



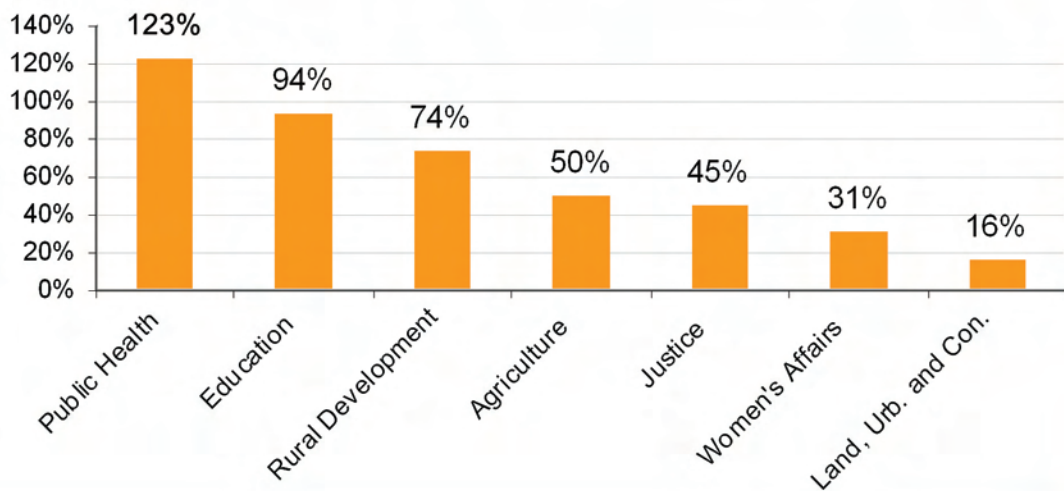
**NGO Forum**  
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*Working Together for Positive Change*

ធ្វើការរួមគ្នាដើម្បីការពង្រឹងសេដ្ឋកិច្ច

## Analysis of the Implementation of the 2007 Budget and the 2008 Budget Law

Implementation of Capital Budget for seven priority ministries, 2007



January 2008

Budget Monitoring Project

# ANALYSIS OF THE IMPLEMENTATION OF THE 2007 BUDGET AND THE 2008 BUDGET LAW<sup>1</sup>

*Where are the planned expenditures for improving the livelihoods of the rural poor?*

## SUMMARY

The Royal Government of Cambodia (RGC) is a large and complex institution. 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 seven ministries as priority: 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. 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 2008 National Budget and the implementation of last year's budget. The analysis draws two important conclusions: the first conclusion is that actual capital expenditure in 2007 differs significantly from the budgeted amounts, especially for two ministries which are important for improving the livelihoods of the rural poor. In 2007, the Ministry of Rural Development and the Ministry of Agriculture, Forestry and Fisheries spent 23 million US\$ less than originally foreseen in their 2007 capital budget.

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). Although the Royal Government 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 legislature passes the Budget Law which is a statement of the Royal Government'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, 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, renovation, and major repair of buildings and expenditure for new or replacement equipment.*

## IMPLEMENTATION OF THE 2007 BUDGET LAW

Total **recurrent expenditure** in 2007 amounted to USD 695 million. Most ministries spend more recurrent budget than foreseen in the 2007 Budget Law with only the National

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<sup>1</sup> This article is produced by the Budget Project of the NGO Forum on Cambodia. Contact details: Mr. Ngo Sothath, Development Issues Program Coordinator, [sothath@ngoforum.org.kh](mailto:sothath@ngoforum.org.kh) / 023-994063

Audit Authority, the Ministry of Posts and Telecommunications, the Ministry of Women's Affairs and the Ministry of Justice spending slightly less than budgeted. Of the total over-expenditure of US\$59 million, the majority (US\$ 39 million) was spent by non-priority ministries while US\$ 20 million was spent by priority Ministries (see figure 1 below).

**Figure 1: Over-expenditure recurrent budget, 2007 (US\$ million)**

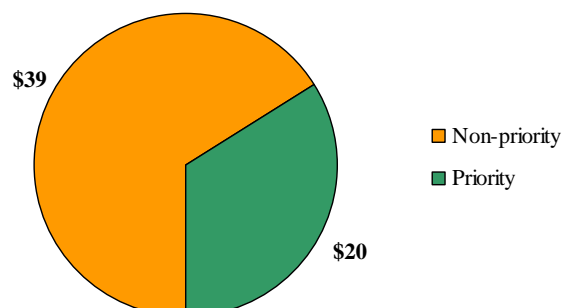


Table 1 below provides a more detailed overview of Government's **recurrent expenditure** in 2007 and ranks the top-ten ministries that over-spent their recurrent budgets most during the year and adds all "priority ministries" that are not already included in this top ten. The figure clearly shows that of the seven "priority ministries" both Education (US\$ 11.2 million) and Public Health (US\$ 8.3 million) received significant budget increases in 2007 but that the other five priority ministries did not benefit from the extra resources that Government had available during 2007. The top-four non-priority ministries that did benefit from the additional resources available to the Royal Government include the: Office of Council of Ministers (US\$ 7.9 million), Ministry of Industry, Mines and Energy (US\$ 7.4 million), Ministry of Foreign Affairs (US\$ 6.2 million), and Ministry of Economy and Finance (US\$ 5.2 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 2007.

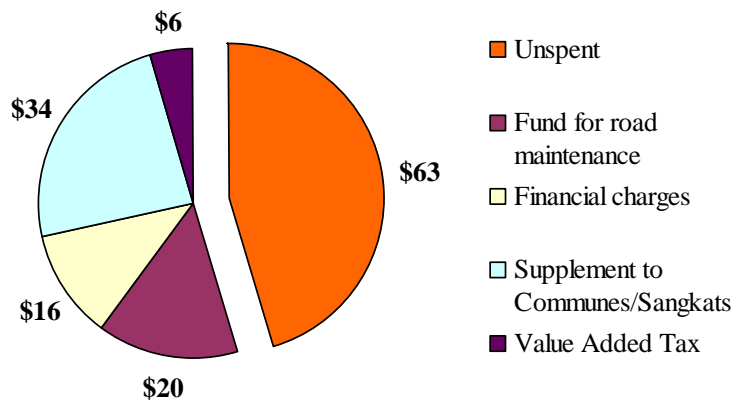
**Table 1: Implementation of the 2007 recurrent budget (in US\$ thousand)**

Rank	Ministry / Agency	2007 Budget	2007 Expenditure	Over/under expenditure	
1	Ministry of Education, Youth and Sports	133,171	144,382	11,211	8%
2	Ministry of Public Health	82,177	90,545	8,368	10%
3	Office of Council of Ministers	20,732	28,665	7,934	38%
4	Ministry of Industry, Mines and Energy	2,688	10,086	7,398	275%
5	Ministry of Foreign Affairs	14,659	20,815	6,156	42%
6	Ministry of Economy and Finance	10,850	16,119	5,269	49%
7	National Election Committee	910	4,312	3,402	374%
8	Ministry of Interior - General administration	6,463	9,011	2,547	39%
9	Ministry of Social Affairs, Veteran and Rehabilitation	29,103	31,637	2,534	9%
10	National Assembly	16,341	18,488	2,146	13%
13	Ministry of Rural Development	9,088	9,293	205	2%
17	Ministry of Agriculture, Forestry and Fisheries	14,506	14,619	113	1%
22	Ministry of Land Management, Urban Planning and Construction	3,923	3,954	31	1%
33	Ministry of Women's Affairs	4,000	3,997	(3)	0%
34	Ministry of Justice	4,594	4,550	(44)	-1%

In the 2007 Budget Law, as part of the **recurrent expenditure**, the Royal Government budgeted US\$ 139 million under the heading **unallocated expenditure**. In 2007, RGC spent US\$ 63 million less than planned for 2007 and used these funds to finance the recurrent over-expenditure. 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.

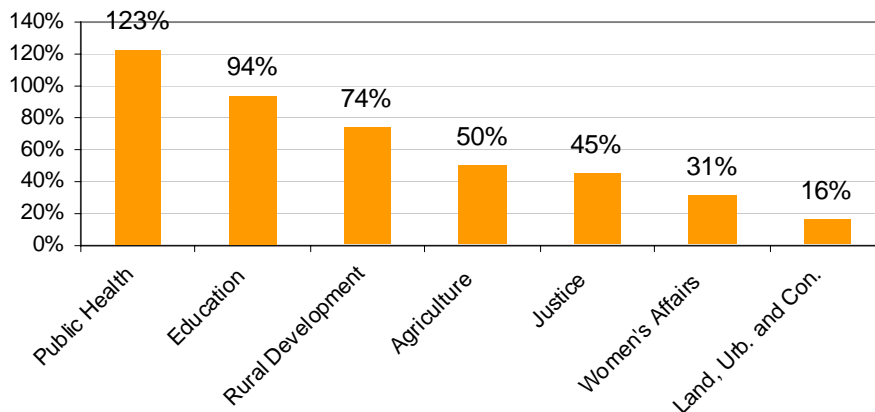
**Figure 2: Use of the US\$ 139 Million "unallocated expenditure", 2007 (US\$ million)**



Total **capital expenditure** in 2007 amounted to US\$ 536 million. Where the implementation figures for the recurrent budget were generally higher than the budgeted amounts for 2007, the implementation figures for the capital budget provide a mixed picture with some Ministries spending no funds at all (like the Ministry of Labor and Vocational Training) and other Ministries spending 16 times more than planned (the Ministry of Economy and Finance). It is also clear from the implementation figures that the priority sectors are in reality not prioritized since three non-priority ministries (1. Public Work and Transport, 2. Economy and Finance, 3. Interior) overspent more than USD 100 million, while the Ministry of Rural Development and the Ministry of Agriculture, Forestry and Fisheries spent USD 23 million less than originally budgeted (see table 2 below).

Of the seven priority ministries only the Ministry of Health spent more than budgeted and the Ministry of Education, Youth, and Sports managed to almost spend its original budget. The implementation figures for the other five priority ministries are 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 (see figure 3).

**Figure 3: Implementation of Capital Budget for seven priority ministries, 2007**



A closer look at the low implementation figures in 2007 for the Ministry of Agriculture, Forestry, and Fisheries shows that 46 projects out of 53 spent less than budgeted in 2007 with the following such as the "agricultural development program<sup>2</sup>" (US\$ 6.2 million under-expenditure), and the "development and research institute on Agro-industry" project<sup>3</sup> (US\$ 1.2 million under-expenditure). Of the total of 23 projects in the Ministry of Rural Development, 21 spent less than budgeted. The highest under expenditure was in project number 1205 "North-west Rural development" (US\$ 1.5 million) and project number 430 "Taking care of 2,237 km rural road" (US\$ 2.0 million) which was not implemented at all.

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 Royal Government should explain the under-expenditure in these important areas and address the underlying reasons as a matter of priority.

**Table 2: Implementation of the 2007 capital budget (in US\$ thousand)**

Rank	Ministry / Agency	2007 Budget	2007 Expenditure	Over/under expenditure	
1	Ministry of Public Work and Transport	103,421	162,828	59,407	57%
2	Ministry of Economy and Finance	2,289	39,500	37,211	1,626 %
3	Ministry of Health	98,195	120,305	22,110	23%
4	Ministry of Interior	14,265	25,835	11,570	81%
5	Cambodian Authority on Mine Action and Mine Victim Rescue	400	930	530	133%
6	State Secretariat of Public Function	38	38	0	0%
7	Ministry of Planning	310	0	-310	-100%
8	Ministry of NA and Senate Relations and Inspection	500	0	-500	-100%
9	Ministry of Cult and Religion	850	0	-850	-100%
10	Ministry of Labor and Vocational Training	1,240	0	-1,240	-100%
13	Ministry of Justice	3,641	1,641	-2,000	-55%
18	Ministry of Education, Youth and Sports	71,218	66,910	-4,308	-6%
21	Ministry of Rural Development	20,410	15,082	-5,328	-26%
23	Ministry of Land Management, Urban Planning and Construction	8,980	1,450	-7,530	-84%
24	Ministry of Women's Affairs	14,707	4,531	-10,176	-69%
26	Ministry of Agriculture, Forestry and Fisheries	36,162	18,132	-18,030	-50%

### **Concluding comments on 2007 Budget Implementation**

In the 2007 Budget implementation it can be seen that the Royal Government 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 education sector benefit from this and while other priority sectors are left behind and funds are spend on salaries, travel expenses, office equipment etc in non-priority ministries such as: 1) the Office of the Council of Ministers; 2) the Ministry of Industry, Mines and Energy; and 3) the Ministry of Foreign Affairs.

The implementation of the 2007 *capital budget* is good for the Ministry of Health, reasonable for the Ministry of Education and poor for the other five 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

<sup>2</sup> Project number 1147

<sup>3</sup> Project number 694

foremost priority, it has to be concluded that there is a lack of linkage between the RGC's policy objectives and the National Budget.

Given RGC's policy objectives and the implementation of the 2007 Budget Law, the two issues that need an explanation by the Royal Government are:

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?

## THE 2008 BUDGET LAW

The **process of the adoption of the 2008 National Budget** was according to the time table outlined in the 2007 National Budget Law. The Law on Financial Management for 2008 was enacted by the National Assembly on November 30, 2007 at its 7th session of the 3rd legislature and unanimously approved by the Senate on its forms and legal concepts. It needs to be noted here that civil society concerns related to the 2008 Draft Budget Law were presented to the representatives from the National Assembly and the Senate during a workshop organized by the NGO Forum on Cambodia, the Economic Institute of Cambodia, and the Cambodia Canada Legislative Support Project on 27 November 2007. Although there has been considerable debate on the draft Budget Law between the legislature and the executive, this has not resulted in any changes in allocations in the budget law promulgated by the King.

Total **recurrent expenditure allocations** in the 2008 Budget Law increased by 21 percent to US\$ 839 million compared to the 2007 Budget Law. The highest increase in the 2008 Budget Law is a US\$ 47 million increase for precautionary expenses (which falls under unallocated expenditure), bringing its total to US\$ 132 million for the 2008 Budget. Since the RGC did not spend anything under "precautionary expenditure" in 2007 (but used it to finance recurrent expenditure of the ministries), the massive increase in 2008 deserves an explanation. 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 2008 Budget Law, as well as the priority ministries not included in the top-ten. One striking feature of figure 4 is that none of the "priority ministries" 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 12th biggest increase and the Ministry of Agriculture the 31st biggest increase in percentage terms.

**Figure 4: Top-ten increases (plus priority ministries) in recurrent budget for 2008 (%)**

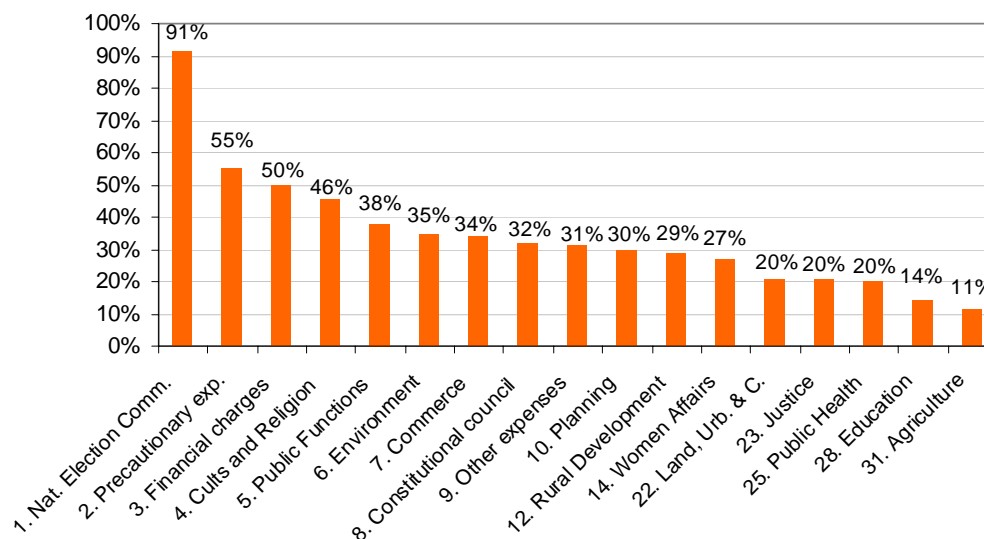


Table 3 compares the figures for planned current expenditure from the 2007 and 2008 Budget Laws (not corrected for inflation) and ranks the top-ten Ministries with the highest increases in dollar terms, together with the "priority ministries" that are not in the top-ten. The highest increase shown in table 3 is not for a particular ministry but is a USD 47 million increase for precautionary expenses (which is a sub-heading under "unallocated expenditure") bringing the total to US\$ 132 million.

**Table 3: Allocations in the 2008 recurrent budget (in US\$ thousand)**

<u>Rank</u>	<u>Ministry / Agency</u>	<u>2007 B.L Current</u>	<u>2008 B.L Current</u>	<u>Increase/Decrease</u>	
1	Precautionary expenses (chapter 09)	85,345	132,486	47,141	55%
2	Ministry of Education, Youth and Sports	133,171	151,707	18,537	14%
3	Ministry of Public Health	82,177	98,733	16,556	20%
4	Ministry of Social and Veteran Affairs and Rehabilitation	29,103	36,234	7,130	24%
5	Financial charges (chapter 66)	12,195	18,293	6,098	50%
6	Office of Council of Ministers	20,732	26,805	6,073	29%
7	Ministry of Interior - Public Security	45,568	51,398	5,830	13%
8	National Assembly	16,341	20,969	4,627	28%
9	Ministry of Defense	78,171	81,707	3,536	5%
10	Ministry of Rural Development	9,088	11,702	2,614	29%
15	Ministry of Agriculture, Forestry and Fisheries	14,506	16,163	1,657	11%
19	Ministry of Women's Affairs	4,000	5,089	1,089	27%
24	Ministry of Justice	4,594	5,527	932	20%
31	Ministry of Land Management, Urban Planning and Construction	3,923	4,720	797	20%

Total *allocations for capital expenditure* in the 2008 Budget Law increased by 10 percent to US\$ 603 million compared to the US\$ 548 million allocated in the 2007 Budget Law. Figure 5 provides an overview of the ten Ministries/Agencies with the highest increases in capital budget (percentage increase) for the 2008 Budget Law, as well as the priority ministries not included in the top-ten. The figure clearly shows that only two "priority ministries" feature in the top-ten (Ministry of Agriculture and the Ministry of Public Health) and that four priority ministries see their capital budgets reduced. Given the need to increase public spending in the rural areas the 42 percent increase in the capital budget for the Ministry of Agriculture is encouraging, however it needs to be noted that the implementation share in 2007 stood at only 50 percent. The reduction in the capital budget for the Ministry of Rural Development by 14 percent deserves an explanation by the Royal Government as it is not in line with the poverty reducing objectives set-out in the NSDP 2006-2010.

**Figure 5: Top-ten increases (plus priority ministries) in capital budget for 2008 (%)**

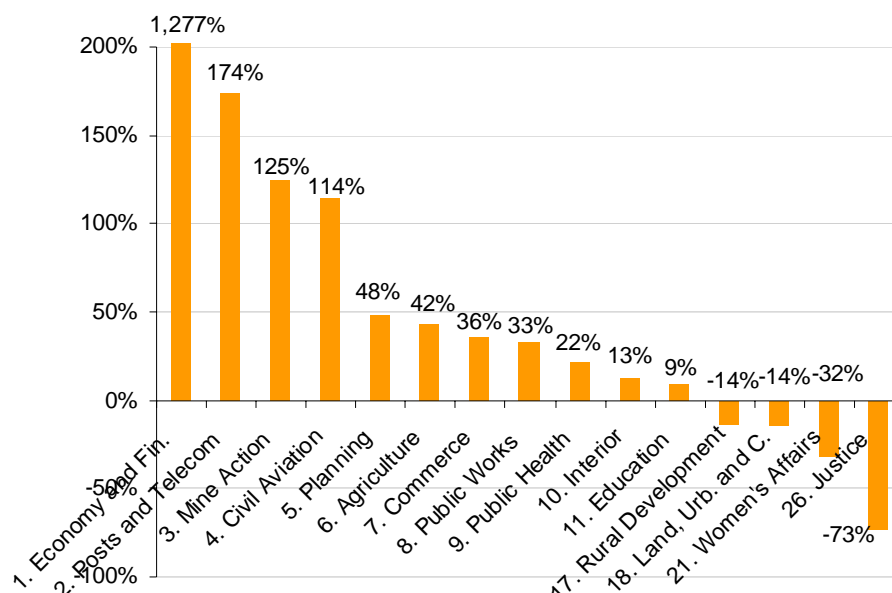


Table 4 compares the figures for planned *capital expenditure* from the 2007 and 2008 Budget Laws in dollar terms (not corrected for inflation) and ranks the top-ten Ministries with the highest increases in dollar terms, together with the "priority ministries" that are not in the top-ten.

**Table 4: Allocations in the 2008 capital budget (in US\$ thousand)**

<u>Rank</u>	<u>Ministry / Agency</u>	<u>2007 B.L Capital</u>	<u>2008 B.L Capital</u>	<u>Increase / Decrease</u>	
1	Ministry of Public Work and Transport	103,421	137,087	33,666	33%
2	Ministry of Economy and Finance	2,289	31,514	29,225	1277%
3	Ministry of Health	98,195	119,825	21,630	22%
4	Ministry of Agriculture, Forestry and Fisheries	36,162	51,518	15,356	42%
5	Ministry of Posts and Telecommunication	4,380	11,993	7,613	174%
6	Ministry of Education, Youth and Sports	71,218	77,541	6,323	9%
7	State Secretariat of Civil Aviation	2,740	5,877	3,137	114%
8	Ministry of Commerce	6,259	8,497	2,238	36%
9	Ministry of Interior	14,265	16,123	1,858	13%
10	Cambodian Authority on Mine Action and Mine Victim Rescue	400	898	498	125%
19	Ministry of Land Management, Urban Planning and Construction	8,980	7,690	-1,290	-14%
20	Ministry of Justice	3,641	1,000	-2,641	-73%
21	Ministry of Rural Development	20,410	17,582	-2,828	-14%
23	Ministry of Women's Affairs	14,707	10,062	-4,645	-32%

#### **Concluding comments on the 2008 National Budget**

The seven priority ministries identified by the Royal Government as key-ministries to achieve the poverty reducing objective do not systematically receive more funds in the 2008 Budget Law. Although the plan for recurrent expenditure in the 2008 Budget Law is broadly working towards improvements in the seven priority ministries, this is not the case in the capital budget as it only includes increases for the Ministries of 1) Public Health, 2) Agriculture, Forestry and Fisheries, and 3) Education, Youth and Sports while the other four Ministries see their capital budgets reduced (1. Rural Development, 2. Land Management, Urban Planning and Construction, 3. Justice, and 4. Women's Affairs).

With the majority of the poor depending on agriculture and agriculture related activities there is a serious need to increase public spending in the rural areas to stimulate the rural economy. In this light, the 42 percent increase in the capital budget for the Ministry of Agriculture is encouraging but the 14 percent reduction in the capital budget for the Ministry of Rural Development deserves an explanation by the Royal Government.

Besides the seemingly unsystematic approach to the priority sectors, a major question relating to the possible use of the US\$ 132 million budgeted for precautionary expenditure needs to be answered. Civil society organisations 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 programs.