

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

**Progress Report
Third Quarter, 2009**

The Secretariat of the Reform Steering Committee

The Third Quarter Report presents the reform progress from January to September 2009 by highlighting activities done, challenges and issues during the third quarter; in addition, the progress in key indicators related to maintaining budget credibility which was the achievement of the Platform 1/Stage 1 will be also reported.

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

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

Indicators	Target	Third quarter 2009	Third quarter 2008
1. Revenue out-turn increasingly close to targeted level in approved budget	Revenue outturn within + or - 5% of forecast used for budget.	Domestic revenue: 68.9 %	Domestic revenue: 99.2 %
2. No accumulation of new arrears and steadily declining stock	Arrears as defined to be kept at no more than 2% of total expenditure	No arrears	No arrears
3. Budget holders increasingly able to commit expenditure in line with budgets and cash flow forecasts	Expenditure profile not to be less than: 1st Quarter: 15% 2nd Quarter: 45% 3rd Quarter: 67% 4th Quarter: 96% Percentage of payments to creditors and staff made through banking system to be not less than 80% by value Percentage of tax	Achieved : 1st Quarter: 17.9% 2nd Quarter: 41.8% 3rd Quarter: 71.3% - The payment through banking system: 80.97% - 26 Ministries have used banking system for salary payment - Customs revenue: 99.5%	Achieved: 1st Quarter: 14.7% 2nd Quarter: 43.8% 3rd Quarter: 71.7%

	revenue collected through Banks to be not less than 60% by value	- Tax revenue: 84.6%	
4. Composition of expenditure by type (staff costs, non-staff costs etc) close to approved budget.	<p>Outturn compared to budget to be not less than:</p> <ul style="list-style-type: none"> - Salary: 98% - Goods/Services: 95% - Capital: 85% 	<p>Achieved:</p> <ul style="list-style-type: none"> - Salary: 79.2% - Goods/service: 74.9% - Capital: 71.3% 	<p>Achieved:</p> <ul style="list-style-type: none"> - Salary: 79% - Goods/service: 82.1% - Capital: 74%
5. Better yield achieved from tax base through improved collection efficiency and planned use of non-tax sources.	Progressive improvement in revenue yield compared to GDP by 0.5% per annum.	<ul style="list-style-type: none"> - Tax revenue: 71.2% - Direct Tax: 75.3% - Indirect Tax: 70.3% - Non-tax revenue: 58.7% 	<ul style="list-style-type: none"> - Tax revenue: 100.5% - Direct Tax: 104.4% - Indirect Tax: 99.8% - Non-tax revenue: 103.6%
6. All significant areas of both revenue and expenditure captured in both the budget and accounts of the government.	No significant areas of omission	<ul style="list-style-type: none"> - TSA and government bank accounts consolidation, new chart of account, new budget classification and budget strategic plan have been further improved to incorporate revenue and expenditure into the government accounts. Revenue and expenditure of state-owned enterprises, administrative entities and DPs funds have been urged to be incorporated in BSP 2010-2012. - Total current accounts have been reduced to 110. - Data system (DMFAS) has been implemented to improve external financial management and review. 	<ul style="list-style-type: none"> - TSA and government bank account consolidation were strengthened, new chart of account, new budget classification, and budget strategic plan have been implemented. - In early 2009, there were 174 accounts of LMs at the Commercial and National Banks - Data system (DMFAS) has been implemented.

2. Performance measurement of activities implementation stage 2

The review of stage 2 activities implementation has focused on the progress of three action plans identified in CAP such as reviewing Platform 1 achievements to be strengthened in stage 2, progress to achieve the objectives of the platform 2 and implementation of activities for the next platforms.

3.1 Platform one activities to be strengthened in stage 2

The four objectives for sustaining budget credibility which is the achievement of the platform 1 have been reviewed to support achieving platform 2 objective “Improved **Financial Accountability**”.

- **Further improved revenue policy and administration**

Non-Tax Revenue:

Activities that have been carried out including preparing circular on life insurance, circular on Accounting guidance, micro-finance policy and strategy framework, draft on monitoring procedure of government sub-loan in micro-finance sector, draft on commission fees of real estate service and appraisal company, draft on real estate service management standard, drafted code of professional ethics for real estate appraisal and service companies, circular on monitoring and license issuing to real estate developer, establishment of inter-ministerial task force for real estate business management, inter-ministerial committee for management and encouraging the purchase of insurance for vehicle, liability to third-party, construction sites and transportation, monitoring mechanism of gambling tools, Real estate association and adherence to ASEAN real estate Appraisal Association, conducting research on revenue and expenditure of the public administrative entities, determining school fees of state-owned universities (two), defining criterion for incentive award to revenue collectors, review of debt from privatization and urging its liquidation and fine payment, review investment proposals and market business operation, revenue payment at provincial level, reporting on revenue from mineral land concession and agreement on mine concession 2008, on revenue from stone and construction raw materials 2008, review of government sub-loan agreement, preparing guideline on capital sub-loan review, determining levy on citizenship card, criminal record certificate, vehicle registration, registration fee of industrial design, patent and commercial model certificate, five missions of the Non –Tax Department to six provinces to monitor non-tax revenue collection, review of debt at the ministry of Post and Telecommunication and State Secretariat of Civil Aviation.

Some activities have been progressively implemented such as establishment of state property management working groups in LMs and preparing state property inventory, draft sub-degree on issuing and trading non-government bond, draft sub-degree on functioning of the Stock-Exchange Committee, draft regulation on bond, draft-Prakas on reshuffling members of privatization committee, translation of real estate appraisal standard, draft law on Casino, Trust law, circular related to lotteries management, new circular on casino business management, and other regulations related to insurance, collecting information of small and medium enterprise, study on legal framework related

to non-revenue collection and improving draft circular on nation receipt (working group for drafting law on non-tax revenue was created), establishment of Inter-ministerial committee in charge of drafting law on state properties management is under process.

Line Ministries have been urged to claiming arrears payment, collecting revenue, factory rental and mine concessions, preparing monthly/quarterly/bi-annual/annual non-tax revenue report, collecting information on non-tax revenue within LMs and drafting inter-ministries circular on non-tax revenue management.

Tax Revenue:

Activities which have been fully implemented including five new circulars on tax audit (audit preparation, audit process, audit planning, audit working papers and audit reporting), self assessment and estimated system implementation in 07 Khans of the Phnom Penh, Tax revenue management system in Tax Offices of Khans and Provinces, accounting program and tax statistics, Strategic Plan and Modernization Program Manual of Customs and Excise General Department.

The Ministry of Economy and Finance (MEF) has finalized the third draft-law on oil taxation, draft-law on unused land and accommodation tax, sub-degree on reducing threshold of business turnover subject to Taxation, Prakas on the determination of annual profit tax for foreign companies, draft IT policy of the General Department of Taxation (GDT), preparing tax-arrears collection plan, list of companies subject to tax auditing at central level and in Siem Reap and Bontey MeanChey Provinces, classifying companies by business sectors, implementation of self assessment system in Phnom Penh and Provinces, Guidance on taxpayer's obligation and rights, Notice on new tax assessment and operation of GDT website.

Some activities have been commenced such as translation of Model Treaty on Tax, preparing circular on tax inspection rules and procedures, tax information collection, preparing plan for enterprise census in Phnom Penh, tax database preparation at the central level, planning for establishing Tax Training Center.

Besides the above mentioned activities other activities have been also commenced including updating revenue policy, macro-economic Framework, draft-circular on enforcing the implementation of the article 17 of the public financial system law, economic forecasting model state owned enterprises. Inter-ministerial Task Force has also reviewed revenue report format from oil, gas and other mines, payment of fees and royalties; and action plan has been defined.

- **Further improved debt management**

A report format on loan and grant and a draft of guideline on debt management were prepared. Training courses on using DMFAS were conducted. In addition, officials in charge participated in training courses in Philippine on debt management through DMFAS. Workshops on debt management strategy and DMFAS's functions were conducted for officials of the Department of Investment and Cooperation and other relevant departments.

- **Further improved cash and bank account management**

In early 2009, there were 174 accounts; account freezing and closing measures have been continuously implemented, as a result, in May 2009 the total current accounts remained 116 and reduced to 110 as of 30 September 2009; one new account is opened and 18 accounts will be frozen. The account balance of the General Department of Taxation (GDT) and the General Department of Customs and Excise is regularly kept zero at the end of the day. General Department of Treasury has reviewed to find out accounts outside the projects and the balance of the accounts which were closed; 17 accounts will be closed as soon as the relevant projects come to an end. Saving accounts with untraceable holders and inactive accounts have been reported and closed. LMs have also engaged in reviewing accounts and providing information related to existing accounts at the National Bank and the Commercial Banks; however, cooperation is still limited.

Using the commercial banking services and encouraging salary payment through the commercial banking system have been further improved. Pilot projects of banking service have been implemented in 02 provinces; GDT has issued Guideline on revenue and expenditure operation and record related to interest charged from the commercial bank. The scope of using banking system in the main locations (expanded to 05 provinces in the first semester 2010) and covering a whole country including cash flow procedures through the banks has been studied.

During the first semester 21 LMs (over 38) have operated bank accounts for salary payment and as of September 2009 there are 26 LMs; however, accounts of 08 other LMs have not been operated yet and 04 other LMs have not opened their accounts. In overall, LMs have contributed in reducing a number of cash based transactions and expanding the use of banking system for salary payment.

To strengthen cash management framework, some activities have been further implemented such as preparation of expenditure and revenue spreadsheets (including capital expenditure and revenue) by ministries, chapters, accounts and sub-accounts by having incorporated data 2007, 2008 and also updating data 2009; updating monthly/weekly/daily cash reports; preparing state cash report format; preparing cash flow forecast model and format and RACI Matrix Template for FMIS; matching actual cash flow and monthly cash forecast, and study on formula to propose government cash limit at the TSA.

Some LMs have been actively engaged in providing revenue and expenditure data, revenue-expenditure forecast, and cash flow balance report. LMs have shown their best efforts to improve payment mandate issuing in compliance with annual expenditure plan to avoid accumulated payment mandates at the end of the year. Since 2007 there are no more arrears at the General Department of National Treasury.

Automated system for treasury operations and functions have been studied and reviewed for further improvement. Assessment of Conical Hat system and the need of automation at the GDT has been done. Network at the GDT including Phnom Penh Treasury has been installed and operated and WiFi network almost covers the whole buildings of GDT. The GDT's website (www.treasury.gov.kh) has been operated and its document center is also created. Staff of the GDT has been encouraged to electronic means for their works.

- **Further improved public procurement**

In improving public procurement, some activities were implemented such as selection of international adviser of procurement law is under process, improvement of IRRPP 's annexes (Implementing rules and regulation on public procurement) finalized, improving public procurement plan of the LMs, preparation of guideline on procurement plan 2010 and report format of procurement implementation, two staff trained on international procurement in USA, reforming procurement department structure and establishing the procurement plan office, drafting Prakas on establishment of procurement branches at provincial level, training on procurement for the department staff, procurement website and database is under development, TOR of international consultant for procurement post review is under review.

Meanwhile some LMs have been improving their procurement process by developing annual procurement plan, preparing procurement implementation schedule and procurement monitoring schedule. Moreover, LMs have also sent their officials to participate in the training course on procurement organized by the MEF, and submitted reports and procurement data to the MEF; they have also enhanced competition in procurement process through providing documents and data related to procurements to bidders as well as proving information to the public.

3.2 Platform two activities to be implemented in stage 2

In the process towards improving financial accountability which is the main strategic objective of stage 2, activities have been identified and developed around eight objectives and success of which will lead to an improved financial accountability.

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

A study on legal framework related to budget entities and budget managers at the national and sub-national levels has been commenced by reviewing consistency of the existing regulations, new accountability framework, and budget entities with the law on public finance system of 2008; and research on responsibility framework related to preparing PIP has been conducted. LMs have been requested to provide their organization structure to MEF for study and defining the budget entities and managers; the preliminary draft on

defining the budget entities was prepared. Consultations with IMF experts on defining the budget entities have been done three times.

LMs have been reviewing draft document on responsibility for budget, distinguishing roles and duties of each department and offices in order to determine responsibility at each level, establishing new budget holder and budget flow in accordance with the guideline of MEF, preparing new accountability framework and new business process. Workshops on budget entity and its preparation and management have been conducted. Some LMs have started to draft budget flow mechanism and chart and to redefine roles and responsibilities.

Functional review methodology manual for MEF has been finalized. In addition, a study on new business process has been started under FMIS and financial controllers have been relocated to 11 LMs.

- **Improved instruments for encouraging responsibility of financial management and enforcing accountability**

Program budgeting and budget strategic plan have been further improved; reporting system has been set up to review budget performance; and it is used as a tool for budget allocation. Budget management and execution disciplines have been further strengthened. Moreover, some activities have been commenced such as circular on expenditure implementation, rationalizing expenditure for salary, functional allowance, implementing measures to restrict administrative expenditure, guideline on procedures and conditions of expenditure commitment and payment, compilation of legal framework related to public finance. LMs have been preparing the financial management standard, developing plan to monitor entities under their jurisdiction, and preparing quarterly monitoring report of resources management.

- **Further improve the implementation of new budget classification and new chart of account**

The activities implemented to meet the objective including gradual integration of accounts receivable and accounts payable with relevant entities for transactions both through and outside treasury until August 2009, data collection for recording accounts payable and accounts receivable, developing accounting ledger, issuing circular on duties and responsibilities of each department for recording debt, researching new methodology for recording accounts receivable, data reconciliation, determining temporary measures for recording debt transaction through and outside the national treasury; further linking bridging table of the new chart of account with TOFE; updating TOFE 2008 TOFE January-August 2009, GFS January-August 2009; improving the linkage of the new chart of account with GFS; TOEF report as of June 2009 have been posted on the website; reviewing fixed asset inventory before 2007; splitting tax payment vouchers of 2009 from tax revenue of previous years.

New budget classification, accounting classification by functions and programs have been further developed (functional classification may be implemented subject to FMIS

implementation), further improving economic classification by drafting revenue classification and sub-sub accounts of expenditure, further reviewing 10 criteria of COFOG and the four functional classifications (administrative, national defense-security, social, and economic), reviewing the implementation of the new budget classification and new accounts classification related to capital expenditure and researching solutions for consistent recording and budget integration.

Guideline on economic classification has been developed and will be incorporated in FMIS; and Program code is under development process for preparing program budgeting.

Budget process and chart of account at commune, district, and province levels have been reviewed for further improvement. GDT has compiled documents related to treasury functions and operations and also organized workshops and trainings for officials in charge.

LMs have been progressively improving the new chart of account, the new budget classification, preparing budget based on administrative, economic, and sub-function classification, annual inventory of state property.

Circulars, manual of budget classification and new chart of accounts and other relevant documents have been progressively compiled and relevant trainings have been provided.

- **Improved process and transaction of budget execution**

A sub-degree on improving current expenditure process and cash advance of investment expenditure was adopted; the circular on petty cash advance record at LMs, provincial departments has been issued; accounting record to monitor the petty cash advance and income collection has been prepared. In addition, relevant training courses and workshops have been conducted. Working process has been reduced while payment mandate reviewing process has been improved; and monthly expense report has been reconciled with the balance sheet.

The level of understanding and capacity building of concerned officials have been improved for the FMIS project. 14 IT staff got trained on basic information technology and database management program. A bidding document for FMIS stage 2 was received conditional NOL and submitted to the World Bank for further review (seventh time). End to End current process mapping from procure to pay has been finalized; common business process and procedure for each phase have been identified. An assessment of ICT equipments and infrastructure needs, human resources, capacity building plan, change management in all departments and relevant LMs was completed. Strategic documents on ICT implementation, and change management strategy and communication plan were prepared and implemented and two surveys on FMIS have been conducted. Meanwhile documents related to function and roles of all departments within the MEF were developed and compiled.

LMs have been simplifying their internal process for credit request, improving expenditure commitment process and payment by setting up the monitoring flow chart

and timeframe for a request of expenditure commitment, controlling mandate record or advance in accordance with accounting rule and the new chart of accounts.

- **Improved accounting system and financial statement to ensure transparency**

A number of activities have been also implemented including guideline on recording tax debt, drafting Prakas on opening deposit accounts at the commercial banks, district-khan budget accounts, and district-khan deposit accounts at the provincial treasuries. Guideline on interest recording from Commune-Sangkat's revenue and expenditure through ACLEDA was implemented. Guideline on the revenue-expenditure transaction through the ACLEDA bank was developed. Training courses on petty cash advance and income collection were conducted for new staff and LMs. A Prakas on additional current account at the commercial banks was issued and an instruction on the commercial banks' operation for the sub-national levels was implemented. In addition, sub national level accounting and debt record related to investment expenditure have been studied; Quarterly, bi-annual, and annual performance report formats of budget execution were prepared, improved, and circulated to relevant LMs, especially the ministries which have been implementing program budgeting. DMFAS system was implemented to improve reporting of debt management office through IT system. The study on unifying state chart of account, provincial chart of account, district chart of account and commune's chart of account has been carried out to incorporate in FMIS.

LMs have been compiling accounting report formats, preparing internal reports and new report formats in accordance with the MEF's requirement. A recording report and state property inventory review have been improved and LMs have been urged to process for land title of properties under their responsibility.

- **Improved auditing, inspection, and response to the use of auditing and inspection finding**

Activities implemented including monitoring and evaluation of establishment and functioning of the Internal Audit Departments at LMs. 25 LMs established the Internal Audit Department; 18 of them (only 13 in the first Semester) have been operated and 3 state-owned enterprises also established internal audit entities; Audit questionnaires have been prepared and sent to 25 LMS; audit boxes were installed in 23 capital/provinces. Internal audit procedures for the General Department of Customs and Excise (Preah Sihanouk province and Poi Pet), and the General Department of Taxation (one department) were drafted; Manual on audit procedure is being developed. Three year inspection plan (2009-2011) and financial inspection program 2009 were prepared by the General Inspectorate of the MEF. Separation of roles and duties between the inspection and internal audit at LMs has been reviewed. Prakas on discipline, professional code of conduct for financial inspectors, performance evaluation, and activities of financial inspectors have been drafted. Inspection of the financial management and program budgeting implemented in 2007-2008 at the ministry of land management, urbanization and construction and provinces (07) was conducted. Manual on Financial Inspection procedure has been reviewed and training program for financial inspectors was

developed; in addition cooperation with French experts has been continued to improve skills and expertise of Inspection Directorate.

Internal Audit Departments at LMs have prepared annual audit plan in collaboration with the MEF. Mechanisms to ensure the efficiency of audit output were improved; and questionnaires and criteria for auditing were developed.

- **Strengthen and develop fiscal decentralization policy and strategy**

A study of options for the budget process and management (autonomous or uniform budget) at the Capital/provinces has been carried out.

Recommendations on improving of the implementation of commune/sangkat budget, the new chart of account for commune/sangkat budget, guideline on improving of procurement at commune/sangkat budget, and draft-manual on the implementation of commune/sangkat projects were prepared and documented. Relevant workshops were conducted in two provinces (Kampong Speu and Kampong Cham). Commune's budget implementation has been improved meanwhile its new chart of account has been reviewed.

Non-tax revenue strategy of the provinces have been reviewed to be consistent with the law on administration of Capital, provinces, Cities, Districts and Khans and draft-law on financial regime and asset management of the sub-national levels. A draft on tax revenue for the sub-national levels has been also prepared. Guidelines on technical procedure of budget preparation and budget execution, allocation of non-tax revenue for sub-national administration were developed to enhance budget formulation and execution of capital/provinces.

The law on financial regime and management of state assets at sub-national level was drafted and submitted to the National Committee for sub-National Democratic Development. Short (2009-2011) and long term (2011-2018) strategies for implementing fiscal decentralization were developed. In addition, 10 years national program for democratic development was prepared in cooperation with the National Committee for sub-National Democratic Development. Furthermore, the working group for reviewing the law on financial regime and asset management at the sub-national levels was created and this draft-law has been reviewed and updated.

LMs have started to gradually delegate some functions and responsibilities to the sub-national levels; however, the process is slowly moving.

- **Building institutional capacity and motivational measures**

A capacity building plan was reviewed and improved by including new arising needs from General Departments, Departments, and relevant entities. Professional and skill development program has been developed. Local and overseas short term training courses and workshops were conducted for staff of MEF and relevant LMs such as three trainings on "leadership for public policy management" with 88 participants. 47 staff for the Cambodia Accounting Standard; 23 staff for public procurement; 539 staff for 09 skills

(three levels); 43 trainers of the National Audit Authority were trained. In total about 4000 staff were trained in various skills such as accounting, procurement, management, budget, treasuries, PFM understanding, IT, English. 73 staff were recruited for the General Department of National Treasury. 08 students recruited for overseas study under PFMRP. Monitoring and evaluation mechanisms of progress study of student and policy and evaluation methodology for awarding scholarship have been further improved. Training courses on revenue forecasting and 8 training schedules were prepared. Furthermore, workshops on change management; and training courses on IT capacity building were conducted. IT staff received local and overseas training to build capacity for FMIS. A retreat for building action plan was prepared to implement the official's capacity development program of the MEF and LMs and 2 levels of IT system training course were conducted.

Significantly, structure and implementation program of the capacity building plan stage 2 were developed to ensure effective implementation. Short, medium, and long term training policies and strategies were also reviewed and improved in accordance with the reform program objectives.

For Human resource management some key activities have been implemented. The document of HRMIS, personnel files of the MEF, and other legal documents related to the staff management have been documented and under process of publication. Functional review strategy and methodology for the MEF has been developed. MBPI operation manuals, PMAS, business cases for MEF and LMs and MOU were finalized. At the same time, documents related to MBPI (personal service contract, term of reference, annual performance agreement, application form, and conditions of appointment) for entities under the MEF and LMs were developed. Mission plan for staff data collection and survey of capacity building needs at municipalities/provincial departments has been fully implemented and data collection at the central level has commenced. In addition, HRMIS equipments supply and recruitment of consultant for human resource management project by IT system are under process. Information boards of the MEF were installed; HRM policy and strategy has been drafted. 04 trainings on human resource management was conducted by the International consultant of HRM for staff of the Personnel Department.

Review of state property inventory at 19 municipalities/provinces, and library, study room and storing document of auditing were also prepared. LMs have been developing training plan, selecting qualified staff, clarifying their functions and duties for implementing reform activities.

MEF Management Retreat was also organized to review and improve the management, coordination and monitoring mechanism and framework.

3-3 Activities for later platforms

Progress for later platforms aims to improve and expand implementation of program budgeting and budget comprehensiveness and integration.

- **Improving and expanding the implementation of program budgeting**

The guideline on program budgeting was improved and updated;. Some activities have been pursued such as improving preparation of program budgeting, reviewing evaluation standard of program budgeting, implementation of guideline and report format of project monitoring, improving activities and indicators and outcome in accordance with sub-program and program, improving program target, evaluation and scoring procedure, and internal procedures to pilot the program budgeting and reporting mechanism were developed. LMs also contributed to preparation of strategies and criteria for identifying timeframe and readiness of program budgeting expansion and improving their action plan. 11 training courses were also conducted for MEF and LMs's staff. To strengthen staff capability of program budgeting formulation and execution, LMs' training plans were prepared and the staff who were trained by the MEF will train officials at the central and sub national levels. LMs have further circulated MEF's principle on the budget strategic plan preparation to budget working groups on gender within the LMs. The program budgeting has been implemented step by step. 24 municipalities/provincial departments of education, youth and sports have piloted the program budgeting under the monitoring of their Ministry.

- **Further improving budget comprehensiveness and integration**

Budget Strategic plan and guideline on BSP preparation have been improved. The budget strategic plan 2010 of LMs was used to prepare circulars for implementing the draft Financial Law 2010. Medium term budget implementation framework is used to forecast credit investment budget "chapter 21". The relevant departments of the MEF together with the Ministry of Planning and relevant LMs have prepared PIP 2010-2012.

Some activities have been pursued such as collecting data and documents on revenue-expenditure of public enterprises, administrative entities and off budget of the development partners (DPs) at the LMs, information on capital expenditure financed by the DPs to be integrated into BSP and budget reports, matching PIP with BSP 2010-2012 and incorporation of revenue and expenditure of public enterprises, administrative entities, and DPs' off budget into the BSP 2010-2012. However, there are not many LMS which present DPs' off budget. The report format of off budget management was also drafted.

The Medium Term Expenditure Framework (MTEF) 2011-2013 was updated and the workshop on MTEF 2010-2012 was conducted. LMs are improving their BSP; relevant working group were established and strengthened. BSP preparation process was sensitized within the LMs meanwhile information sharing and capacity building have been encouraged. LMs, based on the MEF guideline, have made great effort to improve budget integration through preparation of annual budget plan and monthly and quarterly revenue and expenditure reports.

Legal documents related to management and functioning of administrative entities and public enterprises have been compiled for preparing budget annex to be integrated into annual budget plan. A legal framework for off budget management, especially of public enterprises and autonomous budget entities, was reviewed.

The RGC has also created the working group (including Ministry of Planning, MEF, CDC and SNEC) on budget integration and harmonization to be in charge of coordination and facilitating the preparation of public investment plan financed by the Government and DPs.

4. Issues and challenges

Some challenges had been raised such as:

- Cooperation and coordination with LMs is not really effective and implementation of some activities by LMs cannot be done unless the prior actions of the General Departments/Departments/Entities under the MEF have commenced;
- Selection of international consultants was not done as planned (procurement, accounting);
- Reporting arrears and its age profile is manually prepared;
- Lack of legal expert for preparing the revenue policy from oil and gas; and inadequate qualified staff, means and information related to oil and gas business operation;
- Delay in adopting law on casino management and relevant circulars are not effectively enforceable;
- Incentive policy for revenue collection has not yet been approved; and incentives for staff undertaking PFM activities are not sufficient;
- Limited knowledge of information system and selection of IT business analyst was not complete due to lack of qualified candidates;
- Establishment and functioning of budget working groups in charge of preparing BSP at LMs are not really effective;
- Difficulties in getting access to information related to DPs' Fund at the LMs cause problems for budget integration;
- Coordination and information sharing within LMs are still issues;
- Qualified and capable staff are still limited while incentives for trainers who are civil servants are not allowed;
- Automation system issue at the GDT has not been decided yet;
