

Policy Brief

On

***“FACTORS AFFECTING FISCAL DECENTRALIZATION IN CAMBODIA”***

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Parliamentary Institute of Cambodia

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## **Executive Summary**

Forms of decentralisation include: ‘Political Decentralisation’, allowing citizens and their elected representatives more power in public decision-making; ‘Democratic Decentralisation’, the popular election of Sub-National Authorities (SNAs); ‘Administrative Decentralisation’, where responsibilities and resources to carry them out are transferred downwards from central to line ministries sub-national levels (‘de-concentration’) or for SNAs to carry them out independently (‘delegation’); and ‘Fiscal Decentralisation’, the transfer of financial responsibilities to local authorities to meet mandated functions.

A key aim of the RGC for sub-national democratic development (SNDD) is to improve local service delivery to respond to the needs of individuals and households. Fiscal decentralisation is essential for this process to work. The lowest level of SNA in Cambodia, the commune, is mandated to produce their own budgets to deliver services that promote social and economic development and upgrade the living standards of residents and this requires sufficient finance to meet these goals. The next phase of financial decentralisation will involve fund allocated to the district/municipal level, and the first disbursement under this fund is scheduled for 2013.

Reform is still at an early stage and for more comprehensive and effective fiscal decentralisation that can achieve the aims of the RGC for SNDD there are a number of key conditions taken from international best practice that need to be addressed in the next phase of reform as SNDD targets changes at the district level. The inter-governmental system for reform must be well-coordinated across different ministries with clear support for reform. Where ministries work towards goals of decentralisation by mapping the functions and resources needed for local authorities, this gives SNAs the ability, confidence and clear mandate to take action independently without too much interference and oversight from higher levels.

This process of allocating ‘functions’ from ministries should happen before finance is handed down, to allow SNAs to know what they should spend their funds on and so that citizens can hold SNAs to account. Funding should be sufficient to meet SNA mandates, and should be provided through a mix of central transfers and locally-sourced revenue such as small-scale taxes or user fees for services. SNAs also need to have sufficient capacity to handle finance and perform tasks such as accounting and budgeting. Rules for decentralisation should be clear, simple and well-publicised, but where this capacity is lacking and to address differences between areas of the country, regulations for decentralisation should be flexible and sequenced to allow some areas to transition into new responsibilities when they are ready.

Functional review involves analysing a sector and deciding which functions and accompanying resources should be transferred to different levels of SNA. It is a long and complicated procedure requiring strong support from all ministries and effective coordination mechanisms. At present, despite broad mandates for local development, problems such as funding, capacity and resistance from ministry level may mean that SNAs only have selected and individual responsibilities within important sectors. SNDD is a reform of the whole government and there is a need for a long-term vision that combines ministry work with SNDD aims. The 2008 Organic Law assigned new functions and fiscal resources to SNAs but only in general terms, and this may mean that ministries continue to focus on their own targets and policies without them being coordinated with SNDD reforms generally. Moreover, in important sectors for local development, such as health, education and natural resources, most decisions are still made at the central level despite ministries having offices and staff at provincial and district levels and there is often a lack of disclosure of the full detail of the cost of implementing different functions.

Funding for local service delivery comes primarily through the commune/sangkat fund (CSF) . This has been a key factor in building the relationship between commune councils and citizens, has helped develop infrastructure across the country that has benefitted millions and has improved the capacity of commune councils through ‘learning by doing’. However, the CSF still represents only a small proportion of public sector spending (2.8% of recurrent spending in 2010) and as such is still largely inadequate to respond fully to the needs of the people and the mandate of the commune. It has also mainly been used as a fund for small-scale infrastructure rather than for the delivery of a range of services that can meet the varied needs of citizens. Although service needs can also be met by other providers through the District Integration Workshop (DIW), a mechanisms which has been effective in delivering different

services, data has shown that actors such as line ministries and NGOs tend to fund their own projects or have already formulated their plans before they come to the DIW, and these often reflect where donor funding is available.

Institutional and human capacities at all SNA levels are still in development. Performance of tasks such as producing budgets and financial management is held up by problems of low levels of education and skills at local levels. For example, only 18% of commune councilors in a 2011 study by the National League of Commune/Sangkats (NLC/S) felt that they had prepared their budget by themselves. Moreover, many commune councillors have different responsibilities and they often have to spend time making a living as salaries are low. Some commune councils still have limited capacity in putting together proposals for funding and planning development projects and regulations may still be too complex for many commune councils to implement. Training is important, but commune councils complain that it is sometimes not adequate in terms of time, frequency and methodology.

At present, despite being given the authority to collect local tax revenue, in practice communes only collect certain administrative fees such as for birth, marriages and death certificates. Lack of agreement about assignment of taxation responsibilities and a low tax base prevents communes from collecting their own revenue. However, informal local-level tax collection exists through taxes and fees on trading of products such as resin and fish, and these could be formalised, or communes could take over collection of small daily, monthly and annual fees from market traders currently performed at district and provincial level, and other common local businesses. Charging small user fees for services would allow communes more finance and would give people an incentive to oversee how money is spent, provided the poorest did not suffer and collection was transparent.

Despite the achievements of SNDD reform, stronger coordination of the governmental system for SNDD is perhaps the most critical need for future reform. Unclear mandates, insufficient budgets and the subsequent lack of authority this entails prevents commune councils from being pro-active in meeting local needs, reduces their legitimacy in the eyes of citizens, makes it difficult to secure their own funds from other sources, perpetuates problems of poor capacity and leads to the assumption that many services are the responsibility of higher levels of government.

It is vital that policy, legal and regulatory frameworks and sectoral reforms are consistent with needs and aims of SNDD and steps should be taken to speed up the stipulation in the Organic Law that provinces, districts and communes need specific sectoral functions and responsibilities. This would allow SNAs a clearer mandate and resources to support responsive and comprehensive local service delivery, especially important in the coming year as reforms target the district level.

Raising the CSF to a higher proportion of GDP and allowing SNAs a clear idea of the resources they will manage is important for effective local service delivery. One idea is to reassign or split the CSF into a fund only for social services, with pooled resources from a number of ministries funding this. This would solve problems of unclear regulations for its use and would ensure that use of the CSF is responsive to all local needs rather than only being used for economic needs through infrastructure development. Regulations allowing SNAs to collect small-scale taxes, formalising fees currently collected and promoting the use of user fees for certain services would also allow SNAs more finance and autonomy.

Differences between communes' ability to collect their own revenue and in capacity should be identified and flexibility in regulations should make allowances for this, with training made context-specific and with effort made to ensure best practices are followed through local forums or study visits. Finally, information about decentralisation rules and practices should be disseminated more thoroughly to commune councils and citizens. The parliament is a strong potential 'champion' of reform and can play an important role in correcting misunderstanding about SNDD reform through regular local-level forums, listening to citizen concerns and addressing these with commune councils, and feeding common needs and problems of citizens and SNAs into national policy development processes.

## I: Introduction

Alterations to Cambodia's political and administrative structures under the Royal Government of Cambodia's Sub-National Democratic Development (SNDD) reforms are still relatively new. The 2002 Law on Administrative Management of the Commune/*Sangkat* introduced directly-elected councils charged with producing development plans for their jurisdictions through participatory processes and given discretionary funds to carry out projects that met needs stated in these plans. The 2008 Law on Administrative Management of the Capital, Province, Municipality, District and *Khan* (the 'Organic Law') allowed for indirectly-elected councils at provincial and district level, began the process of detailing and mapping the functions and fiscal resources to be assigned or delegated to sub-national authorities (SNAs) and defined the relationship between Cambodia's 24 provinces, 193 rural districts, urban municipalities and *khans*, and 1,633 communes/*sangkats* (hereafter 'communes').

The Royal Government of Cambodia (RGC) has stated that the aims of decentralisation and de-concentration (latterly SNDD) reform are to:

- Deepen popular democracy and accountability;
- Improve citizen participation; and
- Empower commune councils to help the government target rural poverty and deprivation more efficiently and effectively.

In the fourth mandate of the legislature, a key aim of the RGC for sub-national democratic development is to improve local service delivery to respond to the social, physical and economic needs of individuals and households. The current focus of reform is on the district/municipal level and will target improved service delivery which can achieve economies of scale where there is a common need across communes. When citizens can become involved in planning and allocating resources it can improve the responsiveness, efficiency and targeting of local services, helping to reduce poverty through delivering services that address the specific needs of citizens and manifestations of poverty in different locations. Theoretically, bringing government closer to the people also leads to improved accountability of local authorities and stronger local participation, helping to foster democratic culture and 'development from below'.

The allocation of functions and resources to SNAs is essential for this process to work. The commune level has a mandate to address local economic and social development and citizens participate in voicing



their needs for services through the five-year Commune Development Plan (CDP) and annual Commune Investment Programme (CIP). Under SNDD reform, fiscal decentralization has been addressed through central transfers under the Commune/Sangkat Fund (CSF), allocated to every commune in the country to meet prioritised needs for infrastructure and other services detailed in the CIP. These needs can also be met by other service providers at the annual District Integration Workshop (DIW), which integrates the planning processes for communes and provincial line departments and lets communes seek funding from other providers such as Non-Governmental Organisations (NGOs), giving them an idea of available resources and the types of projects that can be funded before they allocate the CSF. If service providers are interested in funding commune projects at the DIW they can sign a temporary agreement (TA) with the commune.

The next phase of financial decentralisation will involve fund allocated to the district/municipal level, and the first disbursement under this fund is scheduled for 2013. At present, line ministries and national agencies are debating the functions that will be assigned to this level. The aim is to allow districts to have the functions, resources and authority to deliver services that address common needs across communes, and to link services delivered at the district level more closely to services delivered by national and line ministries. The legal and policy framework that supports these changes includes the Organic Law, National Programme for Sub-National Democratic Development and Law on Financial Regime and Asset Management of Sub-National Administrations.

SNDD reform has achieved a lot in a short space of time. Local elections have brought stability, all political entities have worked together to serve the people, and trust has been built between local authorities and citizens through collaboration on the management, preparation and implementation of local projects. Budgets to the commune level have topped \$200m and capacity in financial management has been built under the principle of 'learning-by-doing'. However, reform is still at an early stage and for more comprehensive and effective fiscal decentralisation that can achieve the aims of the RGC for SNDD there are a number of key conditions taken from international best practice<sup>1</sup> that need to be addressed in the next phase of reform as SNDD targets changes at the district level:

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<sup>1</sup> Conditions are adapted to SNDD reform in Cambodia from: Bahl, R. (1999). Implementation rules for fiscal decentralization. *International Studies Program Working Paper*, 30.

- **The governmental system for SNDD must be well-coordinated with clear support for reform.** There must be a clear and comprehensive policy vision for SNDD that is well-coordinated both with the policies of national ministries in different sectors and with other public financial management reforms. National ministries must buy into a common long-term vision for SNDD and map the functions and accompanying resources that can be carried out more effectively and efficiently at lower levels. These must then be clearly detailed in legislation.
- **Autonomy for SNAs.** SNAs must have the ability and confidence to take action independently without too much interference and oversight from higher levels. This requires clear mandates and sufficient resources to plan and budget for activities and services which can meet all the varied needs of local citizens.
- **Finance should follow function.** Low capacity and the nature of the rebuilding effort in the 1990s in Cambodia meant that communes were given small discretionary funds to experiment with service delivery and build local capacity before they were allocated many specific functions. This was an effective method at the time, however as reform progresses functions for SNAs should be clear before more resources are transferred so that SNAs know exactly what they can use resources for and citizens can accurately hold them to account.
- **Sufficient capacity for financial management.** It is also important that the status of sub-national personnel and capacity development is addressed to allow SNAs the human resources as well as financial resources to meet their new responsibilities. Local authorities need to be competent in accounting, budget preparation, treasury, tax administration, data management and project evaluation.
- **Flexibility in rules and regulations.** SNAs differ in their capacity to finance and deliver services and this should be taken into account when assigning revenue and expenditure responsibilities. For example, urban areas may have a far greater capacity to raise local revenues than rural areas, where grants from central government are more important. Flexibility and sequencing of reforms is important to allow for alterations in legislation, policy and implementation as SNAs gain more capacity and as the local development situation changes in different areas of the country.
- **Powers to raise their own revenue.** Local revenue collection allows SNAs a stronger budget to implement local programmes. It also improves local accountability as when citizens are taxed or pay small amounts for services they have more of an interest in overseeing how their money is used.
- **Central government must make clear and stable rules that are understandable by SNAs and citizens.** Mandates must be stable and achievable and financial resources should have simple and

clear instructions for their use. Citizens should know what to expect from SNAs through transparent information practices and information about how local resources are spent should be publicly available.

## **II: Current funding arrangements to fulfill SNA mandates**

Under the first three-year implementation plan (IP3) for the National Programme for Sub-National Democratic Development 2010-2019 (NP-SNDD), 13% of total funding (\$38.4 million out of \$506 million) will be given to communes for investment, a figure which works out to approximately \$24,000 per commune, adjusted according to the population of the commune (40%) and a poverty index (20%), with the remaining 40% shared equally. Analysis of the annual National Budget Law from 2007-2010 shows, however, that overall inter-governmental fiscal arrangements have not changed too much, with allocations to provinces, communes and line departments accounting for only around 20% of total national spending. Although the budget is important for giving an idea of the overall resources that SNAs have to deliver services, it does not accurately predict actual quantity and quality of public services. Moreover, at present it is very difficult to break down funding flows to sub-national levels under the current system and there is no data publicly available on spending by different ministries at different levels. Better budget transparency is important to accurately assess how funding for SNDD and local service delivery can be improved.

The communes require sufficient finance to meet their legislative, executive and monitoring roles. They are mandated to produce their own budgets to deliver services that promote social and economic development and upgrade the living standards of residents. Information about the sources of funds and the projects stated in the CIP that they are used for should be publicly available through regular meetings at village and commune level or at the commune office. At present, funding flowing to the commune level comes from a number of different sources:

- **Line ministry revenue:** General revenues and international loans received by the central government which are allocated to line ministries in all provinces and some districts. These are used for regular annual (recurrent) expenditure rather than for development of new infrastructure (capital investment), and although they may involve consultation with commune councils often this does not occur.

- **Grants from international aid organisations and NGOs**, for programmes operated by central ministries or for the Executive Committee of the Provincial Rural Development Committee to implement activities proposed by communes through the DIW. These are usually small in size. While information on donor funding is limited, it suggests it is mainly for recurrent social service expenditure and upkeep of capital investment.
- **Other sources, such as donations from local people and political parties.** These sources mainly finance capital investment in infrastructure and are generally not integrated into commune decision-making processes.
- **Own-source revenues.** Locally-generated fiscal taxes, non-fiscal taxes and other service charges are mandated by law but currently make up only a negligible part of commune revenue.
- **Commune/Sangkat Fund:** Centrally-transferred funds represent the main source of revenue used for service delivery spending by the communes themselves.

Districts and provinces have recently also been allocated their own funds, the Provincial Investment Fund (PIF) and District Investment Fund (DIF). These funds totaled USD\$2.24m and USD\$780,000 respectively in 2009 and are primarily used for projects that serve the needs of communes. While these levels have their own funds, the lack of full implementation of the Sub-National Finance Law, adopted in July 2011, means that their budgets are still managed vertically, with districts receiving funds through provinces, and this affects their autonomy.

### **III: Coordination and functional assignment between sub-national levels and national ministries**

SNAs may be given broad responsibilities for local development but in reality problems such as funding, capacity and resistance from ministry level may mean that they do not manage services in important aspects of local development such as education or health, or only have selected and individual responsibilities within a sector. Financial resources are given to SNAs to help them meet their general mandate for local development, allowing them to set their own local development priorities based on needs stated in the CIP. However, it is also important that for SNAs to meet a wide range of specific local needs that functions from ministries are mapped and those that can be performed more effectively and efficiently at lower levels are handed downwards with the accompanying financial and human resources. This would allow SNAs to clearly understand what their responsibilities are in different sectors, making it easier to detail how SNA service delivery responsibilities can be financed and to hold SNAs accountable.

Functional review involves analysing a sector and deciding which functions and accompanying resources should be transferred to different levels of SNA. For example, in the education sector functions include setting curricula, hiring teachers and procuring teaching materials. Functions are assigned based on the principle of 'subsidiarity', which in the 2005 Strategic Framework for SNDD Reform states that they should achieve "the greatest effectiveness and efficiency of delivery of public services by administrations closest to citizens and to ensure accountability to citizens". The ministry needs to map different functions and assess which should be kept centrally or delegated to the correct level (commune, district or province) according to the subsidiarity concept, recommending these for the inter-ministerial coordinating body, the National Committee for Sub-National Democratic Development (NCDD), to make the final decision. In Cambodia, functions are defined as obligatory (councils must implement them) or permissive (councils can choose to implement them); assigned (councils have authority over all aspects of this function) or delegated (the relevant ministry retains overall control).

Functional assignment is a long and complicated procedure requiring strong support from all ministries and effective coordination mechanisms such as working groups which bring together SNAs, the Ministry of Interior (Mol), line ministries and donor organisations. Fifteen ministries together with development partners are involved in SNDD working groups and moves to strengthen functional assignment have been ongoing since 2010. At present, ministerial mapping of functions has been conducted and the second step is an analysis of functions which should be transferred and stated in legislation. By the end of 2012 these functions should be identified for piloting. However, a number of issues with functional assignment and SNA mandates persist.

SNDD is a reform of the whole government and there is a need for a long-term vision that combines ministry work with SNDD aims. The 2008 Organic Law assigned new functions and fiscal resources in different sectors to SNAs, but only in general terms. SNAs have broad responsibilities for local development but mandatory and specific responsibilities and functions are not clearly defined, and while SNAs are supposed to receive long-term financial support for service delivery, at present ministries focus on their own targets and policies. Reforms in areas such as public financial management, bureaucratic reform, land, education, health and natural resources have taken place without them being coordinated with SNDD reforms generally, which has led to a lack of differentiation between the needs of different rural and urban locations. In important sectors for local development, such as health,

education and natural resources, most decisions are still made at the central level despite ministries having offices and staff at provincial and district levels. Often where services are delegated downwards this happens under precise budget restrictions to provincial administrations. Analysis of functional assignment in Cambodia is also hampered by the lack of disclosure of the full detail of the cost of implementation of different functions from the relevant ministry.

Sufficient budgets are still not in place to meet SNA mandates. At present, budgets in many sectors are centralised and operate vertically through the line ministries. As much financial management is carried out at the provincial/municipal level, this makes it hard to assess communes as fully devolved service delivery bodies with the requisite financial autonomy. Innovations such as school committees and health care management committees at the commune level are important steps towards decentralisation in these sectors, but without funds the benefit of devolving responsibility to local communities to manage these services is lost. Unclear mandates, insufficient budgets and the subsequent lack of authority this entails prevents commune councils from being pro-active in meeting local needs, reduces their legitimacy in the eyes of citizens, makes it difficult to secure their own funds from other sources, perpetuates problems of poor capacity and leads to the assumption that many services are the responsibility of higher levels of government.

Finally, provincial development plans (PDPs) for service delivery cover a variety of activities and sectors, but they are poorly integrated into government functions and insufficiently funded. Provincial line departments can submit proposals for projects to the relevant national ministry, but these are reflected in the national budget. The PDP needs to be linked to other ministry and government operations and to an integrated provincial planning and budgeting process, as has happened with the communes.

#### **IV: The Commune/Sangkat Fund (CSF)**

The CSF includes domestic revenues and development partner contributions. Its aims are: to create local ownership of development activities; to reduce developmental differences between areas; and to provide incentives for building local capacity. The CSF can be used for General Administration (currently 29% of funding) and Local Development (71%). The increasing allocations to the CSF demonstrate the commitment by the RGC to SNDD. In 2003, total allocations were set at 2% of state recurrent revenue, rising to 2.5% in 2004, 2.7% in 2008, 2.75% in 2009 and 2.8% in 2010. The CSF has been a key factor in building the relationship between commune councils and citizens, and infrastructure has been

developed across the country that has benefitted millions of Cambodians since its inception, improved trust in local authorities and enhanced the capacity of commune councils to meet their mandates.

However, despite increasing allocations the CSF still represents only a small proportion of public sector spending (2.8% of recurrent spending in 2010, 0.26% of GDP in 2007) and as such is still largely inadequate to respond fully to the needs of the people and the mandate of the commune. While in the past there were problems of funding not reaching the local level, this now happens in full by the end of each year. However, transfers can be inconsistent throughout the year and sometimes large amounts are only received by communes at the end of the year. This makes it hard to plan for certain types of services that require long-term funding as communes do not know when they can deliver payments to contractors. Communes are also encouraged to use funds within one year, even if this is not efficient or practical for them to do so, and unspent revenue is often rolled over to the next year owing to the differing capacities of communes to handle their financial obligations.

The CSF has essentially operated as a fund for small-scale infrastructure provision. Analysis of the Project Information Database compiled by the National Committee for Sub-National Democratic Development (NCDD) of spending under the CSF between 2009 and 2011 in five provinces<sup>2</sup> showed that there were 1,264 small-scale transport infrastructure projects compared to 30 social sector projects. This may be because of its history as part of post-conflict infrastructure rebuilding efforts in the 1990s, or because of ongoing misunderstandings regarding how the CSF can be used. When the CSF was designed there was a distinction between recurrent and investment expenditure for both general administration and local development, which demonstrated the need for the CSF to be spent on both new local infrastructure and other types of ongoing services which require recurrent expenditure. However, this was left out of final financing arrangements and despite attempts to redress this issue in legislation, there may be the continuing perception amongst some commune councils that the CSF is mainly for small-scale infrastructure and that funding for other types of services is an exception to the rule. Moreover, the CSF should be allocated no more than one-third for administration and no less than two-thirds for development, but in reality many communes allocate these in similar proportions.

## **V: Funding for service delivery through the DIW**

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<sup>2</sup> Banteay Meanchey, Kampong Thom, Kampot, Phnom Penh and Ratanakiri

Communes can also seek funding for priorities in the CIP through the annual DIW. Analysis of CIPs in 2009 shows that the majority of commune priorities (33%) were for social sector projects (in health, education and water and sanitation). At 2008 DIWs, 47% of TAs were signed for social sector projects, showing that the DIW helps to fund service delivery in different sectors, in contrast to the CSF which primarily funds economic activities through the development of local infrastructure. DIWs are generally good mechanisms for funding development needs of communes, have increased interaction between sub-national administrations and other actors such as line departments, NGOs and private donors, helping to improve accountability of these actors as they undertake local service projects.

However, demand for funding for activities outstrips supply at the DIWs. Only 23% of TAs signed at DIWs in late 2009 directly responded to CIP priorities, up marginally from 21% in 2004, indicating that projects that are funded may not be responsive to local needs. There were also more TAs signed in the social sector than the percentage of social sector projects requested in the CIPs, which may show that actors such as line ministries and NGOs tend to fund their own projects in this sector. In general, policy development by line departments is still carried out in a top down manner, and without sufficient input and participation from lower levels. Line ministries on the whole have already formulated their plans before they come to the DIW and these often reflect where donor funding is available. Moreover, communes often request services, especially in social sectors, that they know can be delivered by line departments and NGOs. DIWs therefore may reflect a top-down system of planning, with little linkage between local participatory planning and national and sectoral policy. Priorities in the CIP are also only received by line departments and other actors around two weeks beforehand, giving little time for integration. More needs to be done before the DIW comes around to allow the commune to understand about the types of resources available from NGOs, private enterprises or other organisations that might be capable of delivering services that respond to local needs stated in the CIP.

## **VI: Capacity**

Institutional and human capacities at all SNA levels are still in development. It is particularly important that capacity for producing budgets and financial management is developed to allow communes in particular to meet their service delivery responsibilities and operate independently. This is held up by problems of low levels of education and skills at local levels. Commune councilors have limited literacy and numeracy, and many lack technical skills, experience and confidence. A survey of commune councilors conducted for Pact Cambodia's Local Administration and Reform (LAAR) programme showed



that only about 58% had secondary education, 17% complete and 24% incomplete primary education. Many commune councilors have different responsibilities and they often have to spend time making a living as salaries are only around USD\$20-30 per month. This has led to a dependence on donor funding to attract skilled local personnel. Often the only person with any professional administrative skills is the commune clerk, who is employed by the Ministry of Interior. This often gives the clerk a very dominant role and impinges on the autonomy of the commune council and threatens downwards accountability.

Slowness of CIP formulation, budget preparation and approval, and the lack of ability of many commune councils to design, revise and manage a budget causes commune councils significant problems in handling funding. Only 18% of commune councilors in a 2011 study by the National League of Commune/Sangkats (NLC/S) felt that they had prepared their budget by themselves and 26% stated that they required more financial management training. Budgeting for the CSF depends on local capacity to handle the formats and procedures required by the Ministry of Economy and Finance (MoEF) in order to access funds. For some communes, these procedures are complicated and prevent them from funding different types of longer-term interventions, such as in social sectors, which are required by residents in the commune.

Commune councils still have limited capacity in putting together proposals for funding and planning development projects. The CDP and CIP, despite being shortened to 11 steps, may still be too complex for many commune councils to implement. Moreover, too little knowledge exists amongst communes and higher level units about how to plan for maintenance and operation costs of ongoing and longer-term projects. It may be the case that central government and ministries believe that full implementation of decentralisation is held up by the continuing lack of sufficient capacity at the commune level. However, commune councils complain that training from central levels is not adequate in terms of time, frequency and methodology, and the fact that commune councils are overstretched and cannot fulfill an unrealistic mandate may be the real problem.

## **VII: Own-source revenue**

A mixture of own-source revenue and government transfers from the CSF would help communes to better meet the variety of service needs of their residents. In the NP-SNDD, SNAs are given the right to “exercise their discretion in setting the bases and/or rates of their own source revenues within the

national set rates”. The commune has the right under the law to collect land tax, real estate tax and rental tax. Elaboration of this was supposed to occur before it became law, but this did not occur and in practice communes only collect certain administrative fees such as for birth, marriages and death certificates. At present, the MoEF controls all funds for the local level, and coordination issues between national ministries and a lack of agreement about assignment of taxation responsibilities prevents communes from collecting their own revenue. For SNAs to adequately collect own-source revenue, there must also be sufficient technical knowledge by ministries to identify the taxes communes could collect and capacity support to communes by the MoEF to collect local revenue alongside mechanisms that ensure accountability and transparency of collection.

The public revenue base in Cambodia is only around 12% of GDP, and this prevents comprehensive local taxation. However, informal local-level tax collection exists through taxes and fees on trading of products such as resin and fish, and these could be formalised. 75% of respondents in the NLC/S survey of commune councilors felt that they should be collecting local taxes and fees but were not yet doing so. Communes could also take over collection of small daily, monthly and annual fees from market traders currently performed at district and provincial level, and other common local businesses<sup>3</sup>. Finally, charging small user fees for services would allow communes more finance, and improve participation and local accountability as paying small amounts for services would increase motivation for local oversight of how they are delivered. User fees exist in certain services such as water and electricity, but these could be extended to other sectors/services with care taken to ensure that the poorest benefit and can still access improved-quality services.

### **VIII: Other factors that affect the success of fiscal decentralisation**

There must be clear and effective **accountability mechanisms** in place to ensure that SNAs take responsibility for their performance undertaking specific tasks, the decisions they make and the resources they use. The Organic Law defines certain key accountability relationships between different levels of SNA and to Cambodian citizens. Accountability has traditionally been directed upwards to higher SNAs and central level ministries and agencies, however under the law SNA councils are “directly accountable to all citizens for making decisions on priorities and for ensuring democratic development within its jurisdiction”, and are charged with formulating a strategy for this. District councils are

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<sup>3</sup> These could include rice millers, brick makers, ice makers, catering services, grocery stores, firewood and forest product sellers, businesses involved in natural resources and battery chargers.

accountable both to commune councils and citizens for the decisions they make and the results of those decisions and are accountable to the RGC and citizens for managing their finances in an effective and transparent manner. They must conduct consultation processes with the public within their jurisdictions and ensure transparent and full dissemination of financial and other key documents.

District councils must both work with commune councils to promote public participation and also respond to needs and requests of commune councils, integrating commune plans into three-yearly investment and five-yearly district development plans. Where districts feel commune councils are incapable of performing their mandated duties, they have the responsibility to report this upwards to the Ministry of Interior. While councils are indirectly elected by lower levels, governors are appointed by the Ministry of Interior and are tasked with representing, coordinating and directing line ministries and RGC institutions that operate within their jurisdiction and are accountable to these bodies. The board of governors gives advice to councils in the undertaking of their tasks, and the council can monitor the activities of governors and the board of governors and can ask them to clarify issues at council meetings. Greater accountability in general and public financial accountability in particular can lead to better local governance and stronger local development. However, at the local level the term 'accountability' is not well understood, and there is not enough space for civil society to play a strong role in helping citizens to hold SNAs to account for resources spent.

Participatory planning processes are important in ensuring accountability, and **access to information** allows citizens to better hold local authorities to account. Although villagers can access information about the CSF through village and commune meetings and at the commune office, there is still a lack of information, awareness and understanding of the rights of citizens to access information – despite the fact that the formulation of a legal framework has been in development for some time. Public information practices are still underdeveloped, particularly regarding public finance. In many places citizens may not fully understand commune roles and responsibilities, and in some cases studies have shown that citizens did not even know that communes had any of their own discretionary funding for development. There appears to be inadequate information flow regarding development issues from the central level to communes, a lack of feedback of local issues into the policy development process and a lack of civil society involvement in seeking out government information and disseminating it to communities.

## **IX: Conclusion**

In order for the fiscal decentralization to be effective and for SNDD reform in Cambodia to meet its goals there must be sufficient, stable resources and clear functions stated in legislation for SNAs to be able to act autonomously; good capacity of local officials to handle financial procedures; and a strong and coherent policy framework that cuts across government ministries and departments and incorporates the need for flexibility and sequencing. Despite the achievements of SNDD reform, stronger coordination of the governmental system for SNDD is perhaps the most critical need for future reform. There is still much to be achieved in order to allocate clear functions from national ministries to SNAs with corresponding inter-governmental transfers and capacity-building programmes. Delays in functional assignment across central ministries have meant that communes still have an unclear mandate and in many cases they are not confident to use their discretionary funding for services other than small-scale infrastructure. Capacity has been improved through the 'learning-by-doing' approach, but in key areas of financial management it is still somewhat lacking and there is still some confusion over reform and use of the CSF amongst both commune councils and citizens.

The way in which local services are funded is still problematic. Central transfers to the CSF are very important but may be too low for communes to meet all the needs of local people. Where services are funded by line ministries and other organizations, incompleteness of full functional assignment by national ministries and lack of coordination between actors in advance of the DIW is still a problem. This is not assisted by a lack of financial autonomy and budgets at district and provincial level remain centrally managed. SNAs, especially at the commune level, still need the means to act independently and finance the type of responsive services that can meet local needs. This would be improved by actions that would allow SNAs to collect more of their own revenue than they do at present.

## **X: Recommendations**

- Efforts should ensure that policy, legal and regulatory frameworks and sectoral reforms are consistent with needs and aims of SNDD. Steps should be taken to speed up the stipulation in the Organic Law that provinces, districts and communes need specific sectoral functions and responsibilities. If SNDD is driven and initiated by different sectors rather than only the MoI, this would assist coordination.

- Allowing communes to have small levels of resources was an important way of building capacity and credibility during the post-conflict rebuilding process in the 1990s and in the early stages of reform in the 2000s, however in future financial flows should follow functional assignment to allow SNAs to act independently and confidently to meet the different needs of local communities across the country. This would allow SNAs a clearer mandate and resources to support responsive and comprehensive local service delivery.
- The next stage of reform should aim to clearly designate functions, resources and responsibilities between district and commune levels. Districts have advantages in delivery of certain services through their ability to achieve economies of scale. Where this is applicable, they can help to meet common commune priorities in their jurisdictions, with commune authorities and local communities monitoring the delivery of these services.
- Planning of line departments and communes should be more closely integrated throughout the year as at present there is little time to integrate them before the DIW. Mechanisms should also be developed to better link local participatory planning to national policy development processes.
- Raising the CSF to a higher proportion of GDP, and ensuring adequate financing of DIFs and PIFs is important. Different levels of SNA need to be able to independently manage their own budgets and have a clear idea of the resources they will receive in the upcoming years to effectively plan how to meet local needs.
- The CSF could be reassigned or split into a fund only for social services, with pooled resources from a number of ministries funding this. This would solve problems of unclear regulations for its use and would ensure that use of the CSF is responsive to all local needs rather than only being used for economic needs through infrastructure development. As social sectors projects are currently mainly funded through the DIW, it would also ensure that social services more accurately meet priorities in the CIP rather than those of other actors such as line ministries and NGOs.
- Information for the type of spending that can take place through the CSF should be made clearer for all communes and to citizens, disbursements to commune level should be more consistent and regulations and procedures for budgeting and for receiving funds should be simplified.
- Regulation allowing SNAs to collect small-scale taxes, formalizing fees currently collected and promoting the use of user fees for certain services would also allow SNAs to manage their own budgets more effectively and plan in the long-term for local services. This requires a clearer allocation of revenue sources between communes and provinces, removing overlapping revenue jurisdictions and the development of local systems and procedures for sub-national levels to map

local revenue sources and administer revenue collection. Allocations to the CSF could then also include a provision to adjust for the size of possible local revenue sources, with communes that have little revenue-raising potential allocated more central funds.

- There are a variety of resources flowing to the commune, with some not integrated into the commune planning processes and budgets. Effort should be made to better coordinate service delivery actors and more time should be allowed for communes to submit their plans to the DIW for them to understand what resources will be available.
- Increased capacity development programmes for financial management would allow SNAs to act with more authority and independently in developing budgets and delivering services. However, training must be context-specific and must not stifle local initiatives. Alternatives to central training would include local forums to give opportunities for exchange of ideas and peer learning at district level and study visits for communes to learn from good financial practice in other areas. Mechanisms and opportunities for commune councils to interact with other SNAs, civil society organizations and policymakers need to be enhanced in order for lessons to be learnt and to effectively inform policy design.
- Speeding up access to information legislation is important. However, before this is passed steps can be taken to strengthen the role of local civil society organizations to provide information on how citizens can become involved in planning, budgeting and monitoring of local services and holding local authorities to account, possibly utilizing local media and television networks, which have a wide reach across the country.

It is important that SNDD reform has ‘champions’ who are willing to advocate for better coordination between actors and that understand the costs and benefits of the reform. Parliament is supportive of programmes that voters like and playing their representation role allows parliamentarians a clear understanding of local-level dynamics and issues, giving the parliament a key role as a champion of SNDD reform. In particular, parliamentarians can assist by:

- Informing SNAs and citizens of regulations and correcting misunderstanding about SNDD reform through regular local-level forums.
- Improving local accountability by listening to citizen concerns and addressing these with commune councils, and feeding common needs and problems of citizens and SNAs into national policy development processes.

- Overseeing national budget allocations. Legislative oversight of the budget is a constitutional right and helps to ensure that allocations are in line with aims of policy priorities and needs of SNDD reform. It allows parliament to hold the government accountable for results, especially regarding local development and poverty reduction.
- Increasing transparency of information. In order to develop a better understanding of how SNDD is funded and to improve the next stages of reform, parliamentarians should request more information from the RGC on the overall resources that are allocated/delivered to the sub-national level broken down by area and sector. Parliamentarians can also work to help speed up passage of access to information legislation.

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