

VI. Government Budgeting and Accounting

This chapter describes government budgeting and accounting arrangements. For the purposes of this report, government is defined as central and local government organizations – State-owned enterprises (SOEs) are covered elsewhere along with private sector organizations. The chapter is structured as follows:

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1. Introduction

In accordance with the Constitution, the National Assembly is the only authority that has the legislative power to approve the National Budget and the Administrative Accounts (Public Accounts). The preparation of the National Budget is the responsibility of the Department of Budget and Finance. The National Assembly enacts a law each year that promulgates the approval and implementation of each year's National Budget.

The Royal Government of Cambodia (RGC) applies the procedures of the General Accounting Plan in compiling the annual Public Accounts.

There are no financial performance indicators included as notes to the financial statements in the accounts of State-owned entities, nor is there any evidence of the calculation and use of these indicators. These indicators are covenanted requirements included in loan agreements with multilateral lending agencies.

Asset management and control is currently lacking because of difficulties encountered with the application of a new software package.

2. The Constitution of Cambodia

For the purpose of this section the relevant Chapters and Articles in the Constitution are as follows:

Chapter V: Economy

- Cambodia will adopt the market economy system and this process will be determined by law (Article 56).
- Tax collection and the national budget will be in accordance with and determined by law. Management of the monetary and financial system will be defined by law (Article 57).

Chapter VII: The National Assembly

- The National Assembly is the only authority to hold legislative power. The National Assembly approves the National Budget, State Plan, loans, lendings, and the creation, changes or annulment of tax. The National Assembly approves the Administrative Accounts (Article 90).

3. The Ministry of Economy and Finance (MEF)

The MEF is delegated by the Royal Government of Cambodia to guide and administer the economy and finance of Cambodia in order to support economic development and to improve the living standards of Cambodian people based on the principles of a free market economy and social equality. The main functions of the MEF are to:

- participate in the organization, implementation, and monitoring of the economic and financial policies of the Government
- administer and coordinate the structural reform of the economic and financial institutions
- promote good governance with regard to the economy and public finance
- allocate national revenues through the collection of income and programming and budgeting of public expenses
- establish a national uniform financial system and ensure a proper application of the law on the financial system and finance law as well as other relevant laws and regulations
- prepare and administer the National Budget
- collect all revenues and deposit them in the public accounts

- prepare balance sheets and statements of accounts for state financial operations
- manage and control public procurement transactions of the ministries/institutions, provinces/municipalities, and State-managed or autonomous institutions
- undertake inspection tasks on public finance, and
- conduct regular training for improvement of economic and financial skills of staff.

4. The National Treasury

The main functions of the National Treasury are to:

- manage the cash flow, national budget, autonomous budgets, and reserve accounts
- balance and control the State's revenue and expenses
- Participate in the orientation of currency policy performance
- regulate and follow up on the performance of finance policy and public debts
- maintain and follow up on the implementation of public accounts and centralized accounts
- design principles and accounting regulations
- ensure the general balance of accounts
- provide services to all ministries/ institutions, and provinces/ municipalities, as to the settlement of expenses, payrolls, and collection of revenues
- manage treasury bills in cooperation with the National Bank of Cambodia
- liaise with the National Bank of Cambodia in the implementation of monetary policy, and
- participate in preparing balance sheets for financial operations

The National Treasury has the power to manage and control all central, provincial and municipal customs and tax authorities as determined by the ministry.

5. Budget Procedures

The RGC has undertaken several key reforms in public finance since the promulgation of the new Constitution in 1993. The financial control and budget accountability were strengthened considerably with the

approval of the Organic Budget Law in 1993. The Government also passed the 1994 Budget that aimed at increasing revenues and restricting expenditures. The 1994 Finance Law provided the legal basis for major fiscal reforms that established principles necessary for the proper conduct of public financial management.

In order to improve Government transparency and accountability, the Council of Ministers approved, in 1995, a Sub-Decree on Public Procurement and a Sub-Decree on the General Rules and Principles Governing Public Accounting to ensure that all revenues and expenditures flowed through the budget and to ensure openness in tendering, procurement and contracting.

In accordance with Article 90 of the Constitution, the National Assembly is responsible for the approval of the National Budget.

ADB will provide assistance in this area with a proposed and confirmed TA involving Strengthening Capacity in Public Finance Management. This TA will include improvement in budget management through strengthening capacity in MEF and priority ministries.

6. Government Reporting

The National Treasury is required to submit Income and Expenditure Reports to the MEF on a daily and monthly basis. The annual public accounts are submitted to the National Assembly for approval each year. In July 2000, the Annual Accounts for 1998 were approved.

7. Department of Budget and Finance

The main functions of the Department of Budget and Finance in respect of the management and implementation of the State budget are to:

- develop laws and public finance regulations
- set revenue and expense indices for implementation by ministries, institutions, provinces and municipalities
- release budgeted funds to ministries and institutions at the central level and to provinces and municipalities according to their line items, articles and chapters in the Table of the National Budget
- maintain a record of the National Budget in the account book to indicate the status of its implementation
- cause the preparation of accounting reports and to participate in the development of the monthly financial balance sheet

- issue instructions concerning financial, technical, and budgetary needs for specialized entities at all levels
- follow up on the accounting for of all revenues and expenses in the National Budget
- summarize and conclude all budget performances, including project performance, and evaluate the economic and financial situations for the coming year
- create financial control of national expenditure, and
- prepare a monthly reconciliation of control against administrative accounts and revenue and expense accounts

8. Budget Preparation Procedures

The following procedures apply, in general, for the preparation of the National Budget:

- The MEF and the National Bank of Cambodia (NBC) draft an analysis of the budget after taking into account the previous year and the budget estimation for the last six months of the current year.
- The MEF and the NBC draft a comparison of revenue and expenditures.
- Based on this comparison, the MEF estimates maximum ceilings of expenditures and submits the first budget plan to the Council of Ministers.
- Based on this plan the Council of Ministers defines the budget ceilings of each ministry.
- The MEF requests all ministries to prepare a budget proposal based on the Circular of Technical Work of the Budget.
- All departments, provincial offices, agencies, institutions and ministries prepare a budget proposal.
- Each ministry reviews and centralizes the budget proposal and then forwards it to MEF.
- The budget department of the MEF centralizes all budget proposals and calculates the total budget requirement.
- A meeting is held between MEF and each ministry to discuss the budget proposal based on each ministry's appropriate supporting documents for expenditure.

- After discussion with all ministries involved, the MEF prepares a proposal for the National Budget for submission to the Council of Ministers.
- Following the Council of Ministers approval, MEF then prepares the Finance Law for submission to the Council of Ministers. The Finance Law (entitled The Law on the Year ... Financial Management) is prepared each year and includes the National Budget for that year.
- Discussions are then held between the MEF and the Council of Ministers before approval of the Finance Law.
- The National Assembly considers the Finance Law for approval.
- Following National Assembly approval, the Finance Law is signed by the Head of State.
- The Council of Ministers approves the distribution of the Finance Law.
- The MEF allocates budget credits amongst all ministries and other government institutions.
- The National Budgets Book, detailing revenues and expenditures of the RGC National Budget, is set up by the MEF.

9. The Law on the Year 2000 Financial Management

This Law contains the National Budget for the year 2000 and was adopted by the National Assembly on 16 December 1999, and approved by the Senate on 24 December 1999.

The Law contains the general provisions on Revenues and Expenditures of the State budget. The Revenues are divided into:

- Current Revenues
 - Duties and Taxes
 - Non-Fiscal Revenues
- Capital Revenue
 - Internal Capital Revenue
 - Foreign Capital Revenue

Revenues are further shown as current year, previous year and difference. Expenditures are divided into

- General Expenses
 - Central Administration
 - Provinces

Capital Expenditure

- Committed Credits
- Payment Credits
- Domestic Financing
- Foreign Financing
- Repayment of Loans

General Expenses are further shown as current, services, interest, public intervention and others. Capital Expenditure is shown as project cost, actual two years before, estimate one year before, current year, projections for one and two years and balance.

There are further sub-decrees issued which formally approve the division of Revenues and Current and Capital Expenditures into the various ministries and quasi-public institutions.

10. Donor Assistance on Public Expenditures

Public expenditures have been heavily dependent on assistance from donors in recent years. Almost 70 percent of all public expenditures (excluding defense and security) have been funded by donors and dependency on this form of assistance is highest in the economic sector, which stands at 80 percent.

11. Benchmarks, Ratios and Covenants

There are no standard performance ratios or covenants issued as a benchmark for enterprise performance. Social and financial covenants are applied to projects only, in accordance with loan agreements with multilateral lending agencies.

12. Asset Management and Control

The Department of Public Property is responsible for controlling and recording the Government's assets. In 1993 an inventory of government assets was taken and an asset recording system was introduced.

This system was lacking in detail and control and, with the assistance and guidance of the European Union, a new computerized system was formulated in 1997. The system is the focal point of asset recording and requires that assets be recorded under two categories:

- State property owned and controlled by line ministries, and
- State property owned by provinces and controlled by the Ministry of the Interior.

There are 33 sites at central level, this includes government agencies and institutions and there are 27 sites at provincial level. Public Enterprises (e.g. *Electricite du Cambodge*) maintain their own asset records and control. The new format was introduced in September 1999 and this required, as a starting point, that all ministries and provinces complete a rather detailed form that comprised comprehensive records of all assets at various locations. Unfortunately, to date only 11 ministries and 12 provinces have responded. Seminars were held throughout Cambodia and staff were shown how to fill in the new forms and insert information which was mainly based on the existing system plus more details, including description, model numbers, etc. All values are shown in millions of Riel.

The new Asset Recording System is based on a computerized central database system that relies on the receipt of information from provinces and line ministries. Unfortunately, the staff who are supposed to operate the system have not been trained sufficiently and they are unable to open or operate the data base hence no asset recording has commenced on the new system. The old system, with very few details, is still being maintained. It is not possible to obtain the gross or net value of government assets in Cambodia.

13. Corruption Issues in the Civil Service

The Terms of Reference of this Study do not involve an in-depth review of corruption issues in the civil service. However, in an emerging free market economy such as Cambodia's, coupled with a very low civil service salary structure, it is appropriate to consider how best to deal with corruption issues when studying financial governance.

One of the most basic structural problems in Cambodia is the low salary rates of the public sector. This has direct implications on the efficiency, integrity and reform process of the public service. The low salary issue needs to be seriously addressed otherwise the reform process may be impeded. Table 2 presents the monthly wages of selected paid employees (based on their primary occupation) by major occupation group and stratum for 1999.

