has its planning and financial reporting system that improve financial management for schools as well as disaggregated by source of funds. The MoH monitoring systems can provide the information on resources received by health centers and hospitals but not specifically disaggregating by source of fund.**	**Improvement linked to the availability of data on schools, health centers and hospitals' resources.**
PI-24	**Quality and timeliness of in-year budget reports**	**C+**	**C+**	**Scoring Method M1**	**Improved performance on Dim(ii).**
(i)	Scope of reports in terms of coverage and compatibility with budget estimates	C	C	Budget classification used in in-year reports allows comparison with the budget but only at the payment stage.	No change
(ii)	Timeliness of the issue of reports	A	A	Reports are prepared monthly and issued within four weeks and published on the MEF website.	No change
(iii)	Quality of information	C	C	Much externally-funded project expenditure is omitted and there are minor concerns about accuracy, but they do not compromise the overall usefulness of the reports.	No change
PI-25	**Quality and timeliness of annual financial statements**	**D+**	**C+**	**Scoring Method M1**	**Improved Dim (i) and (iii)**
(i)	Completeness of the financial statements	D	C	Financial statements are prepared annually with few exemptions not included, such as	Improvement in the comprehensiveness of financial statements and the disclosure of 2016-2018.

No.	Indicators	Score 2015	Score 2021	Brief justification for score	Comparability of scores and explanation of change since previous assessment
				PAEs revenue and expenditure and financial assets and liabilities.	
(ii)	Timeliness of submission of the financial statements	B	B	Financial statements for 2018 were submitted to NAA within ten months of the end of year.	No change. Timeframe for preparation of financial statements has not been reduced despite the introduction of FMIS.
(iii)	Accounting standards used	C	B	The standards used to prepare CPSAS financial reports by GDNT are in line with cash basis IPSAS and the 2016-2018 financial statements are disclosed and consistent with majority of accounting standards	Score improved. Accounting standard by the NAC has been further developed, with an increased IPSAS compliance rate and standards used are disclosed.
C(iv)	**External Scrutiny and Audit**				
PI-26	**Scope, nature and follow-up of external audit**	**NR**	**NR**	**Scoring Method M1**	**Not comparable as scores could not be endorsed by NAA in the last assessment.**
(i)	Scope/nature of audit performed (incl. adherence to auditing standards)	NR	NR	-	-
(ii)	Timeliness of submission of audit reports to the legislature	A	NR	-	-
(iii)	Evidence of follow-up on audit recommendations	C	NR	-	-
PI-27	**Legislative scrutiny of the annual budget law**	**C+**	**NA**	**Scoring Method M1**	**Not comparable**
(i)	Scope of the legislature's scrutiny	C	NA	-	**Not comparable**
(ii)	Extent to which the legislature's procedures are well established and respected	B	NA	-	**Not comparable**
(iii)	Adequacy of time for the legislature to provide a response to budget proposals	C	NA	-	**Not comparable**
(iv)	Rules for in-year amendments to the budget without ex-ante approval by the legislature	B	NA	-	**Not comparable**
PI-28	**Legislative scrutiny of external audit reports**	**B**	**NA**	**Scoring Method M1**	**Not comparable as score PI-26 is not used.**
(i)	Timeliness of examination of audit reports by legislature (for reports received within the last three years)	B	NA	-	**Not comparable**

No.	Indicators	Score 2015	Score 2021	Brief justification for score	Comparability of scores and explanation of change since previous assessment
(ii)	Extent of hearings on key findings undertaken by legislature	B	NA	-	**Not comparable**
(iii)	Issuance of recommended actions by the legislature and implementation by the executive	B	NA	-	**Not comparable**
D.	**DONOR PRACTICES**				
D-1	**Predictability of Direct Budget Support**	**D**	**NU**	**Scoring Method M1**	
(i)	Annual deviation of actual BS from the forecasts provided by the donor agencies at least 6 weeks prior to the government submitting its budget proposals to the legislature	D	NU	**This PI is not assessed in 2021 as the assessment is focusing on the RGC systems and ODA as part of the RGC PFM systems.**	
(ii)	In-year timeliness of donor disbursements (compliance with aggregate quarterly estimates)	D	NU		
D-2	**Financial information provided by donors for budgeting and reporting on project and program aid**	**D+**	**NU**	**Scoring Method M1**	
(i)	Completeness and timeliness of budget estimates by donors for project support	C	NU	**This PI is not assessed in 2021 as the assessment is focusing on RGC systems and ODA as part of the RGC PFM systems.**	
(ii)	Frequency and coverage of reporting by donors on actual donor flows for project support	D	NU		
D-3	**Overall proportion of aid funds to central government that are managed through national procedures**	**D**	**NU**		

Annex 5: Calculation sheets for PI-1, PI-2, and PI-3

Table 1- PI-1: Aggregate Expenditure Variance Calculation for 2017 (KHR million)

Data for year =	2017					
administrative or functional head	budget	actual	adjusted budget	deviation	absolute deviation	percent
1 Ministry of Education, Youth and Sport	2,829,786	2,553,825	2,770,205	-216,380	216,380	7.8%
2 Ministry of Defense	1,866,317	1,903,829	1,827,022	76,807	76,807	4.2%
3 Ministry of Health	1,699,563	1,639,466	1,663,778	-24,312	24,312	1.5%
4 Ministry of Interior (Public Security Section)	1,281,170	1,273,089	1,254,195	18,894	18,894	1.5%
5 Ministry of Social Affairs, Veterans and Youth Rehabilitation	751,766	795,478	735,938	59,541	59,541	8.1%
6 Ministry of Economy and Finance	972,736	938,368	952,255	-13,887	13,887	1.5%
7 Office of the Council of Ministers	822,940	686,105	805,613	-119,508	119,508	14.8%
8 Ministry of Public Work and Transport	2,511,240	2,055,240	2,458,365	-403,125	403,125	16.4%
9 Ministry of Labor and Vocational Training	258,828	308,537	253,379	55,159	55,159	21.8%
10 Ministry of Agriculture, Forestry and Fisheries	439,428	370,303	430,176	-59,872	59,872	13.9%
11 Ministry of Culture and Fine Arts	146,630	141,142	143,543	-2,401	2,401	1.7%
12 National Election Committee	180,945	155,964	177,135	-21,172	21,172	12.0%
13 General Secretariat of National Assembly	156,043	156,156	152,758	3,398	3,398	2.2%
14 Ministry of Rural Development	625,398	541,652	612,230	-70,578	70,578	11.5%
15 Ministry of Interior (General Administration)	210,631	206,079	206,196	-117	117	0.1%
16 Ministry of Land Management, Urban Planning and Construction	148,575	161,334	145,447	15,888	15,888	10.9%
17 Ministry of Justice	124,006	112,698	121,395	-8,696	8,696	7.2%
Reserve Earmark	2,353,432	2,142,114	2,303,880	-161,766	161,766	7.0%
Capital Administrations	631,682	653,972	618,382	35,590	35,590	5.8%
Provincial Administrations	453,557	523,038	444,007	79,030	79,030	17.8%
Other 21 Line Ministries/Institutions	2,797,805	3,496,405	2,738,897	757,508	757,508	27.7%
Allocated expenditure	21,262,478	20,814,795	20,814,795	0	2,203,630	
Interests	342,294	341,900				
Reserve Un-Earmark	36,322	36,322				
Total expenditure	21,641,093	21,193,016				
aggregate outturn (PI-1)						**97.9%**
composition (PI-2) variance						**10.6%**
contingency share of budget						**0.2%**

Table 2- PI-1: Aggregate Expenditure Variance Calculation for 2018 (KHR million)

Data for year =	2018					
administrative or functional head	**budget**	**actual**	**adjusted budget**	**deviation**	**absolute deviation**	**percent**
1 Ministry of Education, Youth and Sport	3,499,251	3,412,034	3,479,310	-67,276	67,276	1.9%
2 Ministry of Defense	2,202,693	2,225,904	2,190,140	35,764	35,764	1.6%
3 Ministry of Health	1,992,851	1,632,518	1,981,494	-348,977	348,977	17.6%
4 Ministry of Interior (Public Security Section)	1,417,602	1,470,245	1,409,524	60,722	60,722	4.3%
5 Ministry of Social Affairs, Veterans and Youth Rehabilitation	889,041	900,055	883,974	16,081	16,081	1.8%
6 Ministry of Economy and Finance	844,269	804,841	839,458	-34,617	34,617	4.1%
7 Office of the Council of Ministers	754,777	551,317	750,476	-199,159	199,159	26.5%
8 Ministry of Public Work and Transport	2,684,967	2,151,929	2,669,667	-517,738	517,738	19.4%
9 Ministry of Labor and Vocational Training	310,829	331,308	309,058	22,250	22,250	7.2%
10 Ministry of Agriculture, Forestry and Fisheries	432,726	419,158	430,260	-11,102	11,102	2.6%
11 Ministry of Culture and Fine Arts	233,042	225,024	231,714	-6,690	6,690	2.9%
12 National Election Committee	212,803	181,899	211,590	-29,691	29,691	14.0%
13 General Secretariat of National Assembly	180,888	181,005	179,857	1,148	1,148	0.6%
14 Ministry of Rural Development	757,686	588,907	753,369	-164,461	164,461	21.8%
15 Ministry of Interior (General Administration)	252,625	242,483	251,185	-8,702	8,702	3.5%
16 Ministry of Land Management, Urban Planning and Construction	177,803	216,948	176,790	40,158	40,158	22.7%
17 Ministry of Justice	138,321	128,741	137,533	-8,792	8,792	6.4%
Reserve Earmark	2,873,409	2,703,750	2,857,034	-153,284	153,284	5.4%
Capital Administrations	562,293	808,096	559,089	249,007	249,007	44.5%
Provincial Administrations	561,088	1,082,411	557,891	524,520	524,520	94.0%
Other 21 Line Ministries/Institutions	3,069,018	3,652,368	3,051,529	600,839	600,839	19.7%
allocated expenditure	24,047,982	23,910,940	23,910,940	0	3,100,978	
interests	387,481	387,370				
Reserve Un-Earmark	144,066	143,519				
total expenditure	24,579,529	24,441,829				
aggregate outturn (PI-1)						**99.4%**
composition (PI-2.1) variance						**13.0%**
contingency share of budget						**0.6%**

Table 3- PI-1: Aggregate Expenditure Variance Calculation for 2019 (KHR million)

Data for year =	2019					
administrative or functional head	budget	actual	adjusted budget	deviation	absolute deviation	percent
1 Ministry of Education, Youth and Sport	3,696,617	3,661,011	3,675,551	-14,540	14,540	0.4%
2 Ministry of Defense	2,418,529	2,447,847	2,404,746	43,101	43,101	1.8%
3 Ministry of Health	1,821,630	1,918,156	1,811,249	106,907	106,907	5.9%
4 Ministry of Interior (Public Security Section)	1,526,668	1,578,429	1,517,968	60,461	60,461	4.0%
5 Ministry of Social Affairs, Veterans and Youth Rehabilitation	1,053,416	1,021,450	1,047,412	-25,962	25,962	2.5%
6 Ministry of Economy and Finance	1,474,327	1,429,513	1,465,925	-36,412	36,412	2.5%
7 Office of the Council of Ministers	851,317	667,089	846,466	-179,377	179,377	21.2%
8 Ministry of Public Work and Transport	3,091,323	2,500,631	3,073,706	-573,075	573,075	18.6%
9 Ministry of Labor and Vocational Training	259,127	296,136	257,650	38,486	38,486	14.9%
10 Ministry of Agriculture, Forestry and Fisheries	469,428	425,621	466,753	-41,131	41,131	8.8%
11 Ministry of Culture and Fine Arts	231,009	221,850	229,692	-7,843	7,843	3.4%
12 National Election Committee	79,059	61,397	78,608	-17,212	17,212	21.9%
13 General Secretariat of National Assembly	190,369	189,853	189,284	569	569	0.3%
14 Ministry of Rural Development	890,096	612,020	885,023	-273,003	273,003	30.8%
15 Ministry of Interior (General Administration)	340,531	341,100	338,591	2,509	2,509	0.7%
16 Ministry of Land Management, Urban Planning and Construction	213,291	255,761	212,076	43,685	43,685	20.6%
17 Ministry of Justice	153,178	149,620	152,305	-2,685	2,685	1.8%
Reserve Earmark	5,165,339	5,044,689	5,135,903	-91,215	91,215	1.8%
Capital Administrations	827,696	994,474	822,979	171,495	171,495	20.8%
Provincial Administrations	992,477	1,359,579	986,821	372,757	372,757	37.8%
Other 21 Line Ministries/Institutions	3,461,531	3,925,753	3,441,805	483,948	483,948	14.1%
allocated expenditure	29,206,956	29,101,979	29,040,515	61,464	2,586,373	
interests	525,089	443,291				
Reserve Un-Earmark	171,862	149,106				
total expenditure	29,903,907	29,694,376				
aggregate outturn (PI-1)						**99.3%**
composition (PI-2.1) variance						**8.9%**
contingency share of budget						**0.5%**

Table 4 - Results Matrix

year	for PI-1.1	for PI-2.1	for PI-2.3
	total exp. Outturn	composition variance	contingency share
2017	97.9%	10.6%	0.42%
2018	99.4%	13.0%	
2019	99.3%	8.9%	

Table 5- PI-2: Composition Variance Calculation for 2017 (KHR million)

Data for year =	2017					
Economic head	budget	actual	adjusted budget	deviation	absolute deviation	percent
Compensation of employees	6,041,356	5,953,521	6,305,059.9	-351,538.6	351,538.6	5.6%
Use of goods and services	2,847,163	2,807,262	2,971,441.3	-164,179.7	164,179.7	5.5%
Consumption of fixed capital	-	-	0.0	0.0	0.0	#DIV/0!
Interest	342,294	288,323	357,235.1	-68,912.0	68,912.0	19.3%
Subsidies	10,920	225,055	11,396.7	213,658.5	213,658.5	1874.7%
Grants	1,116,697	1,220,952	1,165,441.1	55,510.6	55,510.6	4.8%
Social benefits	1,297,287	1,359,717	1,353,913.1	5,803.7	5,803.7	0.4%
Other expenses	607,128	943,287	633,629.1	309,657.5	309,657.5	48.9%
Total expenditure	12262844.6	12798116.27	12,798,116.3	0.0	1,169,260.5	
composition variance						9.1%

Table 6- PI-2: Composition Variance Calculation for 2018 (KHR million)

Data for year =	2018					
Economic head	budget	actual	adjusted budget	deviation	absolute deviation	percent
Compensation of employees	7,002,829	6,994,459	7,123,287.9	-128,828.8	128,828.8	1.8%
Use of goods and services	3,122,211	3,057,066	3,175,918.1	-118,851.8	118,851.8	3.7%
Consumption of fixed capital	-	-	0.0	0.0	0.0	#DIV/0!
Interest	387,481	338,018	394,146.2	-56,128.7	56,128.7	14.2%
Subsidies	10,920	10,485	11,107.8	-623.2	623.2	5.6%
Grants	1,217,274	1,314,732	1,238,213.3	76,518.4	76,518.4	6.2%
Social benefits	1,484,211	1,523,618	1,509,741.1	13,876.7	13,876.7	0.9%
Other expenses	984,590	1,215,563	1,001,526.2	214,037.2	214,037.2	21.4%
Total expenditure	14,209,516	14,453,941	14,453,940.7	0.0	608,864.7	
composition variance						4.2%

Table 7- PI-2: Composition Variance Calculation for 2019 (KHR millions)

Data for year =	2019					
Economic head	**budget**	**actual**	**adjusted budget**	**deviation**	**absolute deviation**	**percent**
Compensation of employees	7,731,220	7,853,007	7,864,208.3	-11,201.1	11,201.1	0.1%
Use of goods and services	3,156,751	3,181,990	3,211,051.6	-29,061.4	29,061.4	0.9%
Consumption of fixed capital	-	-	0.0	0.0	0.0	#DIV/0!
Interest	525,089	366,559	534,121.3	-167,562.2	167,562.2	31.4%
Subsidies	11,000	611,600	11,189.2	600,410.8	600,410.8	5366.0%
Grants	1,296,572	2,351,498	1,318,874.8	1,032,623.3	1,032,623.3	78.3%
Social benefits	1,596,372	1,674,257	1,623,831.5	50,425.1	50,425.1	3.1%
Other expenses	940,923	1,179,353	957,108.3	222,244.9	222,244.9	23.2%
Total expenditure	15,257,926	17,218,264	15,520,384.9	1,697,879.4	2,113,528.7	
composition variance						13.6%

Table 8- Results Matrix

year	composition variance
2017	9.1%
2018	4.2%
2019	13.6%

Table 9- Revenue outturn 2017

	2017					
KHR billion	Budget	Outturn	Adjusted Budget	Deviation	Absolute deviation	Percent
Revenue collected by GDCE	7,309.0	7,634.5	7,994.5	-360.0	360.0	4.5%
Import duties	2,112.8	1,920.7	2,310.9	-390.3	390.3	16.9%
Export duties	49.3	45.5	53.9	-8.4	8.4	15.6%
Specific tax on some materials	2,280.0	2,880.9	2,493.8	387.1	387.1	15.5%
Value added tax-VAT (Import)	2,829.4	2,776.4	3,094.8	-318.4	318.4	10.3%
Other tax	37.5	11.0	41.0	-30.0	30.0	73.2%
Revenue collected by GDT	5,900.1	6,886.2	6,453.4	432.8	432.8	6.7%
Profit Tax	2,400.0	2,841.3	2,625.1	216.2	216.2	8.2%
Salary Tax	620.6	677.5	678.8	-1.3	1.3	0.2%
Land and housing tax	256.0	279.5	280.0	-0.5	0.5	0.2%
Specific tax on some materials (domestic)	780.0	795.1	853.2	-58.0	58.0	6.8%
Value added tax-VAT (Internal Regime)	1,745.0	2,159.9	1,908.7	251.2	251.2	13.2%
Other tax	98.5	132.9	107.7	25.2	25.2	23.4%
Revenue from C/P Administrations	956.5	1,043.6	1,046.2	-2.6	2.6	0.2%
Non-tax revenue (Including capital revenue-domestic revenue)	2,440.8	2,588.2	2,669.7	-81.5	81.5	3.1%
Grants	88.0	107.6	96.3	11.3	11.3	11.8%
Total Revenue	16,694.4	18,260.1	18,260.1	(0.0)	888.1	
Overall variance	109.4%					
Composition variance	9.7%					

Table 10- Revenue outturn 2018

2018						
KHR bllions	**Budget**	**Outturn**	**Adjusted Budget**	**Deviation**	**Absolute deviation**	**Percent**
Revenue collected by GDCE	8,330.0	10,102.2	9,907.8	194.4	194.4	2.0%
Import duties	2,075.2	2,303.1	2,468.3	-165.1	165.1	6.7%
Export duties	45.3	51.5	53.9	-2.4	2.4	4.5%
Specific tax on some materials	3,165.0	4,103.7	3,764.5	339.3	339.3	9.0%
Value added tax-VAT (Import)	3,023.5	3,627.6	3,596.2	31.4	31.4	0.9%
Other tax	21.0	16.3	25.0	-8.7	8.7	34.7%
Revenue collected by GDT	6,745.6	7,193.8	8,023.2	-829.4	829.4	10.3%
Profit Tax	2,872.0	3,354.3	3,416.0	-61.7	61.7	1.8%
Salary Tax	724.0	704.9	861.1	-156.3	156.3	18.1%
Land and housing tax	303.3	-	360.7	-360.7	360.7	100.0%
Specific tax on some materials (domestic)	809.0	865.3	962.2	-96.9	96.9	10.1%
Value added tax-VAT (Internal Regime)	1,938.8	2,101.2	2,306.0	-204.7	204.7	8.9%
Other tax	98.5	168.1	117.2	51.0	51.0	43.5%
Revenue from C/P Administrations	941.4	1,628.2	1,119.7	508.4	508.4	45.4%
Non-tax revenue (Including capital revenue-domestic revenue)	2,564.6	3,045.4	3,050.4	-5.0	5.0	0.2%
Grants	125.0	280.2	148.7	131.5	131.5	88.4%
Total Revenue	18,706.6	22,249.8	22,249.8	(0.0)	1,668.8	
Overall variance	118.9%					
Composition variance	9.0%					

Table 10- Revenue outturn 2019

KHR billions	Budget	Outturn	Adjusted Budget	Deviation	Absolute deviation	Percent
	2019					
Revenue collected by GDCE	9,094.0	12,897.4	11,912.9	984.5	984.5	8.3%
Import duties	2,348.5	2,848.3	3,076.5	-228.2	228.2	7.4%
Export duties	49.5	48.8	64.8	-16.1	16.1	24.8%
Specific tax on some materials	3,152.0	5,347.2	4,129.0	1,218.1	1,218.1	29.5%
Value added tax-VAT (Import)	3,531.0	4,637.3	4,625.5	11.8	11.8	0.3%
Other tax	13.0	15.9	17.0	-1.2	1.2	6.9%
Revenue collected by GDT	7,785.0	9,155.5	10,198.2	-1,042.6	1,042.6	10.2%
Profit Tax	3,460.0	4,197.4	4,532.5	-335.1	335.1	7.4%
Salary Tax	870.0	847.8	1,139.7	-291.9	291.9	25.6%
Land and housing tax			0.0	0.0	0.0	#DIV/0!
Specific tax on some materials (domestic)	985.0	1,130.5	1,290.3	-159.9	159.9	12.4%
Value added tax-VAT (Internal Regime)	2,370.5	2,772.8	3,105.3	-332.5	332.5	10.7%
Other tax	99.5	207.1	130.3	76.8	76.8	58.9%
Revenue from C/P Administrations	1,393.1	2,163.5	1,825.0	338.5	338.5	18.5%
Non-tax revenue (Including capital revenue-domestic revenue)	2,907.3	3,523.4	3,808.4	-285.0	285.0	7.5%
Grants	125.0	168.4	163.7	4.6	4.6	2.8%
Total Revenue	21,304.4	27,908.2	27,908.2	0.0	2,655.3	
Overall variance	131.0%					
Composition variance	11.8%					

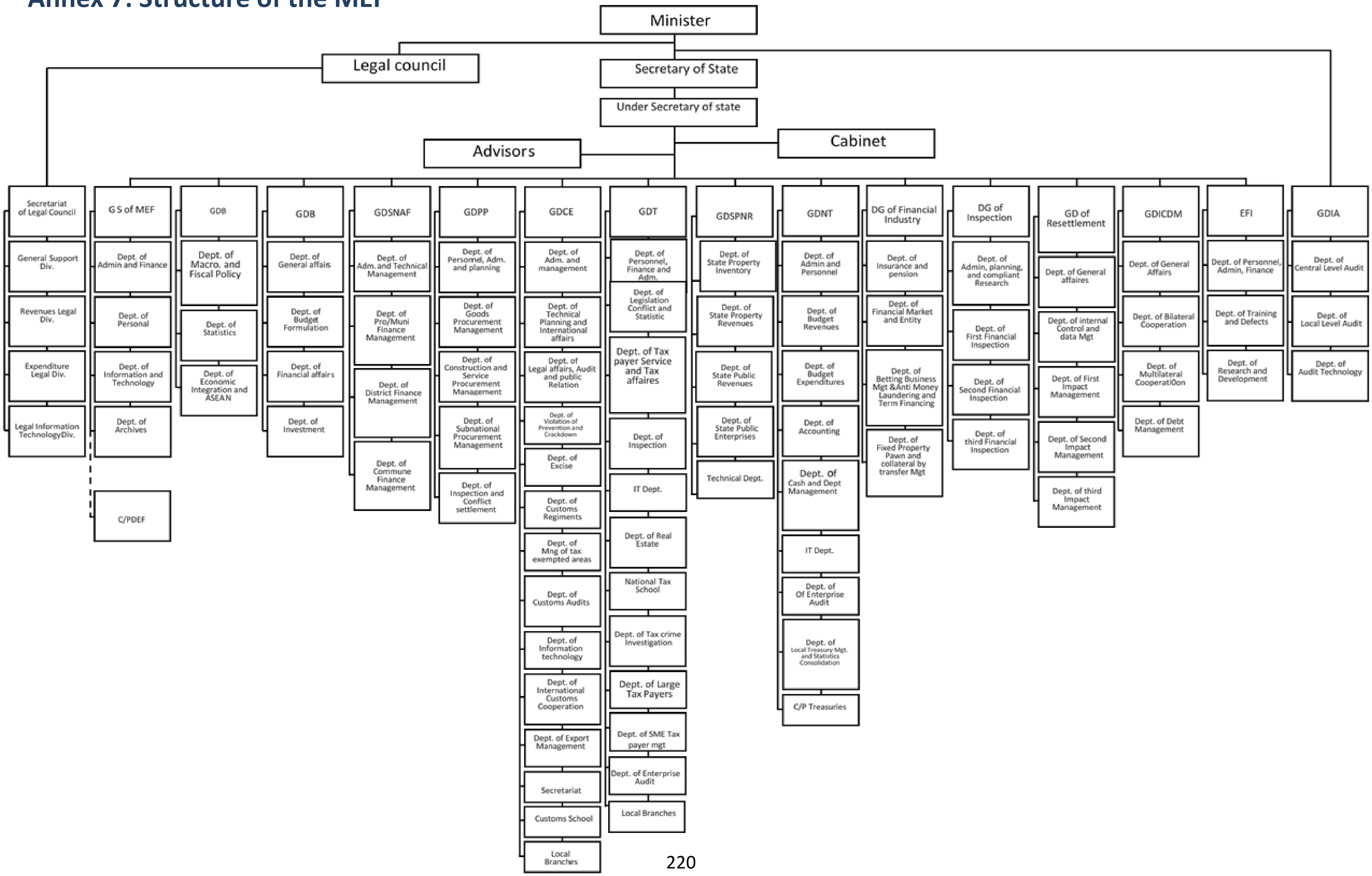
Table 11-Result Matrix

Year	Total revenue deviation PI-3.1	Composition variance PI-3.2
2017	109.4%	9.7%
2018	118.9%	9.0%
2019	131.0%	11.8%

Annex 6: List of Public Administration of Establishments

No.	PAEs (Unit: KHR)	Subsidy from State Budget	Revenue collected by PAEs
I.	Council of Ministers		
1	Royal Academy of Cambodia	8,246,509,190	-
II.	Ministry of National Defense		
2	Health Science Institute of Royal Cambodian Armed Forces	-	4,754,000,000
III.	Ministry of Health		
3	National Health Products Quality Control Center	639,295,270	4,106,540,000
4	National Institute of Public Health	3,175,000,000	2,257,788,332
5	Khmer-Soviet Friendship Hospital	12,345,000,000	57,235,991,968
6	National Pediatric Hospital	7,216,000,000	24,822,176,422
7	Preah Ang Duong Hospital	4,943,000,000	45,638,506,500
8	University of Health Science	-	31,732,087,406
9	Calmette Hospital	8,860,585,830	192,642,593,177
10	Preah Kossamak Hospital	11,767,000,000	24,394,650,000
11	Payment Certification Agency	5,653,000,000	-
IV.	Ministry of Education, Youth and Sport		
12	Royal University of Law and Economics	203,523,353	31,379,214,414
13	National University of Management	158,500,000	25,473,540,328
V.	Ministry of Agriculture Forestry and Fisheries		
14	Cambodian Agricultural Research and Development Institute	4,302,803,100	122,000,000
15	Royal University of Agriculture	3,679,000,000	3,592,217,750
16	Kampong Cham Agriculture National Institutes	2,480,300,000	202,449,100
17	Cambodian Rubber Research Institute	1,870,000,000	2,267,200,000
18	Prek Leap Agriculture National Institute	3,883,800,000	652,353,000
VI.	Ministry of Culture and Find Art		
19	Apsara Authority National Authority	64,406,980,000	2,199,012,206
20	Royal University of Fine Arts	1,778,100,000	4,376,797,800
21	Sambor Prei Kuk Institution	2,354,700,000	892,412,500
22	National Authority for the Protection and Development of the Temple of Preah Vihear	8,020,600,000	952,796,159
VII.	Ministry of Social Affaire, Veterans and Youth Rehabilitation		
23	National Fund for Veterans	495,066,409,422	-
24	Persons with Disabilities Foundation	9,341,337,600	879,657,500
25	National Social Security Fund for Civil Servants	416,530,224,711	-
VIII.	Ministry of Tourism		
26	Angkor Enterprise	20,673,000,000	-
IX.	Ministry of Labour and Vocational Training		
27	National Polytechnic Institute of Cambodia	7,583,200,000	6,021,154,492
28	National Social Security Fund	35,341,600,000	594,764,128,125
	Total	**1,140,519,468,476**	**1,061,359,267,179**

Annex 7: Structure of the MEF



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