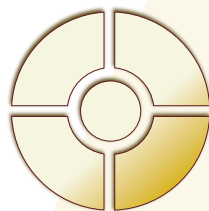


# PUBLIC FINANCIAL MANAGEMENT REFORM IN CAMBODIA:

## SOEs and PAEs 2023 STUDY



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## Glossary of Terms and Abbreviations

ACC	Cambodian Government Accreditation
ADB	Asian Development Bank
AFD	Agence Française de Développement
ASEAN	Association of South East Asian Nations
BoD	Board of Directors
CADT	Cambodia Academy of Digital Technology
CAPEX	Capital Expenditure
CAP	Consolidated Action Plan
CAP4	Consolidated Action Plan (to implement PFMRP Phase 4)
CEO	Chief Executive Officer
CIFRS	Cambodian International Financial Reporting Standards
CSR	Corporate Social Responsibility
CoM	Council of Ministers
EAC	Electricity Authority of Cambodia
EDC	Electricité du Cambodge – Electricity of Cambodia
EU	European Union
FG	Financial Guardian
FMIS	Financial Management Information System
GD	General Department of the MEF
GDAPs	General Department Action Plans
GDB	General Department of Budget
GDNT	General Department of National Treasury of the MEF
GDPP	General Department of Public Procurement of MEF
GDSPNR	General Department of State Property and Non-Tax Revenue
GI	General Inspectorate Department of the MEF
GSC	General Secretariat, Steering Committee of the Public Financial Management Reform
HEF	Health Equity Fund
IAEA	International Atomic Energy Authority
IFC	International Financial Corporation (World Bank Group)
IFRS	International Financial Reporting Standards
IQA	Internal Quality Assurance
IRC	Insurance Regulator of Cambodia
ISO	International Organization for Standardization
KPI	Key Performance Indicators
LM	Line Ministry
MAFF	Ministry of Agriculture, Forestry and Fisheries
MCFA	Ministry of Culture and Fine Arts
MCS	Ministry of Civil Service
MEF	Ministry of Economy and Finance
MISTI	Ministry of Industry, Science, Technology and Innovation
MLVT	Ministry of Labor and Vocational Training
MME	Ministry of Mines and Energy
MOC	Ministry of Commerce
MOD	Ministry of Defense





MOEYS	Ministry of Education, Youth and Sport
MOH	Ministry of Health
MOI	Ministry of Inspection
MOJ	Ministry of Justice
MOSVY	Ministry of Social Affairs Veterans and Youth Rehabilitation
MPTC	Ministry of Post and Telecommunications
MME	Ministry of Mines and Energy
MPTC	Ministry of Post and Telecommunications
MPWT	Ministry of Public Works and Transport
NA	National Assembly
NAA	National Audit Authority
NBF	National Budget Fund (Calmette Hospital)
NGO	Non-Governmental Organization
NSSF	National Social Security Fund
NT	National Treasury
NTSAS	National Treasury Single Accounting System
NUM	National University of Management
OECD	Organization for Economic Cooperation and Development
OCM	Office of the Council of Ministers
PAE	Public Administration Establishment
PAE Law	Royal Decree on the Legal Status of Public Administration Establishments, promulgated on August 8, 2015, and amended on May 4, 2018
PBC	Performance Based Contracting (Model)
PFM	Public Financial Management
PFMRP	Public Financial Management Reform Program
PFMRSC	Public Financial Management Reform Steering Committee
PPP	Public Private Partnership
PPWSA	Phnom Penh Water Supply Authority
RBM	Results Based Management
RGC	Royal Government of Cambodia
RUA	Royal University of Agriculture
SOE	State-Owned Enterprise
SOE Law	Law on the General Statute of Public Enterprises dated June 17, 1996
SOHC	State Owned Holding Company
TG	Technical Guardian
WB	World Bank
WTO	World Trade Organization

## Foreword

Cambodia has made considerable strides in building a nation following the very infamous history of the Khmer Rouge in the 1970s. After the civil war officially ended in the late 1990s the Royal Government of Cambodia (RGC) achieved growth and prosperity both as a country and as part of the South East Asia region, building new partnerships and trading links. As a member of ASEAN, and Head of the ASEAN Region in 2022, Cambodia has built an infrastructure, an economy, a regulation system, and a financial system which has created a solid platform for future growth. The RGC's focus on economic stabilization and liberalization have been the keys to the impressive rate of economic growth, and underpinning the bold and transparent policy to build an efficient and competitive agricultural, manufacturing and services-based economy, public financial reform lies at the heart. The Public Financial Management (PFM) system has required significant improvement and good governance has been the key to building a system to manage the revenue mobilization and expenditure management required.

The Public Financial Management Reform Program (PFMRP) was launched in 2004 and has provided a long-term, in-depth and comprehensive program to build PFM at both the national and the sub-national level. The ambition has been to replace the centralized input-based PFM system to a decentralized performance-based budget management system. The four phases of the PFMRP started in the period from 2005-2008 with strengthening budget credibility. The second phase from 2009-2015 focused on strengthening financial accountability. From 2016-2020 the third phase focused on budget policy linkages. Despite the disruptions of the Covid pandemic, the PFMRP has reached the fourth phase, planned to run from 2023-2027, with the objective to build performance accountability into the budget process. The PFMRP has provided the bedrock for Cambodian policy, regulatory and financial reforms. Budget credibility increased continually from 2013 to 2021 and since then, and the expenditure programs of the RGC have mirrored the increase, focusing expenditures on improving the quality of life through public services.

During this period the core system for financial accountability, the Financial Management Information System (FMIS) has been launched, strengthening internal audit functions in Line Ministries, and assisting greatly in the preparation of laws and regulations aimed at improving financial management and governance throughout the Kingdom of Cambodia.

As a result, budget preparation and management can now be managed from a solid base and the performance aspects of Phase 4 of the PFMRP can be addressed. This represents a huge step forward for the Kingdom of Cambodia, and although much needs to be done to implement this ambitious phase of the PFMRP we are confident that the solid platform of reforms created during the last two decades and more will provide the basis for Cambodia's continued development from the low and tragic points of recent history to the growth, prosperity and development which we are building for the future.

*ROS Seilava*

*Secretary of State of the Ministry of Economy and Finance*

*Secretary General of the General Secretariat of the PFM Reform Steering Committee*

*Phnom Penh, 10 March 2025*



## Preface

Cambodia has achieved huge progress in the last four decades, recognized as a growing country committed to reforms, sustained and robust growth averaging 7% since the early 2000s. Both within the SE Asia region and as part of the ASEAN Regional network, Cambodia has built and continues to build its growing international reputation as a country growing its prosperity, its infrastructure, its agricultural and industrial base and preparing its economy to meet the diversity of challenges and opportunities which lie ahead.

Underpinning the reform process, the PFM reforms have provided a platform and acted as the solid base for management of Cambodia's economy. The PFMRP has been in operation since 2004, with Phases focusing on strengthening budget credibility, accountability, budget-policy linkages, and finally to introduce performance accountability into the budget process. The significant results of the PFMRP to date, have included significantly increased tax revenue, a transparent and effective revenue management system, and this has enabled the RGC to increase the resources allocated to the key priority sectors of education and healthcare. The PFMRP has also provided the impetus for other important public sector reforms.

This fourth phase of the PFMRP (2023-2027) is crucial in completing the public financial reforms determined over two decades ago, and extending the already solid platform of reforms to the State-Owned Enterprises (SOEs) and Public Administration Establishments (PAEs) which represent key sectors of the Cambodian economy.

This report provides the first observation of SOEs and PAEs in the context PFMRP. The observation, based on the current laws and regulations governing SOEs and PAEs, addresses the issues of mandate and direction, governance, financial reporting, the budgetary process and the audit and control processes which underpin the management of SOEs and PAEs. Furthermore, this report makes a primary observation of the performance, public accountability, competitive environment and challenges faced of the SOEs and PAEs, and draws lessons based on international practice which will greatly help and guide the policy and the reform process. This report will prove an invaluable guide and a platform for the future of SOEs and PAEs in Cambodia.

This report has been prepared jointly by the General Secretariat of the Public Financial Management Reform Steering Committee of the Ministry of Economy and Finance and CamEd Business School. This book provides invaluable knowledge based on in-depth interviews and observation of the issues facing SOEs and PAEs in Cambodia and we hope it will provide a valuable source of knowledge for civil servants and the public, and all those interested in the contribution of public financial management to growth and prosperity.

MEAS Soksensan

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*Phnom Penh, 10 March 2025*

## Acknowledgements

This study has been a collaborative project between the General Secretariat of the Public Financial Management Reform Steering Committee of the Ministry of Economy and Finance and CamEd Business School. The study contributes to a strategic review of SOEs and PAEs in Cambodia, providing data, analysis and observations for the incorporation of SOEs and PAEs within the RGC's PFMRP. The findings of this study provide a basis for informed observations for the PFMRP Steering Committee (PFMRC) on the roles and regulation of SOEs and PAEs within the context of the PFMRP, and the opportunity to fully integrate SOEs and PAEs into public policy. The research questions addressed under the collaboration focus on assessing the legislative mandate for SOEs and PAEs, the roles and functions that SOEs and PAEs undertake, and the experience of how SOEs and PAEs operate within the public sector in practice.

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## Executive Summary

This report provides the finding and current practice of the roles, operations and reporting of State-Owned Enterprises (SOEs) and Public Administration Establishments (PAEs) in Cambodia, and puts forward observations related to incorporation of SOEs and PAEs into the Government of Cambodia's Public Financial Management Reform Program (PFMRP).

As in virtually all countries, SOEs and PAEs in Cambodia provide core public services which can both generate revenue and provide public services. SOEs in Cambodia are established in the sectors of utilities, finance, trade and transportation and telecommunication sectors, and are also represented in the publishing, construction, and waste management sectors. PAEs are established in the capacity building, health, arts, culture and heritage, social protection, and scientific and research sectors.

SOEs and PAEs have a significant role in public infrastructure investment, including electricity supply, water management, hospitals, universities and schools. SOEs and PAEs also provide a social as well as commercial purpose, directly benefitting the wellbeing of citizens. Some SOEs are net contributors to the governmental budget and some require governmental budget. SOEs are revenue generating and have a commercial as well as a social purpose, whilst PAEs tend to focus on social purpose, such as the provision of education and health. PAEs also have a role in public investment, through public service provision.

The incorporation of SOEs and PAEs into the PFMRP is recognition of the important role of financial planning and appropriation of public sector funds. The purpose of the 2023 study was provide a basis to assess how SOEs and PAEs can be incorporated into the PFMRP. This required an assessment of how SOEs and PAEs operate and report to the Royal Government of Cambodia (RGC). The study firstly examined the role of SOEs and PAEs set out in the legislation, their establishment, mandate and operation under the law of Cambodia. The study then assessed how SOEs and PAEs are governed, and how they report to the Government both in terms of strategic direction and activities, and financial reporting. A questionnaire survey provided an indication of how SOEs and PAEs see their role and how they comply with governmental reporting requirements. The questionnaire survey was followed by in-depth interviews with four SOEs, two PAEs and the two General Departments (GDs) of the MEF, the Financial Guardian (FG) to which the SOEs and PAEs report.

This report presents the results of the review of the legislative framework, the responses to the questionnaire survey and in-depth interviews with managers of SOEs and PAEs and the GDs of the MEF. The study also identifies issues raised by the SOEs and PAEs, related to their mandate, activities and reporting. Also presented are a series of observations aimed at incorporating SOEs and PAEs into the PFMRP, and more widely to maximize or improve the competitive position of SOEs and PAEs in Cambodia. In addition, a chapter is devoted to examples of international practice and identify where possible best international practice. These provide ideas and concepts for the future direction of SOE and PAE management in Cambodia. The main focus (beyond that of incorporation into the PFMRP) has been to put forward observations to improve the performance and accountability of SOEs and PAEs which can be completed within the existing legal framework. This report provides a summary of the findings and observations drawn on the basis of the questionnaire survey and the interviews undertaken during 2023.

## Chapter 1:

# Introduction and Background to the Study

### 1.1 The Scope of this Report

The PFMRP is an ambitious and ongoing program addressing every aspect of public finance in Cambodia. Until now SOEs and PAEs have remained on the borders of the PFMRP. The purpose of this study is to provide observations as to how SOEs and PAEs can be efficient and accountable, and ultimately how SOEs and PAEs can be incorporated into the PFMRP. This will be a major step to the future management of SOEs and PAEs in Cambodia. The study was undertaken jointly by the General Secretariat, Steering Committee of the Public Financial Management Reform (GSC) of the Ministry of Economy and Finance (MEF) in Cambodia and CamEd Business School. The approach, methodology, survey and interview findings and results are presented in this report. The study was undertaken in 2023 based on a survey of the legal framework and a questionnaire and interviews with several SOEs and PAEs. The analysis is based on:

- the frameworks for assessment of SOEs and PAEs found in international literature.
- the current legal and reporting framework for SOEs and PAEs in Cambodia.
- current management and reporting practice of SOEs and PAEs in Cambodia.

The observations are based on:

- incorporating SOEs and PAEs into the PFMRP.
- practical tools which can be directly used (e.g., the SOE and PAE Reporting and Financial Control Dashboard put forward in Chapter 4).
- improving the competitive environment for SOEs and PAEs in Cambodia.
- international practice of SOEs and PAEs.

**Chapter 1** provides an introduction to the scope of this report, the steps to incorporate SOEs and PAEs into the PFMRP, the framework of the international literature, and the basis for observations. The introduction also summarizes the design, content, implementation and timing of the study, and inclusion of examples of international practice in SOE and PAE management.

**Chapter 2** provides an overview of the objectives of public financial management reform and the components and timing of the PFMRP. This chapter also includes a review of the main international literature on SOE and PAE assessment, and an overview of SOEs and PAEs in Cambodia, and the background to the 2023 study.

**Chapter 3** provides a detailed summary of the legal and reporting framework for SOEs and PAEs in Cambodia, to identify the basis for SOE and PAE operations in Cambodia, the laws and reporting frameworks that govern SOE and PAE activities and the priorities and processes adopted by SOEs and PAEs to adhere to the current laws.

**Chapter 4** provides the findings of the questionnaire survey and interviews with SOEs and PAEs and governing bodies in Cambodia. The questionnaire survey was designed to provide an insight on how the SOEs and PAEs comply with their respective laws and reporting requirements. The interviews provided a more in-depth analysis of the issues that are facing SOEs and PAEs in Cambodia, and a greater understanding of how the SOEs and PAEs are guided and monitored by the Technical Guardian (TG) and the Financial Guardian (FG), which is invariably the MEF. Findings from the survey and interviews are presented and issues of current constraints or where performance can be improved are highlighted. Observations are put forward for consideration for actions to be taken to incorporate SOEs and PAEs into the PFMRP and more generally to improve the competitive environment for SOEs and PAEs for the longer term. These are observations based on what is considered feasible and desirable under the current laws and in compliance with the requirements of the PFMRP.

**Chapter 5** provides an overview of international practice in the management of SOEs and PAEs in several countries. This is intended more for reflection than immediate action, and longer-term possibilities for management of SOEs and PAEs in Cambodia. Whilst focusing on the integration of SOEs and PAEs into the PFMRP, the study provides food for thought for the future of SOE and PAE management in the light of current practice and international experience.

## **1.2 Designing and Implementing the Study**

This study was undertaken on the assumption that a step-by-step approach is the best way to achieve good management of SOEs and PAEs, and provides useful information and helps in determining a sense of direction for SOE and PAE, which are a fundamentally important sector in the delivery of public services in Cambodia.

### **1.2.1 Timing and Implementation of the Study**

The study was planned to start during 2023. Planning was undertaken during November 2022 to February 2023, during which the legislative background was identified and assessed (this is presented in Chapter 3). Data collection on compliance with the legal and regulatory system was undertaken during March and April 2023 through a questionnaire survey circulated to SOEs and PAEs. In depth interviews with SOE and PAE managers and management teams, and with the responsible Departments of the MEF, were undertaken during May and June 2023. The results of this questionnaire survey and the interview findings are presented and discussed in Chapter 4.

Observations of possible areas for improvement and for actions for consideration to incorporate SOEs and PAEs into the PFMRP are presented in Chapter 4. The initial results were first presented in late-June 2023. Subsequently several of the issues raised and comments received at the SOE Workshop, organized by the MEF and supported by the World Bank held in early November 2023. These too have been incorporated into this report, which was compiled and completed during late 2023 and 2024.

The study was planned to be completed in 10 months, and was completed on time. This coincided with the RGC's plans to redefine their strategy on SOEs by late 2024, the ongoing work on economic and administrative reform of the various working groups within the MEF and other Ministries, and the work being undertaken on the development of a new law on SOEs being carried out under a technical assistance project provided by Agence Française de Développement (AFD).

### **1.2.2 Review of the Current Legal and Reporting Framework for SOEs and PAEs**

The first task was to set out to determine the current framework for SOEs and PAEs in Cambodia, and setting out the mandate and process for formation of SOEs and PAEs, and the governance and reporting structures required by the law in Cambodia. On this basis it was decided to start work with an accounting template, determining how the SOEs and PAEs reported against the requirements of the law. The review of the current legal framework took place during February and March 2023, and is presented and discussed in Chapter 3. The two General Departments (GDs) of the MEF interviewed were the General Department of Budget (GDB), which is responsible for the reporting of PAEs, and the General Department of State Property and Non-tax Revenue (GDSPNR), which is responsible for the management of SOEs' assets. The roles of these two bodies, and the issues raised are presented in Chapter 3.

### **1.2.3 The Questionnaire Survey (April 2023)**

The questionnaire survey on compliance with the legislative and regulatory framework was issued to SOEs and PAEs in March 2023, the results of which determined the level of compliance to the legal requirements. The results of the questionnaire survey and the in-depth interviews with SOEs, PAEs and GDs of the MEF are presented and discussed in Chapter 4.



The purpose of the survey was to find out about the extent to which SOEs and PAEs in Cambodia were reporting in accordance with the law. In order to develop a basis for comparison, a template was prepared containing the required legislative, financial and operational information on SOEs and PAEs. Information of the current performance of the SOEs and PAEs was acquired through a questionnaire sent to SOEs and PAEs. The questionnaire followed the structure of the laws on SOEs and PAEs, and aimed to identify how SOEs and PAEs comply with the law, and to allow them within the questionnaire to raise issues that are relevant to their operations and compliance.

The questionnaire survey was designed to reach out to SOEs and PAEs. Part of the issue had been that the MEF did not have sufficient financial and compliance information about all SOEs and PAEs; the questionnaire survey was designed to build this bridge of information between SOEs and PAEs and the FG (MEF). The questionnaire was designed on the basis of the current laws for SOEs and PAEs, to cover all aspects of compliance and adherence to the law. A summary of the six SOEs and PAEs that responded to the questionnaire survey is included in Appendix 3.

During March 2023 a formal letter was sent to SOEs and PAEs, and the design of the questionnaire was started. The questionnaire survey was conducted during March 2023, and completed in April 2023. The questionnaire was issued to 13 SOEs and 29 PAEs. Only six responses were received (in addition to the six SOEs and PAEs interviewed). However, the results were very consistent and these questionnaire survey results have given us a clear picture of the practice of compliance with the law and the relationship between the TG and the FG.

The questionnaire provided a basis for interviews undertaken with those who have current or former responsibility and knowledge of the SOEs and PAEs, including those directly responsible for SOEs and PAEs, members of the GDs of the MEF, and other relevant representatives and stakeholders.

#### **1.2.4 Interviews with SOEs, PAEs and Departments of MEF (May-June 2023)**

The purpose of the interviews was to go beyond what could be achieved with a questionnaire and probe deeper into the issues of operations and reporting that the SOEs and PAEs have to deal with. It was decided with the MEF that a number of SOEs and PAEs should be approached as well as the GDs within the MEF responsible for the monitoring and reporting of SOEs and PAEs.

The interview questions were structured on the same basis as the questionnaires, focusing on current laws and operating practices and identify any operational characteristics, constraints and issues solely based on the current legal and reporting framework. Many of the issues raised are relevant to the incorporation of SOEs and PAEs into the PFMRP, but all of the issues raised are relevant to the long-term competitiveness of SOEs and PAEs.

The SOEs and PAEs interviewed were:

- PEs                      Electricité du Cambodge (EDC)  
                              Cambodian Re Insurance Company (Cambodia Re)
- PAEs                   Calmette Hospital  
                              Cambodia Academy of Digital Technology (CADT)  
                              Royal University of Agriculture (RUA)  
                              National University of Management (NUM)

The interviews took place in May and June 2023, and during June 2023 the initial findings were presented. The interviews were all conducted on site with the senior representative of the SOE or PAE. Discussion was at length and allowed the SOE and PAE representatives to raise issues that they considered to be important.

The GDB (responsible for reporting of PAEs), and the GDSPNR (responsible for SOEs) were also interviewed to determine how the SOEs and PAEs are perceived, how they see their role, their relationship with their respective TGs and with the MEF. This allowed the perspective from the Governmental (RGC) side to be shown in some detail and conclusions could be drawn from both sides. The format of the interviews was approximately the same as that of the questionnaires, but questions were from the perspective of the FG rather than from the perspective of the SOEs and PAEs themselves.



### 1.2.5 SOE Workshop, Siem Reap, November 2023

A further opportunity for data collection was provided in November 2023 SOE Workshop held in Siem Reap in November 2023 with a major workshop on SOEs undertaken in Siem Reap and attended by many SOE managers and other stakeholders. This provided a wealth of anecdotal data from both the policy makers, international agencies and the SOE managers themselves. Many of the issues raised and comments made by SOE managers are included in Annex 5.

### 1.2.6 International Practice: Possible Ways Forward for SOEs and PAEs

Chapter 5 provides several models and examples of SOE and PAE management in countries internationally have been included. No attempt has been made to identify “best practice” per se, instead the report puts forward different models of how SOEs and PAEs are managed internationally. This chapter provides food for thought for the future direction of management of SOEs and PAEs. Examples of SOE and PAE operations in different countries were included, providing a basis for identifying best practice (or at least good practice) for financing and management of SOEs and PAEs. These include state ownership, public private partnerships (PPPs) and alternative structures available for strategic management of SOEs and PAEs.

### 1.2.7 Compilation of the Final Report

The conclusions and observations based on the review of the legislation, questionnaire survey, in-depth interviews and the lessons from international best-practice form the basis of this report. The final report and observations were compiled during the period December 2023 to March 2024 and published in October 2024.

## 1.3 Contribution of the Study

### 1.3.1 Observations Based on the Current Legal Framework for SOEs and PAEs

The observations provided in this report are specifically focused on integrating the SOEs and PAEs into the PFMRP, and are based on the questionnaire and interviews, and generally drawn from principles of good practice in financial management rather than making any attempt to identify best practice. These provided practical observations which do not require changes in the law to improve SOE or PAE performance and transparency, and accountability.

The observations are the result of the information gathered through the questionnaire and the interviews. In practice the questionnaire results permitted identification of areas of compliance and how the SOEs and PAEs comply with the law. The interviews explored more in-depth the issues underlying SOEs and PAE performance and financial and operational constraints. The observations are all in line with good practice, and are practical and can be implemented without any changes to the law. However, they may require some cultural change, a change in approach. In this report the observations have been categorized as follows:

1. **Role and Mandate for SOEs and PAEs:** the legal basis and reporting framework for SOEs and PAEs.
2. **Board of Directors (BoD) and Governance:** governance of the SOE or PAE, guidance and appointment of BoD members.
3. **Technical Guardian (TG):** the direction and mandate for the SOE or PAE from the governing ministry or authority.
4. **Financial Guardian (FG):** reporting and financial control, the FG providing guidance and support to SOEs and PAEs, the flow of information on SOEs and PAEs within the FG.
5. **Accounting and Financial Reporting:** the flow of financial information and the accounting standards
6. **Auditing and Inspection:** the monitoring by internal and external audit bodies.
7. **Performance and Accountability:** Performance standards, and public accountability of the SOE or PAE.
8. **Competitive Environment and Challenges:** the issues affecting the ability of SOEs and PAEs to compete and to deliver their mandate.

Based on the assessment, the report has provided observations and suggestions for shorter-term improvements to current reporting practices aimed at improving the efficiency and scope of operations. For example, these include operational steps to give more freedom to operate and take pressure off time spent reporting and budget efficiency.

Also provided are observations regarding longer-term structural developments. For example, these include how SOEs are owned and financed, how SOEs and PAEs can be placed in the best position to be able to deliver on their mandate. This report puts forward some observations on the basis of international practice (good practice) which relate to ownership structure. But as these would require significant changes to the legal structure, it is left to others to discuss such long-term changes.

### 1.3.2 Data Provided

In addition to the presentation and discussion of the findings and observations, the following data is included in the Appendices:

#### The Appendices:

**Appendix 1:** a summary of the SOEs and PAEs in Cambodia (2024).

**Appendix 2:** a summary of the SOE Law (1996) and the PAE Law (2015, revised 2018).

**Appendix 3:** the questionnaire survey on compliance, issued to SOEs and PAEs in April 2023.

**Appendix 4:** case studies of each of the SOEs and PAEs interviewed during May and June 2023.

**Appendix 5:** comments from SOE managers at the SOE Conference, Siem Reap, November 2023.

### 1.3.3 Practical Steps for Policy

The observations are intended as practical policy steps which can be implemented quickly, and are aimed both at addressing the issues required for incorporation into the PFMRP, and at a straightforward and practical level to improve reporting and operational efficiency of SOEs and PAEs in Cambodia. The ultimate accolade for observations is if they help improve the information availability and management of SOEs and PAEs in Cambodia, with a positive effect on budget requirements for SOEs and PAEs.

### 1.3.4 Contribution of this Report and Directions for Future Research

In summary, the research presented here provides an up-to-date map of the SOEs and PAEs in Cambodia, and observations for informed decision making on future policy and incorporation into the PFMRP.

The findings from interviews with SOEs and PAEs are included to use in future research, policy making and teaching. This report combines thoughts and reflections on the issues raised in the light of observations in line with international practice. The observations focus on the achievable, as well as how the SOEs and PAEs can be incorporated into the PFMRP. The report stays within the structure based on the current law and reporting framework.

The observations are “food for thought”, relevant both for policy makers and those who study and advise on SOE and PAE management. It will provide reference material useful to all bodies involved in the PFMRP generally and directly in the management of the SOEs and PAEs, and all related financial and managerial issues.

This report also provides practical steps that SOEs and PAEs and the governing bodies can take to improve the integration of SOEs and PAEs into the PFMRP. This in turn will improve the knowledge of the SOE or PAE performance and will contribute to a better understanding of current and future issues for SOE and PAE management both in Cambodia and more widely.

### **1.3.5 Scope, Limitations and Next Steps**

We do not have all data we would like. For example, we do not have data on the financial transfers between Government and SOEs and PAEs. Our intention is that the SOE and PAE Reporting and Financial Control Dashboard we have put forward in Chapter 4 will enable the MEF, as FG to address the information availability issues raised and this information can be gathered and assessed over time. We feel that we have set the scene for this information to be made available. In this sense, this publication can be viewed as a first edition. A second edition can be published with updated information and this will build a more complete picture. At this stage Cambodia will be providing policy-focused information on SOEs and can become a model for other countries, just as we all have learned from other countries to compile this report. Next steps can include further work on any of the components, observations and issues raised. We hope that this report has provided useful data and observations and contributes to the ultimate aim of public service delivery in the Kingdom of Cambodia.

## Chapter 2:

# SOEs, PAEs and Public Financial Management

### 2.1 The Public Financial Management Reform Program (PFMRP)

The Public Financial Management Reform Program in Cambodia (PFMRP) was launched in 2005 with the vision of transforming the Cambodian PFM system. The goal is to shift from an input-based and centralized system to one that emphasizes results or performance and is decentralized in line with international standards and best practices. The transformation of public financial management in Cambodia aims to achieve three key outcomes: (1) the integrity of budget discipline, (2) the efficiency of budget allocation and operation, and (3) the effectiveness of public service delivery. The PFMRP unfolds in four successive stages, each implemented under distinct platforms:

- (i) **Budget credibility:** This initial stage of the PFMRP commenced in late 2004, emphasizing “Building Budget Credibility”. Extending until 2008, this phase marked significant accomplishments, including the complete elimination of long-term cash debt, the successful implementation of the National Treasury Single Accounting System (NTSAS), the modernization of public financial system laws, reforms in public procurement, and the establishment of an internal audit unit. These were the necessary foundations and indispensable prerequisites for the start of the second-phase reform.
- (ii) **Financial accountability:** Executed from 2009 to 2015, the second phase of the reform was structured around a five-year action plan framework. Following an evaluation, the program was extended for approximately two years, yielding noteworthy accomplishments, including the transition to salary payments for civil servants through the banking system, the augmentation of the internal audit unit, the establishment of the Public Financial Management Information System (FMIS), and the initiation of a pilot implementation of the program budgeting system in select ministries.
- (iii) **Budget-policy linkages:** The third phase was initiated in 2016; nevertheless, several objective factors, notably the Covid-19 crisis, hindered the timely attainment of some key objectives. Consequently, the implementation was delayed by an additional two years, extending from 2021 to 2022. This delay precedes the commencement of the fourth-phase reform, centered on “Performance Accountability,” scheduled for 2023.
- (iv) **Performance accountability:** The fourth phase of PFMRP for the period from 2023-2027, is focused on developing and implementing key elements of a performance-informed budgeting system. The goal is to enhance the management, administration, and utilization of public financial resources more efficiently, effectively, and accountably.

The implementation of PFMRP has a significant scope, involving various government stakeholders such as the MEF, all line-ministries (LMs), SOEs, and PAEs in Cambodia.

Each stage of PFMRP is equipped with a Consolidated Action Plan (CAP) to serve as a guiding framework for implementing reform activities within line-ministries (LMs) and General Departments (GDs) of the Ministry of Economy and Finance (MEF). CAPs undergo an annual review, which includes discussions and consultations with all LMs and stakeholders, aiming to establish a clear direction and key performance indicators (KPIs) for LMs and GDs to follow. Following the development of the CAP, LMs formulate Ministry Action Plans (MAP), while the MEF GDs prepare General Department Action Plans (GDAP).

The General Secretariat of the PFM Reform Steering Committee (GSC) serves as the driving force overseeing the performance of the PFM Reform Working Group within the Ministry of Economy and Finance, and all line ministries. Additionally, the GSC plays a pivotal role in fostering collaboration with development partners to support and contribute to the implementation, monitoring, and evaluation of PFMRP by setting reform direction for all stakeholders.

## 2.2 The Literature on SOEs (and PAEs)

### 2.2.1 The Role and Mandate of SOEs in the Economy

The literature covers the role of SOEs in the economy, and the performance, and evaluation of SOEs. Both concern the dual role that SOEs have as both providers of public services, and at the same time their significant presence in the markets.

Researchers have undertaken to assess the role of SOEs in major economies. (Taghizadeh-Hesary et al., 2019), in their study of over 1000 SOEs, mainly in Europe, focused on the components which determine the success or failure of SOEs, and found these to include solvency, per capita productivity and per capita cost, and point out that whilst important financial indicators, it should be noted that SOEs provide a social purpose, and should not be valued solely on the basis of commercial criteria.

Studies have shown the significance of SOEs in the economy. This includes a study by the World Bank Finance, Competitiveness, and Innovation Global Practice Group (Dall'Olio et al., 2022). This study classifies SOEs under the categories of those SOEs which can only be justified under the criteria of efficiency, for which they claim there is little justification for SOEs, those SOEs which are natural monopolies, and those SOEs which are “partially contestable”, by means of providing some form of externality or addressing some kind of market failure which justifies state ownership. This and related studies provide a framework for assessing the role of SOEs in an economy based on the natural monopoly, and provision of public goods arguments. These include Mariotti & Marzano (2019) who assessed the varieties of capitalism that SOEs represent. Further studies have looked at the political economy of SOEs in the context of public enterprise (Nem Singh & Chen, 2018). Researchers have enhanced these findings by focusing on how SOEs tend to behave compared to private sector firms, and this clearly sets out the importance of social benefits (Clifton et al., 2023).

### 2.2.2 Contribution of SOEs to Internationalization and Innovation

Other researchers have looked at the internationalization of SOEs in the context of WTO reforms (McDonagh & Draper, 2020), and how the SOEs fit into the system of international agreements (McLaughlin, 2019). Reform of WTO rules to accommodate SOEs was assessed by Wu (2019). These studies have recognized the importance of SOEs in both domestic and cross border trade and given the importance of SOE activity and possible financial advantages or disadvantages of SOEs, put forward the case for reform of WTO rules in order to incorporate SOEs more fully in the international financial system.

On the wider implications of SOEs, studies have focused on innovation in SOEs (Jia et al., 2019), and knowledge creation (Landoni, 2020), and implications for technology management, and industrial development (Meissner et al., 2019). Further studies look at the role of CSR within SOEs (Maisuradze et al., 2020), and human rights aspects of SOE management.

### 2.2.3 The Board of Directors and Governance of SOEs

Adebayo & Ackers (2022) in their comparative study of governance of SOEs in two countries, South Africa, and Singapore, found that the main differentiating factor between them was ownership, with the South African SOEs managed under a centralized model, and the Singapore SOEs managed under a holding company. However, the issues of governance were the same, covering financial and fiscal discipline of SOEs, BoD membership and remuneration, and disclosure, and transparency. The governance issue of SOEs has been a subject of several studies, including (Chang & Lin, 2022; Grøgaard et al., 2019; Hapsari et al., 2023; Heo, 2018; Kaunda & Pelsner, 2022; Kurniawan & Viriany, 2023). This has also extended to strategy, independence, and governance of SOEs (Schneider, 2021).

The IFC (World Bank Group) examined the state of governance of SOEs internationally (Wong, 2018). The report recognized that commercial enterprises which are owned and controlled by governments (SOEs) represent a significant proportion of both national and international business activity, and put forward three critical areas required to strengthen the quality of governance of SOEs. These included:

- the professionalizing of government ownership.
- the strengthening of commercial orientation of SOEs.
- the development of stronger and more independent BoDs.

The study also recognized and discussed the challenges involved in implementation of such reforms. The World Bank Report on financial sustainability of SOEs in Laos (Pdr, 2023), reverberated these same themes of ownership, commercialization, and independence, and made recommendations to strengthen the state ownership and oversight functions in respect of SOEs, addresses the issues of fiscal risk management, broaden the ownership of SOEs, improve the governance, and performance of SOEs, and build on accountability and transparency. The main recommendations include:

- centralization and strengthening of the state ownership and oversight function.
- creation of a fiscal risk management unit in the MEF (e.g., the risk to state finances if SOEs are highly indebted).
- broadening of the ownership of SOEs.
- professionalization of the SOE BoDs to promote good governance and enhance performance.
- disclosure of SOE reports to increase transparency and strengthen accountability.

Transparency and accountability were assessed by an Asian Development Bank study (Park, 2021). This study provided an overview of national practices to improve the accountability and performance of SOEs and builds on the OECD Guidelines on Corporate Governance of State-owned Enterprises (OECD 2024), which in turn built on the Principles of Corporate Governance 2023 (OECD 2023). The study finds that several Asian countries have improved the information disclosure of SOEs, and several have introduced various means to acquire, and report on financial and non-financial information of SOEs. They put forward that a number of SOEs are only subject to internal audits with a lack of independent audits, and that this limits the overall accountability of SOEs. The report specifically covers the efforts which Asian countries have undertaken to introduce, and develop a strong regulatory framework for SOEs, including:

- information disclosure.
- adoption of adequate accounting standards.
- information reporting systems.
- performance evaluation systems for financial and non-financial information.

The report concludes that establishing comprehensive legal and regulatory frameworks for public disclosure of financial, and non-financial information is critical. They concluded that some countries lack adequate internal audit systems, and are not subjected to external audit, and most countries do not publish adequate ownership reports, which could potentially limit accountability and restrict the public from overseeing SOE performance. The report argues the case for aggregate reporting of SOEs on an annual basis, in line with OECD 2024).

According to the comparative paper on the South African and Singapore SOE governance systems (Adebayo & Ackers 2022), there are two main publications guiding the governance of SOEs. Firstly, the World Bank Corporate Governance of State-owned Enterprises: A Toolkit (World Bank 2014). The toolkit covers the key elements of corporate governance, including:

- legal and regulatory framework for SOEs.
- state-ownership arrangements.
- performance management systems.
- financial and fiscal discipline.
- boards of directors.
- transparency and disclosure.
- protection of shareholders in mixed ownership companies.

The World Bank (2014) report concludes that no one approach is universally applicable, and that the choice of measures depends on the country, and the enterprise circumstances.



Secondly, the OECD Guidelines on Corporate Governance of State-owned Enterprises (OECD 2015), since updated to the OECD Guidelines on Corporate Governance of State-owned Enterprises (OECD 2024), is a more legalistic document, which covers in detail the following:

- rationales for state ownership.
- the state's role as owner.
- SOEs in the marketplace.
- equitable treatment of shareholders, and other investors.
- disclosure, transparency, and accountability.
- composition and responsibilities of the BoD of SOEs.
- SOEs and sustainability (including Responsible Business Conduct).

This report formalizes the findings set out in recent publications, and provides a strong framework for SOE reporting, transparency, accountability, and acts as a framework for many of the recommendations in this report. This was developed some years after a major study on Corporate Governance of SOEs in OECD countries (OECD 2005).

## 2.2.4 Financial Reporting and Performance of SOEs

Researchers have also focused on financial performance and management of assets (Gan, 2023; Goodell et al., 2021). More specifically on the performance of the firm, and assessments of financial stability of SOEs (Lee et al., 2022). The topic of employee performance was the subject of a study by Sebayang & Lestario (2022). Studies have also assessed the financial performance of SOEs vis-à-vis private sector firms (Le et al., 2023). Several other researchers have focused on the issue of dual role of social provider and commercial enterprise (Backer, 2019; Bałtowski & Kwiatkowski, 2022; Bird 2020). Further but related work has looked at the performance differential between public and private enterprises (Phi et al., 2021).

## 2.2.5 Auditing and Inspection of SOEs

Amongst those who have looked specifically at measuring the performance of SOEs include assessing the role of audit in SOE reporting (He & Li, 2023). External monitoring of SOEs is taken up by (Li & Zhang, 2019), who investigated how external monitoring from the government has influenced SOEs in procurement, as reflected in input-prices, and the costs of monitoring, and the relationship with production management. Extending this to corporate reporting of SOEs was assessed (Nicolo et al., 2021). The issue of clarity of corporate reporting and applications to SOEs was assessed by (Papenfuß et al., 2019).

## 2.2.6 Aggregate Reporting of SOEs

The above findings in the literature are consistent with the principle of aggregate reporting. The OECD report on Monitoring the Performance of State-owned Enterprises; Good Practice Guide for Annual Aggregate Reporting (OECD 2022) represents an internationally accepted view, and provides guidelines on the overall reporting of SOEs. The report is a good practice guide for annual aggregate reporting, and recommends enhanced transparency on the basis of three pillars:

- 1) Strengthened legal and regulatory requirements for disclosure and transparency by SOEs.
- 2) The widespread use of international and accounting reporting standards.
- 3) Subjecting SOEs to a robust control environment, including independent external audit.

The report recommends aggregate reporting, which is a one-stop-shop reporting based on annual publishing in aggregate, giving the full picture of financial and non-financial performance. This includes not only compliance reporting but bigger picture reporting on the SOEs overall performance. Information should be high quality, comparable, concise, accessible enough to give stakeholders a meaningful understanding of the key issues over time.

Content of aggregate reporting (i.e. what SOE should report), covers three main components:

- 1) overview of the composition, performance, and value of the sector.
- 2) financial reporting in aggregate and across individual SOEs by sector on thematic areas (key financial performance indicators include return on equity, equity/assets ratio, dividend policy, share of employment, portfolio value).
- 3) non-financial reporting in aggregate across individual SOEs by thematic area, including the achievement of public policy objectives, the nomination, composition, qualifications of state-owned governing bodies, detailed reporting on individual SOEs or by sector. Non-financial reporting traditionally focuses on governance, but now includes social and environmental issues, and risk management. One major purpose is to evaluate the fulfilment of SOEs against financial and non-financial targets set by the state-owner and disclosure of non-commercial assistance.

The report states that aggregate reporting should be based on accurate information, should be high quality, comparable, concise and accessible enough to give stakeholders a meaningful understanding of the key issues over time. The content of the report includes in detail a number of characteristics of high-quality transparency and disclosure, including internationally recognized financial reporting standards, independent external audit, and internal audit and controls. Examples of good practice is put forward, including:

- financial and non-financial reporting by SOEs.
- development of a disclosure policy for SOEs.
- setting and monitoring of SOE mandates and objectives.
- maintaining dialogue with internal and external auditors and state control organs.

The findings of all other reports and papers are in line with this report which represents perhaps the most widely used framework internationally for SOE reporting. It includes:

- trends in transparency enhancing practices by government owners.
- transparency and disclosure frameworks applicable to SOEs.
- the rationale and purpose of the annual aggregate report.
- the “who, when and the how” of aggregate reporting.
- an overview of the content and coverage of aggregate reporting.
- publication, dissemination and accessibility of information.

This approach builds on the OECD Principles of Corporate Governance (OECD 2023), a legal document which covers all aspects of corporate governance legislation and practice, including: the basis for effective corporate governance (including appropriate legislation and regulatory authorities, the rights of equitable treatment of shareholders and key ownership functions (shareholder rights and voting), the rights of institutional investors, stock markets, and other intermediaries. disclosure and transparency are seen as critical, including capital structures, debt, foreseeable risk, external audit, information dissemination.

Responsibilities of the BoD are also covered in detail, stating that the BoD members should act on a fully informed basis, apply high ethical standards, risk management procedures, aligning the BoD members’ remunerations with key executive functions. Board members (Directors) need to be fully committed to their responsibilities and should have access to up-to-date, and accurate information. The report also covers responsibilities of BoDs for sustainability resilience reporting. This demonstrates a consistent view of the role of governance, which applies to all forms of enterprise.

### 2.2.7 Observations on SOEs Based on the Literature

The approach adopted by this report in the findings of the survey of SOEs and PAEs in Cambodia takes into account the literature published in SOEs, and in particular the role within the economy and the governance and reporting issues that SOEs and PAEs undertake. The framework is very much in line with the established literature and specifically within the context and spirit of aggregate reporting (OECD 2022).



For purposes of this report, we based our approach on the main themes discussed in the papers above and took reference from the guidelines and conclusions reached, which give recommendations on the governance and management of SOEs. Where we have put forward observations which SOEs and PAEs could choose to address, we also include the references, where appropriate, from the above reports and the other papers in the literature review.

## 2.3 SOEs and PAEs in Cambodia

### 2.3.1 SOEs

As with most countries, both SOEs and PAEs represent an important part of a country's economy and are responsible for providing essential services to its citizens. In Cambodia, SOEs and PAEs have played a significant role in the country's economic development since Cambodia became independent in 1953; SOEs providing services such as electricity, water, telecommunication, and transportation; PAEs providing essential services in such areas as healthcare, education, trade and business development and tourism management.

SOEs are enterprises with all or most of the capital owned by the state, and are established in sectors characterized by economic and welfare development priorities aimed at increasing the value of natural resources and creating job opportunities.

According to the SOE Law in Cambodia (see Chapter 3 and Appendix 2) SOEs are categorized as follows:

- (1). Service SOEs: providing essential services such as electricity, healthcare, education, water, and telecommunications.
- (2). Production SOEs: involved in the production of goods, such as textiles, footwear, and cement.
- (3). Financial Services SOEs: government-owned banks and other financial institutions.

As of 2023, there was a total of 26 SOEs in Cambodia (see Appendix 1).

### 2.3.2 PAEs

PAEs refer to entities governed by public legislation with private budgets, which mandate the inclusion of all sources of income and expense projections within the budget plan overseen by the respective TG (normally a Ministry). The legal framework governing both SOEs and PAEs is discussed in detail in Chapter 3. As of 2023 there was a total of 37 PAEs established in Cambodia (see Appendix 1).

### 2.3.3 The Technical Guardian

Each SOE and PAE is assigned a Technical Guardian (TG) and a Financial Guardian (FG). The TG is normally the Ministry most relevant to its activities, and the SOE or PAE is mandated under a sub-decree to implement the policies and initiatives of the TG. The strategy and all technical aspects of the work are carried out in liaison with the TG. Hospitals have as their TG the Ministry of Health (MoH), and schools have as their TG the Ministry of Education, Youth and Sport (MOEYS) and higher education institutes have as their TG the Ministry to which their education programs are linked. For example, Cambodia Academy of Digital Technology (CADT) is established under the Ministry of Post and Telecommunication (MPTC), the Royal University of Agriculture (RUA) is established under the Ministry of Agriculture, Forestry and Fisheries (MAFF).

### 2.3.4 The Financial Guardian

The MEF has developed the FMIS as a standardized accounting and reporting platform. All State-Owned Enterprises (SOEs) and Public Administration Establishments (PAEs) are required to submit their financial reports through this system. The FMIS aims to enhance transparency, accountability, and efficiency in public financial management by streamlining the reporting process and ensuring compliance with national accounting standards. The FG appoints an accounting officer (financial controller) to liaise with and oversee the financial reporting activities of each of the SOEs and PAEs. The accounting officer to the SOE or PAE should maintain a close liaison for reporting purposes.

Specific department within the MEF are responsible for registration and reporting of SOEs and PAEs. This is discussed in Chapter 3 in the section on the General Department of Budget (GDB), and the section on General Department of State Property and Non-Tax Revenue (GDSPNR). Their respective roles are summarized at the end of this chapter as part of the budget and reporting process. Strict accordance to, and compliance with the law is also a primary objective for the GDB and the GDSPNR of the MEF.

**Table 2.1: SOEs and PAEs in Cambodia by Category (2023):**

(see Appendix 1 for the up-to-date list of SOEs and PAEs in 2024)

State-Owned Enterprises (SOEs) in Cambodia		Public Administration Establishments (PAEs) in Cambodia	
Categories	Number of SOEs	Categories	Number of PAEs
Utilities	12	Capacity Building	17
Finance	5	Health	8
Trade and Transportation	3	Arts, Culture and Heritage	4
Telecommunications	2	Social Protection	2
Other Categories	4	Scientific and Research	4
<b>Total</b>	<b>26</b>	<b>Total</b>	<b>35</b>

Source: Authors' Proposed Categories of SOEs and PAEs from Data supplied by MEF

### 2.3.5 Linking SOEs and PAEs to the PFMRP

Despite the important role that they play, SOEs and PAEs have not been fully incorporated into the PFMRP in Cambodia. Within the framework of reform program, SOEs and PAEs have been incorporated since in Stage 3 of the Consolidated Action Plan (CAP3), with a focus on revising legal documents, including laws and strategies, and the focus of submitting reports to the MEF, the FG, and provider of financial guidance.

For SOEs, the consolidated report of SOEs undergoes preparation and assessment by the GDSPNR, encompassing four key areas:

- (1) the financial performance and business outcomes of the fiscal year.
- (2) contributions to the state budget.
- (3) dividend payments to the state budget by SOEs.
- (4) the status of capital in joint ventures where the state holds a minority public share.

Additionally, the draft strategy for SOEs was under development, with input from SOEs and relevant stakeholders. This strategy is scheduled for completion after further consultations and is accompanied by proposed amendments to the Law on the General Statute of Public Enterprises dated June 17, 1996, (the SOE Law) transitioning it to the Law on the Management of SOEs, bolstered by supportive sub-decrees. The amendment was scheduled for submission to the Council of Ministers (CoM) and the legislature in the fourth quarter of 2023.

Assessments to gauge the effectiveness and compliance of PAEs are conducted by the GDB. In an initiative introduced on June 22, 2023, a minimum criteria table was established to evaluate the implementation of PAEs. According to this table, the MEF's working group discovered that 34 PAEs, comprising 91%, adhered to these minimum criteria. However, three PAEs, constituting 9%, needed to enhance their implementation processes, particularly in areas such as financial procedure, public accounting, and state property management. Notably, every expenditure transaction is to be overseen by financial controllers within PAEs, and there is a lack of both comprehensive and timely budget reports. However, these minimum criteria serve merely as the foundational elements for verifying compliance with the established table. Effective budget implementation relies on the capacity, expertise, effectiveness, accountability, and transparency of each PAE.



By 2027, in alignment with the objectives of CAP4, the annual assessment report on the financial status of SOEs and PAEs will have been reviewed and discussed, in accordance with the defined SOEs' and PAEs' strategy. Concurrently the GSC is exploring additional facets of SOEs and PAEs, including financial execution, transparency, and service delivery, to inform and drive further reforms. International best practices regarding SOEs and PAEs will also be incorporated as observations to enhance future reform efforts. To facilitate this process, this report is prepared to gather insights from SOEs and PAEs in Cambodia and share experiences from countries exemplifying best practices in SOE management.

## Chapter 3:

# The Legal and Reporting Framework for SOEs and PAEs

The starting point for analysis is the current legal and policy framework for the establishment, operations, and reporting requirements of SOEs and PAEs. This includes the purpose of a SOE and a PAE, the basis for the products and services they provide, how are they financed, how do they report, and the legal and regulatory issues that SOEs and PAEs encounter.

The structure of the legal framework also provides the structure of the questionnaire study on compliance discussed in Chapter 3, where the interview findings and observations for improvement discussed, and observations presented in Chapter 4.

At the time of writing, new laws to govern public enterprises in Cambodia were under preparation. The assessment and observations provided in this report are based on the current governing laws. The Governing Law on the General Statute of Public Enterprises.

**Publication of Laws:** All laws of the RGC are published on the website of the Royal Gazette, every year since 1987 ([https://www.ocm.gov.kh/gov\\_doc/](https://www.ocm.gov.kh/gov_doc/)).

### 3.1 Governing Law on the Legal Status of Public Enterprises

Public Enterprises (we refer to these as state-owned enterprises throughout the report) are governed by the General Statute of Public Enterprises, promulgated in 1996 (the SOE Law). The SOE Law establishes three types of Public Enterprise:

- **Public Institutions with Economic Characteristics:** these produce and sell goods and services.
- **State Companies:** organizations whose total capital is provided by the State.
- **Joint Ventures:** state-owned enterprises where part of the capital is provided by public participation.

All Public Enterprises (State-owned Enterprises) are legal entities with financial autonomy and are governed by their respective Board of Directors (BoD). However, unless otherwise stated, all responsibilities, including taxes, duties and recruitment are governed in accordance with commercial law. All public enterprises are governed by their appointed BoD, the members of which are represented by the relevant Ministries (LMs) or Public Authorities.

SOEs tend to be large scale revenue generating natural monopolies. The SOEs in Cambodia are present in utilities (energy and water), financial and banking services, trade and shipping, post and telecommunications, publishing, construction, and waste management.

Articles 6 and 7 of the SOE Law state that the SOE will be the responsibility of a Technical Guardian (TG), under the state control of the TG, the relevant ministry or public authority, and will be subject to the financial controls and inspections of the and the FG, the MEF.

#### 3.1.1 Structure of Governance of SOEs

The **Board of Directors (BoD)** of a SOE has the right to determine the legal status of personnel employed in the Public Enterprise, and will appoint a Chairman and Chief of Executive, or Chief of Executive (CEO) to run the SOE. The BoD is responsible for the development and functioning of the public enterprise, the evaluation of results, budget, investment, financing and determining of the organization's structure. The BoD meets once every three months. The BoD decides on the proposed budget for the following year on 30th September of each year, and reports on the budget to its TG and FG. State Controllers are appointed by the MEF to oversee the operations and financial reporting of the SOE.

The SOE Law reflects the fact that SOEs are fundamentally commercial organizations. Under the SOE Law, SOEs can have capital approved for commercial purposes. Employees of SOEs have a legal status determined by the BoD, and it is understood that they will be employed under the Cambodian labor law, as is the case for a private company. As SOEs are commercial, revenue-generating enterprises, staff costs are funded through revenue generation. There is no government annual budget for staff salaries for SOEs.

All reporting by public enterprises SOEs is carried out in accordance with the SOE Law. How these provisions are applied in practice is discussed below.

### 3.2 Governing Law on the Legal Status of Public Administration Establishments (PAEs)

Public Administration Establishments (PAEs) in Cambodia are specifically organizations designed to deliver a social purpose (a public service). PAEs are institutions in capacity building, health, culture, social protection, and scientific and research categories.

Whilst PAEs have revenue generating capacity, they are primarily seen as not-for-profit organizations. PAEs have a social function rather than a commercial function.

PAEs are governed by the Royal Decree on the Legal Status of Public Administration Establishments promulgated in 2015, and amended in 2018 (PAE Law). Under the General Provision of this law, PAEs are defined as state owned legal entities which are “*primarily responsible for public service missions in the areas of administrative, social, health, cultural, educational, scientific and technical services*”.

PAEs have an autonomous budget, which is added as an Appendix to the budget of their TG. PAEs will have a BoD to direct, implement and oversee all the activities of the PAE, including long term planning, review of annual budget and management reports, overseeing management operations, the work of committees, recruitment, evaluation of the quarterly, semi-annual and annual performance reports and will be responsible for any corrective actions.

The BoD members will be members of the relevant line ministries (LMs). The BoD will meet quarterly or more often if requirements demand.

The PAE is responsible for the management of its assets, property and finances and reports to the TG and the FG. The important point to note is that the annual budget must include planned income and expenditure, and must be in accordance with the state budget.

The PAE Law was designed to improve the efficiency of the management of PAEs. The PAE Law covers the same issues as the SOE Law, but is a little more specific, covering the ownership structure, leadership and management (BoD and executive management), management of assets, property and finances, guardianship (TG and FG), control and audit procedures, and transitional procedures (i.e., the procedures required when an organization becomes a PAE).

There are certain characteristics of PAEs which distinguishes them from SOEs, reflecting the fact that PAEs are essentially non-for-profit organizations which primarily deliver a social purpose:

- PAEs have the same accounting system as the RGC.
- PAEs follow the IFRS for SMEs, recognition of assets, depreciation.
- PAEs just have a budget (e.g., to pay for a vehicle, it is just treated as a current expense).
- PAEs have no independent audit.
- For PAEs, some employees are contracted under the law for civil servants, whilst some are under the labor law (as for companies).

As the SOE Law and the PAE Law are similar, then much of the practice of reporting is similar between SOEs and PAEs. According to the GDSPNR, the BoD and management system is similar between SOEs and PAEs. Management of assets is the same between SOEs and PAEs. The practice of establishing SOEs and PAEs, budgeting, reporting and the role of the technical and FGs is discussed below.

#### 3.2.1 Structure of Governance for PAEs

The structure of leadership, management, and implementation within PAEs is defined by Cambodian legal documents, arranged as follows:

- from five to nine BoD members, represented by the LMs, the TG, MEF, and other relevant line ministries. The BoD serves as the highest governing bodies and are responsible for setting missions, providing directions, and overseeing the implementation and monitoring of the foundation’s work.

- one BoD members leads and manages the operation of PAEs.
- permanent staff and staff are under contract of PAEs.
- One Financial Controller staff member.

### 3.2.2 The PAE Law 2018 Amendment

The PAE Law (2018) made the following amendments to the PAE Law of 2015:

- the limit on the maximum allowed number of nine BoD members was abolished.
- under the 2018 Amendment all PAEs are created by sub-decree.

Otherwise, the PAE Law continues as per the Law of 2015.

### 3.3 Establishing a SOE and PAE under the Current Laws

All SOEs are established by Sub-decree under the SOE Law. While PAEs are established by Royal Decree or Sub-decree that under the PAEs Law. Establishment by Royal Decree is reserved for PAEs given higher status, so, for example, Calmette Hospital and Royal Academy of Cambodia were established by Royal Decree, which give the two PAEs higher status than other PAEs. The Sub-Decree (or Royal Decree) defines the mission, objectives, mandate for the SOE or PAE, its activities, management obligations and reporting requirements.

Under the establishment regulations (either Royal Decree or Sub-Decree), every SOE and PAE will have:

- assets assigned; these are registered at the General Department of State Property and Non-Tax Revenue (GDSPNR).
- the TG, usually a Ministry, the SOE or PAE is established to carry out part or all of the mandate of the TG.
- the FG, always the MEF, to which all financial reports will be submitted and who will maintain ongoing liaison with the SOE or PAE for purposes for financial control.
- financial transfer mechanisms are established, usually incorporating the State Treasury.

### 3.4 Annual Reporting and Budgeting of SOEs and PAEs

Both SOEs and PAEs undertake budgeting, accounting and reporting according to their respective laws. Each will report annually, with some five yearly. The SOEs have two budgets, firstly the self-generated income, and secondly the budget from the government, which invariably covers the gap between the self-generated income and their costs. Both budgets are managed by the National Treasury (NT). The greater the amount of self-generated income, the less subsidy is required, and consequently the more scope there is for a SOE to become an independent enterprise.

However, as both SOEs and PAEs are providing natural monopoly or public interest services, the RGC may deem profit making as either something that is solely for SOEs (not PAEs), or that profit is not a top priority.

PAEs also have two budgets: firstly, the budget allocated by the government budget, and secondly, the budget for their own sales revenues. Both budgets are managed by the NT.

According to one of the SOEs interviewed, “if there is a lot of planning for the PAE they can keep their budget, but if there is no plan, they just give their money to the NT”. It is understood that this decision as to whether to allow SOEs and PAEs to keep their budget is part of the planning process.

For SOEs, their budget is from their own income (there is no government budget). SOEs are subject to tax laws just as private companies. But PAEs have the same tax laws as the RGC.

Considerable reference was made during the interviews to “Program Budgeting”, whereby budget expenditures are determined according to the objectives to be achieved by each SOE and PAE. The GDB undertakes Program Budgeting, under the supervision of the MEF.



The questionnaire survey and interviews provide data on the budget process. For SOEs accounting, “it is easy” (GDSPNR), there is an income statement, balance sheet; liabilities will be included in the report. But PAEs do not have a balance sheet. They just work on a cash basis. PAEs have expenses reported by the Budget Law.

The budget process was raised by all interviewees, including the GDB, GDSPNR and the SOEs and the PAEs interviewed.

### 3.5 Audit and Inspection of SOEs and PAEs

In this report we refer to three types of audit:

- 1) Internal audit (undertaken within each SOE and / or PAE).
- 2) External audit (undertaken by the NAA of other RGC appointed body).
- 3) Independent audit (undertaken by a private auditing firm, such as one of the “Big-Four” international auditing firms).

The audit process is defined in separate regulations. Currently there are the following audits and inspections undertaken at SOEs and PAEs in Cambodia.

#### 3.5.1 Internal Audit

**Internal Audit and Inspection:** internal audit is established within each SOE and PAE. Internal audit of SOEs is responsible for performing independent functions on the operation of work and evaluating the activities of its SOE to assist the BoD. The role of the internal audit is to independently assess the adequacy of those internal control systems and to ensure the adequacy of existing and operational control systems as intended. Internal audit performs its duties and responsibilities in overseeing all activities, records, assets and personnel of the organization. The Internal Audit shall submit all reports and conclusions to its SOE and submit to the NAA. For PAEs, each PAE shall be subject to inspection and audit by the TG and FG. PAEs must be accountable to the line-ministries, that is the guardians for financial management and accounting in accordance with the relevant laws and regulations in force. An inspection unit, can be the General Inspectorate Department (GI) or an Inspectorate Department of the TG’s and FG’s LMs, within the competent authority determined based on risk approaches and suspicious cases. Then, the inspection unit reports the result of inspections to its minister.

According to discussions with the GDSPNR, all SOEs have an internal audit plus a quarterly coordination meeting. Occasionally there is an inspection from the National Assembly (NA). The constant reporting takes time, and this is an issue discussed in the Interview Findings in Chapter 4.

#### 3.5.2 External Audit

##### 3.5.2.1 The National Audit Authority (NAA)

The **National Audit Authority (NAA)**: the NAA is an independent public entity and shall report directly to the National Assembly, Senate and the Royal Government for information purpose. The audits are undertaken by the NAA included:

- Audit on financial statements, comprising of balance sheet, profit and loss statement and notes to the accounts forming part of the financial statements.
- Audit on management systems and operations, to controls in the management systems and processes established by management over activities and operations. This also includes the audit on functions or ongoing operations within Public Procurement, Personnel Payroll, Contracts, Public Property Management and Mission.
- Audit on evaluation, efficiency and effectiveness of operations, to evaluate the economy, efficiency, effectiveness of operations and outcome of the Royal Government program.

### 3.5.2.2 Financial Inspection (MEF)

**Financial Inspection:** The MEF assists the RGC in the financial inspection of public financial management and state assets. The MEF is responsible for preparing the annual financial inspection results report to the Prime Minister and copying it to the Ministry of National Assembly-Senate Relations and Inspection (currently renamed to Ministry of Inspection). The General Inspectorate Department (GI) of the MEF, serving the mission of conducting financial inspections on the compliance and performance of the management of public financial management and state assets using a risk-based, doubtful, grievance, and defamation approach. It also conducts financial inspections in public financial operations on the budget provided before and after the expenditure, and to inspect the relevant documents on cases of embezzlement, forgery of documents related to public finance, state asset management, state resources and public financial resources to prevent corruption. Meanwhile, the General Department of National Treasury (GDNT) of the MEF has the role to prepare and monitor the PAEs for the implementation of public accounting principles and regulations in accordance with national and international public accounting standards.

### 3.5.2.3 Public Procurement Audit (MEF)

**Public Procurement:** The MEF, as a public procurement management body that acts as a regulator and oversees the implementation of public procurement in Cambodia, has the following roles and responsibilities to monitor, analyze, and evaluate the implementation of laws and regulations related to public procurement. The General Department of Public Procurement (GDPP) of MEF assists the MEF to control and monitor all public procurement activities carried out by procurement enforcement agencies including SOEs and PAEs. The SOEs and PAEs shall prepare and send quarterly, semi-annual and annual procurement reports on the correct and regular implementation to the MEF as a basis for monitoring and summarizing procurement implementation.

### 3.5.2.4 Inspection of Civil Service (MCS)

**Inspection of Civil Service:** The Ministry of Civil Service (MCS) monitors the implementation of legal documents related to the field of civil services on the management of the presence of civil servants, etc. Inspection of the Ministry of National Assembly-Senate Relations and Inspection (now called the Ministry of Inspection). The MoI has roles and responsibilities to monitor and inspect the implementation of laws, policies, strategies, other legal documents and observations of the Prime Minister, and also inspect to all SOEs and PAEs. The results of inspections or research shall report with conclusions and suggestions to the Prime Minister for review and decision.

## 3.5.3 Independent Audit

Independent audit refers to an audit undertaken by private accounting firms such as the Big Four, and the many other Cambodian and internationally regulated accounting firms. Independent audit is undertaken for SOEs and PAEs where there are private shareholders, as is the case for Cambodia Reinsurance Company (Cambodia Re).

## 3.6 Responsible Departments of the FG (MEF)

### 3.6.1 Role of the General Department of Budget (GDB)

The General Department of Budget (GDB) is the Department of the MEF which liaises with the PAEs on financial reporting issues. The GDB is responsible for the budgeting process, and for overseeing the financial reporting. The GDB has several members appointed to the BoD of PAEs. The GDB is responsible for all budgeting of PAEs and also provides one of the audits.

When a PAE is created, the documents relating to the appointment of the BoD are sent to the MEF and managed by the GDB. The executives of the GDB, and the MEF have been appointed as Directors of PAEs in some cases.

The role of the GDB is stipulated in the sub-decree on the Organization and Functioning of the MEF. According to the interview, the GDB also relatively work with the SOEs and PAEs, and has responsibility for the following:

- to provide support in the GDB's current task of establishing a framework for PAEs.



- to ensure GDB's role in monitoring PAEs is recognized and shared within the MEF.
- to evaluate the system and criteria for return of revenues to the Government (the RGC) through the Treasury (NT).
- to review the system for dealing with self-generated funds of SOEs and PAEs in order that the Government (RGC) can reduce budgetary funding.
- to be involved in and integrate with the (range of) SOE and PAE audits.
- to assess the flow of information between the GDB and the MEF.

### 3.6.2 Role of the General Department of State Property and Non-tax Revenue (GDSPNR)

The GDSPNR is the body incorporated under the MEF responsible for monitoring SOEs in Cambodia, and recording the state assets assigned to all SOEs and PAEs. Role of the GDSPNR is stipulated in the Sub-Decree on the Organization and Functioning of the MEF.

The GDSPNR provides an annual report on State Property Inventory, comprising gains, losses, increases in assets, and summaries of movements in assets. All SOEs activities (related to the purchase or sale of assets) are included in a 10-page report, but not including SOEs not 51% owned by the RGC.

In addition to managing state assets, the GDSPNR is involved (in an advisory capacity) on the creation (and dissolving) of a SOE or PAE, planning and reporting of SOEs and PAEs. For example, if there is a request for funding or budgetary issue, the GDSPNR may advise but will not be involved in the approval. The GDSPNR also monitors all communications and networking between TGs and SOEs, which are set out in the SOE Law (i.e. they follow the law strictly). The GDSPNR also reviews and identifies challenges on management reporting implementation and monitoring include reporting on the BoD, Governors, ensuring effective BoDs, and codes of ethics for BoDs. The GDSPNR also reviews the BoD activities and reports on their quarterly meetings.

## Chapter 4:

# Findings and Observations

This chapter presents the findings and observations from the questionnaire survey and the interviews with managers of SOEs and PAEs. The findings are derived from the questionnaire survey issued to SOEs and PAEs in April 2023, the interviews with SOEs and PAEs, each of which was carried out at the SOE or PAE premises during May and June 2023, and the interviews with the GDB and the GDSPNR (GDs of the MEF), which were carried out at their respective locations.

The findings are structured using the framework of the existing Law on the General Statute of Public Enterprises promulgated in 1996 (the SOE Law), and the Royal Decree on the Legal Status of Public Administration Establishments promulgated in 2015, and amended in 2018 (the PAE Law).

### 4.1 Role and Mandate for SOEs and PAEs

#### 4.1.1 Main Issues

This section is based on the current legal frameworks governing SOEs and PAEs, namely the SOE Law and the PAE Law, which provide the legal and regulatory framework within which SOEs and PAEs operate. This includes the establishment and mandate of SOEs and PAEs and their operational responsibilities and reporting requirements. The questionnaire survey and interviews provided information on the application of the laws and regulations, the requirements for compliance, and the impact on the management and operations of SOEs and PAEs. The main issues under this component, covering what is determined under the law, are:

- **The legal mandate for SOEs and PAEs:** the SOE Law and the PAE Law provide the legal framework for SOEs and PAEs respectively; SOEs and PAEs are each established and governed under specific Royal Decrees and Sub-Decrees, which provide the purpose and mandate of all SOEs and PAEs.
- **The current practice of compliance by SOEs and PAEs:** adherence by SOEs and PAEs to the compliance requirements as set out in the laws and regulations, primarily in respect of the TG, the FG and the Audit Bodies of Cambodia.
- **The scope and flexibility provided by the legal system:** the impact on the operational flexibility of SOEs and PAEs to deliver on their mandate.
- **The need for legislative reform:** the likely issues that such reform would address.

The following sections in the findings from the questionnaire survey and the interviews undertaken with SOEs, PAEs and GDs of the MEF, and observations based on these findings aimed at contributing to overall efficiency of SOE and PAE management and control.

#### 4.1.2 Interview Findings

The managers of SOEs and PAEs provided information about their role and mandate under the law. The six responding SOEs and PAEs to the questionnaire survey each provided their titles and functions, their SOE or PAE name, category, and their main functions and duties. The respondents also provided their legal registration documents, and informed us of the law they are operating under and the decree under which their SOE or PAE was established.

Compliance to the reporting requirements was seen as paramount by all the SOEs and PAEs which responded to the questionnaire survey. The interview findings focused on the management practices, processes and procedures that SOEs, PAEs and GDs have in place to comply with the law, and the implications that this has in practice. This also allowed the SOE and PAE management to raise the issues they felt were important, identify both good practices and constraints, and raise any issues that might be useful in determining future governance and management.

The findings from the interviews with SOEs, PAEs and governing bodies of the MEF regarding the legislative framework are set out below.

### The Current Legal Framework and Mandate for SOEs and PAEs is workable

- **Royal Decrees, Decrees, and Sub-Decrees are the fundamental governing documents:** all SOEs and PAEs were established by the Government under Royal Decree (for higher status organizations) or Sub-Decrees; the purpose and mission of all SOEs and PAEs is fundamentally linked to the Royal Decrees and Sub-Decrees under which they were established.
- **Compliance with the law is paramount:** the questionnaire survey revealed that compliance with the law and reporting requirements are absolutely key, and this commitment from SOE and PAE management was supported by the interview findings. Each of the SOE and PAE managers referred to their respective laws, Royal Decrees or Sub-Decrees under which they were established and saw their role as to comply strictly with the law. In short, the Royal Decree or Sub-Decree was seen as the governing document for all SOEs and PAEs interviewed.

### The Mandate for SOEs and PAEs is clearly defined

- The purpose and mission of the SOEs and PAEs is clearly established.
- The BoD and Governance procedures are well set out.
- The role of the TG is clearly set out, with the TG providing the strategy and operational mandate for the SOEs and PAEs.
- The role of the FG is clearly established, providing both a liaison with the SOEs and PAEs to assist with financial reporting, and also providing a governance role, disseminating and reporting on the financial performance of SOEs and PAEs to the RGC.
- Audit and inspection requirements are also set out clearly in the law.

### Management time and resources used by SOEs and PAEs on compliance is considerable

- **Each SOE and PAE adheres rigidly to their duties to comply with reporting requirements:** all SOEs and PAEs responded in the questionnaire (and also stated in the interviews) that they are well aware of their mandate and responsibilities, and stick rigidly to the duties and mandate and to the reporting requirements under the law. Feedback from all the interviews indicated that strict accordance to and compliance with the law is a primary objective for SOEs and PAEs.
- **Compliance with the laws and regulations requires considerable time and resources:** compliance with the reporting requirements as set out in the laws and regulations requires considerable management time and effort, taking up a significant proportion of the available management time of the SOE and PAE. The associated hierarchical reporting systems necessary for compliance require a disproportionate amount of time and resources of most SOEs and PAEs.

### There is limited scope and flexibility for SOEs and PAEs under the current law

- **There is little or no scope for flexibility in the application of the law:** compliance with the law is paramount in the eyes of the SOEs and PAEs that responded and that compliance and provision of the required reports is strictly adhered to, regardless of the effort and resources required by SOE and PAEs management and staff.

### Longer Term Issues of ownership and structure can address constraints

- **Changes in legislation are outside the scope of our report;** however, adoption of particular models for SOE and PAE management; these are included in Chapter 5.
- **Legislative changes were not discussed in detail at interviews,** although some views for independence and flexibility were provided.

#### 4.1.3 Observations

The following observations are aimed at performance improvement and compliance with the PFMRP.

- 1) **The current legal framework is sufficient:** there is no compelling reason to seek to change the current legal infrastructure: the system of Royal Decrees and Sub-Decrees, and Prakas is well

established and understood; issues of management and control of SOEs and PAEs can be dealt with under the current legal framework.

- 2) **The legal framework provides SOEs and PAEs a strong mandate:** this is very important for setting the direction of SOEs and PAEs and a solid platform for the future and incorporation into the PFM RP. The main focus can be on the focus on the TGs, FG, SOEs and PAEs focusing on delivering the mandate and working together as a team.
- 3) **Compliance with the legal and reporting requirements is strong but involves significant time and resources:** the reporting is carried out according to the law, and the management information is, or should be made available from SOEs and PAEs through the reporting processes. There is an obvious commitment of management and staff to comply with all legal and reporting requirements, but reporting requirements impact significantly on the time available for management at SOEs and PAEs.
- 4) **There is scope to provide flexibility of operations of SOEs and PAEs:** within the scope of the Royal Decrees and Sub-Decrees governing the establishment, activities, responsibilities and reporting of SOEs and PAEs, it would be useful to identify areas where there could potentially be some flexibility for SOEs and PAEs to improve their competitive position and ultimately to lead to more integration and less strain on the government budget.
- 5) **Longer term legal reform can address constraints:** longer term issues of ownership and legal framework for SOEs and PAEs is included in Chapter 5: the SOE Law and PAE Law are under review but still sufficient to provide flexibility and policy changes: the current law still provides an appropriate framework for establishment, governance and management of SOEs and PAEs; and compliance with the current law is strong; changes to information reporting and implementation can be addressed as operational or policy decisions in line with the current law. However, specific observations regarding the legal framework, ownership and management of public enterprises are outside of the scope of this initial survey.

#### 4.1.4 Consistency with the Literature on the Role and Mandate for SOEs

The above findings are consistent with the issues concerning SOE mandate, set out in the OECD Guidelines on Corporate Governance of State-owned Enterprises (OECD 2024), the IFC study on the state of governance of SOEs internationally and in particular the significant role of SOEs in the economy (Wong 2018) and the role of SOEs in Asian countries (Park 2021) and the World Bank report on financial sustainability of SOEs (Pdr, 2023).

**Table 4.1 Role and Mandate for SOEs and PAEs: Summary of Observations**

No	Issue	Current Practice	International Practice	Observation
1	The current legal framework is sufficient for the establishment, governance, management reporting requirements of SOEs and PAEs, and provides a satisfactory framework to respond to observations as required.	The legal framework is sufficient: it covers the required mandatory, governance, management, and reporting requirements for SOEs and PAEs.	Each country has its own legal system; none are perfect. Much of the development of SOEs and PAEs comes from appropriate policy and implementation.	The law is in place and sufficient, even though it may have to be improved in the long term. Efficiency and transparency can be carried out within the existing legal framework.
2	The mandate provided to SOEs and PAEs is clear, and a very positive attribute.	The SOE Law and the PAE Law provide a strong and clear mandate for SOEs and PAEs.	The mandate for SOEs and PAEs internationally is provided through legislation and implementation of policy.	The mandate for SOEs and PAEs is already strong, and provides a good platform for future policy.

3	The processes involved in reporting take up a significant amount of management time which cannot be spent on other actions related to delivery of the SOEs' or PAE's mandate.	Compliance with the legal and reporting requirements is strong but involves significant time and resources.	Compliance is always an issue for SOEs internationally. The time and effort involved in management reporting in SOEs and PAEs has been an issue in many countries. Analysis of the reporting processes systems always identifies issues that can be addressed.	It is worthwhile undertaking an assessment of the reporting systems to identify areas of overlap and ways of easing the reporting burden can be undertaken, even if only to identify problem areas.
4	There is very little scope for flexibility of activities, responsibilities and reporting.	There is scope to provide flexibility of operations of SOEs and PAEs.	Scope for flexibility of operations can be defined in regulations or through policy in practice.	Some limited flexibility for SOE and PAE managers can be defined in a prakas or other regulations.
5	There are issues of ownership which will be addressed by the new laws; the observations included here are not dependent on any development in the specifics of law.	Longer term legal reform initiatives are addressing constraints.	There are many legal frameworks and models available internationally. New laws will be based on the underlying legal basis of each country.	Longer-term ownership issue is beyond the scope of this report; some ideas and models have been put forward in Chapter 5.

## 4.2 Board of Directors and Governance

### 4.2.1 Main Issues

Both SOEs and PAEs appoint a Board of Directors (BoD). The role of the BoD is to provide the governance and direction to the SOEs and PAEs respectively. This includes how the members of the BoD are appointed, and the effectiveness of direction and governance that the BoD is able to provide. This in turn will influence whether the SOE or PAE is able to maximize its organizational potential in the interests of its stakeholders. The main issues under this component (i.e. what is determined under the law) are:

- **Governance of SOEs and PAEs:** the governance and reporting requirements of SOEs and PAEs as defined under the respective laws.
- **BoD establishment and operation:** the role of the BoD is to provide governance and leadership for the SOE or PAE. Board meetings are mandated under the law to occur regularly, usually once every two to three months.
- **BoD appointments:** according to the law, BoD appointments are normally made from the requirements of the Sub-Decree; TGs and FGs respectively request the Prime Minister to appoint the members of the BoD. The mandate for appointment on the BoD is generally for three years, and the mandate is not limited; therefore, members of the BoD often remain in the position longer.
- **Commercial experience of the members of the BoD:** appointment of the members of the BoD is more likely to be made on the basis of ownership of the TG and FG, rather than industry experience.
- **Availability of external advice for members of the BoD:** Some members of the BoD have access to external industry advice; however, it is not clear whether this is common practice.

### 4.2.2 Interview Findings

All respondents reported that they hold BoD meetings, and five out of six provided BoD minutes. Each of the respondents reported that they have a letter of appointment of the BoD and/or management team.

The findings from the questionnaire survey and the interviews with SOE and PAE managers regarding the direction and governance of their respective BoD are set out as follows.

- **BoD set-up and structure:** the legislation is well established and the BoD in each case was properly set up and BoD minutes sent to the TG and FG as required.
- **Members of the BoD are RGC appointed:** both SOEs and PAEs will have an appointed BoD, and these will normally include members of the BoD from related LMs, with the exception of Cambodia Reinsurance Company (Cambodia Re), which has representatives of its investors.
- **The TG and FG generally represent its LM in the BoD:** each of the SOEs and PAEs has their BoD that I requested to appoint by their TG and the FG. For example, the Royal University of Agriculture (RUA) has BoD's member requested by the Ministry of Agriculture, Forestry and Fisheries (MAFF). Cambodia Academy of Digital Technology (CADT) has BoD's member requested by the Ministry of Post and Telecommunications (MPTC).
- **The term of a member of the BoD is often lengthy:** several interviewees mentioned that the BoD was static and long term. That can mean that there is good experience on the BoD (such as Cambodia Re); however, it may preclude the appointment of BoD's members with relevant experience to address and exploit changing market needs and opportunities.
- **There was some question raised as to whether the members of the BoD have sufficient commercial experience;** this related to the potential of the SOE or PAE to respond to commercial revenue generating opportunities.

### 4.2.3 Observations

Discussion on the observations is as follows.

- 1) **BoD set up and structure are working:** the system is well in place for the establishment and operation of the BoD, and the reporting and provision of minutes to the TG and FG.
- 2) **Appointment of BoD's members by the RGC and by the TG and the FG still reflects the current ownership:** the appointment of the BoD's members reflects the ownership of the SOE and PAE, and this is in accordance with the law; the issue relates to the experience of the BoD's members, particularly the commercial experience of BoD's members, and this is discussed below.
- 3) **Commercial experience of BoD's members can be enhanced:** BoD's members are limited to LMs and may sometimes lack sufficient commercial experience. The law does not refer specifically to the appointment based on experience. Provision of appropriate skills and experience for BoD's members; ensuring the BoD's members have the appropriate skills and access to knowledge is important to enable SOEs and PAEs to exploit opportunities, including commercial opportunities that may arise.
- 4) **Provide external advice for BoD's members can be made available:** several of the interviews raised the issue of external advice for the BoD. This was especially true for revenue-generation, it was felt by SOE and PAE managers that to have someone on the BoD with commercial experience would be important. To have BoD's members actively consult with external experts can facilitate the BoD's members to have access to external advice. It may be a good thing to appoint external consultants. External advice can be initiated and monitored by the TG. Inviting independent experts to advise the BoD's members; this would get around the problem of limited numbers of places for BoD's members.
- 5) **Appointment of BoD's members on the basis of industry experience:** there is limited evidence that appointment of BoD's members on the basis of commercial experience occurs, although there are cases where BoD's members have contributed significantly to the BoD through learning on-the-job, supported by long-term appointments (this is the case in Cambodia Re); some commercial capacity



on the BoD would mean that each SOE can make the most of revenue earning opportunities. This could come through appointment of BoD's members from private sector firms, or independently appointed members based on experience. Choice of BoD's members from industry will add commercial experience to the SOEs. This is similar to the Lithuania model put forward by the World Bank. This was supported by the WB, EU, and by the managers of the SOEs. Best practice indicates that the Lithuania example of appointing BoD's members on the basis of skills is productive. Appointment of BoD's members purely on the basis of ownership, whilst appropriate for state run bodies, and reflects the ownership of the SOE or PAE (i.e. the SOE or PAE is owned by the Ministry), can also be restrictive and, in some cases, it may be worth introducing BoD's members with wider or more specific commercial experience. This would add to the dynamism and flexibility of the SOEs and PAEs and would encourage competitiveness.

- 6) **Appointment of non-executive directors:** Non-executive directors can be BoD's members from industry can be appointed in an advisory role. Some countries (the UK) choose to appoint external experts as 'non-executive directors' so that they could give advice and independent opinion, but would have no voting rights or executive (decision making) power. Giving non-executive directors freedom to question the Board strategy and decisions is very much the British model; in this case giving 'non-executive directors' a specific mandate to enquire for the sake of transparency will be very advantageous. There is a role for non-executive BoD's members. But it is accepted that the appointment of 'non-executive directors' is not a common practice in Cambodia. There is some call for independent experts with commercial expertise to be appointed Board Advisors, but this is not necessary at this time as options to enhance the BoD's members with commercial exposure, liaison with industry and other SOEs internationally, and the role of non-executives (independent voice) being effectively made in other ways (e.g. through discussions with the TG, FG and other LMs and industry groups, can provide a similar result by giving an independent voice to BoD decisions.

#### 4.2.4 Consistency with the Literature on Governance of SOEs

The above findings and observations put forward are all consistent with the good practice for governance, including (Chang & Lin, 2022; Grøgaard et al., 2019; Hapsari et al., 2023; Heo, 2018; Kaunda & Pelsner, 2022; Kurniawan & Viriany, 2023, and Schneider, 2021). It is also consistent with the findings of the IFC study on governance internationally (Wong, 2018), the Asian Development Bank study on SOEs (Park, 2021), the World Bank Report on financial sustainability of SOEs (Pdr, 2023); and the good practice put forward in Monitoring the Performance of State-Owned Enterprises: Good Practice Guide for Annual Aggregate Reporting OECD (2022), Principles of Corporate Governance 2023 (OECD 2023), and the OECD Guidelines on Corporate Governance of State-owned Enterprises (OECD 2024).

**Table 4.2 Board of Directors and Governance: Summary of Observations**

No	Issue	Current Practice	International Practice	Observation
1	The systems are in place in the legislation for all set-up of BoD, minutes and reporting.	BoD Set-up and Structure is clearly defined.	Examples of BoD set up can be taken from many countries, but Cambodia's BoD set up and structure is already clear.	The system for BoD establishment and operation is already in place a review of effective BoD decision making will be valuable.
2	Appointments are made in accordance with the law and is in itself not an issue.	BoD members are appointment by RGC and by the TG and FG.	BoD's members are based on key criteria for the work including business experience and diversity.	The issue is not how the BoD's members are appointed, but the experience and knowledge they bring to the BoD.

3	BoD's members of SOEs and PAEs can lack commercial expertise to be able to exploit commercial opportunities.	BoD's members commercial experience can be enhanced.	Training and networking provided for BoD's Members to ensure that they have sufficient skills and contacts to implement commercial decisions.	SOEs and PAEs BoD's members to be provided with access to appropriate commercial and/or technical expertise when required.
4	There is a limited amount of direct commercial expertise on the Boards of SOEs and PAEs.	External advice for the BoD can be made available.	BoD's members have access to commercial partners, mentors, business schools to provide them necessary commercial expertise.	Provide more advice and expertise on an ongoing basis. University or Business School contacts can be a good source.
5	BoD's members are limited to TG, FG and LMs (i.e. public sector) may lack direct industry experience.	Appointment of BoD's members based on industry experience.	BoD appointed with relevant expertise and advice are in a much stronger position to deliver value.	BoD (i.e., Governance) of SOEs and PAEs open to BoD's members with commercial experience; and BoD's members with specific mandate.
6	There is limited facility to question board decisions.	Independent (non-executive) directors can be appointed on BoD of SOEs and PAEs.	Independent non-executive BoD's members are appointed to reflect on and question board decisions.	SOEs and PAEs can appoint adopt a non-executive BoD's member or independent BoD's member or consultant to question board decisions.

### 4.3 Technical Guardian

#### 4.3.1 Main Issues

The role of the TG is to provide a clear mandate and sense of direction for the SOE and PAE in line with the TG's own mandate. The questionnaire survey asked whether the link with the TG is key to the operations of the SOEs and PAEs, and the interviews explored more in depth the role of the TG, the relationship with the SOE or PAE, and the impact on strategy, operational efficiency and flexibility for the SOE or PAE. The following observations related to the role of TG based on international good practice. These form the basis of the specific observations made.

The main issues under this component (i.e. what is determined under the law) are:

- **The TG provides the purpose and Mission for SOEs and PAEs:** setting the mandate for what the SOE and PAE should achieve, including both social purpose and commercial objectives.
- **The fundamental link between SOE and PAE with the remit of the TG:** TGs, SOEs and PAEs are linked as the delivery mechanism for public policy.
- **Relationship between TG and SOE and PAE:** the relationship between the TG and the SOE or PAE was found to be strong, with active involvement of all TGs.
- **TG governing SOE and PAE Strategy:** everyone is committed to delivering the TG's policy or project, and are well aware of their responsibilities.
- **A strong sense of social purpose:** SOEs and PAEs in Cambodia have been established with a strong sense of social purpose (how the social purpose is valued is an important issue for the future).
- **Deciding which make a profit and which are social purpose:** this relates to valuing the social purpose (as discussed throughout this report); this was not discussed in detail at interviews but is fundamental to policy.



### 4.3.2 Interview Findings

Each of the respondents stated that the TG is actively involved in the strategy and operations and reporting of the SOE or PAE, actively liaises with the SOE or PAE, and is actively involved in the strategy, operations and reporting of the SOE and PAE.

Each respondent stated that the TG receives management and performance reports in accordance with the law, assigns competent officers to inspect, audit, monitor and control the SOE or PAE, and receives management and performance reports in accordance with the law.

The evidence from the questionnaire is that the relationships with the TG is strong and that the TG, usually a Ministry (LM), plays a significant role in determining the direction of the SOE or PAE and in their respective activities.

The findings from the interviews with SOEs and PAEs on the relationship with their TG are set out below.

- **The link between the TG and the SOE or PAE is fundamental to their operation:** the TG is defined under the Royal Decree or Sub-Decree which creates the SOE or PAE. The TG ensures that the SOE or PAE has correct guidance and direction to carry out its mandate. To implement services agreed by government, to provide technical guidance, and to ensure that the SOE or PAE remains viable.
- **Mandate is strong:** ensuring that achievable purpose is given to the SOE or PAE, and clearly define the target customers, and services each will provide. This means, for example to have a clear policy on how goods and services provided by SOEs and PAEs will be paid for, and which will be provided free of charge.
- **The relationship between the SOEs and PAEs with the TG is very strong:** SOEs and PAEs report a very close relationship with the TG in all aspects of their operations.
- **Each SOE and PAE interviewed reported active involvement of their TG:** evidence from the interview is that TGs play an active role in the management and reporting of the SOEs and PAEs; this included involvement in the strategy design and operations of the SOE and PAE.
- **Completing the mandate of the TG is the primary objective of SOEs and PAEs:** the SOEs and PAEs are all subservient to their TG. This allows them to implement the policy of the Government, but the negative aspect is that it gives SOEs and PAEs no freedom, and this could include freedom to pursue their own projects and raise revenue.
- **SOEs and PAEs are very committed to their mandate:** this relates to how the SOEs and PAEs are set up and how they see themselves and their role and function. The primary finding from interviews supported findings from the questionnaire survey, that all the SOEs and PAEs have a strong recognition for their origin and mandate under the law and adhere strictly to it.
- **SOEs and PAEs see their purpose solely to deliver the TG's policy:** compliance with the decrees and sub-decrees provided direction but also restricts the SOEs and PAEs. These restrictions inhibit the ability of the SOEs and PAEs to earn revenues thus constrain them to depend on government budget.
- **TGs do use SOEs and PAEs to implement their policies:** the links between TG and their SOEs and PAEs are strong. Typically, the PAE will be responsible for implementing one or more of the main policy objectives of the TG. For Example, CADT undertakes technology courses for the MPTC, the RUA provides education and training in agriculture for the Ministry of Education, Youth and Sport (MOEYS) and for the MAFF. In one or two cases, the TG focusing on delivery of their own (Ministry) objectives and projects; SOEs and PAEs have been established (in a number of cases interviewed) to implement the mandate of the TG, and effectively become “projects” of the TG.

### 4.3.3 Observations

Discussion on the observations is as follows:

- 1) **Assess whether SOEs and PAEs are really delivering customer needs:** by comparing and benchmarking with other international institutes; this relates to the performance standards referred to below, and applies to all categories, including education, health and utilities categories where performance standards are well established internationally.
- 2) **Ensure a wider input into governing the strategy for the SOEs and PAEs:** and sometimes this may be restrictive for the SOE or PAE, a broader discussion within the RGE and the possible inclusion of wider stakeholders could enhance the strategy of the SOEs and PAEs.
- 3) **TGs could regard the SOEs and PAEs as part of their own projects, and there could be wider consultation to include more stakeholders:** which may improve the SOEs and PAEs connection with their potential customers and partnerships.
- 4) **The TGs should consult as widely as possible with industry experts to ensure that state-of-the-art practices are taking place at SOEs and PAEs:** this relates to the observations for the BoD, and will contribute to ensuring that SOEs and PAEs can be at the forefront of industry standards.
- 5) **Consider each SOE or PAE as having its own mission and objectives as an institute in its own right, distinct from its role as purely to implement the TG's programs:** this would allow the SOE or PAE to focus on improving its competitiveness and revenue generation capacity, which would ultimately lead to reduction in government budget requirement for SOE or PAEs. A clear mission statement can help each SOE or PAE seek revenue raising opportunities in its respective markets. Viewing SOEs and PAEs as entities in their own right rather than implementing agencies of the TG can encourage alternative thinking outside the box for each SOE or PAE.
- 6) **Autonomy and future Status of SOEs and PAEs:** several of the SOEs and PAEs interviewed had considered the possibility of more autonomy, complete autonomy and flexibility to earn more revenue, and specifically to be able to compete with the private sector. For example, RUA says it can be self-sufficient in five years. It may be possible to consider how some degree of autonomy can be achieved, and these intentions can be made public. A current precedent exists, according to the GDB, if a PAE is earning enough revenue it can become a SOE. This would be the ultimate target to reduce the requirement for government budget. It would also assist in valuing the social purpose where it is not always possible for a SOE or PAE to earn a commercial profit.

### 4.3.4 Consistency with the Literature on Management of SOEs

The above findings are consistent with the following references covering the practice of SOEs (Jia et al., 2019; Landoni, 2020; Meissner et al., 2019) and in particular with the work of the World Bank World Bank Finance, Competitiveness, and Innovation Global Practice Group (Dall'Olio et al., 2022).

**Table 4.3 Technical Guardian Relationship with SOEs and PAEs: Summary of Observations**

No	Issue	Current Practice	International Practice	Observation
1	Whilst under the direction and management of the TG, the SOE and PAE have a strong sense of purpose; but opportunities to address customer needs are sometimes lacking.	TGs provide a strong mandate; however, they may not be fully delivering customer needs.	In line with best practice – all public enterprises need strong direction.	The purpose and mandate for SOEs and PAEs is very positive, but the question of addressing customer needs is worth considering.

2	TG focusing on delivery of their own objectives, which may sometimes limit the scope and opportunities of the SOE or PAE.	TG governs the SOE or PAE strategy.	SOEs and PAEs are given some freedoms to operate to exploit commercial opportunities.	TG to ensure that the SOEs and PAEs have a strategy focused on the opportunities for the SOE or PAE and the freedom to amend the strategy in agreement with the TG to be able to exploit opportunities.
3	SOEs and PAEs are focused on the requirement to serve their TG without freedom to pursue their own goals.	SOEs and PAEs are purely looked upon as projects of the TG.	SOEs and PAEs are considered institutions in their own right.	SOEs and PAEs to be considered institutes or businesses in their own right rather than an implementation body for a Ministry.
4	TG has good expertise but may not be really up to date.	TG should consult with industry experts.	TG to consult widely in industry for best practice. Business School contacts also good for this.	Same argument as for the BoD; it is worthwhile to use all contacts within Government to liaise with expertise.
5	SOEs and PAEs are restricted to delivery of the TG objectives and are limited in freedom to run themselves as businesses in their own right.	SOEs and PAEs have limited freedom to develop as institutes in their own right.	SOEs and PAEs are given their own commercial status and mandate with appropriate degrees of freedom.	Provide some limited freedom for SOEs and PAEs (particularly in the capacity building categories) to see themselves as institutes in their own right with capacity to develop and manage their strategies with some degree of independence.
6	SOEs and PAEs are seen as a project of the TG.	Institutions have limited opportunities for autonomy.	Giving some autonomy can give the SOE or PAE the status of independence and allow them to be more flexible pursuing opportunities.	An open-minded review and sharing of ideas between Ministries, SOEs and PAEs could yield some ideas for limited autonomy which will directly benefit the SOEs and PAEs and potentially take the pressure off the government budget.

## 4.4 Financial Guardian

### 4.4.1 Main Issues: MEF Liaison with SOEs and PAEs

The MEF is the FG for all of the SOEs and PAEs interviewed. The questionnaire survey and interview questions related to the role of the FG, the relationship with the SOEs and PAEs. The questionnaire and interviews covered the relationship of the SOEs and PAEs with the FG, and the flow of financial information to the FG. The major issues are:

- **Reporting requirements of SOEs and PAEs to the FG:** the SOEs and PAEs are obliged to report to the FG, which in all cases is the MEF.
- **Financial controller and liaison between FG and SOE and PAE:** to provide guidance and support of the FG for SOEs and PAEs reporting; the FG is required (and does) provide a financial controller for the SOE and PAE, often based at the SOE and PAE. The financial controller from the MEF advises on procedures and other requirements. This helps SOEs and PAEs greatly with the financial reporting requirements.
- **Flow of information for financial control to the FG from SOEs and PAEs:** the financial information is required to flow to the MEF as the FG every quarter, every year, and this is set out clearly in the regulations.

#### 4.4.2 Interview Findings: MEF Liaison with SOEs and PAEs

Each of the respondents reported that the FG:

- receives the annual / semi-annual / quarterly reports from them.
- actively liaises with them and assigns competent officers to inspect, audit, monitor and control the operations of their SOE or PAE.

It can be concluded from the questionnaire survey that the MEF is actively involved in the reporting of the SOEs and PAEs and that the MEF receives the required financial reports quarterly, six-monthly or annually.

The findings from the questionnaire survey and interviews with SOEs, PAEs and governing bodies of the MEF regarding the FG in its role as liaison with the SOEs and PAEs are set out below.

- **The relationship between the SOEs and PAEs with the FG is very good and strong:** in that both play an active role in the management and reporting of the SOEs and PAEs, with everyone appreciating their active liaison with the Accounting Officer.
- **Each SOE and PAE has an FG appointed financial controller with active involvement:** in advising the SOE or PAE on the procedures and requirements of the MEF.
- **The SOEs and PAEs interviewed all said that they have close liaison with their appointed accounting officer from the MEF:** this has helped the SOEs and PAEs greatly in adhering to and completing the necessary financial reporting procedures. SOEs and PAEs said that relationships with the MEF are good the relationship is “good” in that the FG provides appointed liaison officers (financial controllers), and this guidance is highly appreciated by SOE and PAE management.
- **A lot of time and effort is spent by SOE and PAE management and staff on financial reporting:** often with procedures which are outdated, for example the National University of Management (NUM) still provides manually prepared reports (see the section on Accounting and Reporting below).
- **It is unclear why several of the SOEs and PAEs did not respond to the MEF:** or have a satisfactory reporting relationship with the MEF as FG (the response rate to the questionnaire was very low and only a limited number of SOEs and PAEs were interviewed. Non-Respondents and Communication between the MEF and the SOEs and PAEs is an issue concerning the communication between the MEF and the SOEs and PAEs.
- **The number of respondents and the relationship between SOEs and PAEs and the MEF:** There were very few respondents to the survey. This is indicative of the working relationship that the MEF has, or does not have with the SOEs and PAEs.

#### 4.4.3 Observations: MEF Liaison with SOEs and PAEs

- 1) **FG as liaison and support for SOEs and PAEs can be extended:** The FG’s role in liaison with SOEs and PAEs includes: FG as the liaison with SOEs and PAEs, assisting with financial reporting.
- 2) **Differing levels of knowledge and capacity for financial reporting can be addressed by training and standardized use of accounting systems:** there is an issue of knowledge and experience in the accounting systems which are used by SOEs and PAEs to report to the TG and FG (MEF).

- 3) **Some gaps in training and development in standardized financial reporting:** the FG as provider of training (e.g. in standardized accounting and reporting software). Training and development should be provided to SOEs and PAEs in accounting software; this will help the SOEs and PAEs in developing staff who understand the accounting systems required by the MEF.
- 4) **FG can become the point of training and setting of standards:** provide training and development of standardized training in financial reporting, which can be applied across all the SOEs and PAEs. The results would be effective and up to date knowledge of the financial position of all SOEs and PAEs, knowledge of outliers and those SOEs or PAEs not in compliance with the reporting requirements of the law.
- 5) **Provide clear guidance to SOEs and PAEs on accounting software:** some SOEs and PAEs will need to have guidance and training on accounting and reporting software. The MEF could provide this; provide guidance on accounting software; Provide training and support to SOEs and PAEs in accounting and reporting; Clear guidance is still needed by SOEs and PAEs: Ability to provide hands on training and support to all SOEs and PAEs to ensure they can comply with the law and reporting requirements.

#### 4.4.4 Consistency with the Literature on Management of SOEs

The above findings are consistent with the following references related to SOE reporting including the IFC report on the state of governance of SOEs (Wong 2018), the Asian Development Bank study on Asian SOEs (Park 2021), the OECD report on Monitoring the Performance of State-owned Enterprises (OECD 2022).

**Table 4.4 MEF as Liaison with SOEs and PAEs: Summary of Observations**

No	Issue	Current Practice	International Practice	Observation
1	This is very positive, as a financial controller is available to SOEs and PAEs to assist with financial reporting.	FG as Liaison and Support for SOEs and PAEs.	The hands-on support is already in line with good international practice.	Continued liaison with the FG (MEF) through the appointed financial controller is very positive and can provide a bridge to introduce any changes and improvements to the reporting system.
2	SOEs and PAEs have different levels of knowledge on financial reporting.	Differing levels of knowledge and capacity for financial reporting.	Standardized reporting systems with well-trained practitioners.	MEF to ensure full training given in standardized financial reporting systems and procedures.
3	The gaps in training and capacity building put some SOEs and PAEs at a disadvantage.	Some gaps in training and development in standardized financial reporting.	Standardized training in financial reporting provides a level playing field for reporting in all SOEs and PAEs.	A review of the standard accounting and reporting systems and the associated training will really help underperforming SOEs and PAEs.
4	The lack of adherence to standards appears to inhibit the quality of financial information within the MEF.	FG as the point of training and setting of standards.	Setting standards of reporting along with the provision of training.	A review of the current standards set for the reporting and the gaps in knowledge and capacity within the SOEs and PAEs is important in improving quality of information.

5	Despite the availability of a financial controller there appears to be a need for further guidance for SOEs and PAEs reporting.	Clear guidance is still needed by SOEs and PAEs.	A planned and standardized procedures manual combined with training to all necessary levels of management and staff.	A review of training and guidance provided can not only help in reporting but can help provide a bond between the FG, the TG and the SOEs and PAEs.
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#### 4.4.5 Main Issues: MEF Financial Control and Reporting

The following issues are relevant to the role of the FG as financial controller:

- **The information for the FG is collected by the MEF by law:** there is specific financial information that the SOE and PAE should provide to the FG. This includes a statement of income and expenditure, and also includes investment expenditure, procurement and all contingency items.
- **Financial control by the FG:** the FG has a policy on financial control in order to monitor and have information available for governmental decision making on SOEs and PAEs.

#### 4.4.6 Interview Findings: MEF Financial Control and Reporting

This section relates to the information provided to the MEF as FG, and gives an overview of the reporting of SOEs and PAEs. This section covers the following:

- Financial control and information flow and sharing of information.
- Status of SOEs and PAEs – loss making - requiring budget etc.
- Policy on profits (or what to do with losses) of SOEs and PAEs.

As FG, the MEF ensures compliance, information flow and availability, to provide financial guidance to SOEs and PAEs and knowledge of outliers (profitable versus non-profitable); good financial management and reporting and clear information flows to the government and stakeholders as to the financial sustainability of the Public Enterprise. The findings from the interviews with the main General Departments of the MEF concerned with SOEs and PAEs in the MEF are as follows.

- **There is adequate provision for the reporting required for proper financial control within the current SOE & PAE laws:** all of the issues highlighted involve interpretation and implementation of policy and practice.
- **There was a significant issue with information available to non-respondents:** for the questionnaire survey only six SOEs and PAEs responded, including one which was interviewed. Despite the interview findings of a close relationship with the Technical and FG, the reason for the lack of responses from SOEs and PAEs is an issue that should be understood.
- **Those SOEs and PAEs that responded said that they adhere to the laws and comply in every way:** there is no available information about those who did not respond. This is one issue that the MEF can explore, to find out why there was no response and to build the relationship between the MEF (as FG) and the SOEs and PAEs. This is one of our observations, that the MEF firstly improves the communication within the MEF to share the knowledge of SOEs and PAEs, and secondly that the MEF ensures good and appropriate communication between the MEF as FG and the SOEs and PAEs.
- **There is some lack of information flow within the MEF:** it appears that the GDB and the technical accounting department of the MEF work well within themselves because not everyone within the MEF is aware of the extent of the existing liaison between the MEF and the SOEs and PAEs.
- **The flow of information into the FG is not good:** because somewhere along the line the information is hard to obtain in terms of effort and not shared well within the MEF.
- **Financial control of SOEs and PAEs is not of high quality:** not enough information on SOEs and PAEs, so no-one really knows what is going on, this is the first step to address (it is the job of the MEF to find out the status of SOEs and PAEs)- this is more likely to be sheer lack of clear reporting procedure rather than contempt or unwillingness to cooperate.



- **MEF has limited flow of information from SOEs and PAEs:** MEF not fully aware of the performance of SOEs and PAEs for which it is FG. There is insufficient information available within the MEF of the performance of SOEs and PAEs.
- **Too many SOEs and PAEs are making losses:** no-one knows exactly which are making losses. It is not clear which SOEs are net contributors, and which require a government budget. Each of the SOE and PAE has its own opportunities and challenges, but the main issue becomes whether the SOE or PAE is a net contributor to the Government.
- **Most PAEs appear to require government budgets and thus are effectively loss making:** and it is important to clarify in the public accounts which SOEs and PAEs are making losses so that patterns can be determined and appropriate actions taken. A lot of important information on the performance of SOEs and PAEs is contained within departments of the MEF. However, it is assumed that some are loss making and some are profit making. But it is simply not known at the moment because the information from SOEs and PAEs is not available. So, the first issue is to find out information.
- **Revenue generating opportunities are not being exploited:** many of the PAEs in particular (e.g., CADT and RUA) require a government budget, and are effectively loss-making: at the same time, each of these organizations sees opportunities to build partnerships, develop courses, including joint ventures with international institutions, to be able to provide competitive courses and to increase revenues.
- **Dealing with surplus of SOEs and PAEs:** there is no policy on how to use the surplus of the SOEs; how much should go to the National Budget, and what the procedures should be for this. Currently surpluses of SOEs and PAEs, if not specifically planned for, are returned to the Treasury.
- **Information is not widely shared within the MEF:** There is a requirement by law for SOEs and PAEs to report to the MEF which is the FG of all SOEs and PAEs. So, it is assumed that all SOEs and PAEs report according to the law. However, the financial information does not appear to be available within the MEF. The GDB makes a lot of effort to monitor the PAEs. Sometimes the MEF does not have enough information from the PAE. Information sharing within the MEF will improve transparency. The information on SOEs and PAEs which does arrive with the GDB within the MEF does not appear to be shared widely, so cannot be used for effective policy making.
- **There is no policy for the public finance reporting of SOEs:** according to the GDSPNR there is no policy for public finance reporting for SOEs. The French technical assistance team say that can disclose if there is no issue but they don't have to disclose if there is an issue.

#### 4.4.7 Observations: MEF Financial Control and Reporting

The FG's role as financial controller relates to:

- FG as information gatherer of SOEs and PAEs.
- FG as disseminator of financial information to the RGC.

The following observations are focusing on financial control within the MEF.

##### 1. Improve information flow within the MEF

- The MEF could have one central point of collection of information for SOEs and PAEs.
- The MEF should make efforts to make sure information flow which is received by MEF as FG is appropriately shared between departments.
- the MEF talks to and liaises with its departments, such as the GDB and the GDSPNR to ensure good information flow and full knowledge of the financial status and the wider picture at SOEs and PAEs and to ensure overall knowledge of SOE and PAE performance.
- the MEF should prioritize information flow to those who require it as FG; the MEF should not act as a purely hierarchical and/or bureaucratic organization, but encourage active liaison between departments, the GDB and the GDSPNR.



- Information within the government to be shared between ministries and the MEF and TG wherever appropriate. Information made public would be even better, this relates to the observations on performance management and public accountability below.

## 2. Build complete knowledge on SOE and PAE financial performance

- the full accounts of SOEs and PAEs should be made available to the MEF (not just to the Treasury).
- it is observed that the MEF (FG) focuses on mapping, storing and making available the information that it currently provided by the SOEs and PAEs.

## 3. Ensure a clear and specific policy on loss making SOEs and PAE

- the MEF should develop a clear idea as to which SOEs and PAEs are making a loss so you can focus on them.
- ensure clarity on profit-making and loss-making public enterprises. Information on profit and loss making within SOEs and PAEs be more widely shared within the MEF and within Government so that budgets can be planned for appropriate action can be taken to improve profitability and loss making amongst SOEs and PAEs.
- an exercise to ensure that the relevant people within the MEF are aware of all the information currently reported to the MEF as FG will help greatly in being able to record the current performance of the SOEs and PAEs. This will provide scope to assess the performance of SOEs and PAEs and will provide a much better basis for policy making.

## 4. The financial control information required for SOEs and PAEs:

- there should be an aim to improve the information available on SOEs and PAEs within the MEF.
- the information in the MEF on SOEs and PAEs is not widely shared within the MEF.
- there is limited knowledge within the MEF as to the compliance and performance of SOEs and PAEs.
- there is an issue with non-respondents and the relationship between the MEF and the SOEs and PAEs.
- the information flow within the MEF can be improved.
- financial control of SOEs and PAEs can be improved.
- policy on profit-making and loss-making SOEs and PAEs can be clearer.
- policy on surplus or deficit of budget can be clearer.
- this is already started by the MEF but with an observation to build a comprehensive checklist (e.g., the SOEs and PAEs Reporting and Financial Control Dashboard).

## 5. Effort should be made by the MEF to find out why SOEs and PAEs did not respond to the questionnaire and the interviews:

- this is required to understand the reasons why the response rate to the questionnaire survey was so low. It may have been simply that there was no one responsible.
- but it seems more likely that the day-to-day relationship between the MEF and the SOEs and PAEs is not sufficient to the effect what was a very straightforward survey.

## 6. Ensure a clear and specific policy on surplus making SOEs and PAEs

- there is no need to let SOEs and PAEs borrow money, just make sure you have the knowledge and flexibility in the budget.
- it is also observed to formulate a specific policy on what to do with any surplus from SOEs and PAEs, whether any surplus should be retained within the organization or returned to the Treasury.
- Clarify the policy on revenue generation by SOEs and PAEs; this will help clarify the scope of operation for enterprises in several sectors. The policy on revenue generation for SOEs and PAEs exists but is not clear.

## 7. The SOE and PAE Reporting and Financial Control Dashboard

- build the “SOE and PAE Management Information Dashboard” on SOEs and PAEs within the MEF.
- we put forward that a complete Dashboard in line with the example in this chapter: a dashboard is actively compiled and managed in line with the example provided below to monitor the financial performance of all SOEs and PAEs. (this is consistent with the World Bank recommendations).
- the MEF needs to be able to fill in the Dashboard of the financial and reporting information that is required of the SOEs and PAEs, such as the one that have been provided in this report.
- the MEF already has a Dashboard. An example of the Dashboard for records of SOE and PAEs is prozozed here below. This can be used to summarize the status of each SOE or PAE. The MEF already has similar lists / dashboard, but this is our suggestion of the updateable information required. This is consistent with the World Bank recommendation of a Dashboard (checklist) for SOEs and PAEs based on the example of Brazil. A full dashboard is observed, as per the example in section 4.4.10.

### 4.4.8 Consistency with the Literature on Financial Control of SOEs and PAEs

The above findings are consistent with the following references, including the transparency and accountability issues put forward by the Asian Development Bank (Park 2021), the professionalization approach put forward in the IFC (World Bank Group) Report (Wong 2018), the World Bank Report on financial sustainability of SOEs (Pdr, 2023); and the OECD reports on Monitoring the Performance of State-Owned Enterprises: Good Practice Guide for Annual Aggregate Reporting (OECD 2022), the Principles of Corporate Governance 2023 (OECD 2023), and the OECD Guidelines on Corporate Governance of State-owned Enterprises (OECD 2024).

**Table 4.5 MEF as Financial Controller: Summary of Observations**

No	Issue	Current Practice	International Practice	Observation
1	MEF is not fully aware of the performance of SOEs and PAEs.	FG as Financial Controller: FG has limited flow of internal information.	Information flow is provided to all those who require it within the governmental sector.	MEF to ensure good information flow and knowledge of SOE and PAE performance (including the GDB and GDSPNR).
2	Standardized information required for FG is not available from SOEs and PAEs.	Incomplete and differing levels of knowledge of SOE and PAE financial performance.	Information Dashboard is developed for all SOEs and PAEs to identify where information is incomplete.	MEF to develop Dashboard for information required by the FG for all SOEs and PAEs.
3	Too many SOEs and PAEs are making losses.	Financial Control of SOEs and PAEs.	Clear transparent accounting and reporting of SOEs and PAEs.	Clear information on profit-making and loss-making SOEs and PAEs more widely shared within the MEF and Government.
4	The actual information which arrives at the MEF is not clear.	Need to improve the flow of information to the MEF.	Standardized reporting systems and ensured adherence to this system.	A review of the Dashboard to see what information is arriving at the MEF from each SOE / PAE is essential.

5	It appears that there is some gap in the communication and availability of information within the MEF, and not all information on SOEs and PAEs is available to those who need it.	Need to improve the information flow within the MEF.	A flow chart of information is really beneficial to maximize the information availability.	A review of the information flow within the MEF, where information arrives, and to whom it is made available will help greatly identify gaps in information flow.
6	There is a possible lack of clarity on the policy for revenue surplus or deficit, and how to deal with these surpluses and deficits.	There is no clear policy on profit-making or loss-making SOEs and PAEs.	A clear policy always helps the understanding of both the SOE and PAE and the Governmental Financial Controller.	Clarification on the policy for revenue surpluses and deficits would benefit financial control.

#### 4.4.9 SOE Reporting and Financial Control Dashboard

The following is an SOE Reporting and Financial Control Dashboard, which can form the basis of an ongoing record of required information from SOEs. The Dashboard comprises the required records and links to all the reporting information required under the law for monitoring and control of SOEs, and also to meet the transparency and accountability requirements of the PFMRP. Such a Dashboard compiled and maintained by the MEF can provide a platform for the future long-term management of SOEs. Completing this Dashboard can enhance financial control and information availability based on international best practice, of the financial information and reporting information received by the Technical Guardian (TG) and Financial Guardian (FG).

**Table 4.6 SOE Reporting and Financial Control Dashboard Template**

SOE Name	Legal Form of Entity	Main Activities	Year Established	Legal Instrument	Board of Directors	Technical Guardian	Financial Guardian	Accounts Prepared	Auditing Required	Key Performance Indicators

The information required for each of the above components of the Dashboard would be as follows:

SOE Name	: Official Name of SOE
Legal Form of Entity	: Legal Form of Entity (SOE), Type: (Service, Production, or Financial Services)
Main Activities	: Description of main activities of SOE
Year Established	: Year established or Granted Autonomy (Year)
Legal Instrument	: Decree or Sub-decree (Anukret)
Board of Directors	: Link to Board Meeting Documents
Technical Guardian	: Documents provided, Record of active liaison
Financial Guardian	: Reporting documents submitted, Record of active liaison
Accounts Prepared	: Link to accounts prepared submitted
Auditing Required	: Auditing body link to audit reports
Key Performance Indicators	: List of Key Performance Indicators used by SOE (Link)

#### 4.4.10 PAE Reporting and Financial Control Dashboard

The following is an PAE Reporting and Financial Control Dashboard, which can form the basis of an ongoing record of required information from PAEs. The Dashboard (table) comprises the required records and links to all the reporting information required under the law for monitoring and control of PAEs, and also to meet

the transparency and accountability requirements of the PFM RP. Such a Dashboard compiled and maintained by the MEF can provide a platform for the future long-term management of PAEs. Completing this Dashboard can enhance financial control and information availability based on international best practice, of the financial information and reporting information received by the Technical Guardian (TG) and Financial Guardian (FG).

**Table 4.7 SOE Reporting and Financial Control Dashboard Template**

PAE Name	Legal Form of Entity	Main Activities	Year Established	Legal Instrument	Board of Directors	Technical Guardian	Financial Guardian	Accounts Prepared	Auditing Required	Key Performance Indicators

The information required for each of the above components of the Dashboard would be as follows:

PAE Name	: Official name of PAE
Legal Form of Entity	: Legal Form of Entity (PAE / PAE+)
Main Activities	: Description of main activities of SOE
Year Established	: Year Established or Granted Autonomy (Year)
Legal Instrument	: Royal Decree Sub-Decree (Anukret)
Board of Directors	: Link to Board Meeting Documents
Technical Guardian	: Documents provided, Record of active liaison
Financial Guardian	: Reporting documents submitted, Record of active liaison
Accounts Prepared	: Link to accounts prepared submitted
Auditing Required	: Auditing body link to audit reports
Key Performance Indicators	: List of Key Performance Indicators used by PAE (Link)

## 4.5 Accounting and Financial Reporting

### 4.5.1 Main Issues

The accounting and financial reporting aspects relates to the overall objective of financial and reporting systems, to provide efficient and clear procedures which allow timely transactions and reporting. This includes the accounting and reporting systems and processes used by SOEs and PAEs for management of public funds, management and cashflow of SOEs and PAEs, financial control of SOEs and PAEs, financial approvals and transactions, systems for contingency funding, budget flexibility for procurement, and procurement system improvement, and the overall improvements of financial management and reporting.

The main issues under this component are:

- the FMIS system, which enables the MEF to monitor and control the funds flow to and from RGC to the SOEs and PAEs.
- the accounting systems within the SOEs and PAEs which enable them to undertake their own accounting and reporting.
- the annual budgetary system.
- approvals and transfers.
- capital budgeting.
- all other types of budgeting, including procurement and contingency funding.

The findings from the questionnaire survey and the interviews are discussed below.

#### 4.5.2 Interview Findings

Each of the respondents stated that they provided an income statement, a statement of financial position, a cashflow statement, a budget statement, a pension liabilities statement, and a long-term liabilities statement. Respondents stated the accounting standards that they follow (see Appendix 4).

The findings from the interviews with SOEs and PAEs regarding the accounting and reporting systems, are set out as follows.

- **SOEs and PAEs undertake their financial reporting according to the legal requirements:** all SOEs and PAEs produce income statements and cash flow reports as required under the law.
- **Accounting and reporting systems exist in SOEs and PAEs:** a number of accounting and reporting systems exist within SOEs and PAEs although systems may differ between SOEs, and between PAEs.
- **The reporting requirements should be modernized:** especially when SOEs and PAEs are using manual systems to report.
- **The FMIS System is designed to capture the reporting information required by the MEF:** The FMIS was being introduced at the time of the interviews and was used by all SOEs and PAEs interviewed.
- **Financial approvals and transfers for non-budgeted expenditure can be approved during the year, using the FMIS:** Procedures for non-budgeted expenditure exist and are frequently used by the SOEs and PAEs interviewed.
- **The approval process takes too much time:** the approval process for funding requirements seems to be time consuming, with examples cited of three to four weeks for approval of relatively minor items of expenditure.
- **The funds transfer process:** Each SOE or PAE transfers their own self-generated funds to the commercial bank, and seeks approval for the Government subsidized funding. The approval process for funding requirements seems to work sufficiently but to be time consuming.
- **FMIS and accounting system works well but is limited and inflexible:** there were many comments about the FMIS system, mainly saying that it is a good and workable system but sometimes slow and cumbersome, especially when approvals for budget are being submitted. The reporting systems based on FMIS seem to work well and are in accordance with the law, but can be time consuming for the SOEs and PAEs. The FMIS system is not perfect, but it does work. The liaison with the MEF accounting officers appears in all cases interviewed to be good.
- **The FMIS system is to be distinguished from the accounting systems used by the SOEs and PAEs:** the FMIS system is designed to manage public finances, but is not a dedicated accounting system for management purposes.
- **There is an annual budgeting system:** An annual budgeting system is in place, with planned revenues and expenditures determined before the beginning of the financial year.
- **The budgeting system for SOEs and PAEs is systematic and works well enough:** but some of the SOEs and PAEs have constraints that not enough budget is available for several areas of operational or capital expenses.
- **Management of cash flow is responsibility of the SOEs and PAEs in consultation with the FG:** Systems are in place for cash flow management (i.e. transfers to the SOE or PAE from the FG, the MEF). This includes systems for contingency funding.
- **Investment finance for SOEs and PAEs:** Investment expenditure is included within the annual budget, but no separate budget for investment expenditure during the year.
- **Capital investment budget is inflexible:** similar to contingency funding and procurement, there is very little flexibility for non-budget expenditures on CAPEX to provide flexibility for investment undertaken within the given accounting year.

- **Procurement and working capital:** the procurement system requires all SOEs and PAEs to finance all of the procurement and investment out of cash, leaving no room for working capital: budget flexibility on procurement was also an issue, this is related to the procurement law, as the procurement law is under the Government Procurement Law, which states that the SOE has to provide all the cash for procurement at one time, hence there is often a lack of funds for working capital.
- **Budget flexibility on procurement:** A procurement system is in place with some limited flexibility outside of the annual budget.
- **Contingency funding - limited scope for contingency funding outside of the budget:** There is little scope for contingency (unexpected) expenditure that is not already included in the annual budget. The approval system for unexpected expenditure is a lengthy and time-consuming process and directly inhibits operational performance.

#### 4.5.3 Observations

These observations should lead to more operational flexibility and improve responsiveness of SOEs and PAEs.

1. **Ensure that a suitable accounting system is in place:** for internal management (this may involve MEF observing a suitable accounting management system for SOEs and PAEs to use in conjunction with FMIS): Accounting software should be standardized; there is some evidence that there is more than one accounting system used by SOEs and PAEs: this should be double checked as it might improve reporting if a variety of accounting systems were standardized to one.
2. **Continued improvement of the FMIS and accounting system:** in short, it would be prudent to develop the FMIS to make it work well, that staff are well trained to use it and make sure that appropriate accounting systems are in place for internal management of SOEs and PAEs. The FMIS is not designed to manage institutes, only to track government funds. However, it is important to ensure that the information FMIS provides is up to date and available, and suggest that you make sure that institutes are trained in financial reporting systems which they can use in conjunction with their FMIS Commitments. Further development of the FMIS is observed to account for ease of input and for common standards of reporting between SOEs and PAEs.
3. **The approval and funds transfer process:** streamlining the approval process, the approvals and transfer process should be reviewed to ensure that bottlenecks are alleviated and all the exiting systems work as well as possible. This would at least ensure that clear information is provided to the SOEs and PAEs so that management time is not wasted on the application process. Streamlining the funds transfer process should be considered, resulting in a more streamlined approval process for contingency funds. The processes for treasury accounts (grants and subsidies) is long and complicated, and should be incorporated in the review.
4. **The budgeting system procedures and bottlenecks:** identification of bottlenecks in the current budgeting system would help find a way within the annual budget system to provide flexibility for investment and short-term unexpected expenditure and contingency funds.
5. **Capital investment budgeting:** separation of capital budgeting and operational expense budgeting would help directly in operational management (for example, this was highlighted in cases such as NUM where capital expenditure has to be financed from revenue and significantly impacts operational cash flow).
6. **Procurement budgeting:** providing some flexibility in the budget process to allow for financing of procurement in line with the needs of the SOE and PAE rather than the specific requirements of the budget process.
7. **Contingency funding can be facilitated:** there should be contingency funding within the budget for unexpected amounts within the annual budget. The result would be to streamline the approval process for contingency funds required during any given year.



#### 4.5.4 Consistency with the Literature on Accounting and Reporting of SOEs

The above findings are consistent with the practices of appropriate accounting systems out forward by the Asian Development Bank study on Asian SOEs (Park 2021), the professionalization of public enterprises issue (Wong 2018), and the Monitoring the Performance of State-Owned Enterprises: Good Practice Guide for Annual Aggregate Reporting (OECD 2022).

**Table 4.8 Accounting and Financial Reporting: Summary of Observations**

No	Issue	Current Practice	International Practice	Observation
1	Considerable management time is spent on the procedures and processes for accounting and reporting.	Accounting System for SOEs and PAEs are outdated; some of the input systems are still manual.	Best practice accounting systems take a period of time for installation and adaptation.	Standardized accounting systems for all SOEs and PAEs supported by training would assist SOE and PAE management.
2	FMIS works well but is a little limited and inflexible.	The FMIS Information System is currently being introduced.	Standardized well specified accounting systems assist greatly in streamlining operations and financial management.	Continued improvements for the FMIS to ease of input and presentation of accounting information.
3	The significant time spent on procedural issues is restricting time available for operational issues (financial approvals widely cited as taking three weeks for approval).	Financial approvals and transactions is time consuming Considerable management time is spent on necessary financial approvals which are outside the budget .	Streamlined systems for non-budget financial approvals assist greatly in financial management.	Review of the current approval system to identify bottlenecks. Clear systems and procedures for financial approvals during the year should be available providing the necessary flexibility for operations of SOEs and PAEs.
4	There is limited scope for contingency funding outside of the annual budget.	Budget procedures and bottlenecks limit operational budget efficiency and flexibility.	Appropriate scope for contingency funding is incorporated into planning system.	More flexibility within the current budget made available for contingencies.
5	The investment budget is financed out of cash, and investment expenditure restricts operational expenditure.	The investment budget is not separated from the operational budget.	Investment budget procedures in accordance with accounting requirements separate investment from operational expenditure.	Review of the budget system for investment undertaken by SOEs and PAEs would help alleviate the impact of investment impacting operational expenditure.
6	The procurement system requires all SOEs and PAEs to finance all the procurement out of cash, leaving no room for working capital.	Budget flexibility on procurement, and the procurement system is based on cash available.	Appropriate flexibility for contingency funding for procurement to preserve working capital.	Review of procurement systems to ensure that working capital is available would benefit SOE and PAE management.



7	There is little facility for contingency funding outside of the annual budget process.	Contingency funding can be facilitated.	Suitable systems are in place to provide flexibility to the budget in SOEs.	A review of the contingency budget would be beneficial and would lead to more efficiency in the budget process.
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## 4.6 Auditing and Inspection

### 4.6.1 Main Issues

The audit section relates to the audit requirements under the law for entities receiving public funds. The audit procedures are to provide a true and fair picture of the financial state of the SOE or PAE, but the fundamental issue is the legal requirement for auditing. This has impact on the time and resources required of the SOE or PAE to without excessive time and resources used in collection and preparation of the necessary financial and also operational data required for each of the audit bodies.

The main issues related to audit and inspection are:

- the mandated audits and compliance.
- overlapping and duplication of audits between different audit bodies.
- multiple stakeholders and auditing (the information that each stakeholder requires).
- external audit and independent audit.

The questionnaire survey and the interview questions in respect of audit and inspection covered the requirements and scope of audits under the law, the different audit bodies in Cambodia and their mandate for undertaking the audit, the issue of multiple audits and overlapping audits (where audits by different auditing bodies were auditing the same financial and operational data). The questions at interview also covered the improvement of audit and inspection systems for SOEs and PAEs, and specific audits such as procurement audits and human resources audits.

### 4.6.2 Interview Findings

All respondents reported that their SOE or PAE was subject to inspection, audit, monitoring and control by the TG, the FG and the National Audit Authority (NAA) in accordance with the law. However, none of the SOEs and PAEs are required to be subject to audit by an independent auditor.

The findings in the interviews revealed the following issues related to current practice:

- **Clearly defined audit mandate: the audit mandate for SOEs and PAEs operates within a clear and well-defined framework based on the law:** there are several audit bodies registered and obliged to audit SOEs and PAEs. Each SOE or PAE will have the same system of audits: which comprises internal audit and external audits.
- **The main audit is carried out by the NAA:** SOEs are obliged by law to be audited by the NAA.
- **The audit system is well established and whilst requiring a lot of time and effort it does at least work and can be improved upon;** however, it is very time consuming for SOEs and PAEs and audits have a significant overlap.
- **Compliance with audits is paramount:** SOEs and PAEs operate under each aspect of the law, each follow the required audit procedures.
- **The burden of audit is excessive:** There are too many audits, which are time consuming and overlapping: it is clear that an excessive amount of time and resources are spent on audit requirements in the SOEs and PAEs interviewed.
- **Audits overlap and are carried out by different audit bodies:** The NAA audit and the MEF audits appear to overlap.

- **Audits report to multi stakeholders:** there are several different audit bodies, and their mandate appears to be defined under different laws and overlap with each other.
- **No independent audits:** No independent audits take place; all audits are internal, undertaken by governmental audit bodies; the exception is Cambodia Re, which requires an independent audit as it is owned jointly by private investors.

#### 4.6.3 Observations

We suggest the following measures might be considered to address the issue of overlapping audits:

- 1) **Audit mandate:** it is worth reviewing the historical mandates for audit to see how they were established.
- 2) **Time and resources for audit:** It is worth assessing the time and resources that SOEs and PAEs spend on the audit processes.
- 3) **Audit overlap and duplication:** Review the audit system to identify areas where it is possible to avoid overlap; (for example, if two separate audits are reviewing the same documents then one audit is superfluous); Sign agreement between auditing bodies so that one audit body accepts the findings of another audit body auditing the same thing: this will reduce the incidence of duplicate audits.
- 4) **Multiple stakeholders:** map the auditing system to gain a full understanding of “who” is auditing “what”: this will really help to discover overlaps in audit which can be avoided in the future.
- 5) **Encourage independent audit where possible;** this will really enhance the credibility of SOEs and PAEs and would allow, for example, SOEs which are revenue generating to be able to raise their own capital, or seek more independence.

The objective is to provide independent audit, effective, avoiding duplication, and also manageable within the operational capacity of the SOE or PAE. The following related to the auditing requirements are put forward based on international good practice. These form the basis of the specific observations made.

The measures undertaken to streamline the audit processes will result in less time and resource pressure on the SOEs and PAEs, which currently have to undertake multiple audits. This process can start by mapping the audits and what they comprise, and searching for areas where the overlapping of audits can be reduced based on known public sector and commercial practice to streamline audit processes can be used to do this.

#### 4.6.4 Consistency with the Literature on Auditing and Inspection of SOEs

The above findings are consistent with the following references on auditing and inspection, including the role of audit in SOEs (He & Li, 2023), external monitoring of SOEs (Li & Zhang, 2019), corporate reporting (Nicolo et al., 2021), and the principles of aggregate reporting put forward by the OECD (2022), Monitoring the Performance of State-Owned Enterprises: Good Practice Guide for Annual Aggregate Reporting (OECD 2022).

**Table 4.9 Auditing and Inspection: Summary of Observations**

No	Issue	Current Practice	International Practice	Observation
1	Historic audits have become incremental.	Clearly defined audit mandate.	Streamlined audits are something many countries are working on.	Review the audit system of who audits what and determine where there is flexibility to be able to.
2	Compliance is good practice, but it takes so much time to comply.	Compliance with all the audit requirements is paramount.	Countries incorporate auditing requirements within one main audit. A valuation of the costs and benefits of providing multiple audits is an important consideration.	Review the management time and resources spent on audits (estimate of man hours – this would help with the planning for audits).
3	There are multiple audits, mainly internal audits by government organizations. Duplication of audits and time consuming for SOEs and PAEs to administer multiple audits. SOEs and PAEs reports to and are audited by multi-stakeholders, particularly for audits of specific functional areas such as procurement.	Too many audits and Audit System Duplication. Multiple Audits and Overlapping Audits. Requirements and scope of audits overlaps.	Rationalization of the audits, on the basis of who needs to audit what. Streamlined audit (commercially based, specific remit); a balance between the number and scope of audits, avoiding overlap whilst providing international standard audits.	Consolidation of audits and continual review of audit procedures to ensure efficiency. Review the multi-audit processes to avoid overlap. There is a need for a clear map of the audits; and audit system improvements aimed at rationalization. Review all audit procedures to identify where there is overlap Or at least review what the audit does, and how the stakeholder benefits.
4	Duplication of audits – reporting the same thing to different stakeholders.	Audits Report to Multiple stakeholders Differing Audit Bodies (refer to the earlier chapter on legal requirements above).	Streamlining audits.	Some rationalization of who needs to know what. Reduce the overlap in audit. There is a need for agreement between audit bodies not to overlap on audits.
5		Limited independent audits.	Independent audit has been encouraged to bring greater transparency to SOEs and PAEs.	Encourage independent audit wherever possible.

## 4.7 Performance and Accountability

### 4.7.1 Main issues

Performance and accountability relate to determining appropriate metrics by which to measure the performance, in order that SOEs and PAEs can be financially and ethically accountable to all stakeholders. This includes:

- Performance standards currently used.
- The link between performance standards and performance assessment.
- The use of international performance standards.
- Performance standards for SOEs and PAEs exist but are not published currently.
- Public accountability depends on the SOEs and PAEs; there is limited public accountability of SOEs and PAEs (some do, some do not).

The following related to performance standards and public accountability are put forward based on international good practice. These form the basis of the specific observations made.

### 4.7.2 Interview Findings

There were no direct questions in the questionnaire regarding performance and accountability. But the SOEs and PAEs who responded to the questionnaire survey did state that they are subject to performance indicators. This issue is explored further in the interview findings. The findings from the interviews with SOEs, PAEs related to performance and accountability are set out below.

#### Current Use of Performance Standards are Currently Used Widely

- **The use of performance standards is to be encouraged:** whatever standards are used, so long as they are relevant and valid and useful then they are worthwhile.
- **There are many international and Cambodian performance standards used for performance assessment:** but this can be confusing. There seems to be many sources of performance standards.
- **Performance standards are widely applied by each TG:** however, there are so many that they can be confusing. The performance standards are not made publicly available. There are no public performance standards for public enterprises (i.e. none have been seen).
- **Develop straightforward, understandable and available indicators:** to assess the accomplishment of the mission of each SOE and PAE.
- **Standardize and make public the performance standards for each SOE or PAE:** there are so many KPIs from different institutes and this makes performance management confusing.

#### There is No Apparent Link Between Performance Standards and Performance Assessment

- This was not discussed but there is no obvious link between performance standards and policy action.
- Performance standards should be incorporated within the performance budgeting program of the PFMRP.
- If the RGC introduces internationally accepted performance standards (e.g., timeliness, accuracy, cost per student, cost per patient, levels of customer satisfaction); this would strongly encourage the public to see value in the SOEs and PAEs. This would not involve any changes to the current laws, but would provide a broader and more in-depth assessment of the true value of SOEs and PAEs in Cambodia. Publish these so that the general public can also see performance. It is observed public accountability to be integral to SOEs. This proved to be very successful in the UK.

### Publicly Available Performance Standards are Limited

- **The performance standards used are not made available to the general public:** who are often customers of the services provided by SOEs and PAEs.
- **Some SOEs and PAEs already publish performance standards (e.g. PPWSA):** this can be extended to other SOEs and PAEs. The UK, and other countries which have adopted public accountability standards have found them to provide a very strong impetus for recognition of the performance of public entities, and the practice has extended to private sector firms, many of which now publish data on their own performance using the same measures. The public reaction to performance standards has been very positive, and has allowed policy makers to identify better ways of managing public enterprises.

### Internationally Accepted Performance Standards

- **Internationally accepted performance standards by recognized accreditation agencies:** this is the best (e.g. educational institutes can apply for accreditation from recognized international organizations).
- **Follow all international standards for accreditation and certification to ensure quality in every aspect of what the SOEs and PAEs do:** international accreditation by 2030 is a very good ambition (this was put forward by RUA as one of their ambitions).

### Public Accountability is not a Priority

- **There is no indication of any public accountability of SOEs and PAEs:** There no evidence of public accountability of SOEs and PAEs beyond that of the goodwill of the organizations (companies, universities, hospitals etc.) to follow reporting conventions and to report more widely to their stakeholders themselves. Movement to more public accountability will help to encourage greater flexibility and competitiveness, and in cases where the SOEs and PAEs are constrained it can highlight the true value that the institute is providing (for example NUM provides a lot of free scholarships for lower-income family students and this is value which can and should be recognized).

### Public Accountability and Accreditation

- This is discussed above, and also under observations below.

#### 4.7.3 Observations

Observations which could enhance the accountability of the SOEs and PAEs:

- 1) **Current use of performance standards:** Current use of performance standards is widespread but clarity is suggested to see exactly the basis for which SOEs and PAEs are being assessed.
- 2) **Link performance standards to performance assessment:** These standards could be incorporated into the input based, program based, and performance-based budgeting used in the PFMRP.
- 3) **Publicly available standards:** Make the performance standards publicly available through the SOE's or PAE's internet site or through annual government published reports.
- 4) **Internationally accepted standards:** Develop standardized targets for public accountability such as those based on those used in the UK since the 1990s (accuracy, timeliness, politeness, customer satisfaction etc.); Follow the World Bank and EU project observations for performance standards; there is much in the joint World Bank and MOEYS project for improving quality in education and it is suggested that make the most of these opportunities.
- 5) **Public accountability (and accreditation):** Public accountability targets to be made public and reported on each year.

Use the model of Cambodia-Re as an example of what happens when there are private investors and commercial operations.

#### 4.7.4 Consistency with the Literature on Performance and Accountability of SOEs

The above findings are consistent with the following references related to performance and accountability, especially the literature related to the role of SOEs in the economy, (Adebayo & Ackers, 2022; (Taghizadeh-Hesary et al., 2019), and the study by the World Bank (Dall’Olio et al., 2022). It is also consistent with the requirements for aggregate reporting (OECD 2022; OECD 2024), and World Bank Report on SOEs (Pdr 2023), and supports the findings of the IFC in the state of governance of SOEs (Wong, 2018).

**Table 4.10 Performance and Accountability: Summary of Observations**

No	Issue	Current Practice	International Practice	Observation
1	It is not clear which performance standards SOEs and PAEs are adhering to.	Current Use of Performance Standards; Performance standards are widespread but confusing.	Appropriate and measurable performance standards are determined and form the basis of evaluation of SOEs and PAEs.	TG and FG to review and simplify and rationalize performance standards to ensure appropriate measurement of SOE and PAE performance.
2	There is no clear link between performance of SOEs and PAEs and funding, or any other policy action.	Link to Performance Assessment; Unclear whether and how performance standards are incorporated into budgets.	Accountability for performance is an ongoing issue in all countries, and is usually addressed by appointment of Ministers (i.e. Ministers are ultimately responsible for their SOEs and PAEs).	PFs should be incorporated into the performance budget of PFM RP.
3	The public (taxpayers) are not aware of the performance standards and so there is no accountability of SOEs and PAEs.	Publicly Available Standards; No standards are published for SOEs and PAEs.	Clear performance standards on the full range of public sector accountability criteria. Performance standards for SOEs and PAEs are set in consultation with stakeholders and regularly published.	MEF (FG) and TGs to develop an appropriate system for reporting of SOEs and PAEs against internationally recognized standards, and publishing these standards and performance annually.
4	There is no system of setting performance standards based on international standards. There is no benchmarking of KPIs or standards against international practice.	International Standards; Performance standards are internal; International Performance Standards are lacking.	Internationally recognized performance standards are set for SOEs and PAEs in consultation with stakeholders. Most KPIs have an international basis which can benchmark KPIs (e.g. ISO standards).	MEF and TGs to reassess performance standards in light of international standards Introduce internationally recognized KPIs for SOEs and PAEs (e.g. ISO).



5	<p>No accountability of SOEs and PAEs to the general public for performance. There is no publicly available performance standard by which to judge the performance of SOEs and PAEs (including valuing the public service that they undertake).</p> <p>The lack of benchmarking limits the possibilities for accreditation by international bodies.</p>	<p>Public Accountability of SOEs and PAEs is lacking. No public accountability of SOEs and PAEs.</p> <p>Performance standards could serve to lead towards accreditation.</p>	<p>The introduction of public accountability of SOEs and PAEs has generally been very positive, and has provided a means to assess the value and the cost of public services and to help.</p> <p>Performance standards are not seen as negative but as positive contributors to policy development identify areas for improvements.</p>	<p>Introduce agreed performance standards for SOEs and PAEs based on international experience.</p> <p>Performance standards are important and are adhered to, but a system of reporting them to the government, the public and other stakeholders would really help transparency.</p> <p>Consider publishing accountability indicators (e.g., British experience in 1990s).</p> <p>Introduction of publicly available performance standards would lead to recognition of quality, as well as areas for improvement and would assist greatly in valuing the contribution of SOEs and PAEs.</p>
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## 4.8 Competitive Environment and Challenges

### 4.8.1 Main Issues

The main issues concerning competitive challenges are that providing a competitive environment is essential for SOEs and PAEs in order that they can deliver their mandate effectively in competition with other service providers in the public and private sectors. The competitive environment for public enterprises covers the following:

- **Setting the mandate; social and commercial purpose:** SOEs and PAEs have to deliver a social purpose. There are some cases of conflicting purpose to reduce the impact on government budget but at the same time to deliver on social purpose.
- **Significant capital required:** the mandate for SOEs and PAEs often requires significant infrastructure development (e.g. an electricity distribution network, a water supply system); capital costs are a significant issue.
- **Sources of income and expenditure:** managing the lack of revenue: sources of income and expenditure are limited for most SOEs and PAEs.
- **Long-term funding and budgetary uncertainties:** the annual budget process often needs to be augmented by additional approvals during the year. Budget compliance and freedom to operate are significant issues.
- **Improving the ability of the SOEs and PAEs to compete with the private sector:** whether the SOE or PAE is a monopoly or natural monopoly or not, it still has to compete for resources, both physical and intellectual, labor and capital, and this involves pricing and competition with the private sector.



- **Freedom for the entrepreneurial spirit and autonomy:** There is very little freedom and autonomy for SOEs and PAEs. All SOEs see opportunities to improve their position and talk about autonomy and raising revenue.
- **Working with international organizations:** sharing of international experience is beneficial in managing any organization, especially those as big as the SOEs and PAEs.

#### 4.8.2 Interview Findings

The following were the findings from the questionnaire and interviews, related to the current competitive environment are put forward based on international good practice. These form the basis of the specific observations made. There were no questions directly relating to competitiveness challenges in the questionnaire survey, which primarily concerned compliance with the current laws. However, the subject of competitiveness issues was raised at the interviews, and the findings from the interviews with SOEs, PAEs related to the competitive environment are set out below.

##### Purpose and Mission: Valuing the Social Purpose

- **SOEs and PAEs have a strong social purpose:** all of the SOEs and PAEs have a strong social purpose and are committed to providing this. For example, NUM is providing 100 scholarships per year to students studying at NUM. RUA is doing the same. This is an important issue for SOEs and PAEs because they are obliged under their governing sub-decrees to provide for these social needs.
- **There is often a conflict between social purpose and profitability:** PAEs with a strong social purpose (e.g., NUM, CADT, RUA), which all provide scholarships for low-income students, have a conflict between providing places for students for free and being expected to generate sufficient revenue and make a profit. This leads to potential constraints, as it is often the case that conflicting objectives exist between social purpose delivery and profitability.

##### Capital Required

- **Significant investment capital required:** for example, EDC are aiming to supply electricity to each of the provinces, EDC are fulfilling education in technology, NUM is committed to providing education to all in Cambodia regardless of ability to pay. Calmette Hospital is trying to introduce new treatments and provide medical cover for all ages and income groups. These are tough challenges for SOEs and PAEs.

##### Sources of Income and Expenditure

- **Sources of income and expenditure for SOEs and PAEs are not fully exploited:** the issues of competitiveness relate firstly to the sources of income and expenditure. Many of the SOEs and PAEs have a conflict of interest in social purpose and requirement to make a profit, but allowing them to focus on generating their own income or sourcing new income can take the pressure off government budget.

##### Long Term Funding and Budgetary Uncertainties

- **Budgetary uncertainties also have implications for salary structures:** this in turn leads to the ability to recruit and retain employees.
- **There is a lack of sufficient revenue for some SOEs and PAEs:** for example, NUM, RUA and CADT each provide a significant number of scholarships to meet their intake targets and to ensure that they provide education for all income and socio-economic groups. Likewise, Calmette Hospital provides healthcare for all citizens of Cambodia, regardless of their ability to pay. Electric du Cambodge (EDC) establishes networks for the distribution of electricity to the electricity grid in all regions of Cambodia, regardless of expected profitability. Phnom Penh Water Supply Authority (PPWSA) provides water for all the regions even if residents, who are potential customers of PPWSA, but prefer to use traditional free supplies of water such as wells.

### Improving the Ability of SOEs and PAEs to Compete against the Private Sector

- this relates to the ability of SOEs and PAEs to deliver their mandate whilst competing for staff, installing the best technology, state-of-the-art systems such as billing systems and scheduling.

### Freedom for the Entrepreneurial Spirit (to build partnerships); there is limited autonomy and flexibility of SOEs and PAEs (especially those which are deemed as loss making or requiring a government budget)

- there is a lack of flexibility for PAEs to generate their own income, and the system could be freed up a little to increase self-generated income and thus reducing the need for government subsidies, whilst maintaining the existing controls.

### Work Closely with International Organizations

- the MEF, SOEs and PAEs already work with international organizations, and these are prime sources of sharing expertise and knowledge on management, structure, and operations based on international practice.

### 4.8.3 Observations

- 1) **Valuing the Social Purpose:** appreciating how hard the job of SOEs and PAEs actually is, is a major issue
  - **Value the social contribution of SOEs and PAEs:** not to expect every SOE or PAE to make a profit if they are expected to provide goods and services at zero cost or prices lower than cost. International best practice includes valuing the social purpose and not expecting the SOE or PAE to make a profit all of the time. It is worthwhile to determine a value for the social purpose that an SOE or PAE provides and not to expect every institute to make a profit. Make it public the value that they are giving to Cambodia in terms of education and future employment. Be clear on whether it is really feasible to expect the SOE or PAE to make a profit.
  - **Build in social needs to the business model:** to ensure that SOEs and PAEs are genuinely competitive in delivering their services, and consideration is given to SOEs and PAEs mandate for addressing social needs.
  - **Develop a clear policy for public service provision:** in cases where the institute (e.g. NUM, CADT) has to provide scholarships then revenue generation and social purpose are considered conflicting objectives, and a clear policy shows the value of social purpose (i.e. giving an education to those who cannot afford it).
- 2) **Capital required:** Long term planning for capital expenditure should be built into the budgetary and transparency process, a clear plan for the capital expenditure required and the sources of capital are part of the long-term vision for SOEs and PAEs (this includes examples from electricity supply, water supply, health, education).
- 3) **Sources of Income and Expenditure**
  - **Provide limited budget flexibility:** Some flexibility in budgeting to enable the SOEs and PAEs to compete in areas where they cannot (this particularly relates to banking and finance and telecommunications).
- 4) Long Term Planning and Budgetary Uncertainties
  - **Ensure financial stability of SOEs and PAEs:** ensure SOEs and PAEs are able to raise sufficient funds to carry out their mandate through either revenue raising or revenue through budget. Build in funding to the budget: this will ensure that sufficient income is available to the SOE to undertake its mandate.
  - **Managing the lack of revenue:** We just have to accept that not all PAEs or SOEs make a profit, and there should be an acceptance that certain SOEs and PAEs are going to require government budget.
  - **Increase opportunities for self-generated income** and thus reducing the need for government subsidies.

### 5) Improving the ability of SOEs and PAEs to compete against the private sector

- **Encourage universities to apply for research grants with partner universities:** there are many international sources of funding from organizations which currently work with SOEs and PAEs (EU, World Bank, ADB); it would be a good opportunity for a SOE or PAE to become a partner in funding proposals (the World Bank project with MOEYS with RUA is a good example).
- **Focus on core operational Issues that save or make money:** fund the core issues that are really making a constraint on competitiveness. Give the flexibility to pay for teaching and research at RUA and CADT so that you can provide good teaching. This relates to the project with the World Bank to improve the Quality of Education.
- **Be pragmatic:** for example, use Khan Academy for educational institutes to reduce development time.
- **Improving the position of SOEs and PAEs to SOEs to compete with the private sector:** and the current mandate and budgetary reporting system (especially related to raising capital from the budget) is restrictive and inhibits the ability of the SOEs (and PAEs) to compete with the private sector.
- **Determine whether each SOE or PAE should be making a profit (also referred to in the competitive environment section):** this involves valuing the Social Purpose, and more widely deciding which make a profit and which should focus on social purpose (i.e. what can we expect from public enterprises). There is a very different situation with the SOEs and PAEs that are making profits and the SOEs which rely on government budgets. This is clearly demonstrated by Cambodia-Re, which has commercial objectives and which is making a profit and is therefore no strain on the public finances. But SOEs such as EDC, and PAEs such as RUA, CADT and NUM have a strong underlying social purpose to provide education and this means they are providing significant amounts of scholarships to students to meet their intake targets. This means that there are pressures on revenue, and these PAEs cannot meet costs without government subsidy. This is also why PAEs also rely on the international financial institutions such as the World Bank, EU and ADB for support in development projects. Some flexibility to allow PAEs to generate their own revenue and/or build their own partnerships is going to allow more financial freedom and can ultimately make the SOEs and PAEs less dependent on the government budget.

### 6) Freedom of the Entrepreneurial Spirit

- **Consider providing SOEs and PAEs with a limited amount of freedom to follow their own initiatives and generate their own income:** this means to give some “Freedom for the Entrepreneurial Spirit” to SOEs and PAEs: Treat the individual challenges of each of the SOEs and PAEs as opportunities and treat each SOE and PAE as an entity in its own right with its own clear objectives. Allowing SOEs and PAEs to raise their own revenue will ultimately take a little pressure off the budget.
- **Provide limited autonomy to SOEs and PAEs:** Consider ways of providing limited autonomy and budget flexibility (see budget section below) Value the opportunities for SOEs and PAEs to raise their own revenues, it is observed to build in more flexibility for the PAEs to be able to generate their own income and build their own partnerships and initiatives.
- **Allow PAEs freedom to be able to develop their own partnerships. Determine ways to allow PAEs freedom within their current mandate:** for example, CADT and RUA can develop new courses, build new partnerships, and keep a proportion of the revenues generated.
- **Allow SOEs and PAEs to build partnerships:** where this might assist with competitive strength and revenue earning potential.
- **Allow freedom to develop more internships and use international university courses** (e.g., use Khan Academy if you haven’t got the funds to pay lecturers). Allow more flexibility to do workshops outside of main classes (RUA/CADT).

- **Encourage SOEs and PAEs to build partnerships:** there are many teaching and research institutions internationally who would jump at the opportunity to build partnerships with SOEs and PAEs in Cambodia. Assess the value of CADT and RUA and NUM building partnerships with international organizations - why not let Google sponsor CADT? Or a major agricultural company sponsor RUA? Encourage more IAEA type partnerships with Calmette Hospital. Encourage SOEs and PAEs to build partnerships for long term revenue generation. More freedom should be given for PAEs to be able to form their own partnerships and raise their own revenues (including accreditation standards) to enable them to become more competitive and to take pressure off the government budget.

#### 7) Work with international organizations

- **Work closely with the World Bank, the EU, ADB and the Agence Française de Développement (AFD):** take as many lessons as possible and contribute to the existing experience of SOEs and PAEs.

A summary of the current practice, issues arising and observations is included in the table below.

#### 4.8.4 Consistency with the Literature on SOEs and the Competitive Environment

The above findings are consistent with the following references related to the competitive position of SOEs in the market place, including the IFC look at the state of governance of SOEs internationally (Wong, 2018), the Asian Development Bank study on Asian SOEs (Park, 2021), the World Bank Report on financial sustainability of SOEs (Pdr, 2023); and the OECD report on Monitoring the Performance of State-Owned Enterprises: Good Practice Guide for Annual Aggregate Reporting (OECD 2022), and the OECD Guidelines on Corporate Governance of State-owned Enterprises (OECD 2024). It is also consistent with the studies on the internationalization of SOEs (McDonagh & Draper, 2020), and SOEs incorporated into the system of international agreements (McLaughlin, 2019).

**Table 4.11 Competitive Environment and Challenges: Summary of Observations**

No	Issue	Current Practice	International Practice	Observation
1	SOEs and PAEs are obliged to generate revenue whilst at the same time providing scholarships and free medical care.	Valuing social purpose.	Social purpose is valued so that realistic targets can be set for each SOE and PAE. SOEs structured to be accountable and profit making, with commercial KPIs.	Social welfare benefits and costs to be evaluated for each SOE and PAE so that appropriate financial targets can be set.
2	The significant capital outlay is only available from limited sources.	SOEs and PAEs budget – capital required.	Diverse sources of funding, internationally & from the private sector are common, there is no one model or preferred approach.	A review of the capital requirements for delivery of mandate, and a look at alternatives for finance.
3	SOEs and PAEs cannot compete with the private sector (address customer needs).	Sources of income and expenditure; The mandate is strong but restrictive.	Clear guidelines for freedom for SOEs and PAEs to exploit opportunities for revenue generations.	Flexibility in budgeting to allow SOEs and PAEs scope to compete with the private sector.

4	This impacts recruitment and career progression as budget for human resources, as well as all other expenses, is uncertain and often greatly restricted.	Long term funding and budgetary uncertainties.	Clear policy on budget for public enterprises is important, although this varies by country.	A review of what a competitive budget would require is important.
5	SOEs and PAEs are missing out on opportunities because of constraints on activities.	SOEs and PAEs consider that they are not able to compete against the private sector.	SOEs and PAEs given commercial status and freedom to operate where appropriate and opportunities to build partnerships.	MEF and TGs to provide SOEs and PAEs with flexibility and freedom to build partnerships with international organizations where appropriate; a chance to generate their own revenue.
6	SOEs and PAEs are restricted to the mandate of their TG Lack of freedom for PAEs and SOEs to pursue revenue generating activities.	Lack of freedom for SOEs and PAEs to pursue revenue generating activities (and build partnerships) Freedom for the Entrepreneurial Spirit within SOEs and PAEs.	Some scope for freedom to pursue revenue generating opportunities and appropriate incentives for each public enterprise.	MEF and TG to consult on possible ways to provide freedom to pursue extra revenue earning opportunities. Flexibility in the budget process for SOEs and PAEs to explore revenue generation and strategy building partnerships.
7	This is very positive and the benefits that derive from this collaboration are likely to be very significant There is good knowledge sharing within the public sector but it appears that there is little exposure to international experience.	Work with International Organizations. Already working with the World Bank and EU and ADB and other agencies SOE and PAE strategy for competitiveness – limited work with international organizations, conferences, universities etc.	Collaboration with international agencies and knowledge sharing is a recognized best practice. Sharing knowledge through international conferences, working with universities, NGOs & other relevant organizations is highly beneficial.	Working with all the international agencies, the WB / EU / ADB / UN can bring real benefits, sharing international experience & provision of an independent opinion There is good reason to continue with current policy, but with more flexibility. Much can be gained working with international organizations.

## 4.9 Conclusion

The above Observations can improve the competitive situation of SOEs and PAEs and lead to improved performance and ability to generate revenues, which in turn will lead to a reduced reliance on government budget.

The findings presented above are simply the results of the questionnaire survey and interviews. Many examples will be shown in the individual case studies of the SOEs and PAEs in this report. This provides a lead into the following chapter where the observations and suggested improvements to fit into the PFMRP are put forward.

The above observations provide scope for flexibility where it is required and desired within SOEs and PAEs, and are put forward as “food for thought”. Any changes brought about in relation to the observations can be carried out with the existing legal framework or set out in a prakas or other regulations.

### 4.9.1 Observations: SOEs, PAEs, and the PFMRP

The observations in this report are focused on incorporating the SOEs and PAEs in Cambodia into the PFMRP, under the assumption that this will have to happen within the current legislative framework. However, the proposed actions will also be applicable within any law because they involve gaining information and control, being flexible, allowing SOEs and PAEs to achieve their mandate and at the same time reduce the pressure on the budget. All the observations are equally applicable and useful under any legal framework as they facilitate information and transparency which can form the basis of any policy making decisions. Specific observations made are considered feasible not only because of financial and operational effectiveness, but are also consistent with the needs and requirements of the PFMRP. The categories of our observations focus on the structure of the law and are the same as the survey and interview structure.

### 4.9.2 Onwards to the 2nd Edition

In this, the 1st Edition, we have been limited due to the low response rate to the questionnaire, but responses received and the interviews undertaken have provided consistent information which has formed the basis to identify issues of current practice, the impact of these issues, drawing broadly from international practice.

These are just initial observations and we need to look at these much more rigorously in Volume 2. A 2nd Edition, building on the observations included here will provide a more rigorous assessment and will indicate progress in policy reform to integrate SOEs and PAEs in the PFMRP.



## Chapter 5:

# Integrating International Best Practice into SOE and PAE Management

This chapter highlights international best practices by analyzing the nature, scope, and performance evaluation of SOEs and PAEs across the emerging market. Specifically, this evaluation looks at how SOEs and PAEs are performing.

### 5.1 The Nature of State-Owned Enterprises and Public Administration Establishments

#### 5.1.1 State-Owned Enterprises (SOEs)

State-Owned Enterprises (SOEs) are unique business entities that are owned, operated, or controlled by the government. Their defining characteristic lies in government ownership and control, with the government typically holding a majority stake. This ownership structure grants governments the power to shape the enterprise's direction, prioritize public interests, and intervene during times of crisis or market failure. SOEs are established with specific purposes and objectives that align with the government's economic and social goals. These objectives may include promoting economic development, ensuring public welfare, providing essential services, and safeguarding strategic industries.

SOEs have a distinct social responsibility compared to private enterprises. As entities owned and operated by the government, SOEs are expected to contribute to the overall welfare of society and prioritize public interests. One of the primary social responsibilities of SOEs is to provide essential services to the public. These services may include healthcare, education, transportation, energy, water supply, and telecommunications. SOEs in these sectors ensure that basic needs are met, regardless of profitability or market demand. For example, state-owned healthcare institutions often provide affordable healthcare services to underserved communities, ensuring access to quality medical care for all citizens. SOEs play a crucial role in ensuring equitable access and affordability of essential services. They are often mandated to provide services to remote or economically unattractive areas where private enterprises may be reluctant to operate due to low profitability. By extending their services to these areas, SOEs bridge the gap between urban and rural regions, promoting social inclusion and reducing inequalities, among others.

#### 5.1.2 Public Administration Establishments (PAEs)

PAEs, on the other hand, are government-owned and operated organizations responsible for delivering public services and functions. PAEs differ from private enterprises due to their public ownership, public purpose, and the presence of government control and regulation. Unlike private enterprises that focus on maximizing profits, PAEs prioritize the provision of public goods and services to citizens. They operate within a distinct regulatory environment, subject to government oversight and regulation, and are typically funded through public budgets.

In addition, PAEs are subject to government control and regulation, which can include budgetary oversight, performance monitoring, and policy guidance. These characteristics set PAEs apart from private businesses, which are primarily focused on making money and are subject to market-based competition. PAEs have also been classified based on their level of autonomy and the extent of their involvement in commercial activities. For example, some PAEs are fully autonomous and operate as commercial entities, while others are heavily regulated and have limited autonomy. The degree of autonomy affects the level of accountability of PAEs, and the extent of their involvement in commercial activities affects their financial sustainability.

Furthermore, in many emerging countries, PAEs have played a critical role in promoting inclusive and sustainable economic development. PAEs have been involved in several key sectors such as infrastructure development, energy, transportation, and social services. PAEs can help stimulate economic growth by investing in infrastructure projects that create jobs and promote economic development. For example, in the infrastructure sector, PAEs have been instrumental in building roads, bridges, ports, and other key infrastructure projects. In the energy sector, PAEs have been involved in the development of renewable energy projects such

as solar, wind, and hydropower. In the transportation sector, PAEs have played a crucial role in developing public transport systems such as railways, buses, and airports. PAEs have also been involved in providing social services such as healthcare, education, and housing. Furthermore, PAEs can help improve the efficiency of public service delivery by introducing competition and innovation in the provision of public services.

## 5.2 The Issues in Management of SOEs and PAEs

The management of SOEs and PAEs is a complex process that involves a range of stakeholders, including government officials, managers, employees, and the public. To make sure that public goods and services are delivered efficiently, it is important to know how to run these businesses well. To do this, you need to know the problems that SOEs and PAEs face and how to solve them. Effective management of SOEs and PAEs requires a strategic approach that integrates various management functions, such as planning, organizing, leading, and controlling. SOEs and PAEs managers must develop a clear mission and vision, establish performance goals, and measure performance against benchmarks. They must also engage in stakeholder management, including effective communication with stakeholders, building partnerships with other organizations, and managing relationships with political actors.

The nature of SOEs and PAEs and how they should be managed have been the subject of much debate in the academic literature. One perspective is that SOEs and PAEs should be managed like private sector firms, with a focus on efficiency, profitability, and performance. Proponents of this view argue that SOEs and PAEs should be subject to market competition and should be run like business enterprises to maximize their efficiency and effectiveness. However, others argue that enterprises are fundamentally different from private sector firms and that they require a different approach to management. According to this view, SOEs and PAEs are accountable to the public and have a broader mandate than private sector firms, and therefore their management should prioritize public service delivery and the interests of citizens. One key issue in managing SOEs and PAEs is the balance between autonomy and accountability. SOEs and PAEs are often given a high degree of autonomy in decision-making, which can allow them to be more flexible and responsive to changing circumstances. However, this autonomy can also lead to a lack of accountability, as SOEs and PAEs may not be subject to the same level of scrutiny and oversight as other government agencies. Another important issue in managing these enterprises is the role of leadership. Effective leadership is critical to the success of any organization, and this is especially true for SOEs and PAEs. Leaders in these enterprises must balance competing demands and pressures, including political considerations, public service delivery, and financial sustainability.

However, SOEs and PAEs face a number of challenges in terms of their management. One of the key challenges facing PAEs is the need to balance the competing demands of efficiency and accountability. On the one hand, PAEs are under pressure to deliver services efficiently and at a low cost. On the other hand, they must also be accountable to the public and ensure that public resources are being used effectively. This tension between efficiency and accountability can create challenges for managers who must navigate these competing demands. Another challenge facing SOEs and PAEs is the need to manage human resources effectively. These enterprises often face challenges in recruiting and retaining skilled employees due to political interference. Political interference refers to the tendency for government officials to interfere in the operations of SOEs and PAEs for political gain or personal interests. This can lead to poor decision-making and compromise the ability of PAEs to operate in the public interest, and the employee responsible might not be held accountable. This led to poor management in employee performance and ensuring that employees are motivated and engaged in their work.

Moreover, holding SOEs and PAEs accountable for their actions and decisions is another issue faced. SOEs and PAEs are often shielded from public scrutiny, which can lead to a lack of transparency and make it difficult to determine their performance and effectiveness. SOEs and PAEs are often seen as a source of corruption and inefficiency, which leads to a lack of trust and support from the public. Inefficiencies due to bureaucracy refer to the tendency for these enterprises to become bogged down by bureaucratic procedures and red tape. This can slow down decision-making and lead to inefficiencies in service delivery. The lack of financial sustainability is another issue that SOEs and PAEs face. These enterprises often rely on government funding, which can be unpredictable and insufficient to meet their operational and capital requirements.

To address these challenges, scholars and practitioners have proposed a range of strategies for effective management of PAEs. One approach is to focus on building a strong organizational culture that emphasizes accountability, transparency, and employee engagement. This can involve creating clear performance metrics, providing regular feedback to employees, and encouraging collaboration and teamwork. Another approach is to leverage technology to improve the efficiency and effectiveness of public administrative enterprises. This can include implementing digital tools such as electronic health records or online learning platforms, as well as using data analytics to identify areas for improvement and optimize service delivery. Finally, effective management of these enterprises also requires a focus on strategic planning and innovation. This can involve setting clear goals and objectives, conducting regular evaluations of service delivery, and experimenting with new approaches to service delivery.

The management of SOEs and PAEs is a complex and challenging process that requires a thorough understanding of the key challenges and strategies for effective management. While there is no one-size-fits-all approach to managing SOEs and PAEs, scholars and practitioners have proposed a range of strategies for addressing these challenges. These include building a strong organizational culture, leveraging technology, and focusing on strategic planning and innovation. By adopting these strategies, SOEs and PAEs can improve their effectiveness and ensure the delivery of high-quality public services.

### 5.3 Best Practice Models of SOEs and PAEs

Following the case studies from emerging markets that were shown above, the conclusion is that in order to enhance performance and accountability in SOEs and PAEs in developing nations, it is necessary to use efficient models and best practices. The following are some examples of possible models and practices to adopt:

#### 5.3.1 Results-Based Management (RBM)

RBM is an approach to management and decision-making that focuses on achieving outcomes and results through the efficient and effective use of resources. It is widely used in various sectors, including government, international development, non-profit organizations, and business. The RBM model is designed to improve the performance and accountability of organizations by emphasizing a clear connection between activities and desired results. Let's discuss this model in detail:

- **Alignment with Goals and Objectives:** RBM begins with the establishment of clear and measurable goals and objectives. These goals should be specific, realistic, and time-bound. By defining what an organization wants to achieve, RBM ensures that all activities and resources are directed toward these objectives. This alignment is crucial for avoiding wastage of resources and efforts.
- **Performance Measurement:** RBM places a strong emphasis on the systematic measurement of performance. This involves the development of key performance indicators (KPIs) and metrics that help quantify progress toward the defined goals. These indicators are used to assess the effectiveness of different activities and programs.
- **Monitoring Progress:** Regular monitoring is a central component of RBM. It involves the collection and analysis of data to track progress toward achieving the desired results. Monitoring helps organizations identify areas where they are succeeding and where they are falling short. It allows for the early identification of problems, making it possible to take corrective action before it's too late.
- **Adaptation and Flexibility:** RBM recognizes that not all plans go according to schedule. Organizations often need to adapt to changing circumstances or unexpected challenges. This model encourages a flexible approach, allowing organizations to adjust their actions and strategies as needed to stay on course toward their objectives.
- **Accountability:** RBM promotes a culture of accountability within organizations. When results are clearly defined and measured, it becomes easier to attribute responsibility for success or failure. This accountability encourages employees and stakeholders to take their roles seriously and ensures that resources are used efficiently.
- **Continuous Improvement:** RBM fosters a commitment to ongoing improvement. As organizations learn from their monitoring and evaluation efforts, they can make adjustments to their strategies and processes, continuously improving their ability to achieve results.

- **Resource Optimization:** By aligning activities with goals, measuring performance, and regularly monitoring progress, RBM helps organizations optimize the use of resources. This is particularly important for resource-constrained organizations, as it ensures that every dollar and hour spent contributes to the desired results.
- **Decision Support:** RBM provides decision-makers with data and information to make informed choices. It enables organizations to prioritize activities based on their impact and relevance to the desired results.
- **Communication and Transparency:** RBM encourages open and transparent communication about results and progress. Sharing information about what's working and what's not can facilitate learning and collaboration both within an organization and with external stakeholders.

In summary, the results-based management model is a comprehensive approach to organizational management that focuses on setting clear goals, measuring and monitoring performance, adjusting actions as necessary, and ultimately achieving the desired results. By emphasizing efficiency, accountability, and flexibility, RBM helps organizations make the most of their resources and improve their overall performance. It is particularly valuable in sectors where the impact of programs and initiatives needs to be clearly demonstrated and where resources are limited. Various public institutions in developing nations like Rwanda, Tanzania, and Mozambique have widely adopted this model.

### 5.3.2 Restructuring Model

The restructuring model is a strategic approach that involves reorganizing SOEs with the aim of improving their efficiency, reducing costs, and enhancing their competitiveness. This model is widely used in the public sector to address various challenges faced by government-owned or controlled entities. Restructuring can take different forms and encompass changes in organizational structure, staffing, business processes, and technology adoption. Let's delve into the detailed discussion of the restructuring model:

- **Efficiency Improvement:** A primary objective of restructuring SOEs is to enhance efficiency in their operations. This includes optimizing processes, streamlining workflows, and eliminating redundant activities. Improved efficiency often leads to cost savings and better resource utilization.
- **Cost Reduction:** Restructuring typically involves cost-cutting measures to eliminate wasteful expenditures. This may include reducing the size of the workforce, renegotiating contracts, and eliminating non-essential services. By doing so, SOEs can achieve a more cost-effective operation.
- **Enhanced Competitiveness:** By making SOEs more efficient and cost-effective, restructuring can help them become more competitive in the market. This is crucial in sectors where SOEs must compete with private companies or operate in industries that demand a high level of innovation and agility.
- **Modernization and Technology Adoption:** Restructuring often involves the adoption of modern technology and practices to bring SOEs up to date. This includes investing in new information systems, automation, and digital tools to improve productivity and service quality.
- **Reduction of Bureaucracy:** SOEs, particularly in government, can become bureaucratic and slow-moving. Restructuring often involves simplifying the organizational structure and decision-making processes to make the entity more agile and responsive.
- **Aligning with Market Demands:** SOEs need to adapt to changing market demands. Restructuring can involve a strategic shift in the focus and direction of SOEs to better meet customer needs and market trends.
- **Professionalization and Skill Enhancement:** Restructuring may include training and development programs to enhance the skills and competencies of the workforce. This ensures that employees are equipped to operate in a more efficient and competitive environment.
- **Financial Sustainability:** The need to ensure the long-term financial sustainability of SOEs often drives restructuring. By reducing costs and enhancing revenue generation, SOEs can continue to fulfill their public service missions without relying on subsidies or bailouts.

- **Privatization and Public-Private Partnerships (PPPs):** In some cases, restructuring may involve partial or complete privatization of SOEs or entering into public-private partnerships (PPPs). This can introduce private sector discipline and efficiency while allowing the government to retain some level of control or ownership.
- **Social Impact Considerations:** When restructuring SOEs, it's important to consider the social impact, especially in terms of job losses or changes in service provision. Effective communication and social safety nets may be necessary to mitigate negative consequences.
- **Legal and Regulatory Framework:** Restructuring SOEs often requires changes in the legal and regulatory framework that governs their operation. Clear legal provisions are essential to support restructuring efforts.
- **Stakeholder Engagement:** Involving all relevant stakeholders, including employees, unions, and the public, in the restructuring process is crucial for its success. Effective communication and engagement can help manage resistance to change and build support for the restructuring initiatives.

In summary, the restructuring model is a strategic approach aimed at improving efficiency, reducing costs, and enhancing the competitiveness of SOEs. By streamlining operations, adopting modern technology, and aligning with market demands, SOEs can continue to fulfill their missions effectively while operating in an increasingly competitive and dynamic environment. However, the success of restructuring efforts depends on careful planning, stakeholder engagement, and the ability to strike a balance between cost reduction and maintaining the quality of services and the welfare of employees.

### 5.3.3 Public-Private Partnership (PPP) Model

A public-private partnership (PPP) is a model that involves collaboration between the public sector (typically the government or a government agency) and the private sector to jointly deliver public services and infrastructure projects. PPPs are widely used across the world and have gained popularity for their potential to harness the strengths of both sectors to deliver services and projects efficiently. Let's discuss this model in detail:

- **Shared Responsibility:** In a PPP model, the responsibility for delivering public services or infrastructure projects is shared between the public and private sectors. This sharing of responsibility can vary in terms of the roles each sector plays, depending on the specific project or service.
- **Private Sector Expertise and Resources:** One of the primary benefits of PPPs is access to private sector expertise and resources. Private companies often bring specialized knowledge, skills, technology, and financial resources to projects that can result in more efficient and innovative solutions. This can lead to better project design and management.
- **Risk Sharing:** PPPs typically involve the sharing of risks between the public and private sectors. This risk-sharing can help distribute the financial, operational, and project risks more equitably, reducing the burden on the public sector.
- **Efficiency and Cost Savings:** Private sector involvement often leads to greater efficiency and cost savings. Competition among private sector participants can drive down costs and improve the quality of services or projects.
- **Accountability and Transparency:** PPPs include mechanisms for ensuring accountability and transparency in project delivery. Agreements between the public and private sectors outline performance standards, reporting requirements, and dispute resolution processes. These agreements help ensure that the private sector delivers services according to agreed-upon standards.
- **Innovation and Technology:** Private sector companies are often at the forefront of innovation and technology. PPPs benefit from private sector partners who bring cutting-edge solutions to public projects, leading to improved quality and performance.
- **Funding and Financing:** PPPs can relieve some of the fiscal burdens on the public sector by involving private sector financing. Private partners can invest their own capital or secure financing from the private market, reducing the immediate financial strain on the public budget.



- **Long-Term Perspective:** PPPs often have longer-term horizons, which can be beneficial for large infrastructure projects. Private sector partners are motivated to ensure the ongoing quality and performance of assets over extended periods, which can lead to well-maintained and efficient infrastructure.
- **Flexibility:** The PPP model can be adapted to a wide range of projects and services. It is flexible enough to be applied to areas such as transportation, healthcare, education, water supply, energy, and more.
- **Community Benefits:** PPPs should aim to benefit the community or end-users of public services. While private sector partners seek profits, PPP agreements typically include provisions to ensure that services are accessible and affordable for the public.
- **Regulatory Framework:** Effective PPPs require a clear regulatory framework that defines the roles, responsibilities, and expectations of both public and private partners. Such a framework helps to maintain fairness and consistency in PPP projects.
- **Risk Management and Contingency Plans:** PPP agreements should include risk management strategies and contingency plans to address potential challenges that may arise during the project's lifecycle. This helps ensure that projects remain on track and that services are not disrupted.

In summary, the Public-Private Partnership (PPP) model is a collaborative approach that leverages the strengths of both the public and private sectors to deliver public services and infrastructure projects. By sharing responsibilities, accessing private sector expertise and resources, and promoting accountability and transparency, PPPs aim to provide efficient, innovative, and cost-effective solutions to the benefit of both governments and the public they serve. However, it's important to design and manage PPPs carefully to ensure that the public interest is protected and that the outcomes are in line with the objectives of the public sector. This model has been successfully implemented in various developing countries, such as India, Brazil, and South Africa.

#### 5.3.4 Performance-Based Contracting (PBC) Model

Performance-Based Contracting (PBC) is a model in which the delivery of public services is outsourced to private sector entities based on predefined performance metrics. PBC contracts are structured in a way that emphasizes outcomes and results, with the private sector service provider being accountable for meeting specific performance standards. This model is often used in government and public-sector contexts to enhance the efficiency and effectiveness of service delivery. Here is a detailed discussion of the PBC model:

- **Outcome-Focused:** PBC shifts the focus from inputs and processes to outcomes. Instead of merely specifying how a service should be provided, PBC defines what the expected results and outcomes are. This encourages service providers to be creative and innovative in achieving these outcomes, as long as they meet the predefined standards.
- **Clear Performance Metrics:** PBC contracts establish clear and measurable performance metrics and key performance indicators (KPIs). These metrics are used to evaluate and measure the success of the service provider. They are typically tied to the overall goals and objectives of the public service being provided.
- **Accountability:** PBC enhances accountability by making service providers responsible for achieving specific results. If the provider fails to meet the performance standards, they may face penalties or financial consequences. This creates a strong incentive for the private sector entity to deliver high-quality services.
- **Efficiency and Cost Control:** PBC encourages cost-effective service delivery because providers are motivated to achieve the desired results within budget constraints. Since they are held accountable for outcomes, there is a natural drive to optimize processes and resources to meet performance standards while minimizing costs.
- **Performance Incentives:** In addition to penalties for underperformance, PBC contracts often include performance incentives for exceeding the specified standards. These incentives can motivate service providers to go above and beyond in delivering public services.



- **Flexibility:** PBC contracts can be flexible, allowing for adjustments to performance metrics and standards as circumstances change. This flexibility is crucial for adapting to evolving needs and priorities in the public sector.
- **Competition and Quality:** PBC can foster competition among private sector entities seeking to win contracts. The competitive environment can result in better-quality services and innovation as providers strive to differentiate themselves and win future contracts.
- **Transparency and Reporting:** PBC often includes reporting and transparency requirements. Service providers are typically required to provide regular reports on their performance against established metrics, enhancing accountability and oversight.
- **Risk Transfer:** PBC can transfer certain risks, such as financial and operational risks, from the public sector to the private sector. This risk transfer can reduce the financial burden on governments and promote more efficient risk management.
- **Focus on Results:** The PBC model aligns well with the Results-Based Management (RBM) approach, as it places a strong emphasis on achieving specific, measurable results. This ensures that public services are outcome-driven and that taxpayers' money is used efficiently.
- **Contract Management:** Effective management of PBC contracts is essential to monitor performance, address issues, and make necessary adjustments. Governments or public agencies typically need the capacity to oversee and manage PBC contracts effectively.
- **Public Interest Considerations:** While PBC offers numerous benefits, it's crucial to ensure that public interest, equity, and access to services are not compromised. Careful consideration should be given to the design and monitoring of contracts to protect the public interest.

To sum up, the Performance-Based Contracting (PBC) model is a way of providing public services that stresses accountability and efficiency by hiring private companies based on clear performance goals and metrics. By focusing on results, setting clear performance standards, and promoting competition and innovation, PBC can lead to more effective, cost-efficient, and accountable public service delivery. However, its success depends on well-designed contracts, robust oversight, and careful management to ensure that it serves the public interest. This model has been implemented in various developing countries, such as Kenya, Indonesia, and Pakistan.

### 5.3.5 Decentralization and Local Governance Model

The Decentralization and Local Governance Model involves the transfer of power and decision-making authority from a central government or authority to local government entities and communities. This model is designed to empower local governments and communities to take control of their own affairs, promote local participation, and improve public service delivery. Decentralization can take various forms, including political, administrative, and fiscal decentralization, and it is implemented in different ways around the world. Here is a detailed discussion of this model:

- **Transfer of Authority and Decision-Making:** Decentralization involves shifting authority and decision-making powers from the central government to local government entities, such as municipalities, counties, or regions. It can also extend to communities and local organizations, allowing them to make decisions on issues that directly affect them.
- **Promotion of Local Autonomy:** One of the primary goals of decentralization is to grant local governments and communities a degree of autonomy in managing their own affairs. This autonomy empowers them to make decisions that are better suited to their unique needs, priorities, and local conditions.
- **Local Participation and Ownership:** Decentralization encourages greater participation of local stakeholders in the decision-making process. Local residents, community organizations, and elected officials have a more direct say in shaping policies, programs, and services, leading to a sense of ownership and responsibility for local development.
- **Accountability and Transparency:** Decentralization promotes accountability by making local governments and officials more directly accountable to their constituents. The proximity between decision-makers and the public often leads to greater transparency in local governance, as citizens can more easily monitor the actions of their local authorities.

- **Responsiveness to Local Needs:** Local governments and communities are typically more attuned to the specific needs and challenges of their areas. Decentralization enables them to tailor public services and policies to address local issues more effectively.
- **Efficiency and Effectiveness:** Decentralization can lead to more efficient and effective public service delivery. Local authorities can respond quickly to emerging challenges and opportunities, reducing bureaucracy and streamlining decision-making processes.
- **Innovation and Experimentation:** Local governments have the flexibility to experiment with new policies and programs, which can serve as models for broader adoption or adaptation. This can lead to innovation and best practices in public service delivery.
- **Cultural and Social Sensitivity:** Local authorities are often better equipped to respect and promote local cultural, linguistic, and social norms. Decentralization can help safeguard the preservation of unique cultural heritage and practices.
- **Conflict Resolution and Peacebuilding:** In conflict-affected regions, decentralization can play a role in conflict resolution and peacebuilding by giving local communities a stake in governance and a means to address grievances through peaceful, democratic processes.
- **Capacity Building:** Decentralization may require investments in building the capacity of local governments and communities to effectively manage their affairs. This includes training local officials, providing technical assistance, and ensuring financial stability.
- **Fiscal Decentralization:** In fiscal decentralization, local governments have control over their budgets and revenue sources. This enables them to raise local revenue, allocate resources, and make financial decisions that align with local priorities.
- **Challenges and Risks:** Decentralization is not without challenges, including the risk of corruption, unequal capacity among local governments, and potential conflicts between central and local authorities. Effective regulatory frameworks and oversight mechanisms are essential to addressing these challenges.

In conclusion, the Decentralization and Local Governance Model is a form of governance that gives local governments and communities the ability to make decisions and transfer power from central authorities. It seeks to guarantee that public services are adapted to local conditions and needs while simultaneously fostering local ownership, accountability, and participation. Effective decentralization implementation can lead to more responsive, effective, and democratic governance, which eventually benefits the local populace and communities. This model has been implemented in various developing countries, such as Uganda, Brazil, and Indonesia.

### 5.3.6 Corporate Governance Model

The Corporate Governance Model is a framework that focuses on establishing and maintaining effective mechanisms for governing organizations, ensuring they are managed in a transparent, accountable, and responsible manner. This model is widely applied in the management of businesses, both in the public and private sectors, to promote good management practices and safeguard the interests of stakeholders. Here is a detailed discussion of the corporate governance model:

- **Board of Directors (BoD):** A central element of corporate governance is the establishment of a board of directors. The board provides oversight, sets strategic direction, and makes key decisions for the organization. It comprises independent BoD's members who are not involved in the day-to-day operations, ensuring an objective and diverse perspective.
- **Audit Committees:** An audit committee is often a subcommittee of the BoD. It plays a critical role in overseeing financial reporting, internal controls, and the organization's compliance with legal and regulatory requirements. The committee's primary objective is to maintain the accuracy and integrity of financial reporting.
- **Transparency and Disclosure:** Corporate governance promotes transparency by requiring organizations to disclose relevant information to stakeholders, including shareholders, investors, and the public. Transparent reporting ensures that all parties have access to accurate information about the company's financial performance, governance structure, and operations.

- **Accountability:** A fundamental principle of corporate governance is accountability. This means that management and the board are held responsible for their actions and decisions. Shareholders have the right to hold the leadership accountable for the organization's performance and adherence to ethical and legal standards.
- **Conflict of Interest Management:** Corporate governance mechanisms are designed to mitigate conflicts of interest among management, the board, and shareholders. This includes clear guidelines for addressing conflicts, disclosures, and recusals when necessary.
- **Stakeholder Engagement:** Effective corporate governance encourages engagement with various stakeholders, such as employees, customers, suppliers, and the community. Engaging with these groups helps align the organization's operations with their interests and expectations.
- **Ethical Practices:** Corporate governance models emphasize the importance of ethical behavior and integrity in business operations. Organizations are expected to adhere to a set of ethical standards and practices to maintain their credibility and reputation.
- **Risk Management:** A robust corporate governance model includes risk management as a key component. Organizations must identify, assess, and manage risks effectively, including financial, operational, legal, and reputational risks.
- **Compliance with Laws and Regulations:** Corporate governance ensures that organizations comply with relevant laws and regulations, both at the national and international levels. This includes adherence to tax laws, environmental regulations, labor laws, and other legal requirements.
- **Internal Controls:** Internal controls are implemented to safeguard assets, maintain financial accuracy, and prevent fraud or mismanagement. These controls help in the systematic and consistent operation of the organization.
- **Board Independence:** Ensuring that a significant number of BoD's members are independent of the organization's management is crucial for unbiased decision-making and oversight.
- **Performance Evaluation:** Regular evaluation of the BoD, management, and the organization's overall performance is a common practice in corporate governance. It provides feedback and helps identify areas for improvement.

To summarize, the Corporate Governance Model is a structured approach that guarantees that organizations are managed with integrity, responsibility, and openness. Setting up governance structures like audit committees, BoDs, and internal controls can help organizations build their credibility, lower their risks, and promote sustainable and responsible management. They can also stress the importance of openness, ethics, and involving stakeholders. Sustaining the faith and confidence of investors, shareholders, and the general public is contingent upon the implementation of sound corporate governance.

### 5.3.7 E-Government Model

The E-Government Model, also known as electronic government or digital government, involves the use of technology to enhance the efficiency, effectiveness, and accessibility of public services. It encompasses the digital transformation of government operations and services, making them more convenient, transparent, and efficient. Governments all over the world have widely embraced this model to better serve stakeholders and citizens. Here's a detailed discussion of the E-Government Model:

- **Service Delivery via Digital Platforms:** E-government involves providing a wide range of public services through digital platforms, such as websites, mobile apps, and online portals. Citizens can access services and information online at their convenience.
- **Efficiency and Cost Reduction:** One of the primary goals of e-government is to improve the efficiency of government operations. By automating processes, reducing paperwork, and eliminating manual tasks, administrative costs are lowered, and services can be delivered more quickly.
- **Transparency and Accountability:** E-government enhances transparency by making government actions and decisions more visible to the public. Information about government activities, budgets, and policies is often readily accessible, allowing citizens to hold their government accountable.

- **Open Data Initiatives:** E-government often involves open data initiatives, where government data is made publicly available in a machine-readable format. The general public, businesses, and researchers can use this data for a variety of purposes, including improving decision-making.
- **Digital Inclusion:** Governments strive to ensure that e-government initiatives do not leave any citizens behind. Efforts are made to bridge the digital divide by offering support and assistance to citizens who may have limited access to technology or digital literacy.
- **Accessibility and Convenience:** E-government services are designed to be accessible and user-friendly. This makes it easier for citizens to interact with the government and access services from their homes or mobile devices, reducing the need for physical visits to government offices.
- **Online Transactions:** The e-government often allows for online transactions, such as paying taxes, renewing licenses, or applying for permits. These transactions save time and effort for citizens and businesses.
- **Data Security and Privacy:** Ensuring data security and privacy is a critical aspect of e-government. Measures are put in place to protect sensitive information and maintain public trust.
- **Automation and Workflow Management:** E-government solutions often include automation of internal government processes and workflow management systems to streamline operations and reduce bureaucratic delays.
- **Citizen Feedback and Engagement:** Digital platforms enable governments to gather feedback from citizens and engage them in the policymaking process. Online surveys, feedback forms, and social media engagement are common tools for involving citizens.
- **Disaster Management and Emergency Response:** E-government can play a vital role in disaster management and emergency response. Governments can use technology to provide timely information and assistance during crises.
- **Collaboration and Interoperability:** E-government promotes collaboration between different government agencies and levels of government. Interoperability standards are established to ensure that systems can exchange information seamlessly.
- **Data Analytics and Decision Support:** E-Government leverages data analytics to help governments make data-driven decisions. This can lead to more effective and efficient public policies.
- **Economic Development:** E-government can contribute to economic development by providing a conducive environment for businesses and entrepreneurs through simplified processes and improved access to government information.

In conclusion, the E-Government Model is a thorough method for utilizing technology to raise the standard of public service delivery, streamline government processes, and interact with the populace. Governments can improve service delivery quality, efficiency, and transparency while encouraging citizen engagement and accountability by utilizing digital platforms. However, in order to guarantee that e-government initiatives benefit all citizens, it is critical to address digital divides, security concerns, and data privacy issues.

To summarize, each of the models that were presented earlier in this article has been effectively implemented in a wide variety of developing nations in order to improve the performance of SOEs and PAEs. This was done in order to increase the effectiveness of SOEs and PAEs. Nevertheless, the success of any model is contingent not only on the particular conditions and requirements of the SOEs and PAEs at issue but also on the nation in question. This is the case regardless of the model that is being thought about.

### 5.3.8 The State-Owned Holding Company Model

The information and recommendations in this report are all feasible and practical given the current legal framework that governs the establishment and operation of SOEs and PAEs and are appropriate for the present developmental status of Cambodia. A longer-term strategic direction is under consideration to better align Cambodia with international best practices while ensuring the Royal Government of Cambodia (RGC) retains the ability to utilize SOEs and PAEs to help achieve the Cambodia Vision 2030 goals of reaching middle income country status and the 2050 goals of reaching a high-income status.





- **Wage rates:** The NREGA program guarantees a minimum wage to all workers employed under the scheme. The government measures the average wage rates paid to workers to ensure that they are receiving fair wages.
- **Social impact:** The NREGA program is intended to provide a safety net for the rural poor and reduce poverty. The government measures the impact of the program on poverty levels, food security, and other social indicators.
- **Transparency and accountability:** The Indian government has put in place mechanisms to ensure that the NREGA program is implemented in a transparent and accountable manner. The government tracks the number of complaints received and resolved, the number of grievances redressed, and the amount of funds disbursed.
- **Technology adoption:** The government has implemented several technological interventions to improve the efficiency and effectiveness of the NREGA program. The government measures the adoption of these technologies and their impact on the program's performance.

Overall, the NREGA program has been a significant social welfare intervention in India. The program has generated millions of jobs and provided income security to the rural poor. While there have been some issues with the program's implementation, the government's focus on transparency and accountability has helped to address these issues and improve the program's performance over time.

## 5.4.2 Pakistan

### 5.4.2.1 National Highway Authority (NHA) of Pakistan

In Pakistan, one of the PAEs was the National Highway Authority (NHA) of Pakistan. The NHA is responsible for the development, maintenance, and operation of Pakistan's national highway network, which spans over 12,000 km. The organization was established in 1991 and has since played a vital role in Pakistan's economic development by providing transportation infrastructure.

In measuring its performance, the NHA uses several indicators, including:

- **Quality of Service:** The NHA measures the quality of service it provides by tracking the number of accidents on its highways, the average travel time, and the number of complaints received from road users.
- **Financial Performance:** The NHA tracks its financial performance by monitoring its revenue generation and cost management. The organization aims to achieve financial sustainability through effective revenue management and cost-cutting measures.
- **Project Completion:** The NHA measures its project completion rate by tracking the progress of ongoing projects and the timely completion of completed projects. The organization aims to complete all its projects on time and within budget.
- **Stakeholder Satisfaction:** The NHA tracks stakeholder satisfaction by conducting surveys and collecting feedback from road users, project beneficiaries, and other stakeholders.
- **Institutional Capacity:** The NHA measures its institutional capacity by tracking the development of its human resources, administrative systems, and procedures. The organization aims to improve its institutional capacity to deliver better services to the public.

### 5.4.2.2 Pakistan Railway

Another example of a PAE from Pakistan is the Pakistan Railway. Pakistan Railway is a state-owned enterprise responsible for the operation of the country's railway system, including passenger and freight transportation. The enterprise has faced numerous challenges over the years, including outdated infrastructure, insufficient investment, and political interference. To measure the performance of the Pakistan Railway, the government and the enterprise itself use a variety of indicators, including passenger and freight volumes, revenue, operating costs, and safety statistics. In recent years, the Pakistan Railway has focused on improving its performance by investing in new locomotives and upgrading its infrastructure, including tracks and signaling systems.



The government of Pakistan also regularly publishes reports and statistics on the performance of the Pakistan Railway. For example, the Annual Development Plan for 2021-22 includes targets for the enterprise's performance, such as increasing the number of passengers carried and improving the punctuality of trains. The government also monitors the enterprise's financial performance and sets targets for revenue and operating costs. In addition to government reports, independent organizations also evaluate the performance of the Pakistan Railway. For example, the World Bank has published a report on the enterprise's performance and recommended reforms to improve its efficiency and financial sustainability.

### 5.4.2.3 Water and Power Development Authority (WAPDA)

Additionally, Pakistan's Water and Power Development Authority (WAPDA) is a state-owned enterprise responsible for managing Pakistan's water resources and power generation. WAPDA was established in 1958 and has since been responsible for the construction and operation of a network of dams, canals, and power stations throughout the country. The authority's mandate is to ensure the equitable distribution of water and electricity throughout Pakistan while maintaining the country's water resources and hydropower infrastructure. To measure WAPDA's performance, the Pakistani government tracks a range of metrics, including the percentage of the population with access to electricity, the number of hydropower projects completed, and the level of water storage in the country's dams. The government also tracks WAPDA's financial performance, including revenue generated, expenses incurred, and profits earned. In recent years, there have been concerns about WAPDA's performance, particularly in the areas of financial management and project execution. The authority has struggled with cost overruns and delays on major hydropower projects, which have led to increased debt and reduced profitability. To address these issues, the government has taken steps to improve WAPDA's governance and financial management practices.

## 5.4.3 Philippines

### 5.4.3.1 Philippine Health Insurance Corporation (PhilHealth)

In the Philippines, Philippine Health Insurance Corporation (PhilHealth) is a PAE created by the government as the government's primary healthcare financing agency. PhilHealth was established in 1995 to provide affordable healthcare coverage to all Filipinos, particularly the poor and marginalized. Its mandate is to pool funds from members and government subsidies to provide financial assistance to cover medical expenses. PhilHealth is considered one of the largest government-owned and controlled corporations in the Philippines, with a reported membership of over 110 million as of 2021. To measure its performance, PhilHealth regularly releases an annual report that provides a comprehensive overview of its activities, accomplishments, and financial status. The report includes key performance indicators (KPIs) that assess PhilHealth's performance in various areas, such as membership and enrollment, benefit payments, financial performance, and customer satisfaction.

- Membership growth - PhilHealth aims to increase the number of Filipinos enrolled in its health insurance program each year.
- Financial sustainability- PhilHealth must maintain a balance between the premiums it collects and the benefits it pays out to ensure its long-term financial sustainability.
- Claim processing time- PhilHealth aims to process claims within a reasonable amount of time to ensure that healthcare providers are paid promptly and patients receive the care they need.
- Utilization rate- PhilHealth tracks the utilization of healthcare services by its members to ensure that they are receiving appropriate and necessary care.
- Customer satisfaction - PhilHealth surveys its members to assess their satisfaction with the organization's services and identify areas for improvement.

For instance, in the 2020 Annual Report, PhilHealth reported that it has achieved its membership target of 109.6 million and recorded a total benefit payment of PHP 131.7 billion (approximately USD 2.7 billion) for the year. The report also indicated that PhilHealth's financial performance remained stable, with a net income of PHP 11.22 billion (approximately USD 229 million) and total assets of PHP 190.26 billion (approximately USD 3.9 billion). Additionally, PhilHealth conducted surveys to assess customer satisfaction, with a satisfaction rating of

73.2%. PhilHealth's performance is also subject to external evaluation by government regulatory bodies, such as the Commission on Audit (COA) and the Department of Health (DOH). In 2020, COA conducted an audit of PhilHealth's financial statements and operations and issued a report that highlighted areas for improvement, including strengthening the internal control system and addressing delays in the processing of benefit claims.

Overall, the Philippine government closely monitors PhilHealth's performance through regular reporting and evaluations providing transparency and accountability in the agency's performance, and has taken steps to address issues and ensure that the organization is fulfilling its mandate to provide affordable and accessible healthcare to all Filipinos.

#### 5.4.4 Nigeria

##### 5.4.4.1 Nigerian National Petroleum Corporation (NNPC)

In Nigeria, the Nigerian National Petroleum Corporation (NNPC), is responsible for the management of Nigeria's oil and gas resources. The performance of the NNPC is measured through various indicators such as revenue generation, oil production, and refining capacity. The country's government regularly publishes reports on the performance of the NNPC, which are used to evaluate the organization's effectiveness and efficiency. For example, in the 2020 NNPC annual report, the organization reported generating a revenue of over \$20 billion, which was an increase from the previous year (NNPC, 2020). The report also indicated that the organization had increased its oil production capacity and reduced its reliance on imported petroleum products. In addition, the NNPC reported improving its governance structure and increasing transparency in its operations.

The Nigerian government also measures the performance of the NNPC through its impact on the economy, such as its contribution to the national budget and its role in promoting economic growth. For instance, the NNPC is expected to contribute a significant portion of the country's revenue through taxes and royalties, which are used to fund various government programs and services. In terms of production, NNPC is evaluated on its ability to meet production targets and maintain the quality of its output. This includes ensuring the availability of infrastructure and equipment, as well as minimizing production downtime due to maintenance or other issues. Operational efficiency is another important metric for NNPC, which includes ensuring compliance with environmental and safety regulations, optimizing processes, and improving workforce productivity.

Overall, the Nigerian government uses various measures to evaluate the performance of the NNPC, including financial and economic indicators, governance structures, and transparency in operations. These measures are used to ensure that the organization operates efficiently, effectively, and in the best interest of the country's citizens.

#### 5.4.5 Kenya

##### 5.4.5.1 Kenya Power and Lighting Company (KPLC)

Kenya Power and Lighting Company (KPLC) is responsible for the generation, transmission, and distribution of electricity in Kenya. To measure its performance, KPLC uses a range of indicators, including the number of customers served, the level of electricity access, revenue collection, and customer satisfaction. For example, the company aims to increase the number of customers served by 200,000 each year and to increase electricity access to 100% of the population by 2022. KPLC also sets revenue collection targets and monitors customer satisfaction through surveys and feedback mechanisms. In addition to these performance indicators, KPLC is also subject to external oversight by the Energy and Petroleum Regulatory Authority (EPRA) and the Public Service Commission (PSC). EPRA sets tariff rates and monitors compliance with regulations, while PSC is responsible for ensuring that the company adheres to public service standards and ethical principles.

Despite these measures, KPLC has faced challenges in recent years, including high levels of technical and commercial losses, low revenue collection rates, and allegations of corruption. As a result, the government has implemented a range of reforms aimed at improving the company's performance, including the introduction of smart metering technology, the installation of prepaid meters, and the establishment of an independent audit committee. Overall, the case of KPLC highlights the importance of setting clear performance targets and monitoring progress towards these goals, as well as the need for effective external oversight and the implementation of reforms in response to identified challenges.

#### 5.4.5.2 Kenya Revenue Authority (KRA)

Kenya Revenue Authority (KRA) is responsible for the collection of taxes and other revenue on behalf of the Kenyan government. In order to measure its performance, the KRA uses a number of indicators including revenue collection targets, compliance rates, and customer satisfaction levels. In recent years, the KRA has placed a particular emphasis on improving compliance rates in order to increase revenue collection. To achieve this, the KRA has implemented a number of initiatives such as electronic filing of tax returns and increased enforcement measures. In 2020, the KRA reported that it had achieved a compliance rate of 74%, up from 71% in the previous year. This resulted in the collection of KES 1.6 trillion (approximately USD 15 billion) in revenue for the Kenyan government.

The KRA's performance is regularly monitored by the Kenyan government and is subject to independent audits by bodies such as the Office of the Auditor General. The KRA also publishes annual reports which provide detailed information on its performance and financial position.

#### 5.4.6 Ghana

##### 5.4.6.1 National Health Insurance Scheme (NHIS)

The National Health Insurance Scheme (NHIS) in Ghana is responsible for providing affordable healthcare to the country's population. To measure its performance, NHIS uses a range of indicators, including the number of registered members, the percentage of claims paid, and the level of patient satisfaction. The scheme also tracks healthcare utilization rates and the number of healthcare facilities that have signed up to participate in the program. One of the key challenges facing NHIS has been sustainability, as the scheme has struggled to maintain adequate funding levels and has faced allegations of fraud and mismanagement. To address these challenges, the government has implemented a range of reforms, including the introduction of biometric registration and verification systems to prevent fraud, as well as efforts to increase revenue and reduce administrative costs.

Overall, the case of NHIS highlights the importance of setting clear performance targets and regularly monitoring progress towards these goals, as well as the need for effective oversight and the implementation of reforms in response to identified challenges.

##### 5.4.6.2 National Health Insurance Authority (NHIA)

The National Health Insurance Authority (NHIA) in Ghana is a government agency responsible for managing the country's National Health Insurance Scheme (NHIS), which provides healthcare coverage to Ghanaian citizens. To measure the performance of the NHIA, the government of Ghana tracks several key performance indicators (KPIs), including:

- **NHIS coverage:** This KPI measures the percentage of the Ghanaian population that is enrolled in the NHIS. The government aims to increase NHIS coverage to 70% by 2030.
- **Claims processing time:** This KPI measures the average time it takes for healthcare providers to receive payment for services provided to NHIS members. The government aims to reduce claims processing time to five days or less.
- **NHIS financial sustainability:** This KPI measures the NHIS's ability to continue providing healthcare coverage without running out of funds. The government aims to maintain NHIS financial sustainability by ensuring that the scheme's revenue exceeds its expenses.
- **NHIS member satisfaction:** This KPI measures NHIS members' satisfaction with the healthcare services they receive. The government conducts regular surveys to gauge NHIS member satisfaction and uses the results to inform policy decisions.

##### 5.4.6.3 Ghana Revenue Authority (GRA)

Ghana Revenue Authority (GRA) is responsible for collecting and managing tax revenue in Ghana. The GRA was established in 2009 through the merger of the Internal Revenue Service, the Customs, Excise and Preventive Service, and the Value Added Tax Service. The goal of the merger was to improve tax collection and increase

revenue for the government of Ghana. To measure the performance of the GRA, several key performance indicators (KPIs) have been established. These KPIs include:

- **Tax revenue collection:** The GRA is expected to collect a certain amount of revenue each year. This KPI measures the GRA's ability to meet these revenue targets.
- **Taxpayer compliance:** The GRA is responsible for ensuring that taxpayers comply with tax laws and regulations. This KPI measures the level of compliance among taxpayers.
- **Efficiency of tax collection:** The GRA is expected to collect tax revenue efficiently and effectively. This KPI measures the GRA's ability to minimize costs and maximize revenue collection.
- **Customer satisfaction:** The GRA provides services to taxpayers, including processing tax returns and answering inquiries. This KPI measures customer satisfaction with the GRA's services.
- **Staff productivity:** The GRA's staff is responsible for collecting tax revenue and providing services to taxpayers. This KPI measures the productivity of the GRA's staff.

The performance of the GRA is regularly monitored and evaluated using these KPIs. Reports on the GRA's performance are published annually and are available on the GRA's website. In addition, the GRA has established a system for receiving feedback from taxpayers and uses this feedback to improve its services.

#### 5.4.7 Uganda

##### 5.4.7.1 National Water and Sewerage Corporation (NWSC)

National Water and Sewerage Corporation (NWSC) in Uganda was established in 1972 as a government parastatal responsible for providing water and sewerage services in urban areas of Uganda. In 1998, it was transformed into a statutory corporation with a mandate to operate as a commercial entity. Performance measurement is an important aspect of the NWSC's operations, and the corporation uses several key performance indicators (KPIs) to evaluate its performance. These include:

- **Customer satisfaction:** NWSC conducts regular surveys to measure customer satisfaction with its services, including factors such as water quality, reliability of supply, and customer service.
- **Non-revenue water:** Non-revenue water is water that is lost before it reaches customers due to leaks, theft, or other factors. NWSC tracks its non-revenue water levels as a measure of efficiency in its operations.
- **Financial performance:** NWSC monitors its financial performance through metrics such as revenue collection, operating expenses, and profitability.
- **Water coverage:** NWSC aims to provide water to as many people as possible, and measures its progress towards this goal through metrics such as the percentage of the population with access to clean water.
- **Environmental compliance:** NWSC is committed to protecting the environment, and measures its compliance with environmental regulations and standards.

In addition to these KPIs, NWSC also conducts regular performance audits to identify areas for improvement and ensure that its operations are aligned with its strategic goals.

#### 5.5 Longer Term Observations: International Experience of Managing SOEs and PAEs

The experience of all countries is based on the context in which SOEs and PAEs exist in their countries.

Some countries have a large public sector, others less so. Some countries have a degree of state involvement which is high (e.g., France), whereas other countries adopt a more hands-off approach based on regulation.

Identification of best practice is based on what is proven to be successful across countries. Specific countries are not put forward as models per se, only what is considered to be best practices.

To link to the next chapter, this has been an overview of the worldwide best practices for the management of SOEs and PAEs. While there is no single model that can be described as being "best", it is possible to draw some conclusions and relate the current situation in SOEs and PAEs to worldwide best practices.

## Appendix 1:

# SOEs and PAEs in Cambodia

### 6.1 State-Owned Enterprises (SOEs) in Cambodia

State-Owned Enterprise	Year of Establishment	TG	FG	Main Functions
<b>1 Utilities</b>				
Electricité du Cambodge (EDG)	1906 1996 (current law)	MME	MEF	Provision of adequate, stable, quality and efficient electricity supply to customers in its licensed areas.
Phnom Penh Water Supply Authority	1895 1996 (current law)	MISTI	MEF	Supply of clean potable water to the people of Phnom Penh and the urban areas of the Kandal province adjacent to Phnom Penh.
Siem Reap Water Supply Authority	1930 2007 (current law)	MISTI	MEF	Produces, supplies and distributes clean water for consumers in Siem Reap city and surrounding the city.
Stung Treng Water Supply Authority	2023	MISTI	MEF	Produces, supplies and distributes clean water for consumers in city and surrounding the city.
Kompong Cham Water Supply Authority	2023	MISTI	MEF	Produces, supplies and distributes clean water for consumers in city and surrounding the city.
Svayrieng Water Supply Authority	2023	MISTI	MEF	Produces, supplies and distributes clean water for consumers in city and surrounding the city.
Battambang Water Supply Authority	2023	MISTI	MEF	Produces, supplies and distributes clean water for consumers in city and surrounding the city.
Kampot Water Supply Authority	2023	MISTI	MEF	Produces, supplies and distributes clean water for consumers in city and surrounding the city.
Mondulhiri Water Supply Authority	2023	MISTI	MEF	Produces, supplies and distributes clean water for consumers in city and surrounding the city.
Stoung and Taing Krasing Water Supply Authority	2023	MISTI	MEF	Produces, supplies and distributes clean water for consumers in city and surrounding the city.
Stueng Saen Municipality Water Supply Authority	2023	MISTI	MEF	Produces, supplies and distributes clean water for consumers in city and surrounding the city.
Pursat Water Supply Authority	2023	MISTI	MEF	Produces, supplies and distributes clean water for consumers in city and surrounding the city.

2 Finance				
Cambodia Securities Exchange	2010	MEF	MEF	Established and operates the securities market, securities clearing and settlement system and securities storage system in accordance with the Law on the Issuance and Trading of Non-Government Securities.
Credit Guarantee Corporation of Cambodia Plc	2020	MEF	MEF	Provision of credit guarantees to lenders on loans made to businesses based on international standards to share the risk with lenders and to improve financial inclusion.
Cambodia Reinsurance Company “Cambodia Re”	2002	MEF	MEF	Undertaking business in reinsurance for all types of risks, including general insurance and life insurance.
Agriculture and Rural Development Bank	1998 2014 (current law)	MEF	MEF	Serves as both a commercial bank and a policy bank, providing financing and related banking services, including credit services, deposits to target customers in the agricultural production chain and the rural economy.
Small and Medium Enterprise Bank of Cambodia	2022	MEF	MEF	Provision of effective and sustainable financing and commercial banking services to support small and medium enterprises to promote economic diversification and exports in line with government policies.
3 Trade and Transportation				
Green Trade Company	1998	MOC	MEF	Buys and sells food products in order to maintain market stability and support farmers' food prices; manages the export-import of food; manages the government's food strategy; supplies food to meet the needs of the Royal Government.
Phnom Penh Autonomous Port	1905 1998 (current law)	MPWT	MEF	Operates with services including navigational services for vessels call in and out of the port, cargo-handling such as stevedoring, lift-on lift-off, cargo transportation, cargo storage and warehousing, and transportation services.
Sihanoukville Autonomous Port	1956 1998 (current law)	MPWT	MEF	Operates with services including navigational services for vessels call in and out of the port, cargo-handling such as stevedoring, lift-on lift-off, cargo transportation, cargo storage and warehousing, and transportation services.



<b>4 Telecommunications</b>				
Telecom Cambodia	2005	MPTC	MEF	Operates network and telecom services both domestically and internationally through radio telecommunication system, satellite, copper/optical fiber cable, and submarine cable.
Cambodia Post	2010	MPTC	MEF	Provides services such as collecting, transporting and distributing all kinds of letters, developing the postal sector, selling various products for the postal and telecommunications sectors.
<b>5 Other Categories</b>				
Publishing and Distribution House	2002	MOEYS	MEF	<p>Publishes students' and teachers' books, exercise books for students, training books and magazines related to education, health, etc.</p> <p>Develops and produce materials to assist teachers in teaching.</p> <p>Provides printing services for various documents that serve the public interest.</p> <p>Provides book delivery service to schools.</p>
Laboratory of Construction and Public Works	1997	MPTC	MEF	<p>Researches new technologies to improve construction projects; Inspects the quality of construction materials and the use of those materials; provide guidance, advice and technical assistance, as well as check for errors in the construction sector.</p> <p>Provides technical training in all subjects related to the construction sector.</p>
Enterprise for Managing Transfer Stations and Landfills for Solid Waste	2020	MOE	MEF	Manages transfer stations and landfills and develop towns with beauty, sustainability and well-being.
Enterprise for Managing Municipal Solid Waste in Phnom Penh	2022	Phnom Penh Capital	MEF	Manages urban solid waste in Phnom Penh with beauty, sustainability and well-being.

## 6.2 Public Administration Establishments (PAEs) in Cambodia

Public Administration Establishment	Year of Establishment	TG	FG	Main Functions
<b>1 Capacity Building</b>				
Royal Academy of Cambodia	1965 2019 (current law)	OCM	MEF	Manages and develops the study and research on science, technology, technical skill, training and develop the senior intellectual resources.
Cambodia Academy of Digital Technology	2014 2021 (current law)	MPTC	MEF	Provides education, training, R&D and promote innovation on digital technology to students, civil servants, and innovators to contribute to the development of digital government, economy and society.
Royal University of Law and Economics	1948 2019 (current law)	MOEYS	MEF	Develops human resource capacity by providing higher education and postgraduate in law, public administration, economics, business, tourism, information technology, and other skills.
Royal University of Phnom Penh	1960 1988 (current law)	MOEYS	MEF	Provides the scientific research bases, for higher education institutions, etc. Center for driving Cambodia's socio-economic development through the creation of human capital and the provision of quality research, training and community service.
Royal University of Agriculture	1934 2019 (current law)	MAFF	MEF	Provides education in the agricultural sector; and implement the policies, action plans, teaching and research developed by the MAFF.
Royal University of Fine Arts	1917 2020 (current law)	MCFA	MEF	Training and research on quality arts, culture, skills and entrepreneurship based on the National Policy on Culture and Fine Arts and the National Policy on Higher Education Vision 2030 of the MOEYS.
University of Health Sciences	1946 2021 (current law)	MOH	MEF	Develops competent and professionalism human resources in the field of health sciences through training that meets national and international standards responding to the national, regional and international needs.
National University of Management	1983 2021 (current law)	MOEYS	MEF	Provides a range of management related courses including finance, accounting, banking, digital technology and tourism. Local programs are provided in Khmer and international programs are in English.

National University of Battambang	1968 2019 (current law)	MOEYS	MEF	Training for Associate Degree, Bachelor Degree and Postgraduate in accordance with the Cambodian and international qualifications framework.  Conducts research for national economic growth in response to the policies of the MOEYS and the Royal Government.
Svay Rieng University	2005	MOEYS	MEF	Offers associate's, bachelor's and master's degrees at an affordable rate, with on-campus dormitories, student work-study programs and extracurricular activities.
National University of CheaSim KamchayMear	1993 2021 (current law)	MOEYS	MEF	Develops the competent and socially responsible human resources with high intellectual knowledge, skills, and ethics in order to be able to make more productive contribution to the socio-economic development of the country.
National Polytechnic Institute of Cambodia	2005	MLVT	MEF	Training of technicians at all levels, including: primary, intermediate, advanced and post-graduate techniques that are theoretical and practical in accordance with the technical and vocational education and training system.
Health Science Institute of Royal Cambodian Armed Forces	1979 2009 (current law)	MOD	MEF	Offers training to doctors, pharmacists, dentists, technicians, and physicians specializing in various treatments and care.
Economics and Finance Institute	1997 2015 (current law)	MEF	MEF	Develops human resource capacity related to economic and financial management, and implement training on economic and financial management, including public financial management through information technology for civil servants of the MEF and line-ministries.
Prek Leap National Institute of Agriculture	1948 2019 (current law)	MAFF	MEF	Training human resources and research with a focus on agricultural technology and science, and Implement development policies and strategies of the MAFF.
Kampong Cham National Institute of Agriculture of	2019	MAFF	MEF	Training human resources and research with a focus on agricultural technology and science, and Implement development policies and strategies of the MAFF.
National Institute of Public Health	1997 2006 (current law)	MOH	MEF	Provision of public health and laboratory services, training and research to improve the health of the Cambodian people.

2 Health				
Calmette Hospital	1958 1996 (current law)	MOH	MEF	Offers varied specialized services related to emergencies care, interventional and surgical cardiology, neurosurgery, orthopedics, urology, cancer surgery, maternity with neonate intensive care and general medicine including hepato-gastro-enterology, cancer, neurology, pulmonary diseases, diabetes- endocrinology, nephrology-hemodialysis, infectious diseases, and rehabilitation.
Khmer-Soviet Friendship Hospital	2009	MOH	MEF	Offers varied specialized services related to emergencies care, interventional cardiology, neurosurgery, Orthopedics, Abdominal Surgery, Esthetic and Plastic Reconstructive Surgery, Urology, Obstetrics and Gynecology with neonate intensive care and general medicine including Hepato-gastro-enterology, Ophthalmology, Oncology, Neurology, Pulmonary Diseases, diabetes- endocrinology, nephrology- hemodialysis, Dentistry and Oral Maxillofacial Surgery, oncology, Dermatology, Psychiatry, Rehabilitation and Sport Medicine.
Cambodia-China Friendship Preah Kossamak Hospital	2009	MOH	MEF	Provides health services in general medicine, surgery, dentistry, obstetrics and gynecology to clients.
Preah Ang Duong Hospital	2012	MOH	MEF	Diagnosis, treatment and care for patients or injured in the eyes, ears, nose, throat and mouth.
National Pediatric Hospital	1974 2010 (current law)	MOH	MEF	Provision of high quality of pediatric healthcare service and training services to health care providers.
LUANG MÈ Hospital	2022	MOH	MEF	Provision of medical services, consultation, diagnosis, pathology, general cancer care for adults and children.
Sihanouk Hospital Center of Hope	1996	MOH	MEF	Provision of affordable, quality healthcare to those living in Cambodia in poverty while training the nation's top clinicians to further serve the Cambodian population.  Provision of emergency care, in-patient medical wards, surgical services, and a well-established Infectious Disease Department that supports one of the country's most long-standing cohorts of people living with HIV and provides cutting-edge diagnosis and treatment for TB.

National Maternal and Child Health Center	1930 2022 (current law)	MOH	MEF	Diagnosis and treatment of diseases including Sexual and reproductive health services, adolescents, mothers, infants, children and nutrition, obstetrics, gynecology and infant care, children and immunization.  Specialist and emergency obstetrics, gynecology and oral medicine.
<b>3 Arts, Cultural and Heritage</b>				
APSARA National Authority	1995	MOT	MEF	Protect, preserve in the region of Siem Reap/Angkor, and the valuation of national cultural property.  Conceives and leads the development of cultural tourism of the region of Siem Reap/Angkor.
National Authority for Preah Vihear	2006 2020 (current law)	MCFA	MEF	Protect, preserve the archeological, cultural, environmental and historical values of the Preah Vihear and Koh Ker temples.
National Authority for Sambor Prei Kuk	2015	MCFA	MEF	Protect, preserve and enhance the archeological, cultural, environmental and historical park of Sambor Prei Kuk temple resort.
Angkor Enterprise	2016	MOT	MEF	Manages the collection and payment of ticket sales for the Angkor area.  Prepare proposals on revenue collection strategies from ticket sales in the Angkor area.
<b>4 Social Protection</b>				
National Social Securities Fund	1940 2020 (current law)	MLVT	MEF	Operates the social security system on pensions, health care, occupational risk and unemployment.
National Social Assistance Fund	2022	MOSVY	MEF	Manages and administers the national social assistance programs and social security systems for civil servants and veterans.  Interventions for the benefit of the poor and vulnerable to respond to emergencies, welfare and human capital development through financing by national budget revenue and development assistance.

5 Scientific and Research				
Cambodian Agricultural Research and Development Institute	1999	MAFF	MEF	Research and experimentation to promote agricultural development. Research and disseminate agricultural science, technology and economics.
Cambodian Rubber Research Institute	1997	MAFF	MEF	Research and experimentation to promote the development of all aspects of the general rubber crop. promotion of rubber quality and production cost. Increase rubber productivity, research and breed rubber.
Techo Startup Center	2020	MEF	MEF	Supports the government's strategic vision of fostering startups and promoting digital business in Cambodia Concentrate on five main foci: Startup Nurturing, Community, Digital Platform, Research, and Enterprise Go Digital.
National Health Products Quality Control Center	1979	MOH	MEF	Monitors the quality of drugs and health products. Research and training center for monitoring the quality, safety, toxicity, and hazards in modern medicine, traditional medicine, food, medical equipment, packaging materials. Conducts research, analysis, and testing on the quality, effectiveness, safety, and safety of toxic substances in the health of pharmaceutical and health products when registering with the Ministry of Health and circulating the market. Collaborates with national and international institutions to improve the quality, safety, pharmaceuticals, and health products in Cambodia.



## Appendix 2:

# The Laws Governing SOEs and PAEs in Cambodia

In order to progress with the study, the current laws and regulations on SOEs and PAEs were examined in detail. The following is a summary of the detailed analysis of the law and the questions it raised. This formed the basis for the questionnaire and interviews which provided the data for this report.

The following contains a summary of the laws governing SOEs and PAEs. The following summaries are unofficial and interpretive, purely designed to summarize the main points of each of the laws. We have taken selective text from the laws and included our comments and observations. Comments on the law are added for interpretation of what the law states, and its implications.

Please note that the law refers to Public Enterprises, but we refer to these as State-Owned Enterprises' (SOEs) throughout the text.

### 7.1 The SOE Law

#### 7.1.1 Kram dated June 17, 1996 on the General Statute of Public Enterprises.

SOEs are governed by the KRAM (Royal Code) dated June 17, 1996 on the General Statute of Public Enterprises (the SOEs Law), adopted by the National Assembly of the Kingdom of Cambodia on May 22, 1996.

#### 7.1.2 A Summary of the SOE Law

##### Chapter I: General Provisions (Articles 1-8)

The purpose KRAM dated June 17, 1996 on the General Statute of Public Enterprise (the SOEs Law), as set out in Article 1 *"is to govern the public enterprise sector and to define the conditions applicable to its legal status, functioning and control"*.

Article 2 defines a public enterprise (PE) as an enterprise that all or most of its capital belongs to the State. The article sets out that *"the public enterprise has its mission to enable the country's economic and social development, namely to increase the value of natural resources and to create professions"*.

Article 3 sets out that the public enterprise sector comprises

- **Public Establishments with Economic Characteristics**
- **State Companies**
- **Joint Ventures** in which the state directly or indirectly hold more than 51% of the capital or right to vote.

Detailed reference to the structure and functions of each is included in Section III of the SOEs Law.

The following structure and attributes are assigned to SOEs:

- SOEs are legal entities with financial autonomy, and unless otherwise stated.
- The SOE is governed by its BoD, with a maximum of seven members (Directors).
- The management of SOEs should be in accordance with the law on commercial companies.
- SOEs shall be under the common legal system of tax and duty.
- SOEs shall be under the technical responsibility of a ministry or public authority, depending on the type of activities of the SOE.
- SOEs shall be under the financial control and inspection of *"concerned ministries or institutions"*.

Personnel who work for the SOE shall be subject to a separate statute, decided by the BoD of the enterprises.

## Chapter II: General Provisions for Public Enterprises

### Section 1: Duties and Functioning of the Board of Directors (BoD) (Articles 9-15)

Articles 9 to 15 establish the framework for governance of the SOE, specifically referring to the Board of Directors (BoD):

- one seat on the BoD shall be reserved for a representative of employees of the SOE.
- the BoD delegates the necessary power (to manage the SOE) to the President or the General Manager, but this delegation does not diminish the responsibilities of the BoD (Article 10).
- the function of the President or General Director, or member of the BoD, is incompatible with the function of member of the National Assembly and the Royal Government (Article 10).
- The BoD determines the objectives and controls the management of the SOE and ensures the effective functioning of the SOE, and to do so has the following duties:
  - decides on the development project of the SOE.
  - periodically evaluates the results achieved and put in place adjustments as necessary.
  - decides on the proposed budget for investment and financing.
  - adopts the balance and management of the various accounts.
  - determines the organizational structure of the SOE, the statute of personnel and the salary system.
  - adopt the public bidding.
- The BoD should meet once every three months and manage the minutes of the meetings within 10 days of the meetings (the majority of BoD's members should attend the meeting); the President gets a deciding vote in the case of a tie.
- Every year on 30th September the BoD should decide on the proposed budget for investment and functioning of the SOE; these documents shall be approved by the responsible ministry or authority, after agreement from the MEF within 12 months of receipt.
- The BoD decides on the annual activity report, the balance, and the managing accounts documents within 3 months of the closing of the accounts.

### Section 2: The Obligation of the Public Enterprise

Articles 16 to 19 concern the reporting of the SOE to the BoD, the MEF and the responsible ministry (TG), these include:

- minutes of BoD meetings.
- budget for functioning and investment.
- reports on activities, balance, management accounts.
- audit report on the accounts.

All finalized reports and documents should be sent within 15 days of completion.

The responsible ministry (TG or FG) has one month to challenge the documents, and in the case of disagreement the responsible ministry (TG) should be informed.

Article 17 states that the accounts shall be audited by the accounting expert in accordance with the procedures determined by the Anukret (sub-decree).

The acquisition of the SOE shall be done in accordance with the conditions set out by the MEF.

The measures, implementation and control of the bidding should be determined by the Anukret.

### Section 3: The Control of the Public Enterprise

Articles 20 to 25 set out the control mechanisms of the SOE, and in particular:

The responsible ministry (i.e. the TG) should “economically control” the SOE through their representative on the seat of the BoD to ensure that the decisions made by the BoD are in accordance with the objectives of the Government or the instructions of the TG.

The State controllers attached to each SOE are in control of:

- The fulfillment by the SOE of its obligations under the laws and regulations in effect.
- Implementation of the decisions of the BoD.
- Follow up of the functioning and evolution of the enterprise.
- Regularities of the activities which may affect the financial situation of the enterprise.

## Chapter III: Particular Provisions on Different Types of Public Enterprise

### Section 1: Public Establishments with Economic Characteristics

Articles 26 to 29 sets out the conditions for formation and operation of the SOEs with economic characteristics, which include:

- These are institutions which produce goods or sell services for the market place.
- Their duties, capital, responsible ministry as well as the rules and operations for management are determined by the Anukret.

The President is appointed by the Anukret but may be distinct from the general manager. All other members of the BoD are appointed by the Anukret.

### Section 2: State Company

Article 30 to 36 set out the conditions for the State Company, a SOE whose total capital comes from the State. It is established by the Anukret (sub-decree).

### Section 3: Joint Venture

Article 37 to 48 set out the conditions for operation of a joint venture, where capital is owned partly by the State and partly by a State legal entity or private natural person or a state legal entity.

If the public participation is greater than 51% of the capital, the joint venture is considered as a public enterprise (PE).

There are rules concerning the qualification for membership of the BoD and the fulfillment of duties, but in short, the Anukret (sub-decree) determines the mandate and structure of the Joint Venture SOE and it is overseen by a state representative in the same way as the other types of SOE.

## Chapter IV: Final Provisions

Article 49: Any provisions contrary to this law shall be invalidated.

## 7.2 The PAE Law

### 7.2.1 KRAM dated 18 August 2015, on the Legal Status of Public Administration Establishments

PAEs are governed by the KRAM (Royal Decree) NS/RKT/0815/872 on the Legal Status of Public Administration Establishments, promulgated in 2015 (the PAEs law), and amended in 2018.

#### 7.2.2 A Summary of the PAE Law

##### Chapter 1: General Provisions

The Royal Decree on the Legal Status of PAEs dated 18th August 2015 (the “Law”) is law provides the overarching legal framework for PAEs and replaces the Royal Decree on the Legal Status of PAEs dated 31st December 1997. The purpose of the Royal Decree (set out in Article 1) to ensure the efficiency, effectiveness, transparency and accountability of PAEs. Article 1 states that financial reporting must be “in accordance with the laws, regulations and financial procedures in force”.

Under the PAEs Law, PAEs are state owned legal entities which are “primarily responsible for public service missions in the areas of administrative, social, health, cultural, educational, scientific, and technical services” (Article 4). Each PAE shall be established by a “sub-decree” at the joint request of “TG” Ministry or Institution, and a FG, which in all cases is the Ministry of Economy and Finance (MEF). (According to the revision of PAEs Law in 2018, PAE shall be established by a “sub-decree” or “Royal Decree”).

PAEs have an autonomous budget which is to be appear as an Appendix to the budget of the Line Ministry (LM) which is appointed as the TG (Article 6). So, for example, if the “TG” of the PAE is the Ministry of Education, the budget of the PAE will be shown as an appendix to the Ministry of Education’s budget. Article 7 provides for the merger, separation, alteration and dissolution of PAEs, which shall be decided jointly by the TG LM and the FG (MEF). The result of a dissolution of a PAE would be that all monetary assets would be returned to the National Treasury. So clearly the establishment of PAEs is the joint responsibility of the TG LM and the MEF. The Law defines more specifically the reporting responsibilities in subsequent Chapters.

The MEF is the “FG” of all PAEs, even though the budget of the PAEs appears as an appendix to the TG’s budget. So, all PAEs should report both to their TG and the MEF. It is assumed that the TG will require the full operational and strategic reports. It is not clear whether the MEF only requires a financial report.

The following is a general summary of the PAE Law.

##### Chapter 1: General Provisions (Articles 1 to 7)

###### Article 1 (The Purpose of this Royal Decree):

*“Ensure the effectiveness of the leadership, management, and implementation of the mission of the public administration entities (PAEs) in accordance with the policies and strategies set by the TG line-ministries”.*

*“Ensure transparency, accountability, efficiency and effectiveness of outcomes in the formulation and implementation of budgets, as well as the state assets management of PAEs, in accordance with the laws, regulations and financial procedures in force”.*

**Article 4: (Defining a PAE)** *“Public Administration Establishment is a legal entity of public law that is primarily responsible for public service missions, including administrative, social, health, cultural, educational, scientific and technical services”.*

**Article 5: (Establishing the PAE as an entity):** *“PAEs shall have an autonomous budget, which shall be reflected in the appendix to the budget of the TG LM.”* Within this framework the PAE will have: Nomenclature and Office, Objects that determine the type of its activity, BoD and Executive Units, Personnel Budget, Assets of activities within the framework of the PAE, the ability to sign contracts and to sue and defend in courts, Criminal and Civil Responsibilities for any actions that its legal representatives of employees undertaken. Article 5 determines that PAEs will have an autonomous budget “which shall be reflected in the appendix to the budget of the TG LM” (inter alia) a BoD, executive units, personal (I assume “personnel”) budget, the ability to sign contracts and sue or defend in courts, and all the legal responsibilities.

**Article 6: (Establishing PAEs by Sub-Decrees):** “Every PAE shall be established by a sub-decree, at the joint request of the TG LM and the Ministry of Economy and Finance as the FG Ministry. The sub-decree shall comply with the provisions of this Royal Decree and shall specify in detail: the mission, privileges, obligations, duties, composition of the BoD, rules for implementation in the management and control of the PAE, the guardian LM.

## CHAPTER 2: Leadership and Management (Articles 8 to 23)

### Section 1: Board of Directors (Articles 8 to 19)

All PAEs will have a BoD to direct, implement and oversee the activities of the PAE. The BoD shall comprise 5-9 BoD’s members including representatives of ministries, the TG, FG (MEF), and other relevant LMs.

**Articles 8-13** set out the composition, appointment and remuneration of the BoD.

**Article 9** states that the BoD shall comprise 5-9 members including representatives of relevant ministries, TGs and the MEF.

**Article 15** sets out the responsibilities of the BoD, which cover long term planning, review of annual budget and management reports, overseeing management and operations, the work of committees, recruitment, the evaluation of quarterly, semi-annual and annual performance reports and the overseeing of any required corrective actions.

**Articles 16-19** set out the requirements for meetings and the decision-making processes.

### Sections 2 and 3: Executive Unit (Articles 20-21) and Staff (Articles 22-23)

**Articles 20-21** Responsibilities of the BoD’s member, to include, inter alia, holding meetings of the BoD, implement the BoD decisions and policies and strategies, and action plans.

**Articles 22-23** set out the basis for permanent staff of the PAE on the basis of rules and regulations set out by the BoD.

## Chapter 3: Management of Assets, Property and Finances

This section establishes that the PAE is responsible for the state assets which are assigned to it, and is responsible to the Guardian Ministry/Institution for financial and accounting management.

This is addressed in Section 1 (**Assets Management**), Section 2 (**Financial and Accounting Management**) and Section 3 (**Fiscal Regime**), Section 4 (**Procurement**).

### Section 1: Assets Management (Article 24)

**Article 24** establishes that the PAE is responsible for the management of the state assets for which it is responsible, and that the PAE can have its own assets.

### Section2: Financial and Accounting Management (Articles 25 to 33)

**Article 25:** The PAE shall be accountable to the guardian LM for financial and accounting management in accordance with the law and relevant regulations in force (so the provision for financial reporting is already incorporated clearly in the law and obliges PAEs to report financially to their respective guardian LM and the MEF).

**Article 27:** The financial operations and handling of accounting shall be managed by an accountant who shall also attend the Board Meetings as an advisor (so there is a clear definition in the existing law as to exactly how each PAE reports financially and operationally). It is suggested that it is the workplan of the MEF in the first instance to ensure that every board meeting for each PAE takes place and that the correct reporting procedures are carried out and the correct reports are provided. It is possible to look at the annual reports of the SOEs and PAEs which actually provide annual reports to see whether the BoD meetings actually take place.

**Article 28:** The source of resources of the PAE include:

The initial resources provided for the PAE.

The transfers in the form of public interventions planned in the state budget (e.g. capital subsidies).

Donations and grants received.

Public service charges or contributions that the institutions have the right to collect in accordance with the laws and regulations in force (i.e. what the PAE is allowed to charge for its services).

Income from the sale of assets within the provisions of the laws.

**Article 29** states that the budget must have a balance between income and expenditure and that the annual income and expenditure must be planned in the annual budget. Furthermore, the budget must include all the components listed in Article 28 and be in accordance with the state budget. PAEs cannot create the conditions that lead to a budget deficit in any year without the approval of the MEF.

**Article 30:** The budget plan shall be prepared for the Director of the PAE and then sent to the TG LM and then the MEF for review and decision in accordance with the calendar of the annual budget as stated in the Law on the Public Financial System.

The formulation and functioning of the budget of the PAE shall be determined by a sub-decree.

**Article 31:** this provides the accounting standards and regulations that shall be prepared in accordance with the general rules and the accounting plan set out by the Prakas of the MEF.

**Article 32:** The budget of the PAE is the public fund of the state which shall be deposited in the National Treasury account, except where there is a derogation (approval) of the MEF.

**Article 33:** The surplus of the PAE shall be approved by the BoD and recognized by the TG ministry and by the FG (MEF).

### **Section 3 and 4: Fiscal Regime and Procurement**

**Articles 34 and 35** state that the PAEs shall be subject to, and in accordance with the common law of the tax regime in force and procurement in accordance with the law on public procurement and other relevant regulations in force.

## **Chapter 4: Guardianship (Articles 36 to 46)**

This section defines the role of the TG and the FG and the reporting requirements. This is important because it defines the governance of the PAE under the responsibilities of the Technical and the FG. This defines the TG as the specialized LM in charge of the activities of the PAE (as set out in the sub-decree). The FG is the MEF.

### **Section 1: General Principles (Articles 36-38)**

**Article 37:** The TG and the FG may assign competent officers to inspect, audit, monitor and control the operations of the PAE as needed.

### **Section 2: Technical Guardian (Articles 39-42).**

**Article 39** sets out the responsibilities of the TG both finally and operationally.

**Articles 40-42** extend this role of the TG to its liaison with the BoD.

### **Section 3: Financial Guardian (Articles 43-46)**

**Article 43-46:** the FG the role and responsibilities of the FG (MEF) are set out in these Articles.



## Chapter 5: Control and Audit (Articles 47-48)

**Article 47:** Control and Audit: The PAE shall have an internal audit which shall be established appointed changed and terminated by the TG at the request of the BoD.

**Article 48:** Each PAE shall be subject to inspection, audit, monitoring and control by the TG, the FG and the NAA in accordance with the law in force.

If needed, the PAEs can be required to be subject to an audit by an independent auditor.

## Chapter 6: Transitional Provisions (Articles 49-50)

This states that any entity which conforms to the parameters of the PAE can become a PAE if the TG and the FG agree.

**Article 49:** Any state entity which, through its activities, can directly secure revenues and whose work activities require management in accordance with this law can become a PAE at the request of the TG or the FG.

## Chapter 7 Final Provisions (Article 51-52)

This Royal Decree provides the overarching legal framework of PAEs and prevails over all other regulations determining the establishment of PAEs. This Royal Decree takes effect on August 18th 2015 and replaces the previous Royal Decree dated 31 December 1997.

**Article 51:** This Royal Decree provides the overarching legal framework of PAEs and prevails over all other regulations determining the establishment of PAEs.

This Royal Decree takes effect on August 18th 2015 and replaces the previous Royal Decree dated 31 December 1997.



## Appendix 3:

# The Survey of SOEs and PAEs

### 8.1 The Questionnaire Survey

N.B. This was based on the PAE Law (2015), and also used to compile the questionnaire for SOEs due to its similarity with The SOEs Law.

Chapter 1: General Provisions (for the establishment of the PAE)	Confirm/Info.
PE/PAE Name (English)	Name
PE/PAE Name (Khmer)	Name
Article 4: Legal Form of Entity (SOE or PAE)	PE/PAE (Type)
Article 5: Main Activity of Entity	Description
Article 6: Year of Establishment or Autonomy	Year
Article 6: Legal Instrument(s) Creating or Granting Autonomy	Sub-Decree No.
Article 6: Governing Ministry(ies)	TG
Article 6: Link to Founding Legal Instrument (Sub-Decree)	Link
Article 6: Financial Guardian (MEF)	FG (MEF)

Chapter 2: Leadership and Management (of the PAE)	Confirm/Info
Article 12: BoD Composition (Available / Not Available)	Yes / No
Article 15: BoD Records of Meetings (Documents)	Link
Article 20: Executive Unit: Records of Appointment of Director Available	Yes / No
Article 22: Records of Appointment of Permanent Staff Available	Yes / No

Chapter 3: Management of Assets, Property and Finances	Confirm/Info
Article 47: Does the PAE prepare (internally) audited accounts?	Yes/ No
Article 48: If yes, are the prepared accounts audited by the (NAA)	Yes/No
Article 48: If yes, are the prepared accounts audited by an external auditor?	Yes/No
Article 27: Does the PAE prepare the following:	Yes/No
Income Statement (Yes/No/No info.)	Yes/No
Statement of Financial Position (Yes/No/No info.)	Yes/No
Statement of Cash Flow (Yes/No/No info.)	Yes/No
Budget Statement (Yes/No/No info.)	Yes/No
Notes to the Statements (Yes/No)	Yes/No
Pension Liabilities (Yes/No/No.info.)	Yes/No
Long Term Liabilities (Yes/No/No Info.)	Yes/No
Assets (Yes/No/No info.)	Yes/No
Article 30: Does the FG receive annual/semi-annual/quarterly reports from the PAE (Yes/No/No info.)	Yes/No
Article 31: What accounting standards does the PAE follow (1. None / 2. CIFRS / 3. Government Budget Accounting / 4. Cash Accounting / 5. Modified Cash Accounting / 6. Other / 7 No information	Dropdown List

Chapter 4: Guardianship	Confirm / Info
(Article 37): Do the TG and the FG assign competent officers to inspect, audit, monitor and control the operations of the PAE?	Yes/No
Article 38: Does the TG receive management and performance reports in accordance with this Law? (Yes / No / No info.)	Yes/No
Article 38: Is the TG actively involved in the strategy, operations and reporting of the PAEs? (Yes / No / No info.)	Yes/No
Article 44: Does the FG (MEF) actively liaise with the PAE? (Yes / No / No info.)	Yes/No

Chapter 5 (Control and Audit)	Confirm/Info
Article 47: Does the PAE undertake an internal audit? (Yes / No / No information)	Yes/No
Article 48: Is the PAE subject to inspection, audit, monitoring and control by the technical guardian, the financial guardian and the NAA in accordance with the law in force? (Yes / No / No information)	Yes/No
Article 48: Has the PAEs been required to be subject to an audit by an independent auditor	Yes/No

Chapter 6: Transitional Provisions	Confirm/Info
Article 50: Has the PAE confirmed that it has adjusted its relevant regulations to align with this royal decree?	Yes/No/No-Info.

Open-ended Question	Confirm/Info
Please provide us with your comments and observations on management and reporting of your PAE	Open-ended comments from PAEs

## 8.2 The Questionnaire Survey Results

### 8.2.1 Role and Mandate of SOEs and PAEs under the Existing Laws

SOEs and PAEs were asked to provide information about their role and mandate under the law. The five responding SOEs and PAEs did this and each provided:

#### 8.2.1.1 Title and Functions

- Their SOE or PAE name.
- All six provided their sector (e.g. education. healthcare).
- All listed their main functions and duties (see individual SOE or PAE descriptions).

#### 8.2.1.2 Relevant Law

It was known in advance that the legal basis for the SOEs and PAEs were:

- 1996 Law on SOEs.
- 2015 (2018) Law on PAEs.

This was not confirmed in the questionnaire.

#### 8.2.1.3 Legal Registration Documents

All respondents stated which law they are operating under and the decree which established them.

Questions asked were: Under which Law, Royal-Decree or Sub-Decree was your SOE or PAEs established?

- Two specified the sub-decree under which they were established (see summary of each SOE or PAE)

- Two just said that they were established by sub-decree.
- One was established by Royal Decree.

All five provided their legal regulation of SOE OR PAE establishment.

### 8.2.2 Board of Directors (Governance)

Each of the five respondents stated that they had established Boards of Directors (BoD) in accordance with the law. Questions on governance related to the establishment and operation of the BoD.

**Table 3.1: Governance**

Questionnaire (Governance)	SOE / PAE Responses
Question 11 (Article 12): Does your SOE/PAE have a management / Board of Directors meeting?	100% YES (4 of 6 attached Board Meeting Minutes)
Question 12 (Article 20): Does your SOE/PAE have: Letter of appointment of the management team / Board of Directors	100% YES
Question 13 (Article 22): Letter of Decision of Appointment of Permanent Staff	100% YES

There were no questions asked as to how this works in practice. For example, there was no detail on such questions as “How are the BoD established and checked?”, or “How about the appointment of permanent staff?” The information that received from the questionnaire related to whether the BoD and Trustees were actually established and complied with the requirements of the law, and each confirmed that they did comply with the law.

### 8.2.3 Technical Guardian

The TG for each SOE and PAE is the relevant Ministry for their function. These are listed in the individual descriptions for each SOE or PAE. The questionnaire asked:

- Which Ministry is your TG?
- Does the TG receive the management reports in accordance with the law?
- How is the TG actively involved in running the SOE / PAE?
- How do you see the role of TG or PAEs / SOEs?

The questions asked are shown in Table 2:

**Table 3.2: Technical Guardian**

Questionnaire (Technical Guardian)	SOE / PAE Responses
Question 22 (Article 38): Does the TG receive management and performance reports in accordance with this law?	100% YES
Question 23 (Article 38): Is the TG actively involved in the strategy, operations and reporting of the SOE or PAE?	100% YES
Question 24 (Article 44): Does the TG actively liaise with your SOE/PAE?	100% YES

All SOEs and PAEs that responded stated that both the TG and the FG assign competent officers to inspect, audit, monitor and control the operations of their SOE/PAE.

All SOEs and PAEs that responded to the survey stated that the TG receives management and performance reports in accordance with the law.

All reported that the TG actively liaises with their SOE or PAE.

All SOEs and PAEs that responded stated that the TG is actively involved in the strategy, operations and reporting of the SOE or PAE.

The evidence from the questionnaire is that the relationships with the TG is strong and that the TG (usually a Ministry) plays a significant role in determining the direction of the SOE or PAE and in their respective activities.

#### 8.2.4 Financial Guardian

The FG of all SOEs and PAEs that responded to the survey is the Ministry of Economy and Finance. The questions asked of the SOEs and PAEs were as follows:

**Table 3.3: Financial Guardian**

Questionnaire (FG)	SOE / PAE Responses
Question 19 (Article 30): Does the FG receive annual/semi-annual/quarterly reports from you SOE/PAE?	100% YES
Question 20: (Article 44) Does the FG actively liaise with your SOE/PAE?	100% YES

All SOEs and PAEs that responded stated that both the TG and the FG assign competent officers to inspect, audit, monitor and control the operations of their SOE or PAE.

All reported that the FG actively liaises with their SOE or PAE.

All SOEs and PAEs that responded to the survey reported that the FG (the MEF) receives their annual, semi-annual, and quarterly financial reports.

It can be concluded from the questionnaire that the MEF is actively involved in the reporting of the SOEs or PAEs and that the MEF receives the required financial reports quarterly, six-monthly or annually.

#### 8.2.5 Accounting and Financial Reporting

The questions asked relating to accounting and financial reporting of SOEs and PAEs were as follows:

**Table 3.4: Accounting and Financial Reporting**

Questionnaire (Accounting and Financial Reporting)	SOE / PAE Responses
Question 18 (Article 27): Do you prepare	
an income statement?	100% YES
Statement of Financial Position?	100% YES
Cashflow	100% YES
Budget Statement	100% YES
Pension liabilities	100% NO
Long term liabilities	100% NO
Question 21: What accounting standard do you follow?	3 use Government Budget Accounting 1 uses Modified Budget accounting 1 uses another system

##### 8.2.5.1 Accounting Standards

The questions asked relating to accounting software were as follows:

**Table 3.5: Accounting Standards**

Questionnaire (Accounting Standards)	SOE / PAE Responses
(Article 31): Do you have dedicated accounting software?	Three of the six SOEs and PAEs that responded to the survey stated that they use the Government Budget Accounting standards. One uses Modified Cash Accounting, and one uses another (unspecified) accounting standard.



<b>(Article 31): What accounting systems do you use?</b>	As above
<b>(Article 31): Do you use the template of the MEF / National Treasury (NT)?</b>	As above

### 8.2.6 Audit and Inspection

The questions related to audit and inspection were as follows:

**Table 3.6: Audit and Inspection**

Questionnaire (Audit and Inspection)	SOE / PAE Responses
Question 14 (Article 47): Does your SOE/PAE prepare (internally) audited accounts?	100% YES (5 Yes 1 No (the respondent which answered “no” said that internally prepared accounts are audited by the NAA))
Question 15 (Article 48): 15 If yes, are your prepared accounts audited by the NAA?	100% YES
Question 16 (Article 48): And are your prepared accounts audited by the external auditor?	100% YES
Question 21 (Article 37): Do the TG and the FG assign competent officers to inspect, audit, monitor and control the operations of your SOEs and PAEs?	100% YES
Question 26 (Article 47): Does the SOE or PAE undertake an internal audit?	100% YES (5 Yes 1 No information)
Question 27 (Article 48): Is the PAE subject to inspection, audit, monitoring and control by the TG, the FG and the National Authority in accordance with the law in force?	100% YES
Question 28 (Article 48): Has your SOE or PAE been required to be subject to an audit by an independent auditor?	100% YES (5 Yes 1 No information)

N.B. all of the answers which indicated “no”, or “no information” or similar were from the same respondent.

All SOEs and PAEs that responded to the survey prepare internally audited accounts.

All the prepared accounts are audited by the National Audit Authority.

None of the accounts are audited by an external auditor.

All reported that their SOE or PAE undertake an internal audit.

All reported that their SOE or PAE was subject to inspection, audit, monitoring and control by the TG, the FG and the **National Audit Authority (NAA)** in accordance with the law.

However, none of the SOEs and PAEs are required to be subject to audit by an independent auditor.

### 8.2.7 Longer Term Observations

Question 29: There were No open-ended comments received from any of the six respondents.



## Appendix 4:

# SOE and PAE Case Studies

The case study interviews were undertaken during May and June 2023. These interviews were undertaken with the management of the SOE and PAE responsible for the liaison with the MEF and for financial reporting. All interviews were attended by the authors from the GSC and CamEd Business School. These case studies are intended to show how each of the SOEs and PAEs are responding to their mandate and reporting requirements and the issues raised. The following is a summary of the information provided and we would like to thank the managers staff at each of the SOEs and PAEs interviewed for their time and effort and the information they provided.

### 9.1 Electricité du Cambodge (EDC)

#### Electricité du Cambodge (EDC)

##### Role and Mandate

**Electricité du Cambodge (EDC)** was established by Royal Decree #0396/10, March 1996. EDC supplies electricity to the population of Cambodia.

**Sources of Revenue and Expenditure:** EDCs revenue is directly from sales of electricity. EDC's major sources of revenue come from (in order of importance);

- sales of electricity to the public.
- sales of electricity to Government entities.
- sales of electricity to industry and commercial activities.
- sales of electricity to wholesale distributors (around 200 private distributors provide wholesale distribution).
- sales of electricity for agricultural and other specific purposes.

**Priorities for Electricity Supply and Investment:** EDC cannot privatize. EDC is obliged to supply electricity, and whether or not EDC makes a profit or a loss, they still have to supply electricity. "We are under the government. We need to supply electricity to the population. Therefore, we cannot privatize." (i.e., social purpose is dominant). EDC's revenues and costs relate to generation and transmission of electricity, although there is significant investment in infrastructure for the development of capacity to produce and distribute electricity. EDC makes a profit, and has made a profit since 2022, but benefits are redistributed to poorer areas. The proportion of revenue derived from Phnom Penh is around 70% of total. EDC has to manage demand for electricity, which "has a lot of flexibility". This relates to peaks and troughs of demand for electricity. EDC pointed out that (for example) water supply companies have to supply water but do not have the daily widely fluctuating demand that EDC has to cope with. In terms of supply in Cambodia there is a lot of electricity provided through hydro-electricity.

##### Board of Directors and Governance

**Board of Directors:** The BoD meets once every three to four months. Terms of appointment for BoD members are for three years. Sometimes BoD's members can continue after their term of three years, this is up to the Ministry itself, whether they want to reappoint their respective Board members.

The Board of Directors comprises BoD's members from the Ministry of Mines and Engineering (MME), the MEF, the Ministry of Justice, office of the Council of Ministers, the Chamber of Commerce of Cambodia, the Director General of the EDC itself, plus a representative of the employees. EDC can request to the Board of Directors if there are any issues arising. Each of the BoD's members has a three-year term of office which can be renewed or extended.

## Electricité du Cambodge (EDC)

### Technical Guardian

The **TG** of EDC is the **Ministry of Mines and Energy (MME)**. EDC liaises closely with the MME on all technical issues, this starts with the technical planning and includes short term planning, up to three years, and extends to the Master Plan (long-term plan). The MME appoints a technical expert to work with EDC. EDC has a consultant working on the Short-Term Plan. Experts also work with, or are provided by, the World Bank, JICA, and other international donor agencies. The Electricity Authority of Cambodia (EAC) regulates the price of electricity for the private distributors (wholesalers). But EAC is a distinct entity from EDC and EDC are not fully aware of the EAC activities and practices.

### Financial Guardian

The FG is the MEF. EDC works closely with every relevant department within the MEF. The Procurement Committee (part of the MEF) is especially involved with EDC, and there is a bidding process in procurement which they have to adhere to. A representative is appointed from the MEF to monitor financials on a monthly basis, for procurement.

### Accounting and Financial Reporting

**Accounting and Reporting:** Reporting is done each month (on the basis of estimates). EDC reports to the BoD. Technical reports are provided weekly, monthly, quarterly. Financial Reports including income and cash flow statements are provided monthly, quarterly and annually. Annually EDC reports everything, including balance sheet and cash flow. Monthly EDC just reports cash flow.

**Accounting Software:** Sun Systems (Malaysia) is used. There is also a billing system used which was developed by a local developer. Liabilities for loans are reported in dollars, Euros, and Yen. Revenues and expenses, sales to the public (main), to government entities, industry and commerce, and wholesalers, source of funds through the MEF (MEF concessional loans from donors), soft loan is less than 2% interest rates through MEF. Application of infrastructure development, generation, transmission and distribution.

**Performance Indicators.** These are included in the main plan. Critical planning is financial planning. Everything is started early. In July and August 2023 planning will start for 2024, and the plan will include all the performance indicators (KPIs). An example of KPI is that energy loss should be lower compared to the previous year. This KPI will be measured monthly, quarterly and annually.

### Auditing and Inspection

Both internal and external audits are undertaken. KPMG is the external auditor. The MEF has four different groups, including Accounting, Tax and Procurement, State Property and General Inspection. EDC is also audited by the NAA. The auditing requirements are set out by each of the committees that the EDC works with. Auditing requirements are considerable, and are referred to under the section on reporting in the in the questionnaire that was provided by the EDC.

### Performance and Accountability

The performance standards were not discussed in detail.

### Competitive Environment and Challenges

#### Improvement in Auditing Systems

There is a lot of auditing, and EDC feel obliged to spend a lot of time complying with audits. EDC stated that “they have no choice” regarding reporting, they have to do it! There is a lot of duplication of work (especially related to auditing and inspection). Staff have to spend a lot of time responding to these requests and inspections, but there is no perceived value in the duplication of inspections and audits.

### Electricité du Cambodge (EDC)

On the basis of the discussions with all stakeholders, the following ideas are put forward as food for thought.

- Assess the audit systems as EDC raised the issue that there are too many overlapping audits and too much duplication. How to make it better?
- Determine the level of duplication of work with different government entities required a better allocation of time for audit and inspection meeting and energy spent in communication (with all the entities with which EDC has to communicate).

#### Review the Pricing Systems for Electricity

It is prudent to regularly review of the **pricing system for electricity**, including the Electricity Authority of Cambodia (EAC), price regulation, the several categories of price, and different prices for wholesale to transmission. There is no hedging policy for electricity pricing.

#### Review Financing Practices

EDC undertakes loans and has a hedging policy, as loans are taken out in several different currencies.

#### Review Liaison with Governmental Reporting Bodies

EDC can be used as a case study how the EDC liaises with the MEF and other various entities for auditing and inspecting on Procurement, accounting, including Tax Inspectorate.

#### No Need for Longer Term Ownership Changes

Future considerations for autonomy have been floated but shorter-term considerations to improve efficiency in the current processes, especially audit and reporting, are more pressing.

## 9.2 Cambodian Reinsurance Company (Cambodia Re)

### Cambodian Reinsurance Company (Cambodia Re)

#### Role and Mandate

**Establishment of Cambodian Re-Insurance Company (Cambodia Re):** Cambodia Re is different to the other SOEs. Firstly, because the TG and the FG are the same (the MEF). Secondly because the Cambodia Re has private shareholders, comprising three private investors, who have 40% shareholdings, plus the Government which has a 60% shareholding. A total of 17% is held by a local insurance group, and 5% by a life insurance company. It is not a typical SOE as the Government and the private insurance companies hold shares. The holding is under the Insurance Consortium Company in Bermuda and Forte Investment Holding and Sovannaphum Life Insurance. Under The SOEs Law, the SOEs were created under sub-decrees. Then in 2019 they were allowed to have private shareholders. Under the new Sub Decree (2019), private shareholders are allowed.

**Purpose and Mission:** The Cambodia Re's business focuses on general insurance and re-insurance, providing access to the insurance market for other insurers. Cambodia Re specializes in general reinsurance, which includes cover for all types of risks except for specific risks such as aviation risk. Cambodia Re underwrites directly with the state insurance company and also brokers.

**Sources of Income and Expenditure:** Cambodia Re competes with other insurers and currently has around 20% of the insurance market in Cambodia. Regional activities comprise general reinsurance, which constitutes 96% of Cambodia Re's total business. Cambodia Re is also entering the life insurance market, but this currently represents only 5% of its total business. Cambodia Re, mostly reinsurance general insurance (96%), but it is not open to life assurance. Cambodia Re offers the same conditions to any insurance company whether new startup or well established. In this way, Cambodia Re is offering a reinsurance service which has not been available before to local insurers. Cambodia Re has around 40 staff, and these salaries and staff costs are the main expense.

## Cambodian Reinsurance Company (Cambodia Re)

### Board of Directors and Governance

**Board of Directors:** The BoD has seven voting BoD's members, plus one non-voting BoD's member (from the 5% shareholder life assurance company). There is one representative from each of the following:

- CEO (Government shareholder).
- MEF (which is both TG and FG).
- Office of the Council of Ministers.
- Ministry of Justice.
- Asian Insurance Holding.
- Forte Insurance.
- Staff Representative.
- (Non-voting members include Sovannaphum).

BoD's members are appointed on a three-year term basis under the sub-decree. The BoD's members can be reappointed. Some of the BoD's members who had been appointed for a long time (over 10 years) were now very useful as they know and have got to understand the business very well due to their long time in position as Board members. The minimum number of meetings of the BoD is quarterly (four times per year), but can now have six or seven meetings per year if there are issues to deal with.

### Technical Guardian

The TG is the Non-Banking Financial Services Authority (NBFSA) which is part of the MEF. Since 2021, the NBFSA has become Insurance Regulator of Cambodia (IRC) which is in charge of the TG. Cambodia Re receives financial guidance from the MEF and technical guidance from the IRC.

### Financial Guardian

The FG is also the MEF, and the main mechanism for reporting to the MEF is through the Board of Directors. The business plan and financial plan to be submitted to the MEF. Before 2021 the MEF had a Financial Industry Department (this was the TG). In 2020 the IRC was created as one of the many departments of the MEF. Now, the IRC is responsible for passing plans to the MEF. Cambodia Re also reports to the GDSPNR for physical assets.

### Accounting and Financial Reporting

**Accounting and Reporting:** Cambodia Re's reporting is to the IRC, not to the MEF directly. The annual report sent to the MEF and the Private Shareholders is the same report. The accounting standards followed are CIFRS. There is no change for the government, on the top, private shareholders require the CIFRS standard annual report. Cambodia Re will move to IFRS 9 or 970 in 2 years. The IRC delayed the move to IFRS for two years until 2025/26. Cambodia Re has an account at the National Bank of Cambodia (NBC) for dividends and other transfers. Final comment – Cambodia Re can perform the reserve calculation. Cambodia Re prepares a Medium-Term Strategic Plan (three-year plan). Targets are set in the Annual Plan and also in the three-year plan.

**Performance Indicators:** The performance indicators (KPIs) are mainly financial, but they are also non-financial (e.g., providing training for insurance professionals, building relations with the insurers etc.).

### Auditing and Inspection

**Auditing Requirements:** The NAA comes once every two years to perform an audit, following their own plans (cycle of audits). The NAA audits everything, including use of assets, procurement, following all the regulations and compliance, examination of their review by the regulator (all the insurance companies are regulated by the IRC). There is an audit committee of the Board of Directors. Private shareholders agree on the auditor.



### Cambodian Reinsurance Company (Cambodia Re)

#### Performance and Accountability

Performance standards were not discussed in detail.

#### Competitive Environment and Challenges

##### Improve the Duplicate Decision Making of Board of Directors and the MEF

Cambodia Re has been profitable from the very start. Insurance companies tend to be profitable after the first couple of years, but Cambodia Re has been profitable from the very first year. Cambodia Re has 20 employees and assets of \$46 million. Liabilities are reinsurance liabilities, as they do not have debts. Cambodia Re has a planning process and already have BoD's members for planning, but they still review and approval from the MEF, and the CEO questioned the value of having this additional approval process with the MEF when the BoD had already made the decision, because it takes a lot of time and is just adding another layer of approval. So, Cambodia Re question the value of the additional MEF approval process (it is like the shareholdings and operations of the Cambodia Re have moved forward with a dynamic and effective BoD, but the processes are still operating as if it were a state-run company, and these processes now need to be streamlined).

If the decision could be made easier at the BoD level, especially for public procurement, then it would be easier. The CEO gave the example of a piece of equipment that needed to be replaced. If you have not incorporated this into your plan then it is difficult (there is no budget). The procurement process in this case is very complicated (cumbersome).

**It would be very possible to use Cambodia Re as a Model for Incorporation within the PFMRF (Shorter-Term Objective of MEF):** It would be possible to use Cambodia Re as a model the performance indicators (KPIs) are mainly financial, but they are also non-financial (e.g., providing training for insurance professionals, building relations with the insurers etc.). Assess the value of the additional MEF approval process when decisions have already been made by the BoD (see interview notes).

#### Review the Procurement Processes

It would be useful to provide an assessment of the need for procurement processes and approvals when Cambodia Re is operating as a private company but is subject to the rules and processes (i.e., approvals) of a state-owned company.

## 9.3 Calmette Hospital

### Calmette Hospital

#### Role and Mandate

**Establishment of Calmette Hospital:** Calmette Hospital was first formed under a Royal Decree in 1996, and currently under the second Royal Decree in 2011. Calmette Hospital unlike other hospitals, which are established by a sub-decree. The other hospitals are PAEs, but Calmette has a higher status of PAE because of its rapid development. Calmette is the first hospital to achieve this status due to its fast development. Effectively Calmette has proved itself as a hospital.

**Mission and Purpose:** Calmette Hospital services are the same in general as the other PAEs (i.e., there is no special distinction between a Calmette and a PAE in the medical services provided). The differences are that with the PAEs the Chief of the BoD is a TG from a Ministry, but here (at Calmette Hospital) the Chief of the BoD is also the General Director/Chief of Executive Officer of the hospital. This makes the management and development of the hospital easier.

## Calmette Hospital

### Sources of Income and Expenditure

Sources of income for Calmette Hospital come from the following:

- 1) Private donations (these are irregular and therefore difficult to plan for).
- 2) Grants and Sponsors from abroad (some of these donations might be in-kind, such as provision of training).
- 3) The National Social Security Fund (this is for working people who have paid their taxes and relevant national insurance contributions) (the funding through the NSSF equates to reasonable prices in terms of the cost of the medical treatment provided (the NSSF and the Health Equity Fund combined provide 50% of total hospital income)).
- 4) The Health Equity Fund (HEF), targeted for lower income and poor people; sometimes the reimbursement provided by the HEF is less than the cost of the medical treatment; so for example, the HEF might provide \$20, or \$80 for an emergency, but this will represent significantly less than the cost of the emergency treatment provided; so it will not cover the cost of the treatment. As a result, Calmette cannot accept all of the emergency cases that come to the hospital.
- 5) 40% of funds are the funds that patients pay.
- 6) Operating Expenses is mostly covered by the Government.

The three largest sources are 1) donations (US\$ and in-kind, such as training and technical assistance), 2) NSSF and HEF (more than 50%), 3) 40% from patients' fees.

Calmette Hospital does not have the right to borrow money. Other SOEs and PAEs are able to borrow money but not Calmette. EDC and the Cambodia Water Supply SOE can borrow for the longer-term investment, but Calmette cannot borrow. Annual operating expenses are approximately \$20 million (excluding equipment). Calmette imports all medicines, as there is no domestic production in Cambodia.

The question was raised: how often does Calmette need to access the National Budget Fund (NBF), to get approval for and transfer of budget. Answer, Calmette does not need to request funding. The Ministry of Health pays directly for salaries (for several other items), so Calmette does not have to request any budget.

Before Covid 50% of staff were contractors and 50% government employees. After Covid 70% are now government employees. Calmette has 1,400 staff in total.

### Board of Directors and Governance

The BoD has seven representatives from the General Director of the Calmette Hospital; also a Chairman of the Board, the Ministry of Health, the MEF, Office of the Council of Ministers, Phnom Penh Municipality, Rector of the University of Health, and the representative of the staff.

The frequency of Board Meetings is six-months, set by the Royal Decree.

### Technical Guardian

The **TG is the Ministry of Health**. In general, Calmette follows the policies of the Ministry of Health. All procurement and the development plans need to be approved by the Ministry of Health and the MEF. Calmette provides a six-monthly report and an annual report to the Ministry of Health and the MEF. Calmette also provides six-monthly reports and Annual Reports to the Office of the Council of Ministers (OCM). For Procurement, Calmette provides Monthly, Quarterly and Annual Reports.

### Financial Guardian

The **FG is the MEF**: Calmette follows the Government accounting templates and fill in the forms required by the National Treasury.

## Calmette Hospital

### Accounting and Financial Reporting

**Accounting and Reporting:** Financial Reporting. An Annual Report is sent to the National Treasury. The reporting follows the form (template) given by the MEF, and to this financial report they attach an additional medical report. The Reports are provided to each of the Board members in advance of the board meetings for each six-monthly report.

Calmette uses separate software for everything, invoicing, procurement (they mentioned many categories). So, there is no integrated accounting package at the moment. There is an IT staff of seven people, who are currently prioritizing the Medical Data System. They may look at the accounting system in due course. There is some Japanese software.

The accounting follows the template of the MEF, the Treasury and the various other ministries and audit bodies, so the value of an integrated accounting system for the hospital is a little superfluous and an integrated system for the whole government reporting system would seem to be preferable.

**Performance Indicators:** The annual report is aligned with the three-year development plan. Performance measures are reported in Calmette's Monthly Report of achievements to the Ministry of Health.

**Five-year investment** – The management of Calmette Hospital are satisfied with what they have achieved. There is a possible new building being planned as part of the five-year development.

### Auditing and Inspection

There are many audits. These include:

- 1) The MEF Inspectorate (inspection for the MEF).
- 2) Audit/Inspection form for the various entities.
- 3) The National Audit Authority.

### Performance and Accountability

The performance standards were not discussed in detail, but we are aware that Calmette Hospital, as all other medical establishments, is set performance standards by the TG, the Ministry of Health.

### Competitive Environment and Challenges

#### Managing Demand for Medical Services

The biggest issue is demand, which is always increasing. For example, now that there are 150 new beds available, these beds are immediately filled. There is huge demand for over 500 new beds.

The more that Calmette can grow their capacity to deliver the medical services that it provides, the more services they can provide, as demand for medical services is always growing.

#### Funding of New Treatments

For the selection of new treatments, the medical experts would be able to tell us more, but for equipment, one of Calmette's key criteria is "Demand". They will prioritize services which Calmette makes available according to the greatest benefit. Some modern equipment is necessary for such treatments as heart disease and cancer, and this equipment is imported from Japan and USA.

## Calmette Hospital

### Expertise and Infrastructure Need to be Imported

Surgery equipment has been imported / supplied from Europe and Japan.

New buildings have been built with grants and donations.

Specific equipment to assist with treatment for gastro-enteritis related illness was imported from South Korea. Chemotherapy equipment is imported from USA.

Grants from Europe have included the ICU Emergency Unit.

### Training of Medical Staff

Around 90% of staff have been trained with the support of France. For different diseases Calmette receives different support and equipment comes from different countries. This has included Korea, Thailand (and other South-East Asia countries).

Strategic Direction of Calmette Depends on Resources Available.

The direction that Calmette goes, in terms of the treatments and medical services that Calmette provides, is influenced by the availability of staff to operate the equipment.

All the medical staff at Calmette are Cambodian, but receive their training from abroad. There are at present two French volunteer doctors working at Calmette, one in neurology and one in cancer treatment.

Thailand have provided a nutrition expert, and a further trauma expert from Singapore. There is a lot of support from France in general.

### Need for a Clear Investment Plan

Yes, things to focus on at Calmette are:

- 1) Building confidence in their investment.
- 2) A clear plan for the investment as the donors will only provide support when there is a clear plan for investment.

### Dependence on External Sponsors (wider issues of investment planning)

General Electric (Corporation) has been providing support for other PAEs but until recently, not for Calmette, as General Electric had assumed that Calmette had enough income to fulfil all its funding needs (which has not been the case). But a recent visit by the General Electric Foundation has led to a decision to support Calmette Hospital. In the last three years, General Electric Foundation has provided \$2 million in support for Calmette.

The International Atomic Energy Authority (IAEA) has also provided support through funding for cancer treatments.

When a new hospital is to be built, sometimes not all funding is available at the start of the building project. So, they will start building the hospital without full funding, and will find funding for the equipment later, during or after the building is complete.

For construction, the IAEA provided financial support for the cancer wards. After the building was constructed 27 containers of different types of medical equipment arrived.

So, for the new building recently inaugurated, the Prime Minister was able to generate private donations to equip the new building.

The management of Calmette Hospital are satisfied that this is high quality. The serious limitation is funding – Calmette really depends on France. Cambodian people donated funds for the new building and the associated equipment.

### Calmette Hospital

#### Support for Training

Support for training is provided by several different countries – can this be improved.

#### Attract more International Medical Staff

It is worth assessing how to attract more international medical workers (as availability of qualified staff is a key determining factor for medical services which can be supplied).

#### Provision of Health Awareness Programs

Could Calmette and other hospitals consider more public health awareness programs in addition to medical services?

#### Improved (and simplified) Performance Measures

Performance measures are reported in Calmette's Monthly Report of achievements to the Ministry of Health; it is worth considering how performance standards can add value to the health services overall.

#### Demand Management

Demand management and investment planning in the health service is a key issue.

## 9.4 The Royal University of Agriculture (RUA)

### The Royal University of Agriculture (RUA)

#### Role and Mandate

##### Establishment

The Royal University of Agriculture (RUA) was first established in 1934, and its mandate was re-established under a sub-decree in 2019. The RUA was established to implement the policies, action plans, teaching and research in agriculture developed by its TG, the MAFF. The sub-decree of 2019 restates the roles of the RUA, stipulating the appointment of the BoD, the TG and the FG.

##### RUA Mission and Purpose

The RUA provides education in the agricultural sector which is very important to Cambodia. RUA sees its task as to implement the policies, action plans, teaching and research developed by the MAFF.

##### Sources of Income and Expenditure

RUA earns income from three different sources. Direct incomes for the RUA come from fee paying students, which represents 70-80% of income. The remainder is covered by subsidies from the government, NGOs and other partners. The World Bank and the Asian Development Bank also provide grants for equipment and laboratory (lab) work and field work, which tends to be expensive. These funds provided are project managed by the World Bank and the MOEYS under the improvement for Quality Education Project.

The first source of income is **direct income from student fees**. This provides the main cover for the costs of running RUA, which are mainly the lecturer / teacher costs. However, the fee income is not sufficient to cover RUA's costs, and part of the reason for this is that the students are generally from the lower income quartile in Cambodia. The Government provides 800 scholarships per year to students from lower income households. Consequently, student fees are very low, and cover around 70-80% of costs. Direct income from students is limited because students come from poor families. RUA provides 800 scholarships (21-22% of total).

The second source of income is from **NGOs and partners** (including World Bank). But the student fees and the NGOs and partners do not provide enough income to cover costs.

### The Royal University of Agriculture (RUA)

The third source of income is **subsidized budget from the government**. This makes up the shortfall in fee income from student fees and NGOs and partners. The General Subsidized budget has to cover the remainder.

**Technical Assistance and Development Initiatives:** The Higher Education Improvement Project – comes from World Bank via the MOEYS.

The RUA is completing / creating a strategic plan to implement the accreditation required by Accreditation Committee of Cambodia (ACC). Under this RUA is not allowed to increase the number of scholarships.

The RUA target is to be autonomous.

**RUA's Ambition of Accreditation:** The standard to meet with the MOEYS, there are two kinds of standards. They cannot increase tuition under the ACC (Cambodia accreditation standard). RUA want to meet international accreditation standards by 2030.

### Board of Directors and Governance

#### Board of Directors

The BoD is appointed by the Sub Decree. There are seven members of the Board, the Head is from the MAFF, with members from the MEF, the office of the Council of Ministers, the MOEYS, Rector of the RUA, the Cambodian Agricultural Research and Development Institute (CARDI), the staff from the RUA.

N.B. The RUA stated that the sub-decree of 2019 changed everything, particularly the BoD, which was restructured and a new appointment of Director was undertaken.

#### Technical Guardian

#### Operations / Technical Guardian

The operations and strategy of the RUA are directed by the TG, the MAFF. Under the sub-decree, any investment decision for RUA is taken by the Government and implemented by the MAFF. So, the RUA follows the direction of the sub-decree. The RUA cannot invest itself. This requirement for direction from the government extends to building partnerships and undertaking its own initiatives.

#### Financial Guardian

The FG is the MEF.

#### Not Possible for RUA to Invest

Under the sub-decree with the TG, RUA cannot invest, the Government has to do it. So, if there is a decision from the government then it is easy. (But, as was case was made during the interview, without such direction from the Government this is very hard). So, the RUA needs:

- 1) Direction from the Government (RGC).
- 2) Regulation process.

The sub-decree is not enough to allow the RUA to go ahead and build partnerships on its own, it requires specific direction from the Government, and then to follow the regulatory process.

The sub decree is not clear about the financial management and implementation process for RUA. It requires prakas to clarify the permission for international development. It cannot undertake investment at the moment, it needs to formulate new prakas to clarify the process. RUA needs support from the Government for more infrastructure, funds, financial autonomy and for the 20 Hectare school.



## The Royal University of Agriculture (RUA)

### Accounting and Financial Standards

#### Financial Reporting

The RUA reports to the BoD each year, and there are facilities for exceptional meetings if there are issues which require this. The RUA provides a balance sheet. Reporting is done on the basis of CIFRS for a non-profit organization.

A total of three commercial banks are approved to provide funds for RUA's student tuitions and operations. RUA transfers to and from the Treasury account. Revenue goes to the commercial bank.

#### Cost Management is Complicated

The processes for treasury account (grants and subsidies) are long and complicated.

Government subsidies go to and from the Treasury account.

#### Auditing and Inspection

##### Auditing Requirements

The Sub-Decree (2019) of establishing the RUA states that there should be an internal audit and external audits. The MAFF provides two audits, plus a further two audits from the FG, the MEF. This equals a total of six audits per year in practice. Also, including the external audit is carried out by the National Audit Authority.

#### Performance and Accountability

##### Performance Indicators

The RUA reports on the basis of several key performance indicators for knowledge and cooperation. There are 25 Cambodian standards, seven international standards, and further standards for the budget for permanent staff, and standards for infrastructure.

##### Development of KPIs

RUA was the first of 6 institutes to apply to the World Bank. So, the indicators for knowledge were developed with the RUA and other institutes now follow these KPIs.

So, indicators for knowledge and cooperation now follow international standards.

**Strategic Plan:** the RUA is undertaking a strategic plan on its own but under direction from the World Bank. The strategic plan designed by the World Bank provides a pilot for six universities, and incorporates strategy, indicators, key performance indicators (e.g. seven students per lab) in accordance with international standards, versus the current 20-25 students per lab). The ACC standards also limit the number of students in class per teacher. The RUA was the first of six institutes to apply to the World Bank. So, the indicators for knowledge were developed with the RUA and other institutes, which now follow these KPIs.

#### International Accreditation

RUA has standards to meet with the MOEYS. RUA cannot increase tuition fees. RUA hopes to meet international accreditation standards by 2030.

RUA is undertaking a strategic plan on its own but under direction from the World Bank. The future of RUA in terms of accreditation is being addressed by the World Bank pilot for six universities, incorporating indicators, strategy, standards, Key Performance Indicators such as the example of seven students per lab in accordance with international standards, rather than the current 25 students per lab.). Standards of the number of students per class teacher are also applicable.

## The Royal University of Agriculture (RUA)

### Competitive Environment and Challenges

#### Sources of Revenue (Lack of Revenue Raising Capacity)

Revenue raising capacity is low. Tuition fees represent around 70-80% of income but the remainder is covered by subsidies from the government and other donations from World Bank, ADB. These are particularly important for lab work, which is expensive. The World Bank project manages these funds and the MOEYS under the Improvement of Quality Education Project.

The issues of RUA relate to costs and revenues. Revenues from students is low and the combined revenues of student fees and grants are not sufficient to cover costs. Student intake is primarily from lower income families, and as a consequence around 20-21% of the students receive scholarships. Around 800 scholarships are provided by RUA each year.

Overall, the sources of income are not sufficient to develop RUA. This is greatly exacerbated by the fact that they give out 800 scholarships each year (around 21-22% of students) as their intake is generally from lower income families.

To **earn additional revenue** the RUA states that they need a BoD member from the private sector to guide the RUA to expand their own revenue. The BoD member would not only advise on business development and revenue generation, but also on policies on human resources and business processes. The RUA could earn more direct income from students, NGOs and partners and the subsidies from the Government. But these combined would not be enough to develop the school to its full potential. Also, the costs of field and laboratory experiments are expensive.

Most of the costs of RUA are for teachers and lecturers. The breakdown of revenues and fees are that tuition provides 70-80% of total revenues and, the remaining 20% is provided by donors, NGOs and subsidies to cover operating expenses and grants for equipment and laboratory expenses. The World Bank and ADB provide significant grants for operations, expenses and equipment.

There is a project from the World Bank and the MOEYS to improve the quality of Higher Education in Cambodia.

#### Scope to Building Partnerships

Assessment of the scope for RUA to build partnerships with international technology institutes (and in particular the support that RUA would need to build partnerships) would be of benefit. In the Strategic Plan there is scope for international partnerships.

The Strategic Plan (i.e. the World Bank strategic plan) does provide scope for international partnerships. They have funds for research with international universities, but no current partnerships. They have an MOU for partnerships with private universities and with research institutes, and plan to expand into the SME sector as well as build industry partnerships. They also need more researchers and scientists. But there is nothing active at the moment.

#### Building Accreditation

Assessment of the value of accreditation (e.g., MOEYS, ASEAN University Network - AUN), and assessing the value and cost of providing support for accreditation would be highly valuable for RUA.

#### Funding for Research

RUA has funds for research with international universities, but no current partnerships.

RUA has an MOU for partnerships, but nothing is active.

There is an existing MOU with a private university and also with a research institute, and a plan to expand to the Small and Medium Enterprises (SMEs) sector as well as build industry partnerships. RUA really needs more researchers and scientists and these partnerships could be crucial.

## The Royal University of Agriculture (RUA)

### Strategic Independence and Self-Reliance

Request from the manager interviewed: “In our report, can it be stated that the RUA wants independence? The RUA does more than just teach, it holds sessions in workshops and in the field. It can create business and produce graduates who earn five times as much as non-skilled jobs.”

The RUA would like to request an additional 100 HA (hectares) from the Ministry of the Environment (MOE) to expand capacity and to study and work in the field and (for students) to make money as well as while studying, as they can earn \$200- \$1,000 per month by working the field whilst studying.

After five years the RUA can be self-sufficient, without the need for further support from the government. But for the next five years it will need support from the government.

RUA has asked the government, through the MOE, who wanted them to improve the infrastructure, for development.

Because (the RUA course) is 20% in class, 30% in laboratory, 20% in the field.

### Scope for Independence

RUA wants independence. RUA does more than just teach; it holds sessions in workshops and in the field. It can create business and produce graduates who earn five times as much as non-skilled jobs.

RUA requests and additional 100 Hectares from the MOE to expand capacity and also to study and work in the field and expand capacity. Also (students) to study and work in the field to make money as well as studying. They can earn \$200-\$1,000 per month.

### Flexibility of RUA to Offer Market Driven Courses

Assessment of the scope for RUA to develop and deliver more market-based revenue generating courses. For example, RUA might benefit from running programs from Khan Academy.

### Revenue Generation and Scope for Self-Sufficiency

After five years the RUA can be self-sufficient, without the need for further support from the government. But for the next five years it will need support from the government.

RUA has asked the Government, through the MOE, who wanted them to improve the infrastructure, for development.

RUA can earn more money from the workshops, and produce graduates earning \$1,000 per month. When they graduate, they can be earning five times as much as unskilled jobs.

### Revenue Generation (Self-sufficiency) from Workshops

The RUA can earn more money from the workshops, and produce graduates earning \$1,000 per month. When they graduate, they can be earning five times as much as unskilled jobs.

The RUA can be self-sufficient in five years. The longer-term target for RUA is to become autonomous.

### The MOEYS is developing a Reform in Education System Policy

The RUA is completing / creating a strategic plan to implement the accreditation required by the ACC. Under this RUA is not allowed to increase the number of scholarships.

### High Proportion of Costs on Staff

Cost challenges include payments for lecturers versus operational staff. Lecturers represent around 30% of total salary costs and operational staff around 70%. Cost challenges come about because of these payments to lecturers (30%) and operational staff (70%).

## The Royal University of Agriculture (RUA)

### The Payments Issues (Faculty)

There are challenges to provide payments for lecturers and operational staff (this relates to resources, infrastructure, expenditures, overload). Lecturer costs are around 30% and 70% of costs are for administrators and operational staff.

### Reward System Based Only on Teaching

RUA's costs are primarily teaching. Costs are mostly for lecturers and teachers who are paid on the quantity of teaching that they do.

Lecturers have the problem that they are paid on the basis of teaching only, so if they have no classes, they will earn no money. The new strategic plan includes 70% payment from classes, but there are funds for other activities as well, including investments. This allows the faculty more freedom to earn money from non-teaching activities.

### Infrastructure Investment

The issues put forward by RUA are that it needs support from the government for more infrastructure, funds, and financial autonomy for the 20-hectare RUA School.

### Appoint Board Members from the Private Sector or With Industry Experience

The RUA in the process of changing the members of the BoD at the time of writing. The RUA did not have a clear idea where the BoD come from. However, the RUA does consider strongly that new members of the BoD should come from the private sector. The RUA suggest that having a BoD member from the private sector to guide and assist not only in terms of business development and revenue generation, but also in terms of business processed, human resources etc. would be a good idea.

### Auditing

Address the multiple audit issue to free up management resources at RUA. There seem to be too many audits, and the audit process needs to be reviewed with a view to less duplication.

## 9.5 Cambodia Academy of Digital Technology (CADT)

### Cambodia Academy of Digital Technology (CADT)

#### Role and Mandate

##### Establishment

CADT was established by a Royal Decree on 2nd January 2021.

Prior to this, CADT was transformed from the National Institute of Posts, Telecommunications, Information and Communication Technology (NIPTICT). NIPTICT, attached to structure of Ministry of Post and Telecommunications (MPTC), was established in 2014 and became a PAE in 2020. Then NIPTICT was transformed to CADT in 2021.

CADT is higher status than other PAEs because it was established by Royal Decree.

##### CADT Mission and Purpose

Mission: to provide education, training, research and development and promote innovation on digital technology to students, civil servants, and innovators to contribute to the development of digital government, economy and society.

Vision: to be the flagship public education and research institution, developing excellent digital talent and innovators, driving Cambodia toward a digital society.

There are three institutes under CADT: Institute of Digital Technology, Institute of Digital Governance, and Institute of Digital Research and Innovation.

CADT provide a Master Degree in Computer Science and the bachelor degrees in three programs: Digital Business, Telecoms and Networking, and Computer Sciences. The programs run by the Institute of Digital Technology of CADT.

CADT is a driving force for the development of digital governance in Cambodia through training of digital skills for civil servants and advancing the digital transformation in government agencies. Hundreds of Government officials are trained in digital technology skills, which run by the Institute of Digital Research and Innovation of CADT.

Through the Institute of Digital Research and Innovation, CADT also provides the research and development in digital technology and digital innovation and entrepreneurship promotion in Cambodia.

##### Sources of Income and Expenditure

The main sources of income for CADT are student fees. However, many students receive scholarships to meet the intake requirements. The main costs for CADT are delivering the MPTC programs.

##### Board of Directors and Governance

The BoD has seven members. Six of these members are from different ministries: the MEF, MOEYS, Ministry of Civil Service, Ministry of Industry, Science, Technology and Innovation, the President of CADT, and a member of staff of CADT. The MPTC is chairperson of the board. BoD's members are appointed for long terms, the last round was in 2021. The BoD has at least four meetings per year. Copies of the Board Meetings will be reported for any new project.

The President of CADT is appointed by Royal Decree (due to the increased status of CADT).

## Cambodia Academy of Digital Technology (CADT)

### Technical Guardian

The TG for CADT is the MPTC. CADT works closely with MPTC. They implement programs set out by the MPTC.

All ministries, all activities, have programs, and each program has a program budget. The MPTC has six programs, of which CADT is No. 5. The strategic plans each have indicators. These are established in June or July of each year. These are led by the MPTC and implemented by the CADT. They consult jointly with all the LMs involved in the BoD. The TG training programs include, for example, digital skills courses. Indicators are set by the MPTC and include, for example, how many students will be graduates, and budget estimates.

CADT has good relationships with the MPTC, which can provide a model for TG partnerships.

### Financial Guardian

The FG is the MEF. There are two templates for financial reporting: firstly, the General Directorate of Administration of the MPTC, and secondly the MEF, and is updated by the MEF.

CADT commented that the audit procedures are very hard, “but we really appreciate the work of the MEF: they work very hard”.

Accounting and Financial Reporting.

Accounting and Reporting.

There are two components to CADT’s income:

- Subsidized budget from the Government.
- Income from students.

But as CADT offers many student scholarships (in order to meet their intake quota), revenues are not that high.

CADT mainly reports their expenses and income. CADT also report Long Term assets although they do not produce a full balance sheet. CADT uses Financial Management Information System (FMIS): The MEF has been implementing the FMIS since 2017 The FMIS allows CADT to make requests for budget approvals.

When the budget receives an approved request, it will go directly to the commercial bank (ABA).

CADT only uses the FMIS reporting system, it does not use any of the shelf software. Software is designed using their own template.

### Auditing and Inspection

CADT has three to four audits per year:

1. Ministry of National Assembly - Senate Relations and Inspection (currently renamed the Ministry of Inspection).
2. General Directorate of Public Procurement of the MEF – this audit is solely for procurement.
3. MEF Inspectorate.
4. National Audit Authority (NAA) for financial reporting.

“Do you spend a lot of time on audits? Yes, one goes out the next audit comes in!”

### Performance and Accountability

Performance standards were not discussed.

### Competitive Environment and Challenges



## Cambodia Academy of Digital Technology (CADT)

### Conflicting Objectives (Financial versus operational)

The delivery of MPTC Programs, combined with high requirement of student intake and reluctance to provide subsidized budget creates conflicting objectives for CADT. It must decide whether it wants to be slowly implementing MPTC programs (in which case it may not be able to make net positive revenue) or whether CADT wants to be able to respond to customer needs (in which case it will need freedom to operate but lessens its scope to implement the MPTC Programs).

### Limited Revenue Generation

Due in part to the number of scholarships that CADT provides in order to meet their student intake requirements, the income of CADT is not high so their financial freedom is limited. If CADT were to receive more paying students it would require less budget from the Government. Increasing fee paying students to the point where no budget is required from the Government appears to be the ultimate goal.

### Limited Freedom to Respond to Customer Needs

At the same time, CADT is bound by delivering programs of the MPTC, and has limited freedom to respond to customer needs, such as the introduction of revenue generating teaching and research programs.

### Dependence on Subsidized Budget and Using the FMIS System

The dependence on subsidized budget dominates CADT.

Like many government departments, CADT is undertaking manual input in parallel with using the FMIS. All approvals must be done through this FMIS system (cannot be done online). To make approvals there must be someone in the Ministry (they work on a dedicated terminal basis), and CADT discussed this issue of the FMIS after the meeting.

For example, to make approvals there must be someone in the Ministry (MEF) to click “Approved”. “Approved” “Approved”. CADT wonder whether instead of a dedicated terminal system they could request approvals online, but this is not part of the system at the moment. The FMIS system has been working very slowly. For PAEs own internally generated budget for which they need to ask requests.

CADT pointed out that “It’s good to have a system like this but it takes time (i.e., the financial approvals system). It takes three weeks for one approval in the process.”

### Improvements of the FMIS

Improvements in the FMIS need to be addressed to make financial reporting easier.

### Duplication of Audits

The issue of duplication of audits needs to be addressed as this is taking an excessive amount of management time at CADT.

### Need to Adapt to a Rapidly Changing Market

CADT is facing a rapidly changing market, very advanced technology, always changing.

### Building of Partnerships

Assessment of the scope for CADT to build partnerships with international technology institutes (and in particular the support that CADT would need to build partnerships) would provide grounds for revenue generation and development of technology-based programs which could help build international links and take CADT forward into the future of education.

### Aim for Accreditation

It would be valuable to assess the case for accreditation (e.g., MOEYS, AUN) and the value and cost of providing support for accreditation (this would be the same as considered for RUA).

## 9.6 National University of Management (NUM)

### The National University of Management (NUM)

#### Role and Mandate

##### Establishment of the National University of Management

The National University of Management (NUM) was established by sub-decree in 2019.

Historically, NUM was originally founded in 1983 as the Economic Institute. The Economic Institute was renamed to Institute of Economic Science (IES) in 1989. In response to political and economic reform towards democracy and free market, IES was renamed to Faculty of Business (FOB) in 1994. It launched academic programs in management, marketing, accounting, and finance. Four years later, FOB was renamed to the National Institute of Management (NIM) and the first private tuition programs were introduced in 1998. In 2004, the academic role of NIM was broadly expanded and then became the National University of Management.

##### Purpose and Mission

NUM's purpose is to provide students from all backgrounds with education. NUM is one of the major educational institutions in Cambodia. NUM provides a range of management related courses including (inter alia) finance, accounting, banking, digital technology and tourism. Local programs are provided in Khmer and international programs are in English. The three main degrees that NUM provides are bachelor's degree, master's degree, and PhD. NUM has over 13,000 students and over 50,000 alumni. Students come from all regions of Cambodia.

##### Sources of Income and Expenditure

The sources of income are primarily from student fees. However, given the purpose of NUM to provide education to all, NUM provides around 800 scholarships per year. The NUM is also obliged to fund certain capital expenditure out of revenue (see below).

##### Board of Directors and Governance

The BoD comprises five members, all of whom are from the Government. These comprise the Rector of the NUM, one member from the TG (the MOEYS), one member from the FG (the MEF), one member from the office of the Council of Ministers, and one representative of the staff. The terms for each of the BoD members are for three years.

##### Technical Guardian

The TG of NUM is the MOEYS, which also provides approval for the curricula. Many consultations have taken place with the TG. The Bachelor's Program needs to be approved by the Department of Higher Education Management, and the Master's Degree and PhD Programs have to be approved by the Department for Research and Innovation, each of which are Departments within the MOEYS.

##### Financial Guardian

The FG is the Ministry of Economy and Finance (MEF). The MEF appoints a financial controller to work with the NUM to ensure that all reporting is carried out in accordance with the law.

The NUM submits financial reports for Board of Director's Approval, and these are then submitted to both the TG (MOEYS) and the FG (MEF). The NUM defends its plans at the MEF. The MEF has a procedure to collect all the budget plans from the PAEs across the country. These plans are then disseminated to all ministries concerned. This then becomes the legal budget which can be used by the NUM. There is a financial management official appointed who is in charge of income, one in charge of expenditure, one in charge of property and assets.



## The National University of Management (NUM)

### Performance and Accountability

#### Performance Indicators

It was not clear that any specific performance indicators are used. It is understood that the KPIs relate to the number of students enrolled and graduated, and the associated revenues and targets.

#### Competitive Environment and Challenges

##### Review of Purpose and Mandate in the Light of Financial Constraints

To emphasize the importance of the mandate of NUM, it is stuck in the middle of providing a social purpose of making education available to many, including those on low incomes, but at the same time it has significant financial constraints to which NUM has to adhere.

It would be useful to hold a focus group to discuss the scope for NUM to be able to perform its social purpose of providing education with best practice worldwide to ensure the quality of education. Open-discussion is suggested, recognizing the real importance of the role that NUM provides in terms of education to the population of Cambodia (particularly, whether the NUM be able to provide students with stipends).

#### Reliance on Budget from MEF

NUM receives a budget from the Government through the MEF. Additional income comes to NUM through support from the Ministries, with funding also provided by the World Bank. Faculty and staff at NUM comprise government officials employed by the state.

#### Scholarship Students

Students fall into two categories. Firstly, scholarship students (the state pays for their fees). NUM currently has 600-800 scholarship students per year. Secondly, fee paying students who pay the university fees. NUM's main purpose is to provide quality education for all their students equally between fee paying and scholarship students. NUM will increase the tuition fee each year but will ensure that it provides a good education both for students who pay and for students on scholarship.

##### Review of the 20-Year Financial Reporting System

Assessment of what information the MEF receives and how this information is processed and the financial reports which result would provide a very good case study, as NUM has followed the same procedures for 20 years.

#### Development Cost Paid from NUM's Own Budget

NUM pays for its own development out of revenue and budgetary funds. Operational expenditures under the NUM responsibilities include revenues from student tuition fees. The NUM does not receive state subsidies. Any package for procurement is from their own money. But the NUM has to follow the same rules and procedures for procurement as if it were a fully (budget) stated owned body.

#### Scope for Review of Audit System

There is a strong case for reviewing the accounting and audit systems: there is scope for the FG (the MEF) to review its system to simplify the audit procedures, or at least share documents between auditors. An insight can be gained into the sheer levels of documentation that the NUM has to produce to comply with the reporting procedures. Review how the audit bodies come to undertake their audits and possible duplication. NUM provides a good case study to assess how the overall audit process works in practice.

#### Scope for Building Partnerships (Internationally)

There is scope for NUM to build partnerships with universities worldwide, including student and faculty exchanges, issuing joint degrees and undertaking joint development of curricula and programs.

### The National University of Management (NUM)

#### Scope for Increased Autonomy

NUM would like full autonomy, but has limited capacity to achieve that. There have been meetings with Ministers focusing on universities becoming more autonomous. The following suggestions provide food for thought to incorporate the NUM into the PFMRP and for the long-term future. Assess what the NUM has to do to “develop itself through its own budget”, and assess the NUM suggestion that it needs “Autonomy” and freedom for development work.

*H. E. the Rector thanked us for coming to NUM and for using the input of NUM as a case study and example of PAE to be incorporated into the PFMRP.*

## 9.7 Summary of Case Study Observations

**Table 8.1: Areas Observed where Improvement can benefit Compliance with the PFMRP**

Case Study	EDC	Cambodia Re	Calmette Hospital	RUA	CADT	NUM
<b>Role and Mandate for SOEs and PAEs</b>						
<b>Board of Directors and Governance</b>						
BoD Appointments	X			X	X	X
<b>Technical Guardian (TG)</b>						
TG and the SOE / PAE strategy	X		X	X	X	X
<b>Financial Guardian (FG)</b>						
FG liaison with SOEs and PAEs	X	X	X	X	X	X
FG flow of internal information						
Financial Control of SOEs and PAEs	X	X	X	X	X	X
<b>Accounting and Finance Reporting</b>						
FMIS Information System	X	X	X	X	X	X
System for contingency funding				X	X	X
Financial approvals and Transactions				X	X	X
Budget Flexibility for Procurement				X	X	X
<b>Auditing and Inspection</b>						
Audit System Overlap	X	X	X	X	X	X
<b>Performance and Accountability</b>						
Public Accountability of SOEs and PAEs	X	X	X	X	X	X
<b>Competitive Environment and Challenges</b>						
Freedom for Entrepreneurial Spirit in SOEs and PAEs				X	X	X
Improving the Competitive Environment for SOEs and PAEs				X	X	X





## Appendix 5:

# Workshop on State-Owned Enterprises' (SOEs) Management and Governance held in Siem Reap, November 2023

## 10.1 Main Issues Raised During the Workshop

Based on discussions with the GDB and the GDSPNR, the following issues arise from the budgetary framework as it affects SOEs and PAEs.

**Self-generated funds:** these are not reported as part of the National Budget, but are reported in an Annexed Budget, which creates a ceiling. So, if a PAE is generating significant income themselves then central government can reduce the subsidy provided to the PAE.

**Returning surplus revenues of SOEs:** revenues in excess of projected budget are normally rolled over to the following year, but can be returned to the Government. After the new reforms (June 2023) the GDB has responsibility for monitoring all revenues made by (SOEs and) PAEs.

**Procurement:** the procurement law is under the Government Procurement Law, which states that the SOE has to provide all the cash for procurement at one time so they will not have any funds remaining for working capital.

**Approval and borrowing:** there is currently no framework in place for borrowing practice for SOEs and PAEs (this would involve calculation of debt-equity, rates etc.).

**Repurchasing of shares:** a framework for repurchasing of shares by the government does not exist but could be provided.

**User satisfaction:** there is currently no recording of user satisfaction of the management performance of assets of SOEs (this refers to performance standards, which comprise part of the recommendations in this report).

The Reform of SOEs looks at the management overall, budget, the CEO, this could come from the private sector (someone who is talented and skilled).

The new law may authorize sub-national level SOEs. This could have foreign investors.

Each of the above represent issues related to the budgetary process which may be considered for attention as part of the current and future legal framework.

## 10.2 Comments and Issues Raised by SOE Managers

The following are comments related to the legal framework made by SOE managers and other stakeholders at the SOE Conference organized jointly by the MEF and the World Bank, held in Siem Reap Province on 2-3 November 2023.

### 10.2.1 Mandate and Legal Framework: Issues Raised by SOE Managers

#### Legal Framework of SOEs and PAEs

#### Comments Made by SOE Managers at the Conference in Siem Reap: 2-3 November 2023

*"We get our capital from the government. We used to be 100% state owned, now we are 50-50 autonomous / state owned."*

*"We need to be better at obtaining capital".*

**"Regulatory Framework:** The regulatory framework is designed so the state has good control over the SOE. The other SOEs all say that there are lots of reports to do, and this takes time, but it is a way of the Government showing that they are in charge, that they are controlling the SOEs."

*"We could create a subsidiary but the law does not allow us to do this. It is stated in some law it was stated (i.e., the law says one thing) but the sub-decree says that the SOE has to report to the Council of Ministers etc., (so the law and the sub-decrees are inconsistent)."*

### 10.2.2 Board of Directors: Issues Raised by SOE Managers

#### Governance, Leadership and Management of SOEs and PAEs

##### Comments Made by SOE Managers at the Conference in Siem Reap: 2-3 November 2023

*"Insurance SOE: Challenges and solutions we have discussed: firstly, we want to have a digital framework for the process of appointments to address any inefficiencies in the appointment process; there is always a long process to select the members of the Board of Directors, so maybe we could do this online to be more efficient in this process. Secondly, related to the appointment of the Board of Directors, three main issues related to skills and expertise of the Board member. People who have a lot of experience in the industry that they are overseeing. They (Board members) should have at least a good overview of the industry. Regarding the terms of the renewal of the appointment, this should be based on their performance against their individual KPI, and the term should be increased to 5 years (up from only 3 years). We also have other committees such as audit committee, inspection committee."*

*"Reporting: The challenge with the reporting is that we just go through the Board of Directors and they deal with it. Reporting, SOEs should be modelled because we have regulations on reporting which are (not great)"*

*"Whenever we get an investor, they want someone on the Board of Directors, but we have a limit of number of Board of Directors so we can't give them a place on the Board of Directors."*

*"We want to summarize the issue first. Post and Telecomm Cambodia is facing competition from the private sector. To improve their competitiveness is very important, and, if possible, the Ministry in charge should decentralize the power with (from) the Board of Directors to manage public property. The property has to be under the General Department of State Property. They suggest lease management of amounts not sufficient to make any risks, but some of this power could be delegated to the SOEs related to purchasing and disposal of assets up to a certain amount. For example, the purchase of a printer for \$100, need not go through the official register of assets. We have to allow the SOEs to become more competitive."*

*"Appointment of Board of Directors, you need to have qualifications so that the Board member is relevant for the (SOE and for their position on the Board). Consider Autonomous Port – we have a voting process to select Board Members and investor representatives. Usually, the Ministry has the major vote because they are biggest shareholder, so anyone they (the Ministry) votes for is at an advantage. Maybe we could use a system of all votes being equal (rather than weighted according to shareholding). Also, we want to have a clearer law / system on procurement so that it does not get interpreted in different ways by different people. We also want to improve governance. That's it!"*

### 10.2.3 Technical Guardian: Issues Raised by SOE Managers

#### Competitive Position of SOEs and PAEs

##### Comments Made by SOE Managers at the Conference in Siem Reap: 2-3 November 2023

*"The SOEs put out a management letter to say anything that needs to be done (referring to the standard process of management letters). So, let's put everything in the management letter."*

*"They look at factors like how far away they are from the water supply source. This is an opportunity for the water supply authority to meet government targets, expanding the water supply to more people in a certain year, blah, blah blah, but there is no legal document to back it up. So, we put in some water pipes (but when they expand the network the people don't buy it because they just use their well etc. If they are not willing to pay the upfront cost of accessing a water supply then they should have to pay more to pay for the ongoing use of water. But the current system does not differentiate the costs. So these are processes which need addressing."*

## 10.2.4 Financial Guardian: Issues Raised by SOE Managers

### Financial Reporting of SOEs and PAEs

#### Comments Made by SOE Managers at the Conference in Siem Reap: 2-3 November 2023

*"There should also be a chart of accounts, showing the policies including the chart of accounts."*

*"Speed of delivery and submitting reports. It seems we have a similar situation. For us, we have 45 days to submit the document to CFA. We always have to wait for the numbers from the different departments. We can publish it because we are a listed company, so this represents some level of transparency."*

*"How to better report and publish in a timely manner."*

*"For the provinces we are trying to ensure that supply is according to the annual and quarterly plan. The strategy to improve the quality of water supply is linked to our ability to produce water and deliver this in a high-quality way. When it comes to the network, we try to reach out to all the people who require the water supply and the material we produce we try to make sure that it is sustainable and so we have to make sure that our billing and collection systems are in place and appropriate. We have different ways of doing this and I don't think that there is too much of a problem."*

*"The procedures that we have to go through – let's fix those pin points so that we don't have all these outdated and cumbersome procedures. Let's fix, each pin-point (i.e., let's fix each point raised)."*

*"There should be short term, medium term and long-term plans to be approved by the Directors."*

## 10.2.5 Accounting and Financial Reporting: Issues Raised by SOE Managers

### Financial Reporting of SOEs and PAEs

#### Comments Made by SOE Managers at the Conference in Siem Reap: 2-3 November 2023

*"KPIs: we need to know the money situation, including 1) specific finances, and 2) finance from other sources such as loans or credits, and then profits and revenues from providing our service. There should also be a quarterly review to show how well we are executing our plan for the next quarter."*

*"Financial health assessment is important, managing our credit. Also, there is a challenge with the technical skills of our employees. A final thing for management is also important."*

*"We have procedures, for Siem Reap Water Supply company, their annual report, they submit the report to the Ministry, and they try to get it done by late June."*

*"Also, we need skills for to how to prepare the financial reports. There are three things we need to provide 1 audit, 2) tax 3) accountability."*

*"Some skills you can get from school, some skills you can get on the job. We get to learn when the tax officials come and do their thing. When it comes to internal control and the challenges related to internal control this is really the eyes and ears for the management, it is not too different from internal audit. But they (some employees) misunderstand what is the point of internal controls (employees don't understand the role of internal control team, and don't value the role of internal control)."*

*"Even the internal control team has trouble keeping up with all the changes. We have to help building the capacity of these auditors."*

*"I think that Cambodians all have their own ideas. We should know what number should be used in the accounts. There should be some kind of standard, but it doesn't exist at the moment. If they have a uniform format in international accounting standards, we should know about it."*

*"(Relating to the manual input system) In the next step they will allow us to use the data. EDC covers 15 provinces. If you enter line by line this is a lot of data entry. We have not started to use e-filing at the moment, as this will cost a lot in transition."*

*"An annual report, we will disclose as much as we can but we cannot disclose non-contingent liabilities."*

*"We don't have a problem with the reporting process."*

*"The issue with the tax administration is that we go, and we get instruction from them and then we do it but they (the tax administration) always say that there is some mistake. Maybe we should have more "nitty-gritty" workshops like what we are having now."*

*"We do have ample resources. We have to train staff so we need a skilled trainer. Heavy machinery involved. We need access to the equipment, and we need a skilled training to train us."*

*"We need a standard chart of accounts. Even the number of digits differs."*

### 10.2.6 Audit and Inspection: Issues Raised by SOE Managers

#### Audit and Inspection

##### Comments Made by SOE Managers at the Conference in Siem Reap: 2-3 November 2023

*"They have too many inspections and audits and would appreciate some way of reducing the duplication in the audit. This is a big issue."*

*"Inspection and audit related to public investment. Not only so they can supply water but they affect the existing water supply infrastructure. Sometimes they do not do the study properly so that they damage the existing water supply."*

*"Even the lady from Group 1 says that the Tax Authorities always find mistakes – we have the same experience."*

*"We need clear instructions and standards, internal audit and internal control. Across the country they have a clear template, and I like it and it is great design. They have to have their SOP, why are they here and what do they serve. They don't really have a clear understanding of their role. This is different to private enterprises. People need to have a clear understanding of their job description so they can perform their role properly."*

*"Auditing: we have to engage external auditor, and the majority choose one of the "Big Four", to there is no problem there."*

### 10.2.7 Performance and Accountability: Issues Raised by SOE Managers

#### Standards and Accountability

##### Comments Made by SOE Managers at the Conference in Siem Reap: 2-3 November 2023

*"Quality of service of water supply for our customers in Phnom Penh and the provinces, we are following the plans for networking and water supply. For quality of water, we have local and international standards, divided into Phnom Penh standards and provincial standards. We also disseminate the information on the quality of the water to the public so that they know that our water is safe etc. For production capacity we make sure we can supply 24/7 to customers; Phnom Penh City is no problem, we are covering our plan. For the provinces we are trying to ensure that supply is according to the annual and quarterly plan. The strategy to improve the quality of water supply is linked to our ability to produce water and deliver this in a high-quality way. When it comes to the network, we try to reach out to all the people who require the water supply and the material we produce we try to make sure that it is sustainable and so we have to make sure that our billing and collection systems are in place and appropriate. We have different ways of doing this and I don't think that there is too much of a problem."*

*"How can we improve governance and management?"*

- We have to improve how we serve the government objectives, and financial reporting etc.*
- But more than this we need to know what we should report to the public, and when, and this would make our SOEs better."*

*"We want to see capacity building becoming more common to improve soft skills and technical skills to allow them to perform the task. We also want to have KPIs (same as previous groups suggestions) to apply to executive board members, so that we can be more competitive against the private sector. We also want to ensure the Board understand risk management framework to help manage risks better and use the frameworks better."*

*"Also, we have to improve visibility. This is the experience of the Siem Reap Water Supply Company."*

*"Improving performance: KPIs are very important starting from (i.e. should be introduced for everyone) senior officers to regular staff. Offices and departments should have their own KPIs, SOP's and job descriptions. You also need to have monitoring every 3-6 months."*

*"Related to KPI settings, they follow the individual mission of their SOE and follow clear financial ratios to determine the KPI. They also do benchmarking. They try not to go above the industry value. When it comes to performance review each of the SOEs are reviewed quarterly. Additionally for customer satisfaction we have feedback mechanism."*

### 10.2.8 Competitive Environment: Issues Raised by SOE Managers

#### Competitive Position of SOEs and PAEs

##### Comments Made by SOE Managers at the Conference in Siem Reap: 2-3 November 2023

*"Water supply is the sector which requires a lot of capital at the start, the network and the factories etc."*

*"One challenge we face is the acquisition of this capital."*

*"Another challenge, the salaries of our employees are still limited, we need people with technical skills to do work on water supply, but how do we attract them with low salaries? We have to train our staff to do the same jobs."*

*"They (PPWSA) also have issues with revenue generation. As people in the provinces use the well at the back of their house or collect water from the rain, and so customers don't want to spend money on water supply from PPWSA's network. So, building water supply in the provinces is really difficult."*

*"We have to pay a different interest rate from the other companies. Maybe the new water supply authority can add something on that."*

*"The products and services we sell we have difficulties in competing with the private sector. But SOEs don't feel like private companies so they don't feel like getting products sold quickly because we don't feel that making a profit is our main concern like it is in the private sector."*

*"The 4th question related to performance; trying to improve performance in our context we need to incentivize our creative employees. People who are capable of pushing the business, making the service more available to our customers etc. We kind of view the incentive to qualify people so that we can encourage people to perform well. More than this we need to improve discipline in our organization, and people are recognized for their performance. From our discussion we need to look at the staff employed in the provinces, if they are not able to do the accounting according to the standards. Phnom Penh is full (i.e., everyone reports accounting properly) but Siem Reap is half full (i.e. some are skilled in accounting systems), and some of the newer ones just record the accounting in Excel files, so we need training to make sure everyone does inputs on the same template / basis."*

*"Management challenges: we are seeing a skills gap between management and staff."*

*"Secondly the attitude of the lower ranking staff. They just focus on what they get financially from the job."*

*"We need succession planning in HR to replace bosses when they leave."*

*"All the financial systems and the high costs of systems and systems maintenance."*

*"We don't have a system to ensure that the reports go to the right people."*



*"Sometimes we submit multiple reports to the same ministry. This is the case for the MEF (e.g., for the accounting regulator – which is part of the MEF). We get penalized if we get the submission wrong."*

*"Concerning appointments, our group's request is that we want to have an incentive and encouragement for those who want to deal in the sector to get the high position that they deserve (i.e., high performing employees)."*



## Appendix 6:

# SOEs and PAEs – A Summary of Findings and Observations

The findings and observations are presented under eight categories:

- 1) **Role and Mandate** for SOEs and PAEs, their reason for being, including their social purpose.
- 2) **Board of Directors and Governance** of SOEs and PAEs in governance and leadership.
- 3) **Technical Guardian** of SOEs and PAEs, providing strategy and guidance.
- 4) **Financial Guardian (MEF)** providing financial control, liaison and support for SOEs and PAEs.
- 5) **Accounting and Financial Reporting** of SOEs and PAEs, budgeting, approvals and transfers.
- 6) **Auditing and Inspection Requirements** and compliance to multiple stakeholders.
- 7) **Performance and Accountability** of SOEs and PAEs to the government and the public.
- 8) **Competitive Environment and Challenges**, how SOEs and PAEs can compete in the markets.

Overall, the authors consider that attention to these key areas will help to integrate SOEs and PAEs into the PFMRP:

- **MEF Dashboard completed**; this will provide the information required in the law to enable proper financial control.
- **Focus on value added to the budget**; be aware of those SOEs that make a profit and a loss and the reason which underlie this.
- **Ensure that SOEs and PAEs are addressing customer needs**; this will identify areas for future strategic focus.
- **Value the social purpose provided by SOEs and PAEs**; this is fundamental to the purpose and mission of SOEs and PAEs, and valuing the benefits provided to society in Cambodia as well as the costs will clearly demonstrate the value that SOEs and PAEs provide.

1. Role and Mandate for SOEs and PAEs	
Assessment Criteria and Issues	Observations
The current legal framework is sufficient: <ul style="list-style-type: none"> <li>• SOE Law 1996</li> <li>• PAE Law 2015 (2018).</li> </ul>	The current legal framework is sufficient and provides for all governance and management requirements of SOEs and PAEs.  All observations put forward in this report can be undertaken within the current legal and reporting framework.
The mandate and purpose for SOEs and PAEs is strong.	Legal framework provides a strong and clear mandate for SOEs and PAEs.
Compliance with the legal framework by SOEs and PAEs is very strong.	There is strong and consistent compliance by SOEs and PAEs to the legal and reporting requirements, this is a real asset for SOEs and PAEs.
There is scope for flexibility of operations of SOEs and PAEs.	Some limited flexibility can be written into prakas or other regulations or adopted as a policy.
Longer term SOE and PAEs ownership issues are being addressed.	Beyond the scope of this report, but ideas and models have been put forward in Chapter 5.

2. Board of Directors / Governance of SOEs and PAEs	
Assessment Criteria and Issues	Observations
Establishment, structure, management and reporting of Board(s) of Directors is in place.	The procedures are in place in the legislation for the establishment, structure, management and reporting of Board of Directors of SOEs and PAEs.
Board member appointments are mainly on the basis of ownership, not expertise.	Board member appointments are established according to ownership, with representation from the TG, FG and employees (see summary of the law) (except for Cambodia Re, where they have international representations).
Board members are not appointed specifically on the basis of experience.	Some BoD's members in future could be appointed on the basis of expertise; BoD's members with specific expertise be given specific mandates.
Improving relevant experience of Board members. In some cases, BoD's members may not have sufficient expertise or commercial experience.	It is possible to facilitate access to appropriate expertise, through contact with private sector, including international firms, giving access to external expertise on an advisory basis. Existing links through commercial contacts, executive courses, business schools can provide access to appropriate expertise at Board level.
Independent BoD's members or Non-Executive Directors.	It may be a longer-term solution to appoint independent BoD's members and/or non-executive BoD's members, but not at present.

3. Technical Guardian (TG) of SOEs and PAEs	
Assessment Criteria and Issues	Observations
Mandate for SOEs/PAEs is strong: This ensures an achievable purpose is given to the SOE and PAE.	There is a strong sense of purpose for SOEs and PAEs, and serving the public good is paramount.
TG governs the SOE or PAE strategy: SOEs and PAEs are sometimes seen as a project of the TG.	To review whether the SOE and PAE is fully addressing customer needs, or whether the SOEs and PAEs have the opportunity to develop opportunities.
The SOEs and PAEs have limited freedom: This can inhibit opportunities for SOE and PAE to develop and exploit opportunities in their own right.	Some limited freedoms would be beneficial and would help generate more revenue and therefore less budget pressure.
TG key executives need to be able to stay current: Knowledge needs to be updated in terms of technology and commercial developments, and should consult and liaise with industry experts.	Use existing international links to build knowledge. It is possible to use existing links with commercial, international businesses and business schools to keep TG up to date. Specific training needs can be identified, and training planned and provided.
Institutions don't have their own status as an institute: This relates directly to whether the SOEs and PAEs are really delivering customer needs.	SOEs and PAEs could manage more of their own business development or, for example build more of their own partnerships.

<b>4. Financial Guardian of SOEs and PAEs</b>	
<b>Assessment Criteria and Issues</b>	<b>Observations</b>
<b>MEF / FG as Liaison with SOEs and PAEs</b>	
FG provides support to SOEs and PAEs.	This is very positive – continue this support but provide standardized training and software compatibility.
Different levels of knowledge and capacity exist within SOEs and PAEs concerning financial reporting.	MEF can ensure full training given in standardized financial reporting systems and procedures.  MEF to Improve Liaison with SOEs and PAEs: this requires a contact point at the FG for each SOE or PAE. Standardized information is required from SOEs and PAEs.
Some gaps in training and development in standardized financial reporting.  MEF has limited standardization of reporting, including software standards: SOEs and PAEs need to have standardized accounting software and training in using.	A review of the standard accounting and reporting systems and the associated training will help underperforming SOEs and PAEs.  FG can provide recommended standards for reporting, including recommended software.
FG as the point of training and setting of standards.	A review of the current standards set for the reporting and the gaps in knowledge and capacity within the SOEs and PAEs is important in improving quality of information.
Clear Guidance is still needed by SOEs and PAEs.  FG (MEF) as the point of training development and setting reporting standards: the MEF is not providing the training, or recommending the training.	A review of training and guidance provided can not only help in reporting but can help provide a bond between the FG, the TG and the SOEs and PAEs.  Training and Development of standardized financial reporting; FG could provide standard recommended accounting software.
<b>FG (MEF) as Financial Controller</b>	
FG has limited flow of internal information.  FG (MEF) as the Financial Controller (gatherer of financial information) is underperforming: FG has limited inflow of information from SOEs and PAEs. The FG is not fully aware of the performance of SOEs and PAEs.	FG as “Information Gatherer” can improve: the FG’s role of Financial Controller can improve. MEF to ensure good information flow from SOEs and PAEs.  MEF could review and ensure good information flow and knowledge of SOE and PAE performance (including the GDB and GDSPNR).
FG as Financial Controller can for improve for all SOEs and PAEs: Incomplete and differing levels of knowledge of SOE and PAE financial performance.  Incomplete and differing levels of knowledge of SOE or PAE financial performance.	MEF should fully develop the SOE and PAE Reporting and Financial Control Dashboard for information required of FG for all SOEs and PAEs.  MEF to ensure that all SOEs and PAEs are provided all the necessary information according to the SOE Law and PAE Law: FG should ensure good liaison with and communication with all SOEs and PAEs. FG should have the information as to which SOEs and PAEs are making profits and losses.
Financial Control of SOEs and PAEs.	Clear information on profit-making and loss-making SOEs and PAEs more widely shared within the MEF and Government.
Legal Reporting requirements: not being received (or communicated within): FG / MEF can improve the flow of information to the MEF.	A review of the Dashboard to see what information is arriving at the MEF from each SOE and PAE is essential.  FG (MEF) to complete the Dashboard and build sufficient knowledge in order to be able to assess SOEs and PAEs.

MEF as the internal and point of government information point: FG has limited flow of internal information. Need to improve the information flow within the MEF.	FG to improve internal information availability: MEF to ensure that all necessary information on SOEs and PAEs is shared within the MEF and available to who needs it. A review of the information flow within the MEF, where information arrives, and to whom it is made available will help greatly identify gaps in information flow.
There is no clear policy on profit-making or loss-making SOEs and PAEs.	Clarification on the policy for revenue surpluses and deficits would benefit financial control.

## 5. Accounting and Financial Reporting of SOEs and PAEs

Assessment Criteria and Issues	Observations
The FMIS Information System is currently being introduced. The FMIS system: FMIS should be distinguished from the accounting systems of the SOEs and PAEs.	Continued improvements for the FMIS to ease of input and presentation of accounting information. FMIS to be continually improved; The FMIS system is being implemented and working, but needs continual improvement to account for such areas as budget flexibility.
Accounting Systems for SOEs and PAEs; some reporting systems are still manual, and there is no standard for accounting systems.	Accounting systems to be in place or introduced in SOEs and PAEs; ensuring a suitable accounting system for SOE and PAE management. Standardized accounting systems for all SOEs and PAEs supported by training would assist SOE and PAE management.
The system for financial approvals and transactions is time consuming. Considerable management time is spent on necessary financial approvals which are outside the budget (financial approvals widely cited as taking three weeks for approval).	Review of the current approval system to identify bottlenecks. Clear systems and procedures for financial approvals during the year should be available providing the necessary flexibility for operations of SOEs and PAEs. Approval system bottlenecks to be assessed and alleviated.
Budget procedures and bottlenecks: <ul style="list-style-type: none"> <li>Operational Budget; Contingency funding / Budget flexibility.</li> <li>Budget Procedures and Bottlenecks limit operational budget efficiency and flexibility.</li> <li>Funds transfer systems take a long time.</li> </ul>	The budget process and the approvals process require improvement. More flexibility within the current budget made available for contingencies. Improvement the system for contingency funding would benefit SOEs and PAEs. Funds transfer system bottlenecks to be assessed and alleviated.
Investment Budget; SOEs and PAEs finance investment expenditure is taken from cash-flow. The Investment Budget is not separated from the operational budget.	There is a need for a better system for investment than cash-based accounting. Review of the budget system for investment undertaken by SOEs and PAEs would help alleviate the impact of investment impacting operational expenditure.
Budget flexibility on procurement, and the procurement system is based on cash available.	Review of procurement systems to ensure that working capital is available would benefit SOE and PAE management.

<b>6. Auditing and Inspection Requirements for SOEs and PAEs</b>	
<b>Assessment Criteria and Issues</b>	<b>Observations</b>
Compliance with all the audit requirements is paramount.	Review the management time and resources spent on audits (estimate of man hours – this would help with the planning for audits).
Audit system duplication.	Consolidation of audits and continual review of audit procedures to ensure efficiency. Review the multi-audit processes to avoid overlap.
Audits Report to Multiple stakeholders.	Some rationalization of who needs to know what. Map the audit system; Identify areas to avoid overlap. Sign agreements between NAA and other audit bodies.
Too much historic duplication – audits set up by law have become incremental.	Review what the audit does, and how the stakeholder benefits.
Procurement audit / MCS audit; these may be overlapping with overall (NAA audit).	Review all audit procedures to identify where there is overlap.
Limited external audits.	Encourage external audit wherever possible.

<b>7. Performance and Accountability of SOEs and PAEs</b>	
<b>Assessment Criteria and Issues</b>	<b>Observations</b>
Performance standards are widespread but confusing.	Technical and FG to review and simplify and rationalize performance standards to ensure appropriate measurement of SOE and PAE performance. Performance and accountability to be encouraged. Develop straightforward KPIs.
Performance standards are internal.	FG and TGs to reassess performance standards in light of international standards.
No standards are published for SOEs and PAEs Performance standards are internal.	Performance standards could be publicly available. FG and TGs could develop an appropriate system for reporting of SOEs and PAEs against internationally recognized standards, and publishing these standards and performance annually.
International Performance Standards are lacking.	Introduce internationally recognized KPIs for SOEs and PAEs (e.g. ISO).
Public Accountability of SOEs and PAEs.	Introduce agreed performance standards for SOEs and PAEs based on international experience. We know that performance standards are important and are adhered to, but a system of reporting them to the government, the public and other stakeholders would really help transparency.
Unclear whether and how performance standards are incorporated into budgets.	PFs should be incorporated into the performance budget of PFM RP.
No Public Accountability of SOEs and PAEs.	Consider publishing accountability indicators (e.g., British experience in 1990s).
Performance standards could serve to lead towards accreditation.	More available performance standards would ensure quality and would recognize the value of the public service that SOEs and PAEs provide.

8. Competitive Environment and Challenges	
Assessment Criteria and Issues	Observations
Social purpose is not fully valued.	Build in social needs to the business model. Categorize those SOEs and PAEs which are revenue generators and those which are budget users. Social welfare benefits and costs to be evaluated for each SOE and PAE so that appropriate financial targets can be set.
The mandate is strong but restrictive, especially relating to sources of income and expenditure.	Flexibility in budgeting to allow SOEs and PAEs scope to compete with the private sector.
SOEs and PAEs are less able to compete against private sector.	Improving the competitive environment for SOEs and PAEs. FG and TGs could provide SOEs and PAEs with flexibility and freedom to build partnerships with international organizations where appropriate (i.e. give them a chance to generate their own revenue).
Lack of freedom for SOEs and PAEs to pursue revenue generating activities.	Consider SOEs and PAEs to be able to follow their own initiatives and raise their own income. Provide limited autonomy to SOEs and PAEs. FG and TG to consult on possible ways to provide freedom to pursue extra revenue earning opportunities.
Freedom for the entrepreneurial spirit within SOEs and PAEs. There is no freedom to build their own partnerships SOEs and PAEs (especially education institutes) are not exploiting revenue raising potential.	Flexibility in the budget process for SOEs and PAEs to explore revenue generation and strategy building partnerships. SOEs should be able to build their own partnerships. Encourage SOEs and PAEs to apply for grants and tenders.
SOEs and PAEs Budget – capital required.	A review of the capital requirements for delivery of mandate, and a look at alternatives for finance.
Budgetary uncertainties exist. Ensure financial stability for SOEs and PAEs.	A review of what a competitive budget would require is important. Focus on core operational issues that save and make money.
Some SOEs and PAEs are already working with the World Bank and EU and ADB and other agencies.	Working with the WB / EU / ADB / UN and other international programs can bring real benefits.
SOE and PAE strategy for competitiveness may not focus on going to conferences, working with universities and other international organizations.	Every reason why policy can continue as present, but with a little more flexibility.



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