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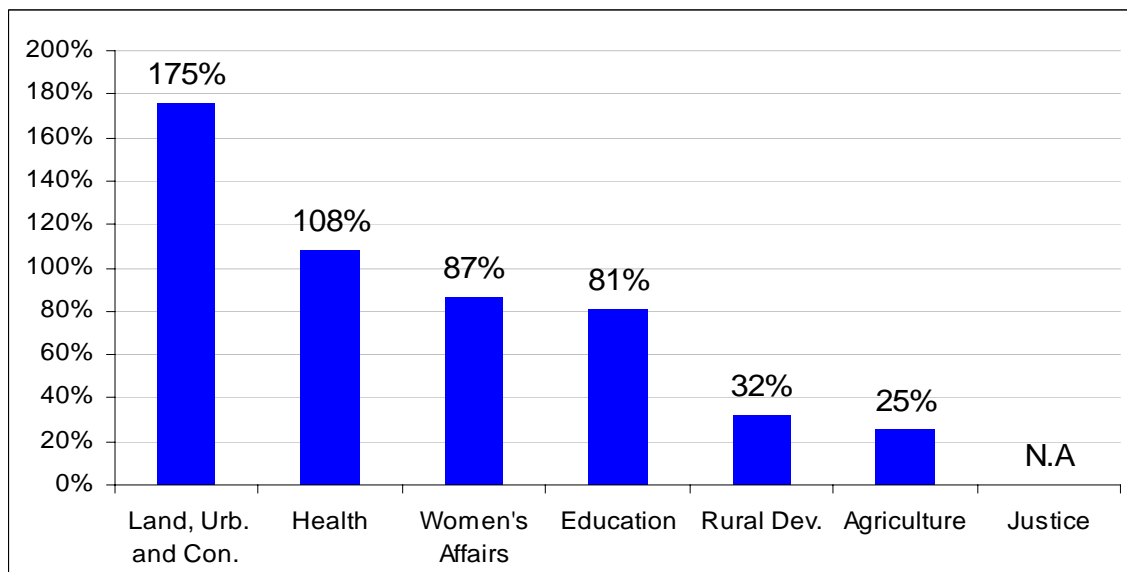
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## Preliminary Analysis of the Implementation of the 2008 Budget and the 2009 Draft Budget Law

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*Implementation of Capital Budget for seven priority ministries, 2008*



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# PRELIMINARY ANALYSIS OF THE IMPLEMENTATION OF THE 2008 BUDGET AND THE DRAFT 2009 BUDGET LAW<sup>1</sup>

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Falling Budgets for Agriculture, Rural Development, and Education in 2009 national budget bill<sup>2</sup> does **Not Address Poverty Reduction** at the fastest possible manner in NSDP and commitment made by RGC of the fourth legislature in Rectangular Strategy Phase II.

## SUMMARY

The Royal Government of Cambodia (RGC) in the fourth legislature has just been formulated and it looks to be a larger and probably more complex institution than that of third legislature. Every year, it raises and spends hundreds of millions of dollars. Government's control over the level and allocation of public spending is its most important tool to achieve its goal as stated in the National Strategic Development Plan 2006-2010: "Poverty Reduction in the fastest possible manner is RGC's foremost priority". In order to prioritize poverty reduction expenditure, the RGC identified eight ministries as priority in 2009: i) Ministry of Education, Youth and Sports; ii) Ministry of Health; iii) Ministry of Women's Affairs; iv) Ministry of Agriculture, Forestry and Fisheries; v) Ministry of Rural Development; vi) Ministry of Land Management, Urban Planning and Construction; and vii) Ministry of Justice and an additional ministry over last year (viii) Ministry of Labor and Vocational Training. Granting these ministries the label of 'priority' raises the expectation that their budgets will be given precedence over 'non-priority' sectors. For instance, it is reasonable to expect that budgets of priority ministries will receive first priority in case there is additional money available from the National Budget.

This analysis assesses the allocations of the draft 2009 National Budget and the implementation of last year's budget. The analysis draws two important conclusions: the first conclusion is that actual capital expenditure<sup>3</sup> in 2008 differs significantly from the budgeted amounts, especially for two ministries which are important for improving the livelihoods of the rural poor. In 2008, the Ministry of Rural Development and the Ministry of Agriculture, Forestry and Fisheries spent US\$ 50 million less than originally foreseen in their 2008 capital budget while 4 non-priority ministries spent US\$ 59 million more than budgeted amount.

The second conclusion is that Government's Budget Plan for 2008 is not yet sufficiently linked to Government's objective of reducing poverty in the fastest possible manner (NSDP 3.09) and not linked to commitment made by the RGC in the rectangular strategy phase II that "The RGC's policy mainly aims at promoting agriculture productivity and diversification as well as land, fisheries and forestry reforms by addressing in package issues of agriculture technology, rural infrastructure

<sup>1</sup> This article is produced by the National Budget Project of the NGO Forum on Cambodia.

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<sup>2</sup> The Draft Law on Financial Management for 2009 that the NGO forum received for conducting this analysis was conferred by 2<sup>nd</sup> Commission (Economy, Finance, Banking and Auditing) of the National Assembly in the first week of November.

<sup>3</sup> Figures on expenditure in 2008 are preliminary estimates from the Royal Government. Final figures on recurrent expenditure are expected in the first quarter of 2009 while it is unclear when the Royal Government releases detailed information on 2008 actual capital expenditure.

such as roads, irrigation system and electricity and credits, markets and processing-technology, especially for exports". Although the RGC does prioritize health and education spending, spending on agriculture, rural development, justice, women's affairs, and land management, urban planning and construction are not systematically prioritized.

*To manage its public finances, the national assembly passes the Budget Law (Law on Financial Management) which is a statement of the RGC's planned receipts and expenditures for one year. This money comes from taxes, fees and fines, donor aid, and a variety of other sources; it goes towards the operations of government: paying civil servant salaries in ministries, schools, hospitals and police stations, for example, and investing in roads, irrigation, school buildings, hospitals, sanitation etc. In short, how this money is raised and how it is spent affects everyone in Cambodia.*

*When analyzing expenditures a distinction is made between current and capital expenditure. Current expenditure is expenditure on goods and services consumed within the current year that need to be made recurrently to sustain the production of services such as wages, salaries, travel costs, allowances and pensions. Minor expenditure on items of equipment, below a certain cost threshold, is also reported as current spending. Capital expenditure measures the value of purchases of fixed assets, i.e. those assets that are used repeatedly in production processes for more than a year. Capital expenditure includes outlays on construction (roads, irrigation system, school buildings, hospitals etc.), renovation, and major repair of buildings and expenditure for new or replacement equipment that could produce direct or indirect impacts on the economy like increasing agricultural production and exports for growth.*

## Part I: IMPLEMENTATION OF THE 2008 BUDGET LAW

Total **recurrent expenditure** in 2008 amounted to USD 839.5 million. Most ministries spent more recurrent budget than foreseen in the 2008 Budget Law with only the National Audit Authority, the Ministry of Justice, the Ministry of Women's Affairs and the Ministry of Rural Development spending slightly less than budgeted. Of the total over-expenditure of US\$147.9 million, the majority (US\$ 132.7 million) was spent by non-priority ministries while only a minor of US\$ 15.1 million was spent by priority Ministries (see figure 1 below). It is probably reasonable to assume that this US\$ 147.9 million over-expenditure was largely financed by the unspent US\$ 110 million from the unallocated budget for 2008 (see figure 2).

**Figure 1: Over-expenditure recurrent budget, 2008 (US\$ million)**

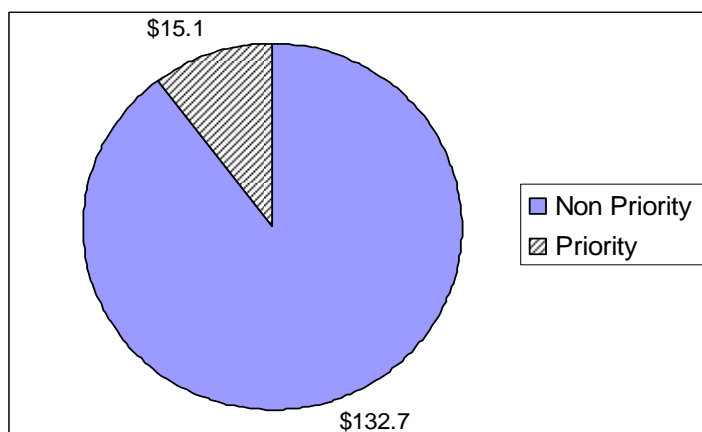


Table 1 below provides a more detailed overview of Government's **recurrent expenditure** in 2008 and ranks the top-eight ministries that over-spent their recurrent budgets most during the year and adds all "priority ministries" that are not already included in this top eight. The figure clearly shows that the seven "priority ministries" did not receive significant budget increases in 2008 and these ministries did not benefit from the extra resources that Government had available during 2008. The top-five non-priority ministries/agency that did benefit from the additional resources available to the Royal Government include the: Ministry of defense (US\$ 38.5 million), Office of the Council of Ministers (US\$ 24.4 million), Ministry of Industry, Mines and Energy (US\$ 23 million), Ministry of Interior-public security (US\$ 20.6 million) and National Election Committee (US\$ 10.1 million). It can also be seen from table 1 below that the increases received by these Ministries were all higher than the total recurrent budget of the Ministry of Justice for 2008.

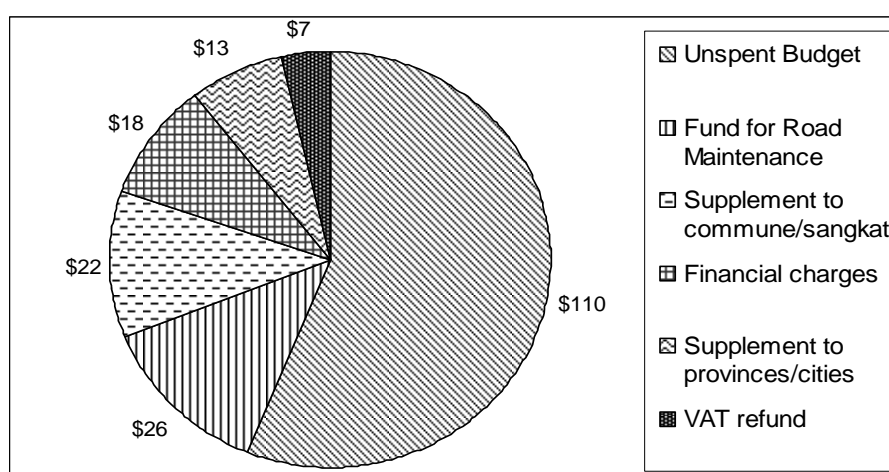
**Table 1: Implementation of the 2008 recurrent budget (in US\$ Million)**

Rank	Ministry / Agency	2008 Budget Law	2008 Expenditure	Over/under expenditure	
1	06. Ministry of Defense	81.7	120.3	38.5	47.2%
2	5.1 Office of Council of Ministers	26.8	51.2	24.4	91.0%
3	13. Ministry of Industry, Mines and Energy	3.2	26.3	23.0	709.7%
4	07.1. Ministry of Interior-Public Security	51.4	72.0	20.6	40.1%
5	30. National Election Committee	1.7	11.8	10.1	577.9%
6	09. Ministry of Foreign Affairs	15.8	21.8	6.0	37.9%
7	10. Ministry of Economy and Finance	13.0	17.0	4.0	30.5%
8	07. Ministry of Interior - General administration	7.3	9.9	2.6	35.3%
9	16. Ministry of Education, Youth and Sports	151.7	153.9	2.2	1.4%
10	12. Ministry of Public Health	98.7	99.8	1.1	1.1%
11	28. Ministry of Land, Urbanization and Construction	4.7	5.1	0.4	8.3%
12	17. Ministry of Agriculture, Forestry and Fisheries	16.2	16.4	0.2	1.5%
13	24. Ministry of Women Affairs	5.1	5.1	0.0	-0.2%
14	20. Ministry of Rural Development	11.7	11.6	-0.1	-0.9%
15	26 Ministry of Justice	5.5	5.4	-0.1	-1.4%

In the 2008 Budget Law, as part of the **recurrent expenditure**, the RGC budgeted US\$ 196 million under the heading **unallocated expenditure**. In 2008, RGC spent US\$ 110 million less than planned for unallocated expenditure for 2008. It should also be noted that total over-recurrent expenditure (overspent by only line ministries) excluding spent unallocated expenditure was US\$ 136.3 million. For details on the expenditure of the budget line "unallocated expenditure", see figure 2 below.

There are a number of good reasons for having a budget line for unallocated expenditure (or contingency funds) in the national budget as these may be required to mitigate natural disasters (such as food shortages or flooding) or to have a buffer when development partners do not disburse their aid in time or do not disburse promised aid at all. However, at the moment the use of the unallocated expenditure is at the discretion of the executive as there is no legal requirement that the executive requests permission from the legislature to spend these funds.

**Figure 2: Use of the US\$ 196 Million "unallocated expenditure", 2008 (US\$ million)**



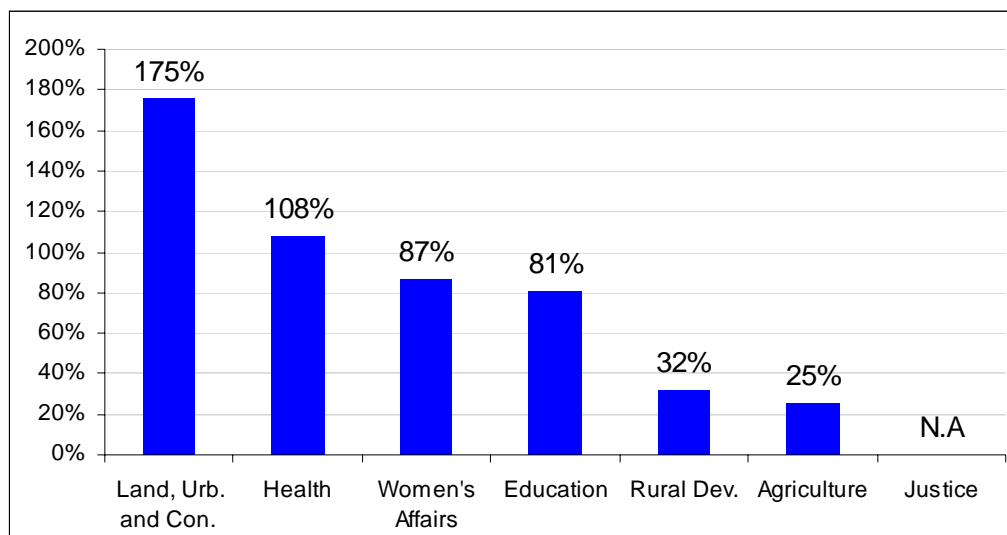
Total **capital expenditure** in 2008 amounted to US\$ 603 million. Where the implementation figures for the recurrent budget were generally higher than the budgeted amounts for 2008, the implementation figures for the capital budget provide a mixed picture with some Ministries spending no funds at all (like the Ministry of Justice, Ministry of Planning, Ministry of Culture and Fine Arts, Ministry of Cult and Religion, Ministry of National Assembly and Senate relation, and Ministry of Labor and Vocational Training) and other ministries spent without planned allocation at all in the budget law 2008 (Office of the Council of Minister). It is also clear from the implementation figures that the priority sectors are in reality not prioritized since four non-priority ministries (1. Office of the Council of Minister, 2. Economy and Finance, 3. Industry, Mines and

Energy, 4. Public Work and Transport) overspent more than US\$ 59 million, while the Ministry of Rural Development and the Ministry of Agriculture, Forestry and Fisheries spent US\$ 50 million less than originally budgeted (see table 2 below).

Of the seven priority ministries only the Ministry of land management, urbanization and construction and ministry of health spent more than budgeted, and the Ministry of Education, Youth, and Sports and Ministry of Women’s Affairs managed to almost spend its original budget. The implementation figures for the other four priority ministries are too far below their target. **Especially worrisome** is the low capital expenditure in the Ministry of Rural Development and the Ministry of Agriculture, Forestry and Fisheries as they are crucial in increasing public expenditure to stimulate the rural economy, create employment, and reduce poverty at the fastest possible manner and to reach CMDG goal of eradicating poverty to 19.5% by 2015 (see figure 3).

In the newly launched rectangular strategy phase II at the first cabinet meeting, the RGC recognized that rural poverty rate remains high and there is gap between the rich and the poor especially urban-rural inequality remains a challenge. The economy is narrowly based and driven by four main sectors: garment, tourism, construction and agriculture. The garment and tourism sector are vulnerable to external risks. Agriculture which accounts for 30% of the GDP and for more than 60 percent of employment, has not yet reached its full potential. Moreover, RGC also recognized through its performance in the 3<sup>rd</sup> legislature that irrigation system has not been fully developed and utilized. This deserves an explanation from the RGC on the under-spending of the Ministry of Agriculture, Forestry and Fisheries and Ministry of Rural Development.

**Figure 3: Implementation of Capital Budget for seven priority ministries, 2008 (%)**



A closer look at the low implementation figures in 2008 for the Ministry of Agriculture, Forestry, and Fisheries shows that 49 projects out of 57 were not implemented at all in 2008; and of the total of 24 projects in the Ministry of Rural Development only 4 projects were implemented. Among those not implemented projects under rural development ministry that are beneficial to rural poor households including projects on repairing and building additional irrigation system, clean water supply to rural communities, rural family food security, rural credit program, small scale irrigation system etc. For Ministry of land management, urbanization and construction, the 175% overspending mainly resulted from excess spending of US\$ 5 million on Land Management and Land Administration project. However, one emerging issue of the 2008 budget expenditure is the unplanned spending of the Office of the Council of Minister which costs US\$ 28 million and of this amount US\$ 17 million was spent on construction of new building of office of the council of ministers and unplanned spending of Ministry of Public Work and Transport on four projects of US\$ 38 million at expense of 32 planned projects plus overspending in improving national roads. Some of 32 projects not implemented could contribute to poverty reduction through local and cross border trade promotion include, for instance, project (No.256) on reconstruction of rail way from Phnom Penh to Sihanouk Ville, project (No.1305) on construction of Chrey Thom Bridge at Cambodian-Vietnamese border and project (no. 636) on construction of roads at western part of Cambodia etc.

As capital expenditure in the Ministry of Rural Development and the Ministry of Agriculture, Forestry and Fisheries are crucial to stimulate the rural economy, create employment, and reduce poverty, the expenditure pattern shown above is not good news for the rural poor that depend on

agriculture and agriculture related activities. The RGC should explain the under-expenditure in these important sectors and address the underlying reasons as a matter of priority while at the same time truly commit the resources of the national budget to challenges and policies raised in the rectangular strategy phase II that mainly target agriculture and rural development.

**Table 2: Implementation of the 2008 capital budget (in US\$ Million)**

Rank	Ministry / Agency	2008 Budget Law	2008 Expenditure	Over/under Expenditure	
1	Office of the Council of Minister	No Planned	27,950	27,950	100%
2	Ministry of Economy and Finance	31,514	49,765	18,251	57.9%
3	Ministry of Health	119,826	129,373	9,547	8.0%
4	Ministry of Industry, Mine, and Energy	36,629	43,979	7,350	20.1%
5	Ministry of Land Management, Urbanization, and Construction	7,690	13,475	5,785	75.2%
6	Ministry of Public Work and Transport	137,087	142,870	5,783	4.2%
7	Ministry of Culture and Fine Arts	3,283	N.A	N.A	0%
8	Ministry of Planning	1,240	N.A	N.A	0%
9	Ministry of NA and Senate Relations and Inspection	874	N.A	N.A	0%
10	Ministry of Cult and Religion	500	N.A	N.A	0%
11	Ministry of Labor and Vocational Training	460	N.A	N.A	0%
12	Ministry of Justice	1,000	N.A	N.A	0%
13	Ministry of Women's Affairs	10,062	8,207	-1,855	-18.4%
14	Ministry of Education, Youth and Sports	77,541	62,488	-15,053	-19.4%
15	Ministry of Water Resources and Meteorology	31,024	20,708	-10,316	-33.3%
16	Ministry of Rural Development	17,582	5,552	-12,030	-68.4%
17	Ministry of Agriculture, Forestry and Fisheries	51,518	13,038	-38,480	-74.7%
18	Ministry of Tourism	3,270	700	-2,550	-78.6%
19	Ministry of Social Work, War Veteran and Youth Rehabilitation	5,399	790	-4,609	-85.4%

### **Concluding comments on 2008 Budget Implementation**

In the 2008 Budget implementation it can be seen that the RGC is good at managing its **recurrent budget** as almost all ministries receive their allocated funds. However, when additional money is available only the health and land management sector benefit from this and while other priority sectors are left behind and funds are spent on salaries, travel expenses, office equipment etc in non-priority ministries such as: 1) the Ministry of Defense; 2) the Office of the Council of Ministers; 3) the Ministry of Industry, Mines and Energy; 4) The Ministry of Interior-public security; and 5) the National Election Committee.

The implementation of the 2008 **capital budget** is good for the Ministry of Land Management, Urbanization and Construction and Ministry of Health, reasonable for the Ministry of Education and Ministry of Women's Affairs and very poor for the other three important priority ministries, especially the Ministry of Rural Development and the Ministry of Agriculture, Forestry and Fisheries. With poverty reduction in the fastest possible manner being Government's foremost priority, it has to be concluded that there is a lack of linkage between the RGC's policy objectives especially NSDP, rectangular strategy phase II and the National Budget.

Given RGC's policy objectives and the implementation of the 2008 Budget Law, the two issues that need an explanation by the RGC including:

1. What is the explanation for the large discrepancies between the national budget and its implementation;
2. Why are the seven priority ministries not systematically prioritized in terms of budget allocation, and specifically the ministries associated with rural development?

Other questions for the RGC include:

1. Is it expected that the spending on the Ministry of Defense will return to its 2007 level when the border dispute with Thailand has been solved?
2. What lessons can be learned from the past elections for the budget of the NEC?
3. What explains the over-expenditure from MIME?



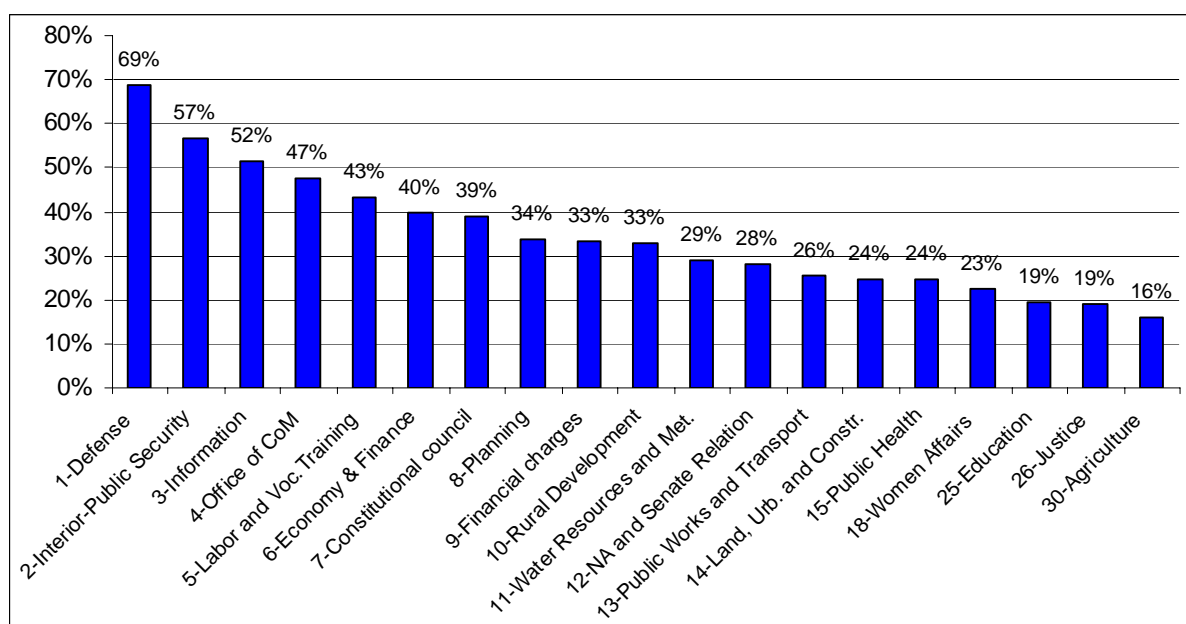
## Part II: BUDGET ALLOCATION IN THE DRAFT 2009 BUDGET LAW

The *process in the preparation of the 2009 National Budget so far* was according to the time table outlined in the (New) Law on Public Financial System. On November 4, 2008, the Draft Law on Financial Management for 2009 was sent to the National Assembly for debate.

Total *recurrent expenditure allocations* in the 2009 Budget Law increased by 26.7 percent to US\$ 1,064 million compared to the 2008 Budget Law. Similarly as noted in last year budget law analysis, precautionary expenditure allocated for 2009 is still large that captures US\$ 144.5 million of the current budget. Last year this budget was used mostly to finance current over expenditure for non-priority ministries in 2008 while leaving behind agriculture and rural development a huge under-spending of the capital budget expenditure. In the view of civil society these funds are better allocated to poverty alleviating projects in the rural areas and strengthening the judiciary. A good explanation on the possible use of these funds is important as their expenditure is fully at the discretion of the executive since no permission from the legislature is required prior to spending these funds.

**Figure 4** provides an overview of the ten Ministries/Agencies with the highest increases in *recurrent budget* (percentage increase) for the 2009 Budget Law. Two priority ministries including Ministry of Labor and Vocational Training and Ministry of Rural Development are included in the top ten. The numbers in front of the Ministries is the ranking indicating their position relative to other Ministries thus, the Ministry of Rural Development received the 10th biggest increase and the Ministry of Agriculture the 30<sup>th</sup> biggest increase in percentage terms.

**Figure 4: Top-ten increases (plus priority ministries) in recurrent budget for 2009 (%)**



**Table 3** compares the figures for planned current expenditure from the 2008 and 2009 Budget Laws (not corrected for inflation) and ranks the top-ten Ministries with the highest increases in dollar terms, together with the "priority ministries" that are also in the top-ten. The highest increase shown in table 3 is the Ministry of defense and Ministry of Interior-public security with an increase of US\$ 56.2 million and US\$ 29.2 million respectively. This huge increase was explained in the statement of the draft 2009 budget law that it is mainly caused by revised increase in salary scale for military personnel and police.

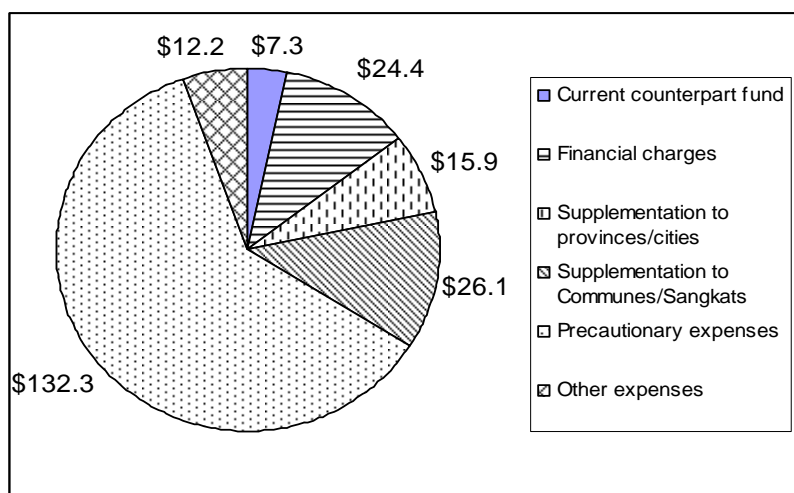
The RGC has reportedly increased salary for civil servants, military personnel and policemen 15% and another 10% in 2007 and 20% in 2008. In 2009, there is also a planned increase in basic salary of 20% for civil servants, military personnel and policemen. The civil society welcome this achievements, however, we are concerned if taking into account the high inflation rate of 16.3% in 2007 and around 20% in 2008; it seems that the increase is just to cover up the inflated consumer price index. In draft 2009 budget law, Salary is increased at 22% for civil servants and 93.1% for military personnel and policeman compared to 2008.

**Table 3: Allocations in the 2009 recurrent budget (in US\$ Million)**

Rank	Priority plus Non-priority Ministry / Agency	2008 B.L Current	2009 B.L Current	Increase/Decrease	
1	06. Ministry of Defense	81.7	137.9	56.2	69%
2	16. Ministry of Education, Youth and Sport	151.7	181.1	29.4	19%
3	07.1. Ministry of Interior-Public Security	51.4	80.6	29.2	57%
4	12. Ministry of Health	98.7	122.9	24.2	24%
5	5.1. Office of Council of Minister	26.8	39.5	12.7	47%
6	Financial Charges	18.3	24.4	6.1	33%
7	10. Ministry of Economy and Finance	13.0	18.2	5.2	40%
8	32. Ministry of Labor and Vocational Training	8.9	12.7	3.9	43%
9	20. Ministry of Rural Development	11.7	15.6	3.8	33%
10	17. Ministry of Agriculture, Forestry and Fisheries	16.2	18.8	2.6	16%
11	Precautionary Expenses plus other expenses	142.7	144.5	1.8	1.3%
12	29. Ministry of Water Resources and Meteorology	5.9	7.6	1.7	29%
13	25. Ministry of Public Work & Transportation	6.1	7.7	1.6	26%
14	28. Ministry of Land Management, Urbanization and Construction	4.7	5.9	1.2	24%
15	24. Ministry of Women's Affairs	5.1	6.2	1.2	23%
16	26 Ministry of Justice	5.5	6.6	1.0	19%

The **Unallocated Expenditure** for 2009 (See Figure 5 below) increases by 11% to US\$ 218.2 million from US\$ 196 million in 2008. The increase comes from increase in financial charges (33%), supplementation to communes/sangkats and provinces/cities (17.8%), and other expenses (19%). One should note that **“precautionary expenses”** have only slightly increased by US\$ 1.8 million compared to last year, but the budgeted amount for 2009 is still high at US\$ 144.5 million (13.6% of total recurrent expenditure or 8.3% of the total National Budget). Precautionary Expenses include “precautionary expenses on targets” US\$ 132.3 plus “other expenses” US\$ 12.2 Million). For Precautionary on targets that are not targeting social safety net program include possible use for: Value Added Tax (VAT) refund, paying domestic debt, VAT refund for EDC, Road Maintenance Fund, Preah Vihea work, prepared to pay interest to USA & Russia etc. The RGC should try all the best to negotiate with United States of America and Russia to eliminate debt for Cambodia given its status as low income country and aid dependent economy. Besides, VAT refund for EDC shall be lifted up as it is considered not beneficial to the poor. One notable point in the unallocated budget is the increasing financial charges from US\$ 12 million in 2007 to US\$ 18.3 million in 2008 and US\$ 24 million in 2009.

**Figure 5: Allocation of the US\$ 218.2 million “Unallocated budget”, 2009 (in US\$ Million)**

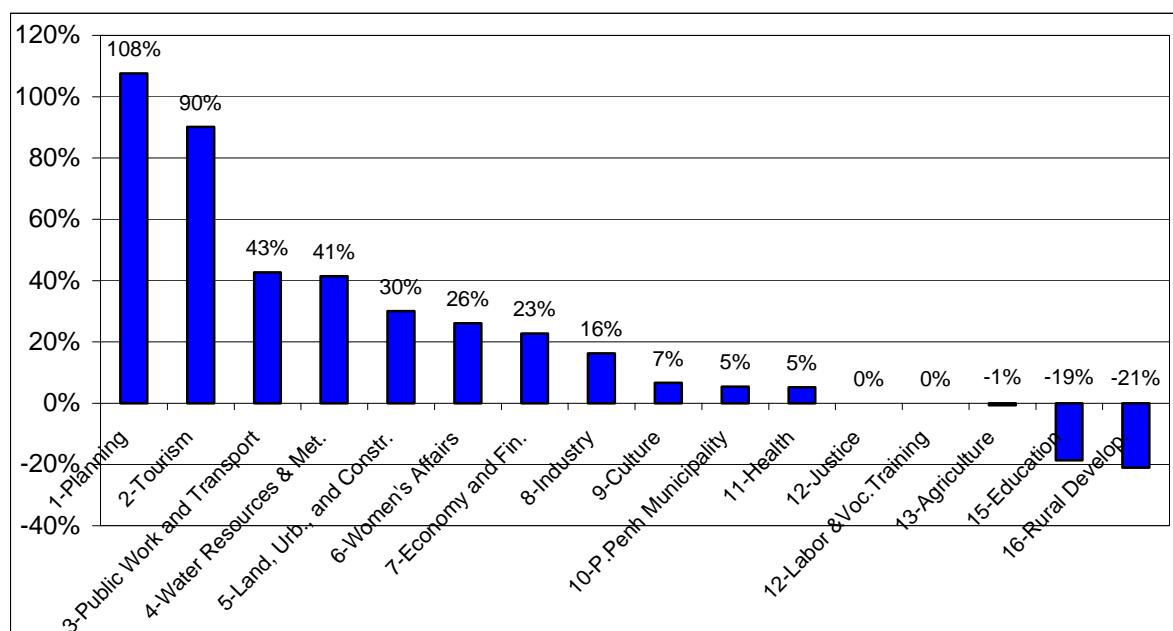


Total **allocations for capital expenditure** in the 2009 Budget Law increased by 11.6 percent to US\$ 674 million compared to the US\$ 603 million allocated in the 2008 Budget Law. **Figure 5** provides an overview of the ten Ministries/Agencies with the highest increases in capital budget (percentage increase) for the 2009 Budget Law that also includes two priority ministries: Ministry of Land Management, Urbanization and Construction and Ministry of Women’s Affairs. The figure clearly shows that three priority ministries (Ministry of Agriculture, the Ministry of Rural



Development, and Ministry of Education) see their capital budgets reduced. Given the huge under-spending in both agriculture (25%) and rural development (32%) in 2008 with absent of 49 out of 57 and 20 out of 24 projects respectively, it is highly demanding for more allocation to these two sectors rather than reducing them. This huge under-spending and reduced allocation for both sectors deserves an immediate explanation by the RGC as it is not in line with the poverty reducing objectives set-out in the NSDP 2006-2010 and commitment and policies declared by the RGC in its rectangular strategy phase II.

**Figure 6: Top-ten increases (plus priority ministries) in capital budget for 2009 (%)**



**Table 4** compares the figures for planned *capital expenditure* from the 2008 and 2009 Budget Laws in dollar terms (not corrected for inflation) and ranks the top-ten Ministries with the highest increases in dollar terms, together with the three out of eight priority ministries that are also included in the top-ten. If correct with inflation of 20% in 2008 and projected 10% in 2009, the percentage increase will be less overall for all ministries and will be worse for priority ministries including Ministry of Agriculture, Ministry of Rural Development and Ministry of Education.

**Table 4: Allocations in the 2009 capital budget (in US\$ Million)**

Rank	Ministry / Agency	2008 B.L Capital	2009 B.L Capital	Increase/Decrease	
1	Ministry of Public Work and Transport	137.1	195.5	58.4	43%
2	Ministry of Water Resources and Meteorology	31.0	43.9	12.8	41%
3	Ministry of Economy and Finance	31.5	38.7	7.1	23%
4	Ministry of Health	119.8	126.0	6.2	5%
5	Ministry of Industry, Mines and Energy	36.6	42.6	6.0	16%
6	Ministry of Tourism	3.3	6.2	2.9	90%
7	Ministry of Women's Affairs	10.1	12.7	2.6	26%
8	Ministry of Land, Urbanization, and Construction	7.7	10.0	2.3	30%
9	Phnom Penh Municipality	12.4	13.0	0.7	5%
10	Ministry of Planning	0.5	1.0	0.5	108%
11	Ministry of Culture and Fine Arts	3.3	3.5	0.2	7%
12	Ministry of Justice	1.0	1.0	0.0	0%
12	Ministry of Labor and Vocational Training	1.2	1.2	0.0	0%
13	Ministry of Agriculture	51.5	51.2	-0.3	-1%
19	Ministry of Rural Development	17.6	13.9	-3.7	-21%
23	Ministry of Education	77.5	63.1	-14.5	-19%

## **Concluding comments on the Draft 2009 National Budget**

The eight priority ministries identified by the RGC as key-ministries to achieve the poverty reducing objective do not systematically receive more funds in the 2009 Budget Law. Although the plan for recurrent expenditure in the 2009 Budget Law is broadly working towards improvements in the eight priority ministries, this is not the case in the capital budget as it only includes increases for the Ministries of 1) Public Health, 2) Women's Affairs, and 3) Land Management, Urbanization and Construction while among the other five very important Ministries two see their capital budgets not increased (Ministry of Justice and Ministry of Labor and Vocational Training) and three very important ones see their capital budgets significantly reduced (Ministry of Agriculture, Ministry of Rural Development and Ministry of Education).

With the majority of the poor depending on agriculture and agriculture related activities and importance of agriculture to the economy (60% of total employment and 30% share of GDP) there is a serious need to increase public spending in the rural areas to stimulate the rural economy. In this light, the reduced allocation to agriculture and rural development with which rural poverty rate remain high deserves an explanation by the RGC while increasing investment in education cannot also be ignored as the RGC also recognized in its rectangular strategy phase II that the quality of education at primary, secondary and tertiary levels in Cambodia remains low.

Moreover, the RGC also raised two challenges in the coming year that the economy is narrowly based on four sectors (garment, tourism, construction and agriculture) and deepening of financial crisis resulting in global economic slowdown would curtail Cambodia exports (due to less purchasing power of US consumers which is the biggest market for garment export from Cambodia) and there will probably be less tourists coming to Cambodia. Besides, following the measures imposed by the National Bank of Cambodia in 2008 by doubling the reserve requirement to 16% (with intention to curb high inflation) has limited amount of loans available to real estate businesses and this is seemingly leading to slow growth in the construction sector. Agriculture has not reached its full potential so increasing investment in this sector would help maintain macroeconomic stability through boosting agriculture development and exports in 2009. With this regard, only 91% of total capital expenditure was spent in 2008 while total recurrent expenditure (included spending of unallocated expenditure) was overspent 3% over the original budget; however, if excluded spending on unallocated expenditure total recurrent expenditure was overspent up to 21.2% over budgeted amount or US\$ 136.3 million. Furthermore, it is not a good sign to see that share of total Capital budget in total budget allocation has been decreasing slightly from 44.2% in 2007 to 42% in 2008 and to 38.8% in 2009 compared to a slightly proportionally increasing total current budget allocation; but what really matter more in this point is the real expenditure that would appear in 2009 especially among priority ministries and non-priority ones. As a civil society organization, we repeatedly urged the RGC to better increase budget allocation to priority sectors and implement those budgets in consistency with allocated budget amount.

Besides the seemingly unsystematic approach to the priority sectors, a major question relating to the possible use of the US\$ 144.5 million budgeted for precautionary expenditure needs to be answered. Civil society organizations would like to know why (parts of) these funds are for instance not dedicated to improve salaries of teachers, nurses, doctors that work in the rural areas; capital investments in rural development, improving agriculture extension services, or increase spending on the social protection or social safety net programs.

Civil society takes this opportunity to propose the following changes to the 2009 Draft Budget Law:

1. Reduce the amount budgeted for precautionary expenditure and set regulatory framework for national assembly to control the use the of this expenditure;
2. Increase public investment for the benefit of rural development, especially low interest rural credit, small scale agriculture and fisheries, Agriculture Research and Extension (High yield seeds and crops, Agriculture and processing techniques; Diversification and Intensification, rural roads, Small and Medium scale irrigation etc.
3. Allocate budget for providing soft loan for Rice Millers Association for food security and increases social safety net expenditures to help the poor suffering from high food-prices.
4. Increase investment in land management for speeding up land registration and land titling to rural farmers, and economic land concessions to the landless rural poor while at the same time not reducing budget for Ministry of Environment.
5. Improve education development through increasing investment in this sector (like teachers' training, school feeding program and shorter travel distance from home to schools etc.) rather than decreasing would also contribute to poverty reduction.

Questions that Civil Society would like to ask the RGC include:

- How do the salaries of teachers and nurses relate to the improved salaries of policemen and military personnel?
  - The poorest were hardest hit by inflation, where in the National Budget can we find the RGC response to the inflation that we experienced.
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**Other publications from NGO Forum's National Budget Project:**

- Budget Brief, September 2008, No. 01: 2009 National Budget Should Favour Farmers.
- Analysis of the Implementation of the 2007 Budget and the 2008 Budget Law, January 2008.
- Guide to the National Budget, November 2007.
- The Cambodian National Budget and Development: Translating the Policies into Action, Prioritize the Priorities!!, Cambodia Development Watch, Year 3, Issue 1, July 2007.
- Costs, Resources and Programming, NGO Position Papers on Cambodia Development in 2006. June, 2007 (Monitoring of Joint Monitoring Indicators and Implementation of the National Strategic Development Plan 2006-2010)
- Challenges in National Budget Law for Poverty Reduction, Cambodia Development Watch, year 2, issue 2, July 2006.