



EQUITABLE GROWTH, FINANCE & INSTITUTIONS NOTES

GovTech Case Studies: Solutions that Work

Cambodia: Maximizing the Benefits of FMIS

Simple, Efficient, and Transparent Government Systems

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Introduction

The implementation of the Financial Management Information System (FMIS), and attention to continuous improvement in business processes and change management, contributed to more-timely financial processing, which indirectly contributed to the improvement of public services. In Cambodia, the FMIS was successfully implemented and became operational in the central offices of the Ministry of Economy and Finance (MEF) and all 25 provincial treasuries, with over 500 users of the system. It also became the system of record in 2017 under the World Bank-funded Public Financial Management (PFM) Modernization Project (2013-2017).¹ The immediate benefit of having a functioning FMIS in place was more accurate financial data. Reaping the full benefits of the FMIS requires continuous attention to the improvement of business processes, managing change, and using the data for policy-making. Following the end of the project, the Bank continued to provide technical support to the government on business process improvement and change management, and contributed to the adoption of a change management strategy and a business process improvement action plan in early 2020. The government's strong ownership of this strategy and action plan resulted in step-by-step improvement in the timeliness of transaction processing, including utility payments and civil servants' payroll payments.

1. FMIS became the only system used by provincial treasuries and central offices of Ministry of Economy and Finance to process financial transactions. Spending ministries at the center and spending departments in the provinces submit their transactions to the central treasury or the corresponding provincial treasuries for processing. The web-based portal provides easier access to financial information to the spending ministries and departments. In addition, the data center for FMIS has been upgraded and integration capacity increased with more commercial banks and revenue recording systems within MEF, including the Non-tax Revenue Management Information System.

Problems and Objectives

Cambodia's FMIS experience reflects the challenges found in various countries in the world, including procurement difficulties, long period of implementation, technically demanding preparation, and adaptive challenges. The FMIS was adopted as a solution to Cambodia's PFM challenges under the Public Financial Management Reform Program. The FMIS investment was costly and underwent a rather long journey. The procurement process took about two years. It was stalled during its first bidding process in late 2011 due to increased cost, requiring a rethinking of the scope of the system and sequencing the implementation. Actual implementation began in 2013 with a system of smaller scope than initially envisioned. Initially, the FMIS was to be installed in the MEF and across all ministries in a single implementation phase. But the scope was found to be too ambitious and after the failed procurement, a new phased plan emerged. The first phase (2013-2017) included the implementation of core treasury and budget execution functions – Budget Allocation, Purchase Order, Accounts Payable, Accounts Receivable, Cash Management, and General Ledger functions – for central offices of the MEF and all provincial treasuries.² The second phase involved expansion of the basic functions to all line ministries (LMs), and this phase was implemented by the government, with technical assistance from various development partners including the Bank. By 2021, the FMIS had been rolled out to all LMs, Authorized Budget Entities, and the Provincial Departments of Economy and Finance. Expansion to include additional modules including budget preparation and asset management was also planned.

The required technology is now in place, but the long journey toward continuous efficiency improvement in PFM is just beginning. The implementation of the FMIS aims to facilitate the budget execution processes, strengthen accountability through improved reporting, and serve as the backbone for effective public expenditure management. But there are still two main challenges to realizing the FMIS's full benefit as a system that is equipped with embedded controls and which facilitates timely financial transactions and reporting. First, the fund flow to front-line service delivery units and transaction processing continues to experience delays due to a lengthy approval process. The FMIS-related processes were configured with “add” (a request function) and “confirm” (an approval step) within the existing business processes. Even though some processes covered by the FMIS within the MEF were streamlined during the first phase, this is not yet systematic.³ Second, the FMIS budgetary coverage is quite high, but a more granular assessment of the expenditure transactions ecosystem reveals an interesting profile: although the national level captures 62.9 percent of the total expenditure, it only covers 8.7 percent of all payment transactions. Since only 15 percent of central expenditure's financial transactions were below \$2,500, the FMIS was mainly used for drawing out advances from Treasury which were then processed off-line. In other words, a large part of the recurrent budget of the line agency was spent without using the ex-ante controls within the system.⁴

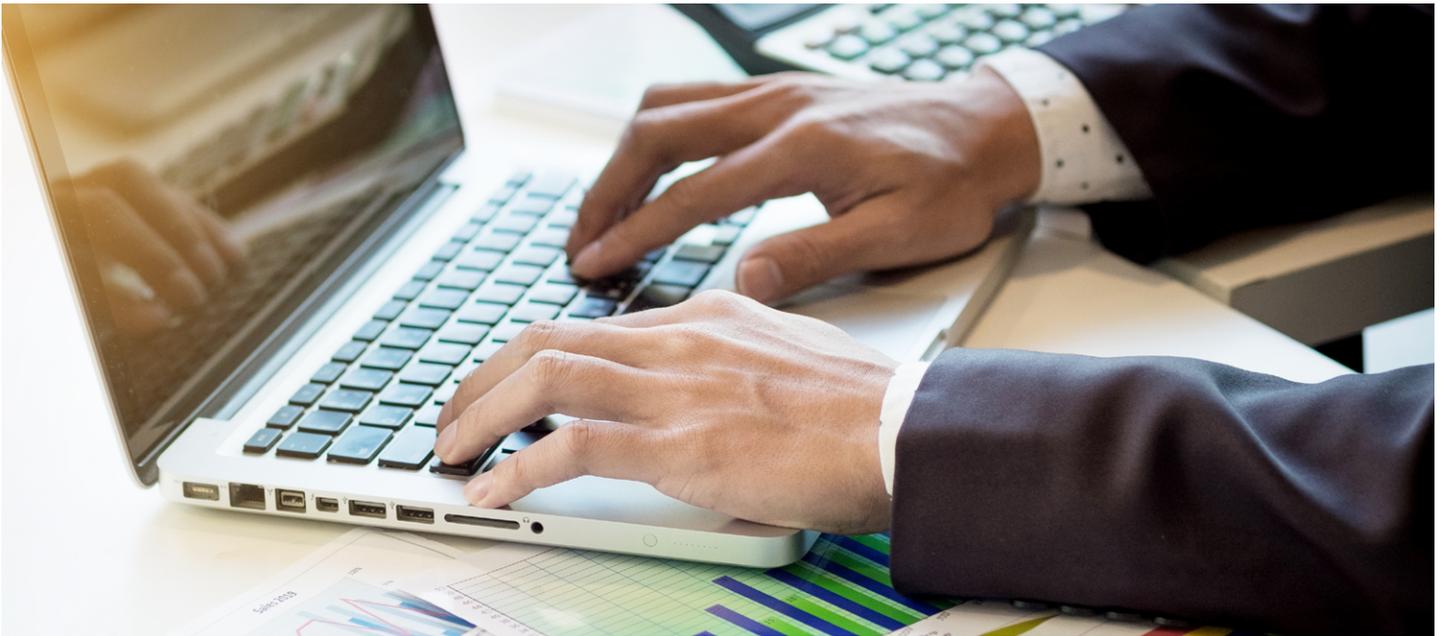
To address these challenges, the World Bank provided technical assistance to enhance business process streamlining and facilitate change management throughout the duration of the project, and continued to do so as the government entered the second phase.⁵

2. The central offices of MEF using FMIS are: General Budget Department, General Department of the National Treasury, General Department of Public Procurement, General Department of Sub-National Administration Finance, General Department of International Cooperation and Debt Management, General Department of Internal Audit, General Inspection Directorate and Information Technology Department.

3. While efforts have been made to improve business processes at MEF, in which about 25 percent of FMIS workflow has been reduced, more remains to be done at LMs.

4. This was confirmed by analyzing the frequency distribution of the project, program, and petty cash advances. It was found that the total amounts involved could be as high as 90 percent of the recurrent budget. Further, since the expenditure is allocated to a particular program, sub-program, or activity only at the time the advance is settled, the expenditure reports from FMIS do not reflect the full expenditure at these levels before the advances have been settled.

5. Earlier technical support for business process and change management was provided by the World Bank under previous programmatic Advisory Services and Analytics (ASA) and implemented under the PFM Modernization Project, which ended in 2017. At present, technical assistance continues under the Programmatic Advisory Services and Analytics: Cambodia Strengthening PFM & Public Sector Performance for Improved Public Service Delivery Project (P168407), funded by the Multi-Donor Trust Fund on PFM and Service Delivery, with contribution from Australia and the European Union.



Solutions and Approaches

The business process challenge was well understood among the government counterparts. However, streamlining processes creates uncertainty among concerned stakeholders, particularly those who are directly impacted by the change. Therefore, it was necessary to focus on a strategy for change management and to provide adequate resources for change management. Additionally, a gradual approach was followed to ensure successful transition and to minimize the stakeholders' resistance. The Bank's technical advice on business process and change management contributed to the government's adoption of a change management strategy and a business process streamlining plan (BPSP) early in 2020.

The BPSP introduced a sequencing for implementation, starting with low risk transactions and gradually moving toward medium risk and more sensitive transactions. A pool of direct payment business processes that could be streamlined has been identified: (a) basic salary for civil servants and contractual officers; (b) maternity leave benefits, cash for contractual foreign agents, electricity, clean water, rubbish collection, post and telecom payment, pension, orphan benefits, domestic scholarships and a few others; and (c) payment for mission travels within ASEAN⁶ countries; and (d) typical commitment expenses, procurement, advanced payment, and procurement settlement. The process streamlining follows simple principles:

- Low risk transactions: 1 Add (request) + 1 Confirm (Approve). All transactions outside of FMIS processes shall be removed.
- Medium risk transactions: 1 Add + 1 Review + 1 confirm for medium risk transactions
- High risk transaction: 1 Add + 2 Reviews + 1 Approve for high risk transactions

The principles aim to: (i) reduce paper trails outside the system, (ii) reduce number of 'checking, reviewing, and ticking' outside the system, (iii) triage the number of steps in the system according to risk level of transactions; and (iv) set standard approval times for each step in the system. To ensure faster adoption and implementation of BPSP by other ministries, the MEF has taken the lead in process streamlining efforts, and this has provided a good example to other government ministries and agencies.

6. ASEAN is the Association of Southeast Asian Nations, an economic union comprising 10 member states in Southeast Asia, which promotes intergovernmental cooperation and facilitates economic, political, security, military, educational, and sociocultural integration between its members and other countries in Asia.

The business process improvement was rolled out in phases. The first phase involved streamlining only the payroll and low risk transactions, starting with the MEF in the first half of 2020. Seven additional ministries began to introduce the same streamlining processes in August 2020. An additional 19 ministries were introduced to the new processes from April 2021. For a complete list of ministries, please see Annex 1.

Process streamlining was also accompanied by adequate support to change management. The change management strategy outlined key activities to guide and facilitate the changes that should accompany the implementation of FMIS among stakeholders at the central offices of MEF and at LMs, including building the case for change; undertaking stakeholder analysis and stakeholder mapping; a plan for stakeholder engagement; monitoring, evaluation, and change sustainability; and a risk management plan.

DIGITAL SOLUTIONS

The application software of FMIS is the Oracle PeopleSoft Financials that is a commercial off-the-shelf package and centralized web-based application. The source code belongs to the developer, but the FMIS Project Management Working Group in MEF is able to further develop and customize the existing COTS.

The cost of the first phase which involved six modules covering 500 users in the national treasury, central offices of MEF, and all provincial treasuries, was approximately \$15 million for software and deployment – of which \$9.4 million for was the FMIS supplier contract – and including change management. The second phase of the FMIS implementation, which involved expansion of the modules to 1,162 users in 37 LMs, their authorized budget entities, and the provincial departments of Economy and Finance cost about \$23.4 million. The proposed third phase, which includes an FMIS web portal and additional modules – budget preparation, procurement, the asset management module, and inventory management – was approved recently with a budget of \$42 million.

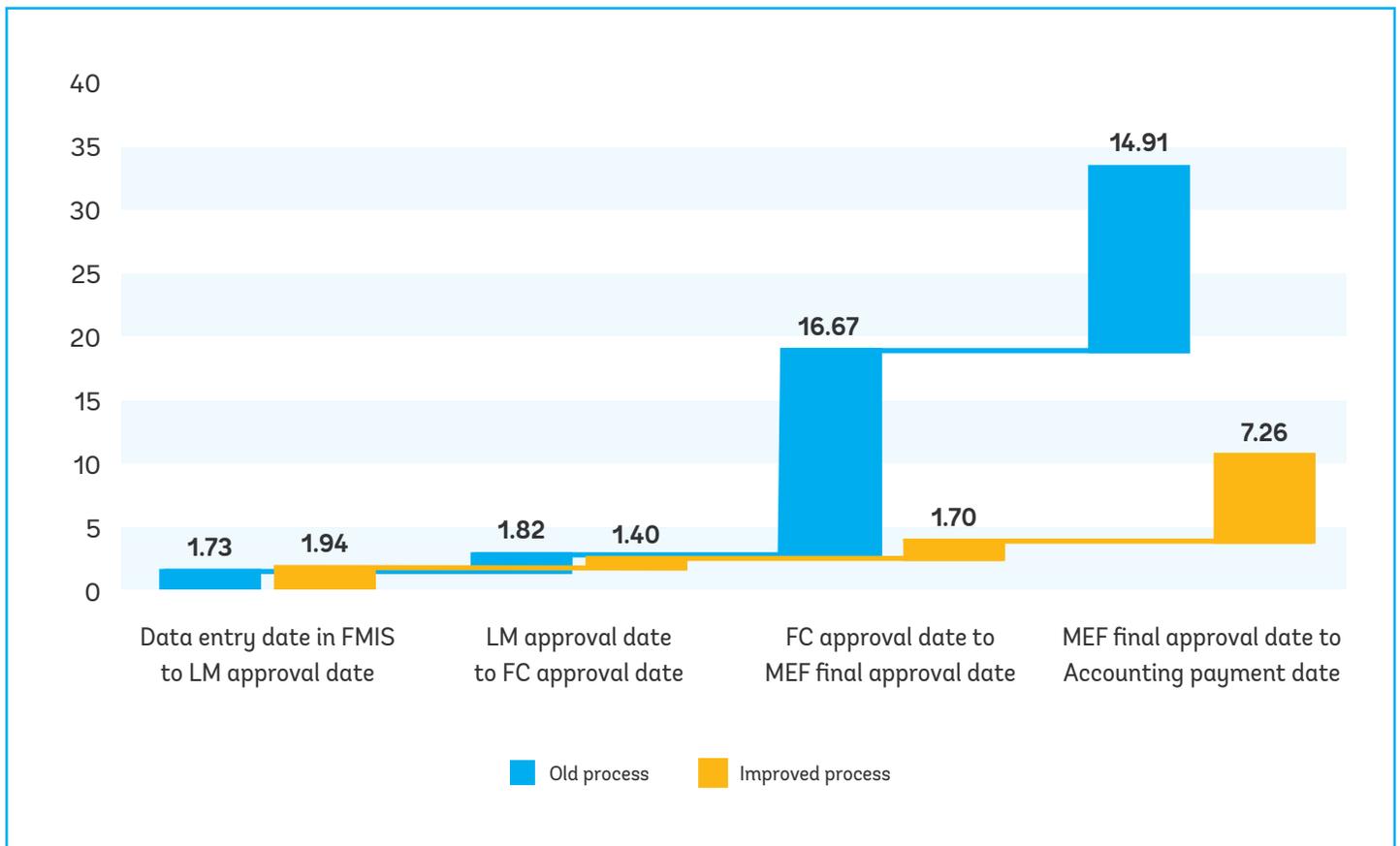
During the first phase, the PFM Modernization Project was financed by a Recipient-Executed trust fund, and technical support was provided through Bank-Executed trust funded activities. The trust fund was financed by Australia, Sweden, and European Union. Since the end of the project in late 2017, the government has continued the implementation of the FMIS, and technical support has continued to be provided through Bank-Executed Activities only, under a new trust fund with contribution from Australia and European Union.

Results

The plan to gradually improve business processes enabled steady and credible progress toward efficiency enhancement. The effort to streamline business process has been a long and complex undertaking beginning with mapping existing processes, starting dialogue with different stakeholders, and configuring the FMIS processes, most of which were done during the early stage of the FMIS implementation. However, during the first phase, there was not a substantial streamlining of the business processes. The FMIS processes were configured as add (request) and confirm (approved) while existing processes took place in parallel. Credible streamlining of processes took place after the government adopted the BPSP in 2020 requiring different LMs to improve their processes following the principles outlined by the BPSP. As a leader in the business process improvement effort, salary payment processes at MEF were streamlined from 46 steps, 36 of which had taken place outside the system, and 10 steps in FMIS, to just 13 steps—four steps outside the system, and nine steps in FMIS. Additionally, seven ministries that have implemented the new streamlined business processes in 2020 also saw the processing time for payroll payments reduced. This assessment is based on a review of transaction data generated from the FMIS for ministries implementing the new processes. For example, the Ministry of Post and Telecom saw the payroll processing time reduced from 35 days under the old process to about 12 days (Figure 1).

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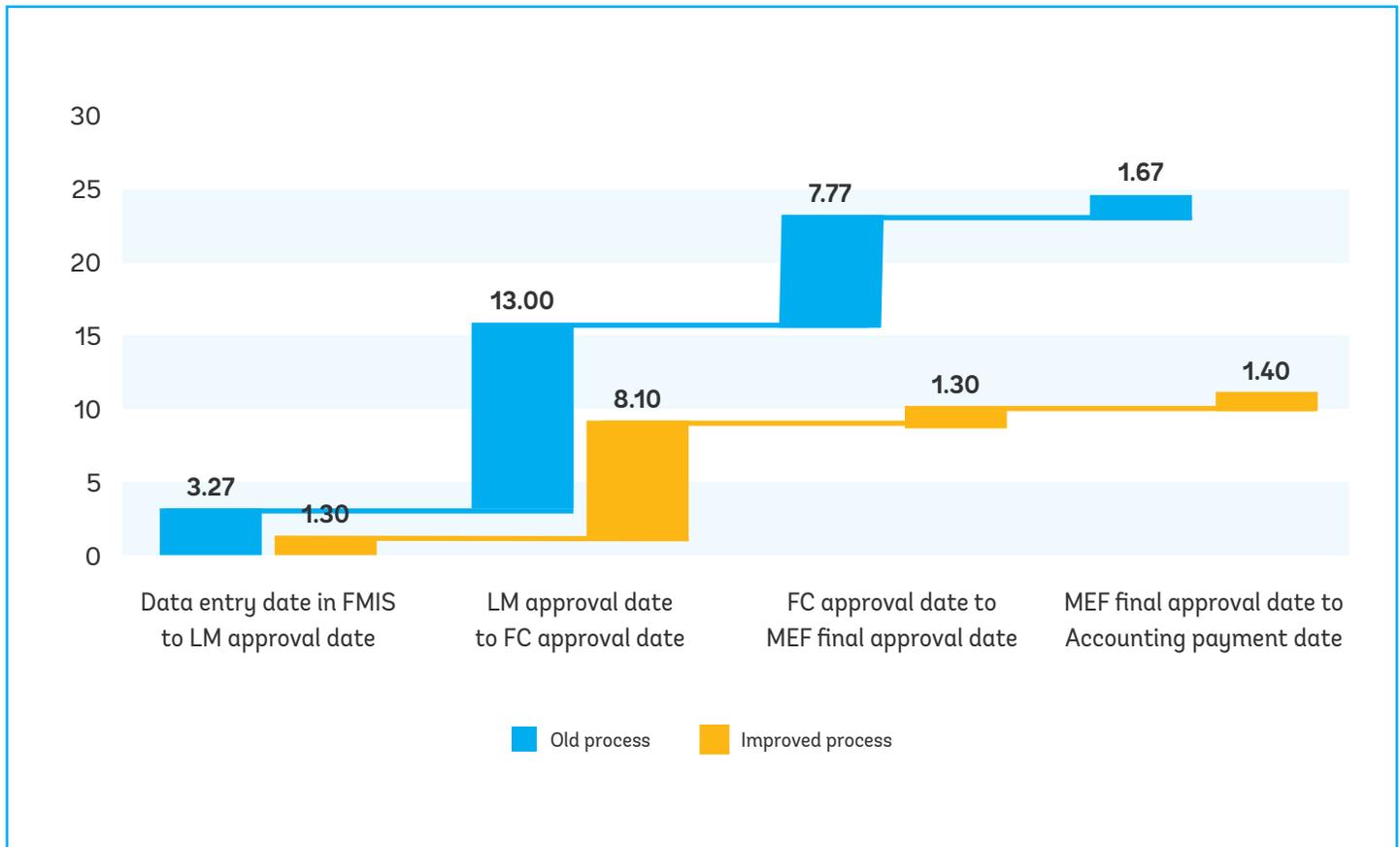
FIGURE 1 - Comparison of Old and Improved Process for Payroll - Base Salaries (64021) at the Ministry Post and Telecommunication from Data Entry in FMIS to Payment Accounting Date (in day, 2018-2021)



Low risk transactions such as utility payments processing saw substantial improvement in timeliness of processing after the streamlined processes were introduced in 2020. For example, transaction processing time for utility payments from data entry in the FMIS to payment accounting date at the Ministry of Agriculture, Forestry, and Fisheries was reduced from about 26 days to 12 days using the new streamlined processes (see Figure 2).

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FIGURE 2 - Comparison of Old and Improved Process of Clean Water Supply Expenses (60062) at the Ministry of Agriculture, Forestry, and Fisheries from Data Entry in FMIS to Payment Accounting Date (in day, 2018-2021)



The effectiveness of change management in promoting a shared understanding and ways of communicating with key stakeholders was important to the outcome.⁷ This later effort in process streamlining benefited greatly from earlier and ongoing effort in change management. Resistance to the proposed streamlining process was not observable as “authorizing environment” for the change process is highly conducive with clear action plan for implementation and a decision/instruction issued by the deputy prime minister to different stakeholders to start implementing the plan. Clear instruction from senior management facilitated the communication of key changes delivered through quarterly poster on new business processes, dedicated instant messenger group, and a network of change agents, which have been put in place during the early phase of FMIS implementation. Further, different LMs have relatively good understanding on FMIS implementation plan in the last five years through continuous engagement and communication from designated change agents and the CM team. This together with troubleshooting support through a single system known as “PK the helper” and capacity building to support the change has been helpful in promoting shared understanding and collaborative attitude.

7. With FMIS installed in different ministries, technical challenges are more or less overcome, but adaptive non-technical challenges remain. These adaptive challenges include inadequate coordination as regards the project team and different stakeholders; communication issues; and continuity of existing practices in some cases.

Lessons Learned

Realizing the full benefit of an FMIS does not end with the installation of a technology package. Technical complexity in implementing the system is one thing, but ensuring that the human aspects of the reform also proceed smoothly with the technology is another. The technology package provides a tool for reform, but transforming the tool into an efficient system that provides information for management purposes requires much more effort and organizational change, which presents another challenge.

Adequate and ongoing attention to business process improvement and change management is necessary for the adoption of technology to be successful. Putting the system in place and helping system users understand how to operate inside and outside of FMIS workflow is the start, while improvement continues to require efforts in later stages. This is the approach that was taken in Cambodia, specifically because there was managerial preference for an incremental approach to change. It is not always possible to design specific organizational changes that everyone can agree on under a project right from the beginning. Disruptive change can create a lot of uncertainty and resistance. The introduction of change management and advanced communication as soon as the project began was helpful in drawing attention to these parts of the reform process. It is important to note that different stakeholders in Cambodia learned about FMIS five years before serious streamlining take place in an explicit government decision (BPSP).

The authorizing environment is another important aspect for success in Cambodia. Ensuring the government's ownership is key to timely adoption of the necessary strategy, policy, and action plan, and to credibly move forward with implementation. This, together with adequate attention to change management from the earliest stage, has been helpful in promoting shared understanding and collaborative attitude that are important to the overall success of the reforms and improvement in PFM outcomes. The fact that different ministries have been continuously engaged in the past five years with the FMIS implementation plan greatly helped the implementation of the system as it is rolled out to respective ministries and the subsequent effort to improve business processes.

Next Steps

Moving forward, the government continues to implement the BPSP and plans to expand the FMIS functionality to include additional modules such as procurement and budget formulation. The World Bank will continue to provide technical assistance as the government continues the business process improvement journey in line with the BPSP and embarks on further enhancement of the system.

Contact Information

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Annex 1

7 LMs Implementing New FMIS Process from 27th Aug 2020

NO.	ABBREVIATION	FULL NAME
1	MAFF	Ministry of Agriculture, Forestry and Fisheries
2	MPTC	Ministry of Post and Telecommunication
3	MLVT	Ministry of Labor and Vocational Training
4	MCS	Ministry of Civil Service
5	MISTI	Ministry of Industry, Science, Technology and Innovation
6	MOH	Ministry of Health
7	MoEYS	Ministry of Education, Youth and Sports

19 LMs Implementing New FMIS Process from 27th Aug 2020

NO.	ABBREVIATION	FULL NAME
1	Royal Palace	Royal Palace
2	SSCA	State Secretariat of Civil Aviation
3	CDC	Council for Development of Cambodia
4	MPA	Ministry of Parliamentary Affairs
5	MFAIC	Ministry of Foreign Affairs and International Cooperation
6	MME	Ministry of Mines and Energy
7	MOP	Ministry of Planning
8	MOC	Ministry of Commerce
9	MCFA	Ministry of Culture and Fine Arts
10	MOE	Ministry of Health
11	MRD	Ministry of Rural Development
12	MSAVYR	Ministry of Social Affairs, Veterans and Youth Rehabilitation

NO.	ABBREVIATION	FULL NAME
13	MCR	Ministry of Cults and Religions
14	MOWA	Ministry of Women's Affairs
15	MPWT	Ministry of Public Works and Transport
16	MOT	Ministry of Tourism
17	MLMUPC	Ministry of Land Management, Urban Planning and Construction
18	MWRM	Ministry of Water Resources and Meteorology
19	MOI	Ministry of Information

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