Impact Assessment of Public Financial Management Reform Program on System and Public Service Delivery

General Secretariat, Steering Committee of the Public Financial Management Reform

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INTRODUCTION

Study scope and objective

This study aims at understanding if and how Cambodia's Public Finance Management Reform Programme (PFMRP) has contributed to the establishment of a robust PFM system, macroeconomic stability, and improvement of public service delivery performance in the period 2015-2020. Health and education sectors were selected for this study as these two sectors consume the biggest part of the national budget and their services engage much to the public.

Before the start of the PFMRP in 2004, Cambodia was a low-income country emerging from war with an economic structure dominantly agriculture-based and with low productivity. In 1993, GDP per capita was only US$229 and the poverty rate was at 53.2%. Cambodia has since achieved steady economic growth of around 7% per year. This has lifted the Cambodian people out of poverty with GDP per capita reaching US$1,643 in 2019. Domestic revenue gradually increased from 8.5% of GDP in 2004 to 25% in 2019, before receding to 21% in 2020 due to the Covid crisis. Prudent fiscal management led to low public debt ratios (20.8% of GDP at the end of 2019-net present value) and the accumulation of international reserves reaching USD 19.5 billion by June 2020. In addition, access to and quality of education and health services have improved. The education sector has grown significantly through increased student enrollment, number of schools and teachers in remote areas and better quality of education. At the same time, health sector improvements led to decreased maternal and infant mortality rates and enhanced provision of medical equipment and medicines at referral hospitals.

There has been no comprehensive or specific study to identify the contribution of the PFMRP to improvements in public service delivery in Cambodia. Actually, there exist no fully reliable instruments to isolate and assess the direct impact of PFM reforms on service delivery performance. There are however a number of tools which provide indicators that can be used to track progress in PFM alongside progress in service delivery.

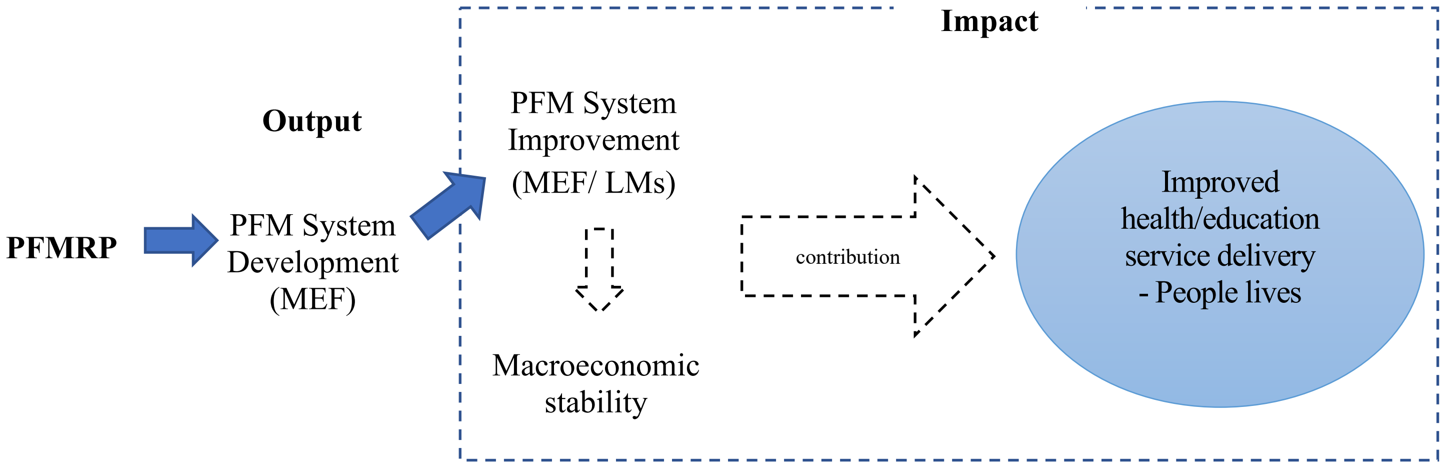
This study is based on information and developments in the period 2015-2020, which corresponds to the PFMRP 3rd phase "Budget-Policy Linkage", during which all LMs started the full implementation of programme budgeting. Considering time and resources limitations, this study is based on interviews with MEF general departments and the Ministries of Education, Youth and Sport and Ministry of Health, and relies on existing materials covering this period, such as the CAP3 review, the 2020 PEFA assessment report, the 2019 Public Expenditure Review and Public Expenditure Tracking Survey, the 2017 Public Investment Management Assessment and other relevant documents which provided useful inputs into this assessment.

The study explores three main directions:

(1) the contribution of PFMRP to building PFM system and performance,

(2) the contribution of improved PFM system to macroeconomic stability and economic growth, and

(3) the contribution of improved PFM system to service delivery performance in health and education.



The results of this assessment ought to be useful to the Royal Government of Cambodia, development partners, and other stakeholders in corroborating the effectiveness of the PFM reform. Findings from the study shall also assist RGC in formulating further PFM reforms.

Background of the reform of Public Financial Management

In the 1990s, Cambodia went through several phases of political and economic crisis, impacting negatively its public financial management system. Fiscal performance in 1997-98 largely repeated the delicate pattern of the preceding years: civilian non-wage operating expenditures were compressed significantly to sustain macroeconomic stability in response to a revenue shortfall and an overrun in defense and security outlays. According to the World Bank's public expenditure review 1999, budgetary developments in 1998 were particularly problematic. The government had borrowed 82 billion Riels (or 0.8 percent of GDP at that time) from the National Bank of Cambodia (NBC) for paying salary arrears, integrating Khmer Rouge defectors, and financing a part of the election costs after having avoided bank financing of the budget deficit since 1994.

Before PFMRP was introduced

To address systemic financial issues, the first Law on Finance System was approved in 1993 as the framework for public financial management. However, it was considered that this Law did not provide sufficient fundamental principles and guidance for the RGC to manage and develop the budget law and budget settlement law, and budget processes including preparation, adoption and implementation and evaluation. In 2008, this law was amendment and updated to the Law on Public Financial System to provide better guidance to review budget performance, with clear identification of roles and responsibilities at both the national and the sub-national level.

Meanwhile, the economic and public finance sector was reformed by a new programme approach introduced for the first time in Cambodia with the “Technical Cooperation Assistance Programme” (TCAP), which was a technical assistance programme funded by IMF, ADB, DFID, the Netherlands and UNDP. TCAP aimed to build capacity of government to formulate and implement a sound pro-poor macroeconomic policy in the fiscal and monetary policy areas, to manage public finances more effectively, and to better monitor and implement its poverty reduction strategy.

This programme was launched in October 2001 and scheduled to be completed by the first quarter of 2004. Under TCAP implementation, there were substantial outputs such as: (i) a draft Law on Customs and a Law on Statistics and related sub-decrees; (ii) the creation of a Large Tax Unit and a Medium Tax Unit for tax administration; (iii) the establishment of a Cash Management Committee; (iv) Manuals for Tax Collection; and (v) Standardized Accounting Procedures for Treasury Management. However, these achievements were only the first step in the long reform process.

Implementation of PFMRP

The Public Financial Management Reform Programme (the PFMRP) was launched in December 2004 under the chairmanship of **Samdech Akka Moha Sena Padey Techo Hun Sen, Prime Minister of Kingdom of Cambodia** with the purpose of transforming the Cambodian PFM system into an effective, accountable and transparent system in line with international best practice. With this ambitious and yet realistic vision, the PFMRP aims at building the Cambodian PFM system through a gradual change from an input-based and centralized budget system towards a performance-based and decentralized budget system, achieving three outcomes: (1) integrity of budget discipline, (2) efficiency of budget in both allocation and operation, and (3) effectiveness of public service delivery. The PFMRP consists of four successive stages implemented under four sequenced platforms: (i) budget credibility; (ii) financial accountability; (iii) budget-policy linkages; and (iv) performance accountability.

- **Platform 1 (budget credibility)** is about developing a credible budget and delivering predictable resources. It includes establishing the Single Treasury Account, strengthening revenue collection and developing 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 public debt management strategy with modern management tools.

- **Platform 2 (financial accountability)** focuses mainly on the building of a Financial Management Information System (FMIS) as the core platform for budget efficiency and financial accountability at all levels, either at financial control, cash management or programme implementation. This platform also aims at providing financial information comprehensively in the system in a timely manner and improving internal control to hold managers accountable. It includes implementing a modern chart of accounts based on IPSAS standards, developing a new budget classification, a transaction coding structure and accounting rules, implementing the FMIS, clarifying lines of responsibilities through a clear budget entity structure linked to responsibility/expenditure assignments and developing a reporting structure, including financial statements that comply with international standards.

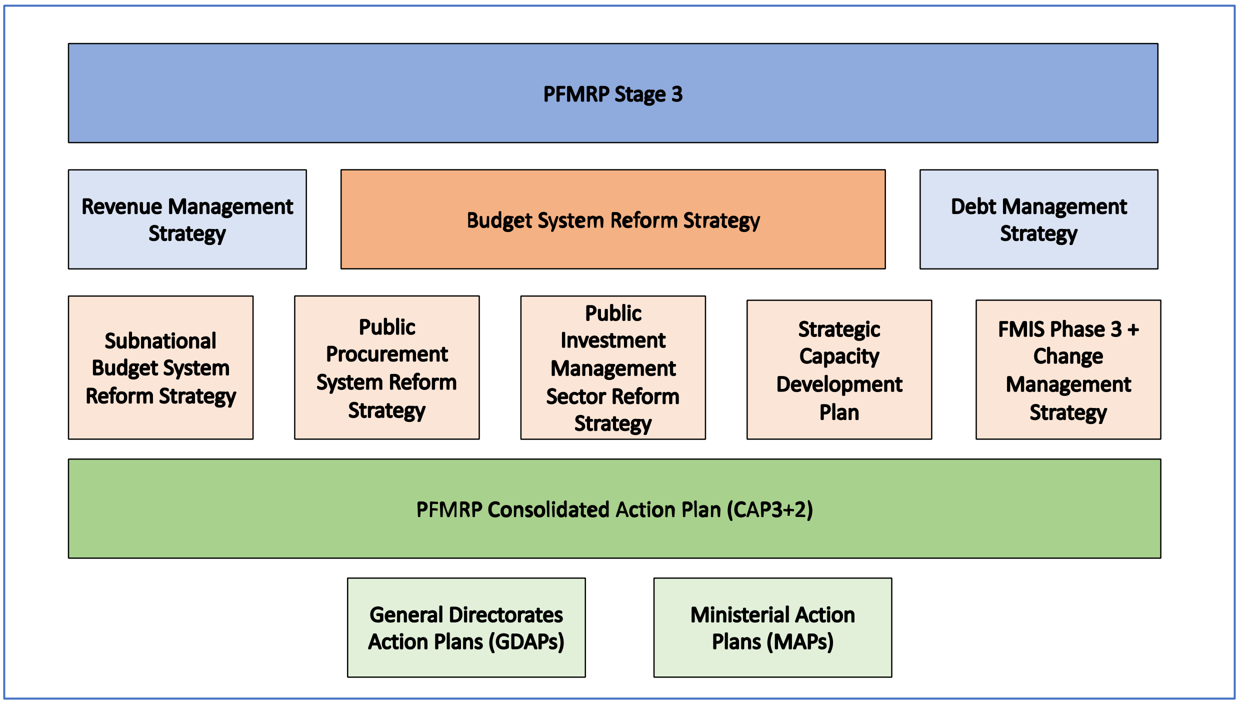
- **Platform 3 (budget-policy linkage)** focuses on improving linkages between economic planning and economic policy priorities as reflected in the National Strategic Development Plan (NSDP) and budget planning. It includes developing a hierarchy of medium-term programming tools and implementing programme budgeting with some elements of fiscal decentralization. It also foresees integrating the recurrent and capital budgets.
- **Platform 4 (performance-based management)** intends to deliver broad accountability through better-designed PFM processes and performance-based management.

The specificity of the platform strategy is that it combines the logical interdependence between reforms with a clear prioritization of tasks based on a diagnostic of the PFM system vulnerability. Platforms can run parallel to one another but remain relatively independent, provided that basic functions are already implemented.

The PFMRP, which sets the main direction for reform, is complemented by a series of key reform strategies with detailed action plans to operationalize the reform across the different PFM areas up until 2025. Together, the PFMRP and these strategies form the public policy package for the reform of PFM in Cambodia to 2025. First of them is the overarching **Budget System Reform Strategy 2018-2025 (BSRS)**: whereas the PFMRP sets the broad targets for reforming the overall PFM system, the BSRS defines a set of realistic and achievable objectives for the development of the budget system of Cambodia and describes the overall strategy, policies and actions that will be required to achieve these goals. The BSRS takes a broader view of the meaning of the Budget System as a core PFM reform agenda centred around the long-term goal of achieving performance budgeting. The BSRS provide guidance and direction to most other budget system reform strategies, such as:

- The Revenue Mobilization Strategy 2019-2023 (RMS)
- The Sub-National Budget System Reform Strategy 2019-2025 (SNBSRS)
- The Public Procurement System Reform Strategy 2019-2025 (PPSRS)
- The Public Investment Management Sector Reform Strategy 2019-2025 (PIMSRS)
- The Public Debt Management Strategy 2019-2023 (PDMS)
- The Strategic Capacity Development Plan 2021-2025 (SCDP)
- The FMIS Phase III (2021-2025) and FMIS Change Management Strategy.

Structure of the PFM reform strategic framework of Cambodia



Each stage has a **Consolidated Action Plan (CAP)** as a guide for implementing reform activities of line-ministries (LMs) and General departments (GDs) of MEF. CAPs are reviewed annually with discussion and consultation with all LMs and stakeholders in order to set a clear direction and key performance indicators (KPIs) for LMs and GDs to follow. Following development of the CAP, LMs prepare Ministry Action Plans (MAP) and MEF General Departments prepare General Department Action Plans (GDAP).

PFMRP implementation is coordinated by the General Secretariat of PFM Reform Steering Committee (GSC) who coordinates the work of the PFM Reform Working Group of the Ministry of Economy and Finance and all line-ministries, as well as cooperation with development partners. The GSC also provides support to line-ministries and MEF general departments, both in the implementation and monitoring and evaluation of the implementation of the PFMRP. GSC is directed by a Secretary General assisted by six Deputy Secretary Generals in 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. The key roles and responsibilities of GSC include:

- Design policies, strategies, and consolidated action plan (CAP). The CAP framework was formulated at every stage PFMRP (e.g., CAP3 framework for PFMRP stage 3). GSC also supported implementing agencies within MEF and LMs as they prepare their own action plans (GDAPs and MAPs) under this framework.
- Preparation of quarterly and annual PFMRP progress reports which raise issues and propose solutions to PFM Reform Committee and PFM Steering Committee or PFM Technical Working Group during quarterly and annual meetings.
- Formulation of the budget to support the whole PFMRP.

- Coordination with other cross-cutting reform programmes, including Public Administrative Reform and Deconcentration & Decentralisation Reform, to ensure these three reform programmes are synchronized.
- Dissemination of the PFMRP to all stakeholders to ensure the awareness of reform programme.

PFMRP contribution to the establishment of a solid PFM system

PFMRP implementation is one of the main factors behind the building and promotion of a strong PFM system in Cambodia. How strong the PFM system has become is reflected in the achievements of PFMRP along its four sequenced stages. To measure achievement of each stage, the CAP is used to set KPIs and to assess implementation progress. Up to now, implementation of PFMRP have gone through three stages with some accomplishment as presented below.

Stage 1 (2005-2008) focused on achieving budget credibility through increased revenue mobilization and predictable overall budget execution. Its success has resulted in macro-economic stability and expanded fiscal space for the government. As a result, by the end of stage 1 (2008), domestic revenue had started to increase significantly, a new economic classification was established, the Treasury Single Account (TSA) consolidated all Government bank accounts, and 3-year rolling Budget Strategic Plan (BSP) were introduced. The budget preparation process became more orderly, starting in March and ending in December with a clear three-stage process (budget strategic plan, budget estimates, and budget approval), A citizen's budget, the Budget-in-Brief, was also introduced in 2007. In addition, a database system to improve monitoring of external financing was developed and regular missions to investigate undeclared revenue/expenditure were conducted. A software to record arrears was installed under the computerized accounting system of the new chart of accounts. Procurement rules and policy were improved through an amendment of sub-decree No. 60 (sub decree No. 105) and Prakas No.045 on procurement decentralization. Procurement reporting mechanisms and post review procedures were introduced as well as procurement plans. A Procurement Manual was issued on January 23, 2007.

Stage 2 (2009-2015) aimed to achieve basic financial accountability in government agencies. The Financial Management Information System (FMIS) was introduced, along with a modern chart of accounts based on International Public Sector Accounting Standards (IPSAS) standards and new budget classification. The result of implementation of Platform 2 was to further strengthen some activities that were not yet fully achieved from the first platform and mainly focused on the development of systems like FMIS and accounting standards. In 2015, FMIS stage 1 was launched with two modules: Budget Allocation and General Ledger, and another four modules were added: Purchase Order, Accounts payable, Accounts Receivable and Cash Management, first piloted in general departments of MEF. Improvements were brought to budget execution procedures and the chart of accounts, while other budget classifications such as functional, resources and project classifications were developed.

Stage 3 (2016-2020) was extended to two more years (2021-2022) to build a robust foundation towards the fourth stage "performance accountability". It aims to link budget allocation with each ministry's policies and the government's policies. Stage 3 represents a key turning point of PFMRP, and considerable progress was made during this period. According to the CAP3 Review prepared by GSC in 2020, CAP3 achievements in the period 2016-2020 were evaluated as follows:

<u>Part1 - Further Strengthened Budget Credibility:</u> revenue collection was buoyant and created current surpluses, while expenditure implementation continued to improve significantly within the set targets and public debt ratios remained within sustainability thresholds. However, the relatively narrow tax base remained a concern for economic growth sustainability, and revenue forecasts were well below actual revenue collection. It was advised to ensure revenue diversification, effectiveness of procurement planning and implementation, as well as accuracy of revenue and expenditure forecasting.

<u>Part 2- Further Strengthened Financial Accountability:</u> FMIS was rolled out in all line-ministries, capital-provincial treasuries, and capital-provincial departments of economy and finance. The MEF and seven line-ministries have started to implement business process streamlining procedures through the FMIS system for the payment of salaries, staff duties and direct payment expenses. In addition, the General Department of the National Treasury (GDNT) started to use exclusively the FMIS system to record, close accounts and prepare payment decisions. The Cambodian Public Accounting Standards were designed, to be implemented in line with a roadmap towards accrual accounting. Budget transactions are recorded in FMIS in line with the seven-segment budget classification, but two classifications, namely, geographical and functional classification, are not fully implemented. At the same time, the organization of public forums and the opening of budget information to the public strengthened from year to year, leading to an improvement in Cambodia's ranking in budget transparency indexes.

Despite good progress, some activities could not complete as planned. The development of the State Assets Register Management Information System progressed slower than planned. So far, this system has been finalized but is not yet fully implemented in line-ministries, as the focus was on preparing the new Law on state property management. FMIS, although it has been working smoothly as planned, does not yet allow for the automatic production of the report for national budget settlement. Besides, there has been limited progress in interfacing FMIS and other systems like personnel management system, tax system and so on.

<u>Part 3 - Budget-Policy Linkage:</u> a number of legal documents and strategies were developed to strengthen the implementation of actions to link budgets to policies. The new Public Finance System Law, which is still being drafted, and the relevant sub-decrees will be key in ensuring effective implementation of programme budgeting. Programme budgeting is now implemented by all line-ministries and provincial administrations, but implementation monitoring and evaluation mechanisms are not yet in place.

Preparing for the next phase, budget-policy linkages should be further strengthened through improved quality of the budget strategic plans and annual budgeting of all budget entities. Direction and orientation of the budget entities should be fully highlighted, especially in priority areas that respond to the Royal Government's political and strategic programmes through strengthening the quality of the Medium-Term Financial Framework (MTFF) and the Medium-Term Budget Framework (MTBF).

Part 4 - Readiness for next platform: progress under Phase 4 was slow in the first two years of CAP3 but accelerated after the "Budget System Reform Strategy 2018-2025" (BSRS) was approved, with its objective of establishing performance-informed budgeting by 2025. Key progress made in this part included preparation and implementation of Guidelines for Performance Audit (for external audit), as well as Information System Audit Guidelines and Performance Audit Guidelines for internal audit. In addition, the Strategic Capacity Development Plan has also been prepared and implemented for the third phase of PFMRP to prepare human and institutional resources to support changes in public finance-related performance.

However, progress in this part was slower than planned due to resources being focused on drafting the new public financial system law and sub-decrees 81 and 82, which will pave the way for implementation of performance-informed budgeting ahead. The development of a framework for the performance monitoring has not progressed as planned, yet.

Part 5 - Supporting the Successful and Sustainable Implementation of PFMRP: capacity building, M&E mechanism and incentive mechanisms have been designed and implemented through: (1) implementation of the strategic plan for sustainable capacity development plan of PFMRP stage 3, (2) implementation of the Royal Government of Cambodia Circular No. 09S dated 8 December 2015 on the Rules and Procedures for the Implementation of the Monitoring and Evaluation of PFMRP, and (3) implementation of the PFM Fund. At the same time, to ensure the sustainability of PFMRP implementation, coordination mechanisms have been established since 2016 for the three key public reforms (Public Financial Management Reform Programme, the Sub-National Democratic Reform Programme, and the Public Administration Reform) with the aim of creating cross-cutting coordination and complementing each other.

The relationship between PFM systems and service delivery

Improving service delivery outcomes is a key notion on the international and national development agenda. Highlighting the critical role that public institutions play in achieving the development goals, the UN has, for instance, introduced the UN Public Service Day since 2003 to recognize public service innovations that have led to more effective and inclusive public service delivery in countries worldwide.

Certainly, improving service delivery performance has been a central objective of Cambodia's development strategies, including the five-year Rectangular Strategies, NSDPs, and sector development plans such as the Education or Health Strategic Plans. The PFMRP itself ambitions to play a key role in the implementation of these strategies and in ensuring more efficient provision of public service.

In December 2008, the RGC launched the 2nd stage of the PFMRP in the midst of the global financial crisis. The PFMRP document at the time warned that Cambodia, as part of an increasingly globalised community, could not be immune to the effects of global crises. However, it said, "what is *certain* is that improved PFM will strengthen our ability to face these challenges and to minimize the impact of difficulties on implementing government development policy and service delivery to our citizens."

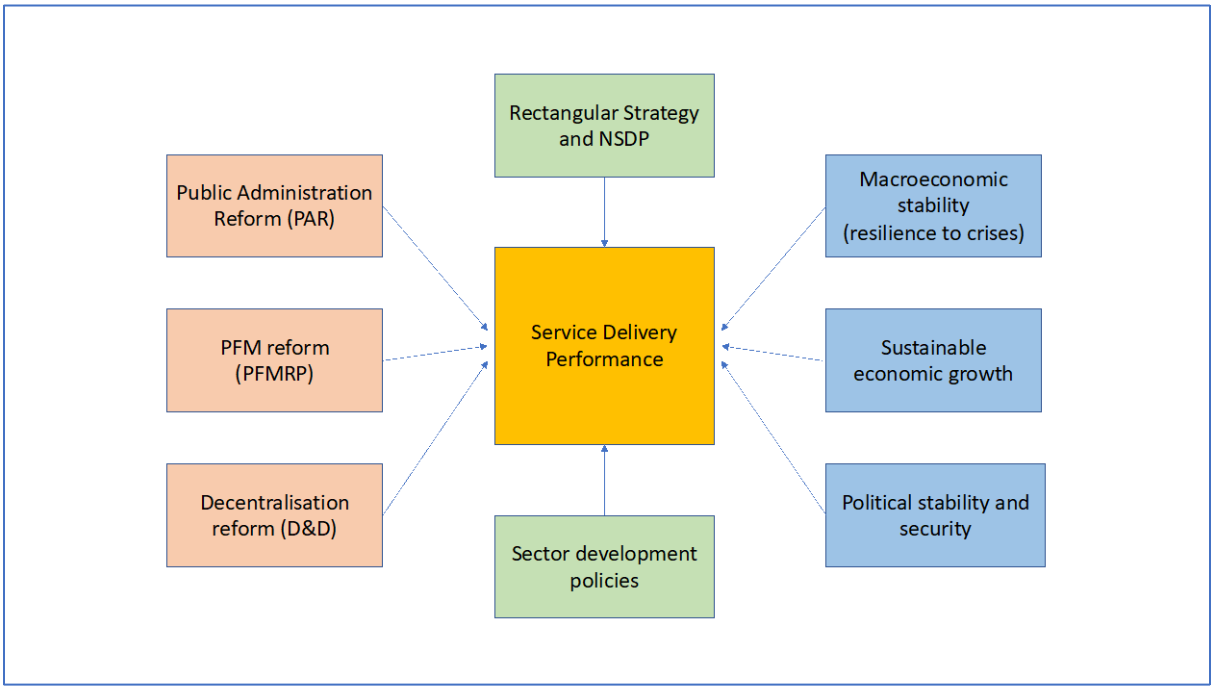
Since it struck the world at the beginning of 2020, the Covid-19 pandemic and ensuing economic crisis has had an unprecedented impact on societies, livelihoods of communities, and the wellbeing of families, redefining the overall everyday life of people all around the world. According to the UN, the Human Development Index (HDI) was estimated to suffer a steep and unprecedented decline in 2020 for the first time in the 30 years since the measure has been computed, with potential devastating impacts on the three dimensions of the HDI – health, education and standard of living (Leaving No-one Behind, UNDP, 2021).

In this context, the likelihood of meeting the ambition of universal access to basic public services looks increasingly under threat, at a time when this is needed more than ever. Miller et al underline that if there are any prospects of 'building back better', success will depend on governments' ability to raise, allocate and use public funds effectively (Miller, Hart, Hadley, ODI, 2021).

Indeed, it is widely established in literature that PFM systems will have a positive impact on service delivery. As the PEFA Secretariat puts it, strong PFM systems are considered one of the enabling elements needed for the achievement of three of the quoted desirable fiscal and budgetary outcomes, namely: achievement of aggregate fiscal discipline by influencing the size of resource collection, management of public debt, and public spending; strategic allocation of resources by influencing the composition of spending; and efficient service delivery by influencing the execution of spending and ensuring that budgeted revenues are used to achieve the best levels of public services within available resources (Service Delivery Module to subnational PEFAs, PEFA 2016).

However, the relationship between PFM systems and service delivery is a complex one and there is no standard tool to assess it. PEFA reports do provide important information to help identifying bottlenecks in service delivery due to PFM performance, while other PFM diagnostic tools such as Public Expenditure Reviews (PERs), Public Expenditure Tracking Surveys (PETS), Quantifiable Service Delivery Survey (QSDS), FinHealth: PFM in Health Toolkit, also provide elements to analyse the influence of PFM performance in service delivery.

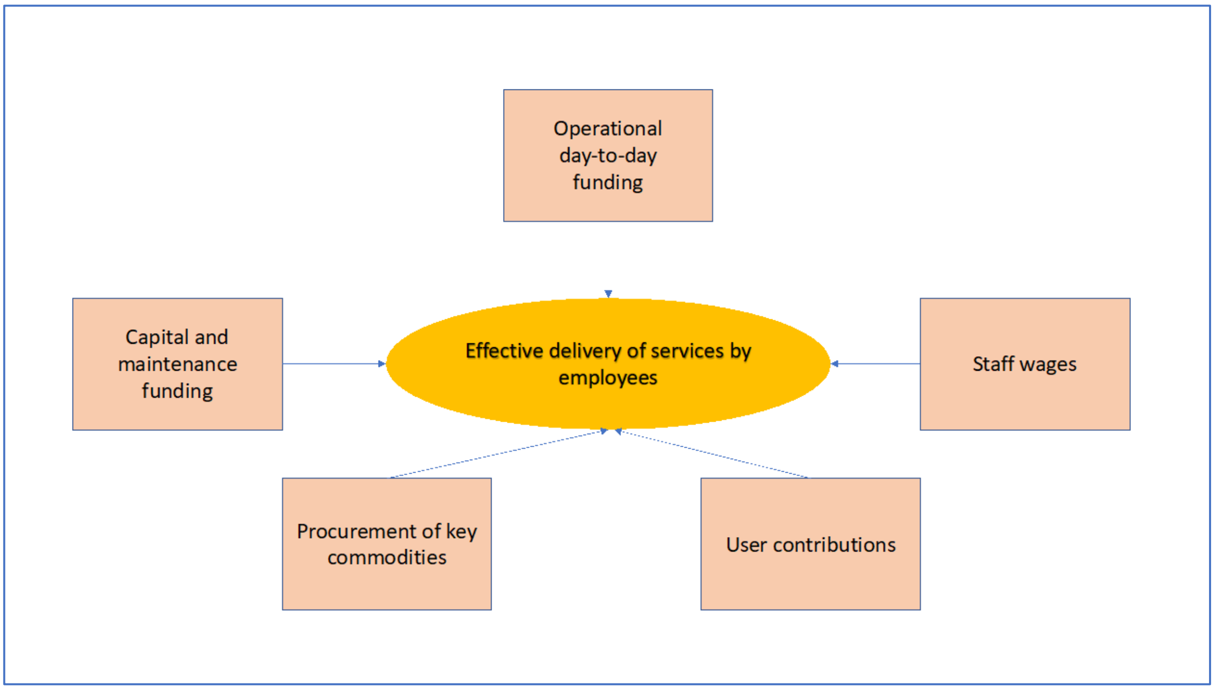
Whereas good PFM systems are widely considered to be a *necessary* condition for more efficient provision of service delivery, the literature suggests that they are *not sufficient* as several other public administration processes such as civil service reforms or decentralisation, or even macroeconomic stability and economic growth, also play a key role in service delivery (see graph below).



Indeed, Welham et al argue that if poor PFM systems may be sufficient to result in poor service delivery performance, effective PFM systems cannot on their own guarantee effective service delivery. An example is when lack of motivation or ineffective staff deployment undermines service delivery performance even as salaries are paid on time.

Welham, Krause and Hedger[1] identify the following PFM-related *contributions* to effective service delivery:

[1] Linking PFM dimensions to development priorities, ODI, 2013



They argue that each of these contributions involves PFM systems in some way:

- provision of operational, capital/maintenance and staff wages funding is a core role of government PFM systems;
- user contributions represent external finance, but government PFM systems will still have a role in collecting and accounting for them;
- similarly, the provision of key commodities (e.g. textbooks, drugs) to service delivery units will depend on their timely and effective procurement.

PFM reforms, they say, can target improvements in the efficiency of expenditure allocation by making such decisions more transparent, evidence-based and subject to rigorous challenges; however, there may be no objective answer to the question of which allocations are more 'efficient'. Budget allocations, they add, are also inherently political and the value of any particular investment may not be objectively determinable. The question of 'efficiency' and 'value' of different expenditures therefore needs to be connected to a politically determined expenditure strategy outlined by a government.

In Cambodia's Rectangular Strategy, NSDP and sector development plans, the political leadership sets out its policy priorities and ambitions for delivery of certain outputs and outcomes. As will be discussed in further sections, the PFMRP has contributed to ensuring a link between these strategies and the annual budget, through budget policy instruments such as the Medium Term Macroeconomic and Fiscal Framework setting out the overall level of expenditure expected, the Budget Strategic Plans (BSPs), the piloting of MTFF and MTEF, and introduction of the programme budgeting reform. The expenditure policy information they contain, which shows the relative priority of competing spending claims, can help answer some of the issues regarding the 'efficiency' of allocation.

There is an emerging international agenda on PFM and service delivery, with a growing interest in understanding how changes to the PFM systems can contribute to improved service delivery outcomes. The Overseas Development Institute (ODI) has recently launched a "Public Finance and Service Delivery" working paper series[2] soliciting contributions from researchers and practitioners in PFM, health finance, fiscal decentralisation and related fields, the ambition of which is to help feature practical, policy-relevant research that explores how public finance management (PFM) processes, tools and mechanisms link to broader sector management. It will also look into how their application and effectiveness might vary given the diversity of institutional and socio-political contexts found within and across different countries.

In a March 2021 paper, Miller, Hart, Hadley take stock of the emerging agenda on PFM and service delivery by asking what's new, what's missing and what (should be) next:

- *What's new?* The authors note that this emerging agenda has offered important new insights into the way PFM systems are operating, particularly in the health sector. It has raised the importance of understanding the trade-offs between the various objectives of PFM, and of the need to look beyond ministries of finance to understand how budgets are allocated and spent to support service delivery.
- *What's missing?* Debates often oversimplify the relationship between PFM and service delivery and consequently risk overstating what can be achieved solely by PFM reform to improve public spending. There is too little discussion of the links between the budget cycle and other public sector systems; limited attention is paid to the political factors that shape spending on basic services; and the continuing focus on models of good practice ignores the diversity of government systems for providing basic services.
- *What's next?* The next phase of the agenda should take a broader 'public finance' perspective that draws into the debate a wider set of professions, disciplines and country voices to explore the complex challenges involved in improving spending on public services. This will require greater examination of how institutions work in different countries, rather than relying on good practices drawn from just a handful of international experiences, and on drawing lessons from similar issues and systems across sectors.

The objective of the present study is to assess if and how increasingly robust PFM systems have contributed to macroeconomic stability (Part I) and improved service delivery performance in Cambodia's education (Part II) and health (Part III) sectors in the period 2015-2020. In Parts II and III, the study will first map improvement in service delivery performance and in reinforcing PFM systems in the education and health sectors. Then it will reflect on *possible* attributions between PFM reforms and these achievements. Rather than bringing clear-cut answers to the question, this study ambitions to present a first prudent attempt at looking into the relationship between PFM systems and service delivery in Cambodia. The Ministry of

[2] The series is funded by the Bill and Melinda Gates Foundation

Economy and Finance of the Royal Government of Cambodia would welcome further work on this question, to contribute to this ‘emerging international agenda’.

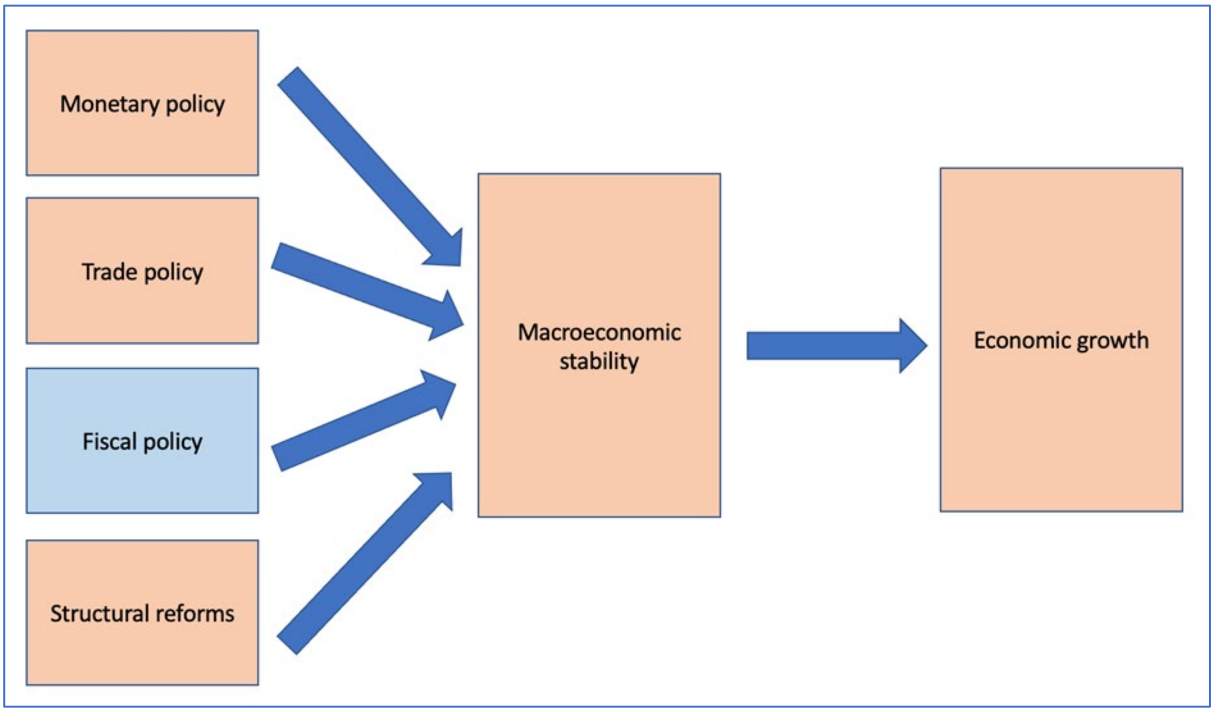
PART I – PFMRP IMPACT ON MACROECONOMIC STABILITY AND ECONOMIC GROWTH

The objective of this section is to assess if and how increasingly robust PFM systems put in place in the framework of the PFMRP have contributed to macroeconomic stability and economic growth in Cambodia in the period 2015-2020.

Definitions

Broadly defined, macroeconomic stability refers to a national economy that has minimized vulnerability to external shocks, which in turns increases its prospects for sustained growth. Besides, economic growth is an important contributor to the formation of fiscal space, which can be used in turn to improve service delivery performance in sectors like health and education.

Countries have a number of key instruments to influence the economy, including monetary policy, fiscal policy, trade policy, structural reforms etc. For fiscal policy is, like PFMRP, in the remit of the Ministry of Economy and Finance of Cambodia, and has the most direct relationship with PFM systems, the focus of this section will be on the relationship between PFM systems, fiscal policy and macroeconomic stability.



Fiscal policy can be defined as the use of government spending, taxation and borrowing to influence the economy. Governments typically use fiscal policy to promote strong and sustainable growth and reduce poverty (IMF, FD, Horton and El-Ganainy). A sustainable fiscal policy is a policy whereby a government can sustain its current spending, tax and other policies in the long run without threatening government solvency or defaulting on some of its liabilities or promised expenditures. It should be noted however that there is no consensus among economists about the correct criterion/definition to be used for fiscal sustainability. In this study, we used mainly IMF Article IV reports and Debt Sustainability Analyses to evidence fiscal policy sustainability.

Economic policy objectives

In Cambodia, the main medium term economic policy objectives are set in the five-year Rectangular Strategies and subsequently on a rolling 3-year basis in the Medium Term Macroeconomic and Fiscal Policy Framework. Fiscal policy in turn is described in the Medium Term Macroeconomic and Fiscal Policy Framework, which is developed by MEF General Department of Policy to guide Budget Strategic Plans and annual budget formulation.

During the period 2015-2020, two Rectangular Strategies were implemented: the 3rd Rectangular Strategy (RS3, covering 2014-2018) and the 4th Rectangular Strategy (RS4, covering 2019-2023). The RS3 and RS4 strategic objectives for economic development (and macroeconomic stability) were quite similar:

- RS3: "Ensuring an average annual economic growth of 7%. This growth should be sustainable, inclusive, equitable and resilient to shocks through diversifying the economic base to achieve a more broad-based and competitive structure with low and manageable inflation, stable exchange rate and steady growth in international reserves."
- RS4: "Ensuring sustainable economic growth of around 7% per annum which is resilient to crises through diversifying into new growth sources to widen the growth base and enhance competitiveness while maintaining the macro-economic stability through containing the inflation, ensuring the stable exchange rate for Riel, increasing the international reserve on regular basis and managing public debt vigilantly."

Macroeconomic performance

As can be seen in the table 1 below, Cambodia has consistently achieved these objectives in the period 2015-2019: average economic growth of 7.1%; average 3% inflation; growth official reserves soaring from USD 6.8 billion in 2015 to USD 21.3 billion in 2020; stable exchange rate. In 2020, the country was faced with its first economic recession due to the impact of the global Covid-19 pandemic. However, as will be detailed further below, it could apply substantial fiscal stimulus measures thanks to solid fiscal space built over the years as a result of prudent fiscal policy.

Table 1: Selected macroeconomic indicators

Indicators	2015	2016	2017	2018	2019	2020e
GDP growth (constant prices)	7.0%	6.9%	7.0%	7.5%	7.1%	-3.1%
Inflation (period average)	1.8%	3.5%	3.3%	3.1%	3.2%	2.9%
Gross official reserves (USD mln)	6,798	9,093	12,201	14,629	18,763	21,334
Exchange rate (nominal, KHR to USD)	4,025	4,058	4,062	4,067	4,070	4,077

Source: MEF

During the same period, fiscal policy has been remarkably effective and sustainable, reaching or exceeding its revenue and expenditure objectives, as well as deficit and debt sustainability objectives. As can be seen in the Table 2 below: domestic revenue soared from 18% of GDP in 2015 to 25% in 2019, then recessing to 21.2% due to recession and fiscal stimulus (tax breaks); expenditure increased in proportion to revenue in the period 2015-2019, thus resulting in primary surpluses in 2016, 2018 and 2019; public debt to GDP decreased from 31.7% of GDP in 2016 to 28% in 2019.

In 2020, faced with economic recession, the authorities launched a fiscal stimulus with a mix of tax breaks to support businesses and social programmes to support the population at risk, resulting in lower domestic revenue (21.2% of GDP) and higher expenditure (25.5% of GDP). Yet, the fiscal deficit was contained at 1.7% of GDP. Public debt increased from 28% of GDP to 33%, with present value remaining well below debt sustainability thresholds, at 24% of GDP. This level of intervention was possible thanks to prudent fiscal policy over the years, resulting in low debt ratios and high international reserves, and thus substantial fiscal space.

Table 2: Selected fiscal indicators 2015-2020

Indicators	2015	2016	2017	2018	2019	2020e
Domestic revenue to GDP	18.0%	18.7%	20.2%	21.9%	25.0%	21.2%
Expenditure to GDP	20.3%	21.1%	22.4%	23.0%	23.8%	25.5%
Overall fiscal balance to GDP	-0.6%	-0.3%	-0.8%	0.7%	3.0%	-1.7%
Primary fiscal balance to GDP	-0.3%	0.1%	-0.5%	1.0%	3.3%	-1.3%
Public external debt to GDP	31.2%	31.7%	30.0%	28.5%	28.0%	33.0%
PV of external debt to GDP	23.2%	22.5%	22.8%	21.5%	20.8%	24.0%

Sources: MEF and IMF dataset

How was this degree of effectiveness possible in Cambodia? Not all countries, developed or developing, are successful in reaching their fiscal policy objectives. In spite of policies and commitments towards fiscal sustainability, some countries see weak domestic revenue, high fiscal deficit, even at times of strong economic growth, some being put on the path of debt distress (e.g. Laos).

The next section will reflect on the role played specifically by PFM systems among all other factors potentially contributing to making fiscal policy *effective*.

Attribution

By strengthening *budget credibility* and *financial accountability*, the PFMRP has established a conducive environment for effective fiscal policy. Undeniably, there has been considerable achievement in these areas in the period 2015-2020:

- Strong revenue performance,
- Public debt well below distress thresholds,
- Elimination of expenditure arrears[3],
- Budget execution rates in line with the target (minimum of 96% relative to planned total spending).

Fiscal policy sets targets and limits to the use of government spending, taxation and borrowing. Its implementation relies on the capacity of PFM systems to collect revenue and spend budgets within these limits, and in particular:

- Revenue management, contributing to increased domestic revenue
- Public debt management and oversight of contingent liabilities, contributing to sustainable debt ratio and other liabilities
- Budget planning (programme budgeting, public investment management), contributing to strategic allocation of resources (allocative efficiency)
- Budget execution (cash management, treasury single account, public procurement, payment systems) and financial accountability systems (accounting and reporting, controls, audit), contributing to fiscal transparency and operational efficiency.

PFMRP impact on revenue management

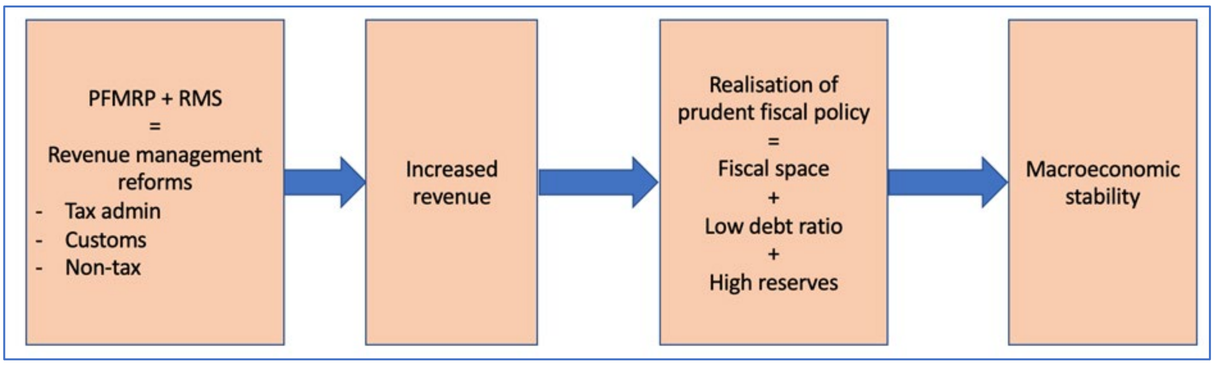
Revenue management reforms have formed a key pillar of PFMRP stages from the very beginning, and the Royal Government of Cambodia successfully implemented the medium-term Revenue Management Strategies (RMS) 2013-2018 and 2019-2023 resulting in sustained revenue growth. When the PFMRP Stage 1 was launched in 2004, domestic revenue was at 10.3% of GDP. Thanks to reforms expanding the tax base, establishing tax culture and compliance, modernizing tax administration, domestic revenue surged to 15% of GDP in 2013 and to 21.9% in 2018, a performance hailed by regional and global international financial institutions.

[3] based on definition of GDNT's receipt of mandate until payment

The PFMRP and RMS have led to considerable improvements in the revenue management system, among which:

- Institutional capacity and governance: segregation of responsibilities, M&E data & systems, risk management and internal audit functions/processes
- Expanded use of IT, including applications to support integration and automation of tax administration, e-filing, e-payment, e-VAT refund (thus reducing the average duration of VAT refund from 105 to 31 days), as well as a more customer-focused approach to improving service quality (expansion of the National Single Window)
- Specific revenue policy measures – targeting strengthening property tax, income tax, excises and others, with review of specific tax policies in order to update and realign them to the current economic context and strategic priorities
- Implementation of electronic payment systems and other online services simplifying payment processes for taxpayers, leading to achievement of targets for taxpayer filing rate and on-time payment rate
- Simplification and modernization of customs business processses and operation. By 2020, the number of Authorized Economic Operators (AEOs) was increased from 10 to 40.
- Staged NRMIS implementation to 23 LMs in 2018 (covering all LMs having non-tax revenue collections) supporting progress in inter-ministerial reporting of non-tax revenue collections (fees for services) and deposits into TSA
- Reduction of non-tax revenue debt (by 18.4% in 2017 and 11.4% in 2018), with ongoing efforts focusing on finalizing regulations to establish a formal classification of outstanding arrears/debt to facilitate resolution (e.g. distinguishing receivables from debt to be written off) and increasing options for stronger enforcement actions (e.g. freezing commercial bank accounts), along with mediated resolution through establishment of payment schedules

The relationship between PFMRP (and RMS) and macroeconomic stability can be represented as follows:



PFMRP impact on public debt management

Debt management reforms and, more recently, oversight of contingent liabilities have featured high in PFMRP Consolidated Action Plans throughout the first three reform stages. This came alongside Public Debt Management Strategies (PDMS) 2011-2018 (and updated strategy 2015-2018) and 2019-2023, which aimed at further efficiency, effectiveness, transparency, and sustainability of public debt management. The Royal Government of Cambodia has been consistently very cautious in managing public debt through strict implementation of the following key principles:

(i) to borrow in an amount which is proportionate to budget situation and viable economy
(ii) to take only loans with high concessionality level or favorable condition
(iii) to borrow only for priority sectors supporting sustainable economic growth and sectors promoting economic productivity or production productivity
(iv) to use loans with the highest transparency, accountability, efficiency, and effectiveness
(v) to use the loans for financing investment projects for public infrastructures that are of high standard and quality in line with the principles of PIM and corresponding to the needs of national development in the new phase while ensuring, particularly economic, social, environmental sustainability and climate change resilience.

In addition, the Law on Public Finance System requires that management of public debt be centralized (only MEF by delegation of PM can borrow).

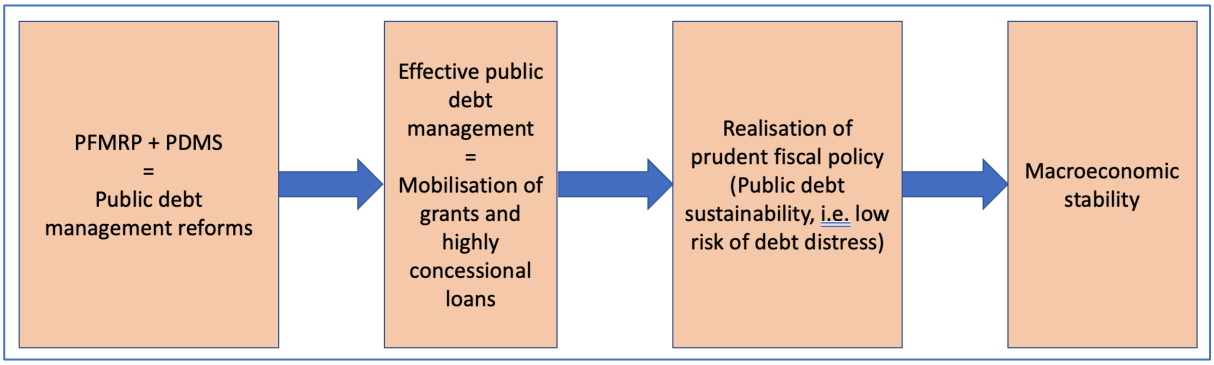
The PFMRP and PDMS have led to important improvement in debt management system, among which:

- Adoption of a solid legal framework for public debt management, in particular a Prakas on Standard Operating Procedures for public debt management approved in June 2018 and updated in October 2021 and Prakas on lending and on-lending (2015).
- Implementation of an Institutional and Human Resource Capacity Development Plan for Public Debt Management led to: upgrading of the former Department of Cooperation and Debt Management (including its Public Debt Management Unit) into a MEF General Department also in charge of international cooperation and externally-financed public investment management (GDICDM); reorganisation of the debt department into a modern debt office with clear assignment of functions in line with best international practice (front office, middle office and back office); recruitment of specialised staff and capacity development through training, local, regional and international seminars, forums and conferences.
- Upgrading of the UNCTAD Debt Management and Financial Analysis System (DMFAS) and interfacing with FMIS for debt service.
- Use of an internal database for monitoring of on-lending loans to public enterprises and collection of debt service from them

- Improved management and monitoring of debt related risks
- Publication of 6-month Public Debt Statistical Bulletins on the MEF website.
- Establishment of a Contingency Fund in 2016 to cover Government guarantees related to PPPs, to which 5% of debt service is allocated every year.

These reforms have led to sustainable public debt management, with mobilisation of grants and highly concessional and low-risk loans, and diversification of the loan portfolio. Specifically, the loans that the Royal Government has contracted in the years 2015 - 2020 are all high concessional loans with grant elements of more than 35% that include: interest rate ranging from zero to 2% per annum, maturity from 15 to 40 years, and grace period from 5 to 15 years.

The relationship between PFMRP (and PDMS) and macroeconomic stability can be represented as follows:



PFMRP impact on budget planning

Budget planning reforms are essentially part of the PFMRP Part III on 'Budget-Policy Linkages". Budget reforms are further detailed in the Budget System Reform Strategy 2018-2025 (BSRS). They are centred on a comprehensive *programme budgeting* (PB) reform.

Budget planning reforms are key to ensure effectiveness of fiscal policy as they are aimed at ensuring that the budget allocation process is *strategic*, i.e., in line with national socio-economic development policies. Fiscal policy directs government spending to influence the economy, to promote strong and sustainable growth and reduce poverty. The two main instruments to promote strategic budgeting in the PFMRP are the programme budgeting and the public investment management reforms.

In 2017, a Public Investment Management Assessment (PIMA) was conducted with support from the World Bank. The report (published in 2019) underlines that for more than two decades, Cambodia has achieved high growth rates and macroeconomic stability, and the provision of public infrastructure has mainly been financed by donors. It explains that gross capital formation, at an estimated annual average of less than 20% of GDP over the past two decades, is characterized by limited domestic investment, while foreign direct investment and donor-financed public investment have been relatively large, compared to other lower middle-income economies. Externally financed capital expenditure averaged around 4.5% of GDP in

2000-08 then increased in the aftermath of the global financial crisis, reaching a peak of 8.2% of GDP in 2011. Since then, it has been declining in the context of decreasing grant components in donor financing. Domestically financed capital expenditure was at more modest levels, around 2-2.5% of GDP in 2009-15. The table below provides data for externally and domestically financed expenditure in percentage of GDP in the period 2015-2020. As can be seen, externally financed investment continued to decrease related to GDP, whereas domestically financed investment continued to increase, reaching a peak of 3.4% of GDP in 2018.

Indicators	2015	2016	2017	2018	2019	2020e
Net acquisition of non-financial assets	7.8%	7.6%	7.5%	7.7%	7.4%	8.3%
Externally-financed	5.0%	4.8%	4.7%	4.3%	4.6%	5.3%
Domestically financed	2.7%	2.8%	2.9%	3.4%	2.8%	3.0%

Source: IMF Article IV reports

The PIMA report notes further that for Cambodia, improved public expenditure management and long-term growth prospects will hinge upon enhancing the quality of public investment management (PIM). The low level of efficiency of public spending calls for strengthening of PIM. Although total public capital formation has been substantially higher (an average of 7.5% of GDP in 2000-15) than in most ASEAN countries, Cambodia continues to fall behind in terms of actual outcomes, such as the percentage of paved roads and quality of roads. In 2011, an index of public investment efficiency classified Cambodia among the bottom 40 percent of developing economies, mainly due to weaknesses in investment project selection and appraisal (Dabla-Norris et al., 2011). The report concludes that Cambodia needs to not only sustain high public investment levels but also improve PIM to enhance value for money.

Quite a lot was achieved during the period 2015-2020 in improving and expanding budget reforms, in particular programme budgeting, but also to a certain extent in analysing the bottlenecks in public investment management and identifying solutions in the Public Investment Management System Reform Strategy 2019-2025 adopted in 2019.

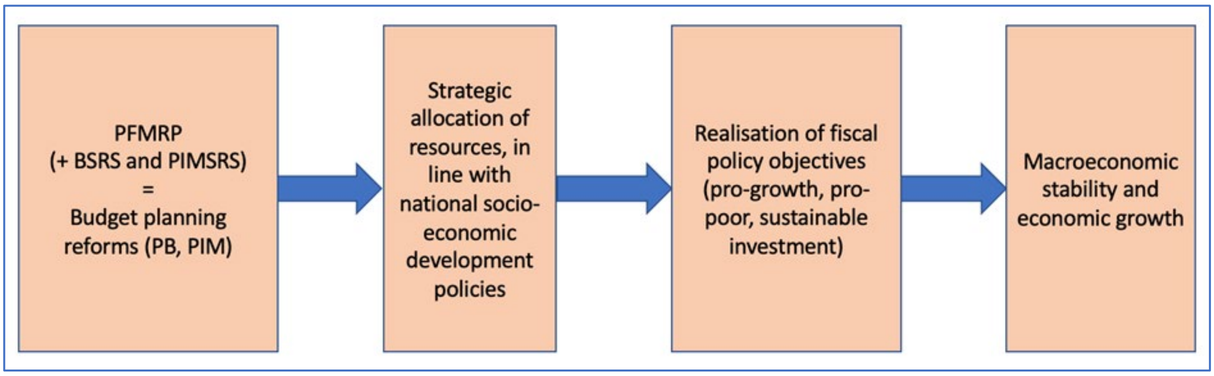
- All 37 line ministries have developed their *budget entity* and *programme budget* structures. They were only 10 line ministries in 2015. Within line ministries, the number of Fully Authorised and Non-Fully Authorised budget Entities has increased to enhance accountability.
- All of them prepare and submit their 3-year rolling programmatic Budget Strategic Plans (BSPs). The BSPs are designed to enhance strategic thinking at ministry level, to ensure a stronger link between the NSDP, sector strategies and the annual budget. Although more integration is necessary between BSP and annual budgets, and further integration of capital expenditures, BSPs have been increasingly compliant with expenditure ceilings communicated in the BSP circular.
- Since 2020, all line ministries and 25 capital/provincial administrations submit their annual budgets in the programme format (programme, sub-programme, activities). The

budget formulation process and budget hearings held at MEF have been increasingly focused on results (*performance*)

- Since 2020, all ministries have submitted their annual performance reports to MEF GDB (Budget Formulation Department) in a bid to enhance focus on performance
- Public investment management reforms were in-the-making in the period 2015-2019. Inter-ministerial committees (IMCs) were established in three infrastructure ministries for the selection and monitoring of domestically financed investment projects, along with rules for prioritization and request for feasibility studies. Although this helped MEF and these 3 line ministries activate a strategic policy dialogue about investment, the need for a more comprehensive legal and regulatory framework for investment, whereby common standards and methods are applied consistently, became increasingly clear.
- Externally financed investment was managed separately, mainly through the Public Investment Programme (PIP) prepared by the Ministry of Planning with some degree of consultation with the Council of Development of Cambodia and MEF.
- This led to the preparation of the Public Investment Management System Reform Strategy (PIMSRS), which was approved by Government in October 2019. The document aims at integrating all public investment (domestically and externally financed, PPP, national and subnational) into the PIP, and at harmonising management regulations. The Strategy is to be operationalised through the Sub-Decree on PIM approved in March 2020 and a series of Prakas developed during 2020 and to be approved in 2021, which will cover each investment category: externally financed (already approved in March 2020), PPP, domestically financed, subnational domestic, asset swap and commercial loans. The reform will give MEF the role of a 'gatekeeper' to oversee all investment projects via a Public Investment Committee (PIC) to be established by MEF Prakas in 2021 and involving the main MEF directorates: Policy, International Cooperation and Debt Management, Budget, Subnational Administration and Finance, State Property, PPP Unit etc. The PIC will ensure integration of planning and budgeting through a two-stage prioritization process, first through PIP projects, which will be completed before the start of annual budget discussions, and second through a pre-budgeting phase where PIP projects will be further prioritized for budget financing. An integrated database MIS recording all ongoing investment projects from all sources of financing will be established under the responsibility of the GD Policy to monitor implementation of PIP projects.

Whereas the PB reform is still ongoing (and will be until 2025), it has already led to a welcome increased strategic and performance orientation in the budget allocation process. With regards to public investment, which is major contributor to economic growth, earlier pilot reforms have led to the adoption of the PIMSRS 2019-2025 that envisages a comprehensive reform of public investment management as described above. The PIM reform is therefore only starting in 2020.

Overall, the relationship between PFMRP (incl. BSRS and PIMSRS), fiscal policy, macroeconomic stability and growth can be represented as follows:



PFMRP impact on budget execution and financial accountability

Budget execution and financial accountability systems contribute to effective implementation of fiscal policy, as they are necessary to ensure that budgets are spent as planned and that the fiscal deficit is kept under control. Budget execution and financial accountability systems are mainly addressed in PFMRP Part I (cash management; public procurement) and Part II (budget classification and chart of accounts; business process, internal controls and budget execution - FMIS-; accounting, recording and reporting; accountability and budget transparency).

There has been considerable progress in treasury and cash management in the period 2015-2020, which has allowed Cambodia to resolve its former cash shortages and payment arrears issues, and expedite payments to staff and suppliers, thus ensuring higher budget execution rates:

- Expansion of Treasury Single Account (TSA) coverage: all Government accounts are consolidated within the TSA. GDNT has completed the identification and closure of illegal bank accounts through cooperation with commercial banks.
- Customs and tax revenues are entirely collected through the banking system
- Use of electronic payments through banking system and of EFTs (executed from FMIS) has improved, with all RGC salary payments (except selected security-sector entities) paid through banking system and EFTs used for selected categories of payments to LMs
- Cash forecasting by GDNT Cash Management Unit (CMU) has improved, with use of web-based application by 20 LMs in 2018, 10 more LMs in 2019 and all remaining LMs using application in 2020
- TSA and GDNT information systems allow for production of daily monitoring reports for Government's consolidated cash balance (with USD account and for Khmer riel account)
- LMs produce forecasts of expected quarterly cash needs at start of each fiscal year based on approved annual budget appropriations, which CMU in GDNT uses to produce consolidated quarterly forecast applying seasonal adjustments based on past trend data
- Guidelines prepared for inclusion of LM procurement plans as part of annual budget submissions, seen by GDNT as an important step to improving cash planning

- Payment arrears assessed as below KPI target of 2%, with GDNT reporting no expenditure arrears in 2018 (or 2019), based on definition of arrears as more than 60 days from GDNT receipt of mandate until date of payment being issued
- Sub-decree issued in 2019 establishing GDNT guidelines for clearance of advances, with training to LMs to support improvements in systems for issuing, accounting and clearing advances (including petty cash as one type of advance) and guidelines establishing separate regulations for current and capital advances (i.e. thresholds on amount as percent of budgeted expenditure and time limits for clearance of advance)

Public procurement reforms are key to ensure value-for-money and timely budget execution. Some progress was achieved in 2015-2020, although the most important reforms are expected to take place in 2021-2025, in line with the Public Procurement System Reform Strategy (PPSRS) 2019-2025:

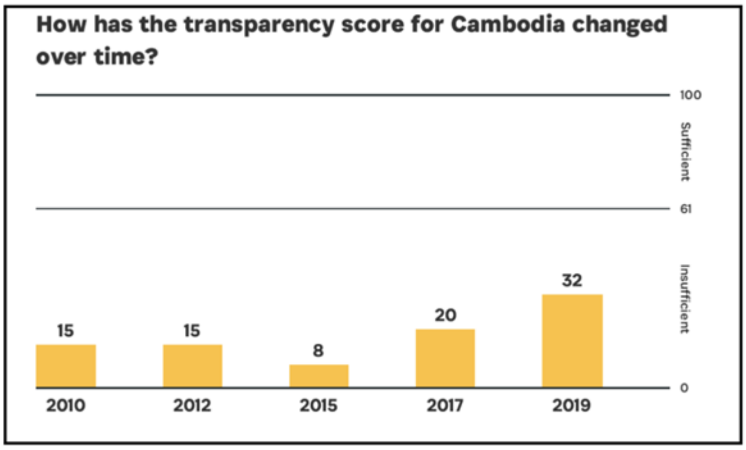
- Gradual decentralisation of procurement to budget entities, including through raising of the thresholds for central *ex ante* approval by MEF (GDPP);
- In order to address procurement system weaknesses, the Government approved the Public Procurement System Reform Strategy (PPSRS) 2019-2025 and detailed Implementation Plan, in May 2019. The PPSRS aims to accelerate procurement decentralisation in the context of programme budgeting reforms (with budget entities made responsible for conducting procurement) and to clarify the role of the MEF and its GDPP as a regulation, support, complaint settlement and oversight (audit) agency. The PP Law is being revised.
- Mandatory inclusion of annual procurement plans during the budget preparation process entered into force in 2020 (for preparation of Budget 2021);
- First Procurement Bulletin was published in July 2020
- FMIS procurement module was designed in 2020, tested in 2021.

FMIS, budget classification/chart of accounts, business process and internal controls, and accounting and reporting systems have contributed to increased financial accountability and thus budget discipline. Progress achieved in 2015-2020 includes:

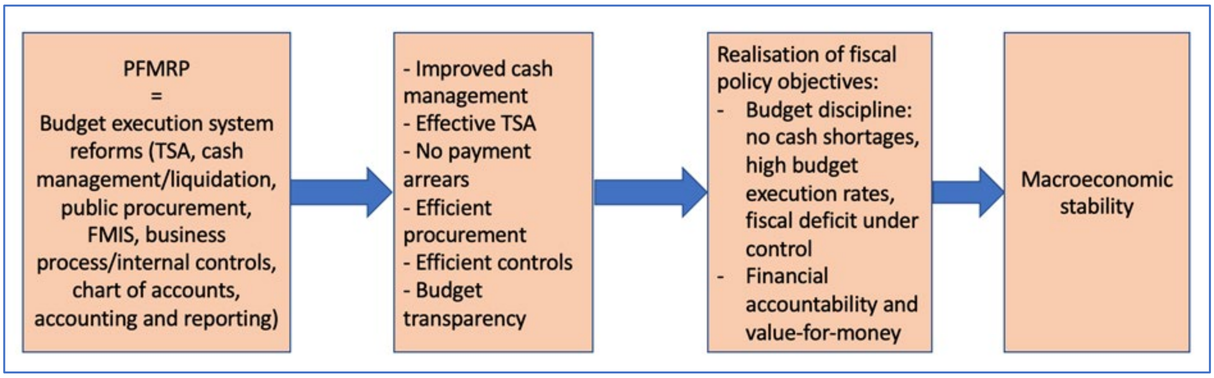
- Deployment of the FMIS, which is catalysing a number of important reforms such as budgeting, accounting and internal controls. FMIS Phase 1 made it operational at MEF level and in Provincial Treasuries in 2016. Phase 2 (2017-2020) saw expansion of FMIS (with its core modules: Budget Allocation, Accounts Payable, Accounts Receivable, General Ledger, Purchase Order, and Cash Management) to line ministries and provincial finance departments: FMIS is now operational in all 37 line ministries and in all 25 capital/provincial departments of economy and finance. Two more modules (Budget Planning and Procurement) were added in 2020.
- New unified chart of account and budget classification entered into force in March 2018 (and further updated in 2019). These have set a basis for an expanded exploitation of FMIS reporting functionalities, as Treasury started to strictly enforce full entry of all segments of the chart of accounts by spending entities

- Business process streamlining started in MEF and 7 LMs with substantial reduction of the number of steps (controls) for low-risks transactions such as payments of salary and utilities.
- MEF approved the Prakas on implementation of the IPSAS Cash Basis standard for the public sector in June 2019. A Manual and a training programme have been developed.

There has been progress in budget transparency, as shown in the OBI 2019 (see graph below). Indeed, the 2019 Open Budget Survey notes that the Government of Cambodia makes the eight key budget documents publicly available online in a timeframe consistent with international standards. This reflects a net increase over the findings of the Open Budget Survey 2017. Since that assessment, Cambodia has produced and published the Executive's budget proposal ("Draft Budget Law") and year-end report ("Budget Settlement Law") in a timely manner. The score remains low rather low mainly because of the weight given to the Draft Budget Law (Executive's Budget Proposal), of which only publishes a summary.



Overall, the contribution of PFMRP budget execution and financial accountability reforms to making fiscal policy effective can be represented as follows:



Conclusion and recommendations

Strong political will for PFM reforms and effective PFMRP management arrangements, as well as considerable investment in institutional capacity, have been instrumental in ensuring substantive progress in PFMRP implementation and establishment of stronger PFM systems that form the necessary machinery for the *realisation* of fiscal policy. This section has shown that a number of PFM systems are essential to enabling the conduct of an effective fiscal policy, which is a necessary pre-condition for macroeconomic stability and economic growth.

Further implementation of the PFMRP and key PFM strategies (Budget System Reform Strategy 2018-2025, Revenue Mobilisation Strategy 2019-2023, Public Debt Management Strategy 2019-2023, Public Investment Management System Reform Strategy 2019-2025, Public Procurement System Reform Strategy 2019-2025) will be crucial in further consolidating the PFM systems described in this section and their impact on macroeconomic stability and economic growth.

Recommendations, in view of the forthcoming CAP4, are as follows:

Observations	Recommendations
There is a need to expand the tax base and to enhance voluntary compliance	▪ Introduce a comprehensive Personal Income Tax: approve the policy framework, complete the legal framework, put in place the operational framework, for PIT introduction in 2025 ▪ Start implementing the Capital Gains Tax in 2024 ▪ Accelerate non-tax revenue reforms (including legal framework, state property licensing, rollout of NRMIS at subnational level) ▪ Continue enhancing taxpayer services (service quality and productivity in providing services) through: reduced time for registration, VAT refund and audit completion; taxpayer satisfaction surveys; publish more tax information on social media, TV/radio, in government buildings and through business emails; downplay punishment and highlight positive reinforcement; changing the perspective of tax officers from tax offence catchers to tax advisors; create more flexible working hours or online payment methods; provide more counters; train staff to be more ‘service oriented/friendly’
Revenue forecasting has lacked accuracy	▪ Strengthening tax revenue forecasting, through investments in technical skills (of MEF staff), revisions to forecasting methodology, closer attention paid to policy-related structural changes, improvements in the quality and supply of underlying data and more routine monitoring of forecast accuracy ▪ Consider a revision of the current incentive scheme related to revenue collection performance (which is based on the difference between planned revenue targets and actual revenue collection, thus creating an incentive for setting low revenue targets)
There is no public information on contingent liabilities	▪ Improve reporting and monitoring of contingent liabilities (mandatory reporting of contingent liabilities by public corporations in their financial reports; system to record contingent liabilities) ▪ Publish a Fiscal Risks Statement as part of budget documentation (envisaged under MTFF)

Observations	Recommendations
The debt portfolio is not well diversified and debt arrears remain unsolved	▪ Start issuing government securities (bonds) in 2022 and finalise the Comprehensive Policy Framework on the Development of Government Securities ▪ Complete negotiations for writing-off old regime debt to Russia and USA
Medium term budgeting instruments need better articulation and sector expenditure ceilings are not determined based on formal consultations with line ministries	▪ Integrate the BSP with the annual programme budget or with the MTBF ▪ Ensure that MTFF and MTBF sector ceilings (both recurrent and investment) are determined based on a consideration of sector priorities and needs following a formal consultation process involving line ministries
There is lack of integration of the recurrent and capital budgets and fragmentation of investment planning channels and procedures between domestically and externally funded projects.	▪ Integrate capital and recurrent budgeting in MTFF, MTBF, BSP and annual budget ▪ Implement Public Investment Management reforms, in particular integration of a more comprehensive PIP and pre-budgeting process by the newly established Public Investment Committee
FMIS functionalities are under-used: FMIS only covers recurrent budget transactions; FMIS does not cover cash advances; Budget Planning and Procurement modules are not yet fully rolled out; existence of parallel paper-based business processes	▪ Integrate capital investment transactions in FMIS, starting with domestically funded transactions. ▪ Integrate cash advances in FMIS and TSA ▪ Rollout the BP and PCM modules of FMIS, including all their functions (sub-modules) ▪ Continue business process streamlining at MEF and line ministries, beyond low-risk transactions
Budget accounts are closed 4 to 5 months after the end of the fiscal year	▪ Ensure that budget accounts are gradually closed by the end of January
The draft annual budget proposal and supporting documents are not published (only a summary). MEF explains that this is due to the absence of a legal requirement to do so in the PFS Law.	▪ Add a provision in the PFS Law allowing Government to publish the draft budget proposal at the time it is submitted to parliament
Only 45% of public procurement is done through competitive methods; only partial transparency of procurement information; absence of e-procurement; slow decentralisation of procurement system, with MEF co-signing contracts above a certain threshold; this creates a conflict with MEF role as regulator	▪ Limit the list of exceptions to the use of competitive methods in the Public Procurement Law, including for domestically funded capital investment ▪ Ensure mandatory publication of procurement plans and contract award notices ▪ Introduce e-procurement by 2025 ▪ Accelerate decentralisation of the procurement system (first increase and then remove thresholds for MEF visa/co-signature)

PART II – PFMRP IMPACT ON EDUCATION SERVICE DELIVERY

The objective of this section is to assess if and how the PFMRP has contributed, though the establishment of increasingly robust PFM systems, to improved service delivery performance in Cambodia's education sector. The scope of this study covers pre-primary, primary and lower secondary education. First, improvements and bottlenecks in education service delivery performance in the period 2015-2020 are mapped, as well as PFMRP implementation in the education sector. Then, a reflection is presented on possible attributions between PFM reforms and these achievements, and on the way forward to continue improve PFM for service delivery.

Brief overview of the education sector of Cambodia

The right to quality education for all is stated in Article 65 of Cambodia's 1993 Constitution. In alignment with Article 65, the Royal Government of Cambodia (RGC) passed the Education Law (2007), which is aimed at establishing a comprehensive and uniform education system. The largest part of education sector management is under the remit of the Ministry of Education, Youth and Sport (MoEYS), which is in charge of pre-primary through to higher education, as well as non-formal education and teacher training. TVET is under the Ministry of Labour and Vocational Training.

Cambodia's education system is organised into pre-primary (3 years), primary (6 years), lower secondary (3 years), upper secondary (3 years) and higher education. Education is free for primary and lower secondary levels. There are also non-formal education programmes and teacher colleges for teacher qualification. In 2020, there were a total of 3.3 million children enrolled in public schools from pre-primary to upper secondary levels. The public education sector employs a total of 121,680 staff in 2020, including 99,610 teachers in early childhood, primary and secondary education.

The administration and management of education has been essentially centralised in the period covered by this study, with the MoEYS being responsible for service delivery with its Provincial Offices for Education (POE), District Offices for Education (DOE), and the educational institution level (schools). However, in the framework on the national programme for sub-national democratic development (SNDD), functional transfers have started to take place in 2020 with assignment of a number of education functions (early childhood, primary and non formal education) to districts and municipalities of the Battambang province. By the end of February 2020, 5,550 teachers were transferred to the 14 Battambang districts. These functional assignments are being piloted with an objective to improve service delivery, but it is too early to assess their impact on service delivery as part of this study, which covers the period 2015-2020.

Education service delivery performance in 2015-2020

Cambodia's education policy objectives are set in the national Rectangular Strategies (there were two RS in the period under review, the RS3 2014-2018 and RS4 2019-2023) and Education Strategic Plans (ESP 2014-2018 and 2019-2023), which both integrate the Sustainable Development Goal #4 (SDG4) "Ensure inclusive and equitable quality education and promote lifelong learning opportunities for all".

The ESP 2019-2023 notes that a lot has been achieved under ESP 2014-2018 but that important challenges remain. In particular: (i) enrolment in ECE has been increasing, but there are still challenges, such as community pre-schools not meeting quality standards and a lack of trained pre-school teachers; (ii) primary completion rates have improved, but learning outcomes remain unsatisfactory (reading and mathematics in early grades); (iii) secondary enrolment has increased, but dropout rates are still high and most secondary schools do not have science labs, computer rooms, libraries, teaching aids or workshops in accordance with the curriculum framework.

Indicators	2015	2016	2017	2018	2019	2020p
Total number of education staff	115,305					121,680
Pre-primary						
GER (pre-primary)	17.9%					38.4%
Enrolment rate of 5 y/o	61.4%	64.1%	66.4%	58.1%	60.6%	62.9%
Number of ECE schools	6,913					8,067
Primary						
Completion rate	80.6%	80.9%	79.0%	82.1%	84.1%	88.2%
Student Teacher Ratio	44.8	43.8	44.0	44.5	45.1	44.8
WASH - Schools with drinking water	58.1%	59.1%	59.3%	59.3%	60.4%	61.2%
WASH - Schools with latrines	80.9%	81.5%	85.9%	90.6%	99.3%	
Number of primary schools	7,442					7,856
% of students achieving below basics proficiency level in writing (Grade 3)	52.6%				50.5%	
% of students achieving below basics proficiency level in maths (Grade 3)	44.9%				40.9%	
Lower Secondary						
GER	53.8%	57.6%	59.2%	59.1%	59.9%	
Completion rate	39.2%	44.5%	47.6%	48.9%	47.3%	
Number of LSE schools	1,714					1,791

Source: MoEYS, Education Congress reports

The table above gives an indication, through selected key quantitative and qualitative indicators, of how education services have performed in the period 2015-2020 at pre-primary, primary and lower secondary levels. These indicators show that the education network of Cambodia has continued to expand significantly in the period 2015-2020: enrolment and completion rates have increased, the number of schools and teachers has increased, and so has the number of facilities complying with WASH standards (e.g. access to drinking water and latrines). Learning outcomes in reading and mathematics have improved at Grade 3 level[4], although still at unsatisfactory levels. This underlines the need to start investing more in quality of education than in network expansion.

[4] Grade 6 assessment was to be conducted in SY 2020/21 (likely postponed due to Covid)

PFMRP implementation by the education sector

PFM has been at the centre of the public management reforms in Cambodia since the 2000s and the MoEYS is directly involved in the implementation of the PFMRP. A PFMRP Working Group of the MoEYS, chaired by the Minister with the Secretary of State as vice-chair, coordinates implementation of the PFMRP at education sector level through the annual PFMRP Ministerial Action Plan (MAP), with quarterly monitoring reports submitted to MEF. MAPs of all ministries have been criticized in the past for being overly focused on activities rather than results, and MEF (GSC) is taking steps to improve MAP structure and indicators. In addition, a PFMRP contact person has been appointed in each line ministry to facilitate interaction with MEF (GSC) and implementation of PFMRP.

All the consecutive five-year Education Strategic Plans (ESP) have included a set of policy objectives related to PFMRP. The ESP 2019-2023 mentions that financing and PFM reforms have played a key role in education services performance. First, it cites the allocation of more resources by government as the "main factor in the rapid progress of education". It then describes the *results* of MoEYS having implemented the programme budgeting (and budget entity) reform, mainly: (i) Strengthening of budget planning to align with ESP: revision of the sector's programme budget structure, improved quality of BSP; (ii) Development and update of IT systems for financial management and reporting for budget entities and public schools; (iii) Guidelines for school operational budgets (SOB).

The ESP 2019-2023 sets two objectives and related 'strategies' related to PFM reforms:

Objective 1: Financial management processes are strengthened for effective budget implementation

Strategy 1.1: Strengthen results-based and sub-sector budget plan preparation and financial report system at all levels

- Develop expenditure calculation model based on results by sub-sector
- Improve the salary of administrative staff, including school principals
- Align annual budget and annual operating plans with budget strategic plan.

Strategy 1.2: Improve efficiency and effectiveness in financial accountability and management processes

- Strengthen the basis for projections and use of the education budget by improving expenditure guidelines and budget regulations
- Improve disbursement and liquidation guidelines
- Improve the information system for expenditure projection and analysis
- Implement improved guidelines on disbursement and liquidation processes.

Objective 2: Financial accountability is directly linked with performance accountability

Strategy 2.1: Strengthen foundations for planning and monitoring the use of the education budget

- Expand the computerized financial management information system at all levels

Strategy 2.2: Decentralize budget work to sub-national level

- Strengthen the budget planning mechanism and financial reporting system by developing capacity and resources at sub-national levels
- Strengthen the FMIS by developing a model of budgetary projections and allocations for the education sector
- Improve accounting and reporting systems through the operation of an automated information system

- M&E of budget implementation focused on results-based analysis, financial and performance accountability
- Expand and institutionalize the use of the banking system.

Strategy 2.3: Strengthening internal audit

- Develop three-year internal audit strategic plan
- Develop internal audit manual in line with Ministry of Economy and Finance (MEF) documents
- Conduct regular internal audit exercises at national and sub-national levels
- Review and revise regulations, principles and norms related to internal audit and management information systems development in line with MEF guidelines and procedures
- Pilot and then finalize the internal audit programme
- Train for internal audit officers.

Strategy 2.4: Strengthening administration and financial inspection

- Conduct formal inspections on personnel, administration, financial management and public properties at national and sub-national levels, and in public and private schools
- Monitor and make proposals in response to cases related to administration and finance.

The ESP also mentions personnel management reforms, some of which are directly related to PFM systems: "Regularly paying officials' salaries through the banking system in the fourth week of each month; threefold increases in salaries; increasing the minimum salary from 310,000 Riels in 2013 to 1,200,000 in 2019; doubling allowances for education staff in remote and disadvantaged areas; and doubling the fee for extra teaching hours. MoEYS received a new quota for annual recruitment of between 3,500 and 3,600 teachers. This figure has been increasingly equitably distributed to schools where there are teacher shortages. MoEYS has strengthened education staff management, teachers and contract teachers, and continues to implement teacher deployment from schools with surplus teachers to schools with too few teachers."

Education administrators have been trained in PFMRP related capacity development programmes delivered by the MEF Economics and Finance Institute (EFI) and Directorates-General, or by development partners. This has included training in accounting and reporting, in programme budgeting, in internal control and audit, in public procurement, in FMIS operation, in public investment management etc. More recently, the MoEYS has been one of the first ministries involved in the FMIS related business process streamlining, which is also expected to impact positively on service delivery performance as payment delays are shortened.

This, along with MoEYS management's strong commitment to PFM improvement, has contributed to making the MoEYS a key actor in PFMRP implementation.

PFMRP impact on the size of the education budget

All education systems rely on financing to function. Education finance systems pay for the inputs required to implement education policies, such as teachers, school buildings, and learning materials. Availability of financial resources does not guarantee quality education, but quality education is impossible to achieve without adequate resources.

As demonstrated in previous sections of this study, implementation of the PFMRP has had a clear impact on macroeconomic stability and the creation of fiscal space. Coupled with implementation of budget reforms, in particular the strengthening of medium term budgeting tools (in particular the BSP) and programme budgeting, which have created the conditions for a more efficient inter-sectoral budget allocation, the education sector has seen its budget increase quite significantly.

Indeed, budget data points to improvement in sector funding, particularly in the period 2015-2018. In average, the education sector's budget has represented 2.9% of GDP, which is well below Lower Middle Income countries average of 3.8%, and 13% of State Budget in the period 2015-2020.

As can be seen in the table below, the trend was positive in 2015-2018, as the education budget was growing faster than the overall State budget, and started to slow down in 2019. In 2020, the first Covid year, the education budget contracted more sharply than the State budget (-11.6% against -7.6%), as emergency health and social programmes were prioritized to help mitigate the impact of the Covid crisis. The education share of State budget remained close to 13% however, which is well above 2015 levels (11.5%). Overall, the education budget has increased by 94% from 2015 to 2020 while the overall State budget increased by 72%.

Indicators	2015	2016	2017	2018	2019	2020
1. Total State Budget (KHR million)	14,660,147	16,927,545	20,016,007	22,551,323	27,340,323	25,258,191
Annual variation rate		15.5%	18.2%	12.7%	21.2%	-7.6%
2. Education sector budget (KHR million)	1,680,223	2,084,265	2,555,324	3,429,476	3,678,521	3,252,046
Annual variation rate		24.0%	22.6%	34.2%	7.3%	-11.6%
3. Education share of State Budget	11.5%	12.3%	12.8%	15.2%	13.5%	12.9%
4. Education budget share of GDP	2.3%	2.6%	2.8%	3.4%	3.3%	3.0%

Source: Annual Budget Settlement Laws

An important contribution of PFMRP has been the enhancing of budget credibility as education budget execution rates improved gradually; in other words, the gap between what is allocated to education and what is actually spent has narrowed over the years. As can be seen in the table below, education budget execution rates have increased from 92.4% in 2015 to 99.5% in 2019.

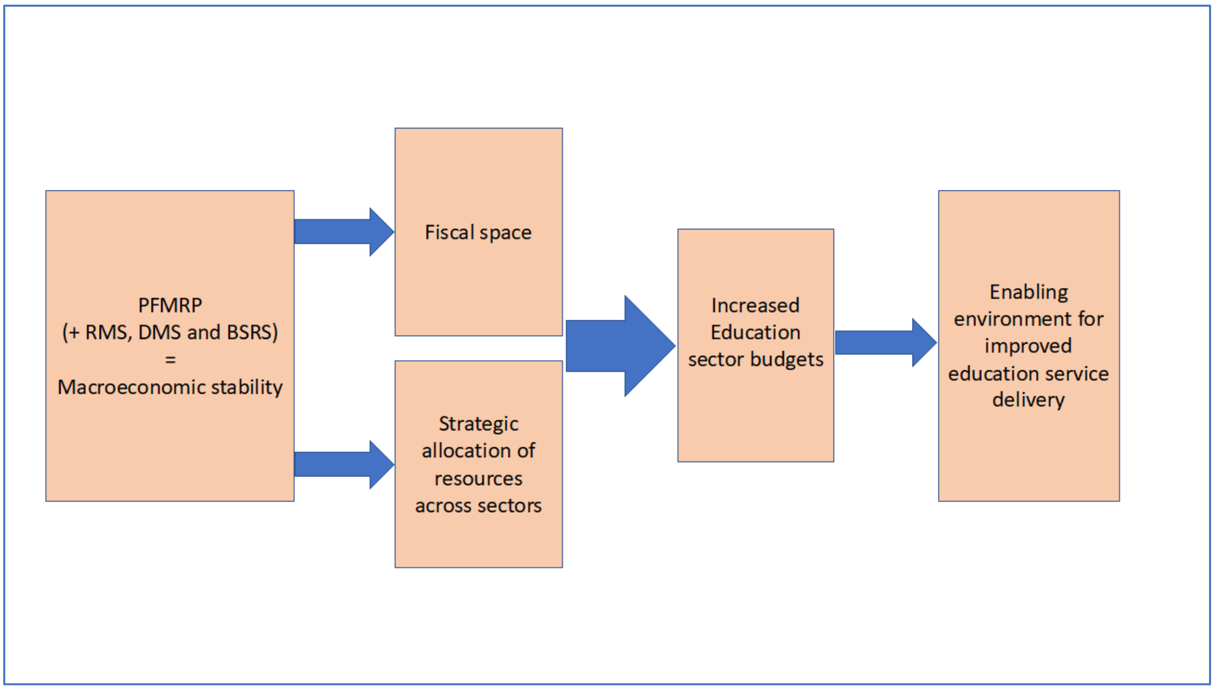
In 2017, the Public Expenditure Review (PER) was warning that "progress in the overall execution rate of MoEYS, attained by moving personnel cost to bank transfer, has masked a decline in execution rates of non-personnel cost". The data below indicates that execution of the more discretionary non-wage recurrent and domestically funded investment has improved since. Indeed, the execution rate of the non-wage recurrent budget increased markedly, from 80.7% in 2015 to 94.8% in 2019. Investment improved as well, with execution rates soaring from 81.3% in 2015 to 98.8% in 2019. A slump in execution rate is observed in 2020 because of Covid-related cuts in the discretionary budget lines.

Indicators	2015	2016	2017	2018	2019	2020
Education budget execution	92.4%	94.3%	90.3%	98.0%	99.5%	95.9%
Wage	97.8%	91.6%	94.9%	98.2%	101.0%	98.0%
Non-wage recurrent	80.7%	89.0%	94.0%	93.5%	94.8%	81.1%
Investment	81.3%	132.0%	66.5%	101.0%	98.8%	115.4%
Domestic	*75.4%*	*79.6%*	*100.5%*	*99.9%*	*77.2%*	*115.4%*
ODA	*82.3%*	*147.3%*	*44.0%*	*102.6%*	*112.8%*	*n/a*

Source: Annual Budget and Budget Settlement Laws

Increasing budgets, however, is not sufficient to improve service delivery, nor does it necessarily lead to more performing services. Moreover, as the Public Expenditure Tracking Survey (PETS) conducted in 2017 warns, expenditure per student remains low compared to neighbouring countries at all levels of schooling.

Arguably though, increasing budgets creates an *enabling environment* for improving the quality and quantity of services delivered. Potential lines of attribution are represented in the graph below:



PFMRP impact on allocative efficiency at education sector level

The way public financing is allocated and spent has a critical bearing on education provision. Education finance is largely about finding the right mix of inputs, in particular non-salary expenditures which have a direct impact on learning outcomes. Does increasing salaries or reducing class sizes affect the motivation of teachers so that they teach better? Does giving more textbooks or improving buildings create better learning outcomes? Is there any room for improving efficiency? Systematic discussions and research are required to identify the options that arise from these questions, and education managers require mechanisms to enable them to transfer these findings into budgetary policy.

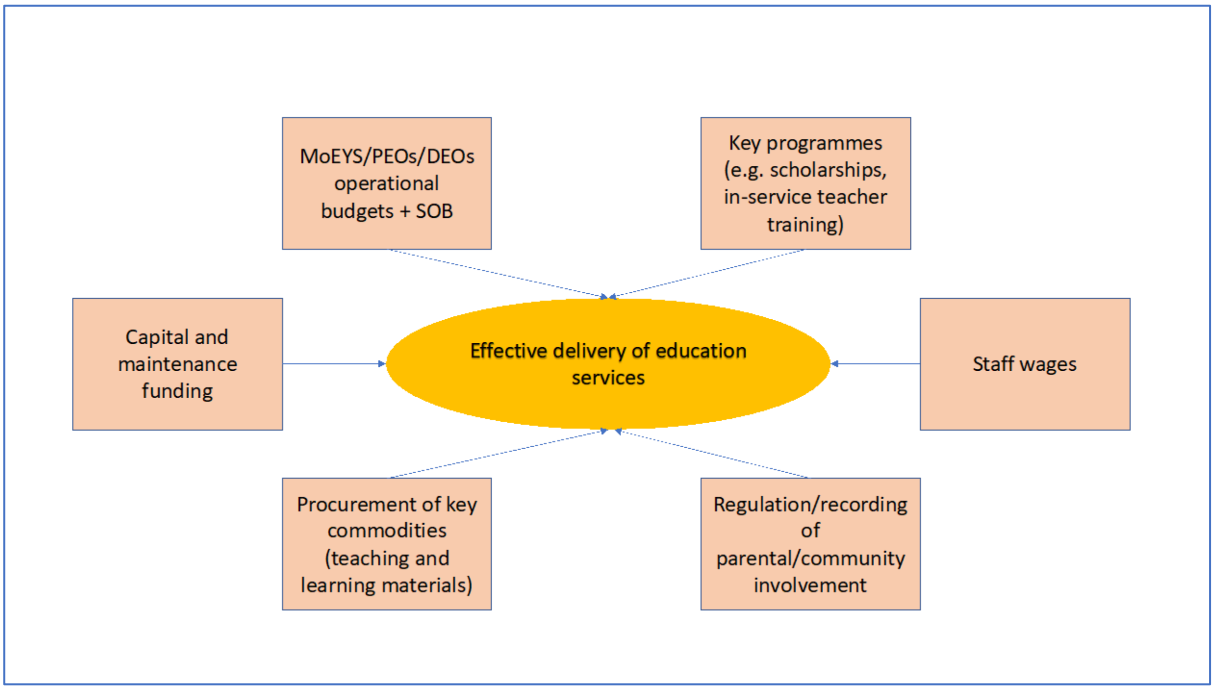
The table below shows the mix of inputs (wage, non-wage recurrent, investment) in the education sector budget of Cambodia in 2015-2020. As can be observed, the share of wages has decreased from 71.7% in 2015 to 64.6% in 2019 as the share of investment was increasing from 11.1% in 2015 to 19.1% in 2019. The share of non-wage recurrent expenditures, which include textbooks, teacher training, school grants, scholarships etc., has been rather stable at around 16-17%. The mix changes drastically in 2020 with wages bouncing to 77.9% of education budget as a result of the more discretionary non-wage expenditures being cut to finance emergency Covid expenditures, while salaries were not cut.

Indicators	2015	2016	2017	2018	2019	2020
Wages	71.7%	71.5%	71.9%	62.4%	64.6%	77.9%
Non-wage recurrent	17.2%	17.3%	16.6%	15.6%	16.2%	15.5%
Investment	11.1%	11.2%	11.5%	22.0%	19.1%	6.6%

Source: Annual Budget Settlement Laws

Where management and institutions can make better use of resources, better outcomes can be attained for the same level of expenditures. Research findings (internationally) have shown that learning outcomes are not strongly related to spending levels (except in cases where education budget is very small), suggesting that the way money is spent -and not simply how much is spent- matters in education finance.

PFM-related contributions to effective delivery of education services



The PFM system contributes to effective delivery of education services by providing the necessary inputs for the education system to function. The first phase is budget allocation. Under the hard budget constraint, however, these inputs need to be prioritized. Two basic PFM functions have a noticeable potential of maximizing the likelihood of efficient allocation of public expenditures: (i) Timely and reliable financial information, and (ii) a well-structured budget preparation process.

Concerning financial information, one of the PFMRP focus in the period 2015-2020 has been the introduction of the Financial Management Information System (FMIS), which covers budget preparation, execution and accounting functionalities through its 8 core modules: Budget Preparation, Budget Allocation, Accounts Payable, Accounts Receivable, General Ledger, Purchase Order, Procurement and Contract Management, Cash Management. During the 1st phase (2015-2017), the FMIS was rolled-out at national and provincial treasuries, and at other MEF departments. During the 2nd phase (2017-2020), it was installed at line ministries, including MoEYS where it started operating in 2018. The FMIS was installed in the MoEYS Finance Department as well as in a number of budget entities such as universities. Further expanding the number of entities using FMIS within central MoEYS and at subnational level will be required to more widely benefit from FMIS added-value.

The FMIS project was accompanied by a reform of the budget classification and chart of accounts, which should be designed to generate budget reports covering the needs of not only MEF but also line ministries and budget managers. The chart of accounts is based on 7 budget classifications and classifiers: (1) the economic classification, (2) the administrative classification, (3) the geographic classification, (4) the functional classification, (5) the programme classification, (6) the project classification, and (7) the source of fund classification. These classifications are implemented in budget formulation, execution and reporting.

At MoEYS level, the FMIS brought a number of improvements, including dematerialized online submission of requests for payments and reports, and the capacity to monitor the business process and to generate real time aggregated budget reports for the education sector. However, the FMIS also presents an important shortcoming: while it provides reliable consolidated data at MoEYS level, it does not provide information at the detailed level it needs for policy analysis and budget management. This is due to a variety of factors but mostly because the chart of accounts and budget classifiers do not cover lower-level spending units of line ministries, nor the programme structure at lower levels.

Indeed, neither the programme nor administrative classification is sufficiently detailed to enable full elaboration of the budget for line ministry management purposes. The chart of accounts stops at the "activity" level in the programme segment and is no more detailed than "department" (or "entity") level within the administrative segment. The chart of accounts does not define "spending units" for each entity, which are the lowest level units at which expenditures are managed. In addition, the economic segment of the chart of accounts does not expand down to identify key line-items such as textbooks or in-service teacher training.

Most governments require detailed information on spending units to support analysis, for example how much money is spent at each school or hospital. The inability to manage the release, execution and monitoring of budget funds at spending unit level, and to record expenditure at this level, has required users to retain manual systems for this purpose and, in some cases such as MoEYS, to develop alternative financial management systems that have such capability. Indeed, MoEYS has developed its own Education Financial Management System (EFMS). Some issues arose in terms of compatibility with FMIS, and MEF (FMWG) and MoEYS have started to work on interfacing the two systems, which should ease the reconciliation process and contribute to timely and reliable financial information for policy and decision-making, including allocation and re-allocation, prioritizing and re-prioritizing of expenditures during the budget preparation and revision process.

It would be recommended, therefore, for MEF to give flexibility to line ministries to expand the administrative, programme and economic segments of the chart of accounts and their codes to cover all spending units, activities and line items that are relevant to the particular sector. Besides, FMIS should be interfaced to EFMS until its web-based application is implemented down to the spending unit level.

<u>Concerning budget preparation</u>, budget reforms have led to significant improvement with the establishment of a well-structured budget preparation process. This has included:

- A clear budget calendar that is generally adhered to;

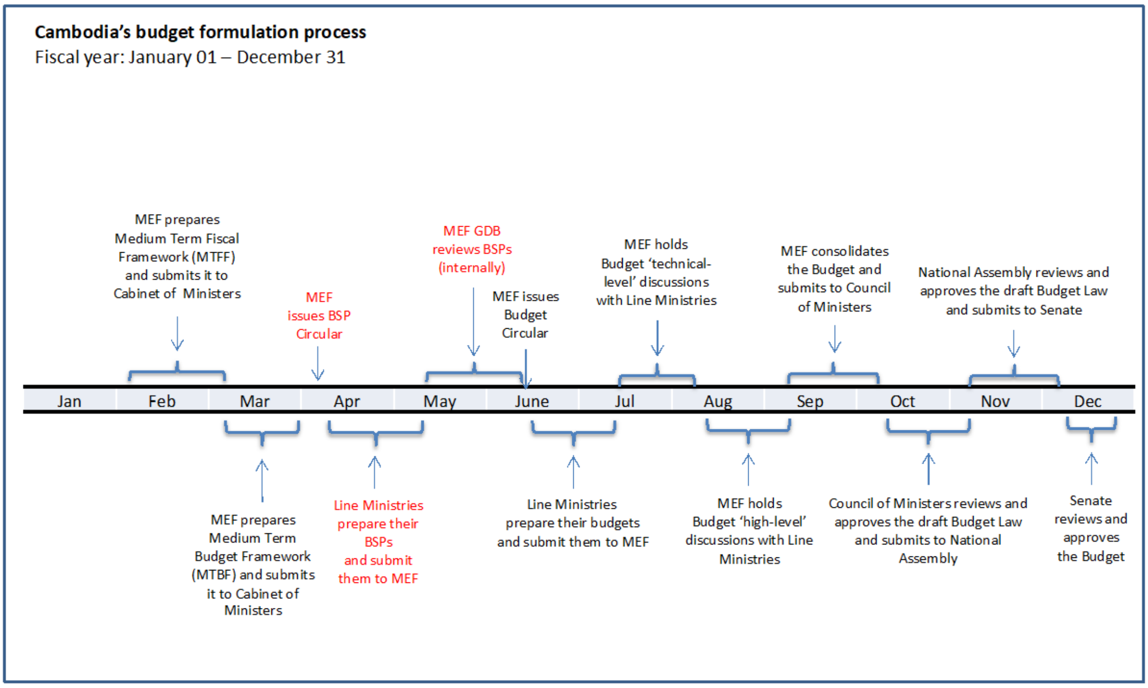
- MEF issuing comprehensive circulars providing sufficient time and good guidance to line ministries and provinces to prepare their BSP and annual PB proposal, including expenditure ceilings;

- Availability of multi-year and annual programmatic budgeting tools (MTEF, BSP, PB);

- Establishment of internal budget working groups at line ministry level;

- A structured (two-staged) budget negotiation process held at MEF.

The budgeting process is organised in the Law on Public Finance System (2008). The graph below shows the main benchmarks of the budgeting process, including the BSP Circular issued usually around the 10th of April, and the annual Budget Circular around mid-June. The MTFF and MTBF were added in the graph although they have only been piloted for the first time in 2019 for the period 2020-2022. Their timing in the graph is based on the intended schedule as specified in the Budget System Reform Strategy 2018-2025.



MoEYS started implementing the Programme Budgeting (PB) reform in 2007, first partially then fully starting 2015, to link budget to policy. The PER conducted in 2017 (report published in 2018) noted a number of weaknesses in PB implementation:

(i) Lack of coherence between the BSP and the annual programme budget

(ii) Lack of realism in BSP

(iii) Inadequate capturing of wages and capital expenditures in the programme structure (all wages were grouped in one programme; BSP did not separate recurrent and capital expenditures)

(iv) Insufficient management discretion for budget managers, including at school level

Many of these shortcomings have been addressed, or at least partially addressed since 2017. In particular:

- BSP are now more realistic (they comply largely with the given ceilings)
- BSP are now aligned with PB structure and they include separate lines for capital expenditures.
- More discretion has been given to budget managers, at central level as well as at schools level (see next section on service delivery units).
- Other issues such as allocation of wages by programme and sub-programme is currently being addressed.

At MoEYS level, the BSP and annual budget formulation process has been fully compliant with MEF guidelines. A budget working group (BWG) was established that comprises the Directorate General of Policy and Planning (DGoPP) and the Department of Finance (DoF). They coordinate and support the preparation of the budget across the five programmes and 63 budget entities within the sector. The budgeting process inside MoEYS was described in 2020 in an "Analysis of coherence between the Budget Strategic Plans and Programme Budget documents" financed by the EU:

- The BSP Circular is disseminated by MEF to all line ministries, providing them with the budget ceiling (broken down by wage and non-wage), and outlining national priorities;
- The BWG of MoEYS reviews the budget circular and considers potential areas for revising the programme budget structure where necessary, to ensure the structure responds to the RS4, and ESP prioritized reforms;
- The BWG seeks approval from MEF on the programme budget structures and priority activities, and conducts the first round negotiations on the budget for implementation of the priority activities;
- Each programme in MoEYS is requested to develop a budget proposal in accordance with the circular mapped against the over-arching programme structure. This often appears to occur iteratively with first draft proposals emanating from the budget entity level. Feedback from the administrative units indicates that this is done in a number of ways but in general

through an inclusive and iterative process. *Some, such as the Directorate General of Youth appear to adopt a very inclusive and bottom-up approach to develop their initial draft proposal, and then conduct an internal prioritisation process with the DG taking final responsibility for the portfolio. Others begin with a smaller management team developing an initial framework of the priority areas to address and then bring in a wider team drawn from unit and operational heads to iteratively develop the overall proposal.* Both approaches appear to function well;

- The budget proposals are submitted to the BWG and reviewed to ensure they are compliant with: RS4 and ESP priorities; the programme budget format; and broadly with the provisional budget ceiling for the entity;

- MoEYS leadership then conduct a first round budget hearing process with each programme. It comprises the following steps: Seeking for approval on budget structures, programmes, and priority activities; Defending the BSP by programme; Reviewing and finalizing the BSP; Consolidating the MoEYS BSP. Feedback is also provided on how to strengthen justifications;

- The finalised MoEYS BSP is then submitted to the MEF on schedule. However, there is no BSP hearings until the annual budget is discussed at MEF at the technical hearings organised in July.

The annual budget preparation process is used to translate the multi-year BSP format into a one-year budget proposal for submission to the parliament. During this process the BSP format (covering: Programme, Sub-programme, Cluster of Activities, and Activities) is translated into a more detailed budget format that also includes administrative responsibilities by sub-sector and the much more detailed mapping of budgets according to the economic classification of budget. The process map is as follows:

- The Budget Circular is disseminated by MEF to all line ministries, providing them with the budget ceiling (broken down by wage and non-wage), and outlining agreed BSP priorities;

- Each programme in MoEYS develops the more detailed annual budget proposal in accordance with the circular, again mapped against the over-arching programme structure, but also according to the economic classification.

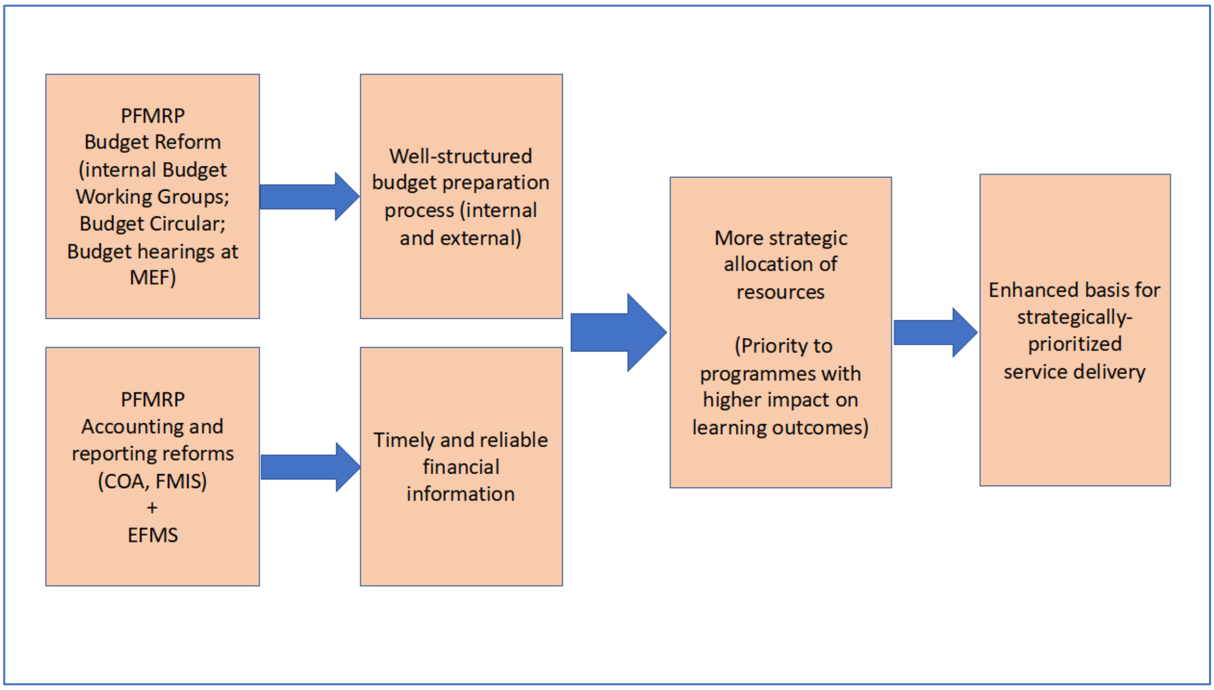
- These detailed plans may deviate slightly from the original BSP with some activities been awarded more finds and others less. This is partly as a result of the more detailed planning process, but also occurs if alternate external funding sources such as development partners have agreed to support priority actions agreed within the BSP.

- The annual budget proposals are submitted to the MoEYS BWG for technical review to ensure they are compliant with: the annual budget format; BSP priorities and the budget ceiling agreed in the BSP; correct economic classification and agreed timeframes.

Following this process, the consolidated annual budget plan of MoEYS is submitted to MEF and there is a two-stage negotiation process between MoEYS and MEF, first at technical level, second at management level in order to resolve any issues that could not be settled at the technical level. The negotiation process starts with a review of BSP, including its performance indicators, and then reviews rationale and priorities for allocations, both along the programme and economic classifications. More time should be given to strategic budget discussions with MEF however, as the balance seems to be tilted towards discussion of line items. The new PFS Law under preparation is expected to push this forward with implementation of performance-informed budgeting.

Overall, line ministries and MoEYS have increasingly complied with the circulars' budget ceilings and therefore the annual budget has been increasingly in line with the BSP. The programme structure of MoEYS' budget has been refined over the years. The five MoEYS programmes reflect the administrative structure of the Ministry. In this respect they can be seen to support strengthened accountability for the results in each programme. The Management and Responsible Entity for each programme and sub-programme is provided in the narrative section. In addition, the sub-programmes in Programme 1 (Early Childhood Education, Primary, Lower Secondary, Upper Secondary, Non-Formal Education) also correspond to administrative structures. More importantly, each of these reflects the main areas of education service delivery according to the clients they serve. This should assist in enabling the individual review and reflection on the performance for each tier of education service.

This well-structured budget preparation process based on sector ceilings and the programmatic structure have formed the mechanisms for transmitting policy considerations and priorities into the budget. They have contributed to enhanced linkage between policy and budget, with more policy-based consultations in the budget preparation phases and thus a better reflection of policy priorities in the budget, and in particular the prioritization of programmes with higher impact on learning outcomes. This in turn creates the basis for more efficiently prioritized service delivery, within the budget constraint. Indeed, budgeting in education will see trade-offs between programmes and sub-programmes (priority to pre-primary network expansion, under the budget constraint, may come at the expense of another sub-sector) or between economic categories of expenditures (increase in wages may come at the detriment of non-wage items such as textbooks or teacher training). The budgeting process represents the arbitration in these trade-offs, which all potentially impact service delivery performance.



PFMRP impact at the budget execution stage

As shown previously, the education sector budget has seen increased execution rates, passing from 92.4% in 2015 to 99.5% in 2019 and 95.9% in 2020. This has resulted from improved budget execution systems implemented as part of PFMRP stages 1 (budget credibility) and 2 (financial accountability), in particular:

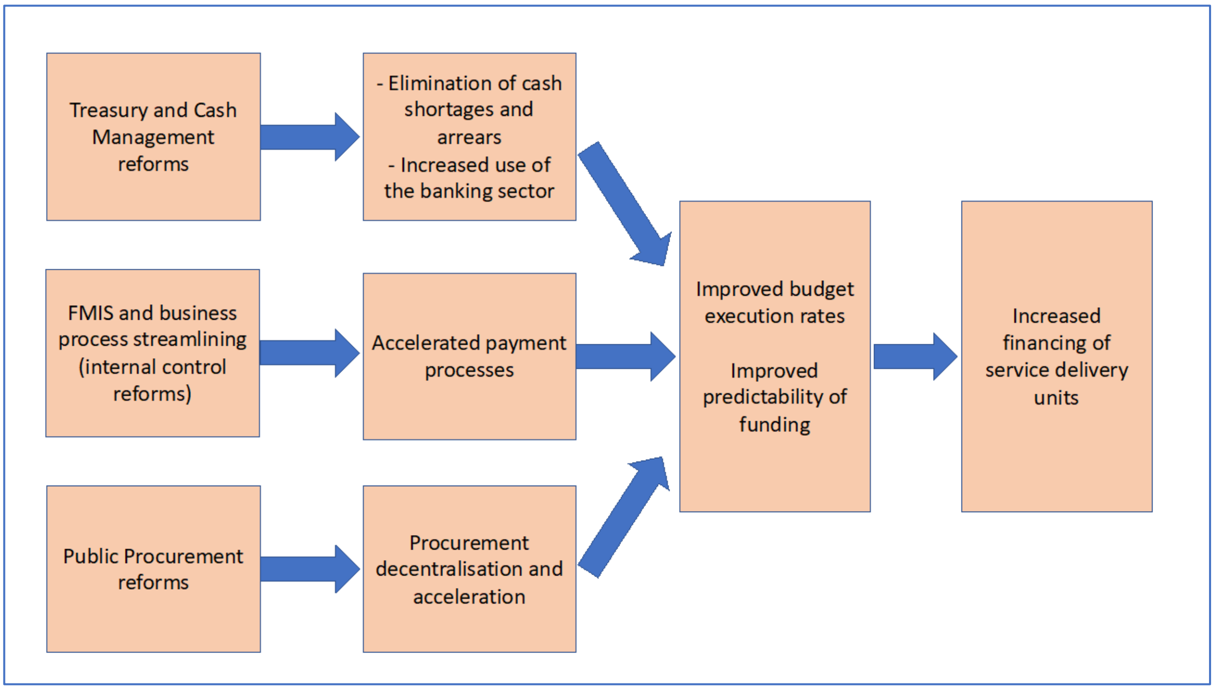
- Treasury and cash management reforms: Treasury Single Account (TSA) and the use of the banking sector for revenue has contributed to eliminating cash shortages and payment arrears; cash payments have been replaced by bank transfers; payments to providers and transfers to service delivery units have been shortened (see next section).

- FMIS has started to contribute to business process streamlining and thus acceleration of payment processes. Indeed, Cambodia PFM is characterised by a very tight system of central ex ante and ex post internal controls, which adds a lot to bureaucracy and slows down payment to suppliers. In March 2020, MEF adopted the Change Management Strategy and Strategic Plan for Business Process Streamlining 2020-2025, the implementation of which is expected to boost business process streamlining in MEF, LMs and SNAs gradually by 2025. Streamlining started in 2020 in MEF with a substantial reduction of the number of steps in low-risk transactions such as payments of salary and utilities. It was then expanded to 12 LMs by March 2021, including MoEYS. Streamlining started in MoEYS with low-risk transactions such as utilities and salaries payments. The plan is to gradually expand streamlining to more transactions at the central and subnational level by 2025.

- Public procurement: the gradual decentralisation of procurement to budget entities (through raising of thresholds for *ex ante* control by MEF[5]) and capacity development for procurement staff has contributed to accelerate the pace of public procurement processes. The addition in 2021 of a Procurement and Contract Management module in FMIS is supposed to further accelerate procurement implementation. In MoEYS, there is one central procurement unit, and all POEs organise their own procurement. Budget entities such as universities and other institutes can organise their own procurement or request to use MoEYS central procurement unit. DOEs having been decentralized, there procurement is regulated by the Ministry of Interior. Schools do not conduct procurement.

- Increased delegation of authority to budget entities (budget managers) in line ministries, including MoEYS. Indeed, MEF has started to give budget entities some managerial autonomy (virement discretion of certain line items between the 'activities' of the same sub-programme and quite substantial 'petty cash' advances for certain activities such as travel and conferences budgets). Line ministries are responsible for determining whether their budget entities are 'fully authorized' (i.e. with delegated budget management), or non-authorized, in line with a Prakas 12/82 on the roles and responsibilities of budget entities. Fully authorized budget entities (such as all provincial departments of line ministries) request payments straight to Treasury, while non-authorized budget entities do it through their line ministry's Department of Finance. In 2020, in a bid to accelerate this reform, MEF (FAD) started working on a revision of Prakas 12/82 whereby there will be two categories on BEs: fully authorized and partially authorized. Non-fully authorized BEs will be automatically entitled to directly manage certain categories of low-risk expenditures and will thus become "partially authorized budget entities". The Prakas is set to be approved in 2021 and put into implementation in 2022.

[5] Around USD 200,000 for most LMs and USD 370,000 for MoH and MoEYS and most SOEs.



PFMRP impact at service delivery unit level (schools)

School-Based Management and the School Operating Fund (SOF)

One of the key reforms implemented in the last decade in the education sector has been what is internationally known as School-Based Management (SBM). But what does the concept of 'school-based management' actually cover? SBM is the systematic decentralization to the school level of authority and responsibility to make decisions on significant matters related to school operations within a centrally determined framework of goals, policies, curriculum, standards, and accountability (B. Caldwell, School-based management, IIEP, 2005). It was first applied in England, Australia, New-Zealand, Canada and the USA in the 1980-1990s in the context of New Public Management reforms, a set of reforms inspired by private sector management and calling, in the PFM area, for a turn form input to output budgeting and increased management discretion for service delivery managers (i.e., performance and programme budgeting).

SBM reforms have differed in form across the countries where they have been implemented. However, the common ground in all places where SBM has been implemented is that there has been an increase in authority and responsibility at the school level, but within a centrally-determined framework that ensures that a sense of system is sustained. An important implication is that school leaders should have the *capacity* to make decisions on significant matters related to school operations and acknowledge and take account of the elements in a centrally-determined framework that applies to all schools in the system, and that parents and communities should be involved in school management decisions and monitoring of expenditures and activities.

In Cambodia, elements of SBM were introduced gradually since the 2000s and notably financial grants called the School Operating Budgets (SOB) provided by Government to cover school recurrent expenditure needs, and School Improvement Grants (SIG) financed by SIDA to cover school investment needs. These two instruments were replaced in 2019 by a single School Operating Fund (SOF) for school operations channeling both government and external funds with a single financial manual, the SOF Management Guidelines. Each school receives the SOF since 2019, based on its reported student enrolment rate.

SOF is transferred to the schools' bank accounts as cash advance through the following process: POEs request to Provincial Departments of Economy and Finance (PDEFs) for advance attached with the school expenditure programmes. PDEFs check and approve on the request then submit to Provincial Treasury for budget transferring into bank accounts of schools. School reporting 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 District Offices of Education, Youth and Sport (DOE). The DOEs consolidate the school reports and submit to POEs for consolidation and submission to MoEYS on a quarterly basis.

The Public Expenditure Review (PER) conducted in 2017, i.e. before the merger of SOB and SIG into SOF (which was one of its recommendations), identified that while all schools received the full amount of SOB they were supposed to get, a few key weaknesses remained in the system:

- The total budget spent on SOB was still insufficient, resulting in SOB inadequate to cover all schools basic needs;

- The approval process for SOB transfer was cumbersome and created delays in schools receiving their SOB, in particular in the first quarter;

- School managers had insufficient discretion in managing SOB, being bound by overly detailed allocation to line items.

On the first of these weaknesses, MoEYS increased total SOF allocation by 75% in Budget 2019. This made SOF soar from 13% of the total education non-wage recurrent budget to 21% in 2019. As can be seen in the table below, primary education was the main beneficiary of that increase.

In million KHR	2018	2019	Variation
School Operating Fund (total)	74,795	130,572	+74.6%
Pre-primary	1,583	2,137	+35.0%
Primary	48,099	91,264	+89.7%
Secondary	24,291	36,116	+48.7%
Technical	821	1,053	+28.3%

Source: MoEYS

Concerning the flow of funds and delays in SOB payment, the Public Expenditure Tracking Survey (PETS) conducted in 2017 also found that while transfers from Provincial Treasury to POE were swift and schools usually received their SOB in full from POE, timeliness was an issue, especially for first quarter payment, which POE did not request until April or May, seemingly when they received information from Provincial Treasuries that they funds were available.

As the PETS explains it, without funds early in the school year and with most schools having limited or no reserves, school Directors have limited options. They may simply delay purchases of often essential school supplies which disadvantages their students, or they may buy on credit or borrow funds. Both of the latter options increase the costs of purchases, often considerably. Local merchants who know they may wait for several months for payment build the costs of the delay into their prices, while borrowing informally may mean interest charges of two or more percent per month.

MEF and MoEYS sought to ease the approval process. First, while the SOB used to be disbursed in four instalments (at the beginning of each quarter), the new SOF is disbursed in only two instalments (in January and June). Second, the PETS itself reports progress from 2015 to 2016, with schools receiving the first quarter instalment in February or March 2016. The situation has improved further since and schools now receive their first instalment in January.

Concerning management flexibility, the PER found that budget was disbursed in detail into account and sub-accounts and that budget managers did not have flexibility and authority to reallocate unspent budget from one line to another, making it difficult to make full use of available resources based on actual needs of the school. However, MEF and MoEYS had already taken corrective measures in 2018 to allow for more flexibility, with receipts retained at the school and POE responsible for compiling the spending into the appropriate accounting format. This effectively solved the line-item spending rigidity issue and, along with direct transfers to the school bank accounts, represented a major step forward in devolving fiscal decision making to the school level.

Link between increased school funding and quality of services

The PETS and Quantitative Service Delivery Survey (QSDS) for the education sector were conducted in 2017 by MoEYS, MEF and DPs. PETS and QSDS seek to analyse and address the efficiency and equity of public service delivery and inform relevant policy reforms. PETS examine flows of funds and materials from the central government to local service providers, via regional and local governments, in order to identify resource use and leakages. QSDS are multi-purpose provider surveys that examine the efficiency of frontline service delivery and the dissipation of resources by collecting information on service providers and on various agents in the system.

The PETS/QSDS looked into the relationship between funding and quality of services based on 4 quality indicators: a school quality index; a financial quality index; a classroom quality index; an environmental quality index. Quality outcomes were analysed relative to total operational funding and to percentage SIG spending on quality.

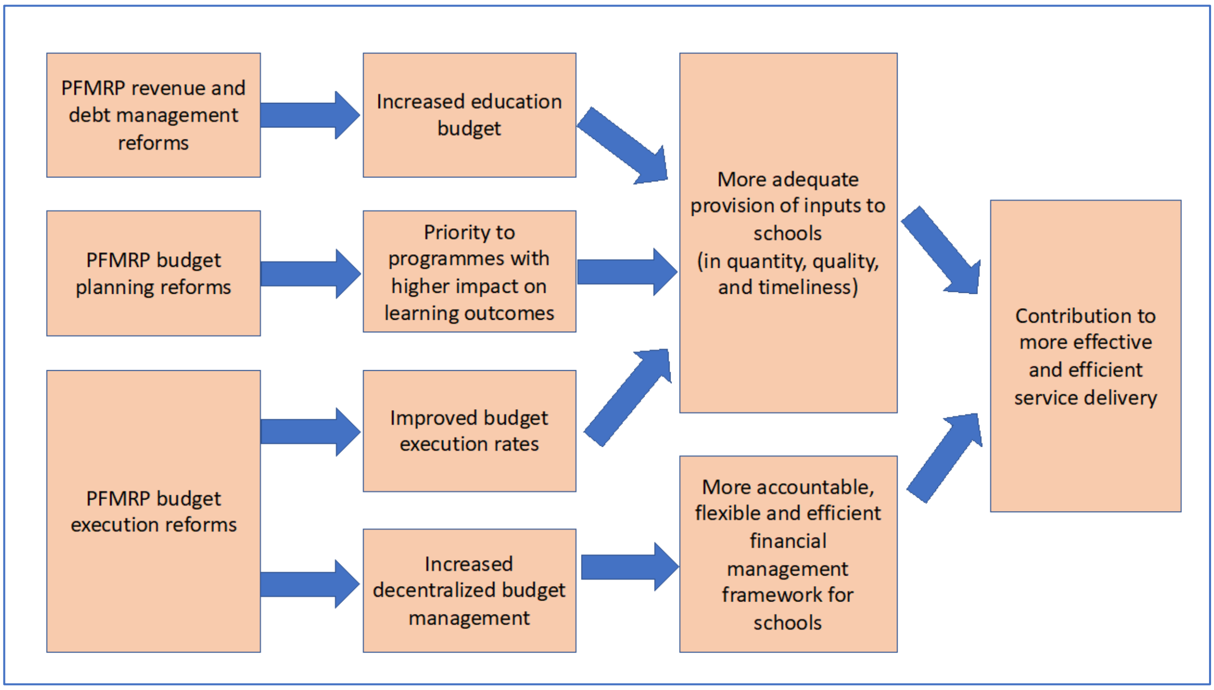
The PETS observed that there were clear differences in most of the quality indices between the provinces suggesting that it would be useful to target some provinces to get rapid gains in quality. Secondary schools had higher average school and environmental quality scores and lower average classroom quality scores than primary schools. The total amount of operational funds (SOB plus SIG) received by the school related positively to all quality indices except Classroom quality. More funds meant better quality. The proportion of SIG spent on quality related positively to all indices except Classroom Quality.

Conclusion and recommendations

Implementation of the PFMRP has contributed to increasingly more effective and efficient education service delivery through the following channels:

- PFMRP revenue and public debt management reforms have contributed to increased fiscal space, thus creating a conducive environment for increased education budgets
- PFMRP budget planning reforms (programme budgeting) have contributed to enhanced budget-policy linkages in the education budget, which benefitted with increased budget allocations
- PFMRP budget execution reforms (treasury and cash management, FMIS and business process streamlining and internal control, public procurement) have contributed to improved education budget execution rates and predictability of funding, and thus to increased financing of education service delivery units
- Improved timeliness of transfers to schools and increased budget management flexibility for schools managers has contributed to making budget decisions closer to needs at school level

Overall, PFMRP contribution to improved education service delivery can be summarized as presented in the graph below:



Recommendations, in view of the forthcoming CAP4, are as follows:

Observations	Recommendations
Cambodia has spent 2.9% of GDP on education in average, well below Lower Middle Income countries average of 3.8%	▪ Increase budget allocations to education to reach peers' average
MoEYS have no means of expressing their total resource needs over the long term in the BSP, or how the current financing limitations could impact the attainment of long-term objectives (e.g. Cambodia's SDG targets).	▪ The BSP process should provide a means for the expression of wider sector financial needs particularly where a sector strategy exists, and that line ministries with costed sector strategies should be asked to reconcile the two expenditure estimates and provide a financing plan to bridge the gap. ▪ Performance targets should be provided for a variety of different funding scenarios (e.g. what target reached if funded according to sector strategy, target reached if funded by BSP ceiling, target reached if funded actual proposed budget).
Wages are not apportioned by programme/sub-programme in the Education PB, thus not allowing a reflection of real programme costs, and preventing useful functional reports	▪ Ensure that wages are apportioned by programme, sub-programme and activity
Budget discussions between MoEYS and MEF are still over-focused on line-items	▪ Pilot education PB negotiations for increased focus on programme/sub-programmes performance and budgets
The business process for certain transactions still needs to be streamlined with FMIS	▪ Expand business process streamlining beyond low-risk transactions

Observations	Recommendations
FMIS reporting functionality is not sufficiently detailed to be useful for education sector managers (schools are not covered, some important line-items either)	▪ Expand Chart of Accounts (admin, programme, functional, economic segments) to cover all service delivery units (schools), key line-items (e.g. textbooks) and activities.
The EFMS under development is not interfaced with FMIS, which can increase the workload of MoEYS and create issues with reconciliation	▪ Ensure interfacing of EFMS with FMIS ▪ In the longer term, expand FMIS to lower levels through a simple web-based application
School managers need training/re-training in SOF management	▪ Capacity development for implementation of the Guidelines on Management of Public School Operational Funds by officers in charge of finance in schools, including use of computer and financial procedures
Public procurement is still centralised	▪ Ensure gradual decentralisation from MEF and MoEYS and capacity development of education procurement officers at central and subnational level
Future decentralisation of education services to the subnational level requires organisation of capacity development in financial management at a large number of administrative levels and units	▪ Carefully plan capacity development in financial management prior to decentralisation of services

PART III - PFMRP IMPACT ON HEALTH SERVICE DELIVERY

The objective of this section is to assess if and how the PFMRP has contributed, through the establishment of increasingly robust PFM systems, to improved service delivery performance in Cambodia's health sector. First, improvements and bottlenecks in health service delivery performance in the period 2015-2020 are mapped, as well as PFMRP implementation in the health sector. Then, a reflection is presented on possible attributions between PFM reforms and these achievements, and on the way forward to continue improve PFM for service delivery.

This section is based on key studies conducted in recent years and providing a view of Cambodia's health sector status and issues. These are the 2020 Health Financing Systems Assessment (HFSA), the 2020 Cambodia Implementation of the Social Accountability Framework (ISAF), the 2019 Impact evaluation of Service Delivery Grants to improve quality of health care delivery in Cambodia, as well as the PEFA assessment report 2020 and interviews with MoH and MEF departments.

Brief overview of the health sector of Cambodia

The Constitution of Cambodia guarantees "the health of the people" and the right of poor people to free health consultations at public facilities. The Royal Government of Cambodia is committed to building a robust social protection and health protection system, as envisaged in the Third Health Strategic Plan (HSP3 2016-2020) and the National Social Protection Policy Framework 2016-2025 (NSPPF), which outline the proposed approach to expanding social protection and social assistance to ensure universal access to health services and financial protection.

Whereas the public health system has expanded significantly since the 1990s, the private and non-medicals sector remain the main provider of primary health care in Cambodia, where only 1 in 3 patients visit the public sector for out-patient care. As of 31 December 2019, there were 14,432 private health facilities (compared with 12,785 in 2018), including 13,763 consultation rooms and 669 clinics, polyclinics and hospitals.

This shows the need to improve the quality of public health facilities as well as to ensure that patients receive good standards of care in the private sector, especially in small consultation rooms where a large fraction of unqualified providers operate.

The Public Health Sector is organised through three levels, including:

- the National level, comprising the Departments of the Ministry of Health (MoH), training institutions, national centres, and national hospitals
- the Provincial level, comprising the Provincial Health Departments, regional training centres, and provincial referral hospitals
- the operational District level, comprising Operational District Offices, district referral hospitals, health centres and health posts.

As of 2020, there were 9 national hospitals, 119 referral hospitals and 1,250 health centres and 129 health posts.

It is worth noting that there has been considerable external support to Cambodia's health sector development. Most importantly, the MoH has a flagship programme called the "Health Equity and Quality Improvement Project" (H-EQIP 2016-2021), which has been co-financed by the governments of Australia, Germany and Korea, and the World Bank. The objective of H-EQIP is to improve access to quality health services for targeted population groups with protection against impoverishment due to cost of health services. H-EQIP has four components: (i) Strengthening health service delivery, (ii) Improving financial protection and equity and (iii) Ensuring sustainable and responsive health systems, and (iv) Contingent Emergency Response. The H-EQIP focuses on sustainability of financing and quality improvement initiatives, as described in more details in the following sections.

Besides the PFMRP, the impact of which is the object of this study, the Public Administration Reform (PAR) and the Decentralisation and Deconcentration (D&D) reform have also contributed to reforming and improving the health sector of Cambodia.

The PAR has led to significant improvements in pay administration and increases in health sector minimum wage from approximately US$90 to US$280 per month between 2013 to 2018, and incentives, including financial incentives for remote postings, have also improved. A human resource management information system (HRMIS) has been launched, with MoH as a pilot agency to create an integrated HRMIS. With 24,270 health personnel employed by the MoH in 2019 (as compared to a total of 25 medical doctors by the end of the Khmer Rouge regime), the country has invested concertedly in rebuilding its health workforce. However, shortage, maldistribution, gender inequity and quality of health workforce are persisting issues. Cambodia has 1.4 doctors and 9.5 nurses and midwives per 10,000 people, which is significantly lower than the regional average of 9.0 doctors and 19.0 nurses per 10,000 people. A nationwide assessment of the competence of doctors, nurses, midwives, laboratory technicians, and leaders at health centres and hospitals in 2015 demonstrated large variations in quality across different types of services.

This study scope covers the period 2015-2020, which is divided into two separate periods concerning health sector management: first, the period 2015-2019 during which health sector was centralized under the Ministry of Health. However, in December 2019, the health sector of Cambodia was decentralized in the context of the national Decentralisation and Deconcentration (D&D) reform process, with the adoption of Sub-decree 193 on "Decentralization of health management functions and service delivery to the Capital and Province Administration". From 2020 onward, provincial and district health departments, provincial hospitals, district referral hospitals, health centres and health posts, including their finance, human resources, and assets management functions were transferred to the provincial administration for management.

With decentralisation, the MoH is taking on more of a stewardship role with a focus on policy making, as well as setting monitoring standards, providing technical support to sub-national administrations for planning and budgeting, financial management, health service administration, human resource management, procurement and civil works.

Health financing mechanisms

The three largest sources of health financing in Cambodia are government budgetary spending through direct and indirect taxes, development assistance, and households' out-of-pocket spending (OOP). Health is also financed through a number of other modalities presented below such as the State Health Insurance (SHI), private insurance, community-based health insurance (CBHI), and external financing.

While the government's budgetary spending has increased from 20% to 24% since 2000, OOP spending remains the dominant source of financing for health in Cambodia at 60% of total health care spending in 2017, a slight decline from 69% in 2000. Cambodia's high reliance on OOP payments as a revenue source for health is one of the major equity issues for health system financing in Cambodia. OOP spending is the most inefficient, inequitable and regressive form of health financing. OOP has mostly been paid to private providers, mostly private clinics, and on pharmaceuticals. The share of external sources has increased from 2% in 2000 to 15% in 2017, while the government share has increased from 20% to 24% in the same period (2000-2017).

General government revenues are the main source of *public* contributions for health in Cambodia and have been mostly channelled through MoH. Public funds include tax revenue and revenue raised by public health facilities. Funds from the central level of the MoH are transferred to national programmes, hospitals, and training facilities. From the provincial level of the MoH, funds are disbursed to Provincial Health Departments, Operational Districts, and health facilities.

Figure 4.3: Composition of Health Spending (2000)

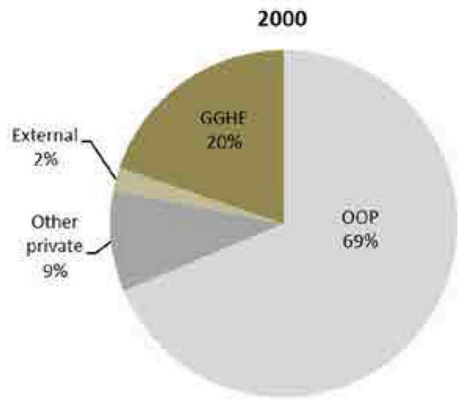
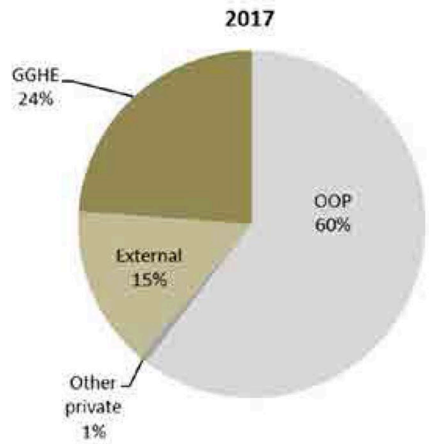


Figure 4.4: Composition of Health Spending (2017)



Source: WB/Australian Aid - Health Financing System Assessment (2020)

A large share of government funding (45%) is allocated to health system administration and financing. Health services are financed also through other financing schemes, including:

- The Health Equity Fund (HEF) is a health financing system where a third-party purchases services from public health facilities on a pay-for-performance basis for the poor (poorest 1/5 of the population) and the government reimburses the fees on behalf of the users of public health facilities to improve access to health services. It is co-financed by the Government (60%) and the donor pool fund (40%). The HEF system extends nationwide, covers all public health facilities, including all health centres, all district hospitals, all referral hospitals, and some national hospitals. Payments are made to health facilities through claims to, and verification by, the Payment Certification Agency (PCA), a semi-autonomous agency of MoH. This is a scheme for people considered 'extremely poor' (unable to afford doctors' fees or trips to the hospital). It is the most extensive protection system in terms of the number of individuals covered. In 2018, the Cambodian government categorised 3 million people as extremely poor, which represents around a fifth of the population. The prerequisite for this care is what is known as 'IDPoor' status with an individual or family-based 'membership' card issued as part of a comprehensive identification process.

- Community-based Health Insurance (CBHI) constitute the voluntary insurance scheme for the informal sector, and are the second most important of the social health protection schemes. However, currently only 1 per cent of the population is insured by one of the nine CBHIs in Cambodia.
- Social Health Insurance (SHI), a mandatory scheme for the formal sector is still under construction. The intention is for this type of insurance to be obligatory for people working in the formal sector (mainly civil servants) and will be wage-based. The objective is that the SHI will eventually cover approximately 15 per cent of the population.
- Service Delivery Grants are an innovative financing scheme to promote quality health care services and service utilization in public health facilities. They follow the Special Operating Agencies (SOAs) model that was based at Provincial Referral Hospitals and Operational Districts and was initiated by the MoH in 2008 in a form of *pay-for-performance related grant*. It was created under an internal contract between the MoH and provincial health departments through additional grants from the MoH and the MEF to build strong accountability for performance at the health facilities level. It is provided to health facilities that meet a minimum set of quality and management criteria to enable and motivate them to deliver quality health services to people.
- National Social Security Fund was established in 2008 and began by providing employment injury benefits and occupational disease benefits to private sector workers. In 2016, a health insurance benefit was added to NSSF. Under NSSF, employees receive SHI which includes health care prevention, medical care services, and a daily allowance for absences from work due to sickness or injuries resulting from non work-related accidents. Work-related injuries and maternity leave absences are covered by an alternative insurance mechanism. Payments and compensation is paid to public and private health facilities and employees if they are eligible for compensation. Dependents are not currently covered. By the end of 2019, about 1.3 million workers in the formal private sector (of the estimated 3.2 million formal private sector employees) or 8.1 percent of the population were covered by health insurance through NSSF. The scheme has been extended to smaller enterprises with less than eight employees.

The last system is a private health insurance scheme that targets the wealthiest section of the Cambodian population, which represents approximately 0.1% of the population. This system is expensive but quite efficient, giving a reasonable level of social health protection to affiliated individuals.

Although an effort has been made by the government to set up these protection systems, the majority of them have not yet been effectively implemented and the proportion of people covered by these insurance schemes remains very low. The combined coverage of these four social health protection schemes amounts to less than 10% of the population. The majority of Cambodians (89% of women and 92% of men) still do not have health insurance. Moreover, social health protection schemes usually cover the costs of primary care and hospitalisation, but these do not always extend to medicines.

Health system performance in 2015-2020

Cambodia's health policy objectives are set in the national Rectangular Strategies (there were two Rectangular Strategies in the period under review, the RS3 2014-2018 and RS4 2019-2023) and one Health Strategic Plans (the HSP3 2016-2020). These strategies include the Sustainable Development Goal #3 (SDG3): *Ensure healthy lives and promote well-being for all at all ages*.

The Rectangular Strategy IV (2019-2023) Rectangle 1 focuses on Human Resource Development. For health, it counts seven reform priorities, summarized as: 1) Health Strategic Plan implementation; 2) Universal health coverage; 3) Uplifting the quality, safety, and effectiveness of health services; 4) Human resources development; 5) Control and inspection of medical products; 6) Prevention and reduction of communicable diseases; 7) Nutrition.

The Health Strategic Plan III 2016-2020 is built on two strategic priorities: (a) Sustaining and further improving access and coverage; and (b) Increasing financial risk protection across socioeconomic groups when accessing needed health care. Following these priorities, and based on thorough analysis, the document specifies four health development goals: (i) Improve reproductive health, and reduce maternal, newborn and child mortality and malnutrition among women and youth children; (ii) Reduce morbidity and mortality caused by communicable diseases; (iii) Reduce morbidity and mortality caused by non-communicable diseases and other public health problems; and (iv) Make the health system more accountable and responsive to the population health needs.

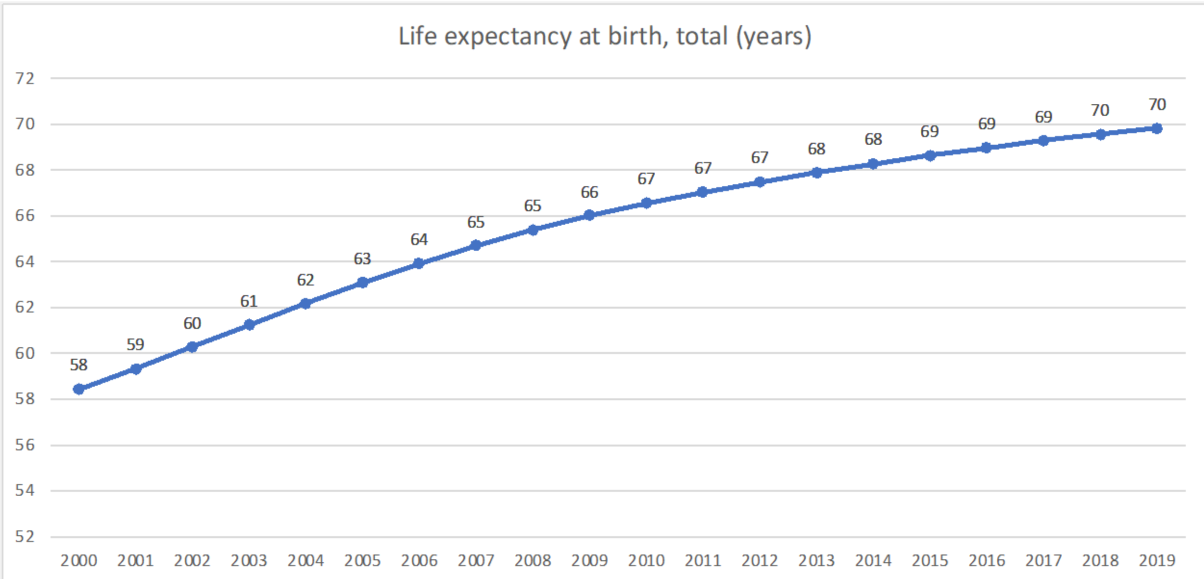
A lot of progress was achieved since the 2000s:

- The Millennium Development Goals (MDGs) were achieved to reduce the mortality rate of mothers, infants and children, reduction in illness and death caused by infectious diseases, such as AIDS, malaria, and tuberculosis and get rid of measles in 2016.
- Out-of-pocket (OOP) expenses on health care, especially for the poor and vulnerable have been drastically reduced because of the expansion of social protection such as Health Equity Fund for the poor, which now covers more than three million people. This results in the reduction of households unable to pay for their medical expense from

8.8% in 2009 to 3.7% in 2016 and of households falling into poverty because of the medical expense from 5.7% to 1.6% during the same period.

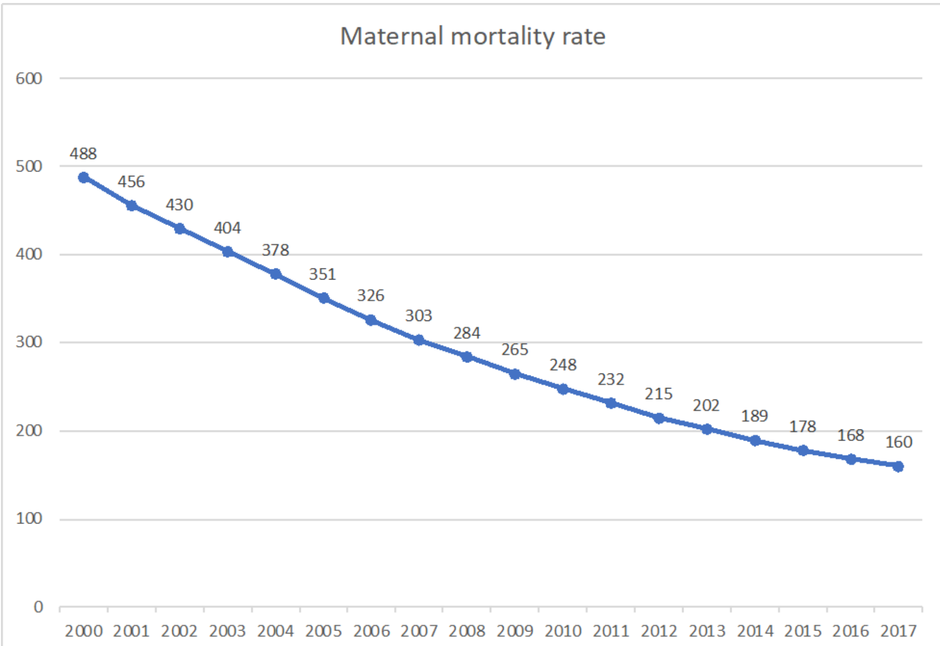
- Besides, under the RS3, the Royal Government has increased the salary of civil servants to more than 1 million riels per month in 2018, disbursed salary on time at the fourth week of each month.

Life expectancy increased from 56.7 years in 1998 to 70.6 years in 2018.



Source: World Bank[6]

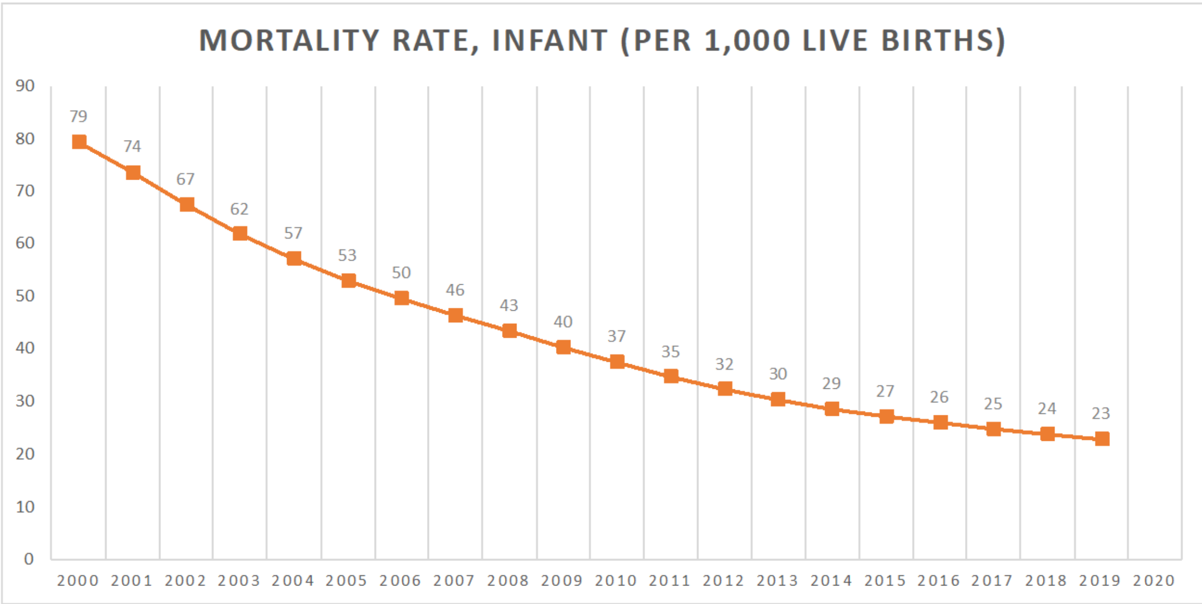
Maternal mortality rate declined from 488 maternal deaths in 2000 to 141 in 2019 for 100,000 live births.



[6] Ref: https://data.worldbank.org/indicator/SP.DYN.LE00.MA.IN?locations=KH

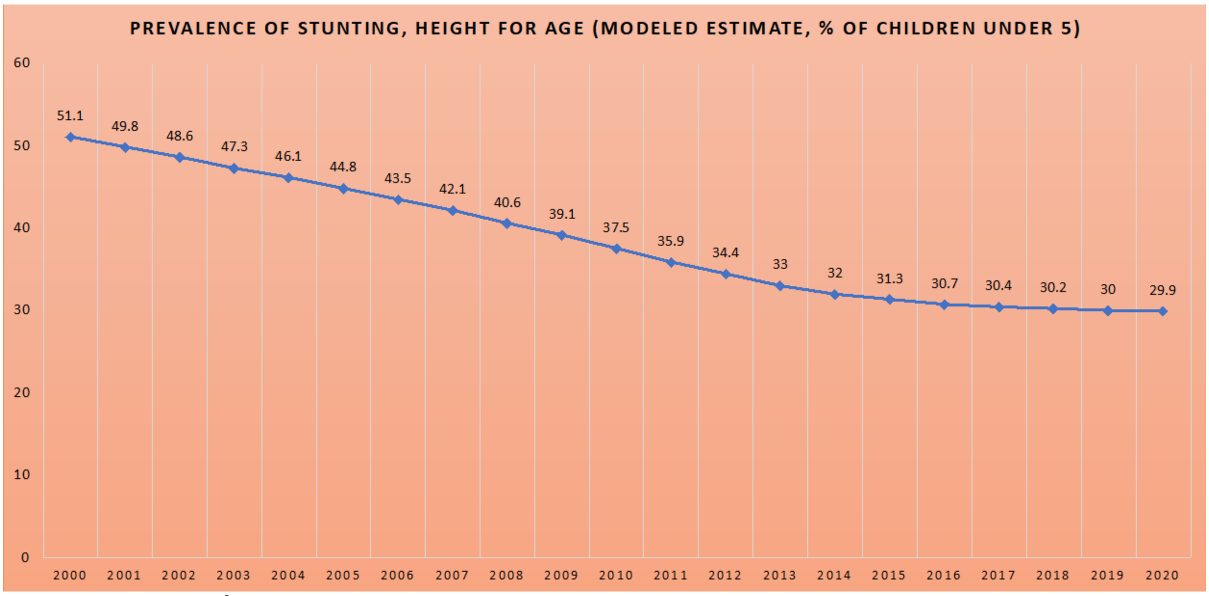
Source: Macrotrends[7]

Infant mortality rate went down from 79 infant deaths per 1,000 live births in 2000 to 23 in 2019.



Source: World Bank[8]

Meanwhile, prevalence of stunting declined from 51.1% of children in 2000 to 29.9% in 2020.



Source: World Bank[9]

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[7] https://www.macrotrends.net/countries/KHM/cambodia/maternal-mortality-rate

[8] https://data.worldbank.org/indicator/SP.DYN.IMRT.IN?end=2019&locations=KH&start=1997

[9] https://data.worldbank.org/indicator/SH.STA.STNT.ZS?locations=KH

As can be seen in the table below, prevalence of other diseases such as AIDS, tuberculosis or dengue fatality rate also went down markedly since 2015.

Indicators	2015	2016	2017	2018	2019	2020p
HIV prevalence	0.7%	0.6%	0.6%	0.6%	0.6%	0.5%
TB incidence	308	345	326	302	287	274
Dengue case fatality rate	0.5%	0.1%	0.05%	0.09%	0.07%	0.1%

Source: MoH Congress reports

These remarkable achievements went in parallel to considerable investment in the public health sector. As can be seen in the table below, the number of public health facilities increased significantly in the period 2015-2020, leading to an improving ratio of beds to 1,000 population:

Indicators	2015	2016	2017	2018	2019	2020p
Health facilities						
Number of national hospitals	9	9	9	9	9	9
Number of referral hospitals	99	110	117	123	126	119
Number of Health Centres (HCs)	1,141	1,165	1,190	1,205	1,221	1250
% of HCs with functioning Health Center Management Committee	85%	64%	75%	76%	87%	91%
Ratio of hospital beds to 1,000 population	0.69	0.69	0.71	0.73	0.82	0.82
Number of beds	10,689	10,870	11,408	11,883	13,464	13,583

Source: MoH

Cambodia, however, still has an unfinished reproductive, maternal, new-born, child and adolescent health and nutrition agenda and faces the double burden of communicable and non-communicable diseases (NCDs). 30% of children are still stunted. 12% of adolescents are pregnant and neonatal mortality rate is at 23 deaths per 1,000 live births. Cambodia is lagging in these key outcomes as compared to other countries in the region. Cambodian women continue to face unacceptably high risks of maternal mortality, particularly women in rural and remote provinces.

This high burden is due in part to low quality and utilization of essential services. In poorer areas, women suffer from higher poverty and lower access to and poorer quality services than elsewhere, leading to higher maternal and neonatal mortality and child stunting. There are signs indeed that investment in quality did not follow the pace of expansion of the health service delivery network.

PFMRP implementation in the health sector

As part of the PFMRP Consolidated Action Plan (CAP) implementation mechanism, the Ministry of Health prepares every year a PFMRP Ministerial Action Plan (MAP) which describes the activities that it will implement during the years and the indicators and targets it assigns to itself in close coordination with the MEF PFMRP General Secretariat Committee (GSC). The MAP covers the parts of the PFMRP CAP where MoH (as most other line ministries) has a particular role to play, such as implementation of non-tax revenue policy, programme budgeting and Budget Strategic Plan, implementation of FMIS, accounting and reporting reforms, cash forecasting, public investment management, public procurement, internal audit, etc.

Several PFMRP CAP objectives related to allocative and operational efficiency cross over one of the objectives of the Health Strategic Plan III (HSP3, 2016-2020): Specific Objective 2 *Stable and sustained financing of healthcare services with increased financial risk protection when accessing healthcare services* and its 5 strategies*:*

<u>Strategy 1: Increase national health spending in accordance with economic growth and increased fiscal capacity</u>

Outcome: Predictable and sufficient domestic financial resources for health

- Use valid and reliable evidence-based information to advocate for increased and predictable government budget for health.
- Explore innovative domestic resource mobilisation approaches such as collection and allocation of earmarked taxes for health, and public-private partnerships.
- Promote policy dialogue and rally support of policymakers to attain Sustainable Development Goal 3 indicator "Achieve Universal Health coverage, including financial risk protection, access to quality essential health-care services".

<u>Strategy 2: Target available resources according to population health needs</u>

Outcome: Sufficient funding for priority programme interventions

- Develop a formula to allocate resources within the health system according to population needs, taking into consideration epidemiological data, population size and structure and poverty incidence.
- Implement programme-based budgeting nationwide and build capacity at all levels to master the entire budget-planning and implementation process.
- Increase gradual substitution by the government of funding from global health initiatives and Development Partners' main health programmes and priority health expenditures.
- Ensure availability of up-to-date and reliable budget/financial information to enable resource allocation at all levels through a sound financial management performance monitoring system.

Strategy 3: Increase efficiencies in the use of available financial resources in transparent and accountable manner at all levels of the health system

Outcome: Value for money for available financial resources for health

- Build capacity of "Budget Entities" at the national and sub-national level to manage and implement program-based budgeting effectively and efficiently.
- Increase accountability for managing the financial system, including accounting, financial recording and reporting in an efficient, transparent and timely manner.
- Strengthen institutional capacity to manage, implement, and monitor and evaluate medium term expenditure framework, accounting, reporting and auditing in accordance with the principles of the fiscal framework.
- Strengthen the effectiveness of the procurement system consistent with the principles of transparency.
- Implement approach or system to strategically purchase health services with links between payment and predetermined criteria for quality.

Strategy 4: Increase financial risk protection in access to and utilization of quality health services for all.

Outcome: Minimized catastrophic and impoverishing health spending and maximized equity.

- Increase coverage of the informal sector population by expanding the Health Equity Funds to include vulnerable population groups (e.g. people with disability, older people and children aged under-five).
- Review and adjust the benefit package of the social health protection schemes according to health needs of beneficiaries and health service developments.
- Strengthen complaint and feedback mechanisms concerning health providers' behaviour and quality of health services.
- Promote better understanding of the population related to social health protection schemes, especially health benefits resulted from appropriate use of health services.
- Transfer HEFs management from the MoH to a national social protection organization, when established.
- Develop appropriate approach to establishing social health insurance for the informal sector population based on Cambodian contextual factors and principles of fairness in financial contributions and equity in access.
- Build institutional capacity of PHDs, ODOs and health facilities to effective manage, implement and monitor SHP operations, including contract review and negotiations, data management on beneficiaries, claims and payment processing, accounting systems.
- Work closely with relevant ministries/institutions and other stakeholders to develop legislation and regulation, technical and financial instruments related to governance, management and operations of social health protection systems within the context of developments of the national social protection system.

Strategy 5: Align and harmonize development assistance with the national health policies and strategies, and strengthen coordination of funding for health by Development Partners.

Outcome: Increased mutual accountability for development cooperation results

- Improve sector-wide coordination through strengthening the role of Technical Working Group for Health and Provincial Technical Working Group for Health, with establishment of a Sub-Technical Working Group on Health Financing.
- Align financial commitments to the health sector of Development Partners with health strategic plans, including efforts to increase fiscal space, and foster targeted health system strengthening.
- Harmonise activities and funding by Developing Partners related to health financing for universal health coverage through medium-term planning and budgeting processes (medium term expenditure framework, budget strategic plan and public investment program).
- Harmonize and efficiently use technical assistance, with emphasis on transfer of knowledge and skills from international experts to national counterpart(s), and increased engagement of national experts.
- Gradually employ national mechanism(s) and system(s), where and when appropriate, for financial planning and management, monitoring and evaluation, in accordance with principles of mutual accountability.

The Ministry of Health has been involved in various stages of PFMRP implementation, as the manager of one of the key sectors in need to establishing sound and strong financial management systems. The sections below will show MoH implementation of key PFMRP reforms such as programme budgeting and assess their impact on allocative and operational efficiency.

PFMRP impact on the size of the health budget

In spite of strong economic growth and increase of public expenditure since the 2000s, government budgetary spending on health has remained rather low as a share of public expenditure and as share of GDP. Indeed, whereas total government expenditure soared from 15% of GDP in 2000 to around 25% in 2019 (and to 28% in 2020 in the context of the Covid countercyclical fiscal package), health expenditure has actually declined from 8.7% of the budget in 2015 to 7% in 2019 and 2020, and it has remained relatively stable at between 1.61 and 1.83% of GDP (which is above Lower Middle Income countries average of 1.4%). The table below also shows that in annual variation, the health budget has grown more slowly than total State budget in the period 2016-2020, except in 2017.

Indicators	2015	2016	2017	2018	2019	2020
1. Total State Budget (KHR million)	14,660,147	16,927,545	20,016,007	22,551,323	27,340,323	25,258,191
Annual variation rate		15.5%	18.2%	12.7%	21.2%	-7.6%
2. Health sector budget (KHR million)	1,277,877	1,304,764	1,641,801	1,637,645	1,924,001	1,772,701
Annual variation rate		2.1%	25.8%	-0.3%	17.5%	-7.9%
3. Health share of State Budget	8.7%	7.7%	8.2%	7.3%	7.0%	7.0%
4. Health budget share of GDP	1.74%	1.61%	1.83%	1.65%	1.75%	1.63%

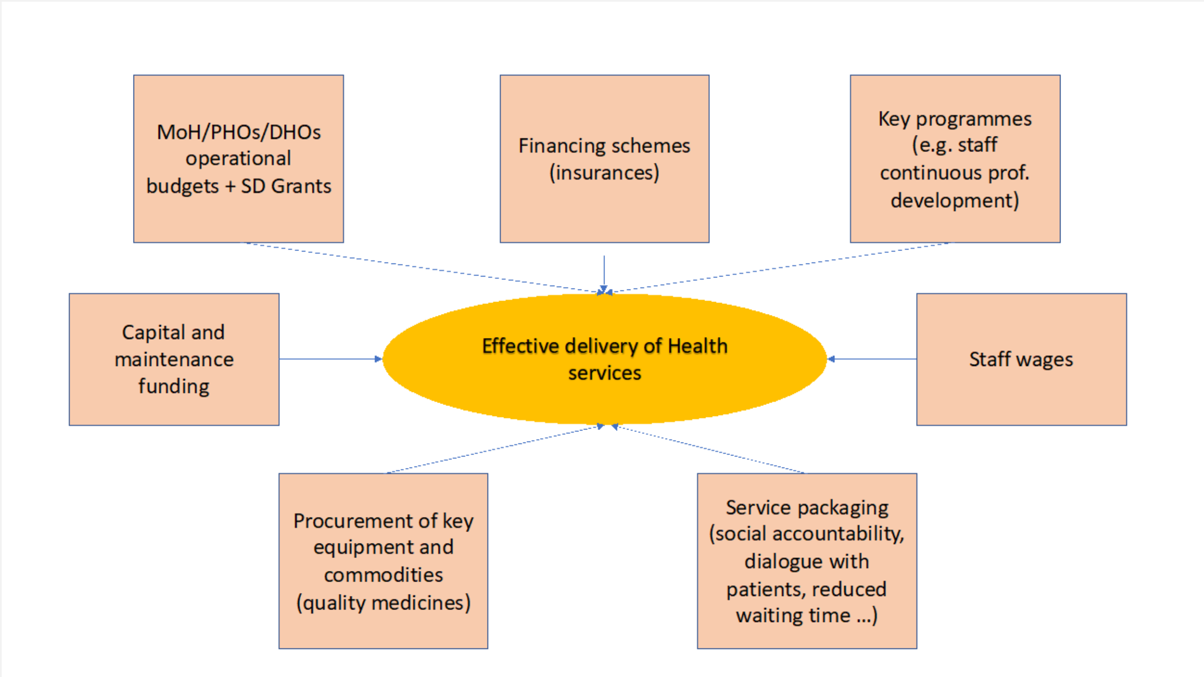
Source: Annual Budget Settlement Laws

In relation to this, the EU 2020 study on BSP and PB coherence noted that in the Budget Strategic Plan, line ministries like MoH have no means of expressing their total resource needs over the long term or how the current financing limitations could impact the attainment of long-term objectives (e.g. Cambodia's SDG targets). It recommended that the BSP process should provide a means for the expression of wider sector financial needs particularly where a sector strategy exists, and that line ministries with costed sector strategies should be asked to reconcile the two expenditure estimates and provide a financing plan to bridge the gap. It also called for performance targets to be provided for a variety of different funding scenarios (e.g. what target reached if funded according to sector strategy, target reached if funded by BSP ceiling, target reached if funded actual proposed budget).

PFMRP impact on allocative efficiency at health sector level

As discussed in the previous chapter on education service delivery, the way public financing is allocated and spent has a critical bearing on service delivery provision. This applies equally to the health sector, where key inputs such as availability and technical capacity of staff and availability of medicines (see graph below) is key to ensure effective service delivery and therefore service use and satisfactory population health outcomes.

PFM-related contributions to effective delivery of health services



The PFM system contributes to effective delivery of health services by providing the necessary inputs for the health system to function. The first phase is budget allocation. Under the hard budget constraint, however, these inputs need to be prioritized. As noted in the education section above, two basic PFM functions have a noticeable potential of maximizing the likelihood of efficient allocation of public expenditures: (i) Timely and reliable financial information, and (ii) a well-structured budget preparation process.

Concerning financial information, the Financial Management Information System (FMIS), which covers budget preparation, execution and accounting functionalities was installed in the MoH Finance Department. Further expanding the number of entities using FMIS within or under MoH and at subnational level will be required to more widely benefit from FMIS added-value. As in the case of the Ministry of Education (MoEYS), the FMIS brought a number of improvements, including dematerialized online submission of requests for payments and reports, and the capacity to monitor the business process and to generate real time aggregated budget reports for the health sector. However, the FMIS cannot provide information at the detailed level MoH and Provincial Governments need for policy analysis and budget management. This is due to a variety of factors but mostly because the chart of accounts and budget classifiers do not cover lower-level spending units such as referral hospitals or health centres, nor the programme structure at lower levels.

Indeed, neither the programme nor administrative classification is sufficiently detailed to enable full elaboration of the budget for line ministry management purposes. The chart of accounts stops at the “activity” level in the programme segment and is no more detailed than “department” (or “entity”) level within the administrative segment. The chart of accounts does not define “spending units” for each entity, which are the lowest level units at which expenditures are managed. Most ministries require detailed information on spending units to support analysis, for example how much money is spent at each hospital or health centre. The inability to manage the release, execution and monitoring of budget funds at spending unit level, and to record expenditure at this level, has required MoH, and now provincial administrations (to which Provincial Health Departments were transferred), to retain manual systems for this purpose.

As the PEFA 2020 reports (PI-8.3), Health Centres 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 however, information on revenue and expenditure is only reported at aggregated level at provincial, district level, but not for individual health centres.

As was the case in the education section above, it would be recommended for MEF to give flexibility to line ministries to expand the administrative, programme and economic segments of the chart of accounts and their codes to cover all spending units, activities and line items that are relevant to the all sectors, including health.

Concerning budget preparation, allocating resources strategically requires answering questions such as: what are the health expenditures/programmes that should be prioritized under the budget constraint? Does increasing medical staff salaries or investing in their professional development, or giving more medicines or improving buildings create better health outcomes? Is there any room for improving efficiency? Systematic discussions and research are required to identify the options that arise from these questions, and health sector managers require mechanisms to enable them to transfer these findings into budgetary policy.

The table below shows the mix of inputs (wage, non-wage recurrent, investment) in the health sector budget of Cambodia over the 2015-2020 period.

Indicators	2015	2016	2017	2018	2019	2020
Wages	18.9%	22.3%	24.2%	27.2%	25.3%	*n/a*
Non-wage recurrent	56.2%	58.2%	47.6%	57.1%	52.6%	*n/a*
Investment	24.9%	19.5%	28.3%	15.8%	22.1%	*n/a*

As can be observed, wages have increased quite substantially, from 18.9% of the health budget in 2015 to 25.3% in 2019, reflecting priority on human resources (increase in salaries and in the total number of health staff). Meanwhile non-wage recurrent and investment budgets remained important but decreased relatively, compared to wages.

At MoH level, the BSP and annual budget formulation process has been fully compliant with MEF guidelines. A budget working group (BWG) was established that comprises the Department of Planning and Health Information (DoPHI) and the Department of Finance (DoF). They coordinate and support the preparation of the budget across the four health budget programmes and budget entities of the sector.

Programme Budgeting was introduced in MoH in 2015 and continues to be strengthened to ensure effective linkage between budget and health sector performance. The structure of the MoH programme budget and 3-year Budget Strategic Plan, which was introduced in 2007, consists of 4 Programmes and 23 Sub-programmes:

Programme 1: Reproductive, youth, maternal, newborn and child health and nutrition

- Sub-programme 1: Nutrition
- Sub-programme 2: Reproductive health
- Sub-programme 3: Maternal and newborn health
- Sub-programme 4: Child health
- Sub-programme 5: Supporting services to provincial-capital departments

Programme 2: Communicable disease control

- Sub-programme 1: HIV prevention, care and treatment
- Sub-programme 2: TB prevention, care and treatment

Sub-programme 3: Malaria and dengue fever prevention, care and treatment

- Sub-programme 4: Other communicable disease prevention and response
- Sub-programme 5: Supporting services to provincial-capital departments

Program 3: Non-communicable disease control and other public health issues

- Sub-programme 1: Eye health
- Sub-programme 2: Mental health and substance abuse
- Sub-programme 3: Oral and dental health
- Sub-programme 4: Chronic diseases
- Sub-programme 5: Other public health issues
- Sub-programme 6: Supporting services to provincial-capital departments

Programme 4: Strengthening of health system

- Sub-programme 1: Health service delivery
- Sub-programme 2: Health financing
- Sub-programme 3: Human resource development
- Sub-programme 4: Health information system
- Sub-programme 5: Health system governance
- Sub-programme 6: Supporting services to provincial-capital departments

According to a 2020 EU study of BSP and PB alignment, activities in the BSP of MoH are broadly aligned to the HSP, although they remain at a relatively high level and make it difficult to see the relationship with operational plans and budgets. The BSP budget costings are presented at sub-programme level only except for provincial level budgets which are presented as activities (replicating the sub-programme structure) under the final sub-programme of each Programme. Each sub-programme and activity budget is split by wages and non-wages with additional amounts for investment projects (capital) and technical assistance (ODA) projects. Given the scale and complexity of the sector, the figures shown are inevitably at a high level making it difficult to assess the validity of the figures in relation to day-to-day operational activities. However, MoH has strong capacity in costing and budgeting and it seems likely that it would be possible to trace these budget estimates through the several layers of planning to arrive at operational level activity costings for all sub-programmes. There also remain questions over the figures for investment projects and technical assistance, as none of the figures presented in the BSP appear to correspond to the actual values of capital budgets and ODA available from other sources. This may reflect an inability of MoH to obtain accurate and complete information on capital budgets and development partners' plans.

The table below presents the distribution of the health budget by programmes as set in the BSP 2020-2022, where 2019 is the baseline budget:

Indicators	2019	2020	2021	2022
Health Sector Budget (KHR million)	1,545,525	1,677,071	1,731,143	1,780,946
Programme 1: Reproductive, Youth, Maternal, Newborn, Child Health and Nutrition	116,613	122,849	132,406	134,134
Programme 2: Communicable disease control	19,869	24,404	25,562	26,329
Programme 3: Non-communicable disease control and other public health issues	3,256	4,716	4,945	5,123
Programme 4: Strengthening health system	1,405,785	1,525,101	1,568,228	1,615,359

Programme 4, which represents more than 90% of the health budget, includes the overall management of the public health sector, covering the core components through 6 sub-programmes:

Indicators	2019	2020	2021	2022
Programme 4: Strengthening health system	1,405,785	1,525,101	1,568,228	1,615,359
Sub-programme 1: Health service delivery	691,702	753,882	781,646	804,673
Sub-programme 2: Health financing	5,649	5,321	5,492	5,668
Sub-programme 3: Human resource development	107,248	112,863	117,061	121,471
Sub-programme 4: Health information system	133	133	137	141
Sub-programme 5: Governance for health sector	3,205	3,316	3,434	3,558
Sub-programme 6: Supporting services to Program 4 for provincial-capital level	597,847	649,585	660,460	679,849

As can be seen from the table above, the sub-programmes that have seen their budget increase most are the Sub-programme 1 (Health service delivery) and 6 (Service delivery managed by provinces).

Since decentralisation started in 2020, the budgeting process in the health sector changed quite drastically. According to the Sub-decree #193/2019, the MoH has assigned (not delegated) to Capital/Provincial (C/P) administrations the functions performed by the Provincial Health Departments (PHDs): managing Operating Districts (OD), and providing services at referral hospitals, health centres and health posts. C/P administrations then further delegate the transferred functions down to appropriate Districts/Municipalities/Khans (D/M/K) and Communes/Sangkats (C/S) administrations in their jurisdictions. After the transfer, the MoH is still ultimately responsible and accountable to the government and the National Assembly, with respective subnational administration councils accountable to the Minister for following national health policies and guidelines. Directors of the PHDs are accountable to the respective

C/P councils and Boards of Governor (BoGs). Lower-level officials in the vertical line agencies of MoH (e.g. referral hospitals, health centres) are accountable to the PHD Director.

As per Sub-decree #06 (2017), the MEF is responsible for transferring budget to the C/P administration to perform the assigned functions. Detailed guidelines are also provided on the budgeting aspects of the newly assigned functions in Prakas #182 (2020). The BoG at the C/P level, with the technical support of the respective PHD, is required to prepare an annual work plan and budget for the health sector in its jurisdiction. Prakas #182 (Article 5) explicitly states that the PHD shall prepare its annual budget following the MEF circular for the national level budget strategic plan (BSP). However, the proposed budget needs are to be approved by C/P councils before being sent to MEF and MoH and integrated with the overall MoH overall budget. During budget execution, the C/P Governor is the original budget authorizer. However, s/he shall delegate the authority to the PHD Director who acts as the delegated budget authorizer. As the WB study on intergovernmental architecture (May 2021) puts it, this fiscal transfer, as it is currently operating, is arguably a 'hybrid-transfer', and not a purely conditional one. The function is decentralised but the budget is only de-concentrated with the MoH.

Overall, the MoH acknowledges that PFMRP budget planning reforms (BSP and PB) have contributed to more effective allocative efficiency. Programme budgeting led to increased focus on priorities and outcome of implementation, but also supported better costing of services (with the use of unit costs such as for children vaccination programmes). However, the national budgeting process did not result in increased health expenditure, in proportion of the budget. More needs to be done to give an opportunity to line ministries to describe their financing needs (beyond the BSP ceilings) and to better forecast and integrate capital budget into the BSP and PB. Besides, the 2020 Health Financing Systems Assessment (HFSA) report finds that health system performance in Cambodia is hampered by inefficiencies, with resources concentrated in urban areas and in hospital care, and primary care services, especially in rural areas, remaining underfunded despite positive changes over the past years.

Finally, whereas the FMIS has made available reliable aggregate information, it has failed so far to provide more detailed budget reports to health sector managers, covering service delivery units. FMIS and budget classification expansion will be needed, all the more so in the context of health sector decentralisation.

PFMRP impact at the budget execution stage

If the PFMRP budget planning reforms have not been particularly beneficial to MoH in securing increased funding (at least at the same pace than the overall state budget), it has been more successful at enhancing budget credibility. Indeed, the health *recurrent* budget execution rates improved markedly since 2015, as can be seen in the table below. In particular, the execution of the wage budget has improved from 87.3% in 2015 to around 94% in 2018-2020. The non-wage recurrent budget execution rates have also improved from 96 to 98%. The domestic investment budget has always been entirely spent as budgeted, as it is actually allocated in the MoH budget after budget adoption. However, there seems to be some difficulties with implementation of externally financed investment (ODA), which has seen its execution rates worsening over the period, from 44% in 2018 to 152% in 2019. There should be an effort to improve the budgeting of ODA on the one side, and its predictability, and implementation. Both issues to be addressed with the relevant development partners and MEF (GDICDM).

Indicators	2015	2016	2017	2018	2019	2020
Health budget execution	**97.9%**	**91.6%**	**96.5%**	**82.0%**	**105.3%**	**108.3%**
Wage	**87.3%**	**89.6%**	**98.8%**	**95.4%**	**94.7%**	**93.4%**
Non-wage recurrent	**95.8%**	**96.6%**	**97.3%**	**98.1%**	**98.1%**	**116.2%**
Investment	**113.9%**	**81.2%**	**93.4%**	**44.6%**	**151.5%**	***n/a***
Domestic	***100.0%***	***100.0%***	***100.0%***	***100.0%***	***100.0%***	***n/a***
ODA	***114.1%***	***81.1%***	***93.4%***	***44.1%***	***152.5%***	***n/a***

Source: Annual Budget Settlement Laws

This has resulted from improved budget execution systems implemented as part of PFMRP stages 1 (budget credibility) and 2 (financial accountability), as described in more details in the education section above. In particular:

- Treasury and cash management reforms, which improved availability of funds and timeliness of transfers to budget entities.

- FMIS business process streamlining and thus acceleration of payment processes.

- Public procurement gradual decentralisation to budget entities (through raising of thresholds for *ex ante* control by MEF[10]) and capacity development for procurement staff has contributed to accelerate the pace of public procurement processes.

- Increased delegation of authority to budget entities (budget managers) in line ministries, including MoH, with more management discretion and some relaxation of virement rules (still limited though).

Budget execution is done through quarterly disbursements that depend on invoice clearance for the preceding quarter. This can lead to delayed disbursements. Budgets for health are disbursed on a quarterly basis to central level spending units through MoH, and to subnational health facilities through the Provincial administration. During the first quarter, MEF releases the first disbursement to MoH and Provincial administration, and disbursement of the following quarters is made upon submission of a mandate and payment request to the Treasury with attachment of invoices and clearance from the previous quarter. This process has been greatly facilitated and accelerated with FMIS and its scanning function, whereby documents do not need to be submitted physically. This has improved the situation with late fund disbursement to central offices and PHDs. It has also contributed to higher annual budget execution.

[10] Around USD 200,000 for most LMs and USD 370,000 for MoH and MoEYS and most SOEs.

PFMRP impact at service delivery unit level

The 2020 Health Financing Systems Assessment (HFSA) report finds that health system performance in Cambodia is hampered by inefficiencies: *"Compared to the level of spending, the performance of Cambodia's health system is found to be sub-optimal, pointing to systemic inefficiencies. Resources are concentrated in urban areas and in hospital care. Primary care services, especially in rural areas, remain underfunded despite positive changes over the past years"*. Spending remains highly concentrated at the central level, although that is likely to change with decentralisation. The HFSA report's most relevant recommendations to PFM reforms are as follows:

1. To improve equity in the allocation and use of health resources, and in particular to improve the quality of public health facilities to increase the utilization of public services.
2. To increase government financing for health as external financing is gradually declining, while OOP needs to be reduced.
3. Funding should be increased for primary care services to promote preventive services over curative care in hospital.
4. Better budgeting and accounting procedures and an increased use of FMIS could improve the flow of funds, accountability, and transparency in the health system.
5. Donor funding needs to be aligned and integrated into the government system with routine government financial disbursement and oversight structures to reduce fragmentation and improve efficiency in service delivery.
6. The government should explore ways to improve cost effectiveness and efficiency for priority health programmes. Broader performance-based funding should be introduced to motivate health staff and to improve the quality of health services.

The 2019 Impact Evaluation of **Service Delivery Grants** (SDG) to improve quality of health care delivery in Cambodia was conducted by the WB to measure the impact – outputs and short-term outcomes – of the implementation of performance-based SDGs, which was implemented at health facilities (health centres and referral hospitals) and health administrative offices, i.e. Provincial Health Departments (PHD) and Operational District (OD) Offices.

Service Delivery Grants are an innovative financing scheme to promote quality health care services and service utilization in public health facilities. It was created under an internal contract between the MoH and PHDs through additional grants from the MoH and the MEF to build strong accountability for performance at the health facilities level. It is provided to health facilities that meet a minimum set of quality and management criteria to enable and motivate them to deliver quality health services to people. Specific intervention components span across improving infrastructure, managerial capacity and clinical competencies, by means of the phased roll out of standardized quality assessments, institutionalized pre-service and in-service training, organization of regular meetings and production of quality reports. Based on the measurement of these interventions, the health facilities and health administrative offices received performance-based SDGs that serve as an additional source of revenue to be spent on the operations and staff incentives.

The MoH Service Delivery Grants Manual outlines the intended use for the fixed lump sum grant and performance-based grants (MoH, 2016 #50):

- Fixed Lump sum grants are intended as a complement to the facility operational budget, to manage and implement direct spending for the purpose of promoting quality and equity in patient care.
- Performance-based grants are intended to reward health facilities for quality performance and to reward OD and PHD offices and in particular certified assessors for conducting quality ex-ante assessment. Up to 80 percent of Performance-based Grants can be spent for staff incentives. At least 20 percent of Performance-based Grants are eligible for any other SDG-eligible expenditures.

The findings of the SDG impact evaluation are quite positive:

- Original delays in availability of funds at health facilities identified in 2016 appear to have been solved by 2019, with direct payments to facilities' bank accounts now regular and timely.
- HEFs and SDGs seem to steadily produce a virtuous circle on facility volumes and perceived quality: quality improvement may have drawn more patients including those not covered by HEF, thereby generating more user fees and HEF reimbursement.
- Early investments being made to improve facility infrastructure, amenities and supplies, using the fixed lump sum SDGs, are already beginning to reveal the enthusiasm and innovations that are being tried out by facilities.

However, the evaluation also found that:

- There was limited level of autonomy and satisfaction in the targeted areas for improvement at health centre-level, such as the authority to manage resources. Facility level infrastructure and availability of commodities had remained an issue. For example, suboptimal access to computers and internet, and the lack of a constant supply of electricity, compounded the challenge of having an efficient health information storage.
- With considerably reduced outreach in recent years, driven by the changed resource context, there is an increasing need for stronger community links and outreach, especially to meet the needs of very remotely located communities. This will require changes in the institutional arrangements, finances, health workforce and information system.

Finally, the 2020 impact evaluation of Cambodia's Implementation of the Social Accountability Framework (ISAF) also provided interesting findings. The ISAF is a programme of the Royal Government of Cambodia, jointly implemented with civil society organisations, that was designed to increase the government's capacity to implement social accountability approaches in 98 of Cambodia's 159 rural districts from 2016 to 2018. The social accountability approaches promoted by ISAF included the development of citizen-state feedback mechanisms to empower citizens to provide comments to service providers on the quality of critical public services in rural areas in Cambodia. These service providers included 605 health centers using citizen scorecards.

The ISAF report findings at Health Centres level are the following: 95% of health centre staff reported knowing about their roles and responsibilities. The knowledge gained increased in treatment and control areas, suggesting that it was because of a wider health initiative. The number of staff reporting the correct number of staff for the health centre (8-11) increased from 33% to 64% overall. Similarly, the number of health centre directors reporting that the health centre was open for 24-hour emergency care increased from 28% to 60%.

Health centre results were positive on several aspects. Quality was measured through indicators related to service standards including staffing and wait times, payment of informal fees, and attitudes of practitioners. There were no significant treatment effects on staffing levels or wait times. Although ISAF had no significant effects on payment of informal fees, based on impact evaluation estimates, villagers seeking treatment in health centres were 25 percentage points less likely to pay for medicines in treatment areas. Health centres overall were more transparent, including 24 percentage points more likely to post their budget in treatment areas. Villagers seeking treatment at health centres in treatment areas were 7 percentage points more likely to receive an explanation of their condition and what they needed to do to get better.

Based on interviews conducted during the ISAF with health centre staff, the greatest challenge identified is the lack of patient awareness and understanding. Approximately one-third of health centre staff cited lack of medical staff, and 30% cited lack of infrastructure or equipment. Distance from the center was cited in 21% of responses.

Another common challenge reported in treatment and control areas was that three people on average in each health centre had a second job. For a health centre with an average of 10 people, this is one-third of its staff. The need for a second job highlights problems with the central government compensation and incentive structure, especially compared with the private sector.

The results of the impact evaluation in the health sector suggest that social accountability interventions have the potential to lead to service delivery changes.

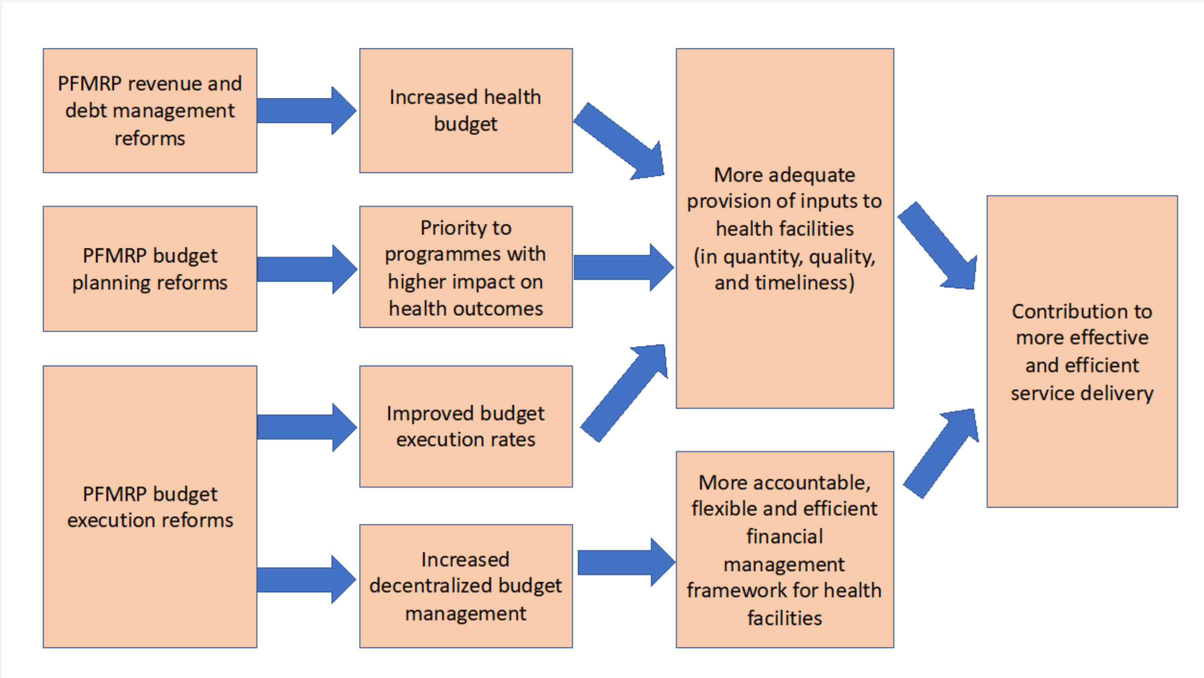
Conclusion and recommendations

Implementation of the PFMRP has contributed to increasingly more effective and efficient health service delivery through the following channels:

- PFMRP revenue and debt management reforms have contributed to increased fiscal space, thus creating a conducive environment for increased health budgets
- However, while PFMRP budget planning reforms (BSP, programme budgeting) have contributed to enhanced budget-policy linkages in the health budget, have not benefitted the health sector which has seen its budget increasing less than other sectors like education. This may be due, in part, to the BSP structure and process limitations.
- PFMRP budget execution reforms (treasury and cash management, FMIS and business process streamlining and internal control, public procurement) have contributed to

improved health budget execution rates and predictability of funding, including improved timeliness of transfers to health facilities

Overall, PFMRP contribution to improved education service delivery can be summarized as presented in the graph below:



Recommendations, in view of the forthcoming CAP4, are as follows:

Observations	Recommendations
The health budget has subsided from 8% of state budget in 2017 to 7% in 2020	▪ Increase budget allocation to the health sector at least at the same variation rate as total budget
MoH have no means of expressing their total resource needs over the long term in the BSP, or how the current financing limitations could impact the attainment of long-term objectives (e.g. Cambodia's SDG targets).	▪ The BSP process should provide a means for the expression of wider sector financial needs particularly where a sector strategy exists, and that line ministries with costed sector strategies should be asked to reconcile the two expenditure estimates and provide a financing plan to bridge the gap. ▪ Performance targets should be provided for a variety of different funding scenarios (e.g. what target reached if funded according to sector strategy, target reached if funded by BSP ceiling, target reached if funded actual proposed budget).
Figures for investment projects and technical assistance in the BSP do not correspond to the actual values of capital budgets and ODA available from other sources. This may reflect an inability of MoH to obtain accurate and complete	▪ Improve comprehensiveness and coherence of capital investment data in BSP

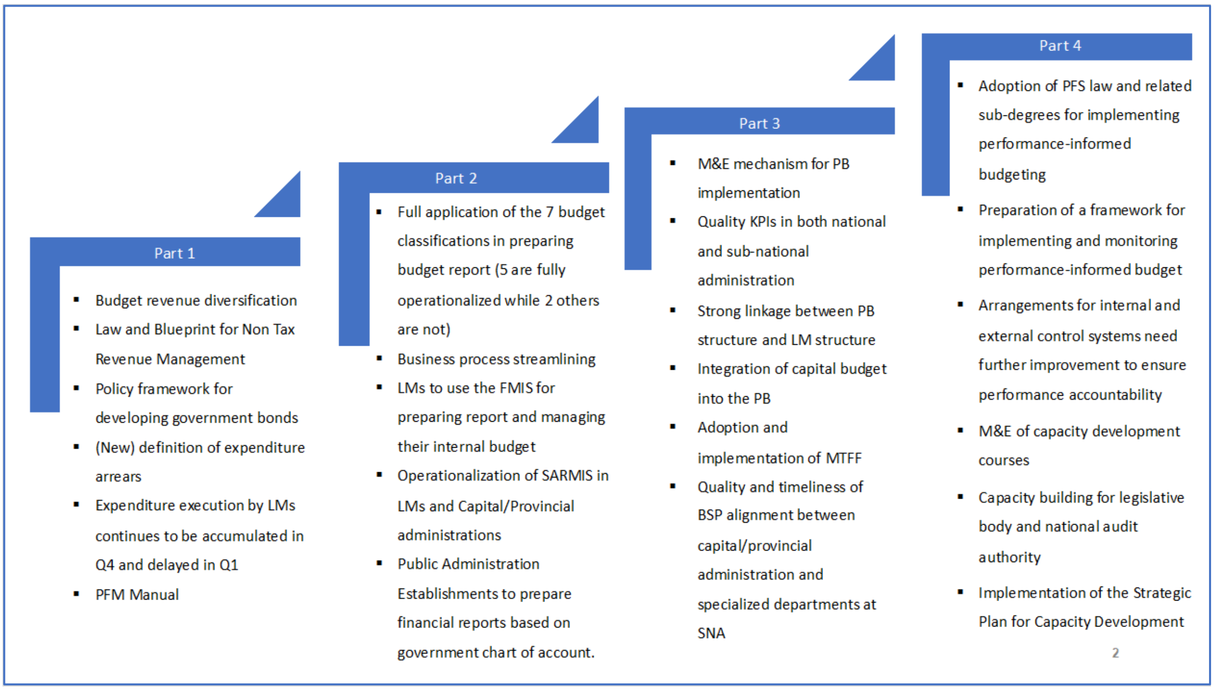
Observations	Recommendations
information on capital budgets and development partners' plans.	
There seems to be some difficulties with implementation of externally financed investment (ODA), which has seen its execution rates worsening over the period, from 44% in 2018 to 152% in 2019.	▪ There should be an effort to improve the budgeting of ODA on the one side, and its predictability, and implementation. Both issues to be addressed with the relevant development partners and MEF (GDICDM). ▪ Donor funding needs to be aligned and integrated into the government system with routine government financial disbursement and oversight structures to reduce fragmentation and improve efficiency in service delivery
Resources are concentrated in urban areas and in hospital care. Primary care services, especially in rural areas, remain underfunded despite positive changes over the past years	▪ Funding should be increased for primary care services to promote preventive services over curative care in hospital
Budget discussions between MoH and MEF are still over-focused on line-items	▪ Pilot health PB negotiations for increased focus on programme/sub-programmes performance and budgets
Three staff on average in each health centre had a second job, highlighting problems with the central government compensation and incentive structure, especially compared with the private sector.	▪ Review government compensation and incentive structure
The business process for certain transactions still needs to be streamlined with FMIS	▪ Expand business process streamlining beyond low-risk transactions
FMIS reporting functionality is not sufficiently detailed to be useful for health sector managers (most health facilities are not covered, some important line-items either)	▪ Expand Chart of Accounts (admin, programme, functional, economic segments) to cover all service delivery units (health facilities) and activities.
Limited level of autonomy and satisfaction at health centre-level, such as the authority to manage resources. Facility level infrastructure and availability of commodities had remained an issue (access to computers and internet, and constant supply of electricity)	▪ Ensure health facilities managers increased financial management autonomy
There is an increasing need for stronger community links and outreach, especially to meet the needs of very remotely located communities.	▪ Consider changes in the institutional arrangements, finances, health workforce and information system.

FINAL REMARK – THE NEW PFM ARCHITECTURE

Eighteen years after the PFMRP was launched, its success and sustainability are in no doubt. The pace of instituting reforms has been gradual and calibrated step by step to incorporate the changing global landscape and practices and the lessons learnt along the way. The reform programme started at a slow pace as MEF absorbed the new concepts and knowledge, studied the systems and experiences of more developed countries and debated what was best in the context of Cambodia's stage of development and vision for the future. The pace of reforms gradually found traction as government institutions became more familiar and adapted to new concepts and ideas, and as human resources capacities were built.

The PFMRP will enter its 4th stage in 2023. Stage 4 envisages the completion of platform 4 on performance accountability by 2027. Furthermore, a new Law on Public Finance System will provide the legal framework for the full implementation of budget reforms like programme budgeting (PB) and performance informed budgeting. The new Law is expected to enter into force in 2026. It should have a positive impact on service delivery through enhanced budget-policy linkages and accountability for performance, as well as through improvements in budget execution processes, but also through more informative accounting and transparent reporting.

The CAP4, which is currently being developed and which will cover the period 2023-2027, is expected to focus on implementing the outstanding reform agenda across the PFMRP parts. Outstanding issues are summarized in the graph below:



PFMRP CAP4 reforms will aim at achieving the strategic goals of a PB system with clear and comprehensive policy-budget linkages and performance accountability by 2027.

By 2027, Cambodia's public finance system will look quite different from what it is today:

- The parliament will appropriate the annual budget law by *programmes* with an annex on performance plans of ministries and institutions, which will give life to the concept of performance informed budgeting and contribute to enhancing budget-policy linkages
- Public investment reforms will result in better integration with the recurrent budget and more strategic, sustainable, and diversified public investments.
- Budget entities and programme managers will report on their performance in annual performance reports which will be submitted to parliament in annex of the budget settlement law. This will establish accountability for *performance*, beyond *compliance*.
- Ex ante controls will be simplified for low and medium risk transactions and more virement powers will be given to budget entities and programme managers, thus giving them more management discretion.
- FMIS will be expanded to more entities, in particular at the sub-national level, its new modules (budget planning, procurement, assets management) will be fully operational, and business processes will be streamlined and digitized.
- Accounting reforms will contribute to improved (more informative) financial reporting, while budget transparency will be enhanced with more budget documents made available to the public.

Furthermore, the implementation of PFM reforms at the sub-national level, along with more functions assigned to subnational authorities, is expected to contribute to quality improvement in the delivery of public services.

Implementation of the PFMRP, which is also expected to contribute to macroeconomic stability and economic growth, will be determinant to achieving the long-term vision of Cambodia to become middle-income country by 2030 and high-income by 2050.

Scan

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