By
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General Department of Budget
Ministry of Economy and Finance
Content

1. Progress in PFM Reform
2. Strategic Direction of Budget System Reform 2013-2020
3. Cambodia’s Budgeting System Model
4. Challenges
5. Conclusion
Our journey in Public Financial Management Reform for a better and greater result.

1. Progress in PFM Reform
1.1 PFM Reform Program

Cambodia’s Approach: 4 Platforms in 4 Stages

- **Stage 1: CAP1** (2005 – 2008)
- **Stage 2: CAP2** (2009 – 2015)
- **Stage 3: CAP3** (2016 – 2020)
- **Stage 4: CAP4** (2020 – 2025)

| Platform 1: Budget Credibility |
| Platform 2: Financial Accountability |
| Platform 3: Budget-Policy Linkages |
| Platform 4: Performance Accountability |
1.2 What we have done since 2005

Getting ready for stage 3

- Started developing a framework and guideline for piloting Program Based Budgeting (PB)
- Amended Public Financial System Law in 2008 to change budget cycle and allow PB implementation
- Introduced Budget Strategic Plan (BSP) in 2008
  - Put in place a guideline for BSP
- Put 8 Ministries to pilot a partial PB (2008-2014)
  - Put in place a General Guideline for PB Preparation
- Assessment on the PB implementation in 2012 and set direction for 2013-2020
- Introduced Budget Entity (BE) in 2013
  - Put in place a guideline for BE
- Pilot Full Program Budgeting and Budget Entity in 2015 (starting with 10 LMs, 15 LMs, 11 LMs and Final 3 LMs, in 2015, 2016, 2017 and 2018 respectively)
  - Put in place a guideline for PB execution procedure in 2015
1.3 Budgetary Reform Initiatives

Line Items (1993-2016)
- Input based
- Incremental
- Detailed control
- Ex Ante Control (Pre-Audit)

Partial PB
- Program Activities
- Program indicators
- Pilot 8 Ministries

Full PB
- Policy lined budget
- Budget Ceilings
- Program Activities
- Performance indicators
- Monitoring/Performance Report

Programs & Performance (2015 – 2020)
- Performance based budget
- Budget Ceilings
- Program Agreements
- Monitoring & Evaluation

Performance Accountability, (2020 – 2025)
- Program Activities
- Program indicators
- Pilot 8 Ministries
Content

2. Strategic Direction of Budget System Reform 2013-2020

Our journey in Public Financial Management Reform for a better and greater result.
2.1 Direction of Budget System Reform 2013-2020

- Strengthening discipline of public financial management (balance/sustainability), Improving efficiency of budget allocation (allocation to policy priorities) and Enhancing technical efficiency of spending.

- Gradually transforming from Input and centralized based budget system to Output based budget system (Output and Outcome) accompanied with appropriate De-concentration and Decentralization.
2.2 A Desired Budget System in 2020

**Budget Formulation**: Should be based on polices, programs and indicators along with clear legal framework and mechanism in order to link budget to policies and measurable results, to ensure budget discipline (balance/sustainability), efficient allocation of budget, as well as technical efficiency of spending.

**Budget Approval**: two folds:
1. Line items at a higher level: Categories, Chapters (Wage and Non-Wage or Operating and Capital Budget)
2. Policies, Programs and supported by performance information

**Budget Execution**: Ensuring effective and efficient implementation of budget by moving from input based control to output based monitoring evaluation.

**Result/ performance monitoring and evaluation**: ensuring transparency, accountability and clear responsibility in order to implement M&E framework and mechanism by moving from input monitoring to result based monitoring and evaluating along with D&D.
2.3 Strategies for Budget System Reform

First, Strengthening the implementation and improving the effectiveness of budget strategic plan (BSP).

Second, Strengthening and implementing full program budgeting (PB) for lines ministries, including Ministry of Economy and Finance.

Third, Introducing and implementing budget entity (BE).

Forth, Reviewing, Revising and implementing new budget classification, new chart of accounts and financial management information system (FMIS).

Fifth, Introducing and implementing new budget system.
## 2.4 Action Plan for Budget System Reform

<table>
<thead>
<tr>
<th>I- Budget Strategic Plan (BSP)</th>
<th>II- Program Budgeting (PB)</th>
<th>III- Budget Entity (BE)</th>
<th>IV- Budget Classification</th>
<th>V- Capacity building for Officials Involved</th>
<th>VI- Workshop and Seminar</th>
<th>VII- FMIS</th>
</tr>
</thead>
<tbody>
<tr>
<td>Strengthening and Enhancing the effectiveness of BSP.</td>
<td>Fully implementing program budgeting for 10 ministries in 2015 and expand to other line ministries towards realization of full implementation of the program budgeting for all ministries by 2020.</td>
<td>Preparing a guideline for BE preparation and implementation (2013)</td>
<td>Preparing for step-by-step implementation of seven segments of budget classification.</td>
<td>Training of Trainers –TOT (General Department of Budget; Financial and Budget Department of Line Ministries).</td>
<td>Conducting workshops to disseminate and consult regulatory frameworks related to budget formulation and budget execution at both technical level and management level.</td>
<td>Adopting ICT to enhance budgeting system in 2015 for strengthening the resource management process such as reporting, transaction processing, integrity and comprehensiveness.</td>
</tr>
<tr>
<td>Working with line ministries to set policy objectives, integrate recurrent and capital budget and indicators incorporating in BSP.</td>
<td>Fully implementing program budgeting for 10 ministries in 2015 and expand to other line ministries towards realization of full implementation of the program budgeting for all ministries by 2020.</td>
<td>Pilotling implementation of BE for 10 ministries in 2015.</td>
<td>Fully implementing economic classification and partially implementing geographical classification, functional classification, administrative classification, program budget classification, financial source classification.</td>
<td>ToTs provide Training for responsible Officials at their ministries</td>
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<tr>
<td></td>
<td>Reviewing and developing guideline for strengthening full implementation of program budgeting</td>
<td>Reviewing and strengthening the strategy and extending the implementation of BE to other line ministries.</td>
<td>Reviewing and improving its implementation for 2016 or 2017</td>
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Content

3. Cambodia’s Budgeting System Model

Our journey in Public Financial Management Reform for a better and greater result.
3.1 Budget Cycle

Cambodia’s budget cycle starts from 1\textsuperscript{st} January to 31\textsuperscript{st} December.
3.2 Annual Budget Cycle

**NSDP & PIPS**
- GD of Policy
  - Annual Budget
    - Economic Forecast
    - Revenue Forecast

**Public Consultation/Public Forum**
(Parliamentarian, NGOs, DPs, Private Sector)

**EXPENDITURE ESTIMATES**
- GD of Budget
  - BSP
  - Budget Circular
  - Budget Proposals by Ministries
    - Budget Negotiation
    - Budget Consolidation

**Cabinet Approval**
- Economic Report

**Annual Financial Law**
- Legislative Approval
  - Implementation by Ministries
  - Promulgation of Annual Financial Law

**Timeline**
- March
- April
- June
- July
- Aug - Sept
- October
- November
- December
- January
Conceptual Framework Annual Budgeting
3.3 Linking National Policies & Sector Policies

Medium Term Framework and Annual Budgeting

National Policies (Rectangular Strategy / NSDP)

- Macroeconomic policy and Public Finance Policy
- Medium term framework of revenue and expenditure (3 years)

Sector Policies

- Budget Strategic Plan (3 years)

Ministry of Economy and Finance

Line Ministries

Annual Budget Law
3.4 Linking Institutional Management Structure and Policy Structure

<table>
<thead>
<tr>
<th>Management Structure</th>
<th>Authority and Responsibility</th>
<th>Policy Structure</th>
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</thead>
<tbody>
<tr>
<td>Management and Policy formulation (Ministerial / Organizational Level)</td>
<td><strong>Policy Formulation</strong></td>
<td>Policy Objectives, Strategies/Programs</td>
</tr>
<tr>
<td>Technical Level and Program/Strategic Formulation (Secretariat / General Dept.)</td>
<td></td>
<td>Strategies/Programs</td>
</tr>
<tr>
<td>Technical Level and Formulation of sub-program/activity cluster (Department)</td>
<td><strong>Formulation of Strategy/Program</strong></td>
<td>Sub-program/activity cluster</td>
</tr>
<tr>
<td>Technical Level and Implementation of activities (Agency under supervision of ministry)</td>
<td><strong>Sub-program/activity cluster formulation</strong></td>
<td>Activities</td>
</tr>
<tr>
<td></td>
<td><strong>Implementation of activities</strong></td>
<td></td>
</tr>
</tbody>
</table>
3.5 Program Budgeting Structure

Note: A ministry can set at maximum 2 policy objectives and 5 programs.
3.6 Program Budgeting Perspective

- Planning
- Programming
- Budgeting
3.7 Simple linear logic model of PB

Program Logic Model

Input → Output → Outcome
3.8 Indicator

Identifying indicators and targets

- Impact: What are the things that we want to change?
- Outcome: What do we want to achieve?
- Output: What goods and services do we produce?
- Activities: What are we doing?
- Input: What means are used for our works?
### 3.9 The Changes

#### Basic Change of Budget Formulation and Budget Execution

<table>
<thead>
<tr>
<th>Category/Chapter</th>
<th>Budget Amount (million Riel)</th>
<th>Current budget system</th>
<th>New budget system</th>
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<tbody>
<tr>
<td>Category #1</td>
<td>100,000</td>
<td>(1) Policy #1</td>
<td>Indicator #1</td>
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<td></td>
<td></td>
<td></td>
<td>Indicator #2</td>
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<tr>
<td>60</td>
<td>41,000</td>
<td>1.1 – Program #1</td>
<td>Indicator #1</td>
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<td></td>
<td></td>
<td>Indicator #2</td>
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<tr>
<td>61</td>
<td>14,000</td>
<td>1.1.1 – Sub-program</td>
<td></td>
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<tr>
<td>62</td>
<td>13,000</td>
<td>1.1.1.1 – The numbers of activity</td>
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<tr>
<td>64</td>
<td>32,000</td>
<td>1.2 – Program #2</td>
<td>Indicator #1</td>
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<td>Indicator #2</td>
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<tr>
<td>Type #2</td>
<td>-</td>
<td>1.2.1 – Sub-program</td>
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</tr>
<tr>
<td>66</td>
<td>-</td>
<td>1.2.1.1 – The numbers of activity</td>
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<tr>
<td>Type #3</td>
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<td>(2) Policy #2</td>
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<td>Indicator #3</td>
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<td>2.1 – Program #3</td>
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<td>Indicator #2</td>
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<td>Type #4</td>
<td>113,000</td>
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<td>63</td>
<td>113,000</td>
<td>2..1.1.1 – The numbers of activity</td>
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<td></td>
<td></td>
<td>2.2 – Program #4</td>
<td>Indicator #1</td>
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<td></td>
<td></td>
<td>Indicator #2</td>
</tr>
<tr>
<td></td>
<td></td>
<td>2..2.1 – Sub-program</td>
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<tr>
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<td>2..2.1.1 – The numbers of activity</td>
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<td>2.3 – Program #5</td>
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<td></td>
<td></td>
<td>Indicator #2</td>
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<td>2..3.1 – Sub-program</td>
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<tr>
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<td></td>
<td>2..3.1.1 – The numbers of activity</td>
<td></td>
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<tr>
<td>Total</td>
<td>235,000</td>
<td>Policy #2/Program #5</td>
<td>Indicator #5/10</td>
</tr>
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</table>
3.10 Budget Structure

Operating Budget + Capital Expenditures = Budget

Recurrent Expenditure
New Policies
One-Off Policies

Domestic Financed
Budget Support
Grants & Loans

Budgeting Features

Annual budget; financial year covers the period of 12 months ending on the 31st day of December in any year.

No carry over of annual expenditure to next financial year.

Carry over allowed only for expenditure on development projects financed by DPs.

Capital projects are evaluated, endorsed by PM.

Guideline on BSP
Guideline on PB
Guideline on BE
3.11 Program Budget of Ministry of Economy and Finance

Outcome

I

Strengthen and Increase Economic Management and Financial Sector Development

II

Strengthen and Increase Effectiveness and Efficiency of Public Finance and State Property Management

Ministry of Economy and Finance’s policies

1

Strengthen and Increase Economic Management Efficiency

2

Strengthen and Increase the Efficiency of Management, Supervision, and Development of the Financial Sector

3

Strengthen and Increase the Effectiveness and Efficiency of the National Revenue Mobilization and State Properties Management

4

Strengthen and Increase the Effectiveness and Efficiency of Public Expenditure Management

5

Strengthen and Increase the Effectiveness and Efficiency of General Supports and Ensure Accountability in Public Finance Management

3 Sub-programs

3 Sub-programs

3 Sub-programs

4 Sub-programs

5 Sub-programs
3.12 Program Budget of Ministry of Education, Youth and Sports

Outcome

I

Guarantee access to equitable education services

II

Improve quality and responsiveness

Ministry of Education, Youth and Sports’ policies

Program

1
Development of formal and informal Education systems

2
Development of Tertiary Education and Research

3
Physical and Sports Development

4
Development of Technical and soft skills for youth

5
Supporting Educational Services and Good Governance

Sub-program

9 Sub-program

14 Sub-program

5 Sub-program

3 Sub-program

16 Sub-program
Our journey in Public Financial Management Reform for a better and greater result.

4. Challenges

Content
4.1 Budget Preparation

When faced with a challenge, Look for a Way. NOT A WAY OUT!

- Formulation issues: subject to refinement
  - Ministry’s Policy objectives link to National Policy Priorities
  - Program structure (Program, sub-programs, and activity)
    - Program names
    - Administrative program structures rather than policy linked
  - Costing: change mindset from incremental line items to activity based
  - Performance indicators: the difficult part
    - Outputs- has been the focus of this early stage
    - Outcome - started for the next stage
4.2 Budget Execution

When faced with a challenge, Look for a Way. NOT A WAY OUT!

- Execution issues: more challenging than preparation issues side
  - First year Experience: slow and low spending due to New rules and regulations
  - Trainings: too many at a time for the whole cycle of budget execution, eg. new petty cash rule, commitment, procurement, disbursement
  - Delegation of power from MEF to LMs
  - Delegation of power within LMs from Top management to BEs
4.3 M & E

When faced with a challenge, Look for a Way. NOT A WAY OUT!

- M & E Side: still very weak
  - Focus on Monitoring: reporting system
  - Starting to train budget officials on M & E concept
    - a long journey
5. Conclusion

We are young but in speed.

- Previous result and good preparation for budget system reform are significant for ensuring that we are on the right track and thus move forwards to the realization of direction and strategy.

- Direction of budget system reform can be achieved as we have strong political will and commitment, and leadership of the management of line ministries.

- Need to build human resource and institutional capacity to support the implementation of new budget system as they are a key to the success and sustainability of the implementation of budget system reform.
Thank you