

Strategic Framework for Non Tax Revenues for Sub National Administrations in Cambodia

A Policy Advisory



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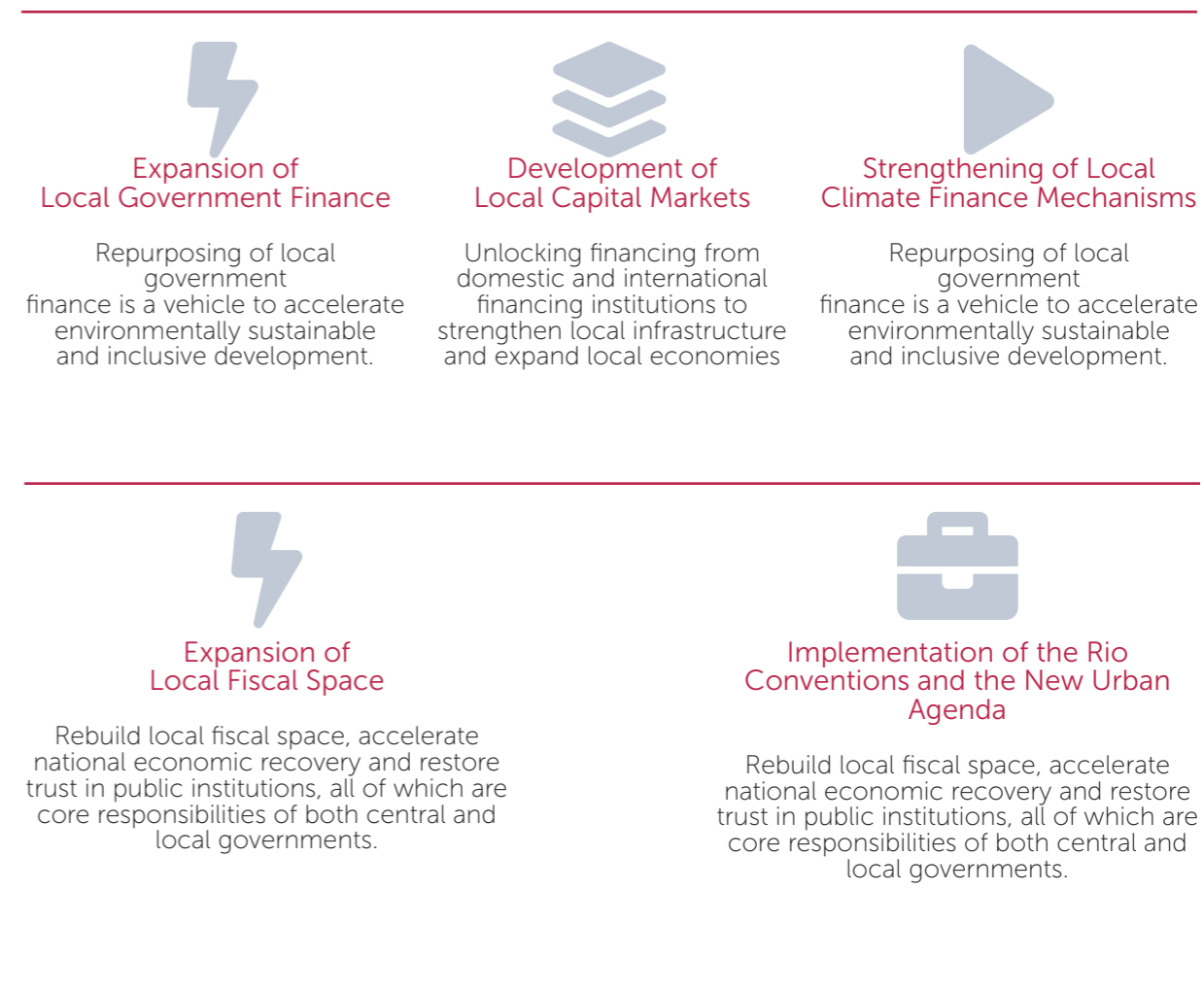
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Building blocks for a financial ecosystem that works for cities

Building on the policy agenda put forwards by the Malaga Coalition under the impulsion of UNCDF ,UCLG and FMDV and further fleshed out in the UNCDF 2022 publication "*Local Government Finance is Development Finance*", the Local Transformative Finance team at UNCDF works on the building blocks of a financial ecosystem for local infrastructure finance.



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June 2023, Bangkok, Thailand

Introduction

Fiscal decentralisation and effective budgeting for sub-national administrations (SNAs) is central to the next phase of decentralisation reform in Cambodia. According to the National Program on Democratic Development (NP-SNDD) Phase 2 – 2021-2030 (NP2), “SNAs need more budget resources to contribute to local service delivery and development.”

Currently, SNA revenues (sourced both from own source revenue and national transfers) are insufficient to cover the cost of fully implementing their mandated functions. This issue is particularly acute at the district, municipality, and khan (DMK) level where new functions, structures, and systems have been transferred and established but remain to be sufficiently financed.

The current budget allocations do not reflect fully the mandates of the different levels of SNAs and, as part of the reform the new accountabilities that are being placed on to the SNAs as a result of legislative and functional upgrades. The current system of allocations that have not considered the policy impacts of the decentralisation process that includes legislative driven responsibilities coupled with extended mandates created through functional transfers has created persistent imbalance both vertically and horizontally.

The share of own-source revenue with the SNA budgets has been very minimal, especially for the DMK level. This can be attributed to the DMK having been given limited authority to collect only a small amount of non-tax revenue (NTR).

In addition, it is noted that in the last three years, as more NTR items have been transferred to the SNAs, it has been the CP, not the DMK nor the Commune/Sangkat (CS) level, that was given more attention. This rationale being that within the SNA architecture only the CP levels have appropriate personnel, the requisite finance and the effective and efficient operational management capacity further exacerbating the already significant vertical imbalances.

However, at the CP levels there as been an increase of the administrations reliance on their own source revenue to cover their operation and development activities.

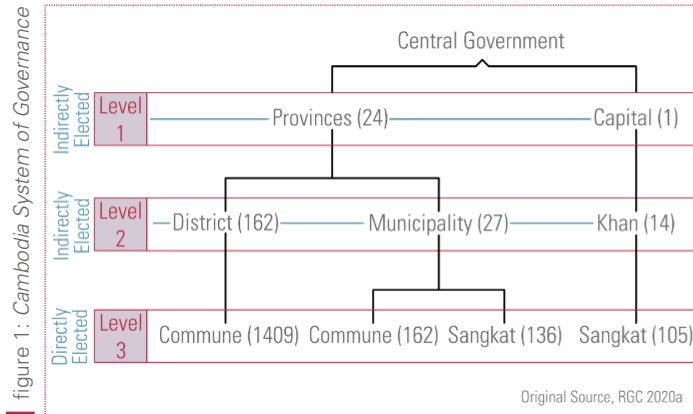
The RGC Medium Revenue Mobilisation Strategy (RMS) 2019-2023, placed greater attention on improving national tax revenues¹ (RGC, 2019) In recent years, more emphasis has been placed on the development of the NTR systems especially after the adoption of the Law on NTR in 2022. Unlike the tax policy and administration, the emerging reform agenda on NTR, has explicitly recognised the roles of SNA, and thus more consistent and complementary to the NP2 reform agenda.).

To support the broader decentralisation reform, the NP2 envisions and plans for the development of Strategic Framework for SNA NTR.

¹ Reference: RGC. "Revenue Mobilization Strategy 2019-2023." General Dept Tax Cambodia, 8 May 2019, [Link](#)

The Sub National Governance Architecture

A three tiered system of sub-national governance is applied in Cambodia and consists of representative institutions that are established through direct and indirect elections (figure 1)



The highest level of the sub national governance system are the provinces, with Phnom Penh being treated with a special designation - "the capital". The lowest level are the Communes and Sangkats (CS) serving rural and urban constituents respectively. The CS are established by the 2001 Law on the Management of Commune / Sangkat Administration and consist of democratically elected councils and an administration unit.

The CS were developed and supported during the initial stages of the decentralisation process and were the first sub national administrations to have a specific purposefully established a inter-governmental fiscal transfer (IGFT) mechanism developed and tested (The C/S Fund) that aimed to improved service delivery whilst simultaneously developing capacity within the local administration.

The promulgation of the 2008 Law on the Management of CP and DMK Administrations (referred to as the Organic Law) established a legal framework for indirectly elected councils for DMK and CP administrations. The development of the councils and the establishment of a second IGFT, the DMK Fund has provided a focus of the last 10 years of the sub national decentralisation reform initiative.

The SNAs are all assigned two types of function (i) permissive and (ii) obligatory being defined as;

- **Permissive** - two forms of permissive function exist; (i) functions that have been transferred to the SNAs by the line ministries and (ii) functions that fall under the general mandate of the SNA
- **Obligatory** - these are functions that are defined by law, regulations the latter including royal decree sub-decree or other legal instruments issued by line ministries and the National Committee for Democratic Development.

Sub-decree #285 (2014),

defines a permissive function to those initiated by a SNA that: (i) that does not fall under mandate of an line ministry or national institution, or (ii) those that fall under the mandate of an existing line ministry or national institution but which the line ministry or the national institution has no objection to the SNA choosing to implement them.

The Organic Law entitles each SNA to receive appropriate fiscal and human resources in order to perform its core administrative and development functions. The SNAs, especially below DMK level are highly dependent on IGFTs with limited capacity to generate nor manage their own source revenues. With few revenue sources being generated by the SNAs, the revenues that are assigned to SNAs are highly skewed toward Phnom Penh.

The horizontal imbalances of the budget allocations between the Capital and the rest of the country is significant. Between 2011 and 2021, on average, the Capital of Phnom Penh's annual budget accounts for about 55 per cent of total SNA budget. In 2011, it stood at about 45 per cent and from there steadily increased to almost 60 per cent in 2020 but dropped back to slightly above 50 per cent.

Such allocation bias is due, in the main, to the associated higher concentration of government assets, civil servants and government contract employees within the capital, when compared to the provinces.

Given that SNA NTRs are in the main generated through the One Stop Window (OSW) or One Stop Office (OSO) Population distributions must reflect on the ability of the SNAs to generate NTRs.

As illustrated, near to 70 per cent of the population reside in only 10 provinces. Further, the top five populated provinces account for 53 per cent of the total population. The largest population concentration is Phnom Penh where 15 per cent of the population live. Given this it is essential that informed research is applied to set individual provincial targets for SNA NTR streams.

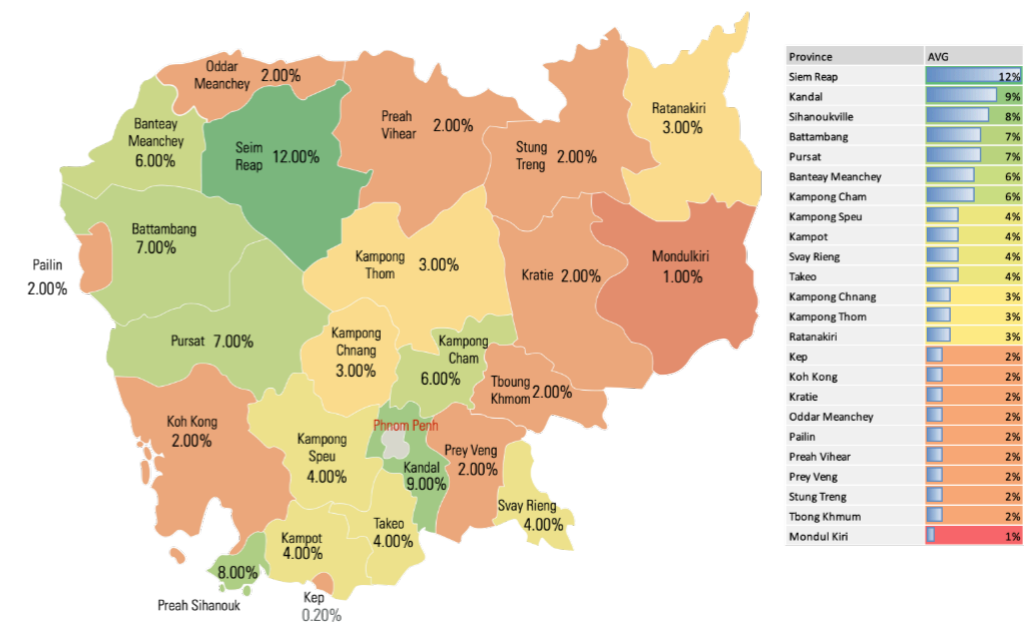


figure 2: Population Distribution by Province (2019 census)

Legislative Mapping

The legal framework for managing Cambodia's NTR system is made up of a mix of various legal instruments.

First, those include the Law on NTR (2022) and Sub-decree No. 72 (2018) on the Management of Non-Tax Revenue. These two documents define different types of NTR as well as the roles, responsibilities, key mechanisms, and administrative tasks relating to NTR management and collection.

Second, for SNA, key legal documents include the Law on SNA Financial Regime and Property (2011) and other legal documents, especially those relating to the service delivery by the One Window Service Unit (OWSU) at CP level and the One Window Service Office (OWSO) at the DMK level.

Third, because NTR are still managed by sectors, sectoral laws and inter-ministerial Prakas on sectoral services are also critically relevant. As of 2022, there are 103 of such inter-ministerial Prakas.

The relevant legislation for SNA NTRs (tabulated below) illustrates a complex environment of potential overlapping legislation, Prakas and ministry level instructions. In total there are 114 legislative instructions relevant to the SAN NTRs.

Although the draft circular to update the management of the revenues from OWSO at CP and Districts is expected to improve the legislative base a clear repeal to reduce the multitude of documents is required to promote a more effective management of the SNA NTR.

Table 1: Legislation & Circulars for SNA NTR

Common & Cross Sector	Year
Law on non-tax revenue	2022
Law on SNA financial regime and property	2021
Sub-decree No. 72 on non-tax revenue	2018
Sub-decree No. 18 on OWSO at SNA	2017
Sub-decree No. 25 on the revenue management at OWSO at CP	2020
Prakas No. 272 on the use of receipt for revenue	2011
Prakas No. 242 on geographical area codes	2015
Prakas No. 1890 on petty revenue management for national and SNA	2015
Prakas No. 1195 on the procedures on the management of non-tax debt	2022
Circular No. 010 on incentive sharing from service fees	2014
Circular on the management of the revenue from OWSO at CP and Districts	Draft
Sectorial	
Inter-ministerial Prakas on sectoral services/ non-tax revenue (there are 103)	Various

Outline of a Strategic Framework for SNA NTR

The draft outline for a Strategic Framework for SNA NTR is structured as follows:

- Section 2: Overall situation of the SNA NTR
- Section 3: Goals, outcome, output, and approaches
- Section 4: Revenue from public service fees
- Section 5: Revenue from state assets
- Section 6: Revenue from other sources, and
- Section 7: SNA NTR modernisation and capacity building

For each area of intervention, specific outcomes, outputs and priority activities are identified. Those areas include (i) the revenue from public service fees, (ii) revenue from state assets, (iii) revenue from other sources, and (iv) SNA NTR upgrading and capacity building.

For each, an expected overall outcome for the whole period of the NP2 (2021-2030) is identified, followed by specific outputs and priority activities to be achieved and implemented in the two Implementation Plan Phases (IP5). The first IP5 (IP5-I) covers the period from 2022 to 2025, and the second (IP5-II) from 2026 to 2030.

These outcomes, outputs, and priority activities are also summarised in the Result Framework in the annex section.

The draft guidance framework for the upgrade of the SNA NTR is provided as a policy advisory document and does not constitute a policy framework, strategy, or regulatory document. All data, assumptions and suggestions provided are developed as a technical assistance to the MEF.

SNA NTR System Description

There are five types of NTR in Cambodia (including at SNAs) which need to be managed according to the existing rules and regulations. According to the Law on NTR and Sub-decree No. 72, those five types include

table 2: S NTR Streams

Non Tax Revenue Stream
1 revenue from public service fees
2 revenue from state asset
3 revenue from state-owned enterprise (SOE)
4 revenue from fines and penalties,
5 revenue from other sources.

All of the five types of NTR are applicable to SNAs, although with different degrees of authority and capability.

In managing and collecting NTR, SNAs need perform various tasks, including

- planning and forecasting of NTRs;
- the use of the non-tax revenue management information system (NRMIS) to process and record transactions; collection and payment of NTRs into the single treasury account (TSA);
- monitoring, evaluation, auditing, and inspection; and
- follow-up and writing off non-tax revenue debts, reward and punishment for compliance and performance, among others.

SNA NTR management and collection involve a range of stakeholders. Their roles and responsibilities are provided in the Law on NTR and Sub-decree No. 72. MEF is the central agency whose main role is to monitor and evaluate the management and collection of NTR, including those performed by SNAs.

With its General Department of Non-Tax Revenue and State Property playing leading roles, MEF also play active roles in drafting new rules and regulations, maintaining records on NTR, following up on NTR arrears, and identifying new sources of NTR.

The SNAs are considered as implementing agencies directly managing and collecting NTR in their localities. They perform various tasks throughout the whole management cycle, starting from planning and forecasting NTR, directly managing, collecting, following up on NTR arrears, and preparing regular reports to MEF, through the Provincial Department of Economy and Finance (PDEF). In this arrangement, PDEF acts on behalf of the MEF in overseeing the public financial management aspects of SNAs in each province.

As a part of NTR management modernisation, the Government has used two digital management systems.

- The Non-Tax Revenue Management Information System (NRMIS) and
- The State Property Registration and Management Information System (SARMIS).

The NRMIS is given more attention, although it is closely related to the SARMIS, especially concerning revenue from state assets.



SNA NTR Performance

NTR accounts for only a small fraction of total state revenues, both at the national and SNA level. At the national level, NTR has increased in absolute amounts but dropped in terms of contribution to almost half between 2011 and 2021 as a percentage of the total recurrent revenue (from a high of 19 per cent in 2012 to only 9 per cent in 2021 (figure 3).

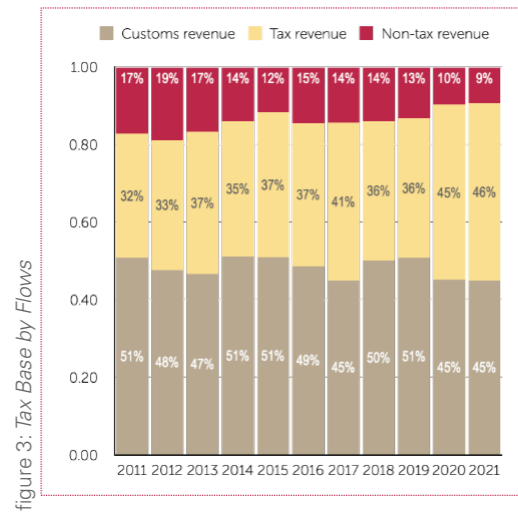


figure 3: Tax Base by Flows

The decline in contribution has been due enlarge to improved national revenue collections which have positively increased by 44 per cent between 2011 and 2021. However, as illustrated all contributions remained flat during 2020 and 2021 as a result of the pandemic.

Customs derived revenue contributions has shown little change over the same time period. Accounting for 50 per cent of total revenues, with a drop off to 45 per cent being accounted during the pandemic

In essence, the performance of NTRs from 2011 to 2019 increased 2 fold from US\$ 264 million to US\$ 820 million. Growth in NTR receipts was cut short due to the pandemic (2020 and 2021) and fell by US\$ 350 million to US\$ 460 million which is comparable NTR performance recorded between 2015 and 2016 (figure 4)

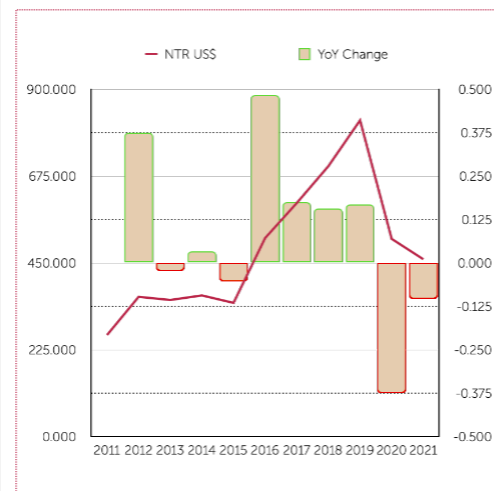


figure 4: NTR Growth Profile

As illustrated non positive YoY growth has been seen in 2013, 2015 and 2020 to 2022. Based on historical data it can be anticipated that actual NTRs have the potential to reach beyond US\$ 1,000 million per year. However, the return to such levels will be enlarge dependent upon external trade factors. Opportunity does present itself to further expand the SNA NTR through new forms of climate charges as fines or issue of local carbon permits for the special economic and industrial zones.

Comparing the SNA NTR performance as a percentage of total national non-tax revenue, the SNA NTRs accounted for around 2 per cent in the period from 2017 to 2019 but increased sharply in 2020 and 2021 to over 10 per cent (figure 5)

The data underpins the change of the governments policy focus towards fiscal decentralisation.

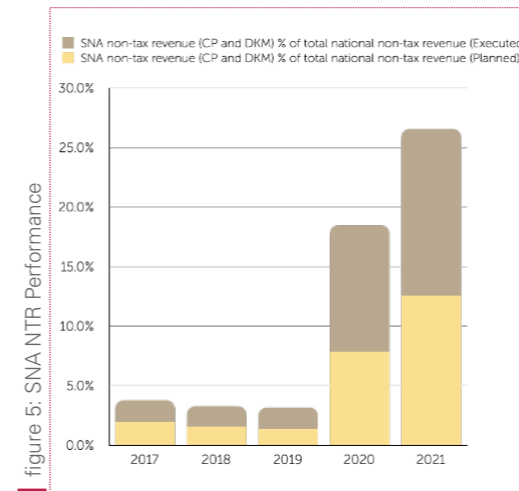


figure 5: SNA NTR Performance

The sharp increase was due to the delegation of large administrative service fees from line departments to OWSU at CP level in 2020. While the transfer is seen as progress for decentralisation reform, it has resulted in the fiscal space imbalance between CP and DMK to be even more pronounced. From 2017 to 2019, as the data shows (figure 3), DMK's non-tax revenue accounted for around 30% of total SNA non-tax revenue.

However, since 2020, its share reduced drastically to only about 10%.The vertical imbalance of NTR performance is captured in figure 6.

As is illustrated, a large imbalance between CP and DMK exists, with the DMK having a far lower planned NTR than the CP level.

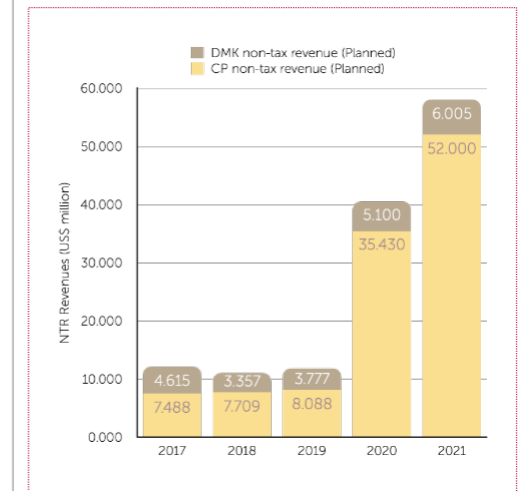


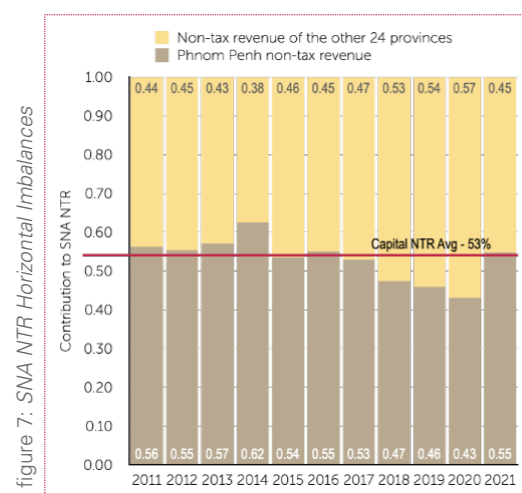
figure 6: SNA NTR Performance Ratios

The ratio between CP and DMK NTRs was fairly constant up to 2020 at approximately 1.6:1. A sharp increase in 2020 and 2021 was witnessed where the ration exceeded 8:1. The ratio between CP and DMK NTRs are tabulated below

Year	DMK / CP Ratio
2017	1:1.622
2018	1:2.296
2019	1:2.414
2020	1:6.947
2021	1:8.659

table 2: S NTR Streams

Horizontal imbalances are also significant (figure 7). Similar to tax revenue, non-tax revenue at the sub national levels is dominated by Phnom Penh's share. From 2011 to 2021, the data shows Phnom Penh accounts for roughly 50 per cent of all SNA NTR. The other provinces that have larger NTRs being Sihanoukville, Kandal, and Siem Reap. This horizontal imbalance is mainly due to the fact that a large part of the SNA NTR comes from public administrative service fees, which correlate closely and positively with the level of economic activities in each locality.



Presently, the primary source of NTR among SNAs comes from fees charged at the one window service unit (OWSU) and the one window service office (OWSO). Additionally, in the capital and some provinces revenues from state assets are significant.

Over half of the revenues collected are generated through fees. They accounted for 55 per cent of all NTRs collected at the CP level in 2019 and all NTRs collected at the DMK level. The limited collection of state assets is due to internal weaknesses related to shared or a common information management system and a lack of clear authority to collect revenues from sources under their control.

A medium-term goal of the RGC should be to develop and implement clearer guidelines for SNA on collecting NTR from state assets that are located within the territory of the SNAs. This feature need be a component of a broader process to clarify the extent to which SNAs have authority over their own-source revenues.

SNA NTR System Management for SNAs

The management of SNAs follows a cycle which includes the following tasks:

- **Planning and forecasting:** SNAs include in their annual budget plan the forecast of NTR for each type and classify them according to the economic classification of budget,
- **Collection of NTR:** SNAs follow various rules and regulations when implementing the actual NTR collection, recording, and reporting. To ensure effectiveness, the CP administrations have been using the NRMIS and SARMIS in their implementation,
- **Payment into national budget:** SNAs pay the collected NTR into the Single Treasury System (TSA) either in cash or via banking systems by following relevant rules on petty revenue management. The NRMIS has been used to facilitate this task.
- **Recording and reporting:** SNAs prepare and submit monthly, quarterly, semi-annual and annual reports on NTR implementation to the MEF via the PDEF. At the end of each year, they also review their NTR performance to inform the planning for the following year. The NRMIS has also been used to aid the recording and planning process, and
- **Following up on NTR arrears:** SNAs keep track of NTR arrears and conduct necessary follow-ups. Where necessary, audit and inspections can be conducted on the management of NTR for specific SNAs.

While differing by types of NTR, some overall challenges are noted for the SNA-NTR governance systems. Those include:

- **The legal and policy frameworks** which needs to be improved in terms of coherence and consistency, especially between those on NTR policy and those on decentralisation,
- **The current NTR functions can be further decentralised** (both through assignment and delegation) to appropriate levels of SNAs, taking into account their respective mandates for service delivery and local development,
- **The management and collection of SNA NTR** which can be made more effective, efficient, and in line with due PFM process,
- **Modernisation of SNA NTR management and collections** which can be strengthened especially with the use of the NRMIS and other e-governance solutions, and
- **Human resource management and capacity building** which need to be enhanced, trained, and continuously supported to allow for clear accountability lines and effective SNA NTR management and collection.

Visioning an Efficient SNA NTR System

The proposed VISION of the SNA NTR strategic framework needs to align with the NP2 (2022) and the Blueprint on NTR (Upcoming).

A more effective, efficient, and decentralized NTR management and collection by SNAs so that they can better implement their mandate and functions while contributing to the national revenue mobilization effort, macro-economic stability, and improved and equitable service delivery for local citizens and businesses.'

Statement Example - Vision

The objective of the Strategic Framework on SNA-NTR is required to support the national decentralisation policy (IP5, phases I and II).

Provide clear expected outcomes, outputs, and priority activities for the IP5-I and IP5-II

Statement Example - Objective

This is to ensure a more effective, efficient, and decentralised management by SNAs over different types of NTR items. It covers key aspects, including legal and institutional framework, management and collection, modernisation and capacity building.

Per the NP2 (Component 4) and the Blueprint on NTR, the overall expected outcome of this Strategic Framework on SNA NTR is to focus on the SNAs capacities and competence to effectively manage the SNA NTR.

SNAs have predictable, adequate budget resources aligned with mandates and policy priorities and allocated with the flexibility to respond to local situation and needs that are determined in the development plans, investment programs, and budget strategic plans of the SNAs.

Statement Example - Outcome

The corresponding output statement for consideration is presented as a system wide enhancement. The output establishes an increase in NTRs as a key indicator.

An improved SNA NTR governance system that is established on a clear and coherent legal base that is accompanied with an institutional framework, from which more NTR based functions can be transferred to the appropriate level of SNA. This will increase the amounts of NTRs collected, calibrate the SNAs and further promulgate modern management and information systems that assures transparency.

Statement Example - Output

Strategic Approach

To achieve the outcome and outputs, the Strategic Framework for SNA NTR provides the following approaches:

- **Ensure reform coordination and legal framework coherence:** SNA NTR need be implemented and strengthened through an effective coordinated whole of government approach that compliments the relevant reform agendas (public financial management and decentralisation).
- **Promotion of the effectiveness and efficiency of NTR management and collection:** NTR management and collection by SNAs should be strengthened in line with the due process of public financial management to contribute to the Government's overall revenue mobilisation efforts and utilise existing financial information and budget control systems.
- **Focus on institutional development and local civil service competency enhancement:** In line with the Government's policy on digital Government, SNA NTR management and collection will be systematically and increasingly implemented through the application of institutionally connected digital technology (e.g., NRMIS, SARMIS, e-payment), together with improved human resource management and capacity building.
- **Accelerate decentralisation and accountability of NTR management and collection:** More authority to be entrusted to the SNAs to manage and collect NTR in alignment to the PFMP, the new financial law and with the NP2, that latter that may include the possible identification of new NTR categories.
- **Emphasise the roles of NTR as a policy tool for local service delivery and local development:** A more effective NTR system is instrumental not only for revenue generation but also as an enabler for better service delivery for local people and businesses. Linked to the above NTRs are to act as non-discretionary revenue stream for the SNAs and not be subject to fiscal pooling at central level.
- **NTRs within the Sub National Jurisdictions:** The "ownership" of all NTRs need be clearly articulated to assure accountability and the effectiveness of collection and utilisation of NTRs. The NTR legal framework needs to specify if pooling at the provincial level is a requisite of that individual SNAs are able to retain the NTR revenues
- **Adoption of discretionary or non discretionary expenditure of NTRs:** The NTR legal framework needs to clarify and set out the expenditure conditions of the NTR resource flows. Additionally, NTRs can be utilised for specific local government expenditure classifications as within the COA and budget law, thereby linking directly NTR expenditure to provide, enhance and maintain basic local government services.
- **Adopt the learning-by-doing experimental approach:** To ensure continuous improvement, the SNA NTR governance system will be improved through rapid feedback, period assessment, and adjustments, all embodying the spirit of learning by doing approach.



Photo Credit: Humphrey Muleba, www.unsplash.com

Example Policy Framework for SNA NTR System

Introduction

NTRs generated from public services are by far the major contribution of NTR system for SNAs. Two forms of public service fees are considered:

- **administrative fees** that are sales of services associated with a regulatory function of the Government (e.g., license); and
- **end-user fees** for provided services.

Conceptually, NTRs collected as end user fees or charges for public services are considered as a **policy tool and a means to generate state revenues**. Accordingly, when a user fee is considered, several key policy and management issues need to be considered, including its policy-related objective, as well as the legal, institutional, and public financial management arrangements.

According to the Law on NTR and Sub-decree No. 72, revenue from public services is classified into the following five sub-types:

- Revenue from public services in the general administrative sector,
- Revenue from public services in national defence, security and public order sector,
- Revenue from public services in the social affairs sector,
- Revenue from public services in the economic sector, and
- Revenue from public services by SNAs.

The management and collection of public service fees need to follow inter-ministerial Prakas. This being applicable to line ministries, other state agencies and SNAs. As of the end of 2021, there were 103 of such Prakas in force, providing legal basis for the collection of fees for 5,151 services. For the SNAs, the provision of administrative services and the collection of fees are currently done through OWSU at the CP level and the OWSO at the DMK level. The service standard and procedures at the OWSU and OWSO are provided by MOI's Prakas.

The provision of administrative services by SNAs can be performed in two forms.

- **first**; is as their own function. In this case, the implementation shall follow the inter-ministerial Prakas between MEF and MOI. The council of each SNA also has the authority to determine fee level based on the reality of people livelihood and development of each locality.
- **second** is as their delegated functions from the national level. In this case, the implementation shall follow inter-ministerial Prakas between the delegating ministries and agencies and the MEF.



Challenges

The SNAs need to plan and execute NTR collections from service fees as a part of their annual budgeting process. The implementation shall comply with the key laws and regulations. The administrative tasks involve

- **the forecasting** of NTR for each fiscal year,
- **the delivery of services**, and the collection of associated fees and
- **paid fees transferred** into the Government Treasury Single Account.

To incentivise SNA and line department officials involved in the service delivery process, some specific incentive sharing schemes have been implemented. In the last few years, SNAs have also implemented the NRMIS to ensure improved service delivery and a transparent NTR management and collection process.

While much progress has been made, several challenges require more attention, including:

- **Concise Legal framework:** There are currently many rules and regulations, some of which are not consistent with one another, especially between the various inter-ministerial Prakas on NTR on the one hand and those relating to decentralisation on the other,
- **NTR Institutional framework:** There remains room for improvement in terms of the de-concentration, delegation, and assignment of NTRs between the national level and the different tiers of SNAs. Similarly, the roles and authorities of SNAs in setting the fee list and the allocation of revenues are still to be clarified to make them consistent with the NTR policy.

- **Appropriateness of certain services:** Some local government services, especially related to permits need revision in terms of the perspectives of local citizens and business. Examples include the required manual verification and legalisation of various documents (i.e., high school certificates) and the licensing requirements and conditions for micro and small businesses which might act as a hindrance rather than a promotion of people's livelihood and local businesses.
- **Management and collection:** A few key points are noted:
 - *there is still no technical guidance on how to improve the accuracy of NTR forecast which has led to high discrepancy between planned and actual NTR performance;*
 - *while there are currently over 5,000 services, many of them have been virtually inactive and some have had their fees waived or charged to a very low rate,*
 - *it is not sure to what extent the current incentive sharing arrangements have motivated those staff members directly involved in the service delivery process at the OWSU/OWSO, and*
 - *while the NRMIS has been very instrumental in managing NTR from service fees, there are various technical issues to be addressed and further refined (e.g., its coding systems by types of fees).*

Primary Actions

The output for the primary actions for the SNA NTR is

A more effective and efficient NTR system that is decentralized to allow SNAs to create new fiscal space to fully implement their mandates whilst contributing to the national revenue mobilization policy and strategy. In doing so, macroeconomic stability will be maintained and the quality and quantity of equitable and sustainable public services enhanced.

The following research and policy actions need be considered in the short term to align to IP5-I (2022-2025). The inter-ministerial IP5-1 sets out the short term policy actions related to SNA NTRs

- **To review the current management and collection of public service fees** at the OWSU and OWSO, including the use of NRMIS and e-payment,
- **To identify the possible harmonisation and synchronisation** between the NRMIS and the MIS that MOI set up for OWSU and OWSO,
- **To identify additional NTR sub-streams** to be transferred from line ministries to OWSU and OWSO in accordance with the recent decentralisation reform policy and the transfer of functions to the DMK level,
- **To clarify the arrangements to allow SNAs more administrative jurisdiction** related to the setting and management of fees or charges for NTR within a value determined by relevant regulations.

- **Clarify financing options to finance newly transferred functions** (e.g., solid waste management, local transport, entertainment, education, health) from user fees.
- **To conduct the regulatory review on the current administrative services** provided by the OWSU, OWSO and other parts of SNAs to assess their appropriateness as not only NTR tool but policy inventions to promote people's livelihood and local business development.

The following research and policy actions need be considered in the short to medium term to align to IP5-II (2026-2030),

- **To finalise the services and fees provided and collected by SNAs** (based on the regulatory review study conducted in IP5-I above).
- **To continue improving the legal framework and reform coordination**, especially between the national level and SNAs, to ensure more effective management and collection of SNA NTR,
- **To continue to decentralise the NTR** system to an appropriate level of SNAs and identify new NTR sources to increase SNA's own source revenues,
- **To fully promulgate the use of NRMIS, e-payment**, and other digital solutions to public service delivery and NTR management and collection at SNA,
- **To introduce and test a model for forecasting NTR revenue** from public service fees.

Example Policy Framework for SNA NTR System

Revenue from State Assets

Non-tax revenues from state property covers a wide range of sub-types. In general, it involves legal contracts between the state and private actors for the use of state-owned assets for commercial gain. According to the NTR Law and sub-decree No. 72, NTR from state property includes the revenue from: Sales and exchange of private state property,

- Lease of state property,
- The concession from public services,
- Royalty on natural resource extraction, and
- Other revenues as stipulated in contracts and agreements.

Each sub-category of NTR provides a range of detailed revenue sources but whose definitions are stated in only broad terms. Their specific definitions and further categorisations that aligns to national and international standards are expected to be determined through additional law, sub-decree or Prakas. Many of the revenue items have already been implemented, but a few (such as royalty from oil and gas) are relatively new.

The untapped potential for NTR from state property is significant, but so are its governance and management challenges. At both the national and sub-national level, there is a shared understanding that additional state property revenue can be collected if the system and its management can be improved. This is why specific management reform measures have been identified in the RMS II with a focus on revenue items such as concession from land, forestry, and mining concession.

However, for the medium and long-term, there are key governance and public financial management issues relating to state property management that need to be addressed, both at the overall system and for specific revenue items.

NTR from state assets has been a minor source of income for SNAs but is expected to increase from 2022. Data from 2020 reveal that the revenues from state assets accounted for about 6 per cent of accumulative SNA NTR, or about 0.4% of SNA total budget. It is noted that all NTR collected from state assets collected came from the CP level, and virtually none for DMK and CS. However, starting from 2022, the Government has plans to further allocate more NTR from state assets to SNA, including:

- 100% of revenue from fishery concession (with an estimated amount of 2,650 KR Million),
- 50% of revenue from the lease of state property of CP line departments and CP administrations (about 2,744 KR Million)
- 30% of revenue from land concession (about 6,075 KR Million),
- 30% of revenue from forestry and penalty (about 6,027 KR Million), and
- 50% of royalty related to construction materials (about 42,914 KR Million).



Challenges

SNAs plan and execute NTR from state assets as a part of their annual budgeting process. The implementation complies with the key laws and regulations on SNA and NTR (as listed in the previous section on the legal framework), relevant legal documents on state asset management, and the provisions as stated in the contracts, agreements, and licenses relating to the lease of state assets, concession, etc. The NRMIS has been used to manage and collect SNA NTR from state assets at SNAs.

While much progress has been made, several key challenges need to be addressed including:

- **Simplification of the legal framework:** There are currently a number of laws and sub-decrees with relevance to SNA-NTR from state assets. Those include the Law on SNA Financial Regime (2011), the Law on State Asset Management (2022), Sub-decree No. 66 and a range of leasing contracts, agreements, and licensing. Anecdotes suggest there are possibly some major inconsistencies among these legal instruments, although their extent and specifics need to be further determined,
- **Quality and timely data needed for effective management:** The current data on asset leasing, concession, and licensing is still limited, a situation that has been compounded by the limited data sharing across relevant agencies,

including within and between national and sub-national levels. This has led to poor forecasting, management, and collection of NTR from state assets. It is also noted that the use of digital e-payment has also been low compared to the other types of NTR.

- **Transfer of NTR from state assets to SNAs:** The planned transfer of more NTR from state assets to SNAs is in its infancy. As the process is developed further various implementation challenges will emerge and need to be responded to. As this is a new competence area, trainings and coaching that enables SNAs to learn by doing is critical. In addition, the NTR from state assets needs to be closely linked with the overall SNA asset management and asset transfer.
- **The national role out and use of NRMIS:** It is required SNAs enter all items of NTR from state assets into the NRMIS. However, the limited data quality (mentioned earlier) almost means data gaps in the NRMIS, which in turn limits its usefulness as a tool for managing and recording revenue.

Primary Actions

The output for the primary actions for NTR revenue optimisation from state assets

A more effective and efficient NTR system that is decentralized to allow SNAs to generate new fiscal flows from State Assets that are accumulated on their territories to fully implement their mandates whilst contributing to the national revenue mobilization policy and strategy. In doing so, new fiscal space will be created for improved equitable and sustainable public services.

The following research and policy actions need to be considered in the short term to align to IP5-I (2022-2025). The inter-ministerial IP5-1 sets out the short term policy actions related to SNA NTRs

- **To improve the implementation of the recently transferred NTR from state assets** by identifying specific areas for improvement through a rapid feedback loop and systematic assessment,
- **To determine enhanced arrangements for the management and collection of SNA NTR** from state assets and including the use of NRMIS, based on the feedback (and/or assessment), including the use of NRMIS,
- **To continue the process of transferring more NTR streams** that emanate from state assets to the appropriate level of SNAs in line with the overall decentralisation reform and the functional transfer to the DMK level, and

- **To assess the progress to guide the reform of SNA NTR from state assets** so that it is well coordinated and complementary to the broader reform of SNA state asset management.

The following research and policy actions need to be considered in the short to medium term to align to IP5-II (2026-2030).

- **To implement the work plan developed in IP5-II** and to continuously improve its performance through the establishment of Key Performance Indicators (KPIs)
- **Complete a detailed research based forecasting model** to establish revenue baselines for SNA NTRs by province and DMK level
- **Develop a complete set of SNA NTR collection targets** based on above mentioned research and the associated province specific territorial social economic conditions and environments.
- **Seamlessly coordinate and complement** the implementation of the NTR associated with state assets to the SNA state asset management reform.

Example Policy Framework for SNA NTR System

Revenues from Other Sources

Revenues from the other types of NTR identify with three specific streams and include;

- revenue received as dividends from state-owned enterprises (SOEs),
- fines and penalties
- and the flows that are designated as "other" forms of revenue under the Law on NTR and Sub-decree No. 72.

Even at the national level, these three NTR items account for only about 7% (taking the year 2019 as a case), with the SOE dividend accounting for more than 70% of the total. In terms of regular framework and management, while some information is known about the SOE dividend and penalty and fines, very little data and information is available on the 'other' forms of revenue.

Currently, the relevance of SNAs NTRs to the revenues collected from SOE dividends, penalties and fines is minimal. This being due to the fact that the SNAs have no role nor accountability for the SOEs. In general the SOEs are affiliated to the national organs of government and security apparatus.

As with the penalty and fine, it is known that there are currently more than 1,000 different forms of fines and penalties that the Government can collect, and the biggest revenue so far has been from traffic offences. However, the information on the roles of SNAs on this matter is limited and needs to be understood on a case-by-case basis (e.g., fine and penalty on specific offences).

What is known, however, is that this revenue needs to be planned and executed as a part of the annual budgeting process, with the NRMIS also put in use.

The current legal and policy framework does not reference the possibility of SNAs establishing and operating an SOE on their territory. This need be considered a policy gap, as it does not correspond to the needs for local service delivery and higher levels of devolution associated to of decentralised governance as rapid urbanisations in Cambodia are being experienced.

Since the government has been allocating more authority and accountability to the SNAs, not only on service delivery the issue of the territorial operations of SOEs need be researched.

A SOE that is operating on the territory of an SNA should contribute to

- the provision of better services, that it will ultimately benefit from,
- the broader local infrastructure development agenda and
- in reasoning fiscal space for the socio-economic development of the territory.

As previously mentioned earlier, NTR collections from fines and penalties that can be retained within the SNA territory provides a new potential area for policy development.



Challenges

Anecdotes suggest that SNA collection and retention of NTRs might face many challenges in terms of;

- **The legal framework,**
- **The division of roles and responsibilities** among different stakeholders (both within and between national and sub-national levels),
- **The appropriateness and practicality** of the many fines and penalties in force,
- **The higher financial costs** that will be incurred related the SNAs undertaking planning, collection, and recording of the fines.

A more thorough understanding of these aspects is needed to inform more coherent policy options moving forward.

Primary Actions

The output statement for the primary actions for NTR revenue optimisation from other sources;

A more effective and efficient NTR system that is decentralized to allow SNAs to generate new fiscal flows from other sources (fines, penalties and SOE generated dividends) to fully implement their mandates whilst contributing to the national revenue mobilization policy and strategy. In doing so, new fiscal space will be created for improved equitable and sustainable public services.

The following research and policy actions need be considered in the short term to align to IP5-I (2022-2025). The inter-ministerial IP5-1 sets out the short term policy actions related to SNA NTRs

- **To conduct an assessment on and make policy recommendations for the management and collection of SNA NTR from fines and penalties.** The assessment need examine the overall legal and institutional framework down to specific tasks involved.
- **Generate an evidence informed policy framework on the improved arrangement for the management and collection of SNA NTR from fines and penalties.** Innovative fines and penalties specifically for SNAs (e.g.fines and penalties relating to solid waste management issues, parking, etc.) need be identified and included within the SNA NTR.s The policy framework needs to consider the retention of SNA NTRs within the associated territory as a mechanism for creating fiscal space.

The following research and policy actions need be considered in the short to medium term to align to IP5-II (2026-2030).

- **To continue improving the management and collection of SNA NTR from fines and penalties** through a systematic and evolutionary approach to inform a gradual expansion to the collection of more designations of penalties and fines that can be administered by the local governments
- **To conduct a feasibility study to examine regional and DMK ownership and management of the of SNA NTRs** in the context of SOE ownership and or Local Government Enterprises management. The feasibility study needs to examine the issues of increased fiscal space, positive socio-economic impacts and the underlying factors of agglomeration CP administrations set up and perform as technical guardians of autonomous agencies overseeing local development and service delivery issues such as solid waste management, parking, etc.

Example Policy Framework for SNA NTR System

Upgrading Institutional Capacity and Competence

Digitalisation is at the core of the upgrade and upscale of NTR management and collection process in Cambodia. Digital solutions have been introduced in accordance with the policy guidance provided in the Digital Economy and Society Policy Framework (2021-2035), the RMS II and the NP2.

The expectation is that the applications of digital technologies will make the public administration systems more effective in delivering public service delivery as well as in collecting the associated revenues. For NTR, among the most important digital initiatives is the adoption and upscaling of the NRMIS and SARMIS. The NRMIS is given more attention, although it is closely related to the SARMIS, especially concerning revenue from state assets.

The NRMIS operates online (both on a computer and smartphone) and covers key management functions over non-tax revenue. This includes maintaining and recording data, recording, and tracking of non-tax debts, revenue allocation, incentive sharing, issuance of payment vouchers, report generation, and storing of data (i.e., standard fees by types of services, rent contracts, licenses, etc.).

The NRMIS, unlike the Financial Management Information System (FMIS), was developed in-house by MEF and rolled out methodically to 23 central line ministries and 18 provincial line departments of central LMs, plus selected CP administrations. E-payments have also been implemented in 23 central line ministries and agencies and in the step-by-step roll-out to SNAs.

Human resource management and capacity building is essential to support the development and deepening of SNA NTR management and collection improvement. As mentioned it is only at the provincial level that NTRs are being collected in full, with the DMKs, in some cases, being responsible for OWSU, OWSO. For some key growth areas for the SNAs in terms of NTRs such as revenues from state assets and other such as fines and charges only the CP level is functional with the DMK not undertaking such revenue collections.

Therefore policy to enact the expansion of the mandate of the DMK level in the context of NTRs and also to increase staffing to support NTR implementation is required to be completed in the short term.

To date, the MEF has played a leading role providing training and technical support to line ministries and SNAs on NTR management and NRMIS in particular. The capacity building has been done mainly in collaboration the Economic and Finance Institute (EFI), with support from the PFMRP, but with only limited coordination with MOI and NASLA.



Challenges

Several key challenges need to be addressed in the future;

- **Legal framework:** Currently, the NRMIS and e-Payment are implemented based on a MEF Circular. A higher legal instrument is needed to ensure a more forceful legal basis for further expansion and compliance throughout the Government,
- **NRMIS System roll-out** is an early stage of SNA roll-out, with DMK and CS remaining to be included in the process.
- **Key NRMIS functions** are either missing or only partially automated (e.g., a reminder of NTR arrears).
- **The NTR classifications and the use of coding** are still not consistent between the NRMIS, the legal classification (i.e. the five types), and the economic classification of the budget.
- **The formats of generated NTR reports** from the system remain inconsistent with the regular paper-based report formats,
- **Coordination and information sharing remains an issue.** The NRMIS is useful only to the extent of how well the data is shared and keyed in by the relevant agencies into the system. Currently, the governance of critical data on service fees, licensing, contracts, and agreements is still fragmented and not well-updated and shared among relevant ministries and SNAs.
- **ICT infrastructure for NRMIS implementation at the SNA level is still underdeveloped** and thus requires more investment from the Government.
- **The NRMIS (MEF) is yet to be connected and synchronised with the MOI's MIS for OWSU and OWSO** is a particular technical problem that needs to be addressed
- **Staffing levels at the SNA and especially at the DMK level** need to be reconciled. It is suggested that additional new staff at SNA need to be recruited, trained, to enable the SNA DMK levels to manage NTRs. At the PDEF, there is also a need to appoint and train an official to be specifically in charge of NTR.

Primary Actions

The output statement for the primary actions for the upgrade of institutional capacity and competence NTR revenue optimisation from other sources;

Adequate institutional capacity and competence to support the deployment of nationwide digital information and payment system for administration, management and the collection of SNA NTR that is synchronized with other management information systems and the budget.

The following research and policy actions need be considered in the short term to align to IP5-I (2022-2025). The inter-ministerial IP5-1 sets out the short term policy actions related to SNA NTRs

- **To develop and approve a policy framework** to further scale up the implementation of NRMIS and e-payment at SNAs, including the DMK and later on the CS level. Coordination between MEF, NCDD-S, and MOI is critical for the development and implementation of the plan,
- **To promulgate necessary rules and regulations** needed to strengthen the legal basis for the expansion and strengthening of the NRMIS implementation,
- **To appoint and build the capacity of officials in charge of SNA NTR** both at SNAs and the PDEF, while putting in place a technical support mechanism and process (e.g., help desks, management task teams for mentoring and coaching

- **To enhance horizontal integration of the SNA NTR system** across also line ministries that includes data sharing relating to various types of SNA NTR that need to be integrated into the NRMIS,
- **To introduce standard report formats** that can be generated from NRMIS and that meet the regular reporting requirements on SNA NTR,
- **To review and improve the classification of SNA NTR** to ensure consistencies both within and between the NRMIS and the various rules and regulations,
- **To assess and recommend specific measures** on how to ensure the complementarity and consistency between the NRMIS and SARMIS.

The following research and policy actions need be considered in the short to medium term to align to IP5-II (2026-2030).

- **The continuous improvement of human resources, systems and processes** to fully implement the NRMIS, e-payment, and meeting new higher revenue targets for SNA NTRs
- **Implementation of a civil service wide capacity building program** for SNA NTRs and their management.
- **The continuous update of the NRMIS** system to reflect the progress of NTR decentralisation to various levels of SNAs,
- **Policy pathways developed to ensure synchronisation** between the NRMIS and other relevant SNA MIS relating to NTR.

Non Tax Revenue for Sub National Administrations of Cambodia

Sample Activity Plan

The associated work plan covers the short and medium term actions that align to the IP5 Phase I and Phase 2 and provides a sample for discussion only

SNA NTR System Upgrade - Sample Work Plan Aligned to IP5

Specific outputs	Priority activities for IP5-I (2022-2025)	Priority activities for IP5-II (2026-2030)
<p>1) Revenue from public service fees: A more effective, efficient, and decentralised NTR from public service fees implemented by SNAs so that they can better implement their mandate and functions while contributing to the national revenue mobilisation effort, macro-economic stability, and improved and equitable service delivery for local citizens and businesses</p>	<ol style="list-style-type: none"> 1. To review and improve on the current management and collection of public service fees at the OWSU and OWSO, including the use of NRMIS and e-payment, 2. To review and identify the possible connection and synchronisation between the NRMIS and the MIS that MOI set up for OWSU and OWSO, 3. To identify more NTR from line ministries to OWSU and OWSO in accordance with the recent decentralisation reform policy and the transfer of functions to the DMK level, 4. To review and study the possibility of transferring specific NTR items from OWSU to OWSO in accordance with the recent decentralisation reform policy and the transfer of functions to the DMK level, 5. To clarify the arrangements to allow SNAs more power over the setting of fees or charges for NTR within a value determined by relevant regulations. 6. To study options to finance newly transferred functions (e.g., solid waste management, local transport, entertainment, education, health) from user fees. 7. To conduct the regulatory review on the current administrative services provided by the OWSU, OWSO and other parts of SNAs to assess their appropriateness as not only NTR tool but policy inventions to promote people's livelihood and local business development. 	<ul style="list-style-type: none"> • To review the list of services and fees provided and collected by SNAs (based on the regulatory review study conducted in IP5-I above). • To continue improving the legal framework and reform coordination, especially between the national level and SNAs, to ensure more effective management and collection of SNA NTR, • To continue more decentralisation of NTR to an appropriate level of SNAs and identify new NTR sources to increase SNA's own source revenues, • To continue improving the use of NRMIS, e-payment, and other digital solutions to public service delivery and NTR management and collection at SNA, • To introduce and test a model for forecasting NTR revenue from public service fees.
<p>2) Revenue from state assets: A more effective, efficient, and decentralised NTR from state assets implemented by SNAs so that they can better implement their mandate and functions while contributing to the national revenue mobilisation effort, macro-economic stability, and improved and equitable service delivery for local citizens and businesses</p>	<ol style="list-style-type: none"> 1. To improve the implementation of the recently transferred NTR from state assets by identifying specific areas for improvement through a rapid feedback loop and systematic assessment (if needed), 2. Based on the feedback (and/or assessment), to identify and put in place an improved arrangement for the management and collection of SNA NTR from state assets, including the use of NRMIS, 3. To continue transferring more NTR from state assets from the national level to the appropriate level of SNAs in line with the overall decentralisation reform and the functional transfer to the DMK level, 4. To assess the progress and develop a work plan to guide the reform of SNA NTR from state assets so that it is well coordinated and complementary to the broader reform of SNA state asset management. 	<ul style="list-style-type: none"> • To implement the work plan developed in IP5-II and to continuously improve, using the learning-by-doing approach, the SNA NTR from state asset in ways that are closely coordinated and complementary to the SNA state asset management reform.
<p>3) Revenues from other sources: A more effective, efficient, and decentralised NTR from other sources (including fines and penalties, SOE dividend) implemented by SNAs so that they can better implement their mandate and functions while contributing to the national revenue mobilisation effort, macro-economic stability, and improved and equitable service delivery for local citizens and businesses</p>	<ol style="list-style-type: none"> 1. To conduct an assessment on and recommend how the management and collection of SNA NTR from fines and penalties can be improved. The assessment and recommendations should be comprehensive, covering the overall legal and institutional framework down to specific tasks involved. 2. Based on the recommendations, develop and implement an improved arrangement for the management and collection of SNA NTR from fines and penalties, possibly for specific pilots (e.g., fines and penalties relating to solid waste management issues, parking, etc.). 	<ul style="list-style-type: none"> • To continue improving the management and collection of SNA NTR from fines and penalties through a learning-by-doing approach to inform a gradual expansion to more types of penalties and fines, • To conduct a feasibility of having CP administrations set up and perform as technical guardians of autonomous agencies overseeing local development and service delivery issues such as solid waste management, parking, etc.
<p>4) Modernisation and capacity building: A digital system for supporting the management and collection of various types of SNA NTR which is effective, user-friendly, and well synchronised with other MIS relevant to SNA NTRs, and functioned by capable and accountable officials</p>	<ol style="list-style-type: none"> 1. To develop and implement a plan to further scale up the implementation of NRMIS and e-payment at SNAs, including the DMK and later on the CS level. Coordination between MEF, NCDD-S, and MOI is critical for the development and implementation of the plan, 2. To review and adopt necessary rules and regulations needed to strengthen the legal basis for the expansion and strengthening of the NRMIS implementation, 3. To appoint and build the capacity of officials in charge of SNA NTR both at SNAs and the PDEF, while putting in place a technical support mechanism and process (e.g., help desks, telegram groups, mentoring and coaching arrangements), 4. To improve the inclusion and sharing of data relating to various types of SNA NTR that need to be integrated into the NRMIS, 5. To develop and adopt standard report formats that can be generated from NRMIS and meet the regular reporting requirements on SNA NTR, 6. To review and improve the classification of SNA NTR to ensure consistencies both within and between the NRMIS and the various rules and regulations, 7. To assess and recommend specific measures on how to ensure the complementarity and consistency between the NRMIS and SARMIS. 	<ul style="list-style-type: none"> • To continue improving the implementation of the NRMIS, e-payment, and building capacity of relevant staff members at SNAs and the PDEF, • To continue updating the NRMIS system to reflect the progress of NTR decentralisation to various levels of SNAs, • To assess and recommend the ways to ensure synchronisation between the NRMIS and other relevant SNA MIS relating to NTR.



Strategic Framework for Non Tax Revenues for Sub National Administrations in Cambodia

A Policy Advisory
July 2023

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