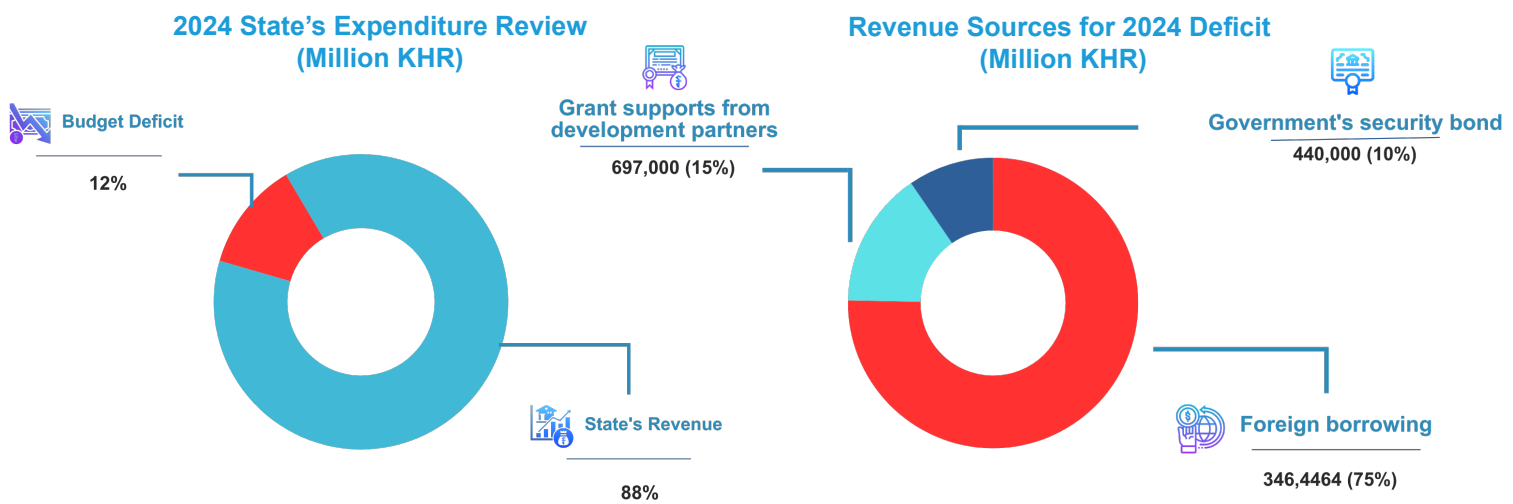




## Optimizing Financial Management and Budget Planning for the Next Fiscal Year

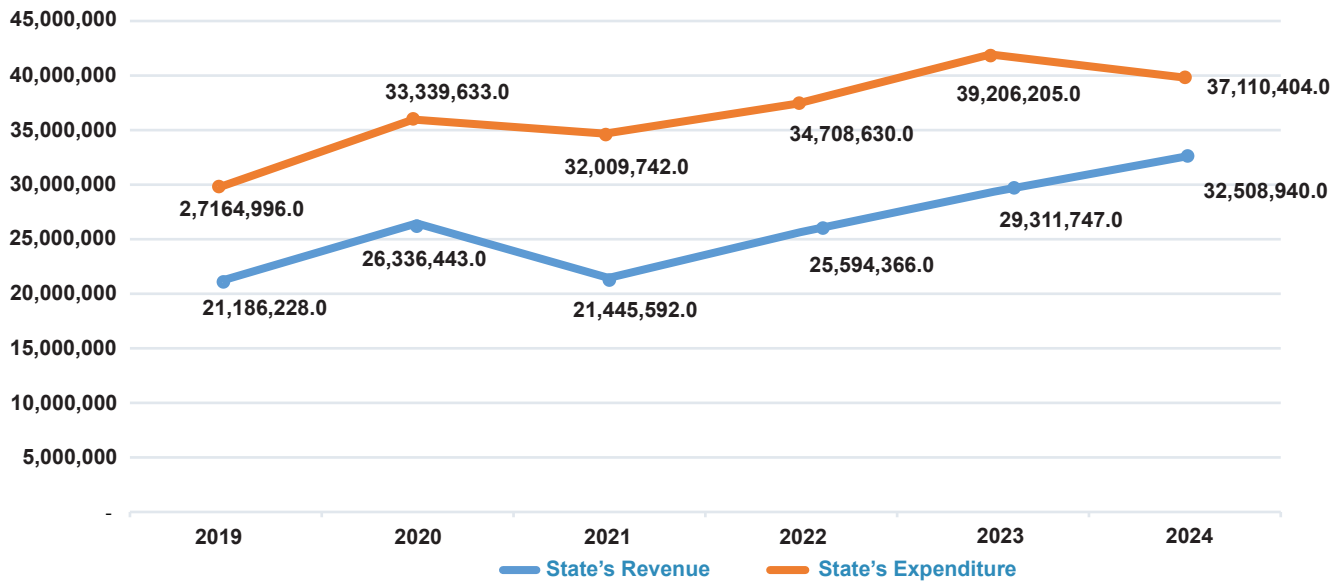
Recommendations from the CSO Budget Working Group on the Law on 2024 Finance for Management

### Overview of 2024 State Budget: State Revenue, Expenditure and Deficit



- ▶ Cambodia's Gross Domestic Product (GDP): 5.6% by 2023 (projected) and 6.6% in 2024 reaching to USD 35.16 billion (estimated)
- ▶ Strategic priorities of 2024 Annual Budget:
  - strengthening healthcare services,
  - expanding vocational and technical skills for impoverished and marginalized groups,
  - establishing social assistance programs for vulnerable families, and
  - fostering the development of the informal economy with financial support
- ▶ 2024 state's expenditure: USD 9,129.25 million, reflecting a 5.3% decrease compared to 2023. Capital expenditure significantly decreased by 31% as it does not record public debt payments in capital expenditure.
- ▶ 2024 State's revenue decreases by 11.6%, if compared to the previous fiscal year, amounting to USD 7,997.27 million. Current revenue: 11.1% increase compared to 2023.
- ▶ Budget deficit in 2024: 12.39%, which is equivalent to 3.22% of the Kingdom's total GDP, compared to 25% in 2023.
- ▶ 2024 state expenditure: 5.3% decline, however, the current expenditure increases 12.9% while the capital expenditure decreases 31%.

### State's Revenue Vs. State's Expenditure 2019-2024 (Million KHR)



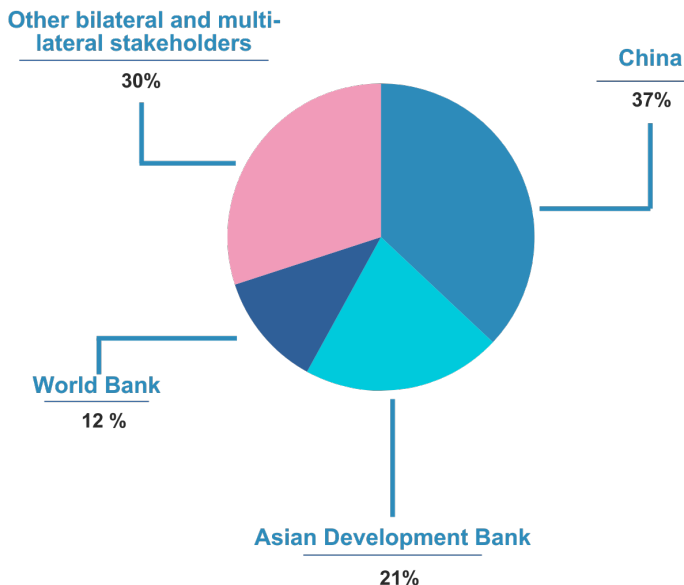
- Notably, domestic financing revenue for public investment, categorized under capital expenditure, experiences a sharp 39% decrease.
- Current revenue continues to increase by 11.1% and current expenditure by 12.9%, resulting to a declining of current surplus from 4% to 3.79% in both 2023 and 2024.

### Public Debt

Million USD

Description	2022(Q1-Q2)	2023(Q1-Q2)				Change in % (2022-2023 of Q1-Q2)	
	Total	Total	Principal	%	Interest		%
Total Debt Payment	218.51	247.09	190.99	77%	56.1	23%	13%
to multilateral parties	63.39	66.85	51.1	76%	15.75	24%	5%
to bilateral parties	155.12	180.24	139.89	78%	40.35	22%	16%

### % of Sources for Public External Debt



- By the second quarter of 2023, Cambodia's public debt had reached USD 10.71 billion, in which 99.57% is the external public debt.
- In 2024, the government plans to borrow 1,700 million SDR or USD 2,233 million.
- Out of the USD 2,233 million, USD 520 million (23.6%) will be used to settle its debt payments.
- By the end of 2024, the public debt will increase to USD 12.9 billion which presents 36% of GDP.

Million USD

Description	By end 2023		By end 2024	
	Amount	% of GDP	Amount	% of GDP
GDP	32,189.42		35,167.8	
Public Debt Stock	11,241.95	34.92%	12,955	36.84%
Foreign borrowing (1)			2,233	
Debt payment (2)			520	
Added to 2023 Debt Stock:(1)-(2)			1,713	

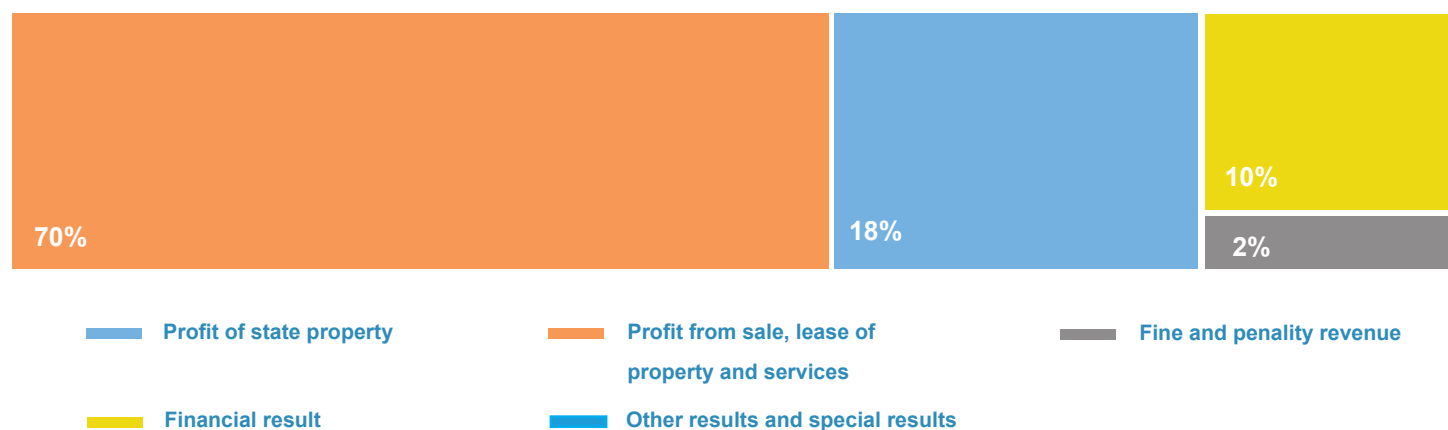
Source: 1) Cambodia Public Debt Statistical Bulletin, Vol 19, page 19, Ministry of Economy and Finance, August 2023, and 2) Executive summary on annual Budget law 2024

## Recommendations

Ensuring and successfully managing public debt is of foremost importance for the government in order to mitigate the presence of hazardous debt structures and tactics, as well as to limit the risks associated with sovereign debt management. The importance of transparency and accountability in public debt management, as well as the integrity of the public institutions responsible for this task, cannot be overstated. These factors are essential not just for mitigating risks but also for fostering public trust. In this context, a competent external auditor should therefore be engaged to ensure the integrity of the debt management. It is recommended that debt management activities undergo an annual external audit in order to adhere to established standards. The results of this audit, together with any suggestions, should be reported to relevant oversight agencies. Additionally, significant records pertaining to debt management activities should be made accessible to the public.

## Revenue Sources

### % of Income Sources of Non-taxation Revenue



- ▶ In 2024, revenue from taxation accounts for 86% (USD 6,999 million), a 9.3% increase.
- ▶ A significant increase from non-taxation (29.5%):
  - ⊙ Profit from state properties (219%) from USD 42 million in 2023 to USD 136 million in 2024
  - ⊙ Profit from the sale, lease of state properties, and services (35%) from USD 391 million to USD 531 million (2023-2024)
  - ⊙ Revenue from fines and penalties decreases by 9%, dropping from USD 17.5 million in 2023 to USD 15.9 million in 2024

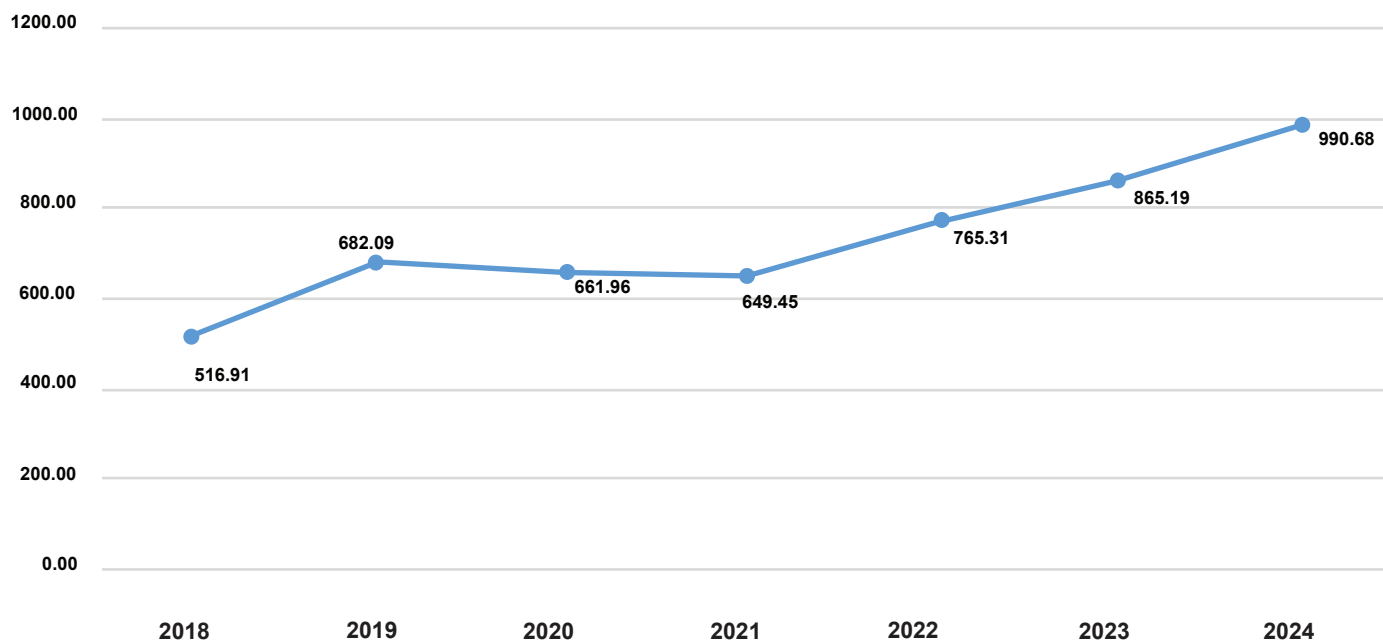
Million KHR

Some income types of non taxation revenue	Amount							Change in %					
	2018	2019	2020	2021	2022	2023	2024	2019	2020	2021	2022	2023	2024
Profit of state property	207,583.46	273,822.79	401,169.24	205,084.50	173,953.00	173,809.40	555,925.80	31.91	46.51	-48.88	-15.18	-0.08	219.85
Profit from sale, lease of property and services	1,845,869.13	2,291,834.75	1,246,303.45	1,470,910.20	1,326,046.30	1,593,326.10	2,160,153.90	24.16	-45.62	18.02	-9.85	20.16	35.58
Fine and penalty revenue	39,325.33	44,124.30	80,943.75	59,787.30	65,765.30	71,419.10	64,699.30	12.20	83.44	-26.14	10.00	8.60	-9.41
Financial result	180,797.50	169,962.51	139,951.25	120,007.00	173,328.00	211,638.40	296,631.00	-5.99	-17.66	-14.25	44.43	22.10	40.16
Other results and special results	33,735.37	94,603.81	50,706.46	39.00	40.40	6.00	6.00	180.51	-46.40	-99.92	3.59	-85.15	0.00

Source: Budget settlement laws 2018-2021 and Budget laws 2022-2024

## Revenue from VAT and Tax on Personal income

### Change in Amount for Income from VAT (Million USD)



#### Income from the Value Added Tax (VAT):

- ⦿ USD 990 million which presents 49% of indirect tax revenue, 6 percentage points increase compared to 2023
- ⦿ Over the last three years, VAT revenue has increased by an average of 15%.
- ⦿ A strengthened VAT enforcement may undermine the pro-poor tax system and discourage new and marginal business activities.

Million KHR

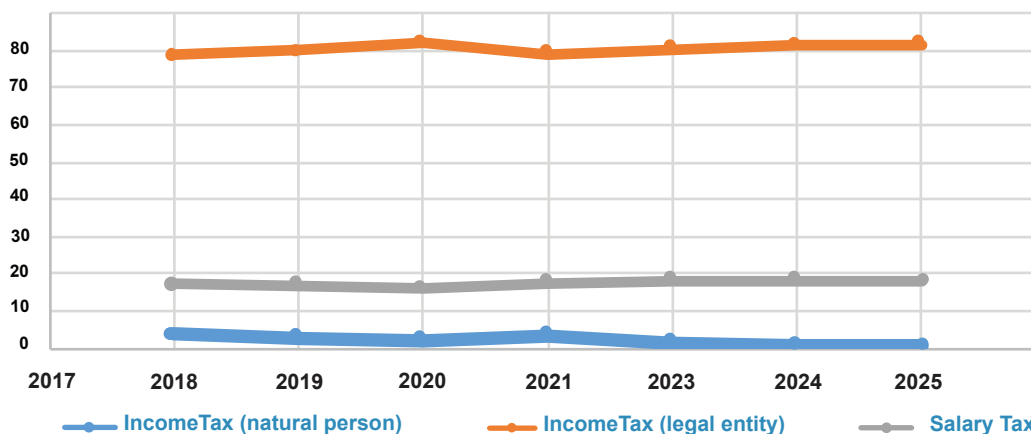
Description	2018		2019		2020		2021		2022		2023		2024	
	Amount	%	Amount	%	Amount	%	Amount	%	Amount	%	Amount	%	Amount	%
<b>Direct Tax</b>	4,059,155.00		5,045,260.80		5,779,410.11		4,304,000.00		5,481,000.00		7,257,989.00		8,957,173.00	
Income tax (natural person)	162,108.99	3.99	142,285.15	2.82	120,007.32	2.08	144,000.00	3.35	86,000.00	1.57	45,000.00	0.62	45,000.00	0.50
Income tax (legal entity)	3,192,191.86	78.64	4,055,158.01	80.38	4,738,772.11	81.99	3,410,000.00	79.23	4,400,000.00	80.28	5,900,000.00	81.29	7,300,000.00	81.50
Salary tax	704,854.14	17.36	847,817.64	16.80	920,630.68	15.93	750,000.00	17.43	995,000.00	18.15	1,312,989.00	18.09	1,608,173.00	17.95

Source: Budget settlement laws 2018-2021 and Budget laws 2022-2024

#### Income from tax on incomes, profits:

- ⦿ Income tax paid by both legal entity: about USD 1,798 million (81.50% of direct tax paid by eligible legal entities which increases by 23% compared to 2023 and USD 11 million (0.50% of direct tax) paid by natural person/individual, which is the same as in 2023
- ⦿ Taxes on salary moderately increases by 22% from USD 323 million in 2023 to USD 395 million in 2024.

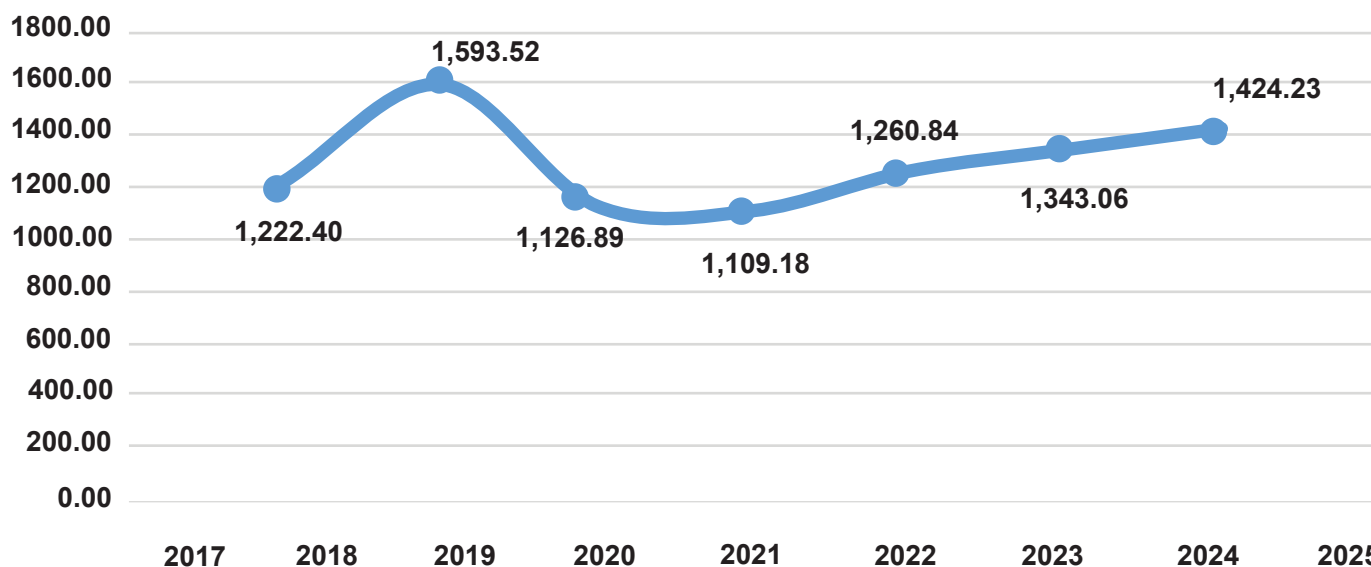
### Change in % Compared to Direct Tax



## Revenues from taxes on tobacco, alcohol and sugary beverages and low nutrition intake products

- ▶ An increase of taxes on these products will impact positively on changing people's well-being, reduce state's expenditure on healthcare and increase state's revenues.
- ▶ Tax revenues from specific goods and services has been gradual, with only a 6% growth projected for both 2023 and 2024. In 2019, this tax was increased by 30%.
- ▶ Tax revenue from these products has slightly increased to USD 1,424 million in 2024 which is lower than the pre-pandemic year in 2019.

Change in amount for income from special tax (Million USD)



Million KHR

Description	Amount							Change in %					
	2018	2019	2020	2021	2022	2023	2024	2019	2020	2021	2022	2023	2024
Special tax	4,969,065.97	6,477,641.07	4,580,802.97	4,508,800.00	5,125,300.00	5,459,550.00	5,789,510.70	30.36	-29.28	-1.57	13.67	6.52	6.04

Source: Budget settlement laws 2018-2021 and Budget laws 2022-2024

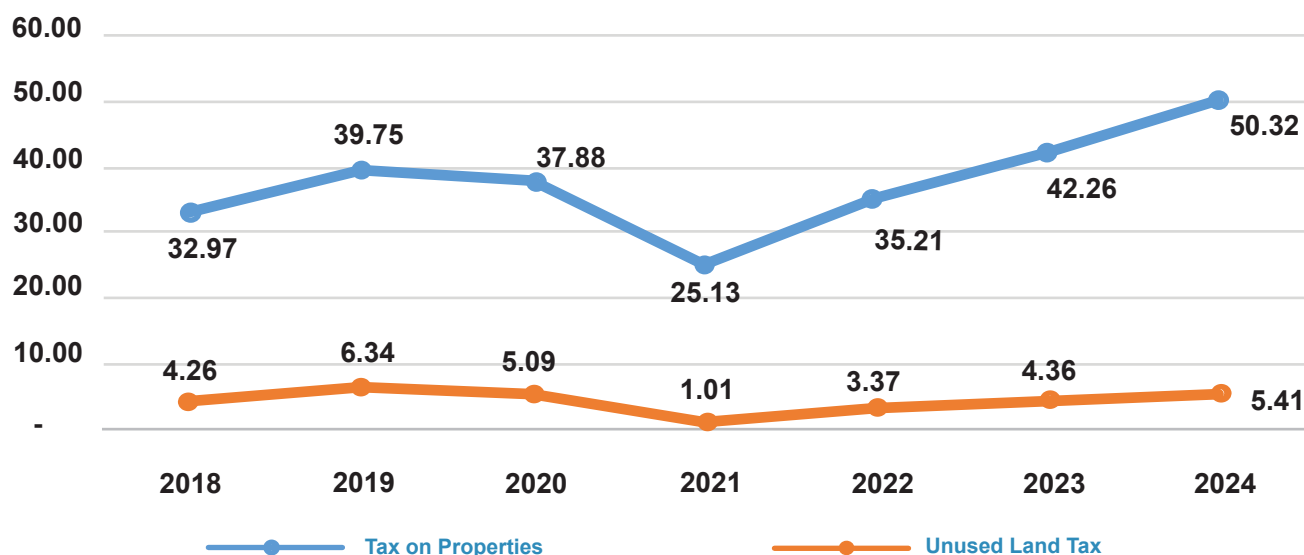
### Recommendations

- ▶ The government should intensify efforts to ensure fairness and transparency in revenue collection, aiming to avoid potential revenue loss. Specifically, strict enforcement and fair application of existing laws and regulations to every taxpayer would generate higher revenue and foster a level playing field.
- ▶ We strongly encourage the government to raise specific taxes on certain commodities, particularly tobacco, alcohol, and sugary products. Cambodia's tax rates on cigarettes, alcohol, and sugary beverages should be increased to generate more income, limit consumption, and mitigate the hazardous effects of these products on the country's healthcare services and the economic burdens of the population, especially those people living below the national poverty line. Additionally, the government should ensure that alcohol beverage companies fully comply with existing tax obligations.
- ▶ To minimize the hazardous effects of cigarettes and alcohol on younger populations, including children, it is essential for the government to issue a Prakas or adopt legislation specifying an age limit for alcohol consumption. Commercial advertising of cigarettes and alcohol in public spaces should be banned to reduce public exposure.
- ▶ Furthermore, the government should consider expanding tax regulations and increasing tax rates on imported soft drinks with high sugar content. Higher sugary products should be subject to a higher tax rate. The government should also regulate the nutritional elements in certain inexpensive and low-nutritional-value foods that affect children at schools and during early childhood.

## Revenue from tax on properties

- ▶ In 2024, USD 50.32 million (0.14% of GDP) will be generated from property tax, a 19% increase compared to 2023.

### Change in Amount of Income from Property and Unused Land Tax (Million USD)



Million KHR

Description	Amount							Change in %					
	2018	2019	2020	2021	2022	2023	2024	2019	2020	2021	2022	2023	2024
Tax on properties	134,016.59	161,581.20	153,964.87	102,153.00	143,123.40	171,797.90	204,565.40	20.57	-4.71	-33.65	40.11	20.03	19.07
Unused land tax	17,719.02	25,757.72	20,703.42	4,094.00	13,694.40	17,705.20	22,004.00	45.17	-19.62	-80.23	234.50	29.29	24.28

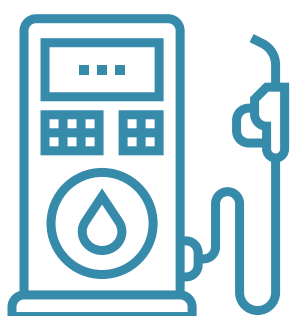
Source: Budget settlement laws 2018-2021 and Budget laws 2022-2024

- ▶ Unused land tax increases by 24%, which is approximately USD 5.4 million in 2024 (USD 3.3 million in 2022, USD 4.4 million in 2023) and constituting about 10.7% of property tax.
- ▶ The current implementation of the tax is limited to only the capital and provincial cities, narrowing the tax base despite rapid urbanization in rural areas.

### Recommendations

Raising the property tax revenue to 1% (or more) of the GDP would offer crucial benefits to Cambodia. Specifically, we suggest the government broaden the tax base, increase effective rates and use up-to-date market-price valuations. Moreover, we would like the government to strengthen the property tax collection from all taxpayers based on existing regulations.

### Tax on Gasoline



- ▶ Contribute to supporting various government services such as road construction, maintenance, repair, and public transportation. A specific tax on gasoline earmarked income as line of 71004 is designated for the expenditure on road improvement and rehabilitation.
- ▶ In 2024, income from this tax is expected to reach USD 96 million.
- ▶ There are four types of taxes applied to gasoline, including VAT (10%), customs tax (0.0847 USD/litre), special tax (0.0669 USD/litre), and additional tax (0.0200 USD/litre)
- ▶ Setting a reasonable price for gasoline will certainly have a direct impact on citizens' livelihoods and improve their living conditions.
- ▶ Domestic fiscal policy can fundamentally affect the local price of gasoline.

### Recommendations

To alleviate the burden of rising fuel costs on consumers and businesses, the government should consider a strategic reduction in gasoline taxes. This could involve lowering the value-added tax (VAT) on gasoline from 10% to 5% while implementing moderate reductions in other applicable taxes. Such measures would effectively lower the overall cost of gasoline and its downstream impact on goods, services, logistics, and production across various value chains. To compensate for the potential revenue shortfall from reduced gasoline taxes, the government could explore alternative revenue streams, such as increasing taxes on tobacco, alcohol, sugary beverages, and property, as previously suggested.

### Tax incentives and expenditures

- A strategic mechanism to attract capital investment and foster employment opportunities.
- In Cambodia, the extent to which tax incentives contribute to the attraction of FDI remains uncertain.
- Despite the presence of tax incentives, Cambodia is already a tempting location for investment due to several factors including cost-effective labour, preferential trade agreements such as partial EBA and GSP, and relaxed regulations on foreign ownership.



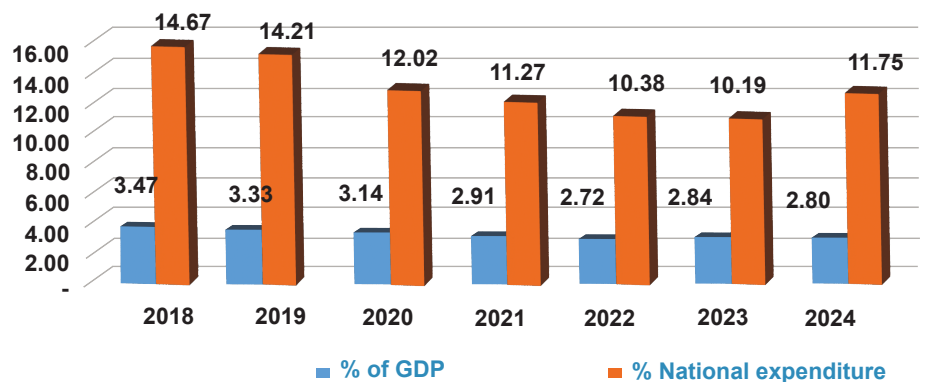
### Recommendations

CSO BWG requests the government to regularly publish information related to the assessment of the effectiveness of the tax incentives, in particular information concerning tax expenditures, cost effectiveness, benefits and behavioural response of investors.

### Expenditure for education, health and social protection under budget line of respective ministries and sub national administrations

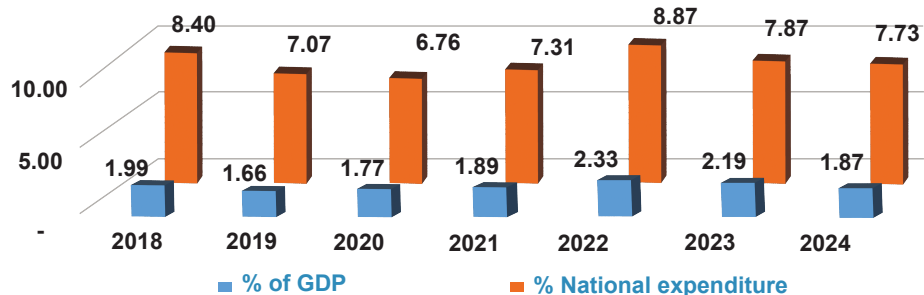
- The government's commitment to improve: education, public health, vocational training and skill and social protection.
- In terms of budget allocations as a percentage of GDP, there have been slight changes for three key ministries.

% of GDP and national expenditure



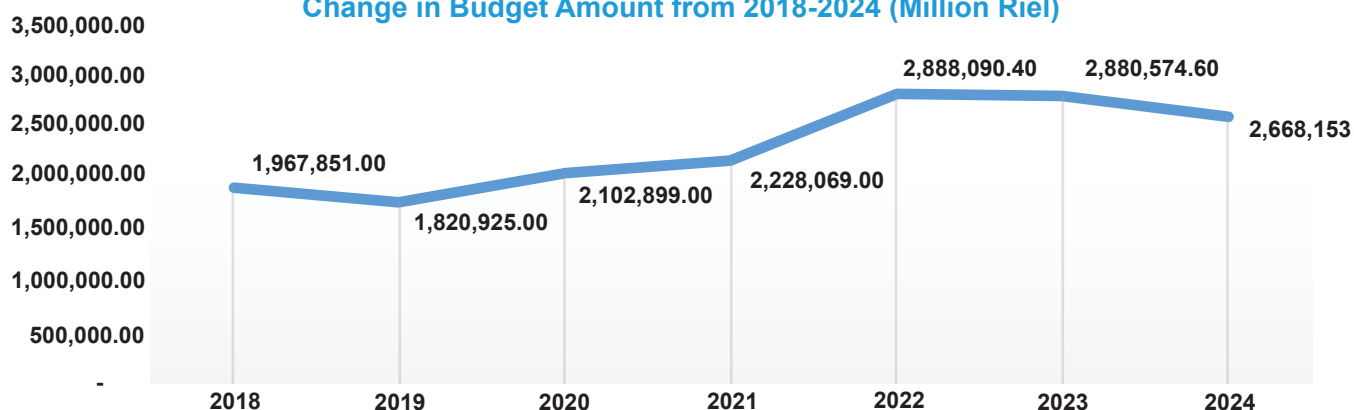
- The Ministry of Education, Youth and Sports received a share of 2.83% of GDP or 11.75% of national expenditure.
- As outlined in its Education Strategic Plan 2019-2023, the government aims to increase its share to 19.1% of the entire national budget by 2023, which is equivalent to 3.1% of GDP.
- And The 2030 Education Framework for Action, which Cambodia is a signatory, recommends that governments allocate 4%-6% of their GDP and/or 15%-20% of all public expenditures to education.
- A total of USD 430 million of budget for educational function at subnational administrations is transferred to municipal and district administrations (USD 410 million) and provincial administrations (USD 20 million).
- Among the state ministries and institution, the Ministry of Education, Youth and Sports was allocated the largest budget, followed by the Ministry of National Defense, which received a share of about 2% of GDP.

### % of GDP and national expenditure



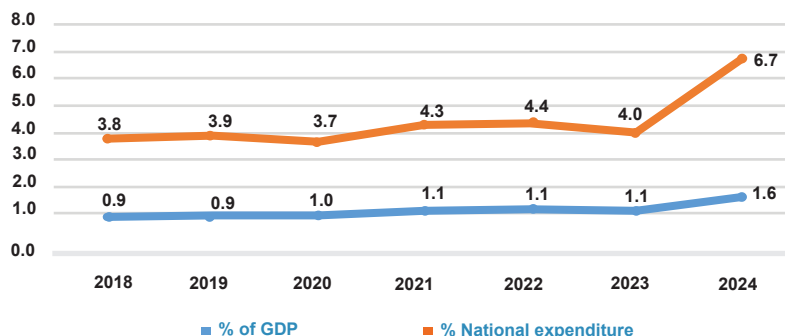
- ▶ 1.87% of GDP in 2024, a 0.32 percentage points reduction compared to 2023 (2.19%).
- ▶ USD 52.25 million is reduced in 2024 compared to 2023, while USD 1.8 million was reduced in 2023, compared to 2022.
- ▶ The reduction in the health budget appears to go against both the economic trend and the government's own declared commitment. With the 2024 health budget making up only USD 656 million, the target for USD 745 million which was set in Health Strategy Plan 2016-2020 has yet to be met.

### Change in Budget Amount from 2018-2024 (Million Riel)



Ministry of Social Affairs,  
veterans and Youth Rehabilitation

### % of GDP and national expenditure



- ▶ 1.12% of GDP in 2023 and it slightly increases to 1.62% in 2024, a 2.7 percentage-point increase, from 4.01% in 2023 to 6.71% in 2024.
- ▶ 55% increase in the budget allocation for the Ministry, after the adjustment of inflation rate of 2.5%, if compared to 2023.
- ▶ In 2024, the government is allocating about USD 569 million for the ministry. In 2023, only USD 367 million was allocated to this ministry.

Million KHR

Description	Amount 2023	Inflation for 2024: 2.5%	Amount 2024 (before inflation adjustment)	Amount 2024 (after inflation adjustment)	Actual increase in % (2023-2024)
Ministry of Health	2,880,574.60	72,014.37	2,688,153.00	2,596,138.64	-9.87
Ministry of Education, Youth, and Sport	3,730,157.00	93,253.93	4,051,781.00	3,958,527.08	6.12
Ministry of Social Affairs, Veterans, and Youth Rehabilitation	1,468,855.00	36,721.38	2,314,645.00	2,277,923.63	55.08

Source: Annual budget Law from 2018-2024



Description	Year 2018			Year 2019			Year 2020			Year 2021		
	Amount	% of GDP	% of national expenditure	Amount	% of GDP	% of national expenditure	Amount	% of GDP	% of national expenditure	Amount	% of GDP	% of national expenditure
GDP	99,116,041.0			109,894,949.0			119,034,229.0			117,939,000.0		
Total National Expenditure	23,428,298.0			25,765,028.0			31,095,855.0			30,491,336.0		
Ministry of Health	1,967,851.0	1.99	8.40	1,820,925.0	1.66	7.07	2,102,899.4	1.77	6.76	2,228,069.0	1.89	7.31
Ministry of Education, Youth, and Sport	3,438,007.5	3.47	14.67	3,661,670.2	3.33	14.21	3,738,130.3	3.14	12.02	3,436,236.0	2.91	11.27
Ministry of Social Affairs, Veterans, and Youth Rehabilitation	890,826.4	0.90	3.80	1,007,390.9	0.92	3.91	1,142,664.4	0.96	3.67	1,301,249.0	1.1	4.3

Description	Year 2022			Year 2023			Year 2024			Change from Year 2023-2024		
	Amount	% of GDP	% of national expenditure	Amount	% of GDP	% of national expenditure	Amount	% of GDP	% of national expenditure	Amount	% of GDP	% of national expenditure
GDP	124,162,000.0			131,276,000.0			142,975,000.0					
Total National Expenditure	32,576,866.0			36,603,698.0			34,497,444.0					
Ministry of Health	2,888,090.4	2.33	8.87	2,880,574.6	2.19	7.87	2,668,153.0	1.87	7.73	-212,421.6	-0.33	-0.14
Ministry of Education, Youth, and Sport	3,382,658.2	2.72	10.38	3,730,157.0	2.84	10.19	4,051,781.0	2.83	11.75	321,624.0	-0.01	1.55
Ministry of Social Affairs, Veterans, and Youth Rehabilitation	1,426,095.0	1.15	4.38	1,468,855.0	1.12	4.01	2,314,645.0	1.62	6.71	845,790.0	0.5	2.70

Source: Annual budget Law from 2018-2024

- In addition to the Ministry of Social Affairs, Veterans, and Youth Rehabilitation, several key ministries play pivotal roles in formulating and executing social protection policies in Cambodia. They include the Ministry of Health, the Ministry of Planning, the Ministry of Education, Youth, and Sport, the Ministry of Economy and Finance and the Ministry of Labour and Vocational Training.

### Recommendations

- To promote inclusive and sustainable development, the government should prioritize robust funding for the crucial sectors of education, health, and social affairs. This entails increasing budget allocations to these sectors while simultaneously focusing on enhancing the quality of service delivery. With the limited budget allocation in health, the government should encourage the health centre chief and commune chief to work together on Commune Investment Plan in order to allocate budget to support health centre in the local for improving services as well as health facilities.
- Effective mobilization of human resources, particularly in rural areas, is essential to address geographic disparities and ensure equitable access to quality education, healthcare, and social support services. Capacity-building programs that emphasize integrity, accountability, and moral values should be integrated into these initiatives to foster a culture of ethical governance and responsible service delivery.

#### For Education

- The Royal Government of Cambodia should commit to gradually allocating 20% of national government expenditure for education, as pledged in 2021. Simultaneously, efforts should be made to reduce the quality disparity between private and public schools across the country. The budget increase should be invested toward improving the quality of education (both in learning and teaching quality), especially in nine-year fundamental education. The children should have access to good schools namely 'model schools' within their reach, thus the RGC should invest in the support of the schools in rural areas to become 'model schools'.
- The government must adhere to its commitment to ensuring that all children receive a nine-year fundamental education, with additional support for poor students, children with disabilities, and vulnerable children, particularly in the post-Covid-19 period.
- Allocate part of the budget for school renovation and equip schools with necessary infrastructure and technology to create a friendlier and better learning environment for students.

- ▶ Invest more in the training of in-service teachers by promoting the use of Continuous Professional Development (CPD) system at school level and school principals before deployment and strengthen the capacity of existing teachers and principals to meet 21st-century standards.
- ▶ Facilitate inclusive partnerships and resource mobilization from stakeholders, including civil society organizations, the private sector, and communities, to implement necessary strategies and plans for strengthening the quality and investment in the education sector.
- ▶ Promote public awareness of the transferring of functions to ensure community understanding and transparency. During the transition period, relevant stakeholders or institutions should provide additional support to subnational administrations in technical aspects related to these functions.

### For social Protection

- ▶ The government should expand the scope and equity of social protection policies to encompass vulnerable groups such as those working in the informal economy, the elderly, people with disabilities, and indigenous communities. These policies should also prioritize income security for youth, migrant workers, and the unemployed. Additionally, the government should extend social protection coverage to micro-small and medium-sized enterprises (MSMEs) and smallholder farmers in sectors such as rubber, sugarcane, banana, and other agricultural fields. Mandating business owners to comply, through a stronger enforcement amongst NSSF officials and subnational governments, with the National Social Security Fund (NSSF)'s scheme for workers will ensure that these individuals can benefit from essential social protection measures.
- ▶ The Royal Government of Cambodia, through the Ministry of Economy and Finance, should consider allocating 5.1% of GDP to social protection sector as per the global recommendation for lower-middle income country.
- ▶ Ministry of Social Affairs, Veterans and Youth Rehabilitation should allocate more budget for the social security system for veterans and their families to improve the well-being and economy of veterans, the elderly and persons with disabilities. In addition, we would like the Ministry to review the implementation of the pension policy for the elderly and the establishment of a nursing home to support and promote the rights of the elderly people in Cambodia.
- ▶ The National Social Protection Council and the National Social Security Fund should increase the budget allocation for healthcare package for NSSF card holders, so that it can strengthen the quality and efficiency of healthcare services, allow earlier diagnostic and prevention, and increase public trust and recognition during the hospitalisation of working accident, health check-up, and treatments.
- ▶ The National Social Protection Council and National Social Security Fund should expand the coverage and equal benefits of social security schemes for small-scale farmers, entertainment service workers, workers in Informal economy, fisheries communities and indigenous workers, etc., by piloting a contributory and government's subsidy contributory fee to ensure the sustainability and inclusiveness of social protection policies and schemes.
- ▶ Legally the mandatory release of financial and auditing reports of the National Social Security Fund and the National Social Assistance Fund to the public, researchers, and CSOs to ensure transparency and accountability of funding management, expenditures, and redistribution.

### **Budget execution in account code 62028 for social assistance to people**

- ▶ Government's national expenditure classification: 1) goods and services, 2) financial charges, 3) public intervention, and 4) other expenditures.
- ▶ In 2023 fiscal year, the public intervention was allocated about 29% of USD 5,126 million of national current expenditure. 21% of budget for public intervention was designated as social assistance to citizen (6202). Under account 6202, a subcategory labelled 62028, denoted as "other support," received a budget share of approximately USD 163 million, accounting for 52% of the entire account.
- ▶ The funds of USD 163 million from the sub account were dispersed among various central government ministries or state institutions, some of which were not obligated to implement the social protection program:
  - the Office of the Council of Ministers: 13.13%
  - the State Secretariat of Civil Aviation: 1.60%
  - the Senate: 0.64%

Million KHR

Total Expenditure by Central Ministries or Institutions in 2023: Other social assistance to People (62028)	Amount	%
		624,371.10
The Senate	4,000.00	0.64
Office of the Council of Ministers	82,000.00	13.13
State Secretariat of Civil Aviation	10,000.00	1.60
Ministry of Interior_General Administration	1,160.00	0.19
Ministry of Foreign Affairs and International Cooperation	2,300.00	0.37
Ministry of Economy and Finance	120.00	0.02
Ministry of Information	250.00	0.04
Ministry of Health	516,000.00	82.64
Ministry of Education, Youth, and Sport	2,804.00	0.45
Ministry of Culture and Fine Art	497.00	0.08
Ministry of Environment	730.00	0.12
Ministry of Social Affairs, Veterans and Youth Rehabilitation	1,900.00	0.30
Ministry of Justice	2,600.00	0.42
The Supreme Court	10.00	0.00

Source: National revenue and expenditure 2023, General Department of Budget

### Recommendation

It is crucial for the government to ensure transparent and accountable utilization of this budget. Civil Society Organizations (CSOs) appreciate the commendable initiative taken by the government to boost public investments in the social sector. However, it is imperative to guarantee both the effectiveness and accountability of the budget's implementation. Additionally, it is essential for the mandatory ministries or institutions to directly manage this budget. This not only improves accountability but also allows the government to economize on operational costs associated with budget execution by non-related social protection ministries or institutions.

### Oversight Bodies

Million KHR

Description	The Budget Size of Oversight Bodies										Change in %						
	2019		2020		2021		2022		2023		2024		2020	2021	2022	2023	2024
Subtotal of national expenditure	25,765,028.0	%	31,095,855.0	%	30,491,336.0	%	32,576,866.0	%	36,603,698.0	%	34,497,444.0	%					
National Assembly	183,783.0	0.71%	193,937.0	0.62%	162,699.0	0.53%	200,586.0	0.62%	211,120.0	0.58%	219,313.0	0.64%	5.52%	-16.11%	23.29%	5.25%	3.88%
Senate	87,233.0	0.34%	87,309.0	0.28%	76,052.0	0.25%	69,866.0	0.21%	74,021.0	0.20%	86,003.0	0.25%	0.09%	-12.89%	-8.13%	5.95%	16.19%
National Authority of Audit	14,905.0	0.06%	14,986.0	0.05%	12,948.0	0.04%	12,310.0	0.04%	13,837.0	0.04%	15,313.0	0.04%	0.54%	-13.60%	-4.93%	12.40%	10.67%
Anti-corruption Unit	46,536.4	0.18%	50,815.0	0.16%	42,549.0	0.14%	41,872.0	0.13%	48,442.0	0.13%	52,549.0	0.15%	9.19%	-16.27%	-1.59%	15.69%	8.48%

Source: Annual Budget Law 2019-2024

- ▶ Oversight bodies including both legislature branches and the national audit offices, financial inspecting Office and the anti-corruption Institution are given the mandate to oversee and ensure transparency and accountability in the usage of the state's budget.
- ▶ The Open Budget Survey (OBS) conducted by the International Budget Partnership revealed that Cambodia's oversight function remains weak. In 2021, Cambodia received only 41/100 on the oversight of budget. The result also indicated that the legislature branches and supreme audit institution in Cambodia provide very limited oversight on all stages the budget process.

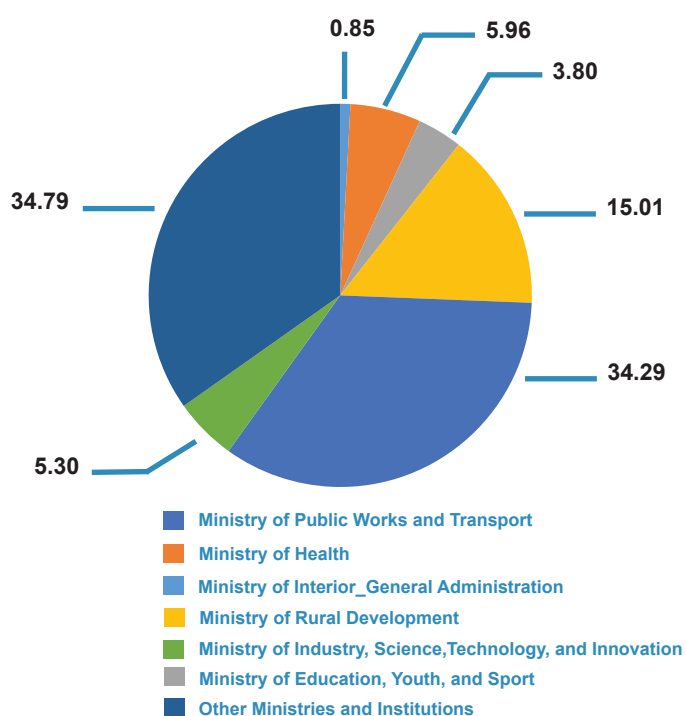
- ▶ It is crucial to ensure that the Legislature has access to the necessary financial, human, and logistical resources to carry out its functions effectively. The budget for legislatures is guaranteed in the Constitution, but no minimum amount is specified. The budget for the Legislature is included in the national budget, formally referred to as the Law on the Annual Finance for Management.
- ▶ A national budget allocated to the National Assembly has remained unchanged for several years, averaging 0.6% from 2019 to 2024. However, the growth rate has slowed from 3.88% in 2023 to 5.22% in 2024.
- ▶ The National Authority of Audit's share of the national budget is three times smaller than the Anti-Corruption Institution's. It has received only 0.06% to 0.04% of the national expenditure from 2019 to 2024. The budget size for 2024 increases by 10%, reaching USD 3.7 million.

### Recommendations

- ▶ The legislative branch plays a fundamental role in scrutinising and authorising public expenditure and revenue raising. CSO BWG would like to recommend a stronger and active engagement of the parliament across the full budget cycle. The oversight functions should be conducted throughout the entire budgetary process from the formulation to execution and monitoring of budget, rather than solely during the audit stage.
- ▶ In order to effectively support the parliament in making key informed decision, we recommend the legislative branch to establish the Parliament Budget Office, at the Senate and National Assembly, and allocate adequate budget for this office to function effectively.

## Usage of foreign loans on key public investments

### % of Public Investment with Foreign Loans by Ministries

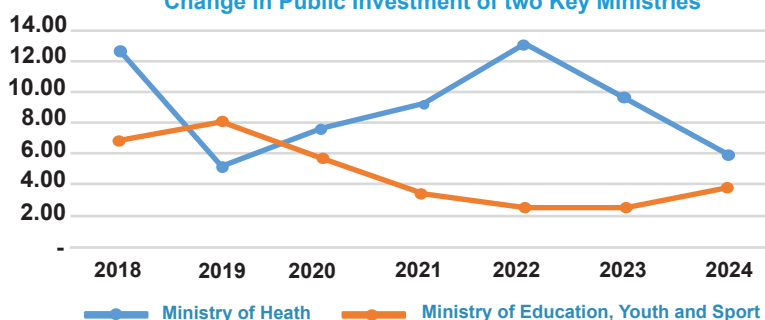


- ▶ Public investment budget from domestic financing in 2024 decreased by 39.1%.

In 2024, the government plans to spend USD 1,527 million from public investment projects, mobilising budget sources for external partners in the form of loans. The targeted ministries for the budget allocation are:

- ⦿ The Ministry of Public Works and Transportation (34.29%)
- ⦿ The Ministry of Rural Development (15.01%)
- ⦿ The Ministry of Mines and Energy (9.04%)
- ⦿ The Ministry of and water Resource and Meteorology (11.13%)
- ⦿ The Ministry of Industry, Science, Technology, and Innovation (5.30%)
- ⦿ The Ministry of Health (5.96%)
- ⦿ Ministry of Education Youth and Sport (3.8%)
- ⦿ The Ministry of Interior (0.85%)

### Change in Public Investment of two Key Ministries



Ministries State Institutions	Budget allocation in % of public Investment with foreign loans						
	Year 2018	Year 2019	Year 2020	Year 2021	Year 2022	Year 2023	Year 2024
National Assembly	0.00	0.00	0.00	0.00	0.46	0.32	0.52
Office of the Council of Ministers	3.19	2.59	1.67	1.74	1.73	1.71	0.05
Ministry of Inspection	0.00	0.02	0.02	0.05	0.02	0.04	N/A
Ministry of Economy and Finance	0.35	0.61	0.33	0.16	0.23	0.31	0.33
Ministry of Land Management, Urban Planning and Construction	0.25	0.53	0.02	0.49	0.52	1.40	1.31
Anti-Corruption Unit	0.02	0.01	0.01	N/A	N/A	N/A	N/A
Ministry of Civil Service	0.01	0.02	0.64	0.11	0.02	0.07	N/A
Ministry of Interior_General Administration	1.04	1.41	0.11	0.49	1.55	1.23	0.85
Ministry of Justice	0.20	0.13	0.36	0.13	0.12	0.13	N/A
Ministry of Information	0.09	0.05	7.71	0.12	0.08	0.15	N/A
Ministry of Health	12.62	5.17	5.71	9.28	13.09	9.52	5.96
Ministry of Education, Youth, and Sport	6.87	8.12	0.15	3.44	2.54	2.56	3.80
Ministry of Culture and Fine Art	0.01	0.20	0.15	0.15	0.10	0.13	N/A
Ministry of Environment	0.61	0.24	0.40	0.47	0.66	0.86	1.31
Ministry of Social Affairs, Veterans and Youth Rehabilitation	0.08	0.27	0.09	0.25	0.23	0.04	N/A
Ministry of Cults and Religious	0.01	N/A	N/A	N/A	N/A	N/A	N/A
Ministry of Women's Affairs	0.03	N/A	N/A	N/A	N/A	N/A	N/A
Ministry of Labour and Vocational Training	0.25	0.47	1.07	2.07	0.63	1.83	1.64
State Secretariat of Civil Aviation	0.19	0.37	0.66	0.31	0.00	0.13	N/A
Ministry of Mines and Energy	15.45	8.65	8.33	12.22	13.53	6.50	9.04
Ministry of Commerce	1.16	1.34	2.11	2.62	2.56	3.18	0.98
Ministry of Agriculture Forestry and Fisheries	3.11	3.48	5.35	7.13	3.32	5.98	5.50
Ministry of Rural Development	6.94	7.06	4.66	6.16	9.31	11.01	15.01
Ministry of Post and Telecommunications	0.44	0.39	0.76	3.34	0.30	3.35	2.62
Ministry of Public Works and Transport	33.71	39.50	38.47	31.80	32.16	32.96	34.29
Ministry of Tourism	0.74	1.19	1.02	0.79	0.43	0.49	0.36
Ministry of Water Resources and Meteorology	10.68	11.31	13.27	10.77	7.08	7.67	11.13
Ministry of Industry, Science, Technology and Innovation	1.95	6.88	6.75	5.92	9.34	8.41	5.30

Source: Annual Budget Laws from 2018-2024 and draft law 2024

### Recommendations

- ▶ Effective utilization of loans is paramount to ensuring their long-term benefits. Investment decisions should be made judiciously, prioritizing capital expenditures that yield sustainable returns and avoid white-elephant projects that lack economic viability and could push the country into a debt trap. Public sentiment underscores the need for allocating a reasonable portion of the budget to enhance social welfare and uplift marginalized groups, including women, children, and the elderly.
- ▶ The government should utilize loans strategically to generate long-term social and economic growth. Investing in critical infrastructure is essential to enhance Cambodia's economic connectivity and competitiveness by reducing logistics and production costs. Infrastructure development should encompass both national and sub-national levels, including commune-level projects such as transportation networks, water supply, electricity, and internet connectivity.
- ▶ A zero-tolerance policy for corruption is crucial in managing public funds, particularly in the context of public procurement. Effective oversight and independent audits of the budget are essential to safeguard against misappropriation and ensure transparency.

### Transparency and accountability in budget



- ▶ The government, acting on behalf of its citizens, makes crucial policy decisions regarding the management of national assets and public debt. The government bears an obligation to its citizens to discharge its duties in an accountable manner, ensuring the effective management of these resources and preventing unforeseeable crises related to debt and natural resource depletion.

- ▶ To foster public trust and accountability in the management of the state's budget and resources, the government must adhere to fundamental principles. It should ensure the timely release of all relevant budget documents and the engagement in meaningful consultations with key stakeholders and the public during the budget formulation, execution, and monitoring and evaluation phases.

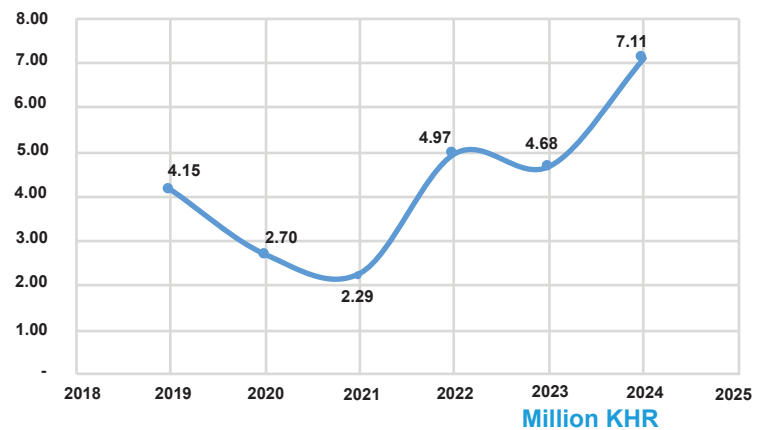
### Recommendation

To promote greater transparency and inclusivity in the budgeting process, the government should consider establishing an online platform that facilitates the collection and integration of public feedback into fiscal policy formulation and budget development.

### Unanticipated Fund (Reserve Funds)

- ▶ Unanticipated expenditures (reserved funds) are projected to rise to USD 603.75 million or 7.11% of total national expenditure, representing a 43% increase compared to 2023.
- ▶ In 2020 and 2021, these expenses were relatively moderate, at 2.70% and 2.29%, respectively. However, over the past three years, they have doubled, reaching 4.97% in 2022, 4.68% in 2023, and 7.11% in 2024
- ▶ It is essential that the government adheres to certain key conditions and ensures that this fund is properly managed and governed by sound financial procedures.

**% Change in Unanticipated Fund**



Description	Year 2018		Year 2019		Year 2020		Year 2021	
	Amount	%	Amount	%	Amount	%	Amount	%
Grand Total National Expenditure	23,428,298.00		25,765,028.00		31,095,855.00		30,491,336.00	
Unallocated Expenditure	4,289,435.00	18.31	5,006,459.00	19.43	8,592,575.00	27.63	10,322,966.00	33.86
Unanticipated Expenses	N/A	N/A	1,069,010.00	4.15	838,884.00	2.70	697,000.00	2.29

Description	Year 2022		Year 2023		Year 2024		Change in 2023-2024	
	Amount	%	Amount	%	Amount	%	Amount	%
Grand Total National Expenditure	32,576,866.00		36,603,698.00		34,497,444.00		-2,106,254.00	-5.75
Unallocated Expenditure	11,591,345.00	35.58	11,409,580.40	31.17	8,335,304.70	24.16	-3,074,275.70	-26.94
Unanticipated Expenses	1,618,264.00	4.97	1,713,847.00	4.68	2,454,267.00	7.11	740,420.00	43.20

Source: Annual Budget Laws from 2018-2024

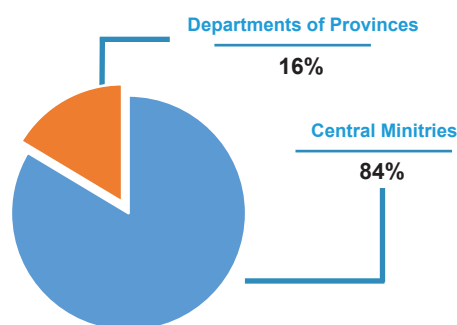
### Recommendations

- ▶ Cambodia consistently faces an annual budget deficit, making it imperative for the government to minimize this unforeseen expense to no more than 3% annually. This reduction is crucial to allocate more resources to vital sectors such as health, education, and social protection.
- ▶ To achieve this goal, strict adherence to key compliance measures is essential. This includes the rigorous application of relevant policies, such as financial and procurement policies, to prevent irregularities and corruption. Upholding the integrity of the fund necessitates independent audits and thorough scrutiny by oversight institutions, including parliament.
- ▶ In addition, the government should contemplate the establishment of binding regulations or conditions governing the use of the fund. This proactive step ensures responsible and accountable management of the budget, safeguarding against potential misuse and contributing to overall fiscal discipline.

## Operational Budget for Provincial Departments and Central Ministries

- Operational expenditure, inclusive of the current expenditure, is designed for both central ministries and provincial departments of ministries.
- A substantial 83.6% of operational expenditure is administered by central ministries, with only approximately 16.4% distributed among the provincial departments of each ministry.

### % of Operational Cost



- Provincial departments ministries, expected to play a crucial role in providing public services to the people and fostering economic growth, received allocations smaller than their central ministry counterparts, are:
  - the Ministry of Labour and Vocational Training,
  - the Ministry of Agriculture Forestry and Fisheries,
  - the Ministry of Rural Development,
  - the Ministry of Public Works and Transportation,
  - the Ministry of Tourism,
  - the Ministry of Water Resource and Meteorology

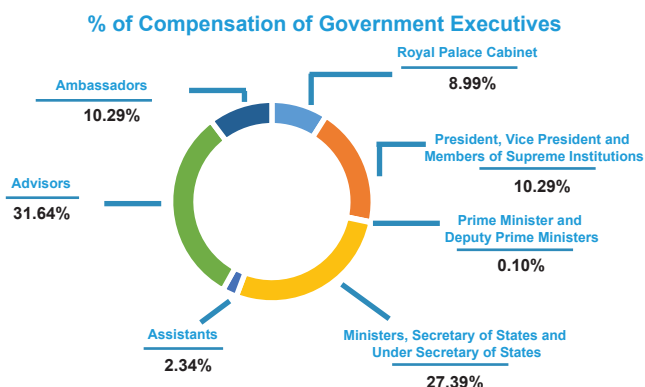
Million KHR

% Shared of Operational Budget of Ministry at Central Vs at Provincial Departments in 2024					
Description	Amount	%	Description	Amount	%
Total	3433659.9		Ministry of Cult and Religion	19039.8	
Total for all Central Ministries	2871210.6	83.6	Central Ministry	8438.0	44.3
Total for Provincial Departments of all Ministries	562449.3	16.4	Provincial Departments	10601.8	55.7
Ministry of Inspection	22451.0		Ministry of Women's Affairs	23883.0	
Central Ministry	10498.0	46.8	Central Ministry	98910.0	41.4
Provincial Departments	11953.0	53.2	Provincial Departments	13992.0	58.6
Ministry of Economy and Finance	179669.5		Ministry of Labour and Vocational Training	98885.0	
Central Ministry	161507.5	89.9	Central Ministry	81423.8	82.3
Provincial Departments	18162.0	10.1	Provincial Departments	17461.2	17.7
Ministry of Planning	25780.0		Ministry of Mine and Energy	28119.0	
Central Ministry	12940.0	50.2	Central Ministry	15500.0	55.1
Provincial Departments	12840.0	49.8	Provincial Departments	12619.0	44.9
Ministry of Land Management, Urban Planning and Construction	30602.0		Ministry of Commerce	49745.0	
Central Ministry	17835.0	58	Central Ministry	36207.0	72.8
Provincial Departments	12767.0	42	Provincial Departments	13538.0	27.2
Ministry of Public Service	22283.0		Ministry of Agriculture Forestry and Fisheries	99576.2	
Central Ministry	8985.0	40.3	Central Ministry	63619.2	63.9
Provincial Departments	13298.0	59.7	Provincial Departments	35957.0	36.1
Ministry of Justice	85374.0		Ministry of Rural Development	172522.0	
Provincial Departments	44967.0	53	Central Ministry	140288.0	81.3
Ministry of Information	37008.0		Provincial Departments	32234.0	18.7
Central Ministry	23554.0	63.6	Ministry of Post and Telecommunications	82035.0	
Provincial Departments	13454.0	36.4	Central Ministry	70218.0	85.6
Ministry of Healths	170971.0		Provincial Departments	11817.0	14.4
Central Ministry	163040.0	95	Ministry of Public Works and transport	355758.0	
Ministry of Education, Youth and Sport	326312.9		Central Ministry	336347.0	94.5
Provincial Departments	166130.3	51	Provincial Departments	19411.0	5.5
Ministry of Culture and Fine Art	29656.2		Ministry of Tourism	35112.0	
Central Ministry	16111.2	54	Central Ministry	22725.0	64.7
Provincial Departments	13545.0	46	Provincial Departments	12387.0	35.3
Ministry of Environment	31996.0		Ministry of Water Resources and Meteorology	132411.0	
Central Ministry	17935.0	56.1	Central Ministry	109324.0	82.6
Provincial Departments	14061.0	43.9	Provincial Departments	23087.0	17.4
Ministry of Social Affairs, Veterans and Youth Rehabilitation	33553		Ministry of Industry, Science, Technology and Innovation	30897.0	
Central Ministry	15559.0	46	Central Ministry	18655.0	60.4
Provincial Departments	17994.0	54	Provincial Departments	12242.0	39.6

Source: Annual Budget Laws 2024

## Budget for Compensation of Government Executives (6401)

- ▶ The allocation of compensation budgets raises concerns regarding the utilization of national budget expenditure for compensating government executives (6401), which falls under the category of staff costs.
- ▶ The budget size in 2023 is approximately USD 56.72 million. It indicates a significant increase in compensation.



Compensation of Government Executive	Amount in Million KHR					Change in %			
	2019	2020	2021	2022	2023	2020	2021	2022	2023
Royal Palace Cabinet	170,932.5	189,445.1	211,589.7	217,458.4	226,911.2	11%	12%	3%	4%
President, Vice President and Members of Supreme Institutions	16,800.0	19,200.0	19,200.0	19,200.0	20,400.0	14%	0%	0%	6%
Prime Minister and Deputy Prime Ministers	42,163.1	41,896.2	41,958.3	43,670.1	43,670.4	-1%	0%	4%	0%
Ministers, Secretary of States and Vice Secretary of States	216.0	408.0	216.0	216.0	210.0	89%	-47%	0%	0%
Ambassadors	38,672.9	48,470.2	53,538.4	57,392.7	62,154.6	25%	10%	7%	8%
Advisors	4,329.0	5,106.0	5,148.0	5,148.0	5,320.0	18%	1%	0%	3%
Assistants	51,067.9	56,181.9	70,072.1	69,968.1	71,790.9	10%	25%	0%	3%
Assistants	17,683.6	18,182.8	21,456.9	21,863.5	23,359.3	3%	18%	2%	7%

Source: National Expenditure 2010-2023

- ▶ In 2023 68% of the compensation budget (6401) was entirely allocated to these three categories (27% for ministers, secretaries of states, and under-secretaries of states, 31% for advisors, and 10% for assistants)
- ▶ The Ministry of Defense, in 2023, emerged as the highest spender on the compensation budget for ministers, secretaries of states, and under-secretaries of states, while the Ministry of Interior and the Council of Minister Office and the National Assembly were the top spenders on advisors and assistants.

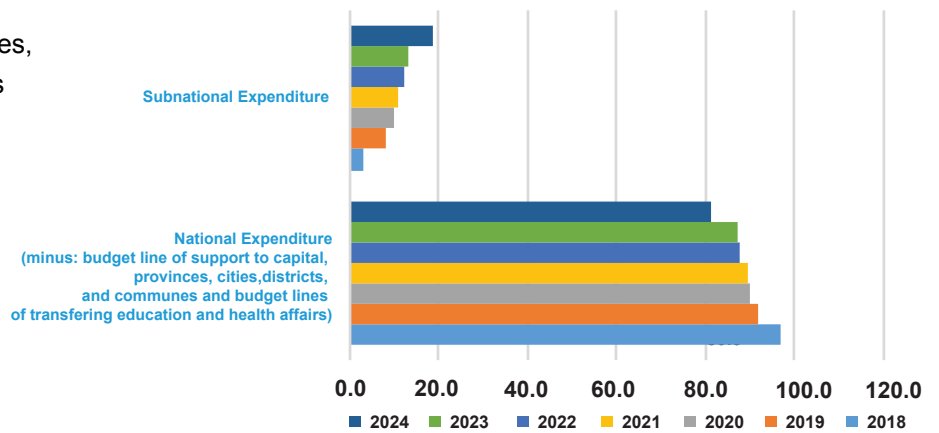
Compensation of government Executives (Million KHR)						
Description	Ministers, Secretary of States and Under Secretary of States (64014)		Advisors (64016)		Assistants (64018)	
	Amount	%	Amount	%	Amount	%
<b>Total Budget</b>	<b>62,154.6</b>		<b>71,790.9</b>		<b>23,359.3</b>	
Province		0.00%	29.3	0.04%		0.00%
01-The Royal Palace	598.0	0.96%	6,402.0	8.92%	610.0	2.61%
02-The National Assembly	386.0	0.62%	8,230.3	11.46%	4,920.2	21.06%
03-The Senate	355.0	0.57%	2,116.0	2.95%	218.0	0.93%
04-The Constitutional Council	235.0	0.38%	612.0	0.85%	281.0	1.20%
05.1-Office of the Council Ministers	4,317.6	6.95%	13,230.4	18.43%	7,339.9	31.42%
05.3-State Secretariat of Civil Aviation	765.6	1.23%	360.4	0.50%	219.6	0.94%
06-Ministry of National Defense	13,825.0	22.24%		0.00%		0.00%
07.1-Ministry of Interior of Pubic Security	1,873.3	3.01%	4,673.6	6.51%		0.00%
07.2-Ministry of Interior of General Administration	1,608.0	2.59%	13,283.9	18.50%	820.4	3.51%
08-Ministry of National Assembly-Senate Relations and Inspection	1,041.6	1.68%	1,132.2	1.58%	670.3	2.87%
09-Ministry of Foreign Affairs and International Cooperation	890.4	1.43%	242.6	0.34%	86.0	0.37%
10-Ministry of Economy and Finance	1,821.6	2.93%	607.2	0.85%	167.3	0.72%
11-Ministry of Information	2,317.6	3.73%	5,444.9	7.58%	79.6	0.34%
12-Ministry of Health	2,167.2	3.49%	948.0	1.32%	49.2	0.21%
13-Ministry of Mines and Energy	1,328.4	2.14%	184.4	0.26%	146.5	0.63%
14-Ministry of Planning	1,172.4	1.89%	2,059.2	2.87%	1,053.4	4.51%
15-Ministry of Commerce	1,581.6	2.54%	729.3	1.02%	479.6	2.05%
16.1-Ministry of Education Youth and Sports	1,303.2	2.10%	1,102.8	1.54%	173.6	0.74%
17-Ministry of Agriculture Forestry and Fisheries	1,776.0	2.86%	761.5	1.06%	303.6	1.30%
18-Ministry of Culture and Fine Art	950.5	1.53%	547.6	0.76%	689.0	2.95%
19-Ministry of Environment	1,206.0	1.94%	297.6	0.41%	973.3	4.17%
20-Ministry of Rural Development	1,414.6	2.28%	677.0	0.94%	175.0	0.75%
21-Ministry of Social Affairs, Veterans, and Youth Rehabilitation	1,603.6	2.58%	1,035.3	1.44%	118.1	0.51%
22-Ministry of Post and Telecommunication	1,588.8	2.56%	449.8	0.63%	569.9	2.44%
23-Ministry of Cults and Religions	1,311.6	2.11%	394.0	0.55%	151.7	0.65%
24-Ministry of Women Affairs	968.8	1.56%	245.7	0.34%	1.7	0.01%
25-Ministry of Public Works and Transport	2,071.2	3.33%	454.8	0.63%	670.8	2.87%
26.1-Ministry of Justice	757.9	1.22%	301.4	0.42%	653.6	2.80%
26.2-The Supreme Court	14.4	0.02%		0.00%		0.00%
26.4-The Supreme Council of Magistracy	162.0	0.26%		0.00%		0.00%
27-Ministry of Tourism	1,672.8	2.69%	795.6	1.11%	529.2	2.27%
28-Ministry of Land Management, Urban Planning and Construction	1,188.0	1.91%	460.8	0.64%	326.4	1.40%
29-Ministry of Water Resources and Meteorology	996.0	1.60%	262.8	0.37%	51.6	0.22%
31-National Audit Authority	819.0	1.32%	108.9	0.15%		0.00%
32-Ministry of Labour and Vocational Training	1,627.6	2.62%	2,876.2	4.01%	178.8	0.77%
33-Anti-Corruption Institution	1,684.3	2.71%		0.00%	255.9	1.10%
34-Ministry of Public Works	1,370.4	2.20%	338.4	0.47%	43.2	0.18%
35-Ministry of Industry, Science, Technology and Innovation	1,383.6	2.23%	395.0	0.55%	352.9	1.51%



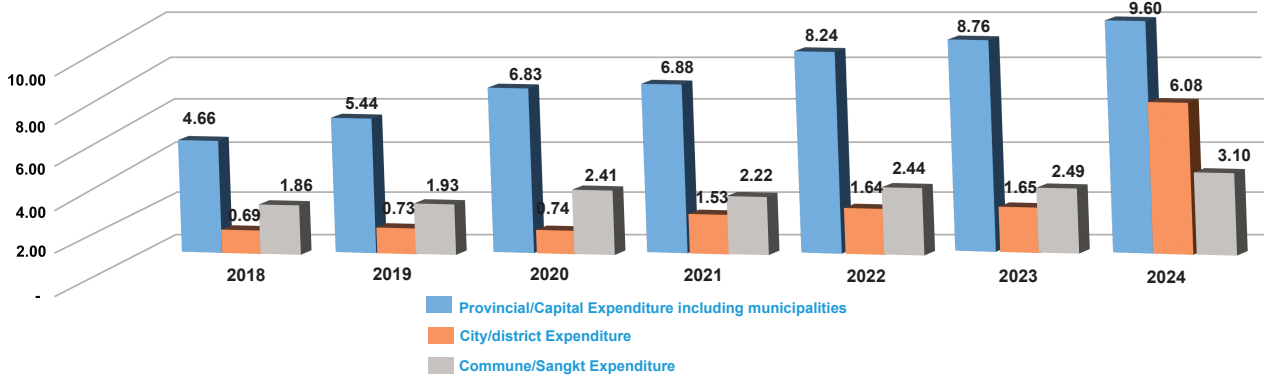
## Subnational Administrations Expenditure

- ▶ The budget allocation for sub-national governments including capital cities/provinces, municipalities/khan/districts, and communes administration has seen a steady increase, rising from 13% in 2023 to 19% in 2024.
- ▶ But the percentage share of allocation remains notably low compared to the central government's expenditure, which accounts for 81%.

% of National Expenditure Vs. Subnational Expenditure



% of Expenditure for Provincial, District, and Commune/Sangkat Administration in 2024



## Recommendations

- ▶ The Royal Government should augment the budget share allocated to subnational administrations, increasing it to 30% of the government's expenditure annually. Within this allocation, 10% should be designated for cities, districts, and Khans, while an additional 10% should be allocated to Communes/Sangkats. This adjustment aims to empower these entities in fulfilling their mandatory tasks more effectively and alleviating shortfalls in expenditure for administrative operations and new functions.
- ▶ The Royal Government should monitor and evaluate effectively the enforcement of sub-degree 152 & 153 demonstrating commune and district administrations to allocate budget to social affairs, natural resources, environment, and climate change adaptation.
- ▶ The government should allocate a greater budget for sub-national offices, concurrently enhancing their capacity to manage and execute budgets more effectively through tailored capacity-building programs. These programs should encompass the budget management cycle, monitoring, evaluation, and learning (MEL), along with internal auditing.
- ▶ The Royal Government should institute and implement an internal control system and internal audit system for sub-national administrations. Simultaneously, it should ensure the full and effective functioning of the oversight role of sub-national administrative councils in monitoring the progress of budget execution.
- ▶ The Royal Government should actively encourage citizen participation and awareness in the budget formulation process, aiming to foster people's ownership of their local development plans.
- ▶ The Royal Government should promote transparency and increase public participation in both the formulation and monitoring of budget execution.



## Structure of the Budget Document

- ▶ A comprehensive report on the outcomes of budget implementation of each fiscal year should be constructed in format that is consistent to and comparable with the budget proposal.

- ▶ The structure or budget accounts of the annual budget settlement law differs from that of the annual budget law. The expenditure presented in Table B of the national budget law is categorized into six divisions for current expenditure, whereas the budget settlement law organizes expenditure in chapter format.
- ▶ The figures are expressed in different currency scales in these laws.
- ▶ The absence of a budget line indicating the state's expenditure, unless recalculated, presents challenges for verification and comparability, especially considering the succinct presentation in the budget in brief.

### Recommendation

The Royal Government, particularly the Ministry of Economy and Finance, should enhance public understanding of the public budget and its execution transparency by establishing a standardized framework and format for both laws, facilitating verification and review.



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