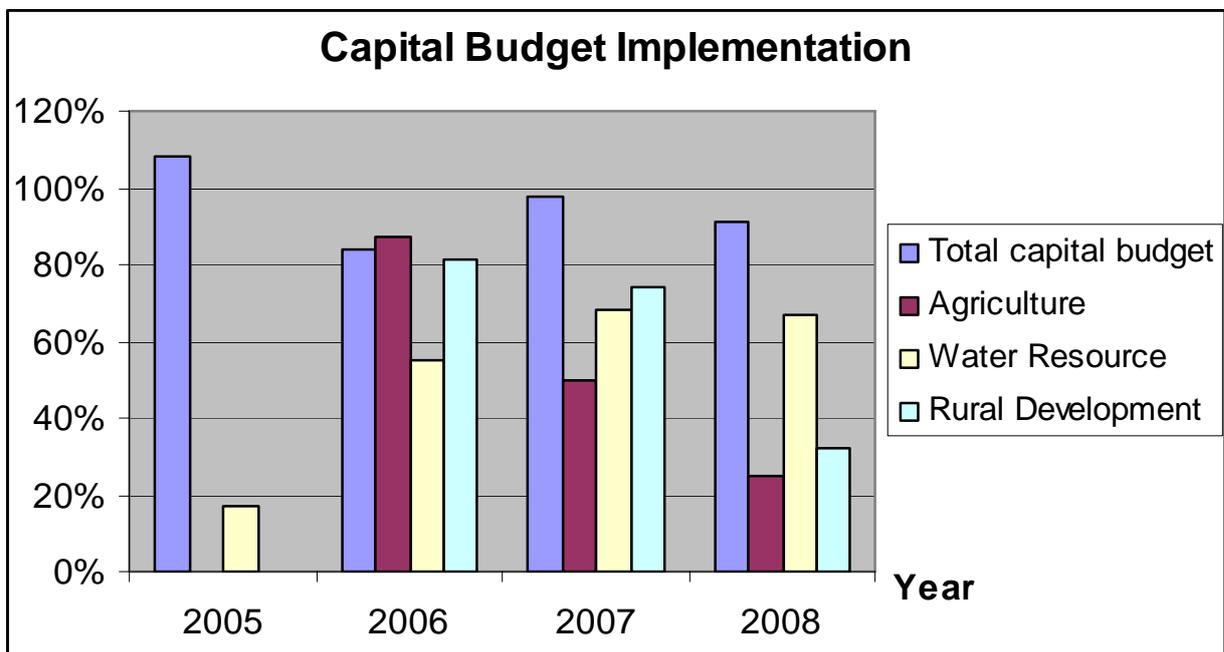




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The NGO Forum on Cambodia

Working Together for Positive Change ធ្វើការរួមគ្នាដើម្បីការល្អសើមឡើង

Analysis of 2009 Draft Budget Law: Budget Trend for Ministries of Agriculture, Rural Development, and Water Resources



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National Budget Project
Development Issues Programme

Analysis of 2009 Budget Law: Budget Trend for Ministry of Agriculture, Forestry and Fishery, Ministry of Rural Development and Ministry of Water Resources and Meteorology

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SUMMARY

The 2009 Budget Law sends mixed signals on the prioritization of rural development as allocations for recurrent expenditures for the Ministries of i) Rural Development, ii) Agriculture Forestry and Fisheries, and iii) Water Resources and Meteorology increase compared to 2008 but the capital budgets of both the Ministry of Agriculture Forestry and Fisheries and the Ministry of Rural Development are decreasing. Given the clear prioritization of rural development in the National Strategic Development Plan, this budget cut deserves an explanation from both the Royal Government and its development partners.

When assessing data from the last five budget laws, it is clear that the Public Financial Management Reform has been successful in improving predictability of the national budget at the aggregate level, both for recurrent and capital expenditure. However, there are four public institutions for which actual expenditures have been systematically significantly higher than their allocated budgets i.e. i) the Council of Ministers; ii) the Ministry of Interior - General administration; iii) the Ministry of Economy and Finance; and iv) the National Election Committee.

At the capital side of the national budget, coordination challenges that the Government is facing with its many development partners as well as coordination challenges among the different Government agencies (Ministry of Planning, Council for the Development of Cambodia, Ministry of Economy and Finance) clearly have a negative effect on the predictability of the capital budget for the individual line ministries. Improving these coordinating mechanisms is vital for better linking Government and donor budgets to the objectives outlined in the National Strategic Development Plan and need to be addressed urgently.

INTRODUCTION

According to the NGO Forum, public expenditures that improve living conditions in the rural areas deserve the highest priority from the Royal Government and its development partners. The three questions that are answered in the first part on analysis of budget allocations in the 2009 Budget Law are:

- Are allocations to ministries leading in rural development increasing in 2009?
- Are these ministries able to translate allocated budget into actual implementation?
- What are the reasons for capital projects in these sectors to under-perform?

In December 2008, the Public Financial Management Reform Program reached its second stage as it moved from stage one that focused on budget credibility to stage two that builds financial accountability. One aspect of budget credibility that is of interest to the NGO Forum is whether the allocated amounts in the National Budget are good predictions of the actual amounts disbursed since the start of the Public Financial management Reform Program in 2005. The second part of the analysis will answer the following two questions:

- Do the numbers in the National Budget Law reflect actual expenditures?
- Are there ministries that systematically over or under-spend?

CONTEXT: Elections, Inflation, and Government's Policy Responses

The 2009 Budget Law was drafted and adopted in a turbulent year where the Cambodian People Party consolidated its power following the July elections, the border dispute with Thailand escalated, prices of food and fuel rose dramatically, and important economic sectors (construction, tourism and garment manufacturing) slowed.

These circumstances led to a policy response of the Royal Government that included providing subsidies and tax exemptions.

- Tax relief, valued at US\$ 350 million to reduce the impact of high oil prices on the consumers and the economy in general, tax relief for fuel is being provided and would amount to US\$ 350 million (MTR p.19)
- Subsidy of US\$ 12 million on the price of oil consumed for electricity in the first half of 2008.
- The import duty on essential agricultural materials has been reduced.
- Salary supplements of US\$ 20 million for the 360,000 workers (mostly women) in the garment industry.
- Both to cushion the industry against competition, RGC provided tax exemptions to garment factories.

These subsidies and tax exemptions, by and large, benefited energy consuming urban households and industry and didn't help much for the landless poor that suffered most from the high food prices. Although the import duty reduction on essential agricultural materials favors agricultural development, the Mid Term Review of the NSDP does unfortunately not provide more detailed information on this.

The Mid Term Review of the National Strategic Development Plan clearly recognized the global factors that resulted in high and volatile prices of oil and food stuffs. The Review also recognizes that the poor have been most affected by this inflation and it recognizes that further focus on the rural areas is necessary as the rural areas need to be transformed into centers of economic growth which will reduce the high level of poverty in these areas. The explanatory statement attached to the draft National Budget Law 2009 also acknowledges this and makes five references to the importance of agriculture and irrigation as its policy priorities. Expenditure priorities for the Royal Government that were specifically mentioned in paragraph 22 of the statement are: i) education, ii) health, iii) agriculture, iv) agro-industry, v) irrigation, vi) rural development sectors, and vii) the continuation and expansion of physical infrastructure such as road, bridge, dam, canal, and irrigation system.

PROCESS AND CONTENT of the 2009 Budget Law

The National Assembly received the draft Budget Law 2009 from the Royal Government of Cambodia on November 05, 2008. H.E. Dr. Ouk Rabun, secretary of state for Ministry of Economy and Finance presented the draft Law to the plenary meeting of the members of the National Assembly on 9 December which adopted the law in two mornings without making changes to the figures in the original draft law. The Law on Financial Management for 2009 was further unanimously approved by the Senate as regards its forms and legal concepts without amendment on December 19, 2008 and promulgated by the King on December 27, 2008.

The overall increases in the National Budget Law on both the revenue and the expenditure side are substantial but it has to be noted that these are not corrected for inflation which averaged 20 percent in 2008. Compared with the 2008 Budget Law, total projected revenue increased by 27.8% percent to 7,169,566.7 million Riel (or US\$ 1.75 billion), projected recurrent expenditure increased by 26.7% percent to 4,361,066.7 million Riel (or US\$1.06 billion) and projected capital expenditure increased by 11.6% percent to 2,762,412 million Riel (or US\$ 0.67 billion).

Prior to the discussion in the National Assembly, a parliamentary forum on the draft budget law 2009 was held for members of the National Assembly and the Senate to discuss with NGOs/CSO on the Draft National Budget 2009 that was co-organized by the NGO Forum on Cambodia, the United Nations Development Program, the Cambodia Canada Legislative Support Project on November 20, 2008 at National Assembly Palace. Box 1 below summarizes the major issues raised at the workshop.

Box 1: Summary of issues raised during National Budget Workshop

Major issues raised by Economic Institute of Cambodia (EIC) were the projected negative impact of the global financial crisis on government revenue and the Cambodian economy while NGO Forum voiced NGOs concerns on:

- The reduced capital expenditure in education, agriculture and rural development in 2009 versus large increase in recurrent budget spending for defense and public security;
- The under-expenditure of key priority ministries (such as agriculture and rural development) in 2008 while at the same time there is over expenditure for four non-priority ministries (Office of the Council of Minister, Economy and Finance, Industry, Mines & Energy, Public Work & Transport);
- Use of precautionary expense to finance recurrent over spending in the aforementioned four ministries in 2008 and maintain the post of precautionary expenditure at a very high-level in the 2009 budget.

Discussions on 2009 budget allocation that were debated at the forum focused on the significant increase to defense and public security (90% increases in basic salary of soldiers and policemen). Many parliamentarians were concerned over the border disputes with Thailand and showed their strong support to the RCG over the increased amount. Some Parliamentarians even requested for a further increase to US\$ 500 million to defense and public security. The executive director of GAD/C Mrs. Ros Sopheap got the attention from the workshop participants when she quoted a Cambodian popular proverb '*To cultivate rice, we need water; to go to war, we need rice*' which reminded participants about the importance of investment in agriculture and rural development.

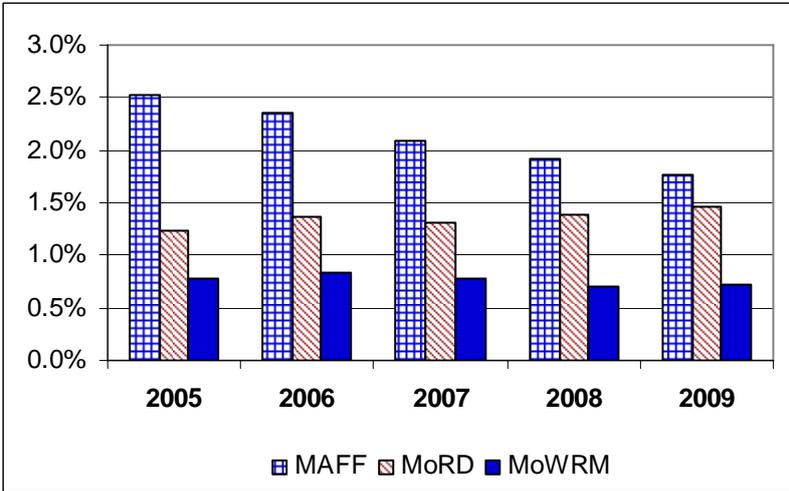
PART I: Budget Allocations for Rural Development

Increasing recurrent expenditure allocations for rural development in 2009

The 2009 National Budget Law shows that **recurrent budgets** allocated for the Ministry of Agriculture Forestry & Fisheries (MAFF), the Ministry of Rural Development (MoRD), and the Ministry of Water Resources and Meteorology (MoWRM) are all increasing. The recurrent budget for the MAFF increases by 16.2 Percent to US\$ 18.8 million, MoRD increases by 32.9 Percent to US\$ 15.6 million, and the MWRM increases by 28.9 Percent to US\$ 7.6 million. On first sight this is a very positive development but one has to keep the 20 percent inflation in 2008 in mind.

A more meaningful picture is provided in figure 1 below that presents the share of the MAFF, MoRD, and the MoWRM in RGC’s total recurrent budget allocation since 2005. The figure shows that between 2008 and 2009 the shares for MAFF, MoRD and MoWRM are rising. Further it needs to be noted that the combined share of these three ministries in total recurrent spending is higher in 2009 (5.0 percent) than it was in 2005 (4.5 percent). This must be recognized as a positive step towards prioritizing public spending on reducing rural poverty.

Figure 1: Share of the 3 ministries link to rural development in total recurrent budget 2005 - 2009



RGC, National Budget Laws: 2005, 2006, 2007, 2008, 2009

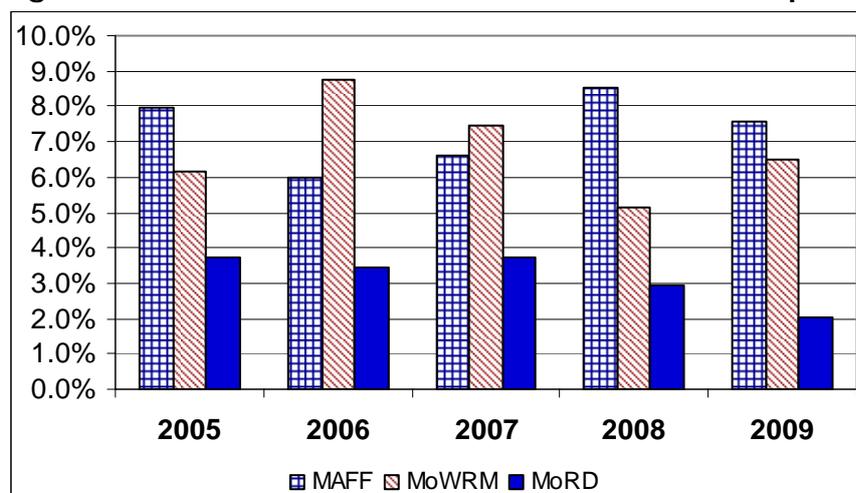
But capital expenditure allocations for rural development are decreasing

Concerning **capital budgets**, the 2009 Budget Law shows that for the Ministry of Agriculture Forestry & Fisheries (MAFF), the Ministry of Rural Development (MoRD), and the Ministry of Water Resources and Meteorology (MoWRM) are US\$ 108.9 million or 16.2% of total capital budget compared to US\$100.1 and 16.6% in last year’s budget. The allocated 2009 capital budgets for the MoRD and the MAFF decreased by respectively US\$ 3.8 million and US\$ 0.3 million. The allocation for the MoRWMM witnessed a significant 41 percent increase of US\$ 12.8 million to US\$ 43.9 million. When looking at these figures, one again has to keep in mind also that the average inflation in 2008 amounted to 20 percent.

When looking at the share of these three ministries in the total capital budget, figure 2 below shows that there is no systematic prioritization of any of these ministries in the last five budget laws. In 2005 the planned capital expenditure of these three ministries combined accounted for 17.9 percent of the total capital budget while this percentage dropped to 16.2 percent in the 2009 Budget Law. This revealed reduced priority for public investment in the rural areas is a major concern as reducing poverty in the rural areas requires prioritization of public investment in the country side that stimulates the livelihoods of agricultural small-holders and other rural livelihoods. Further, as argued in the statement on the Economic Crisis in the annex of the NGO Statement to the 14th GDCC meeting, this capital expenditure has the potential to provide job opportunities for the laid-off workers in the garment and construction sectors that are returning to the country-side. The capital expenditure is largely financed from aid budgets of the development partners of the Royal Government therefore the reduced prioritization of this capital expenditure is surprising. As development partners committed themselves to align

with Government priorities, which are already outline in the NSDP on reducing poverty in the fastest possible manner, the NGO Forum on Cambodia strongly recommends Development Partners to increase the expenditure for these poverty linked ministries rather than reduce it.

Figure 2: Share of selected line ministries in total capital budget



RGC, National Budget Laws: 2005, 2006, 2007, 2008, 2009

Recurrent budget implementation are on target, capital budgets under-spent significantly

The **recurrent budgets** in the three ministries also translate into real expenditures as can be seen in table 1 below. The estimated budget execution figures in 2008 provided in the explanatory statement attached to draft 2009 Budget Law were very good predictor of actual expenditure. The table below shows that, during the last four years, the Royal Government has been increasingly able to implement its recurrent budget target for these three ministries.

Table 1: Implementation of recurrent budget by the 3 link ministries: 2005-2008

	2005	2006	2007	2008est.
<u>Total recurrent expenditure</u>	<u>99%</u>	<u>97%</u>	<u>102%</u>	<u>134.7%</u>
Ministry of Agriculture, Forestry and Fisheries	94%	98%	98%	99%
Ministry of Water Resources and Meteorology	90%	90%	94%	106%
Ministry of Rural Development	90%	93%	94%	94%

Ministry of Economy and Finance (TOFE); * Estimate from Explanatory Statement to the draft 2009 Budget Law

When assessing the implementation of the **capital budget**, the implementation figures are less close to their target. When interpreting these figures it has to note that these are based on estimates provided in the National Budget Law since the Royal Government does not release the update official figures on implementation of the capital budget. Although no official figures are available, this figure should be considered a good estimate for actual capital expenditure especially since the recent Aid Effectiveness Report 2008 from the Council for the Development of Cambodia reported that in 2007, 85 percent of donor-aid in Cambodia is “on-budget”.

As table 2 below shows, for all three ministries implementation estimates are far below target and seem to be deteriorating. In 2008, MAFF only executed a quarter of its allocated budget and MoRD less than a third. Given the needs for investment in the sector as expressed in the Mid Term Review of the National Strategic Development Plan and the 2009 Budget Law, this low level of budget execution clearly deserves a comprehensive explanation by the Royal Government and its development partners.

Table 2: Implementation of capital budget of the three line ministries: 2005 –2008

	2005	2006	2007	2008
<u>Total capital budget</u>	<u>108%</u>	<u>84%</u>	<u>98%</u>	<u>91%</u>
Ministry of Agriculture, Forestry and Fisheries	0%	87%	50%	25%
Ministry of Water Resources and Meteorology	17%	55%	68%	67%
Ministry of Rural Development	0%	81%	74%	32%

Source: RGC 's Budget Law 2005, 2006, 2007, 2008, 2009

Box 2: Poorly performing projects? - ECOSORN and the Northwestern Irrigation Project

In order to gain some understanding of the low level of budget execution of capital budgets related to rural development the two projects were selected from the National Budget. Table 3 below shows the planned and actual disbursements from 2006 to 2009 of European Union (EU)'s **ECOSORN project** as reported in the National Budget Law. The table clearly shows that the five-year project has now been in operation for three years and has been facing difficulties in 2008 as it only managed to spend 39 percent of the US\$ 12.8 million that were budgeted for that year. At the end of the third year of operation, the project spent 49 percent of its funds.

Table 3: Planned and actual disbursement in "ECOSORN Project" (US\$ '000)

Year	Planned expenditure*	Implementation**	Project balance	Share of program budget remaining
2006	2,882	2,882	27,997	91%
2007	7,882	7,882	20,115	65%
2008	12,882	5,000	15,115	49%
2009	16,882			
2010				

* National Budget Law

** Estimates provided in National Budget Law and PIP 2006-2008, 2007-2009, 2008-2010, 2009-2011

Findings from discussions with ECOSORN Staff

The view expressed by the contacted ECOSORN was different than expected as it was stated that the ECOSORN was considered quite successful and implementation is progressing well. The staff member was however not able to state whether these figures are correct and would follow-up internally to find out who is responsible for providing correct data to the Royal Government for input in the National Budget Law.

In order to permit public oversight of the program, the NGO Forum encourages the European Commission and the Royal Government to ensure that their public records on program implementation are up-to-date and easily accessible. ECOSORN's or EC web-site may be a good tool for the European Commission to start posting its annual progress reports and to live up to its commitment of providing "*timely, transparent and comprehensive information on aid flows so as to enable partner authorities to present comprehensive budget reports to their legislatures and citizens.*"¹

The second project with project number 834 in the 2009 Budget Law is titled "**Northwest Irrigation Project**" and is placed under the Ministry of Water Resources and Meteorology and has a total project cost of US\$ 30.87 million. Table 4 below shows the planned and actual disbursements from 2004 to 2009 as reported in the National Budget Law. The table clearly shows that the project has been in operation for six years and that at the end of 2009 (which is 6 months before the expected completion date) has only been able to spend less than one-fifth of its total budget.

Table 4: Planned and actual disbursement in "Northwest Irrigation Project" (US\$ '000)

Year	Planned expenditure*	Implementation**	Project balance	Execution rate
2004	-	500	30,370	98%
2005	-	500	29,870	97%
2006	1,581	1,581	29,370	95%
2007	2,000	1,470	27,789	90%
2008	1,500	1,130	26,319	85%
2009	2,000		25,189	82%

* National Budget Law

** Estimates provided in National Budget Law

Although these figures have not been verified with the MoWRM or ADB it was learned from the ADB web-site and a discussion with H.E. Veng Sakhon at the MoWRM that lengthy and complicated procurement processes was a major cause of the delay. Other causes were also referred to such as the amount of time required to obtain credible results from assessment/research done by local companies. Given our lack of detailed knowledge on the program we assume that the high returns of the program indicated by H.E. Veng Sakhon will ensure that ADB's soft-loan has positive economic returns for Cambodia as a whole.

¹ Paris declaration on aid effectiveness, 2 March 2005.

PART II: The Public Financial Management Reform:

Are the recurrent budget reflected actual expenditure?

The Public Financial Management Reform Program of the Royal Government was launched by the Prime Minister in December 2004 and presents a detailed, prioritized, and sequenced action plan to improve the management of Cambodia's public finances. The reform is sequenced in four platforms. Platform one aims at achieving a position in which the budget becomes more credible; platform two aims at achieving initial improvements in internal controls and in holding managers accountable; the objective under platform three is to improve the linkage of priorities and service targets to budget planning and implementation; and platform 4 is about integration of accountability and review processes for both financial and performance management.

As mentioned earlier, the Public Financial Management Reform Program reached its second stage in 2008 and moved from the first stage that focused on budget credibility to its second stage towards financial accountability. One aspect of budget credibility that is of our interest is whether the allocated amounts in the National Budget are good predictions of the actual amounts disbursed since the start of the Public Financial management Reform Program in December 2005. This second part answers the questions whether: *i)* do the numbers in the National Budget Law reflect actual expenditure?; and *ii)* are there ministries that systematically over or under-spent?

Table 5 below shows that shows that management of overall recurrent expenditures has improved over time as can be concluded from the aggregate figures for total recurrent expenditure that are very close to the original budgeted amounts. Although the management of the recurrent budget at the aggregate level has improved significantly since 2004, at the level of the individual line ministries the numbers in the budget law do not reflect actual implementation figures very well. The table below shows that there are five ministries that systematically² spend significantly more than their planned recurrent budgets despite finalizing the first stage of the Public Financial Management reform on budget credibility in December 2008.

Table 5: Recurrent budget implementation of selected ministries 2004-2008

	2004	2005	2006	2007	2008
Total recurrent expenditure	92%	99%	98%	102%	134.7%
A. General administration	111%	128%	131%	142%	267%
Office of Council of Ministers	143%	159%	173%	192%	286%
Ministry of Interior - General administration	97%	120%	191%	161%	159%
Ministry of Economy and Finance	111%	155%	185%	174%	1131%
National Election Committee	197%	230%	113%	1081%	503%

Source: Explanatory Statement attached to draft budget law 2009

Are the capital budget reflected in actual expenditure?

As can be seen in annex 1, implementation of the capital budget at the aggregate level (as presented in the budget law) in 2007 and 2008 has improved compared to 2004. However implementation figures for the capital budget of individual line ministries show that there is a large difference between allocated and executed budgets. This bleak picture can be explained by the challenges that the Royal Government faces in coordinating all of its development partners as well as coordinating the different Government agencies involved: the Ministry of Planning, the Council for Development of Cambodia, the Ministry of Economy and Finance. The Mid Term review of the National Strategic Development Plan made a clear statement that more work needs to be done to improve this coordination and development partners at the Cambodia Development Cooperation Forum in December agreed with this.

² Ministries and government agencies are included in this table if they spend more than their budget in four out of five budget years.

Annex 1: Implementation of the capital budget by line ministries: 2004- 2008

	2004	2005	2006	2007	2008
Total Capital Expenditure	71%	108%	84%	98%	91%
Ministry of Health	128%	404%	67%	123%	108%
Ministry of Education, Youth and Sports	117%	85%	183%	94%	81%
Ministry of Agriculture, Forestry and Fisheries	0%	0%	87%	50%	25%
Cambodian Authority on Mine Action and Mine Victim Rescue	-	-	-	233%	100%
Ministry of Land Management, Urbanization, and Construction	218%	257%	243%	16%	175%
Ministry of Water Resources and Meteorology	14%	17%	55%	68%	67%
Ministry of Rural Development	0%	0%	81%	74%	32%
Council for Development of Cambodia	-	124%	45%	33%	-
Ministry of Economy and Finance	-	0%	314%	1726%	158%
Ministry of Commerce	0%	0%	9%	74%	48%
Ministry of Industry, Mine, and Energy	87%	14%	241%	50%	120%
Ministry of Public Work and Transport	65%	55%	53%	157%	104%
State Secretariat of Civil Aviation	40%	84%	79%	13%	22%
Ministry of Information	9%	9%	20%	11%	29%
Ministry of Post and Telecommunication	0%	0%	119%	0%	48%
Ministry of Culture and Fine Arts	0%	0%	15%	0%	0%
Ministry of Cult and Religion Affairs	0%	0%	0%	0%	0%
Ministry of Interior	56%	0%	452%	181%	64%
Ministry of Planning	-	-	-	0%	0%
Ministry of Justice	0%	0%	360%	45%	0%
State Secretariat of Public Function	-	-	-	100%	-
Ministry of Social Work, Veterans and Youth Rehabilitation	204%	0%	134%	46%	15%
Ministry of Labor and Vocational Training	-	-	0%	0%	0%
Ministry of Senate and National Assembly Relation & Inspection	0%	0%	0%	0%	0%
Ministry of Environment	83%	30%	1131%	67%	39%
Ministry of Tourism	0%	0%	104%	24%	21%
Ministry of Women's Affairs	102%	20%	38%	31%	82%
Office of the council of Ministers	-	-	-	-	-
Phnom Penh Municipality	4%	8%	11%	9%	48%
Ministry of Foreign Affairs and International Relations	0%	-	-	-	-

RGC, National Budget Laws: 2004, 2005, 2006, 2007, 2008, 2009

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