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Accountability and Public Expenditure Management in Decentralised Cambodia



Pak Kimchoeun and David Craig

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Responsibility for the ideas, facts and opinions presented in this research paper rests solely with the authors. Their opinions and interpretations do not necessarily reflect the views of CDRI.

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TABLE OF CONTENTS

Abstract	7
Acknowledgements	9
Acronyms	11
Chapter 1. Introduction	13
1.1. Background	14
1.1.1. <i>Accountability and Its Uses in Cambodia</i>	14
1.1.2. <i>Understanding PEM Accountability in Decentralisation and Deconcentration</i> ...	15
1.2. Existing Literature and Gaps	18
1.3. Research Objectives, Questions and Limits of Scope	19
1.4. The Study's Four Main Arguments	21
1.5. Case Selection	23
1.6. Research Methods	23
1.7. Structure of the Rest of the Paper	24
Chapter 2. Conceptual Framework and Literature Discussion	25
2.1. Accountability—Common Definitions and Importance for Cambodia	26
2.2. Accountability within PEM	27
2.3. Accountability within National and Provincial PEM	29
2.3.1. <i>Structures and Reforms</i>	29
2.3.2. <i>Implications of the Wider Structure for Accountability</i>	29
2.4. Provincial PEM Accountabilities: Basic Elements	31
2.5. Using Neo-Patrimony to Understand the Wider Picture	32
Chapter 3. Overview of Provincial PEM	35
3.1. Cambodia's PEM Systems	36
3.2. Provincial PEM	39
3.2.1. <i>Introduction to Provincial Administration</i>	39
3.2.2. <i>Provincial PEM Management System</i>	40
3.3. Mainstream PEM: Chapter 11 and Road Transport	41
3.3.1. <i>Line Department Budgets</i>	41
3.3.2. <i>Chapter 11 for Salakhet</i>	42
3.3.3. <i>Road Repairs and Maintenance</i>	42
3.4. Reform Initiatives	43
3.4.1. <i>Priority Action Programme</i>	43
3.4.2. <i>Provincial Investment Fund</i>	44
3.4.3. <i>Commune/Sangkat Fund</i>	46
3.5. Vertical Programmes—Health Sector Support Programme	47
Chapter 4. Central-Provincial Relationship	49
4.1. Centralisation	50
4.2. Centralisation, Neo-Patrimony and Accountability	53
4.3. Executive Bypassing—the Provincial Role in Donor Programme Implementation	56

Chapter 5. Provincial and Horizontal Accountability—Management	
Quality and Coordination	59
5.1. Accountability within Mainstream PEM, Compared to Reform Initiatives	60
5.1.1. <i>Rigidity and Over-Centralisation</i>	61
5.1.2. <i>Informal Payments and Multi-Layering of Approvals and Controls</i>	61
5.1.3. <i>Transfers and Disbursements</i>	63
5.1.4. <i>Procurement</i>	64
5.1.5. <i>Accounting and Reporting Systems</i>	65
5.1.6. <i>Dealing with Patronage Networks and Institutionalised Rent Sharing</i>	66
5.2. Horizontal Coordination and Fragmentation	67
Chapter 6. Conclusions and Implications for D&D	71
6.1. Major Findings—Sub-National PEM.....	72
6.2. What Can Be Done	73
6.3. Key Concerns and Tactics for Reform	75
6.3.1. <i>Coordination with Other Reforms</i>	75
6.3.2. <i>Building on Good Practice and Experience</i>	76
6.3.3. <i>Politics and Patronage Networks</i>	77
6.4. Areas for Further Researc	78
References	80
CDRI Working Papers	84

ABSTRACT

Cambodia is launching another phase of decentralisation, attempting to restructure sub-national, especially provincial, administration. These reforms are widely referred to as decentralisation and deconcentration or, more simply, as D&D. The aim is to establish unified provincial and possibly district administrations, which are accountable to both the central government and to the people in their territory, based on a clear and accountable allocation of functions and funding. To achieve this, more accountable fiscal relationships and management are crucial. It is not known yet how these can be achieved. Discussions indicate that a unified budget is going to be established, but details are by no means clear. This situation is not helped by the fact that current arrangements around provincial public finance are not yet well understood.

This paper draws on research conducted over three years, as part of a wider study of sub-national accountability, which included analysis of planning and human resources. This part of the study considered current provincial public expenditure management (PEM), using accountability as its analytical lens. The objective of all these studies was to provide a more comprehensive picture of the current system and from this to draw implications for the D&D reforms. The paper looks at two accountability relations: central-provincial and horizontal. Key findings are as follows:

Not just one but many provincial PEM systems operate. For analytical purposes, these can be grouped into three main categories: the government mainstream system, reform initiatives around the mainstream and donor vertical programmes. Each group entails different accountability structures.

Current arrangements are very centralised. Most of the development budget is locked into donor-funded, centrally directed programmes, which may be implemented sub-nationally but are usually contained within programme-dedicated public finance arrangements, entailing very little sub-national discretion. With 80 percent of the country's development programmes financed from aid, this overall arrangement has a huge impact, the implications of which need to be better understood. Provinces receive only about 30 percent of recurrent funding and virtually none of the development budget. They enjoy very minimal discretion over their small entitlement, and correspondingly hold little real responsibility for the overall operations of provincial or lower public management and finance. Their involvement in development activities has typically (and with particular partial exceptions, such as SEILA programmes) been limited and ad hoc. Their ability to link local planning, operating and maintenance (O&M), human resources management and other key functions to predictable funding has thus been greatly constrained.

Centralisation is compounded by weaknesses in the accountability of the government mainstream PEM, which lead to high fiduciary risk and poor budget execution. These create strong incentives for donors to manage programmes using centralised and parallel arrangements. There have been reform initiatives in response to these problems. Those reforms have produced fairly satisfactory results, but their scope and intention were not to enhance the role of the province in PEM and wider accountability. Instead, they focussed on improving service delivery in specific sectors. Donors have responded to weak PEM by bypassing it and introducing a New Public Management type of accountability.

Alongside these formal accountability arrangements, another form is based on patronage networks of personal relationships and loyalty, institutionalised rent seeking and political agendas. Patronage around provincial PEM is dense and institutionalised, especially within the mainstream system. It has been strongly shaped by neo-patrimonial arrangements, wherein concerns for compliance have multiplied opportunities for informal deductions, and personalised yet regularised relationships have distorted processes, especially in some areas of PEM.

A number of implications, both general and particular, are drawn from the findings. Particular recommendations are found in Chapter 6. More generally, the paper's findings demonstrate that D&D will require a long-term reform effort, which will require proper sequencing and, in particular, a combination

of both technical and politically driven reform. Second, the D&D reforms will and should impact on many aspects of current administration, including its internal/formal weakness, the strength of informal arrangements and the nature of donor-created accountabilities within programmes. If this reform is to move forward, it needs to be better coordinated with other reforms, especially in public financial management and in aid harmonisation, public sector and human resources management and, less directly, recent social accountability initiatives. Third, although reforms in Cambodia have been slow in general, the government, with support from donors, has implemented many, some more successfully than others. The important thing is that D&D need to build on these successes and learn from the failures.

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Phnom Penh, July 2008

ACRONYMS

ADESS	Agricultural Development Support to SEILA
BMCs	Budget management centres
CDC	Council for the Development of Cambodia
CDRI	Cambodia Development Resource Institute
CPP	Cambodian People's Party
CSF	Commune/Sangkat Fund
D&D	Decentralisation and deconcentration
ExCom	Executive committee
GTZ	(German) Society for Technical Cooperation
HSSP	Health Sector Support Programme
MAFF	Ministry of Agriculture, Forestry and Fisheries
MEF	Ministry of Economic and Finance
MoI	Ministry of the Interior
MRT	Ministry of Roads and Transport
NCDD	National Committee for the Management of the Decentralisation and Deconcentration Reforms
NGOs	Non-government organisations
NSDP	National Strategic Development Plan
O&M	Operation and maintenance
OECD	Organisation for Economic Cooperation and Development
PAP	Priority Action Programme
PDA	Provincial Department of Agriculture
PDEF	Provincial Department of Economy and Finance
PDF	Provincial development fund
PDRT	Provincial Department of Road and Transport
PEM	Public expenditure management
PETS	Public expenditure tracking survey
PFMRP	Public Financial Management Reform Programme
PIF	Provincial Investment Fund
PIP	Public Investment Programme
PIU	Project implementation unit

PRDC	Provincial Rural Development Committee
PT	Provincial treasury
RGC	Royal Government of Cambodia
salakhet	A Khmer word meaning “office of the provincial governor”

CHAPTER 1

INTRODUCTION

CHAPTER 1

INTRODUCTION

1.1. Background

1.1.1. Accountability and Its Uses in Cambodia

This paper is about accountability within Cambodia's public expenditure management (PEM), within the wider context of Cambodia's decentralisation and deconcentration (D&D) reforms. It sets out to understand accountability as it currently exists within sub-national PEM, and to suggest what needs to be done to enhance PEM accountability.

The study comprises six chapters, the content of which is laid out below. This chapter defines accountability and considers its relation to D&D. It gives a brief overview of Cambodia's arrangements and the literature focussed on sub-national PEM. It outlines the study's main research questions, provides an overview of the main findings and, finally, discusses methodology.

Public sector accountability has moved to the forefront of both government and donor concerns in recent years, appearing with increasing frequency in government reports, public speeches and donor agendas around good governance, poverty reduction, decentralisation and, much more recently, democratic development (RGC 2005; World Bank 2006). As usually defined, it seems for many observers to be the basic ingredient needed for Cambodians to enjoy responsive and reliable governance in all areas, including PEM.

What is "accountability"? Despite its significance for governance and poverty reduction, our research discovered that there is still very limited understanding of what the term means. Some would argue that there is no equivalent word in Khmer, while others emphasise narrow aspects of accountability related to accounting practices. Box 1.1 provides a commonly used definition. Briefly put, accountability is the quality of the relationship between two actors: one being held accountable by another for the actions of the former. In the public sector, accountability is the essence of the governance system, including PEM (World Bank 2006). The challenge with accountability is how it can be achieved and how one can be judged to have acted accountably or not within a specific governance system.

Box 1.1: Initial Definitions of Key Words

- Accountability is defined both internationally and in Cambodia in Chapter 2. Initially, it can be understood as the process by which one actor holds another responsible for the latter's action (Schedler 1999). It is the essence of good governance, including that of provincial PEM.
- Decentralisation refers to the transfer of power and functions from central to local government (Rusten *et al.* 2004).
- PEM refers to allocating and using public resources from all sources responsively, efficiently and effectively (Schiavo-Campo and Tommasi 1999).

Accountability is multi-dimensional and contextual. People can be held accountable formally or informally. Formally, they can be judged, for example, according to specific laws, regulations and professional codes. They can also be judged informally, according to unwritten rules or social norms that in some instances are much more influential in determining behaviour. Even more complexly, a person might be subject to more than one

of conflicting criteria that define their accountability. For instance, in some cultures, it might be seen as an act of gratitude to offer gifts to officers who facilitate business transactions, but the same act might be viewed as “unaccountable” by the law. These different aspects of accountability can have upwards, downwards or horizontal dimensions: upwards accountability being the responsibility to perform what higher-ups demand, downwards accountability involving responsibilities to the people served and horizontal accountability involving coordination and work alongside other agencies. All this requires a clear focus on what it is that governance arrangements seek to achieve by establishing accountability arrangements, and, especially important in Cambodia, who the key actors are in those arrangements.

The critical literature review on accountability and neo-patrimonialism in Cambodia published by CDRI (Pak *et al.* 2007) discusses these issues of definition in detail, considering accountability from historical, public administration and patronage perspectives. To capture different dimensions of accountability and contextualise them in Cambodia, the literature review proposes an expanded definition, presented in Box 1.2. In this study, accountability will be even more closely conceptualised, within the context of PEM in provincial administration (see Chapter 2).

Box 1.2: Accountability within the Cambodian governance context

- Accountability is a personal, administrative and political value that is found in all systems of government, in both formal and informal, political and administrative forms.
 - It involves not just a relationship between two actors, where one holds the other responsible for what they do, but also the mechanisms, rules, and resources to enable a governance system to function responsibly.
 - An accountable governance system needs to be Cambodian owned, and to reflect Cambodian values. It needs to aim at building trust and protecting public interests, in particular, the interests of the poor, in an effective and highly responsible manner,
 - It requires support from higher levels, public participation and political responsiveness, administrative neutrality and responsibility, and the right mix of discretion and obligation.
 - A better, more accountable system will be structured to provide a clear assignment of roles and responsibilities, adequate and predictable resources, horizontal and vertical coordination, transparency, enforcement of the law, and incentives for all to perform.
-

1.1.2. Understanding PEM Accountability in Decentralisation and Deconcentration

This paper’s main aim is to understand the sub-national accountability relationships and systems currently operating, with a view to how these accountabilities can be enhanced in future D&D reforms.

Cambodia started its decentralisation¹ in 2002 with the election of 1621 commune/sangkat councils all over the country. The councils have been crucial in promoting democracy and a participatory local development culture. However, their impact on wider service delivery and most of mainstream PEM has been limited, in part because of the limited capacity,

¹ In Cambodia, decentralisation is used to mean “devolution” whereas “deconcentration” refers to administrative decentralisation (Rusten *et al.* 2004:19–24).

resources and support they have received via either decentralisation or deconcentration (Turner 2002; Blunt and Turner 2005; Rohdewohld and Porter 2006; RGC 2007a). More recently, understanding has been growing that the next step is to implement further deconcentration so that sub-national, especially provincial, government can be more active in service delivery. Moving control over service delivery closer to the people, many reformers hope, will create greater responsiveness and accountability. But as this paper makes clear, without wider reforms and both central and local checks and balances, moving control downward could simply create further fragmentation and more opportunities for rent seeking and other negative outcomes.

To achieve greater accountability within D&D, sub-national institutional capacity and accountability need to be strengthened—especially, this paper will argue, in PEM. The government has proposed strategies for achieving such institutional reforms (RGC 2005b). They envision a unified provincial and district administration, accountable to both the government and to the people, through both administrative and elective means. Various steps have been identified to push the reforms forward. First, as framed in an organic law still to be finalised, basic structures will form the unified administration, including provincial/municipal and district governors and/or councils. Key accountabilities will be framed in this law. Then, resources, including financial and human resources, and the practical everyday accountability and effectiveness of the new system will need to be addressed step by step.

D&D promises wide and deep reform, in which PEM will be a crucial factor. For PEM, this would mean restructuring fiscal relationships among national and sub-national actors to create an improved system of transfers between levels of government and the ability of local government to retain its own resources. To be effective, as this paper will show, the restructuring must also affect the ways donors provide development assistance and the role of the province in implementing public investments. In complex ways, this will raise issues of further reform, building on existing partial reforms to make them and donor programmes work better. This also raises the question of how vested interests will be affected by D&D. The list of issues is overwhelming, and the risk is that the complexity will create another large but stalled reform process. The key is to find starting points, and then to introduce the reform in phases. As Grindle argues (2004), this can be done by first gaining a better understanding of the current situation and the institutional capacity on which further reforms can be built.

A full description of provincial PEM arrangements and their accountabilities can be found in Chapter 3. Box 1.3 provides a short overview.

Box 1.3: Current Provincial PEM

Current provincial administration consists of vertical line departments (more than 20) and a salakhet (governor's office). The salakhet is usually considered the central administration of a province, with the governor as its head. In PEM, the governor is called the delegated spending authoriser, meaning that his sign-off is needed before a department can commit to spending. However, the governor and salakhet do not directly oversee PEM; the provincial Department of Economy and Finance (PDEF) and Treasury (PT) are in charge of that. It should also be noted that the province is not an integrated entity, each line department acting more as an extended arm of ministries in Phnom Penh. Therefore, there is no such thing as, say, the Takeo provincial budget. What exist now are separate budgets for the salakhet and for each line department in each province, which are largely determined centrally. The budget for line departments is referred to as the provincial share of the national budget. The current provinces, both salakhet and line departments, do not generate much of their own revenue, but depend heavily on national transfers.

Every year, line department and salakhet budgets are allocated as part of the overall national budget. Cambodia uses a dual budgeting system, the recurrent and capital/development budgets being separated. This fact, as we will see, has huge implications for both central and sub-national PEM. Among other things, it differentiates the treatment of domestically funded recurrent spending and externally financed capital/development funds. Salakhet and line departments receive only recurrent funding, which includes mainly payroll and O&M. This money is managed following rules and regulations based on the 1993 Organic Budget Law. This management system is referred to as traditional or mainstream PEM. Heavily focussed on budgetary inputs rather than outputs or services (Bartholomew and Betley 2004), it offers little discretion and few incentives to those providing local services. It is also subject to chronic cash shortages, while its internal prioritisation mechanisms mean that money for chapter 11 (operations and development activities) has lowest priority, greatly increasing the leverage of the PT and, as we will discuss in chapters 4 and 5, increasing the possibilities for informal payments (Bartholomew and Betley 2004: 34).

Capital spending, which is heavily financed by external aid, is managed in the form of specific projects or programmes shown in the Public Investment Programme (PIP). This has the important implication that, as in other developing countries that use dual budgeting and are heavily aid dependent, the connection between recurrent and capital/development funds is very weak or even non-existent. Development projects are often formulated and implemented within sectors, and there might be many projects within each sector. Those externally funded projects are referred to as donor vertical programmes or projects. Crucially, most of the important accountabilities are therefore contained within these projects and programmes: for example, within special purpose arrangements for salary supplements, or tied to the delivery of particular outputs. These accountabilities form an alternative, some would say “white hat” budgeting, planning and PEM system, insulated from and with limited effect on mainstream systems, overall needs assessments, recurrent service delivery budgets and other areas where accountabilities and performance remain weak. As Bartholomew and Betley (2004) also argue, this contributes to a fundamental lack of focus on accountabilities for service delivery by important local actors, including governors. In addition, there are projects that are domestically funded. These few domestically financed projects follow the traditional ways of PEM.

The study of PEM in Cambodia needs also to take into account reforms in a number of priority sectors. For instance, in education, health, agriculture and rural development, there is the Priority Action Programme (PAP), which transfers funds for specific priority areas to the province, with generally improved results. However, as we will describe in Chapter 3, even the PAP differs for different sectors. Another example of reform is SEILA's PRDC/ExCom, which moves earmarked government and donor funds more directly from the centre to commune, usually attached to the main Commune/Sangkat Fund (CSF). At the same time, the former SEILA (now NCDD)

system uses smaller funds and earmarked components to enhance provincial and lower horizontal relationships. Much of this transfer appears “on the budget”; however, many donors have used SEILA’s generally better performing transfer systems to send their own (usually earmarked) money to sub-national governments.

These systems are linked to commune planning processes, which have discrete, reliable funding and transfers for the particular projects and functions selected. Within this system, accountabilities are supported by an elaborate system of support teams and advisers, particularly in the provincial ExCom. Yet here too the net effect in terms of building provincial accountabilities per se—and over mainstream funds coming to the province via the various chapters—has so far been quite limited. Accountabilities within the former SEILA system do not lie primarily within either salakhet or ministries and departments. Rather they centre on the components of the ExCom, especially in the provincial office of the MoI, partially integrated into provincial planning, and with ring-fenced vertical arrangements at the provincial Treasury. Understanding this system alone requires a good deal of practical and historical understanding, but many parts of it may be key to the new D&D arrangements. It is implied from the description so far that various provincial systems of PEM have been operating. For this study, those systems are classified into three groups:

- traditional or mainstream system;
- reform initiatives;
- donor vertical programmes.

What is described above are the formal arrangements that lead to different accountability relationships. Informal relationships are of equal or greater importance. Our research shows that each of the key actors associated with PEM—the department director, the head of the Treasury, the governor and so on—has more than one role. For instance, they are also active members of political parties to which they are strongly accountable. They are also bound together personally for different purposes, often for personal gain. Such political and personal ties require different and complementary perspectives to understand the accountability relationships. For instance, rather than seeing the relationship between the directors of the Department of Education and the Department of Economics and Finance as just one between the head of spending and the head of a central agency, we need to see it as between two political party members (friends or foes) who are willing to help or challenge each other for personal benefit. This blending of the personal, political and bureaucratic is a much observed feature of governance in every country. Where the personal elements are particularly strong, to the extent of powerfully affecting, for example, PEM, analysts have used the term “neo-patrimonial” to describe the arrangements. We will define these aspects more closely in Chapter 2.

1.2. Existing Literature and Gaps

This paper argues that there is still a gap in understanding about provincial administration, and its PEM in particular. Existing studies focus more on specific parts of provincial PEM. For instance, Bartholomew and Betley’s important study (2004) considers the performance of salakhet and the provincial share of national funding, both of which are implemented mainly according to the traditional budgeting approaches based on the 1993 budget law. A public expenditure tracking survey (PETS) by the World Bank, Asian Development Bank and CDRI (2005) focussed on transfers and leakages associated with the PAP in education.² There are also numerous studies on the execution of the CSF and SEILA’s Provincial Investment Fund (PIF) (Biddulph 2004). More recently, Rohdewohld and Porter

² Another PETS study was conducted in 2005 in the health sector, but the findings have yet to be released.

(2006) conducted another study looking at donor support and modalities and how they affect various sub-national accountability arrangements.³

Viewing the wider picture, it is clear that there are many systems of provincial PEM. In general, the studies mentioned above have provided very helpful policy-related insights into each separate system. What is still missing are comparative analyses of these different systems; those studies provide us with a deep but fragmented provincial picture, rather than a comprehensive one. For instance, Bartholomew and Betley (2004) point to various shortcomings in current budget implementations, ranging from cash shortages to poor, input-based accounting, which in turn leads to weak accountability. However, their study covers only the recurrent annual funds that salakheth and line departments receive. These cover mainly payroll and O&M. What one cannot learn from this study is the complexion of the development budget, which has very strong implications for new projects and programmes and also for significant chunks of recurrent provincial spending, and for related discretionary spending and planning, and therefore accountabilities.

As will be shown in Chapter 4, Cambodia's capital budget is about 80 percent financed by donors. Understanding it therefore requires understanding how donors' funding impacts on government accountability. Rohdewohld and Porter (2006) found that current donor practices have negative effects on downward accountability and the role of the provinces. However, this study looks at donor modalities from broad administrative and political perspectives and therefore does not specifically address accountability within PEM.

Many studies have been conducted on SEILA. Studies on the performance of the CSF have pointed to various successes and shortcomings (see for instance Biddulph 2004). Understanding the CSF, however, can only partly aid an understanding of provincial PEM. Provincial involvement in the CSF has been quite limited. Findings on the PIF (Biddulph 2004), on the other hand, represent only a small part of what is happening because the fund is a small fraction of resources flowing to the province. Similarly, the PETS on the performance of the PAP in education provided only a very narrow picture of one sectoral reform and focussed more on its leakages than on the implications for provincial accountability.

The above studies approached their subject from technical/formal perspectives, and either intentionally or unintentionally stayed away from informal factors such as patronage networks, which have been identified as particularly prevalent in Cambodian governance (Hughes and Conway 2004). Insufficient consideration of the significance of patronage networks leaves out a large part of Cambodian reality. Patronage, as this paper will discuss in more detail, is very widespread and institutionalised. It has created its own governance system and, therefore, accountability arrangements; it provides a powerful incentive for individuals within Cambodian administration, including PEM, to deviate from implementing policies in a pro-poor manner.

1.3. Research Objectives, Questions and Limits of Scope

Reviewing the recent literature on provincial PEM suggests that there remain gaps in understanding. This study attempts to fill in the gaps by:

.....
³ In addition to these studies, which focus on provincial PEM, there are also comprehensive studies on overall, mainly national, PEM in Cambodia, which prominently include the World Bank (1999) and the World Bank and the Asian Development Bank (2003). These studies provide a comprehensive picture of current PEM, including macroeconomic performance, budget allocation and efficiency in public spending, as well as external assistance, upon which Cambodia has been heavily dependent for development. Understanding the overall PEM is helpful for understanding that provinces are currently just an administrative extension of the centre.

- looking at current provincial PEM without focussing in depth on any specific system. Instead it attempts a big picture in which different systems are discussed. It argues that the big picture is more important for D&D because it provides information on how well the different pieces—PEM systems, reforms, actors, funding sources—fit together, and how these pieces can complement each other. That said, the study does not claim to cover everything about provincial PEM. It will select cases of provincial PEM that can represent operational systems. Case selection is presented later in this chapter.
- bringing in more explicitly a discussion of patronage networks as intertwined with formal arrangements around PEM. Literature terms such entanglement “neo-patrimonialism” (see Bratton and van de Walle 1994, and more on the Cambodian case in Pak *et al.* 2007).

Using accountability as an analytical lens to view provincial PEM arrangements, the study asks the following questions:

- How does formal provincial PEM currently work, and what are the main accountability issues?
- How have reforms and donor programmes affected formal provincial PEM accountability?
- How has the neo-patrimonial nature of provincial governance affected PEM accountability?
- What are the implications for pro-poor accountability in D&D and similar future reforms?

As described in more detail in Chapter 2, this paper discusses two types of PEM accountability:

- accountability for compliance (whether spending follows specific rules and regulations), and
- accountability for results (whether spending has achieved what was intended).

The main focus here is on two important dimensions of accountability:

- vertical accountability—between province and centre, and
- horizontal accountability—between different provincial agencies.

Downwards or “primary” accountability (defined as accountability to the popularly elected commune councils) is not central to this research, having been addressed more substantively by other studies (Rudengren and Öjendal 2002; Romeo and Spyckerelle 2003; Rusten *et al.* 2004; Cadtis Consultants 2005; Holloway and Sok 2005; STF 2005; Rohdewohld and Porter 2006; Kim and Öjendal 2007).

This study focusses on areas of PEM and accountability between province and centre that have not been well understood, arguing that that their improvement is not only crucial but also challenging for D&D. It should be clear, however, that this paper does not set out primarily to provide specific recommendations on how to carry out D&D. Rather, it seeks to provide a better understanding of the current situation and to point out implications for D&D.

In addition, the study cannot be comprehensive regarding sub-national PEM, in that it does not cover all the resources that are usually not captured by government budgets—“off-budget” transfers. Examples, considered important in the wider picture but not fully captured in this study, include the following:

- revenues generated by line departments that escape the formal budget, but are still essential to officials' incomes or a political party's resource base. Income from rent seeking (such as "ink money" for sign-offs) or from forestry in agriculture are examples;
- the increasingly important spending that comes through political parties or in the form of donations;
- direct donor support to NGOs to deliver provincial and local services.

The exclusion of these funds does not imply that they are not important to provinces. On the contrary, as some previous studies suggest, off-budget spending is often used by salakhets to cope with the constraints of limited transfers and rigid spending controls. Such off-budget spending might account for 30 percent of transfers (Bartholomew and Betley 2004: v). In this study, these kinds of resources are excluded mainly to keep the scope manageable. Future studies that provide insights into such sources and their accountability arrangements will contribute significantly to an understanding of the political economy of sub-national governance.

1.4. The Study's Four Main Arguments

The study has developed a series of arguments responding to the questions. They are presented here to foreshadow the flow in the rest of the paper.

First, reforms need to understand and address the perverse effects of centralisation, asymmetry (especially the imbalance between development and recurrent budgets) and complexity. There is huge asymmetry in provincial PEM systems, focussed on lopsided arrangements and vertical programmes that both centralise control and leave mainstream systems weakened and vulnerable to rent seeking. At least three groups of systems operate within the civil administration, each with its own shortcomings, and the shortcomings of each are related to both the strengths and failings of the others. They are the mainstream system, the reform initiatives and the donor programmes. The mainstream refers to the PEM that follows most of the government rules and set-ups since 1993, and which manages a large part of the government's recurrent funds. This is systemically centralised, yet remains weak in accountability in many respects (although not necessarily in formal compliance). The reform initiatives are those initiated as responses to the weaknesses in the mainstream, either within specific sectors or government-wide: they have introduced a range of specific changes, mostly positive, but all still needing wider development and integration into mainstream practice. Lastly, donor programmes, or vertical programmes, refer to a well-known project-based model often used by donors to implement their projects, the funds of which generally do not appear in government budgets. These are de facto, centralised in donor-funded project implementation units (PIUs) and operated through separate, off-budget arrangements with their own, often entirely internal, accountability mechanisms; they may contribute a great deal to projects in a province, but they have few or no accountabilities to provincial government.

Second, reforms need to understand and address informal, neo-patrimonial arrangements. The study shows that weak formal and strong informal (patronage) accountability has led to overall weaknesses within mainstream PEM. Over-centralisation, too much focus on compliance (especially spending processes requiring multiple sign-offs) rather than on results, low coordination among provincial actors—namely the governor, the PDEF, PT and spending agencies—together with overall weak management and control, have created a situation in which already strong patronage networks can stabilise and expand their rent seeking. Over time, such patronage usually becomes intertwined with the formal institutions of PEM, creating the situation described in Chapter 2 as "neo-patrimony". Neo-patrimony combines a legal-rational-bureaucratic structure with

patronage networks. As we will see in Chapter 2, the importance and character of this mix vary a great deal, depending on the interactions between the two.

Third, *reforms need to address mainstream PEM issues, and go beyond partial changes in programme security*. While appreciating the beneficial impact that PEM reforms have brought, the paper argues that they have mainly achieved limited impacts on wider PEM. That said, they have produced many bases for up-scaling.

Lastly, the paper points to several implications for D&D. First, it suggests that, given the complexity, centralisation and asymmetry within provincial PEM, sequencing is crucial for D&D. The sequencing needs to address both provincial-central accountability within each sector and the accountability and coordination arrangements among provincial actors. Second, at least for PEM, coordination between D&D and related reforms, in particular the Public Financial Management Reform Programme (PFMRP), and aid coordination are crucial to avoid a log-jam. One reform cannot go ahead unless progress has been made in others. This requires stronger collaboration among agencies responsible for the different reforms so that synergies can be identified. Third, learning from the experiences of existing

Table 1.1: Case Selection

Cases	Brief Description	Key Points to Illustrate
Mainstream PEM		
Provincial budget for line department O&M (chapter 11)	<ul style="list-style-type: none"> - Provincial recurrent funding - Common to all line departments - Subject to weak management control - Associated with high patronage activities 	<ul style="list-style-type: none"> - Weak formal accountability links among provincial PEM actors - Strong influence of patronage on formal accountability - Weak horizontal accountability
Budget for provincial road repair	<ul style="list-style-type: none"> - Development budget under the control of central ministry - Subject to weak management control - Associated with high patronage activities 	<ul style="list-style-type: none"> - Weak formal accountability between province and centre - Strong influence of patronage on formal accountability - Weak horizontal accountability
Reform Initiatives		
Priority Action Programme in education	<ul style="list-style-type: none"> - Started in 2000 - Response to problems in mainstream budget execution - Attempt to channel funds to service providers - Post-audit spending and deconcentrated to front line 	<ul style="list-style-type: none"> - A type of provincial and central accountability - Limited impact on mainstream PEM accountability - Resistance of patronage to reforms
PAP in agriculture	<ul style="list-style-type: none"> - Started in 2000 - Post-audit spending, not deconcentrated to province 	<ul style="list-style-type: none"> - A type of provincial and central accountability - Limited or partial reforms and impact on mainstream PEM accountability - Resistance of patronage to reforms
SEILA's Provincial Investment Fund	<ul style="list-style-type: none"> - SEILA initiative, operating through PRDC/ ExCom - Provide small investment funds for line departments to provide services - Attempts to improve horizontal coordination and accountability of line departments towards the government 	<ul style="list-style-type: none"> - A type of horizontal accountability among PEM actors - Limited impact on mainstream PEM accountability - Resistance of patronage to reforms
Vertical donor programmes		
Health Sector Support Programme (HSSP)	<ul style="list-style-type: none"> - Vertical programme - Sector investment programme initiated by donors - By-passes provincial development fund and works more with NGOs 	<ul style="list-style-type: none"> - How donors sidestepping mainstream systems can create strong accountabilities, but further undermine accountability links in mainstream PEM

reform initiatives such as the PAP and SEILA is crucial for D&D sequencing. Finally, in proceeding step by step, it is important to consider the expected reaction from patronage networks and vested interests so that resistance to reforms can be minimised. Without such consideration, the D&D might become just another “layer” of reforms that fail to penetrate the institutionalised neo-patrimony of current PEM governance and its central-provincial arrangements, and merely offer further opportunities for rent seeking by lower officials.

1.5. Case Selection

The study selected PEM cases to illustrate and support the above arguments. As Table 1.1 indicates, each case represents one of the three groups of PEM systems. Those cases also entail different accountability arrangements and serve to illustrate different points or arguments.⁴

1.6. Research Methods

This study is part of a wider study on sub-national accountability initiated by a research team in CDRI’s Programme of Policy-Relevant Research on Decentralisation. The bigger study includes two other fields: planning (Horng and Craig, forthcoming) and human resource management (Eng *et al.* forthcoming). It is intended that the three complement one another and therefore share a degree of consistency in the content and flow of their arguments.

The research methods of this study are as follows:

Conceptualisation: This study and the wider one are a departure from most previous CDRI work in that, from outset to conclusion, they were conceptualised by Cambodian researchers, with support from research advisers. From the beginning, the biggest challenge was for Cambodian researchers to understand better the multi-disciplinary conceptual framework that draws in different concepts such as accountability and the technicalities of PEM (for this paper), and then to contextualise them in governance characterised by strong patronage networks and high aid dependency. A literature review on accountability and neo-patrimonialism in Cambodia (Pak *et al.* 2007) served as a conceptual foundation for this more field-focussed paper. This contributed a great deal to understanding the complexities of accountability—where its key notions came from, and how they might be defined and observed. Conceptualisation and a literature review on PEM and aid management were also undertaken, with a specific focus on patronage.

Maximising the use of previous studies: This study attempts to maximise the uses and make sense of the findings and data from previous studies. Those studies provide much knowledge on the formal arrangement of each PEM system and, to a lesser extent, how they have been performing. Based on these sources, together with additional primary data, the study tries to draw out the accountability arrangements of each system and, more importantly, what they mean for provincial administration. Reviews of literature on patronage in Cambodia also provide useful clues about how to explore such issues further within the smaller and more focussed field of PEM and reforms (see Pak *et al.* 2007).

Fieldwork and data collection: The study looks at these systems and their accountability structures, drawing on fieldwork completed in four provinces: Takeo, Kratie, Siem Reap

⁴ One important sub-national development fund was not selected for this study: the CSF. Established under the Law on Management and Administration of Communes/Sangkats, the CSF is a primary mechanism for fiscal transfers for both general administration and development and the biggest fund that communes have received. It is not included here because it is related more to downward accountability. However, its provincial PEM accountability arrangements will be described in Chapter 3.

and Banteay Meanchey. The provinces were chosen for broadly representative reasons, in that they represent a range of geographic and economic conditions. Crucially, they also enabled us to draw on the existing knowledge of the research team, and provided contacts with key informants who had more sensitive information.

Data from previous studies was complemented by data collected through interviews and field observations. The data can be grouped into two parts. The first was formal financial data and regulations from the PDEF, PT and Finance Office of sample provincial line departments, as well as those at central ministries. A formal letter from the CDRI director was presented to gain initial access to interviewees and sources. However, challenges remained due to the low quality of data maintenance in some agencies. To overcome this, the research needed to seek similar data or financial regulations from a range of different agencies to increase the probability of getting correct and current information.

The crucial second dimension of the research sought to understand the informal side or the reality of how things are done. Data on several sensitive issues, such as informal fee payments, gatekeeping, informal relationships and party affiliation of key officials, were obtained in this second part.

The fieldwork was divided into three different phases, all covering the period from mid-April to June 2005. The first was a formative phase conducted from mid-April to June 2005, followed by two iterative research phases from August 2005 to February 2006. The first stage focussed on mapping and understanding the formal aspects of the PEM system. It was also when contacts with informants were made for the subsequent two phases. Key informants were selected as those who knew and, through trust building, were willing to share, on an anonymous basis, sensitive information with the researchers. Trust building and selection of key informants were crucial for the whole study. Researchers began by informing and assuring informants clearly about the objectives and intended uses of the data—that is, the strengthening and improvement of Cambodia's public finance—and the ethical issues around confidentiality. After trust had been built, many informants were surprisingly open.

However, the researchers were cautious about bias, exaggeration and other unintended misinformation from informants. To increase the reliability of data, the researchers cross-checked with various informants on important and sensitive data, such as estimates of informal fee payments and the number of sign-offs. Some confirmation and additional data were also sought, mainly by phone, after completion of the fieldwork and during report writing.

1.7. Structure of the Rest of the Paper

The remainder of the paper is divided as follows:

- Chapter 2 discusses conceptions about the term accountability, including the importance of social and political accountability and neo-patrimonialism.
- Chapter 3 provides an overview of the accountability arrangements of different cases: budgetary chapter 11, the road maintenance budget, the PAP in education and agriculture, SEILA's PIF and the HSSP.
- Chapter 4 considers PEM accountability relationships between provinces and centre, covering two themes: centralisation and executive bypassing of sub-national arrangements.
- Chapter 5 analyses PEM accountability among provincial actors, using two themes: management and quality control, and horizontal coordination.
- Chapter 6 concludes by summarising the main points from the previous chapters and presenting areas where D&D will need to engage to ensure better outcomes.

CHAPTER 2

CONCEPTUAL FRAMEWORK AND LITERATURE DISCUSSION

CHAPTER 2

CONCEPTUAL FRAMEWORK AND LITERATURE DISCUSSION

This chapter outlines core dimensions of the study's conceptual framework. In overview, it:

- more closely defines accountability in relation to Cambodia and to sub-national PEM;
- discusses these issues within the context of neo-patrimony; and
- relates them to D&D.

2.1. Accountability—Common Definitions and Importance for Cambodia

Accountability is an evolving concept and has been defined differently over time. One common definition is the process by which one actor holds another actor responsible for what the latter has done. Accountability as classically defined has two features: answerability and enforcement (Schedler 1999). Answerability refers to providing information and justification—that is, giving an answer or account of one's performance to the person holding one responsible. Enforcement is about giving rewards or imposing sanctions according to this performance. Accountability without enforcement is toothless.

The World Bank expands this definition of accountability, noting five features: delegation, finance, performance, information and enforcement (World Bank 2004b). This emphasises that the ex-post elements of accountability are not sufficient; what happened prior to the person starting to perform the tasks is also crucial. First, an individual needs to be assigned clear tasks and expected outputs (delegation), then provided with sufficient means (financing) to fulfil them. Without these two, it is impossible to expect accountability. Combining both the ex-ante and ex-post elements points to the importance of complete systems of governance to ensure accountability.

The above definition and conceptualisation look at accountability mainly from “principal-agent” perspectives. Focussing on the incentives for principals and their agents in a contracting arrangement characterised by information asymmetry, principal-agent theories have become fashionable for analysing interaction, especially in the private sector. The emphasis these approaches place on incentives, as well as on the “agency costs” associated with ensuring accountability, means they provide some perspectives not always otherwise noted. However, principal-agent analysis, which mainly focusses on transactional and contractual relationships, has a number of limitations (Minogue 2001).

Among other things, it can tend to narrow the scope of analysis to particular relationships between individuals operating within what are assumed to be clear (or at least readily definable) bureaucratic and incentive structures. Cambodia's situation, in which administrative and political accountabilities are plural and intertwined, overt and covert, and in which it is often hard to identify exactly who are the principals and agents, poses challenges here. The lack of operational specification of the jobs public servants can expect and are expected to deliver could be countered by clearer formal definitions of duties and job descriptions (*ibid*). An analysis of the relationships most actively shaping accountabilities in Cambodia, however, requires engagement with neo-patrimony and other historical and institutional formations, which this and other papers in this series provide. This is not to say that principal-agent theory will be of no value in the future. But for now, it is important to understand accountability in terms that are better tailored to the Cambodian reality (see Pak *et al.* 2007).

Box 2.1: Definitions of Accountability

- A process by which one actor holds another responsible for what the latter has done. Accountability consists of answerability and enforcement (Schedler 1999).
- A relationship among actors that has five features: delegation, finance, performance, information and enforcement (World Bank 2004b).
- A quality of a governance system in which different actors (government, civil society etc.) operate and have one-to-one relationships among themselves (World Bank 2006).

for further discussion of these points and of principal-agent theory applied to Cambodia).

Similarly, accountability within the public sector cannot be comprehended by considering it as simply a relationship between two actors. It needs to be understood as a dimension of an entire institutionalised governance system in which different actors operate and

constitute relationships among themselves (World Bank 2006). It is this kind of historical, social and cultural institutional perspective that this paper seeks to develop.

In Cambodia, in one definition or another, accountability has moved to the forefront of government and donor concerns in recent years, appearing with increasing frequency in government reports, public speeches and donor agendas around good governance, poverty reduction and decentralisation. Each of these adds some definitional and potential operational development. The National Strategic Development Plan 2006–2010 defines good governance as involving “wide participation, sharing of information, openness and transparency, accountability, equality, inclusiveness and strict rule of law” (RGC 2005a). As well, in its D&D, the government is embarking on a major restructuring, framing organic laws that are to “operate with transparency and accountability in order to promote local development and delivery of service” (RGC 2005b). The World Bank promotes decentralisation as “shortening the route of accountability [and] bringing government closer to the people” (World Bank 2004:17). Thus, within D&D, accountability will be more important than ever.

2.2. Accountability within PEM

Before focussing on provinces, we need to understand PEM as a broad concept. It is broadly defined as allocating and using public resources from all sources responsively, efficiently and effectively (Schiavo-Campo and Tommasi 1999). PEM can be understood in terms of principal-agent relationships, wherein principals engage agents to perform some service on their behalf that in turn involves decision making by the agent (Premchand 1993: 86–89). Within this perspective, it is assumed that important decisions on public spending are made by central agencies as the principals (e.g. the MEF and Treasury), which will then be implemented by the relevant agencies (e.g. central ministries and their provincial branches).

However, among other things, there is no single principal that deals with budgeting; rather, there are many “principals”, with a range of accountabilities between them. For instance, although the MEF is often understood to be the main principal in managing public expenditures, central agencies also include the Treasury (which is responsible for cash management) and the Ministry of Planning (which is supposedly central to public investment planning). In addition, unlike the private sector, whose ultimate objective is

to make profits, agents in the public sector are usually subject to different expectations, including administrative, financial and legal compliance and political responsiveness. Furthermore, in the public sector in particular there is a problem of attribution: it is hard to ascribe success or failure of some tasks to specific agents because outcomes can be the result of many factors and actions of various agents.

Secondly, as Premchand (1993: 86–89) argues, in budgetary arrangements in Cambodia, as elsewhere, the interaction between principals and agents is not contractual, and their relative powers vary. Questions of how much power a principal should have in relation to an agent need to be balanced to fit the context and objectives of budgeting. Finding the right balance between control and discretion with central versus spending agencies has been a constant challenge in PEM literature, even where political and patronage arrangements are not central. That balance cannot be found simply by looking at individual relationships.

A study of accountability in PEM thus needs to focus on institutional factors that are not only technical, but also political and cultural (Schiavo-Campo and Tommasi 1999). They cannot be convincingly reduced to principal-agency relationships as usually conceived. This paper seeks in the first instance, not to reduce complex arrangements to fit a normative schema, but to describe arrangements in terms of their historical and institutional formation, and in terms of the logic and factors that have been and continue to be important.

The paper does, however, refer to and deploy other elements of old and new institutional theory. Here, “institutions” refers not only to “organisations”, but also particularly to the historical patterns and norms of everyday practice, and to the rules of the game that determine the behaviours of organisations and individuals (North 1990). Institutional set-ups, then, determine the accountability of PEM. Ideally, the accountability of PEM is one that can ensure three objectives in the ways public funds are spent: fiscal discipline, allocation efficiency and operational efficiency. Two types of accountability are involved: for compliance and for results (Schiavo-Campo and Tommasi 1999).

The paper adopts the historical and sociological premise that institutions important for accountability are both formal and informal. The formal side mainly focusses on the technical elements of PEM. There are developing countries that have accepted international technical advice for decades and introduced innovations into their budgeting systems to the point where their PEM appears on the surface to be well constructed in every respect. However, those countries often have weak budgetary performance, leading to poor service delivery. This is due to the formal institutions being in conflict with the informal ones, which are less visible but more influential (World Bank 1998a). The informal becomes intertwined with the formal, and the mixture distorts the intended accountability. The outcomes of such a mixture vary depending on the strengths and weaknesses that the two bring to the interaction (North 1990).

This formal-informal hybrid is very useful in seeking to understand Cambodia’s PEM. This paper uses a form of this type of mixture, often known as “neo-patrimony”, as the context in which PEM is discussed. This important concept is developed at some length in the last part of this chapter, where Box 2.4 provides a definition of patrimony and neo-patrimony from international literature. In brief, neo-patrimony is a form of governance resulting from the mixing and interaction between legal-rational bureaucratic institutions and those based on patronage. This paper argues that neo-patrimony is a key explanation for weak budgetary performance and the limited impact of various PEM reforms in Cambodia. The latter part of this chapter will also discuss accountability in terms of donor operations. Here, we will see both positive and negative effects. Next, it focusses on PEM accountability.

2.3. Accountability within National and Provincial PEM

2.3.1. Structures and Reforms

Provincial PEM needs to be seen as part of national PEM. First, provinces depend heavily on national transfers and are subject to more or less the same PEM process. This implies that most central PEM issues identified are likely to be found also in the provinces. Second, it is easy to lose track of the provincial presence and impacts of projects, programmes and PEM reforms supported by donors if the way they work centrally is not understood. Third, a significant part of provincial neo-patrimony can be clearly understood only within provincial-central relationships among patrons and their clients.

Thus, three things have to be considered when discussing PEM in Cambodia: the institutional set-ups that shape mainstream PEM and its accountability, the various reforms to the mainstream and the roles of donors, who finance about 80 percent of public investments.

Box 2.2: Some Concepts on PEM in Relation to Aid

- Dual budgeting separates recurrent from capital or development funds.
- Recurrent budgets represent continuous expenditure such as payroll and O&M. It is often presented in line-item classification.
- Capital budgets, at least in theory, are one-off expenditures, and are classified by projects or programmes.
- The Public Investment Programme is a list of development projects and programmes, by sector and economic function. It is a tool to manage allocations, operations and aid.

Cambodia's dual budgeting system structurally separates recurrent funds from capital or development funds. It uses the PIP as a tool not only to improve the allocative and operational efficiency of public spending, but also to manage aid (Bräutigam 2000; Foster and Fozzard 2000). The recurrent side is often financed and managed

under mainstream government PEM systems, whereas the PIP side is directed by projects or programmes, most of which are financed by donors and, therefore, managed by their methods. However, in practice this recurrent-PIP split is not so simple, and here a number of PEM and accountability issues arise.

2.3.2. Implications of the Wider Structure for Accountability

The recurrent budget mainly covers payroll and O&M. It is structured along budget lines, that is, chapter 10 for payroll and chapter 11 for O&M. The budget is under the government mainstream PEM, based primarily on the Organic Budget Law adopted in 1993 and subsequent regulations. Overall, the mainstream PEM focusses on maintaining fiscal discipline, with the MEF and Treasury acting as control agencies. As the following chapters will show, fiscal discipline has been achieved at the unacceptably high cost of allocative and operational inefficiency, as well as of fiduciary risks to public funds. The resulting system is characterised by high centralisation and rigidity, which in turn provide opportunity for rent seeking and manipulation of rules for personal gain. These weaknesses are seen in the day-to-day operations of the cash-based system, and in delays and unpredictable fund disbursements, non-transparent public procurement processes and poor accounting, reporting and auditing.

As we will describe at greater length in Chapter 3, these weaknesses have been responded to with various reform initiatives, supported by donors. Even before the introduction of the PFMRP in 2004, various reforms were initiated, including the PAP in four priority sections (education, health, agriculture and rural development). Sub-nationally, budget execution under SEILA was introduced to manage the CSF, PIF and several other donor funds. These reforms introduced different types of accountability. The PAP in education, for instance, focusses on transferring funds vertically from the centre to front-line providers, whereas the

PIF is about ensuring horizontal accountability and accountability for results. The coverage of these reforms has been very limited. Later sections discuss this in detail.

The development budget is presented in the PIP, as lists of projects or programmes. Donors heavily finance these programmes and exercise significant authority over how they are implemented. Donor practices and management techniques, referred to as “donor modalities”, have introduced a new type of PEM accountability. Frequently drawn from New Public Management approaches, the new accountability entails clear but often very narrow objectives for each project, described in terms of narrowly defined outcomes. For example, a project might specify the delivery of a certain number of wells, or the holding of a certain number of training events for a certain number of people.

In theory, and in good practice over the short term, a project-focussed model helps strengthen accountability, because there is transparency around the services or goods provided: an open bidding process specifies the outputs, their prices and when and where they will be delivered. By staying parallel rather than within the mainstream PEM, the project is also used to “cocoon” aid funds from fiduciary risks, which are often high within government systems.

Many negative effects are also identified from the above aid modalities (for detailed discussion, see Rohdewohld and Porter 2006; CDC 2007). Within a project, the main accountability is very often to the donor, who may not even have an office in the country. Recipient country oversight of such projects is very difficult: many of them are running at any given time. Even where projects have established “partnership” relationships with ministries, having many different projects can be destructive. Ministry work is allocated to many little units within, linked to or outside the ministry (PIUs). Ministry staff become contractors to the NGO or other donor programmes, and are accountable for producing outputs, for which they receive salary supplements. These “vertical programmes” can extend from Phnom Penh directly to local areas, cutting out sub-national government, or turning sub-national public servants and even the governor into contractors. In the process, the ability of a department to plan and strategise, and have its staff focus accountably on strategic change, can be reduced, as day-to-day activities of the ministry are “crowded out” by multiple donor activities (World Bank 1998b; Bräutigam 2000; Hubbard 2005a, 2005b).

Short-term contracting can also change relationships, reducing wider accountabilities. Public servants and service delivery contractors become attuned to thinking about where their next contract will come from, and can treat their day-to-day job as simply a launching pad for a career contracting to NGOs. Some contractors also learn how to work the system, using informal networks to get around formal competitive bidding. In this way, what appears as a transparent process can actually legitimate neo-patrimonial practices. What was meant to simplify accountability has in many cases made it more complex and fragmented (Craig and Porter 2006). These kinds of relationships between donor programmes and reforms and neo-patrimonial practice are an important theme in this and related papers.

Experience also shows that the model might undermine budgetary constraints faced by the recipients. For instance, it creates incentives for government budget officials not to meet recurrent requirements, because they know that donors will make good the shortfall in order to run their own projects (Lister and Stevens 1992). This has happened in Cambodia, where the line between recurrent and development budgets is blurred because, over time, donors end up financing recurrent spending on payrolls (for instance, as salary supplementation) and O&M, which are hidden within each project. Such arrangements lead to double budgeting of recurrent spending. The separation also poses challenges for coordination, information sharing, tracking of spending and linking of spending to results. (Bräutigam 2000; Foster and Fozzard 2000; Sarraf 2005).

Experience from other countries has prompted some donors to begin moving from projects to what are called “programme-based approaches” and to spend more resources helping build PEM institutions of recipients. This has been translated into various aid tools. For instance, sector-wide approaches (or at least a partial version of them) have been used in health by establishing programmes such as the HSSP (Rohdewohld and Porter 2006). More recently, under the banner of increasing aid effectiveness, aid harmonisation and alignments have been introduced with the adoption of the NSDP Strategic Framework for Donor Harmonisation and various sectoral policies to which donor-funded projects should align. The “medium-term expenditure framework” was also introduced, both government-wide and in specific sectors. These reforms represent the placing of more types of accountability into the government PEM systems (RGC 2005a).

It is clear there is not just one form of accountability applied in Cambodian PEM. There are many, to some extent layered or piled on top of one another, with different degrees of integration and coverage. They serve different purposes, but because they are parts of a wider PEM, spill-overs among them might be thought likely. Even this element, however, is subject to constraints and complexities.

2.4. Provincial PEM Accountabilities: Basic Elements

Provincial PEM involves two types of accountability: for compliance and for results. Added to this are the three lines along which these accountabilities are structured (World Bank 2005b; Rohdewohld and Porter 2006):

- from provincial administration to local people (local primary accountability);
- from province to centre and *vice versa* (provincial-central accountability); and
- among key provincial actors (horizontal accountability).

Box 2.3: Different Accountabilities in PEM

- Accountability in mainstream PEM:
 - strongly control- and compliance-oriented;
 - centralised and rigid.
- Examples of accountability in reform initiatives:
 - decentralising of spending to front-line providers (PAP);
 - enhancing horizontal accountability.
- Accountability in donor programmes/projects:
 - narrowly focusing on achieving their objectives;
 - preventing fiduciary risks to their funds.

This paper considers accountability for both compliance and performance, but mainly on the provincial-central and horizontal lines. Along these two lines, a number of issues are relevant.

The first one, common and central to all PEM, concerns transfers of finances and authority to provinces (World Bank 2005b). The provinces

depend heavily on national transfers, and if these are not adequate, predictable and timely, accountability cannot be expected. Furthermore, the provinces need authority to manage these transfers as they see fit.

Second, the proper use of transfers needs to be ensured. This entails a system to ensure control and accountability for both compliance and performance. In Cambodia, provincial systems follow the same rules and structures as the wider PEM, as will be described in Chapter 3. On the other hand, the relevance of reforms (such as the PAP) and SEILA’s systems is different in the provinces, depending on their degree of deconcentration.

Third, because different actors are involved in the provinces, mechanisms are needed to ensure proper coordination and accountability. This is quite a serious issue. The provinces are not integrated administrative entities. Rather, they are a concentration of more than

20 line departments and the *salakhet*. For PEM, there are central agencies, including the PDEF and PT, that control and manage spending and disbursements for line departments. However, as the story box (Box 1.3) shows, the government budget is just one part of the picture. Several other non-government or semi-government budgets operate alongside the mainstream.

Finally, vertical programmes and donor projects present considerable provincial variation. Generally, their management systems mean these programmes have tight internal accountabilities, but also that they are not integrated into whatever else is happening; thus their horizontal accountability is weakened. Beyond this, a central concern remains that those programmes might undermine the accountability of the government mainstream for the sake of their own objectives.

2.5. Using Neo-Patrimony to Understand the Wider Picture

Neo-patrimony sets the institutional context for discussing PEM, including aid management. Neo-patrimony is one among different accountabilities, all of which can be classified as either formal or patrimonial. In PEM, the formal side is not uniform. The major variations can be classified into three groups: mainstream PEM, reforms and systems within donor projects.

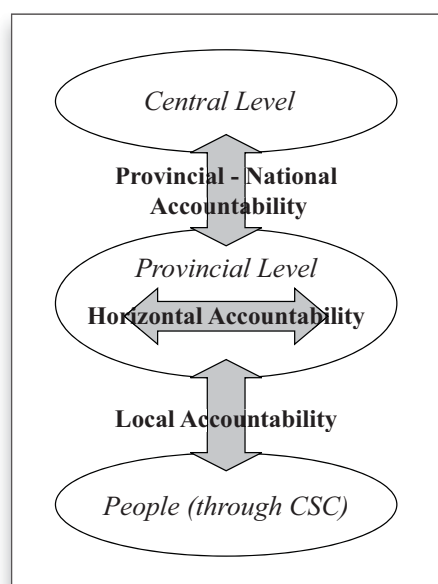
Patronage introduces another group of accountabilities. Unlike the formal side, these are mainly between patrons and their clients. Patronage networks do not have clear structures or follow written rules. Personal loyalties and connections are central. In the words of a Khmer adage associated with powerful figures, “The law is on my lips”—the rules are personalised too, although often regularised and/or hierarchical (Pak *et al.* 2007).

Informal networks in Cambodia have many different forms. There is the small group or gang, who support and look after each other; this patronage often has affection-based dimensions such as kinship, friendship or loyalty, and its members act like an “action set” or cluster. There are also lines of hierarchical patron-client relations under a single powerful backer or political faction leader, which may also have kinship and other loyalty aspects. Thus, people within patronage arrangements can be simultaneously in a big pyramid and a smaller cluster that is part of a large patronage network. Within a large network or line, different smaller domains and group clusters may also form around specific resource bases. These domains sometimes work together, and sometimes remain discrete, competing with each other to protect their resources and gain control over others.

Accountability within patronage is influenced mainly by the nature of the incentives, choices and resource bases available to a patron, and by his exchange relationships with his clients. Usually, patronage is instrumental (i.e. mutually beneficial) for all involved, although it generally benefits the patrons disproportionately. Central or influential patrons have been able to accumulate extraordinary power, resources and influence, and this is reflected in the strong tendency toward centralisation of rent sharing; i.e. the networks benefit the patrons more than the clients.

Patronage is a common phenomenon in all societies (Scott 1977; Eisenstadt and Roniger 1984). Studies on patronage in Cambodia (e.g. Ledgerwood and Vijghen 2002) also portray it as common social interactions deeply embedded within culture, tradition, religion and

Figure 2.1: Accountability Lines for Provincial PEM



history. Currently, such forms have to be understood as part of a mix, the other ingredients of which are a wide range of formal and rational-legal values of modern bureaucracy. Physical and economic security, kinship and, more recently, politics are the key elements driving patronage networks. Unlike the various reforms and donor programmes, which have limited coverage, patronage networks in Cambodia have been widespread, penetrative and politically affiliated.

Box 2.4: Different Definitions of Patrimony and Neo-Patrimony

- Patrimony is “a special case of dyadic (two person) ties involving a largely instrumental friendship in which an individual of higher social-economic status (patron) uses his influence and resources to provide protection or benefits, or both, for a person of lower status (client) who, for his part, reciprocates by offering general support and assistance, including personal services to [the] patron” (Scott 1977: 92).
- Neo-patrimony is a mix of traditional patrimony and modern bureaucratic practices, often hybridised and entangled with other forms of power—commercial, military, democratic, political. It forms a regime in which “the chief executive maintains authority through personal patronage, rather than through ideology or law. As with classic patrimonialism, the right to rule is ascribed to a person rather than an office. In contemporary neo-patrimonialism, relationships of loyalty and dependence pervade a formal politics and administrative system, and leaders occupy bureaucratic offices less to perform public service than to acquire personal wealth and status. The distinction between private and public interests is purposely blurred. The essence of neo-patrimonialism is the awarding of personal favours by public officials, both within the state and in society. In return for material rewards, clients mobilise political support and refer all decisions upwards as a mark of deference to patrons” (Bratton and van de Walle 1994: 458).

Rather than being viewed as just another small and narrow layer of informal institutions compared to the mainstream PEM, patronage networks should be seen as part of the context in which all the different types of formal PEM accountability are placed. In addition, because patronage is fluid and creates rent-seeking incentives, we argue that it is more penetrative and implicitly integrated into the institutional arrangements of PEM. The fluidity and adaptability of patronage networks, together with variations in the formal PEM accountability arrangements, produce a variation of the neo-patrimonial type of PEM and accountability.

The existing literature argues that weaknesses in the formal accountability of PEM are mainly what allows patronage to intensify its rent seeking. One of the main weaknesses is the over-centralisation of spending approval and control, in which a few central agencies and individuals have high discretion over spending decisions, allowing them to exploit and manipulate rules to solicit informal fees and conceal informal transactions in public funds. Even worse, once they realise they can take advantage of the rules, they will produce more of them, complicating and confusing the control process to facilitate rent seeking (Tanzi and Davoodi 1997; Allen *et al.* 2004; GTZ 2005).

Over-centralisation is compounded by a lack of transparency. When rules are vague, room for manipulation is wide, and when information about public spending is unreliable and untimely, rent seeking can be concealed with little expectation of being found out and punished. Within PEM, lack of transparency can be associated with budget preparation and approval, procurement, payments and auditing (Schiavo-Campo and Tommasi 1999; Allen *et al.* 2004).

An argument can also be made that within neo-patrimony it is the strength of patronage, rather than the weaknesses of formal accountability, that allow the former to dominate and exploit the latter. Usually, most governance concepts, including PEM, are imported by donors into a country in which patronage has existed for a long time and has become

a way of life (Pak *et al.* 2007). The literature indicates that neo-patrimony in Cambodia is highly institutionalised, dominating and even substituting for the state's accountability arrangements. This has significant implications for PEM in particular. Therefore, rather than only identifying weaknesses within formal accountability, it is imperative also to understand patronage networks and their accountability, and how they affect formal arrangements.

The literature also has useful things to say about patronage and aid. Bräutigam (2000), for instance, argues that the large amounts of aid received by aid-dependent countries play a significant role in patronage systems. Political leaders always have need of resources to meet the demands of their constituents for services and favours. When aid is tied to particular projects, these become private and political resources, used as sources of employment and benefits for particular constituencies. As this study will show, this is true even in situations in which aid is channelled and managed within parallel projects to minimise rent seeking. Furthermore, as discussed above, a focus on projects will not help, but will rather impose higher institutional costs and an eroded sense of ownership by recipients. This requires that donors choose the correct "accountability trade-off", between accountability for narrow project objectives and that for assisting institutional reforms (Allen *et al.* 2004).

The notion that patronage is bad and formal arrangements good should be seen as hypothetical rather than an absolute judgment. Analytical spaces should be preserved to seek pro-poor elements of patronage and possible adverse affects of the formal side. Complementary roles of patronage have been observed in the building of economic prosperity in countries such as Japan and South Korea (Evan 1995: 43–73). The fieldwork also identified situations in which patronage can facilitate PEM. For instance, spending approvals are accelerated to meet the urgent needs of line departments because approving and requesting officials know and trust each other, while some departments build good networks with suppliers so that they can get goods and services on time while waiting for cash from the PT. No system is perfect, and none is entirely dysfunctional. The point here is that a balanced view is crucial because accountability is about institutional reforms, which in turn emphasises the importance of being realistic.

2.6. Key Analytical Points on Accountability in Provincial PEM

From the above discussion, Table 2.1 summarises the key analytical points that subsequent chapters will use.

Table 2.1: Key Analytical Points on Accountability

<p><i>PEM in general</i></p> <ul style="list-style-type: none"> Accountabilities for compliance and results need to be pursued simultaneously Both formal and informal (especially patronage) institutions need to be considered 	<p><i>Provincial PEM</i></p> <ul style="list-style-type: none"> Three lines of accountability: upward, downward and horizontal (this study looks only at upward and horizontal accountability) Key issues: <ul style="list-style-type: none"> Adequate and timely transfers of resources and authority Bypassing of provincial administration Provincial management of resource Coordination among key provincial actors
<p><i>PEM in Cambodia in general</i></p> <ul style="list-style-type: none"> Existence of different PEM systems Dual budgeting and aid dependency Over-centralisation, rigidity and high fiduciary risk Aid management including government bypassing and donor coordination 	<p><i>Neo-patrimony</i></p> <ul style="list-style-type: none"> Centralisation of control over resources for rent seeking Strengths and institutionalisation of patronage Aid might strengthen patronage networks

CHAPTER 3

OVERVIEW OF PROVINCIAL PEM

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OVERVIEW OF PROVINCIAL PEM

This chapter starts with a brief overview of Cambodia's PEM systems and then focusses on accountability structures in the different PEM case studies. Here our aim is to lay out the basic elements of the mainstream system and its accountability, both in general and in relation to our core cases. The purpose and basic operations of various chapters of the provincial budget are described in their relationship to Cambodian PEM, including the Public Investment Programme and line ministries' recurrent expenditures. Significant reform initiatives, including the PAP and aspects of SEILA and the HSSP arrangements are described. Significant accountability issues and difficulties emerging from these arrangements will be discussed in the following chapters.

3.1. Cambodia's PEM Systems

The 1993 Organic Budgetary Law and subsequent regulations created a coherent and solid framework for Cambodian PEM. Cambodia's fiscal year is the calendar year, but the budgeting process starts around May or June of the previous year with revenue projection, followed by the prioritisation and allocation of recurrent and domestically financed capital budgets for different ministries in July. Budget negotiation starts around September/October between the MEF and both central and provincial spending agencies. The final annual budget draft is approved by the Council of Ministers and sent for final approval by the National Assembly in December.

Box 3.1: Cambodian PEM as from Cambodia's Public Expenditure Review

- Budgetary principles
 - Separation of the responsibilities of authorising officers and payments officers
 - Unity, i.e. all appropriations must be gathered in a single document
 - Universality, i.e. all revenues and expenditures must be shown completely in one document
 - Annuality, i.e. appropriations are available during only one fiscal year
 - Specialisation, i.e. appropriation must be specialised by nature, destination or service
- Areas under study
 - Budget formulation
 - Expenditure control
 - Treasury operations and cash management
 - Auditing
 - Management and information systems
 - Capacity-building departments

Source: World Bank and Asian Development Bank 2003

Cambodia is aid-dependent; therefore, understanding its PEM requires consideration of aid management. From 2000 to 2005, the amount of aid as a percentage of domestic revenue varied from 45 percent to 60 percent. On average, the amount of official aid was around USD550 million a year, from major bilateral and multilateral donors numbering 36 in 2000 and 32 in 2006.⁵ A small part (around 7 percent) of this is given in the form of general

⁵ The CDC (2007) indicates that from 1992 to 2006, almost USD7 billion of aid was disbursed.

budget support, meaning that the funds are included in government budgets and subject to the management of the government and the oversight of elected officials. In general, it can be said that aid in Cambodia has become more fragmented or “competitive”. Each donor, in an attempt not to be marginalised or lose profile, is inclined to participate in every decision and to join every policy dialogue, resulting in significant escalation of transaction costs for both donors and the government (CDC 2007: 6).

Cambodia’s dual budgeting system is crucial to an understanding of the nature of control, policy and central and sub-national administration. In this system, the recurrent and capital budgets are separate. The recurrent side is mainly financed by domestic revenue, while the financing of the development sides come mainly (about 80 percent) from development partners. The recurrent and development budgets are separate not only in financing sources, but also in formulation and execution. The recurrent side is formulated as budget line chapters; for example, payroll is chapter 10 and O&M chapter 11. These chapters are broken down into numerous sub-chapters. Proposals have to be prepared within the budget ceiling, and how much is allocated to these chapters and sub-chapters must be specified. Negotiation in September/October between spending agencies and the MEF focusses on both the aggregate and the breakdown. When executing the budget, spending agencies (including in the provinces) have to follow the breakdown strictly. Any changes must be approved by the MEF or Council of Ministers. Compared to other countries, Cambodia’s budget process is distinctive for the very limited place policy and related negotiations have in determining allocations. The budget bidding process emerging out of sectoral ministerial policy, in which ministries bid for new money based on a closely argued policy and with the support of their minister, seems quite truncated in Cambodia. Negotiations with donors are far more likely to be the major sources of new funds.

The execution of the recurrent budget follows the mainstream or “traditional” PEM. Except for a few reform initiatives discussed later, mainstream PEM is highly centralised and rigid. Spending agencies are held accountable mainly for compliance with a rigid spending process, rather than for the results achieved. The MEF and its provincial departments are in charge of approving commitments submitted by spending agencies. This system is known as “pre-auditing”, meaning that agencies need approval before they can spend. On the

Table 3.1: Budgeting Timetable

Time	PIP Process
<i>January–March</i>	Review of previous planning and implementation period.
<i>March–May</i>	Line ministries update sectoral policy matrices and formulate new projects for next PIP. Size of PIP and sectoral ceiling set for each ministry consistently with macroeconomic framework and policy priorities.
<i>June–July</i>	Line ministries prioritise and select project proposals for submission to Ministry of Planning.
<i>July–August</i>	Ministry of Planning collates and enters project data into PIP database and assesses.
<i>August</i>	Ministry of Planning prioritises projects in line with policy.
<i>September</i>	Draft PIP produced and presented to inter-ministries meeting.
<i>September–October</i>	Draft PIP amended and PIP for next year’s budget submitted to MEF.
<i>November</i>	Council of Ministers approves budget and PIP.
<i>December</i>	National Assembly approves PIP together with budget.

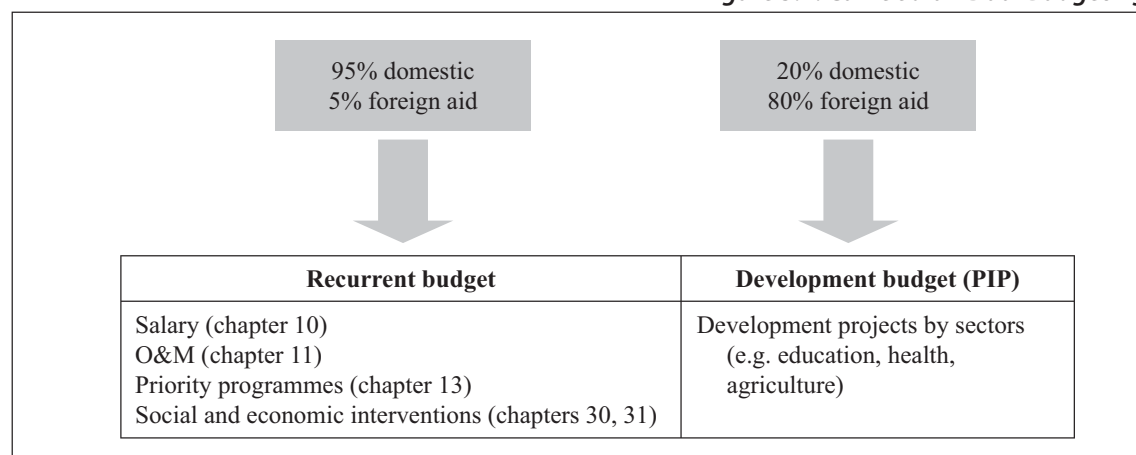
other hand, the Treasury and its provincial branches are in charge of cash management and account keeping. This centralised and rigid system was created mainly to maintain fiscal discipline. It also maintains an extremely high degree of central control over routine transactions, achieved at a very high cost, especially to operational efficiency and fiduciary risk prevention.

Development budgets are formulated with and by donors and executed as individual projects. The development budget is shown within the PIP, where many development projects are listed by sector. From 2001 to 2005, external sources accounted for 75 to 85 percent of project financing. The PIP for 2006–08 is similar. According to PIP documents from 2001–2003 to 2005–2007, 350 to 400 projects are included each year. A majority of these are in a “pipeline priority” group, meaning that they are being considered and are seeking funding. For instance, in 2005–2007, over 65 percent of projects are pipeline priority projects and all the projects listed in the agricultural sector are pipeline priority. Because the PIP is a three-year rolling plan, many projects in one year’s PIP are left over from previous years. From 1996 to 2004, only 122 projects were completed; 115 others were ongoing, some of which started as early as in 1995.

Data comparisons and previous studies indicate that the PIP is a poor tool for managing development funds and foreign aid. Arguably, as we will see in later chapters, it is even less effective at handling recurrent costs, which, because of its close engagement with the operations of many important parts of Cambodia’s public service, it often does. Beyond this, the links between the recurrent budget and the PIP are very weak, due to the differences in their formulation, classification and management, leading to different forms of accountability.

Domestic allocation for capital expenditures⁶ is supposed to be done through chapter 50. However, in practice chapter 50 has not been allocated, but is kept under the control of the Investment Department of the MEF. On foreign funding, the PIP is limited in its coverage due to off-budget financing by donors, in the sense that funds are neither reflected in government budgets nor disbursed through Treasury. For all practical purposes, the PIP is not, as its name suggests, a planning tool linked to the budget, but rather a list of projects, each subject to its own peculiar controls and accountabilities. As a list, it reflects only areas of current development investment. Such limited coverage raises questions as to how comprehensive the PIP has been (Hornig and Craig forthcoming). A range of evidence justifies this concern: there are projects that are initiated mid-year and therefore not shown in the PIP, which is usually prepared at the start of each year; a recent aid harmonisation

Figure 3.1: Cambodian Dual Budgeting



⁶ Capital spending refers to one-off spending on assets that will be used over time (usually for more than one year).

study based on information from the CDC indicates a wide difference in the number of ongoing projects in each year (CDC 2007). In 2003, for instance, the report states that there are 550 ongoing projects, whereas only 79 are recorded in PIP for that year. The difference might be due to differences of coverage and classification. In any case, this points to a serious problem in data sharing and the reliability of the PIP.

Weaknesses in the current PEM systems, combined with lack of harmonisation among donors, lead to limited use of mainstream PEM for development projects. According to recent studies (World Bank and Asian Development Bank 2003; World Bank et al. 2005), PEM is very centralised and rigid and induces a high risk to public funds. Gatekeeping is a routine way to elicit informal payments, leading to overpricing in public procurement. Controls within the system are weak, again emphasising fiscal discipline and compliance with the spending process. The rating of Cambodia's public financial management system is still below average even compared to developing country standards (OECD 2006). These weaknesses provide justification for many donors to manage their projects using PIUs. While 17 percent of aid uses the country's budget execution systems, only about 9 percent uses its financial reporting systems, 6 percent uses its procurement systems and only 3 percent its auditing systems (CDC 2007). That study also found that there are at least 152 major PIUs being used, many more than the 49 presented in the OECD 2006 survey. The operations of PIUs vary greatly, particularly in provincial involvement. Generally, provinces have only minor engagement with PIUs and vertical programme management, meaning that control and resources remain highly centralised and subject to central weaknesses. This is discussed further in subsequent chapters.

Many, including the Development Assistance Committee of the OECD and Cambodia's own aid effectiveness/harmonisation and alignment advocates in the CDC, argue strongly that donors, despite their need for fiduciary security, should not continue to bypass (and thereby disable) the government system. Reforms are needed so that over time more aid is implemented within government programmes. The public financial management reforms currently (but slowly) under way must focus not only on improving government systems, but also on harmonising and aligning donors' ways of working. Some small progress has been made. On one hand, reform initiatives including the PAP, the Accelerated District Development programme and others focussing on improving Treasury operations, cash management and public accountability have improved government PEM. On the other hand, moves towards better alignment and harmonisation among donors with Cambodia's own priorities have begun with the introduction of the NSDP (RGC 2005a) and the Strategic Framework for Development Cooperation Management (RGC 2006b). But those reforms, although promising starting points, are either still in the early stages or have produced limited impacts on PEM.

3.2. Provincial PEM

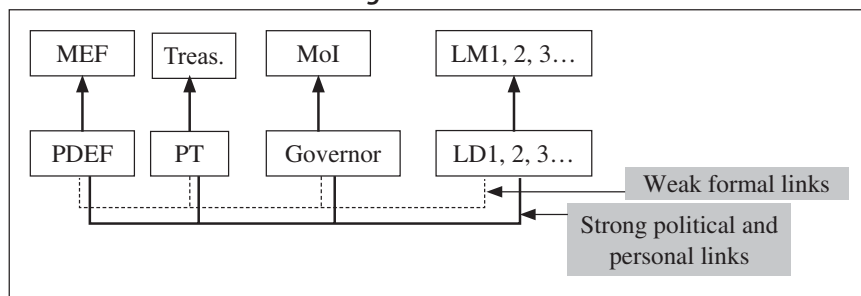
3.2.1. Introduction to Provincial Administration

Although the term "province" is used here to refer to a tier of government administration, it not intended to indicate that the provinces are integrated, for example with line departments under the guidance of a provincial governor and a unified budget. According to the rules, the governor is supposed to coordinate the line departments. In practice, horizontal coordination has been very limited. This is particularly the case for service delivery departments.⁷ Line departments represent themselves as responding to both governor and ministry. As officials of provincial line departments put it, "...as line departments, we have a mother and a

⁷ Anecdotal evidence suggests that a governor's influence is greater in the areas of police, military, forestry and fisheries.

father. Our mother is the ministry, and our father is the governor. We need to respect them both” (interviews in Takeo, Siem Reap, Kratie, 2005). However, it seems that they have greater respect for the “mother”, because that is who gives them money.

Figure 3.2: Provincial Administrative Structure



In spite of this, there are sectors where the governor’s reach into line department activities (especially around land and natural resources) can be substantial. The informal interactions among provincial actors are very lively and close. Informal relationships have two aspects: political and personal. Field observations indicate that although formal horizontal coordination between a governor and a director of education might be limited, they can be very close as friends or party members. Interviews indicate that virtually all the key officials—governors, deputy governors, line department directors, deputy directors, office chiefs and military officers—are members of the Cambodian People’s Party (CPP). The governor, who usually heads the CPP’s provincial office, interacts with line departments through monthly party meetings and other regular semi-formal contacts. The monthly party meeting strictly requires attendance of all key officials. Because these officials have often known each other for a long time, they are frequently very close personally too; some have become kin through the marriage of their children.

The line between party and state is unclear in the minds of officials. Eight out of 10 key officials in the provinces studied had been working in the provinces for 10 years or more. Their formative experiences were thus in a situation in which the ruling party and the state are almost the same, and intertwined through security and military connections. In addition, all the high-ranking officials interviewed for this study were long-time CPP members. Key informants estimated that across the sample provinces, more than 85 percent of ordinary bureaucrats were CPP members, at least by registration. In such a situation, the line between the party and state administration is very blurred, as reflected in the comment from a deputy director in Siem Reap in 2005:

“It is now a democratic era, and in that era, everyone needs to be in one party or another. I am in the CPP and I have been here for a long time, since the ’80s ... there is no difference to me whether what I do is for the party or for the government; the two are the same because both the party and the government work for the people.”

3.2.2. Provincial PEM Management System

The provincial administrative structure constitutes the wider governance system, both formally and informally, within which PEM is located. There are at least three groups of PEM systems operating in the provinces:

- the mainstream, dealing with the provincial shares of line ministry budgets and domestically financed projects implemented by line ministries;
- reform initiatives, some of which attempt to deconcentrate public resources to provinces and local areas within specific sectors (such as the PAP and Accelerated District Development), and others that focus on building province-wide institutions

- and assisting commune development activities (such as SEILA's PIF and CSF⁸);
- vertical programmes, which are managed through PIU.

The following will describe each system, focussing especially on its accountability arrangements using diagrams. The black arrow → indicates strong accountability, while white arrows ⇨ indicate weak or virtually non-existent links.

3.3. Mainstream PEM: Chapter 11 and Road Transport

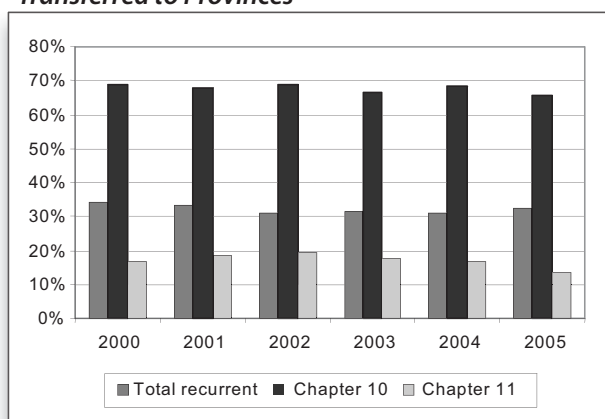
There are two mainstream cases to be described. The first is the PEM of line departments, which usually includes salaries (chapter 10), O&M (chapter 11) and some small social and economic spending such as pensions (chapters 30 and 31). Because the management of chapters 10 and 30 and 31 is quite straightforward, the discussion will focus on chapter 11.

The second case focuses on the PEM of development projects that are financed by line ministries and implemented by line departments. Road repair and maintenance will be illustrated.

3.3.1. Line Department Budgets

The PEM of line department budgets follows the principle of the overall PEM discussed earlier. Line department budgets are presented within national budgets that are broken down into budget items, and each item is further broken down into three or more sub-categories. In the provinces, the PDEF and the PT are also established for control purposes. The governor is delegated spending authoriser (the original authoriser is each minister). In practice, the salakhet budget is considered as a line department budget and is subject to the same rules. (MEF 1999; RGC 1999).

Figure 3.3: Percentage of National Recurrent Funds Transferred to Provinces



Data from 2000 to 2005, which show little variation, indicate that chapters 10 and 11 receive close to 70 percent of total recurrent funding. Within civil administration (i.e. excluding defence/security and interest on loans), only about 30 percent of recurrent expenditure is transferred to provinces. The data also shows that about 70 percent of total national budget for salary (chapter 10) is transferred down to provincial level. This is because of the high wage bill in education: 60 percent of the total payroll nationally is allocated to education, and more than 90 percent of this is transferred to provinces. By contrast in the case of chapter 11 the provinces are entitled to less than 20 percent, leaving the rest under central control.

Chapter 10 and other personnel-related spending are centralised, yet fairly straightforward. Whatever has happened further up the line in terms of formal and informal human resource practice (see Eng et al. forthcoming), payment of salaries to the names on the provincial payroll is reasonably reliable. In the budgeting process, these funds are given priority over chapter 11. The execution starts with the appointment of a payment officer, usually the director or finance officer in each line department, who is supposed to open an account at

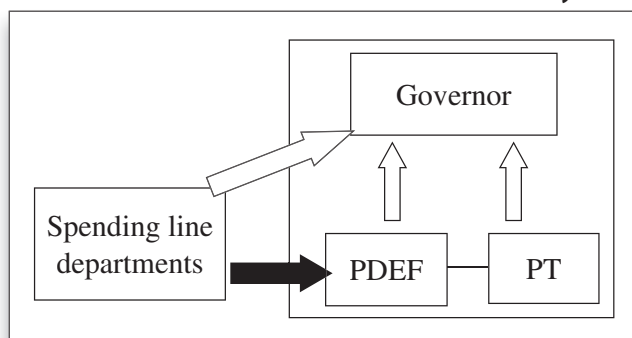
⁸ CSF and its accountability arrangements are described in this chapter only to show the different sub-national PEM systems; it is not included as a case in this study.

the PT. Each year, the Council of Administrative Reform and the MEF agree upon salary budgets, indicating personnel numbers and the salary for each type. The payment officer prepares a monthly disbursement request, gets approval from the PDEF and the governor and presents this to the PT, which disburses cash. Upon receiving cash, the officer is responsible for distributing salary to all staff and asks them to sign the payroll list. The signed list will be copied to the PDEF.

The execution of chapter 11 is more complicated. It is accounted for only after allocation of personnel-related spending. Chapter 11 has to be spent in accordance with the approved breakdown. For instance, if 10 percent of total chapter 11 is for electricity, it has to be spent that way even if it does not meet actual needs. The MEF or the Council of Ministers needs to approve any changes, which is very difficult to achieve.

The chapter 11 PEM system emphasises control and compliance. Pre-audit spending limits the discretion of line departments, which have to go through the PDEF to gain approval for their spending commitments. They depend on a central unit to do their procurement and on the PT to make their payments. These control mechanisms are structured into four steps: spending approval, procurement, payment approval and actual payment. As Figure 3.4 suggests, the line of accountability is from line departments first to the PDEF and then to the PT. The governor serves a mainly formal role as the delegated spending authoriser. There is also weak accountability from the PDEF and the PT to the governor; these two are more subject to the MEF and NT, respectively (MEF 1999; RGC 1999).

Figure 3.4: Accountability Structure for Mainstream Provincial PEM Systems

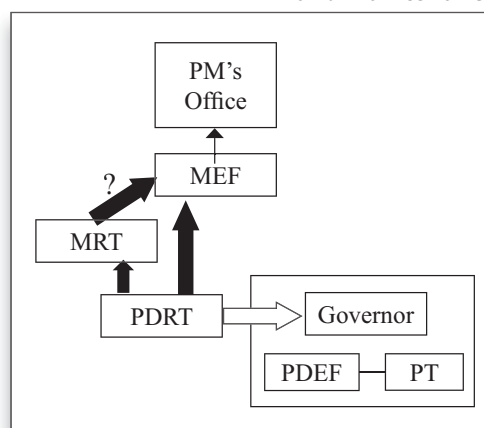


3.3.2. Chapter 11 for Salakhet

The *salakhet's* chapter 11 is different from that of line departments because it also encompasses a development component, referred to as the “provincial development fund” (PDF). This finances projects in provincial towns, including constructing and renovating parks, public lighting and rubbish collection. In the budget, such funds are classified as development projects, under the sectoral line of the MoI. The size of the fund varies greatly from year to year. On aggregate, the fund was 32 percent of total line departments’ chapter 11 in 2002, 115 percent in 2003 and less than 50 percent in 2004 and 2005. This variation most likely arises from balances being carried across years.

PEM for the PDF is mostly the same as that of chapter 11 in general, and it therefore induces the same formal accountability arrangements of spending commitment, procurement, payment order and actual payment. However, unlike the case of line departments, procurement for town development projects can be done under the supervision of the provincial Procurement Unit up to a value of 300 million riels (200 million riels for line departments’ chapter 11), and it can be spent beyond year’s end (MEF 2005b).

Figure 3.5: Accountability in Road Repair and Maintenance



3.3.3. Road Repairs and Maintenance

In every province, there is a provincial Department of Roads and Transport (PDRT), which is the department of the Ministry of Roads and Transport (MRT). The PDRT's job is to repair and maintain, not construct, provincial and national roads. However, it does not have funds for this. The PDRT proposes projects to the *salakhet* for provincial roads and to the MRT for national roads. Here, only national roads are considered.

Chapter 30 of the central budget covers national road repair and maintenance. Each year during PIP preparation, the PDRT submits a list of repair projects to the MRT for approval. The process has to go up to the MEF's Investment Department, and then the Prime Minister's Office, because chapter 30 is classified under capital spending. If approval is received, the PDRT will carry out the job as a contractor, being paid in instalments according to an agreed schedule.

National road repair and maintenance budgets introduce a type of formal accountability for results, namely contracting arrangements between the PDRT and the centre, which includes the MRT and the MEF. It was unclear from our interviews how accountabilities to both MRT and MEF are reconciled, and what the relationship between MRT and MEF is in this regard. However, informants were consistent in relating that the MEF is the more influential in this arrangement. It was also clear that horizontal accountability between the PDRT and the governor is very limited, and non-existent as far as the PDEF and PT are concerned. For instance, the PDRT has to pick up each instalment directly from the MRT. The current Treasury system is not used.

Here our aim is to lay out the basic elements of the formal system in relation to our core cases. The accountability issues and difficulties emerging from these arrangements will be discussed in the following chapter.

3.4. Reform Initiatives

3.4.1. Priority Action Programme

3.4.1.1. In Education

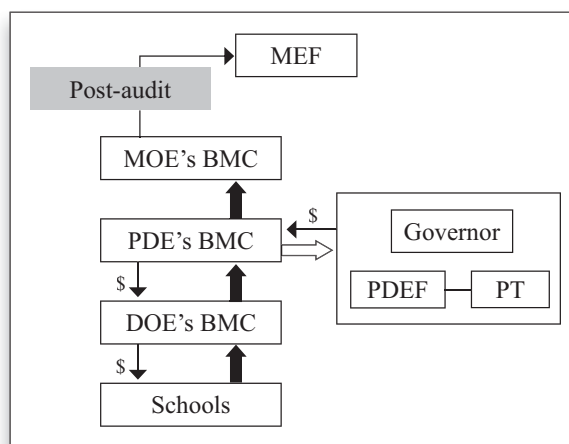
The PAP is a response to problems within the PEM, especially regarding chapter 11. Started in 2000, the PAP is a type of recurrent budget classified under chapter 13 (specifically, it was piloted in education, health, agriculture and rural development). Nationally, the size of the PAP as compared to chapter 11 has risen dramatically, from 2 percent in 2000 to almost 40 percent in 2004. However, 85 percent of the funding is still classified as central. The arrangement is a bit different, however, for education, where PAP funds, although still belonging to the Ministry of Education, are mainly intended to be transferred using formula-based allocations. The PAP amount for education transferred through the PAP has increased from 4.4 billion riels in 2000 to 15.4 billion riels in 2003. In 2003, the PAP was about 25 percent higher than chapter 11.

The PAP in education creates accountabilities for timely and adequate transfers of funds to schools and their effective use. It is a mode of bulk funding for core recurrent expenditures, sent directly from the centre and designed to cut out intervening levels (especially of the PDEF) and so avoid common problems such as rigidity in the approval process, informal payments and delayed transfers. The transfers to schools are meant to cover mainly teaching materials and small repairs. As Figure 3.6 shows, the education sector has created a central, provincial and district budget management centre (BMC) to be responsible for the transfer and spending of funds. It has also created its own internal auditing system. In addition, the use of a formula based on the number of students ensures equity in the transfers. Schools

need to follow spending guidance and prepare regular spending reports, which are sent to the district Office of Education's BMC for auditing.

Provincial PEM under the PAP differs from mainstream PEM on several points. Although it still uses the PDEF and PT systems, the PAP does not rely on pre-audit, so the PDEF does not have significant authority over the spending and disbursement of the funds. The PT acts as a "transit" for cash transfers to the provincial Department of Education, which distributes them to the district Office of Education and then schools. Accountability to the governor is even less than normal. In addition, to ensure that the PAP does not suffer from cash constraints and transfer delays, it is a requirement that 25 percent of the total PAP funds be disbursed in each quarter.

Figure 3.6: Accountability Structure for PAP in Education



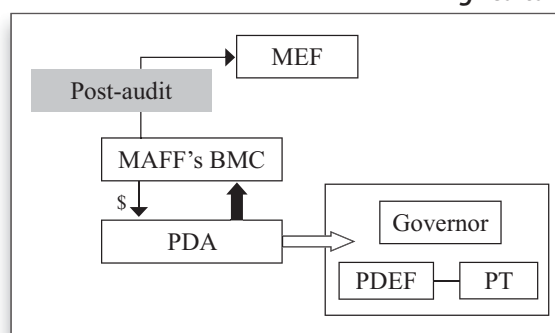
BMC = budget management centre. MOE = Ministry of Education. PDE = Provincial Department of Education. DOE = District Office of Education.

3.4.1.2. In Agriculture

The PAP in agriculture has yet to be deconcentrated to provinces. It is classified in the budget of the Ministry of Agriculture, Forestry and Fisheries (MAFF) to finance development projects proposed by the provincial Department of Agriculture (PDA) or by its own departments. Every year since 2000, PDAs have requested funds from MAFF for a list of projects. The MAFF has considerable discretion. If it approves projects, the PDA implements them and is paid directly from the MAFF according to an agreed schedule.

The PAP in agriculture is budgeted more or less in the same way as the PIP. However, it is classified as recurrent spending rather than development and funded totally from the national budget. Also, it uses post-audit management, meaning that the MAFF can disburse funds and clear the spending later with the MEF's controller. The PAP in agriculture represents deconcentration from the MEF to MAFF, but is still centralised in relation to provinces.

Figure 3.7: Accountability Structure of PAP in Agriculture



Formally, the PAP in agriculture imposes accountability for results between provinces and the MAFF by means of the contract-like arrangement between them. However, the line of accountability is clearer than in road repair and maintenance: it exists only between the PDA and MAFF. The MEF is not directly involved, due to its post-audit arrangement with the MAFF. What is similar to road repair is the very limited accountability between the PDA and the governor. The PDA merely informs the governor through its regular reports about the projects it implements for the MAFF. Accountability is virtually non-existent towards the PDEF and PT; the PDA is paid directly by the MAFF.

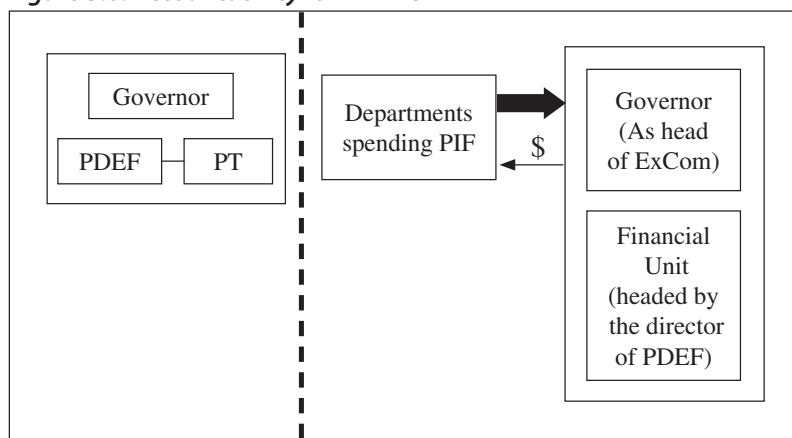
3.4.2. Provincial Investment Fund

The PIF is made available to provincial line departments to provide services that can especially benefit the communes. In particular, it is supposed to enable and encourage line departments to be more responsive and accountable to requests from communes

for particular projects and for wider needs related to natural resources and environment management, gender and other issues. It is one of several funding sources previously managed under the SEILA programme but now under the National Committee for the Management of the Decentralisation and Deconcentration Reforms (NCDD). Operating countrywide, SEILA provided support to and implemented decentralisation. The programme and its donor support project (now known as the Project for Support of Decentralisation and Deconcentration) get funding from different sources including the government, and various donors (Sida, UNDP, Danida, World Bank). From this financing, three main sub-national funds have been created. The first two were the CSF, managed by the elected commune/sangkat council, and a provincial/municipal investment fund, of which the PIF is a part. Most recently, a District Investment Fund has sought to support district development and create greater capacity and accountability between district, commune and province through discretionary funds.

In provinces, the SEILA management body is the PRDC/ExCom. This can be seen both as parallel to and as part of mainstream provincial administration. It has its own structure, including financial, technical support, local administration and a contract administration units, and a separate line of advisers located in the province but employed by the donor project supporting the programme. Its also has different sources of funding as described above, and its own ways of managing those resources. However, it is a part of the mainstream system because government people run it. For instance, the governor is also the head of the ExCom; the PDEF and PT work for the finance unit etc. Through its separate structure and management, SEILA adds a new role for key provincial actors.

Figure 3.8. Accountability for PIF in SEILA



SEILA introduced a new type of accountability among these actors. This begins at the grass roots, through annual participatory planning, linked directly to the timely allocation of funds through the commune/sangkat. This process also receives technical support and is subject to strict technical and financial audits, payment and other accountability arrangements to a degree unique in Cambodia. PIF allocations

are informed by commune priorities as collated by Provincial Local Administration Unit staff and announced at a public event, the district integration workshop. These systems have been extensively trialled, expanded and set in national legal frameworks, so every commune, district and province is now familiar with them and with their considerable administrative and accountability apparatus.

Here too a type of horizontal accountability from line departments towards the governor is introduced. The PRDC/ ExCom, with the governor as its head, has the authority to allocate the PIF to 13 eligible line departments that request funds to finance projects (in their priority activity list). Once the ExCom approves the amount and activities for each, the line departments can adjust their list with the district priority activities matrices and prepare detailed action plans. By agreeing to carry out projects using the PIF, the departments create some degree of contractual obligation, or accountability, towards the governor. The extent to which the governor, ExCom staff or line departments are able to use discretion in allocating these funds, or to shape these processes according to their own interests and

accountabilities, is sometimes debated (see Horng and Craig forthcoming). For execution, however, the mainstream PEM and its systems (mainly the PDEF and the PT) are not used. The finance unit of the ExCom fills the role of the PDEF, and cash disbursements are made through commercial banks.

Overall, the significance of this programme for PEM has been in its explicit attempt to create sub-national capacities and accountabilities through the use of discretionary funds transferred directly from the centre. This kind of funding is widespread in development and very popular among donors for the fiduciary guarantees it offers. But the extent to which it can be sustainably integrated into mainstream systems, as opposed to creating parallel systems requiring expensive separate audits, remains contentious. The system can be regarded as much more integrated than many, although there are still arguments over the extent to which its elements can be considered “on budget” contributions. Also less than certain is the extent to which, for all its emphasis on accountabilities and responsiveness, the system is dominated by elites, compromising its hoped for downward accountabilities.

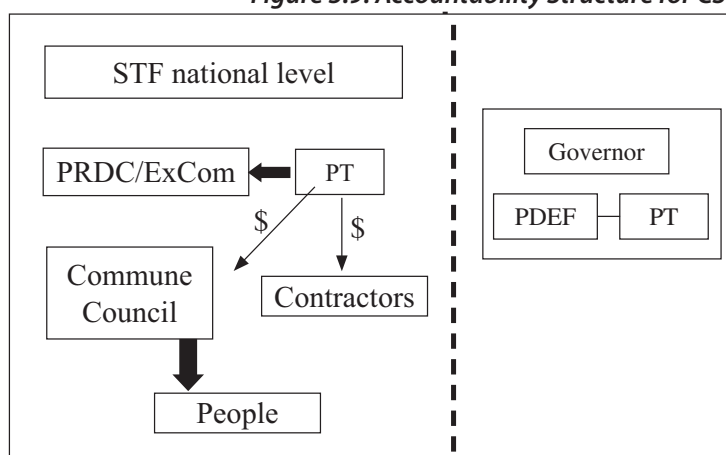
3.4.3. Commune/Sangkat Fund

Established under the 2001 Law on Management and Administration of Communes/ Sangkats, the CSF is a primary mechanism for fiscal transfers to the councils, funding both general administrative and development activities. For 2007, the CSF amounts to about USD22.5 million, more than 95 percent coming from the national budget, equal to 2.7 percent of total national recurrent revenue. In many communes the CSF is supplemented by donor funding earmarked for specific areas, such as agricultural development, gender or natural resource management. The CSF is a step forward in consolidation: several donors that used to fund local activities separately now channel resources through the CSF. Cambodia’s 1621 communes in 2007 received an average USD8700 for development (usually spent on a single investment), and USD5000 for administration (Chou 2007). The development distribution follows a formula of equal shares (40 percent), population (40 percent) and poverty index (20 percent). The CSF is the largest single public source of finance for communes. It is also remarkable for its accountability mechanisms, which have allowed very low leakage by comparison with some other intergovernmental systems.

Figure 3.9 shows accountability arrangements around the spending and management of the CSF.⁹ Currently, the provincial PRDC/ExCom is crucial to the whole process. It takes part in the management of the CSF, including bidding and contracting, and provides technical support to commune councils through its district and provincial facilitation teams. At least in administrative compliance, the councils are seen to be accountable to the PRDC/ExCom, which in turn is accountable to the national SEILA Task Force (STF) under the MEF.

In the absence of commune banks, the CSF has been channelled through the PT, in which each

Figure 3.9: Accountability Structure for CSF



⁹ For the organisational structures of SEILA as a whole, visit http://www.cdc-crdp.gov.kh/cdc/practices_chapter8.htm.

commune is required to open a US dollar account to keep funds transferred from the centre. The PT disburses the money to councils and to contractors once the commune chief is satisfied with the quality of their work. In this arrangement, the contractors are supposed to be directly accountable to the commune. The PT, although responsible for ensuring administrative compliance in the spending of the CSF, acts as part of the PRDC/ExCom apparatus and is directly accountable to it.

The significance of the CSF is its intended downward accountability to the people through the commune councils. As described in Horng and Craig (forthcoming), the planning, budgeting, and implementing of CSF projects are required to be participatory. Bottom-up planning, which requires local participation in identifying development needs and formulating a plan, takes place in every village. However, such participation, and the resultant accountability, have been subject to some question. Recently, in response to these concerns, the planning process has been reviewed and strengthened (Rusten et al. 2004; Kim and Henke 2005; Kim and Öjendal 2007).

Under the NCDD framework, and similarly to the case of the PIF, the CSF is managed with less spill-over of its influence into the mainstream PEM than its advocates had hoped for (in Figure 3.9, the mainstream provincial system is represented by the box containing the governor, PDEF and PT). Different spending and accountability procedures are applied, although the same Treasury is used to channel funding. In this case, the key actors might be seen as wearing two hats, one representing the PRDC/ExCom and the other mainstream PEM. The CSF is very much on budget, in that its main transfers (if not all of the transfers associated with it) are a part of the national budget and subject to parliamentary review. However, field interviews indicate that provincial people (in both salakheth and line departments) rarely see the CSF as a part of mainstream funding.

The interaction between line departments and commune councils in formulating and implementing development projects—and, in some areas, in operating and maintaining these projects—has been limited; councils usually work more closely with the provincial or district facilitation team than with line departments. Despite fairly wide discretion in how money is spent, the role of the CSF in delivery of core services such as education and health has been limited. For more on the accountability structures around the CSF and its planning, see Horng and Craig (forthcoming).

3.5. Vertical Programmes—Health Sector Support Programme

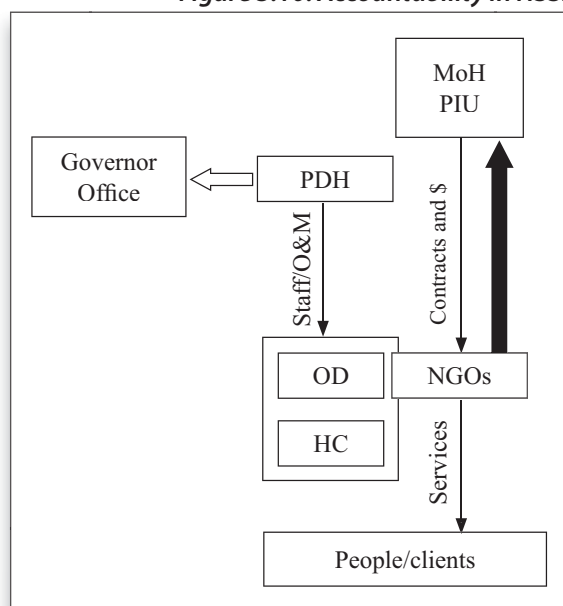
As part of sector-wide management of health, the HSSP supports the implementation of the Health Sector Strategic Plan 2003–2007 of the Ministry of Health. The project is financed by the Asian Development Bank and the UK's Department for International Development and financed on a parallel basis by the World Bank and the United Nations Population Fund. Operational district programmes are carried out by contracted NGOs. All the agencies involved have attempted to come together under a more harmonised arrangement similar to sector-wide approaches elsewhere, but in Cambodia designated as “sector-wide management approach”. The total estimated cost is USD77 million (Asian Development Bank 2002). The project provides basic health services to the poor and disadvantaged, including ethnic minorities, women and children, in 21 provinces. It supports the contracting of health services to NGOs in poor operational districts. The project's particular focus is public health, including national programmes on TB, malaria, HIV/AIDS, nutrition and safe motherhood. It emphasises capacity building of the ministry in planning, financing and managing health services.

The objectives are to: (1) increase the institutional capacity to plan, finance and manage the health sector in line with the Health Sector Strategic Plan; (2) develop affordable, good-quality, basic curative and preventive health services, especially for women, the poor and

the disadvantaged; (3) increase the utilisation of health services, especially by women and the poor; and (4) control and mitigate the effects of epidemics and of malnutrition, with emphasis on the poor. The project has three components: (1) improved delivery of health services; (2) support to priority public health programmes; and (3) strengthening institutional capacity.

As a vertical programme, HSSP is managed using a PIU and emphasises upward accountability between contracted NGOs and the PIU at the Ministry of Health. The PIU contracts health services to NGOs rather than using the health service delivery system, which consists of the PDF, operational district and health centre. The NGOs are in charge of making plans, setting priorities, allocating funds, assessing performance and meeting citizens' needs. The PDF has limited engagement despite its obligation to provide staffing and cover O&M expenses. Thus accountability is mainly on performance, but primarily between contracted NGOs and the centre; however, the arrangement blurs the links between the PDF, operational district and health centre, and especially the primary accountability to the people.

Figure 3.10: Accountability in HSSP



HC = health centre. OD = operational district.

CHAPTER 4

CENTRAL-PROVINCIAL RELATIONSHIP

CHAPTER 4

CENTRAL-PROVINCIAL RELATIONSHIP

This chapter discusses the central-provincial relations that characterise the accountability of different PEM arrangements. Here, two important issues are discussed: centralisation of funding, planning and other arrangements crucial to overall PEM, and the bypassing of sub-national government by vertical and reform programmes.

4.1. Centralisation

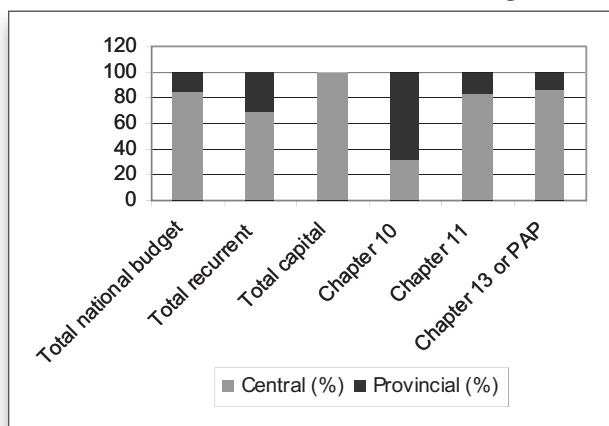
Centralisation in this context refers to the control by central actors over resources and the authority to spend. These two issues are at the heart of provincial accountability. In a situation in which the province is heavily dependent on national transfers, the adequacy, timeliness and predictability of transfers are preconditions for provinces to be accountable to the centre. Moreover, managers in provinces need sufficient authority to manage resources to meet their needs. Without these two conditions, it would not be possible to raise the issue of accountability.

The argument in this chapter is that within the mainstream system, the current PEM arrangement is highly centralised, and this has serious implications for the efficiency of public spending.

“The centre is very powerful. During the State of Cambodia era, even a janitor, if he was from the centre, was ‘central’. This feeling still persists.” (Line department official, Kratie, 2005)

This section starts by attempting to answer the question: “How much of the total national budget is given to the provinces?” We refer to the amount that is actually transferred and recorded in the budget book of provincial line departments. Figure 4.1 provides the answer to this question. Taking 2004 as the case year, the figure shows that total provincial expenditure accounted for only 15 percent of the total national budget. This is mainly because provinces are entitled only to recurrent, not development, funds; because virtually all recurrent funding is domestically financed, only government money is transferred to the provinces.

Figure 4.1: Provincial and Central Share of National Budget (2004)



The provinces are entitled to 31 percent of the recurrent budget, 55 percent of which is for salaries (chapter 10), and about 22 percent for O&M. The provinces absorb about 70 percent of total salary spending, but receive less than 15 percent of total chapter 11.

Furthermore, the PAP, introduced in four sectors, still largely belongs to the ministries. Among the four sectors, only health has a portion (about 40 percent in 2004) of its PAP funds classified as money of the PDF. In education, the PAP is still under the ministry, although its funds are transferred to schools and so largely bypass provincial administrations. The PAP in agriculture and rural development is subject to more centralised management, kept

tightly under the MAFF. Consequently, in total, only 5 percent of PAP funding is transferred to provinces.

How much is transferred to the provinces is only part of the story. The next question is: “How much authority has the province been given to manage its allocation?” The answer is: not much. With 55 percent of their funds devoted to salaries, provincial line departments have little discretion. With salaries, there is no space to adjust spending. The province is, in practice, only a distributor of cash to staff. Each year the centre (the Council of Administrative Reform and MEF) sets staff numbers and salaries for each type of staff. The tasks of line departments are to prepare the payroll list, collect the cash for salaries from the PT, distribute them to the staff and have the payment cleared by the PDEF. Besides chapters 10 and 11, another large budget line is chapter 31. Representing about 20 percent of the total provincial budget, chapter 31 is intended for social interventions, which consist mainly of pensions. Therefore, about 75 percent (55 percent from chapter 10 and 20 percent from chapter 31) of the total budget is personnel-related.

What is left is chapter 11, accounting for about 22 percent. If provincial line departments had authority over spending, they would increase this percentage. However, as discussed in Chapter 3, the execution of chapter 11 is very rigid. The rigidity is compounded by the fact that line departments have to follow a pre-auditing spending process, which gives central agencies, including the PDEF and PT, significant authority. Over-centralisation and rigidity, combined with widespread patronage networks, have resulted in severe accountability problems associated with chapter 11, discussed in the next chapter.

There have been some changes recently to decentralise authority around PEM in the government budget. Prior to the issuance of *Prakas* 45 (MEF 2005b), any procurement for line departments over 20 million riels in value had to be approved by the MEF. The *prakas* raised this threshold to 200 million riels.

Problems still arise in relation to PDF procurement. For PDF development projects, the new *prakas* raised the threshold for requiring MEF approval from 100 million to 300 million riels.

The requirement for MEF approval is mainly for control purposes, and the rationale is apparent. What has been troubling provincial officials, however, is the approval process. It starts with the *salakhet* getting a spending commitment from the PDEF, followed by the formation of a committee under the provincial Procurement Unit, leading to public bidding. Once the procurement is completed, the *salakhet* has to submit all the documents for sign-off by the MEF. The time and resources consumed are as follows:

- *Time*: it may take two to six months before approvals are complete, depending on the availability of officials whose signatures are needed.
- *Number of sign-offs*: Four important signatures, one after another, are needed, including that of the minister or someone on his behalf. The constant headache is that if any of these officials is not present, the process stalls. Moreover, in order to get each signature, four to five checking signatures are required.¹⁰ Therefore, in total, the document has to go across at least 15 desks before it gets to the minister,

¹⁰ These signatures are part of the administrative process for getting approvals of specific requests.

- *Informal payments:* Informal fees are paid to get through this process. It is hard to determine exactly how much is spent, but the lowest estimate from key informants (Takeo 2005, Siem Reap 2005, Banteay Meanchey 2005) is 10 to 20 percent of total project value.

The situation is worse in the case of road repair and maintenance. At least up to 2005, the PDRT repaired and maintained national roads using funds from the centre, which involved not only the MEF, but also MRT and even the Prime Minister's Office. To be approved, a proposal from the PDRT has to go through numerous sign-offs and layers of control. First, the PDRT proposes projects to the MRT, which then conducts field visits and decides. The Ministry of Public Works and Transport then proposes to the MEF, which checks on funds availability. Based on the proposals and recommendations from the Ministry of Public Works and Transport, the MEF approves projects from different provinces within the budget constraints. Interviews indicate that the project approval alone can take the following time and resources:

- *Time:* It might take six to 12 months just to be informed which projects are approved.
- *Number of sign-offs:* Many signatures are needed. After proposals from the provinces reach the MRT, the following sign-offs are needed: three to get the proposals to the minister, six more to get the proposals out of the MRT, about 10 more to get the approval of the MEF and several more from the Prime Minister's Office.
- *Informal payments:* It is hard to get information on how much under-the-table money is paid. The most optimistic estimate is that such payments amount to 10 to 20 percent of total project values. Such arrangements typically involve provincial officials signing for 100 percent of the amount, but receiving 80–90 percent.

The PDRT works on approved projects as a normal contractor. Payments are made in instalments. The normal schedule is 20 percent at the start, 60 percent during implementation and the last 20 percent kept as insurance on the quality of the work and paid out three months after the repaired roads are put to use. The PDRT has to pick up payments directly from the MRT finance office. Informal payments are involved, but there are no reliable estimates of the amount. In addition, the interviews indicate that more payments will be made when delegates from the centre (from the MRT and MEF) come to inspect road projects in the provinces. There is an expectation of food and often entertainment, and of petrol for vehicles. The interviewees could not give reliable estimates on the percentage of total project prices that informal fees might represent. However, it is known that the fees taken out of project money or from chapter 11 are large enough, with other payments and percentage shaving, that provincial officials reported not seeking central funds for road repair.

PAP in Education

The PAP in education is somewhat different. Although the fund is decentralised and intended for schools, it still belongs to the Ministry of Education and in some ways intended to bypass mainstream PEM and the provinces. Its PEM structure is quasi-mainstream. First, the funds are still included in the national budget and therefore are still under the authority of the MEF and are transferred through the Treasury system. Yet a number of special arrangements are applied, including: (a) removing PAP funding from the discretionary monthly allotment system, by providing 25 percent of appropriations for PAP automatically in each quarter; (b) reducing line item detail in the budget for the PAP, thus giving management greater responsibility for the allocation of costs; (c) introducing central, provincial and district BMCs, together with different procedures for managing funds; (d) replacing pre-audit of spending by post-audit; and (e) creating dedicated accounts in the PT that are not subject to its discretion over cash release (World Bank and Asian Development Bank 2003: 74).

Table 4.1: Time and Sign-Offs*

Cases	Time**	Sign-off**	Informal fees (percent of total project value)*
Approval for PDF procurements of more than 300 million riels	2–6 months	More than 15 signatures	10–20 percent
Approval for road repairs and maintenance	6–12 months	More than 20 signatures	10–20 percent
* Estimate based on period up to 2005. ** Estimate provided by key informants.			

As with the PAP arrangement, provincial (and also district) BMCs are upwardly accountable to the centre, not for spending and transferring funds to schools, but for supervising their spending and maintaining records for the post-audit. The provincial Department of Education is responsible for disbursing cash from the PT and transferring it to the district Office of Education, which then passes it on to schools. A formula-based allocation (5000 riels per pupil, plus 500,000 riels per school) ensures transparency. Provincial and district BMCs are also responsible for providing support when needed on managing the PAP at schools, and checking and compiling spending reports. A PETS in education (World Bank *et al.* 2005) found that fund transfers from provinces to schools have had few problems. Informal fees accounted for about 1.2 percent, and no delays were experienced once funds got to the provinces.

Therefore, the PAP in education is not really about centralisation, but about a special arrangement to meet specific requirements, in which provincial roles are intentionally made secondary. On one hand, it is a pragmatic solution to the budgetary problems in mainstream PEM. A special arrangement of this sort is not abnormal according to general PEM guidelines (Schiavo-Campo and Tommasi 1999). On the other hand, it is a narrowly sectoral initiative in which the centre is still the primary holder of accountability, downplaying the sub-national role.

4.2. Centralisation, Neo-Patrimony and Accountability

The discussion so far supports the argument that current PEM is highly centralised because the centre holds a significant share of the resources and the authority to spend. In the following discussion, further analysis shows that over-centralisation makes the current PEM vulnerable to rent seeking and patronage, and that it has serious adverse effects on accountability. With only 15 percent of the total budget—or about 30 percent of recurrent spending—transferred to provinces, it is clear that provincial administrations are poorly resourced, preventing them from being accountable for the welfare of their people, and from providing support to commune/*sangkat* councils as stated in *Prakas* No. 31 (MoI 1994).

The composition of funds allocated to the provinces also raises the question of whether the different types of funding complement each other. Currently, the provinces get 70 percent of the salary budget, but only 20 percent of the O&M and none of the development budget. A picture emerges of provinces acting as offices with many employees but little money, and with no responsibility for producing either goods or services. This points clearly to a disconnection between spending and expected results. Accountability for results is not possible in an arrangement such as this.

In addition, without funding to initiate their own projects, the line departments are more like “stand-by” contractors for their ministries. This is exactly the case with road repair and

PAP-funded projects in agriculture. The MRT and MAFF have funds and discretion to have their provincial departments implement projects using the funds, contract them to private companies or send officials from the central ministries to do the jobs themselves. If line departments do the projects, they will be held directly accountable as contractors. In such cases, it seems that accountability for results is being pursued.

However, over-centralisation of approval and execution undermines accountability by allowing space for rent seeking. The multiple approvals, instead of helping to control project selection and implementation, were used as mechanisms to solicit informal payments. Such gatekeeping, it should be noted, is not done by individuals, but by patronage networks. These connect actors who hold formal authority for getting things through. Altogether it produces an action set which is tangled “like shrimp soup”. This metaphor implies many people are involved.

The informal fees, moreover, are solicited not only for an individual’s personal gain but are also a part of his/her obligation, or accountability, toward those further up the chain. The situation is that “the small fish feeds the big fish”, and the small fish has to understand this obligation. People in the government often say, “One can’t stay long in a lucrative position if one does not know how to make offerings to the boss”. Formal accountability for results is replaced by the responsibility of lower officials to produce rents for higher officials.

Patronage around mainstream PEM has been operating for some time, but as with any form of patronage, it does not have clear structures and is not based on written rules. It is highly adaptive and fluid, attaching itself to formal PEM. It is also observed that patronage in this case is so strong that it has produced its own implicit rules. These are encapsulated in common sayings used by people in government. These sayings sound very Khmer, and are very helpful for setting up a pattern in which the patronage works. This paper uses some of those sayings to support its arguments, together with data and responses from informants.

Patronage in PEM is widespread and dominant. It attaches itself to virtually all steps and transactions within a project, and therefore is able to substitute its own accountability for formal arrangements. The situation in road repair and maintenance is a good example. Key informants indicated that, after working with each other for over 10 years, provincial and central people have found ways of “understanding” and “facilitating” for each other. This might help line departments to get project approvals, favourable implementation evaluations, payments and clean audits from the centre. The facilitation also means willingness to pay informal fees to get things through, as one education officer in Takeo put it: “Use fish as bait for fish, use money as bait for money”.

Facilitating transactions is commonly known as *rot kar* in Khmer, which literally means “running things”. It implies getting things done through government, behind-the-scene negotiations and paying informal fees. But in addition to this instrumental notion, the term also implies personal connection, trust and especially a sense of mutual obligation. An official in Takeo put it this way:

“It has been a common practice to give some ‘gratitude’ money to officials to help get our things done. I feel very uncomfortable and ungrateful if I don’t pay fees to those who help run my documents ... and if we don’t pay, people will resent us, and that makes things very difficult when we come to them next time ... I have to deal with them regularly; therefore I need to have a good relationship with them ... On how much to pay each time, after a while, people will know how much is most appropriate ... Those who are new to this kind of thing might be asked for a higher fee, but it can be negotiated.”

Observation in the field makes it clear that within these informal relationships, the centre has more leverage than the provinces. This is mainly because the centre holds significant

authority to approve or disapprove transactions, including project approvals, procurement, payments, project inspections and even auditing. The pressure is therefore strong, making provincial officials feel that they have to submit to central coercion. A *salakhet* official from Kratie complained about the process of getting approval for his procurement:

“People talk a lot about deconcentration, but we still have to ask for approval from the centre, especially on anything that may yield benefits. We don’t have many choices ... It is as if they said they will give us a fish, but they only give us the head and still hold on to the tail.”

The quote is representative of the sentiment among provincial people interviewed. It can be interpreted to mean that the patronage networks along central-provincial relationships are more instrumental and coercive on the part of the centre and tend to favour it. Equally, the element of “affection base” is low within this relationship, which is the opposite of the relationship among provincial actors, discussed in the next section.

Fieldwork identified a few cases where provincial officials refuse to engage in deals perceived as unfair. One case was that of a provincial department refusing to spend ministry money. The tension is reflected in the words of its director:

“We refuse to use the central ministry’s money because the current arrangement gives us heartache and doesn’t allow us to do the projects at all. How can we do our job, when 20–30 percent is cut off before the money gets to us? ... We Khmer say that it is better to get big bites from a big fish rather than small bites from many small fish ... The arrangement is too central ... For instance, we were required to do procurement for sand, pebbles and cement and transport these materials from Phnom Penh ... Why would we do that when such materials are available and abundant in our province?”

Informal payments are very common in current PEM. They hide under another practice: issuing receipts for the full amount although a percentage is deducted. To get such a receipt or other supporting documents requires sufficient “understanding” and “facilitation” among all actors whose signatures are needed. This is like popular sayings, “Eat smart and clean your mouth. That way, you can eat long” and “Share what you eat or you might eat yourself to death”.

The current central-provincial arrangements lead to delays and under-funding, two challenges that provincial offices have to handle when implementing projects. From interviews, such “handling” involves a lot of “off-the-record” practices, some for the sake of the projects, while others might lead to further rent seeking. For example, to prevent delays, the *salakhet* usually asks contractors to start work while waiting for approval of procurement documents from the MEF. Usually, the price is higher than market price to compensate for the payments being hard to get.

Such practices lead to another circle of “facilitating” between line departments and contractors or suppliers. For instance, the PDRT, which does road repairs itself, has to buy raw materials and contract labour on credit. In Kratie and Banteay Meanchey, the PDRT needs good relations with suppliers who agree to sell on credit. In return, it has to agree to higher prices (it is unknown how overpriced items are) and guarantee smooth payments. The concern is that such facilitating, while helpful for projects, also creates space for collusion; people say: “Hens that stay in the paddy barn must eat the paddy”. The suppliers are well aware of having to pay informal fees to get a businesses going. One popular saying heard in Siem Reap was: “One has to give some meat to tigers to stay long and safe in the jungle”.

Centralisation has been shown to lead to serious problems in project implementation. What was intended to be accountability for results has been undermined by rent seeking in a string or patronage network. In such neo-patrimonial arrangements, it is impossible to point to any single person for anything that went wrong. If a road is poorly maintained, who can be held accountable? The situation provides strong incentives to collude, or at least stay silent, for opposing the system might involve high risks. This rent seeking is very well known among people both inside and outside government, but as it is said in Khmer, they would not want to be “a bone in other people’s throats” or “put glue in their armpit” or “use their feet to steer the water”. Those who stand out might be seen as “eggs trying to break stones” or “not knowing how to flow with the stream” or even “stupid”.

Centralisation of resources also creates incentives for retaining (i.e. not reporting) a share of generated revenues, private contributions, in-kind assistance from NGOs and external funding in the provinces. With limited resources and spending rigidity, line departments and governors face a discrepancy between funds and accountability to the local population. As a result, they tend to depend on off-budget resources to meet their spending needs. Anecdotal evidence suggests that off-budget resources might account for 30 percent of total transfers (Bartholomew and Betley 2004). Off-budget spending also implies more possibilities of rent seeking and abuse, for it usually is not subject to regular management and oversight (Allen and Radev 2006). Also, revenues from various sources are routinely maintained in off-budget arrangements to enable both personal and political initiatives, also commonly involving various kinds of patronage. Nationally, these arrangements can be seen as central to political control and stability.

4.3. Executive Bypassing—the Provincial Role in Donor Programme Implementation

The term “executive bypassing” refers to PEM systems that intentionally bypass or stay outside the government PEM system or provincial administration. More specifically, it refers to using PIUs to manage donor funding outside the government’s PEM and accountability arrangements. In the analyses below, we use the HSSP to illustrate executive bypassing. The arguments are derived as much as from the literature as from cases identified during the fieldwork.

Donors bypass the government system to manage their projects and funds. Because about 80 percent of development funds are external, it can be said that most development activities bypass the government system. And because provinces have no hold on development activities, most of them also bypass mainstream provincial administration. Donors bypass the government system by setting up central PIUs. Looking through the PIP, the dominance of PIUs is clear, since an overwhelming share of projects is significantly or fully financed by donors. In health, as indicated in the 2006–2008 PIP, only two out of 28 capital investment projects are fully financed by the national budget. A recent study (CDC 2007) found 152 PIUs operating in Cambodia; only 10 percent of their funding uses the country’s PEM, and only 6 percent uses the country’s procurement system.

Chapter 3 provides a brief overview of the HSSP’s accountability structure and how it bypasses the government PEM. The bypassing has both positive and negative impacts on service delivery and provincial PEM. Positively, the bypassing ensures higher accountability for results and minimises fiduciary risks. It “cocoons” a project from negative aspects associated with government PEM systems. The contracting practice used in HSSP has been praised as a success for improving overall health services, expanding their coverage and discouraging informal fees from patients. The same report suggests that the less contracting arrangements have to do with government management systems, the higher will be the efficiency of service delivery (World Bank 2004b).

Another interesting but often overlooked side effect of the HSSP's provincial presence is that it demonstrates how things should work. Ways of doing things more efficiently, and new skills and procedures for managing programmes and financial resources have been operating alongside less efficient ones, starting to make people reflect on their own capacity shortcomings. It was found across all provinces and line departments that being able to work for a programme or project was a motive for staff to develop new skills. This quote from Siem Reap captures what the study observed:

“By working in the angkar programme, a member of my staff learns better accounting skills, which are a good resource for the department ... Even I am pursuing a master's degree and go to Phnom Penh every Saturday. I don't think we can stay the same while many younger people now have master's degrees ... I also encourage my staff to undergo more training so that when more angkar come, they can work and get extra income. In the last year, about 20 percent of our staff have gone for bachelor or master's degrees. It is a good sign.”

The interviews gave the impression that the HSSP is like a small company operating within the health sector, although the province does not play an active role in its activities. Apparently, it uses a modern accounting system, with computerised accounting software, has its own procurement procedures partly following the standard operating procedure for donor-funded projects, transfers its funds through a commercial banking system and is audited by international firms such as KPMG. Those who work for it receive salary supplementation. In addition, the perception among provincial Health Department officials is that the HSSP financial management system is much better than that used by the government to manage, say, chapter 11. However, this finding is based only on qualitative anecdotal evidence, and should therefore be taken as hypothesis rather than fact. Such caution is especially needed in the light of well-known scandals over procurement corruption in World Bank and World Food Programme projects (BBC News 2006).

Some negative aspects of the contracting out by HSSP were also identified. As is commonly known in aid management literature (e.g. World Bank 1998b; Hubbard 2005a), the project model has created institutional costs through bypassing. The programme arrangement not only bypasses government PEM as a whole, but also reinforces centralised accountability by limiting the engagement of provinces in the project's implementation. Our interviews found that the PDF has only limited engagement in the programme. In Takeo in 2005, for instance, it was noted from its budget allocation that the province was entitled to spend only on “soft activity”, including training and small office supplies, which had to be recorded and cleared with the PIU in Phnom Penh. The spending was equal to only about 15 percent of the total chapter 11 for the Health Department. The big spending items, including construction, medical supplies and even salaries, were managed directly from the PIU.

Furthermore, based on our fieldwork, the arrangement has created difficulties in the cooperation between operational districts, NGOs and PDFs. The PDFs, which are expected to provide staffing and O&M to operational districts, have failed to fulfil their tasks: they have not promptly filled staff vacancies, enforced discipline on staff performance or dealt effectively with delays in transfers of drugs or other support. The situation created two-way resentment: the NGOs and operational districts were dissatisfied with PDF performance, and the PDFs felt cut off from the arrangements and resentful of the special privileges that operational districts and NGOs enjoyed. The arrangement has left the mainstream government agencies outside the intended accountability for results. Because programme funding comes directly from the central PIU, the real accountability line points directly back to it. Moreover, because the contractor NGOs are responsible for actual service delivery, upward accountability for results remains very much outside the government. Consequently, vertical programmes such as HSSP have further centralised arrangements.

Line departments' lack of ownership of the provincial execution of donor programmes is widespread. Such feelings are not limited to HSSP but also apply to programmes in other sectors. Provincial people see those programmes as coming from the centre, and their engagement is only occasionally requested. They often refer to the programmes as the help of *angkar*, a word used to refer to anything non-government.

This paper also argues that the HSSP—and possibly other donor programmes as well—has brought new resources that existing patronage can exploit. Here, it is commonly noted that directors of line departments play various roles: head of a department, political activist (usually of the ruling party) overseeing his members and a patron or even “father” to his staff. We frequently heard that line departments see the role of director as ensuring the welfare of staff. One way to do that is to attract organisations and programmes and so get salary supplementation. One Takeo director said about donor programmes and his staff:

“As a director, my job is to attract many angkar to come and develop my sector in my province ... If they come, there will be development, and we will facilitate their work ... If there is an angkar programme working in my department, it might help because it will create jobs and provide additional salaries and opportunities for more training for my staff. Furthermore, when the programmes finish, they will give us their equipment and appliances, which are very helpful ... As a director, I am like a father to my staff, whom I help look for opportunities so they can make some extra money. Without such programmes, my staff would not have anything to do and, therefore, no additional income ... My staff can't survive with the low salaries now.”

There is high appreciation from staff whose directors manage matters well. One finance officer in Siem Reap expressed her feelings like this:

“My boss is a very nice man. He is very caring about staff. He has attracted many programmes into our departments and therefore allowed many staff to work for angkar and make extra money. He is also very close to the governor and well known in this province ... Many of us here feel indebted to him and therefore have been very responsive when he asks us to do non-government work such as helping arrange ruling-party ceremonies in the province.”

Jealousy over salary supplementation is common. It has some adverse effects on the morale of those who do not get it and leads to “equalisation” strategies, some of which might cause overall inefficiencies. People may justify working less, saying that they don't get as much money as people working across the room or across the road. Directors have to deal with this issue by trying to find more programmes so that more staff can be employed, and sending them for further training to improve their eligibility. Because there are limits on how many people can work for programmes, some directors allow their staff to seek other income, such as asking for informal fees, or using work time to run their own businesses (see Eng *et al.* forthcoming on personnel management).

Induced bypassing is very common nowadays. The improvement that such arrangements have brought to sectoral service delivery (such as health) is highly appreciated, but its undermining of government ownership and accountability should also be noted. This is not to say that the project model used by the HSSP is not preferable. On the contrary, considering the weak accountability mechanisms within mainstream PEM, a programme such as the HSSP has enough justification for its actions. However, it is important for donors to try to maximise use of the government PEM system in parallel with the progress made in the overall PFMRP. Moreover, donor programmes should give more consideration to the role of the provinces. Donors mainly work at the centre, which has considerable discretion in the advice it gives about the provinces that are relevant.

CHAPTER 5

PROVINCIAL AND HORIZONTAL ACCOUNTABILITY—MANAGEMENT QUALITY AND COORDINATION

CHAPTER 5

PROVINCIAL AND HORIZONTAL ACCOUNTABILITY —MANAGEMENT QUALITY AND COORDINATION

Complementing Chapter 4, on central-provincial relationships, this chapter focusses on PEM accountability among provincial actors. It is divided into two parts. The first addresses accountability around mainstream PEM in provinces where the PAP in education has had an effect. Here, informal arrangements, timeliness of transfers and disbursements, procurement and institutionalised rent sharing are addressed. The second section considers horizontal accountability between line departments, a context in which the governor is a key actor, but also where high informal and political accountability and high degrees of fragmentation greatly reduce accountability. Given D&D hopes for unified provincial and district administrations, this kind of accountability seems very important to reform.

5.1. Accountability within Mainstream PEM, Compared to Reform Initiatives

It is argued here not only that the provinces have received few resources, but also that the management of these limited resources has been weak. The weaknesses found in the provinces result partly from weaknesses in the wider PEM system, and partly from patronage networks seeking rents over the already small provincial funds. The two causes are interrelated. In some instances, accountability is weak because the formal PEM is flawed and allows a system of patronage to strengthen. The solution would be to fix some of the technical problems embedded in formal accountability and so minimise rent seeking. In other instances, patronage has been very prevalent and highly institutionalised, implying that political and long-term solutions are more appropriate than technical ones.

We should start by recalling that mainstream PEM is applicable only to the provincial share of the national budget, that is, the department and *salakhet* budgets. These funds, moreover, cover only recurrent spending. In the current arrangements, it is primarily accountability for formal compliance, and especially its sign-off procedures, that is sought from spending line departments, especially to the PDEF, PT and, to a lesser extent, the governor. This overemphasis on formal compliance has led to too much focus on the process of spending, rather than on what the spending is for. It legitimates attempts to make spending rigid, subject to multiple layers of control, which over time gives the central agencies excessive discretion over execution. This leads to high fiduciary risk for provincial funds.

Previous studies, confirmed during field visits for this research, indicate that the problems are less to do with salary and other personnel-related spending. Informal fees for salary disbursement from the Treasury are usually very low (less than 0.5 percent), and salaries have been paid well before the 10th day of the following month (World Bank *et al.* 2005). This is mainly because salaries are given priority over other spending and are therefore less likely to encounter a cash shortage. Also, salary payment is straightforward, involving no complicated or uncertain approval process. More importantly, salary is “sensitive” money; that is, problems can easily attract complaints from staff.

The O&M budget, which is about 20 percent of the total provincial share of the national budget, is subject to higher fiduciary risk. Often referred to as “money to play around with,” it encounters informal fees, delayed transfers, procurement overpricing, poor record keeping

and unreliable auditing. There are technical weaknesses in aspects of these functions. At the same time, it was found that these weaknesses were induced by the systematic rent seeking of patronage and its “shadowy” accountability arrangements.

5.1.1. Rigidity and Over-Centralisation

Too much focus on fiscal discipline rather than operational efficiency induces rigidity in spending, compounded by ex-ante approval. The whole process is a prime example of neopatrimonial operations: elaborate formal procedures creating space for elaborate informal ones. For instance, the whole O&M budget is broken down into very detailed items, each of which has to be dealt with following strict procedures during implementation. To spend it differently in any way requires approval from as high as the MEF and even the Council of Ministers (World Bank and Asian Development Bank 2003; World Bank *et al.* 2005). Also, approval from the PDEF is required for each spending commitment that uses direct transfer—i.e. payment directly from the PT to suppliers.

The approval process is to ensure accountability for compliance. However, such compliance is achieved only on paper (Bartholomew and Betley 2004). Financial documents are of low reliability due to the ease of producing false ones. Key informants indicated that it is easy to produce three price quotations out of nothing in order to meet procurement requirements. Similarly, receipts for large amounts of staff mission spending can be easily produced, even though no staff have made field visits or travelled anywhere. One extreme case was a set of documents delivered to a provincial administration about a never constructed bridge. Weaknesses due to elaborate formal procedures are made worse by line departments racing against the end of the year to spend all their funds. This intensifies the incentives to produce false supporting documents. As one line department official in Banteay Meanchey put it, “It is stupid if you don’t know how to spend the money they give you”.

In terms of centralisation, the PAP contrasts with the chapter 11 arrangements just described. Although it was designed to bypass the provinces and transfer funds to schools, its post-audit approach has proved effective against centralisation and its problems, especially gatekeeping, informal fees and procurement, which will be described below. Budget execution has been accelerated by the less complicated approval process (World Bank *et al.* 2005).

5.1.2. Informal Payments and Multi-Layering of Approvals and Controls

The most common fiduciary risk associated with chapter 11 spending is informal payments resulting from what is called “running things” in Khmer. In provincial PEM, informal fees are expected to gain approval for spending commitments, procurement and especially for disbursement from the PT. The fee tends to be higher where there are more layers of approval. Key informants estimated that 10 to 15 percent of chapter 11 disbursement involves informal fees. Also, and this is important, chapter 11 money is usually used to pay informal fees for spending and disbursement of more sensitive budget lines. Tighter processes in one area are likely to lead to weakening in other areas, so that essential informal arrangements can be maintained. The higher leakage of chapter 11 is a result of various factors discussed below, but one key reason is that leakage can be easily blurred by the lack of transparency in procurement. If leakage becomes known, it does not have any

direct impacts on individuals, especially if the leakage is shared among the same people exercising formal accountability oversight.

However, it is observed that the provincial informal fees around chapter 11 are less serious than the situation at the centre (as discussed in Chapter 4). There seems to be more predictability about the amount of informal fees to be paid to get things through and how long the process will take. This may be due to the regularity, repetitiveness and similarity of the transactions. For instance, people know that they can give out 5000 to 10,000 riels at each “table” to sign off on regular spending for electricity, and that about 5000 riels are needed for the process to be accelerated.

More important than this are the close personal relationships that provincial people have with each other. Spending department directors, their finance officers, heads of the PDEF and PT and officials working at the *salakhet* are usually long-time staff. They know each other well, and they belong to the same party. These connections, together with more predictable and acceptable rent sharing, create a patronage network and rent seeking that are so institutionalised that people feel it is acceptable and efficient to comply. One officer articulated it this way:

“People have done this, and it helps smooth the process. Actually, they [approving officers] don’t ask for money, but we know that we should pay ‘gratitude’ money for their services. It also helps the relationship for future transactions if we pay.”

Low pay is often cited as justification for informal fees. Most civil servants need to earn extra income to supplement their salaries, which, according to our data, are USD30–50 per month. People estimate that the current civil service salary is only one-third to one-fifth of what is needed by a family of five (parents and three children) to ensure a minimum living standard. Under such economic pressures, lower civil servants are more likely to be drawn into paying and receiving informal fees. But, crucially, they do not do this on their own; they have to be part of a wider network in which they build personal and protective relationships with others (for example their boss, and those who pay and receive their informal fees). Often, they need to be in the right party.

One Siem Reap department director, speaking frankly, said that he is well aware and implicitly permits (in the Khmer phrase, “Open one eye, close the other”) the informal payments his staff receive while doing their jobs. In addition, informal fees are sometimes a solution to jealousy among staff:

*“My staff have to eat so that they can work. Obviously, with such low salaries, they can’t eat. As their boss, who is like a father, I need to help them find extra money. Some of my staff members are lucky enough to work for *angkar* and get salary supplementation. For others who do not get this, to avoid jealousy, I have to help them by closing one eye to their asking for informal fees. We also pay other people informal fees when we ask them to help us (like approving requests). So people do this all the time. I just try to ensure that as long as what they ask is not too much, and too gross, we can keep things moving.”*

It was found that, for those who do not get to work for *angkar* and whose positions do not allow them to ask for informal fees (such positions are called “paper eating posts” and usually include administrative clerks), the favours from the boss include being allowed to come to work only 50 percent of the time without punishment.

One important finding stands out: for staff members, especially lower ones, to be able to enjoy favourable treatment, they have to be in the right party, which is the CPP in virtually all cases. Since around 90 percent of lower civil servants are listed CPP members, and that

party provides the crucial back-up of patronage, we can conclude that a majority of civil servants practically and pragmatically serve as layers in the patronage pyramid. Another conclusion can be drawn: low pay and the limited economic options for most civil servants have led to politicisation and rent seeking within provincial administrations.

That said, one needs to distinguish between survival and “grand corruption”. Most informal fees involving lower bureaucrats are survival-oriented, whereas other studies have found that grand corruption is more serious, involving higher officials. This issue lies outside the scope of this study. But reformers should not be like the man in the Cambodian saying: “He beats a cat to death for stealing a dried fish, but hides and quivers with fear when seeing a tiger kill his cow and carry it off”.

Despite the above issues, it was found that execution of the PAP in education was less problematic. The PETS study (World Bank *et al.* 2005) suggested that only 0.5 percent to 2 percent was lost in informal fees in transferring from the Treasury to schools. This is mainly explained by the simplicity of its procedures and stricter monitoring (as opposed to mere compliance), for which the PAP has established an internal control system. But this finding should be treated with caution: people can take money from one budget line to pay for approval and disbursement of another.

All of this will need careful consideration as D&D proceed. The basic elements of provincial weakness are already in place, although they are little different from the centre. But if the province is to become more than just another layer of informal gatekeeping, better systems are needed before larger transfers begin to be made.

5.1.3. Transfers and Disbursements

Inadequate, delayed and unpredictable transfers are another major weakness in the mainstream system. They make budgeting unreliable and pose fiduciary risks to public funds. The underlying problem is a shortage of funds and ineffective control of commitments (World Bank and Asian Development Bank 2003; Bartholomew and Betley 2004; World Bank *et al.* 2005). However, the situation differs for different budget items. As indicated earlier, it is better to pay salary and social intervention funds monthly. With money constraints, chapter 11 is usually the victim of late transfers. Although each year the execution rate of chapter 11 is nearly 100 percent, this does not mean the money is spent on time; the rate is only the annual aggregate of spending, while what is more important is the pattern of spending throughout the year. It is common for around 50 percent of line department funds to be spent in the last quarter. This shows the uneven availability of funds through the year and suggests significant timing problems in current spending.

Unpredictable transfers, the rush to spend all allocated funds before the end of the year and gatekeeping in approval have created a lot of room for irregular practices and, consequently, for fiduciary risk. In 2005 in one province, more than 500 spending commitments and payment orders were signed and approved on 25 December.¹¹ In this last minute rush, procurement and goods or service delivery reports were in many cases produced out of nowhere.

Paying suppliers is another issue. It might take from two to 12 months to pay suppliers fully. Facilitation fees and good relationships are crucial to obtain priority access to the limited money available at certain times. These problems are mainly due to lack of transparency in prioritising payments, which gives officials the ability to delay payments to suppliers who do not pay informal fees. This is related to the absence of “ring fencing” of funds at the PT, which leads to funds intended for one purpose being shifted to another and provides

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¹¹ Interviews with line departments, Siem Reap, 2005

the PT with huge discretion. To overcome this problem, in some cases spending agencies reach an agreement with suppliers that they will be responsible for obtaining money from the PT for them. This is considered as “off the record”, because the rules require that only the PT make payments to suppliers. This another example of neo-patrimonialism distorting arrangements. In the last section we saw neo-patrimonialism elaborating sign-off procedures because each elaboration provided more rent-seeking opportunities. But neo-patrimonialism can just as easily mean that safeguard arrangements, such as ring fencing, are weakened. In both cases, the rule-based procedures are finely tuned to the needs of patronage.

Despite the law saying that 25 percent of PAP funds in education are to be disbursed quarterly, previous studies (World Bank and Asian Development Bank 2003; World Bank *et al.* 2005) and interviews for this research confirm that schools also suffer from delay and liquidity problems in the Treasury. An interview in the Education Department in one province reported that more than 50 percent of the 2004 PAP was disbursed in 2005, some of it as late as July. The situation was similar in previous years, as indicated in the PETS study (World Bank *et al.* 2005). In our interviews, the Education Department and PT pointed at each other to explain delays. The Education Department complained about the PT not disbursing money upon request, while the PT said it was the Education people who did not provide timely clearance of previous disbursements.

Delays and cash shortages have given central agencies, especially the Treasury, even greater leverage to extract rents. This leaves other actors, including spending agencies and suppliers, little choice but to buy into the patronage networks in the central agencies. However, the fieldwork also found a few cases in which line departments and contractors failed to maintain good relations with central agencies and therefore had problems spending their chapter 11 (one provincial department was able to spend only 60 percent in 2005). Others met problems of payment after delivery of goods or services (one contractor had to wait two years before being fully paid). But in most cases, all the actors come to an understanding and make their informal transactions predictable.

5.1.4. Procurement

Procurement is usually subject to a high fiduciary risk. Lack of transparency is the key issue. Provincial procurement is usually conducted through the Procurement Unit and the Pre-Qualification, Evaluation and Award Committee. They are required to be set up in each province and municipality. Since 2005, the Procurement Unit has been allowed to procure goods/services up to 200 million riels (up from 20 million riels) for line departments and up to 300 million riels (up from 100 million riels) for the PDF.

Overpricing of goods and services acquired in this way is very common, and can be quite high. In the PETS study, the average price of A4 paper purchased via public procurement was over 30 percent higher than the retail market price, with the lowest excess being 25 percent and the highest 60 percent. These data again contrast with the PAP in education. Decentralised procurement, allowing schools to purchase according to their needs, greatly reduced overpricing. Overpricing of the same paper was estimated at 5 percent for schools that did their own procurement.

Informants suggested that overpricing can be even higher for non-standardised products or services, such as certain types of computers, office furniture or building construction. No specific data, however, are available on purchases of these types. Informants also gave examples that demonstrate reasons for overpricing. Because of the delay in payments, some suppliers are discouraged from bidding, and this limits both choices and competition. Another problem is tricks sometimes used to limit competition—making the application process hard, or poor dissemination of information on procurement. Procurements might

be advertised only in little-known newspapers, and for only a few days prior to the bidding. As result, public bidding is sometimes not held, which leads to direct price negotiations and overpricing. Further, to compensate for late payment, suppliers routinely add interest of 4–5 percent a month. Because payments are made in riels, exchange losses are also incorporated into bidding prices.

Procurement is prone to rent seeking, especially when there is collusion. The current system has created a situation where anyone involved has little choice but to join the network. Lack of transparency in bidding and disbursement problems make good relations with government officials imperative for suppliers. In turn, the latter have to seek profits by, for instance, not meeting contractual obligations. This problem was well known among the people interviewed, but it has been in place for so long that it is seen as a given.

5.1.5. Accounting and Reporting Systems

Government accounting and financial reporting systems cannot produce accurate, reliable, relevant and timely information for policy making, auditing and oversight (Bartholomew and Betley 2004). Line departments do not keep accounting records, but a ledger recording spending commitments and payment orders submitted to the DEF and PT. The PT is the single account holder, checking and updating cash inflows and outflows. The PT reports directly to the national Treasury daily on the state of the cash account. Nonetheless, data in PT records might not be complete either, because some provincially generated incomes (e.g. slaughter tax) are not regularly reported. Unreported provincial revenue, however, is outside the scope of this study.

A number of weaknesses can be identified. First, the accounting system is said to be cash based, not accrual based. However, the way the budget is executed is basically accrual based, in that execution is considered to have occurred if spending is committed and payment orders are issued, regardless of whether actual payments have been made. Even more confusing, there is no reconciliation between the cash balance and payment orders. The only reconciliation identified is between payment orders sent from the DEF and those received by the PT at the end of the year, which does not really help for control purposes. Accounting and recording practices do not follow the international accounting standard. One concern is the absence of double entry records, which are necessary for ensuring the accuracy of data. The issue is compounded by the fact that a majority of the recording is done manually, without adequate computerisation. The book-based records are not updated well either.

Information in the current system is highly aggregated. The most useful information one can get is the budgeted spending broken down into sub-chapters and the execution rate at the end of the year. Thus one might know how much was spent on office equipment, but no further details. Attempts to extract more detailed data would involve checking poorly archived receipts, spending commitments, payment orders and procurement documents. Finally, the quality of record keeping in line departments very much depends on the initiatives and diligence of each department's finance office; some manage to prepare very neat spending and cash reports, while in some others, reports are extremely messy or almost non-existent. Most financial documents are prepared in a way that only the accounting chief and one or two assistants can understand.

In the education PAP, overall accounting and reporting, although better, are still problematic. Despite accounting guidelines issued, it was found that in 2003, only about 30 percent of schools sent monthly spending reports to superiors. Data are also questionable. Numerous reports showed strange spending amounts such as “9765 riels for flower pots” when the smallest banknote is 50 riels. Interviews indicated that sometimes

spending was reported in ways attuned to being accepted by district and province, not to accuracy (World Bank *et al.* 2005).

Unreliable spending records are an example of how weak formal accountability can create a space where patronage and rent seeking can flourish. Once the network is widespread and involves all key actors, the checks and balances of the formal system (for instance, a receipt is deemed legitimate if there are signatures from several people) are no longer tools to ensure compliance, but shields to hide informal transactions. The recording system completely hides informal fees. Usually, under-the-table money has to be paid when disbursing money, and it is certainly state money that is spent for such purposes. Yet the receipts record the full amount, hiding the informal transactions.

5.1.6. Dealing with Patronage Networks and Institutionalised Rent Sharing

Weaknesses in formal accountability arrangements allow patronage networks to seek rents. In some cases fixing those weaknesses might reduce rent seeking. Changing from pre- to post-audit and the simplification and clarification of approvals might reduce informal fees. However, as is generally recognised, a PEM system might meet all technical requirements and still be unable to minimise fiduciary risks. No formal procedures can eliminate systematic collusion in procurement, and accounting standards cannot ensure reliable information when there is systematic misreporting (Schiavo-Campo and Tommasi 1999). The causes of these problems lie in the institutional arrangements that determine incentives and behaviour. In provincial PEM, patronage constitutes an influential informal institution, one so strong that it can undermine formal arrangements, even good ones.

The study found that patronage networks around mainstream PEM are strong and institutionalised and have been operating for some time. Eight out of 10 of the key people had been in the province and their position for at least 10 years, and virtually all of them belonged to the same party. This implies close personal and political connections, a situation that makes rent seeking more likely. One comment in an interview reflected this: “As long as we are in our party, we can get a fat [lucrative] post and stay there comfortably, if we have money and back-up”.

Mutual benefit (rent sharing) is the objective of the patronage, and because people have been working with each other for a long time, they understand each other about how rents are shared. Other things were also observed. The idea of mutual obligation or gratitude is important in defining relationships. This concept is very strong culturally. Those who do not have it can be compared to a crocodile and are said not to have a bright future.¹² The build-up of obligations over time builds trust among people benefiting from networks. Trust helps to smooth the operation of networks; for example, it is easy to ask for approval despite irregularities in documents.

Political affiliation is the backbone and essential element in a patronage network. It is clear from the interviews that a person’s party can make a crucial difference to his/her position in the provinces. People tend to be suspicious when making behind-the-scene deals with people from a different party. This strong partisan division has been in place since 1993, when the first elections were held. It is not based on ideological differences, but on interests and affiliation to specific individuals at the top. This pattern is interestingly similar to the patronage networks found by other researchers in previous regimes, including Sangkum Reas Niyum and the Republic of Cambodia (Pak *et al.* 2007).

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¹² In one popular folk story, a crocodile is saved by an old farmer who takes the animal from land back to the water. Instead of thanking him, the crocodile attempts to eat the farmer. The crocodile is a symbol of ingratitude—a strong and dark image. It is said that people who are ungrateful will not live happily or prosper for long.

In the presence of such strong patronage, fixing technical aspects of PEM can bear fruit only when it is complemented by wider and longer term measures such as increasing civil servants' pay, stronger financial information systems and reform of the judiciary and police. More engagement from civil society would also be helpful.

5.2. Horizontal Coordination and Fragmentation

This section deals with horizontal coordination issues, which result in fragmentation in PEM and ultimately in service delivery and other accountabilities. The discussion so far has suggested that there is not much systematic provincial horizontal coordination and therefore little horizontal accountability. Administrative structures are fragmented, because each line department is linked and accountable to its ministry. Even within departments, there is little PEM coordination, especially between management of recurrent funds, which is a government domain, and development funds, which lie in the donor domain. Even within these two types of funds, there are various ways of doing things. The mainstream system, reforms and donor vertical programmes all bring in different types of PEM accountability. Moreover, with regard to provinces, there is little to coordinate anyway, since most of the resources and authority are at the centre. But while formal coordination is weak, the informal networks are not.

The governor is supposed to represent the government in the provinces, and should also ensure coordination across line departments (MoI 1994; RGC 2006). However, that has not been the case. A role for the governor is also foreseen in the envisioned unified provincial administration: the governor will have important duties such as maintaining security and public order and delivery of public services; the governor will be accountable for all affairs of the provincial/municipal administration to the government, the board of provincial/municipal governors and the provincial/municipal council (RGC 2006).

In PEM, the governor has formally authority only over the items included in the provincial share of the national budget. These include mainly the mainstream lines (salaries, O&M, social and economic intervention) and the PAP for education and health. The governor is the delegated spending authoriser for these, representing all the central ministers.

The delegation is in part to ensure the governor's influence over coordination of line departments. However, as shown earlier, the authority over funds has been concentrated in the DEF and PT; the governor's sign-offs on spending commitments and payment orders are mainly formalities. Even the *salakhet's* own budget needs to be approved by the DEF and PT, although in field interviews it was said that fewer problems are encountered when spending *salakhet* money. It was also said that the governor has even less involvement with the PAP, although signatures from the *salakhet* are needed for its disbursement. The perception is that the funds belong solely to Education and Health departments. One deputy governor commented:

"For state money, which the DEF controls, the salakhet signs only as a formality. The salakhet has rarely refused to sign any spending commitment or related document. We joke that even if they submit that roasted rice cakes are procured for 2500 riels each [the normal price is about 250riels], the salakhet still has to sign ... And the PAP thing does not really concern the salakhet. It has to do only with education and health."

Around the government budget there is already, in practice, a disconnection between the governor and the line departments. The accountability of line departments to the DEF and PT dominates the current arrangements. There is also complete disconnection between the recurrent and development budgets. And as mentioned in Chapter 3, there are two

development budgets: one funded from the central budget and the other dominated by donor funds in vertical programmes.

In each line department, recurrent funding is the responsibility of the finance office, which is usually part of an administrative office. This money is controlled by the DEF and disbursed through the PT. Development projects are prepared by each technical office (extension services, agricultural mechanisation etc), and proposals are sent directly to ministries without any real interaction with the finance office. These projects do not go through the DEF, and money for them is not disbursed through the PT. The two types of funding are completely separate in both process and organisational arrangements. This separation is common to all countries that have dual budgeting systems (Schiavo-Campo and Tommasi 1999).

Government funds, mostly matching grants, account for less than 20 percent of the total development budget. Virtually all donor programmes are initiated and run from the centre through PIUs. Usually, although they are classified in the annual budget as “capital expenditure”, these projects have both capital and recurrent components that are just enough to enable them to run on their own. Therefore, in addition to recurrent-development budget fragmentation, there is also government-donor budget fragmentation. And because development funds do not flow to the provinces but are kept in the centre, the fragmentation should not be seen as a provincial problem, but as one originating at the centre.

Another fragmentation involves NGOs delivering provincial and local services. NGOs are outside the scope of this study. However, from field interviews, it can be confidently argued that while they are key sub-national actors, they remain disengaged from government authority. All line department directors interviewed said they had very little information on what NGO activities were being undertaken in their sector. They complained that when the NGOs have money, they come to work, sometimes without even informing them. One director in Siem Reap in 2006 estimated that only about 20 percent inform him when they come to work in the province, and most do that only upon the project’s inception. He has rarely even been given a report about the implementation of projects.

On matters beyond the provincial share of the national budget, the governor and *salakhet* are even more poorly informed or engaged. All the governors and deputy governors interviewed had very little information about previous projects in their provinces, funded either by ministries or by donor programmes. In interviews, *salakhet* officials expressed considerable frustration with donor and NGO programmes that operate without even formally requesting permission:

“I have been working in this province [Siem Reap] for over 10 years. Recently there have been many NGOs and programmes about this or that in my province. But I don’t really know what they are. It is really a sign of disrespect to local authority.”

The area over which the governor has the most formal influence is the programme now run by the NCDD. It is a requirement of this programme that all line departments receiving its funds (the PIF and deconcentrated sector programmes like ADESS) be held accountable to the governor as the head of the PRDC/ExCom. Yet the funds subject to this arrangement are relatively small. (See Horng and Craig forthcoming for a discussion of horizontal accountability within the former SEILA programme.)

These findings about the weakness and limited engagement of governors should be treated with caution. The findings are confined to PEM, and only sectors in charge of service delivery were included in the sample. Natural resource areas such as forestry, fisheries and land are not considered here, and their situation is likely to be quite different. These sectors do not just spend; they also generate provincial revenue. From a patronage point of view, they are a different pool of resources that is attractive for rent seeking. From previous reports and observations, the governors are very powerful in these areas, suggesting the use of formal authority for rent extraction. Cases have already occurred of charges against, or even dismissals of, high-ranking provincial officials in relation to illegal logging and land grabbing (*Cambodia Daily*, 2007, Radio Free Asia 2007).

Outside PEM, the formal roles of a governor are quite significant. The governor is the co-chair of provincial military and police, and security has always been the governor's domain. Most current governors have some military background. In addition, the governor is usually the head of the ruling party organisation in the province, and political strength is a major influence within patronage networks. One might therefore expect to find much more influence being exercised by governors if researching sub-national security maintenance, national resource management or political dynamics.

It was further observed that governors use their political position to ensure compliance and coordination from line departments (virtually all directors are CPP members). The party often meets monthly. As pointed out earlier, the line between party and state is very blurred; therefore, according to key informants, the meeting discusses not just party issues, but party and state issues together.

However, even after accounting for these informal and political factors, variations were observed in practices and attitudes of governors towards line departments. In some provinces the governor is so influential that department directors interviewed rarely forgot to say how influential, kind and effective he is and to comment on their obligation to inform him and listen to what he says. In other provinces the governor is less influential and is rarely updated by line departments. Some directors were openly cynical about the governor, saying that if the D&D reform tries to promote that governor's authority, he will not have enough technical and leadership skills to lead the line departments. The point is not whether the governor is really technically capable, but whether he is "influential."

Two main factors seem to explain the variation. One is the governor's connection to key elites and powerful individuals at the centre, which also determines his position in the overall party system. One governor was said to be so close to the prime minister that he can go to meet him any time, "not only through the front door, but also the back door if he wishes," and that governor was very influential in his province, with all the line departments behind him. A second factor is the governor's personality and leadership, and his past record. From our discussions with central informants, several governors have impressed people with how they manage their provinces, within the limits of their resources. Further observation and probing indicated that the two factors need to go hand in hand, but it is clearly the first that has the greater significance. Since the governor's role will be indispensable to any D&D arrangements, more research is needed concerning the optimal practices and arrangements surrounding governors.

In summary, current provincial administration is very poorly coordinated and fragmented. The fragmentation is systemic, starting with the separation of line departments and emphasis on accountability to ministries. But fragmentation also exists as a disconnection between recurrent and development budgets, and more significantly between government and donor budgets. However, provincial fragmentation should not be considered separately from the overall highly centralised system, in which resources and the authority to spend are locked up at the centre. We also need to consider further the fragmentation caused by donors implementing their projects outside government PEM. Good practices have been initiated, for example through SEILA, to ensure greater horizontal accountability, and these can be scaled up. Another way of looking at horizontal fragmentation and coordination is from the political or informal side, which seems to be more effective. But informality runs according to different (patronage-based) accountability arrangements, which might or might not be pro-poor in general.

CHAPTER 6

CONCLUSIONS AND IMPLICATIONS FOR D&D

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This chapter draw conclusions about the nature of provincial PEM and points to implications for D&D. As Chapter 1 stated, the intention of the paper is not to provide specific recommendations on how reforms and PEM should go forward, but to understand provincial PEM by focussing on the big picture, using accountability as the analytical lens. In addition, it draws patronage into the discussion, and therefore sees accountability arrangements not just as technical aspects but within a context of neo-patrimonial governance.

This chapter first presents current PEM accountability, based on the findings presented in the previous chapter. Next it presents what PEM accountability should be like in the future, based on both the general literature discussion (Chapter 2) and stipulations in the D&D strategic framework. It points to some policy areas that D&D should pay attention to, to progress from the current situation to the desired one. The paper ends with a brief discussion of areas or topics that would benefit from further research.

6.1. Major Findings—Sub-National PEM

In a complex governance situation, accountability is the essence of the system and is therefore contextual. Within provincial PEM in Cambodia, accountability is central to both current arrangements and the unified administration envisioned by D&D. PEM here refers to both government funds and the financial aid received from donors.

There are three lines of accountability to be considered: central-provincial, horizontal and local. The first two have been the focus of this paper. Along these lines, two broad types of accountability are mixed: formal, which emphasises both compliance and the results of public spending; and patronage-based, which is structured on mutual benefits, personal connections and political backing. Blending these two forms creates a neo-patrimonial accountability.

Both central-provincial and horizontal accountability are fragmented.

The current province is not an integrated administration. It consists of collections of many line departments, each accountable directly to its parent ministry for general administrative tasks and for PEM. Even within each sector, PEM accountability between provinces and the centre is far from uniform. Formally, there are many systems of PEM, which can be divided into three groups: the mainstream, reforms and donor vertical programmes. These formal systems introduce different kinds of accountabilities, and they are variously mixed with patronage-based accountability. The result is a type of neo-patrimonial accountability around provincial PEM.

Central-provincial links dominate the accountability of provincial PEM.

The centre controls a huge share of the available resources. Including all sectors and the salakhet, provinces are currently entitled only to recurrent funds (about 30 percent of total recurrent funding). Provincial line departments have little discretion over how to spend their funds: more than 75 percent is directed to personnel expenses, and the remainder is rigidly controlled according to detailed line items.

The centre and donors dominate development.

Provincial engagement in the implementation of development projects has been limited and ad hoc. If the projects are financed mainly by central ministries, provincial line departments might serve as contractors. However, formal accountability in such cases has been weak, allowing patronage networks to seek rents through multiple layers of approval, and leading to high fiduciary risks and uncertainty about project and payment approvals. In the case of road repair and maintenance, the rent seeking is so serious that it undermines entire projects. Donor-funded projects, on the other hand, bypass the government system and marginalise the provinces.

Formal horizontal coordination and accountability are very weak.

This is mainly because centralisation is too dominant, leading to management and control problems, including informal payments in the spending process, non-transparent procurement and weak information management due to poor record keeping and reporting. Formal coordination between the governor and line departments is very limited. Horizontal coordination has existed more through patronage lines.

Some reforms, such as the PIF, have aimed to improve provincial administration by establishing mechanisms of accountability between governors and line departments. Others were initiated mainly to serve specific sectoral objectives. The PAP, for instance, is intended mainly to improve service delivery in priority sectors and has not helped strengthen, or has even undermined, the provincial role in service delivery. Moreover, these reforms are still small, and their success has relied mainly on their distance from mainstream PEM systems. More positively, these reforms have served as pilots whose results can be used to make further reforms more convincing to the government.

Politics and patronage are very widespread and significant for accountability in provincial PEM.

Two conclusions can be drawn. One, accountability in PEM is weak because of weaknesses in the formal arrangements, which allow patronage to seize on opportunities for rent seeking, and/or patronage is so strong due to other factors, such as political backing and personal connections. Two, different forms of PEM are subject to different domination or penetration by patronage networks, resulting in a number of variations of neo-patrimonial governance. The mainstream PEM is mostly influenced by politically based patronage networks, followed by reforms and donors' vertical programmes. The pattern seems to be that, the more a system is inside the government, the more likely it is to be dominated by patronage.

6.2. What Can Be Done

These realities will inevitably translate into the D&D arrangements and create accountability issues there too. However, at the time of writing, the details of the D&D reforms are not yet clear. The Strategic Framework adopted by the government in mid-2005 is the only document providing a long-term vision of what the government intends to achieve with D&D. Overall, it wishes to achieve sub-national "democratic development". For this, the following are key elements:

- In the provinces, a unified administrative system accountable to both the government and local people will be established. The administration will be given authority to prepare, adopt and implement development plans and budgets, manage staff and coordinate development and the delivery of public services. Provincial councils will be established based on democratic principles to ensure transparent and accountable administration. A governing board will also be established.
- Responsibility for administration and management of local development will be transferred to the unified provincial administrations. Fiscal relations between different levels of administration and financial management procedures will be revised in order to develop unified provincial budget systems. Horizontal and vertical institutional relations will be strengthened to divide tasks and responsibilities and transfer resources for delivery of public services consistently with national policy.
- To provide real support to provincial administration, the responsibilities of ministries and national institutions will be appropriately revised.

Not much is said in relation to the PEM within the new unified provincial administration, except for the following statement:

“The province/municipality will have a unified budget and have [a] local staff management system in the province/municipality. The province/municipality is entitled to receive part or whole of the budget collected in the province/municipality and may receive transfers of national budget (for general expenses and specific expenses of sector). The size of budget will correspond to responsibilities of the province/municipality for the delivery of services.” (RGC 2005b)

However, Annex 4 of the framework provides some general principles on how PEM should be addressed. The relevant issues include:

- the need for a clearer and more rationalised functional division among different tiers of government;
- the need to address vertical links which is structured along sectoral lines and provincial horizontal arrangements (as well as other sub-national tiers)
- “Resources follow functions” is the key principle in restructuring provincial PEM. However, that does not mean we need to wait for the whole functional re-division to be completed before anything can be done. On the contrary, tax and intergovernmental transfer reforms need to be considered concurrently.

The broad vision and principles in the framework and its annexes provide direction for the overall reforms. However, they are still generic. The findings from this research can provide more specific ideas. Moreover, progress has been very slow, and reforms that involve administrative restructuring will be possible only after the adoption of the organic law. Therefore, based on its findings, this paper suggests a number of more specific actions, some of which can be implemented while awaiting the organic law, while others might be worth considering when discussing the law itself.

First, it is true that resources should follow functions, that the division of functions should be dealt with before financing arrangements. However, until now the provinces have been entitled to only a small share of resources, implying that more should be transferred. One thing that can be done in the short term is to give a bigger role to provinces in the design and implementation of development projects. More say in development works will improve their accountability to the people and to commune councils. It might be worth amending the current standard operating procedures for externally assisted projects (MEF 2005a) more formally and obviously to reflect the roles of provinces in the design and implementation of donor-funded projects. The intention here is not to encourage the use of a PIU model and

the bypassing of the government PEM. It is a practical solution that can be implemented alongside the aid harmonisation and alignment reforms.

Second, there should be a clearer allocation of development funds (especially those from government) among projects sent from the provinces to line ministries, to enhance the predictability of approval. This should be complemented by simplification of the approval process, so that delays and informal fees can be minimised. For instance, there should be clearer rules as to how resources are allocated among competing road repair and maintenance projects from different provinces, and the implementation of those projects should be more decentralised. In addition, wherever possible, a formula-based allocation from the centre to provinces should be applied.

Third, a number of technicalities of PEM can be improved. The use of banking systems and cheques (rather than cash) should be encouraged to ensure timely, predictable and transparent transfers from the centre to provinces. The strict control of the DEF and PT over spending commitment approval and payment orders should be relaxed. Approval can be made more simple and transparent by shifting from pre- to post-auditing, decentralising procurement to line departments and service providers and use of banking systems for supplier payments.

Fourth, prior to the establishment of the unified administration, the role of the governor can be enhanced. The authority of the governors versus line departments can be enhanced by expanding the 2006 sub-decree on governors (RGC 2006) to include provisions on specific responsibilities of line departments, including regular reporting and what their reports should cover. Second, the current PIF arrangements and associated mechanisms under SEILA that help horizontal coordination should be continued and expanded.

6.3. Key Concerns and Tactics for Reform

We agree with the broad claim that the D&D reform is going to be deep and wide, requiring long-term efforts and many institutional changes. The list of what to do is very long, requiring proper sequencing and prioritisation. The Strategic Framework lays out priority areas, including:

- the formulation of an organic law and various legal instruments, and the revision of existing legal instruments relating to provincial management;
- establishment of a unified provincial administration together with a unified budget;
- the establishment of provincial councils;
- the mobilisation and allocation of domestic and external resources for the development and capacity building of provincial administrations (RGC 2005b: 14).

Progress has been slow, with the organic law yet to be adopted. Little progress has been made in sub-national budgeting or PEM. Even at this early stage, however, key policy concerns can be pointed out.

6.3.1. Coordination with Other Reforms

To improve central–provincial and horizontal accountability of provincial PEM, the D&D reforms need to be coordinated with at least two others, namely the PFMRP and aid harmonisation. Ideally, they should also be aligned with public service reform, which appears to be encountering even more difficulties (Eng *et al.* forthcoming). If the new provincial administration is to be accountable to both its people and the government, it needs to be given more responsibilities and resources. The findings from this and other studies indicate that the current roles of provinces are not clear and that their resources are very limited. As the World Bank (2004b: 47) notes, the current arrangement reflects a lack

of delegation and financing components of accountability. The solution is to transfer more to the provinces.

However, even if the centre is willing to deconcentrate more, it might still be impossible now. The chief concern is the ability of provinces to perform more functions and spend transfers more accountably. This is relevant to horizontal accountability among provincial actors. The role in budgeting of the governor in the new administration is not sufficiently specific. Even among the core actors within PEM, accountability is still weak. The “chicken and egg” question is asked here: should provinces get more resources before improving their PEM and human resources management accountability system or vice versa? The centre tends to argue in favour of the “get it fixed before getting more money” strategy, whereas provinces tend to choose the opposite.

Our recommendation is that the two be done simultaneously, but cautiously. Gradual deconcentration should occur alongside reforms of the current PEM. Overall, this points to the need for coordination between D&D and the PFMRP. In practice, the two reforms seem to have worked in separate institutional domains. PEM reform is mainly under the MEF and has been carried out in line ministries such as Education and Health. These reforms have been conducted mainly in discrete sectors, and have had little link with D&D in general. Even the financial aspects of SEILA (e.g. CSF and PIF) have been placed under the authority of the MEF, while the Ministry of the Interior has overseen D&D. Our observations and interviews suggest that these two ministries are not well coordinated, resulting in weak links between the two reforms.

Another important reform, which has been moving quite slowly as part of the PFMRP, is aid harmonisation and alignment. This is important because aid finances more than 80 percent of development activities, and provinces need increased shares of both recurrent and development funds to be really accountable to their people. To a large extent the PFMRP focusses on government spending, whereas the development side is still the territory of donors. The lack of donor harmonisation and alignment has been increasingly recognised, but the reform itself is still at an early stage. The idea is that donors should maximise the use of government PEM systems, but that very much depends on the progress in the PEM reform. However, this does not mean that nothing can be done in the near future. As Chapter 4 indicated, current donor practices not only bypass the government system but also, in the operation of their parallel projects, don’t take the province seriously. By changing this, donors can avoid further centralising accountability arrangements and, therefore, promote the provinces. What is needed are a vision and common framework of where these reforms are heading and how they complement each other.

6.3.2. Building on Good Practice and Experience

Central to reform sequencing is building on what is there now. It is crucial to learn from and build on what has worked. After more than 10 years of reforms in virtually all areas, despite the slow progress, the government has considerable achievements, providing significant experience from which future reforms can learn. Examples of provincial PEM in particular can be mentioned. The first would be the PAP, which has developed into programme-based budgeting in seven sectors (RGC 2007b). However, as mentioned earlier, the concern is that scaling up has been done within sectors, with little reference or links to D&D. If this persists, there is potential for a “reform log-jam”, in which slowness in one reform slows others.

Another lesson from the PAP is that, for a reform to move forward and expand, it is important to have a clear vision of what it is wished to achieve in both the short and long term. Started in 2000, the PAP was the solution to a short-term problem of budget execution in the mainstream PEM, aiming to ensure service delivery for priority sectors.

But it was also a pilot project, the effects of which have helped to convince the government that other areas of PEM should be reformed. Without this vision, the PAP might not have been seen as a reform but as another fixed-term project, which failed to produce positive effects in the public sector. This demonstration effect is particularly important for the Cambodian public sector, which tends to favour the status quo over change. But if institutions are not to become layered into reformed and unreformed areas, the reforms need to be pushed into other areas. As we have seen, there are powerful reasons why this has not happened so far.

Another source of reform experience is the former SEILA programme, which has also developed in a somewhat layered way, with strong internal systems but not as much influence on wider systems as might have been hoped for. The management structure for PIF spending is a good example of how a unified administration can be structured and run. SEILA's PRDC/ExCom produced quite a developed system of management funds, which began to build horizontal accountability among governors, line departments and donors. This, too, is related to donor harmonisation and provincial roles. SEILA has been used as a common pool into which various donors channel funds, and it uses common nationally mandated systems for delivery. All this reduces the gap between donors and provinces. For instance, the ADESS programme funded by the International Fund for Agricultural Development—which is executed on former SEILA lines—has introduced a good situation in which provinces are actively involved in the design and implementation of donor-funded projects. It is not the task of this paper to determine whether the arrangement has worked, but it is highly recommended that such practices be learned and adopted where possible into the new provincial administration.

Another lesson from SEILA is its “learning by doing”, which demonstrates how capacity building and decentralisation can proceed in parallel. Uncertainty is present in any development work, but daring to learn and take risks, combined with well-planned and informed policy design, is important as long as activities conform to a shared vision among participants (Rudengren and Öjendal 2002).

6.3.3. Politics and Patronage Networks

Highlighting politics and patronage networks is a key contribution of this study, and one of the findings is that accountability operates not only in formal institutions but also according to political affiliation and patronage. Thus it concludes that any reforms that fail to take these informal arrangements into account would miss a big part of the whole story. Applying the framework of neo-patrimonial governance, the paper argues that not only politics and patronage be studied, but also their interaction with the formal institutions.

Fixing specific technical weaknesses within the formal system of PEM might deal to some extent with patronage issues. The PAP has proved a number of points in relation to this: decentralisation of authority to control spending can reduce gatekeeping and informal fees. The same effect can also be achieved when spending approval is simplified, the number of sign-offs reduced and formula-based allocation introduced. Decentralised procurement also helps to reduce over-pricing. Improved record keeping and reporting, in conjunction with enhanced internal controls, discourage rent seeking. Reforms such as the PAP can also serve as demonstrations and pilots, although they can also intensify rent seeking in unreformed systems. That is why piecemeal reforms without a long-term vision might not work.

Because the patronage system is so strong, institutionalised and widespread, there are real limitations to the fixing of technical problems alone. Some fundamental problems that affect accountability in PEM cannot be overcome by efforts in PEM alone. The first is low pay, which leads to the politicisation of the whole bureaucracy and back-up for patronage,

especially provincially (Eng *et al.* forthcoming). This paper, like many others before it, argues that until low pay is addressed, patronage will prevail in provincial administration.

Provincial patronage has become so much a way of life that it creates its own culture. This implies that reforms to overcome patronage will need to include value changes, some of which can be addressed by capacity building and education. This is particularly recognised in the government's newly adopted service delivery and national public administration reforms. However, more concrete methods are yet to be devised, something that needs to be addressed in the reforms within personnel management.

Lastly, reforms within government structures will have limited impact unless they are complemented by indirect and long-term movements to encourage demand for accountability from the people and non-government actors. This is well recognised by the D&D reformers, who see D&D as consisting of two parts: administrative and political. The administrative parts are about restructuring management systems and reforms within government. The political aspects in turn involve two elements.

One is strong directly or indirectly elected bodies (provincial councils) that can demand accountability from the administration. This is not an easy task; even national accountability from the executive to the legislature has been very weak (World Bank 2004a). If that situation is replicated in the unified provincial administration, horizontal accountability is less likely, and that will only give rise to a new form of centralised upward accountability.

The second element needed is civic engagement. Experience elsewhere suggests that better information dissemination can reduce public spending capture (Reinikka and Svensson 2004). In Cambodia, on the other hand, demand from people and non-government actors for accountability from the government is generally still weak (World Bank 2005a; Kim and Öjendal 2007), and it is even weaker within budgeting and PEM. From our interaction with national and provincial NGO officials, their understanding and knowledge of government financial works seem very low. However, some specific initiatives have been implemented recently. A new project funded by the International Budget Project and run by NGO Forum Cambodia is starting to work on promoting national budget awareness and analytical skills among NGOs. However, it will take time before capacity can be built and a meaningful contribution made. In provinces, there is an initiative to promote accountability in the use of commune/sangkat funds. The recent social accountability supported by the World Bank and other donors might also be helpful. This implies the need for D&D reforms to be coordinated with these projects.

6.4. Areas for Further Research

This research has also provided some insights on future research that can be taken on by CDRI's Governance unit or other researchers interested in decentralisation and public financial management.

Three potential research topics present themselves. First, while patronage is very influential within the Cambodian public sector and PEM, research on it has been very limited. There have been various reports on issues of corruption, parts of which are concerned with patronage. However, there is a large gap, especially as to how patronage operates, complementing or obstructing the formal state apparatus. This research has to some extent touched on this issue, but a lot more needs to be done. It might be useful to focus not only on the negative but also on the positive effects of patronage networks that are more culturally based (Khan 2004).

Second, existing research on governance seems to give insight into what has not worked, but only very limited information on what has. It is true that overall governance in Cambodia is still weak, but it would be unfair not to express some appreciation for both big (e.g. political stability) and small (specific reforms and good practices in specific sectors) achievements that both governmental and non-governmental actors have achieved (Hughes and Un 2007). These efforts have produced considerable experience and a number of success stories. It is recommended that future research should look more for success stories and especially factors that affect expansion or replicability of successful cases in specific circumstances.

Third, it is true that politics and patronage are crucial in PEM and decentralisation in particular, but focussing too much on these issues without strong understanding of their technical aspects might not produce strong research either. This points to the need for better technical understanding and documentation of regulations, evaluation reports and existing data about the field. This research indicates that such a resource pool does not yet exist in Cambodia. Well-structured research, providing a compilation of the detailed structural, legal and institutional arrangements around PEM and decentralisation, its reform progress and future objectives, would be a valuable contribution.

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