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CAMBODIA'S CROSS-CUTTING REFORMS

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PUBLIC FINANCIAL MANAGEMENT,
DECENTRALIZATION, AND PUBLIC
ADMINISTRATION REFORMS:
ACHIEVEMENTS, COORDINATION,
CHALLENGES, AND NEXT STEPS



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ABBREVIATIONS

| | |
|----------------|--|
| CD | Capacity Development |
| CS | Commune and Sangkat |
| D&D | Deconcentration and Decentralization |
| DM | District and Municipality Administrations |
| FMIS | Financial Management Information System |
| GDP | Gross Domestic Product |
| HR | Human Resources |
| HRMIS | Human Resources Management Information System |
| ICT | Information and Communications Technology |
| ID | Identification |
| IP3 | 3-year Implementation Plan (Phase I, 2011–13, of a national program) |
| M&E | Monitoring and Evaluation |
| MCS | Ministry of Civil Service |
| MEF | Ministry of Economy and Finance |
| MTFF | Medium-Term Fiscal Framework |
| NAA | National Audit Authority |
| NBOS | National Blue Ocean Strategy |
| NCDD | National Committee for Democratic Development |
| NGO | Nongovernmental Organization |
| OWSO | One Window Service Office |
| PA | Public Administration |
| PC | Provincial and Capital Administrations |
| PFM | Public Financial Management |
| PFMRP | Public Financial Management Reform Program |
| SC | School Council |
| SCMP | School Council Mobilization Program |
| SNA | Subnational Administration |
| VAT | Value-added tax |

All dollar amounts are U.S. dollars unless otherwise indicated.

EXECUTIVE SUMMARY

The Royal Government of Cambodia is attempting to implement simultaneously three large, cross-cutting public sector reforms: decentralization and deconcentration (D&D), public financial management (PFM), and public administration (PA). Significant progress has been made for each, yielding improved public sector performance and better quality and responsiveness of service delivery.

Reforms have been ongoing. D&D reforms were initiated in the early 2000s. They aim to make service delivery more responsive and accountable to citizens through strengthening local democratic institutions and increasing citizen participation. The Public Finance Management Reform Program launched by the Ministry of Economy and Finance in 2004 has strengthened tax revenue administration and improved budget preparation processes and management at the central level, resulting in less variances and better budget execution. Reforms to PA gained momentum since 2014 and have led to much increased civil servant salaries, particularly at the lower end of the pay scale. Payments are now made electronically and on time through bank accounts, ghost workers have been curbed, and salary scales have been simplified and rationalized. Overall, the wage bill has increased to 7.7 percent of gross domestic product in 2017 (up from 4.4 percent in 2010).

The three reforms are highly interdependent and are mutually reinforcing. Present policies are broadly appropriate, and much has been accomplished already. However, a continuation and deepening of reforms is needed to improve service delivery to the levels expected. Agreements that redefine the functional scope of subnational administration have to be accompanied by organizational restructuring and reassignment of how funds are managed and budgeted. Capacity development and efficient management of civil service functionaries are prerequisites for successful implementation of D&D and PFM reforms, and are addressed in PA reforms. PFM reforms, on the other hand, have helped lay the financial foundations for PA and D&D reforms.

The effective coordination and sequencing of the reforms is essential. Sustained progress in implementing the holistic reform agenda has been inhibited by weak coordination overall. Misalignments occur due to a combination of policy inconsistencies, sequencing issues, and capacity constraints. The result is an uneven pace of reform that potentially threatens to undermine the overall effectiveness of the reform agenda.

This note analyzes the progress of the three reforms and describes how their design, implementation, and institutional arrangements can be better sequenced and coordinated. The intention is to focus on the overall public sector reform agenda rather than drill into the specifics of individual reforms. Options are identified to strengthen coordination of the civil service, improve general policy sequencing, and manage challenges within the three reform areas. Recommendations to deepen individual reforms are also provided, in particular, to strengthen cross-cutting public administration improvements.

INTRODUCTION

The Royal Government of Cambodia has emphasized improving public service delivery through a series of cross-cutting public sector governance reforms. These include public administration (PA), public finance management (PFM), and decentralization and deconcentration (D&D). However, the reform process has been inhibited by several factors, in particular the inability to effectively coordinate policy and reform activities, individually and holistically. Effective policy coordination is essential for ensuring that policies yield their desired outcome. It is a challenge faced by all countries, particularly in developing countries where institutions and coordination mechanisms are relatively weak and information flows are impeded.

The report's objective is to explore how to improve complementarity of three interrelated public sector reforms, which are important to the enhancement of the performance of public sector institutions and service delivery. It stocktakes progress of the three reforms in Cambodia and describes how their design, implementation, and institutional arrangements can be better coordinated. It also suggests analytical activities and reforms that could deepen the three reforms. It is based on publicly available reports and meeting notes from the week of March 5, 2018. Detailed actions within each reform are beyond the scope of this paper.

The report is divided into an introduction followed by four sections, each containing subsections. Section 1 gives an overview of the three reform areas. The intention is to describe the general focus of the reforms, and how they are interdependent and mutually reinforcing, rather than drilling deeply into the specifics of each. Section 2 analyzes the key achievements—individually and in concert with other reforms. Section 3 addresses the key bottlenecks hindering further progress. This includes an analysis of the general challenge of effective policy coordination, the specific challenge of coordinating in the post-conflict Cambodian context, and the coordination mechanisms currently in place across the three reforms. Section 4 identifies options, including analytical work, to address the policy sequencing and coordination challenges and to deepen the three reforms, with the focus on cross-cutting public administration issues.

1

CAMBODIA'S CROSS-CUTTING PUBLIC SECTOR REFORMS

Cambodia is attempting to implement, simultaneously, three large, cross-cutting public sector reforms.

Decentralization reform in Cambodia commenced in the early 2000s with the goal of making decision making and service delivery more responsive and accountable to local people through establishing local democratic institutions and increasing citizen participation. The MEF launched the PFMRP in 2004 following the World Bank's 2003 Integrated Fiduciary and Public Expenditure Review. The National Action Plan for Public Administration Reform 2015-18 centers on improving public service delivery by addressing issues that cut across the civil service.

At the strategic level, the reforms have been driven by a top-down approach. Each reform has been developed at a high level in the national government rather than as a response to specific, well-identified constraints in service provision. A common theme is the strengthening of governance and capacity of public institutions to improve the efficiency of public service delivery—consistent with one of the four priority areas of the government's Political Platform of the Fifth Legislature (2013–18) and the Rectangular Strategy Phase III (Royal Government of Cambodia 2013).

The Rectangular Strategy is a policy instrument of the government to promote growth, employment, equity, and efficiency in order to support the achievement of the government's vision for Cambodia.

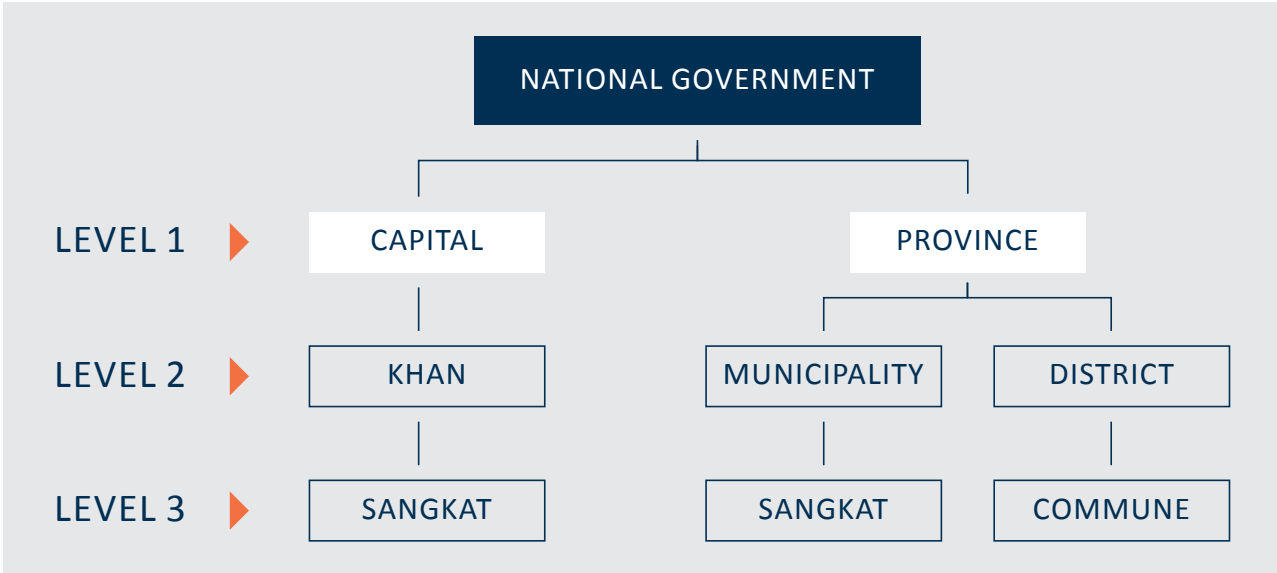
“Cambodian society which is peaceful with political stability, security and social order; a prosperous nation with long-term economic growth, sustainable and equitable development, enhanced livelihoods of people, and reduced poverty incidence; a society which is committed to environmental protection, enhanced culture and national identity which firmly adheres to the principles of multiparty democracy and shows respect for human rights and dignity; and an advanced society with well-connected social fabrics and well-educated and culturally advanced population who enjoy a good standard of living and live in harmony both within the society and family; and a noble nation with high reputation in international forums and a full-fledged member of the international community with equal rights and functioning on equal footing as other members” (Royal Government of Cambodia 2013, 7).

The strategy placed strong emphasis on strengthening good governance and the capacity of public institutions to improve the efficiency and quality of public service delivery, which is crucial to social justice and sustainable and equitable socioeconomic development. The three reforms are among critical reforms prioritized by the strategy. A related policy note, the “National Social Protection Strategy for the Poor and Vulnerable 2011-2015”, aims at consolidating all the programs and services that have been implemented by different institutions into a single social protection framework.

Decentralization and Deconcentration Reforms

Cambodia is a unitary state with a three-tier subnational administration (SNA) system. Level 1 comprises the provincial (24) and capital administrations (PCs). Level 2 includes 159 districts and 26 municipalities and 12 Khans [subdivision of capital administration] in rural and urban areas, respectively. For ease of reference, DMs is referred to all level 2 administrations. Level 3 comprises 1646 Communes and Sangkats (CSs) [1410 communes and 236 sangkats in rural and urban areas, respectively]. Levels 1 and 2 are led by Ministry of Interior-appointed boards of governors and supported by a legislative wing of indirectly elected councilors, who are elected every five years through a body of electoral college made up of CSs Councilors. Since 2002, commune councilors are elected directly by the people every five years under proportional representation from party lists. The Cambodian People’s Party has most seats in nearly all communes, although other parties also have held seats in most of them. The structure of subnational government in Cambodia is depicted in Figure 1. Decentralization reform in Cambodia started in 2002, first focusing on reforming the lowest levels. In 2001,

Figure 1. Cambodia’s Subnational Administration



two watershed Organic Laws were promulgated to establish communes and sangkats as the lowest tier of subnational administration with democratically elected councils (with elections held every 5 years)¹. Following the rapid success of establishing democratically elected commune level councils, two new Organic Laws,² enacted in 2008, established a legal framework for higher level SNAs: DMs and the PCs. This seems a reasonable timing sequence given capacity, geographic scope, and required infrastructure, including construction of commune council facilities across the country starting in 2003 with the Asian Development Bank support.

To guide the D&D reform and implement the Organic Laws, the government formulated a 10-Year National Program for Subnational Democratic Development (2010–19, later extended to 2020). This was divided into three implementation plans (IP3s), which serve as strategic plans. The latest implementation plan is for 2018–20. Each 3-year implementation plan clarified the strategic vision of the transfer of functions from central to subnational administrations. In broad terms, this includes:

- The gradual transfer of service delivery responsibilities to SNAs. Services previously offered by ministerial offices in DMs will be placed under DM management, including primary education and health, natural resource management, small-scale infrastructure, municipal services, and agricultural extension.
- CSs will provide services (infrastructure and social protection) but more importantly will link citizens and higher levels of government. DMs will fill in CS service delivery gaps.
- Ministries will develop policies; enforce regulations; supervise; provide support; establish a vision, strategy, and standards but, in most cases, will not be a direct service provider (except where services cross SNA boundaries like national roads or river management).
- Provinces will undertake strategic planning and investment and will support and supervise DMs and CSs, including coordination with other SNAs, advice and extension, capacity development, and performance monitoring.
- Conditional grants to SNAs will cover the costs of transferring functions and also provide a mechanism for ensuring upward accountability of SNAs.

A centerpiece of the D&D reforms has been the promotion of good governance and the establishment of local democratic institutions. Reforms have aimed to strengthen three governance relationships: (i) relationships between citizens and SNAs, often working through civil society organizations; (ii) relationships between councilors (elected “legislators”) and boards of governors (the appointed “executive branch”); and (iii) accountability relationships between SNAs and central government, especially accountability to adhere to regulations and meet service delivery standards.

PFM Reforms

The PFM reforms began in response to the identified budgetary shortcomings in the Integrated Fiduciary and Public Expenditure Review. This included, among other things, budget fragmentation, a lack of prioritization, and generally poor and overly centralized management, which led to chronic cash shortages and large and persistent payment arrears. The PFMRF is a sector wide approach that aims to install high standards of management and accountability in the mobilization of government resources and ensure the effective and efficient use of those resources.

PFM reform programs have been staggered in phases and divided according to specific platforms. They

1 Law on the Administrative Management of Commune/Sangkat and the Law on the Election of the Commune/Sangkat Councils.

2 Law on Administrative Management of the Capital, Provinces, Municipalities, Districts, and Khans and the Law on the Election of the Capital, Provinces, Municipalities, Districts, and Khans.

are based on a coordinated problem identification and funding approach by government and development partners.³

- *Platform 1: budget credibility.* Implemented from late 2005 to late 2008, it focused on enhancing the reliability and predictability of the budget. In addition to improving tax collection capacity, it focused on improving the accuracy of aggregate accounting and budgeting information through the establishment of a financial management information system (FMIS), and improved cash management via the creation of a Treasury Single Account and elimination of most off-budget and off-record bank account procedures.
- *Platform 2: basic accountability.* Launched in late 2008, it focused on improved internal controls and (upward) managerial accountability. Accountable management and use of financial resources was seen as a prerequisite for establishing better links between resource allocation and performance.
- *Platform 3: linkages between budget and policies.* This ongoing reform effort aims to strengthen linkages between budget and policy. It involves the development of a medium-term fiscal framework (MTFF) at the aggregate level and the rolling out of a more flexible program-based budgeting strategy to all line ministries based on outputs not inputs. This approach has the potential to improve the flexibility of program spending as well as integrating the government’s dual (capital and recurrent) budget structure.
- *Platform 4: performance.* It focuses on accountability for results and will be contingent on the progress of stage three. The strategic goal is that by 2025 the Cambodia budget system will be based on programs that are linked to policy and incorporate mechanisms for performance accountability. The model adopted for budget reform is “Performance Informed Budgeting,” in which allocated “resources are indirectly related to proposed future performance or past performance.”

PA Reforms

PA reform aims to improve the civil service institutional prerequisite for improved service delivery with the overall aim of “serving people better.” While line departments necessarily oversee the “last mile” of service delivery, PA reforms aim to strengthen the institutional, cross-cutting civil service issues that have indirect but important bearing on the eventual quality of citizen government interaction. There are three main components to reforms:

- *Pay and remuneration.* Prior to the adoption and implementation of the National Action Plan for Public Administration Reform, Cambodia’s civil services suffered from an ineffective system of incentives and performance management. Civil service pay was both uncompetitive in relation to other employers and insufficient relative to the general cost of living.⁴
- *Human resources management and development.* Guided by the vision of the Human Resource Policy for the Civil Service (approved by Cabinet June 14, 2013), the prominent elements include: (i) improving the operational structure and systems of organizations and management of the workforce through a functional analysis and a review of operations of key ministries and institutional structures to rationalize structures; (ii) enhancing the effectiveness of human resources (HR) practices and processes, primarily through the development of a computerized human resources management information system (HRMIS); (iii) implementing a performance management system; (iv) using existing

³ Development partners include the Asian Development Bank, Australia, European Union, International Monetary Fund, Japan International Cooperation Agency, Sweden, United Nations Children’s Fund, United States, and World Bank.

⁴ For more detailed analysis of this component, see McCourt and Wescott (2014).

competencies better and developing new competencies; and (v) enhancing the quality and delivery of training.

- *Improving the quality and effectiveness of service delivery through e-governance initiatives and institutional reform.* A functional analysis and review of operations of key ministries and institutions are also planned to identify ways to rationalize structure and reduce costs.

In 2017–18, work continued on the development of the Law on Public Service Delivery, aiming to systematically improve service delivery across sectors, especially the delivery of administrative services. The law aims to address several issues and gaps, including; coordination across sectors, data sharing among ministries, setting up of data interoperability standards, risk-based business processes for approvals of citizen requests, equitable recovery of costs, setting of standards and ensuring compliance, provision of information, incentives for service delivery providers, performance management of ministries and individuals, conduct of functional reviews to align department structures with service delivery needs, innovative data collection, and proactive feedback mechanisms.

Cross-Cutting Nature of the Reforms

The three interconnected reforms converge on important aspects. All three reforms are cross-cutting initiatives. D&D, which involves a major rebalancing of the state apparatus, provides the backdrop to the other two reforms, which are more focused on reforming specific functions of government (human resources management or staffing and financing). When combined, the three reforms have the potential to substantially improve public sector performance and service delivery for the Cambodian citizen, with increased synergy among them.

Agreements that redefine the discretionary scope of SNAs will be accompanied by considerable organizational restructuring. Transfers of functions to SNAs require a commensurate transfer of staff and decision-making powers. A key part of this is the development of new capacity for transferred staff to implement new management responsibilities and capacity within senior levels of SNAs (such as governors and councilors) to supervise and support new service delivery functions. Supporting material, such as detailed technical guidance, will also need to be developed to support the reform, including strategies for addressing resistance to new capacities by vested interests that believe they have something to lose.

Functional reassignments to SNAs will also result in the reassignment of budgeting and expenditure functions. Transferring new responsibilities to SNAs will need to be accompanied by a commensurate transfer of financial resources and control to their management. Under PFM reforms, decentralized budget entities within SNAs will also be provided with increased freedom to implement their programs, subject to compliance with rules and regulations. Financial management procedures will, therefore, need to be streamlined to account for these revised hierarchies and accountability structures. This requires clarity on newly assigned budgeting powers and accountability mechanisms, and appropriate organization-level incentives, such as performance-related disbursements or financial rewards, to use the delegated powers responsibly.

HR capacity development and efficient HR management (including performance management), currently being addressed in PA reforms, are prerequisites to successful implementation of D&D and PFM reforms. The implementation of greater performance orientation in budgeting envisaged in PFM reforms requires considerable coordination between levels of government. This, in turn, calls for good access to consistent information across levels of government and civil service capacity. Today, civil servants have a living wage;

however, this has not yet been accompanied by adequate incentives to ensure that a core, simple, minimum set of behaviors are enforced and nonperformers are sanctioned. More broadly, any rationalization arising from the functional review to improve the effectiveness and efficiency of the civil service will likely impact operations of key ministries and SNAs. If managed well, this process can potentially address process barriers, streamline the flow of funds, and provide guidance for the functional transfers to SNAs. Resistance from powerful interests to these reforms should be expected in some cases and carefully addressed through change management processes.

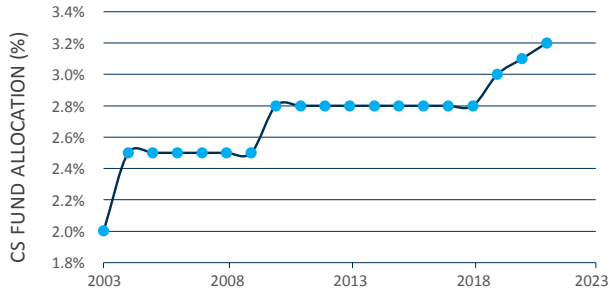
The D&D reforms delivered a wide range of capacity development (CD) to SNA staff and councilors. Funding through the IP3s supported training based primarily on the SNAs' organizational development plans, such as local governance, local economic development, intragovernmental relations, social accountability, monitoring and evaluation (M&E), and financial management, among other things. Training was provided to 64,000 participants in 2016. In 2016, the government established the National School of Local Administration -- NASLA. Its curriculum is being developed, along with the design of its building and infrastructure.

Progress in implementing PFM reforms helped lay the foundation for PA and D&D reforms. The considerable improvement in domestic revenues helped fund the rise in the salaries of civil servants to a living wage. Civil servants are also paid electronically and on time through bank accounts.

Increases in tax revenue, plus increases in the proportion of the previous year's recurrent revenues allocated to the SNA level, led to considerable increases in the financial resources available to SNAs through CS and DM funds (Figures 2, 3). In aggregate, funding for the CS level increased by an average annual rate of 16 percent between 2003 and 2017, while funding at the DM level increased over the last 4 years to 2017 at an average annual rate of 23 percent. This signals a strong ongoing commitment to the SNA level and the aims of the D&D reforms more generally, despite the aforementioned challenges. Administration, which includes civil servant salaries, accounts for a substantial share of total funding at both levels; comprising 61 percent of total CS costs and 78 percent of DM costs in 2017.

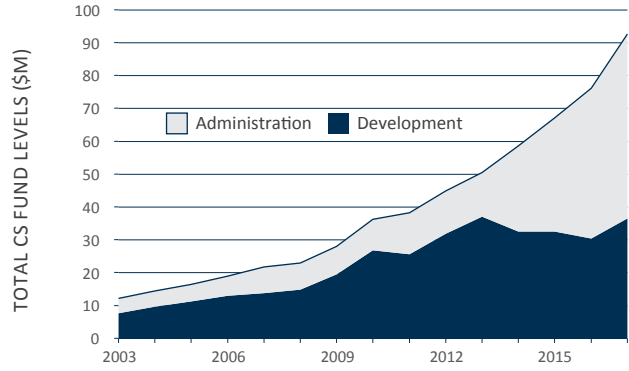
Figure 2. Commune Sangkat Fund Data

PANEL A.
CS FUND ALLOCATION AS A PERCENTAGE OF THE PREVIOUS YEAR'S BUDGET

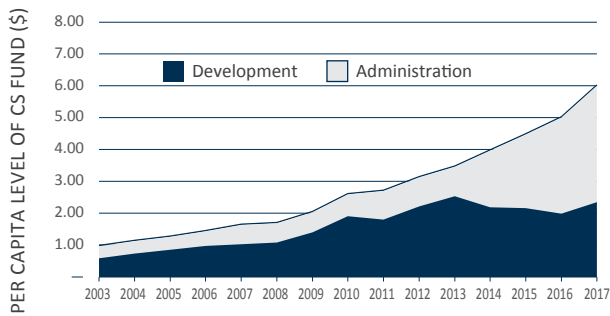


Note: Projections are made from 2019 forward.

PANEL B.
TOTAL CS FUND LEVELS, IN US\$ MILLIONS



PANEL C.
PER CAPITA LEVEL OF THE CS FUND, US\$



PANEL D.
PERCENTAGE OF FUNDING ALLOCATED TO ADMINISTRATION

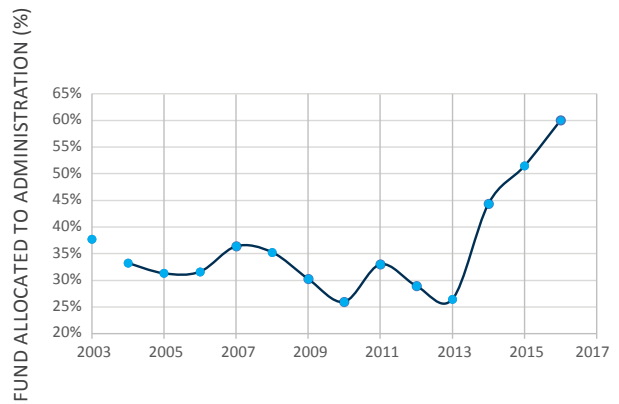
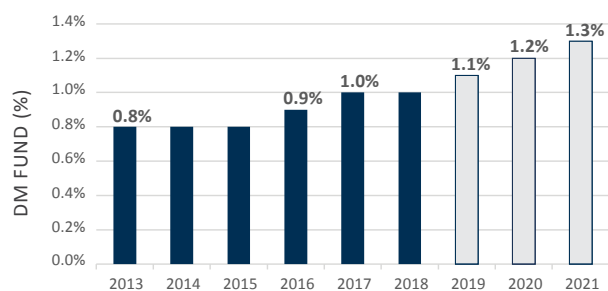
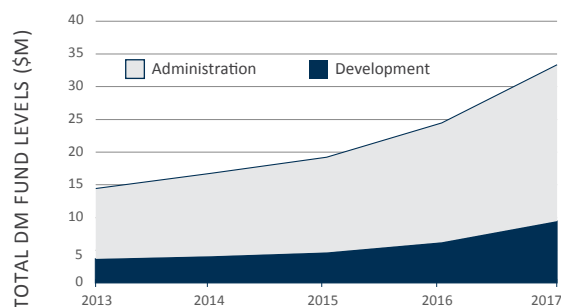


Figure 3. DM Fund Data

PANEL A.
DM FUND AS A PERCENTAGE OF THE PREVIOUS BUDGET

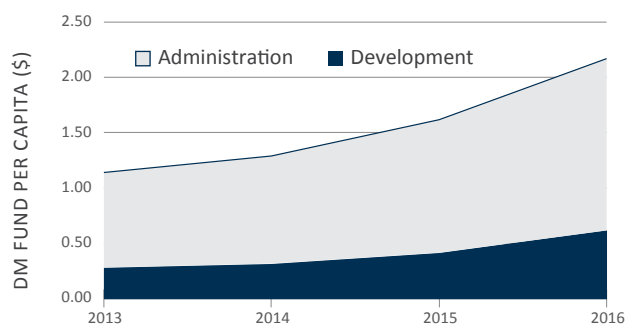


PANEL B.
TOTAL DM FUND LEVELS, IN US\$ MILLIONS

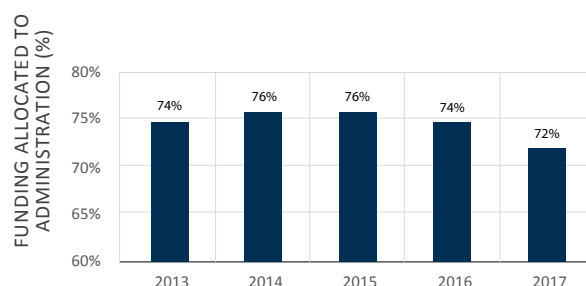


Note: Projections are made from 2019 forward.

PANEL C.
PER CAPITA LEVEL OF THE DM FUND



PANEL D.
PERCENTAGE OF FUNDING ALLOCATED TO ADMINISTRATION



Successful PFM reform can help pave the way for moving forward D&D reforms, especially for managing public finances at subnational levels. The successful development and implementation of a backbone public financial management system can be readily applied to the D&D reforms. For example, the uniform account code structure unifying budget classification and the chart of accounts for all government levels (central, provincial, district, and sangkat) can be readily used by the SNAs when fiscal decentralization is ready and undertaken. Similarly, efforts to achieve greater performance orientation in budgeting, which were recently rolled out to all line ministries and agencies in the central government administration, may be adapted for use at SNAs, if and when the capacity is there.

Citizens' accountability, feedback mechanisms, and complaint handling under PA and D&D reform can be complimentary. For example, SNA methods for handling complaints can play an appellant role or function as a means of last resort when citizens feel central government systems (for example, at schools or health centers) have not been effective.

2

KEY ACHIEVEMENTS OF REFORMS

Key Achievements of D&D Reforms

D&D reforms have successfully established a legal framework for a system of SNA. Decentralization at the lowest levels has been significant. Communes and sangkats now operate as a subnational administrative level with independent governance arrangements involving competitive multiparty elections. Elected commune and sangkat councils identify needs locally through a planning process and pass them through the party structure to respond to. Commune and sangkat councilors elect village chiefs and councilors at the district and provincial levels. Political decentralization at the district and provincial levels has been less impressive. Councils are not elected by the general population but rather by the directly elected commune councilors. This implies there is no direct accountability to the population at the higher levels of the SNA. Planning, governance, and management procedures at the subnational level have been put in place. Procedures have been created that allow DM councils to enact bylaws, to hold council meetings and consultative forums, to engage with citizens and civil society, and to promote local economic development. Funding is provided in the form of unconditional grants from the central government budget, largely through the CS fund and the DM fund.

An ambitious Social Accountability Framework has been adopted with support from an innovative World Bank operation (World Bank 2017a), and implemented in partnership with civil society. This provides for essential, easy-to-understand information to citizens (about budgets and performance against standards) and facilitates citizen monitoring. During 2017, social accountability activities were implemented in 731 communes, 1,400 primary schools, and 570 health centers. The process involved more than 1 million citizens.

The D&D reforms successfully assigned to the newly created SNAs a general mandate for the welfare of their citizens. These permissive functions come before any delegation or assignment of specific obligatory functions. Among others, they include managing local infrastructure and addressing gaps in central government service delivery and involve managing human, financial, and physical resources. Communes and sangkats prepare their own budgets, and there is reliable and timely information on budget transfers to these units.

In large part, the early successes of D&D reforms in empowering the lowest tier of subnational entities reflected their highly atomized nature and the absence of any required power sharing with the central institutions. There was also broader familiarity with the communal construct, with the reforms wrapping a layer of formality around the existing relationship. The ruling party has also relied on the rural local tier to mobilize mass support.

Many administrative services have been transferred to districts and municipalities through One Window Service Offices (OWSOs). These have posted fees and service standards, leading to reduced time and cost of transactions, and were supported by a World Bank operation during 2008–14 (World Bank 2017a). OWSOs are welcomed by citizens because of clarity of fees and better customer service than provided by provincial line departments. In 2016, OWSOs served 667,816 clients (24 percent women), generating more than \$4 million in revenue. By 2017, there were 52 OWSOs operating at the district and municipality level. In one location,

these offices provide 232 different administrative services delegated by 10 different ministries. For example, the Ministry of Public Works and Transport provides motorbike registrations through the OWSOs. Ministry staff were not transferred to districts, so the mechanism was a way to coordinate work and make it more efficient and convenient for customers. Based on four surveys carried out in 2013-14, citizen awareness of OWSO services ranges from 57 to 98 percent. The concept is being expanded to provincial and commune levels.

Line ministries have delegated a few functions to DMs. In 2016, the Ministry of Social Affairs issued a Prakas (proclamation) to delegate state orphanage management to PCs, oversight of child care centers managed by nongovernmental organizations (NGOs) to CSs, and the management of child victims and vulnerable children to CSs in the Battambang province. In 2017, another 28 significant functions were designated to be transferred through an official decision by the prime minister (see Box 1 for a complete list). There has been some progress in this planned transfer of functions, but this is mostly in the detailed mapping and costing of functions. The lack of human and financial resources has been significant constraints, amplified by the lack of clarity as to what resources are needed.

Box 1. Designated Functions to be Transferred from Line Ministries to SNAs

Ministry of Health:

management of the Provincial Health Department and its health services, and management of district operational health services

Ministry of Public Works and Transport:

management of national and provincial road sides located in provincial towns; construction, repair, and maintenance of provincial, municipal, and rural roads; management of vehicle cleaning garages; vehicle registration; vehicle driving license test; management of vehicle repair garages; vehicle technical checking; and boat registration

Ministry of Environment and Agriculture:

management of national resource protected areas and natural resource communities; protection of the environment; sustainable environmental development; environmental awareness raising; management of forests; management of fisheries; management of agronomy, soil, and cultivation; management of agro-industrial cultivation; and management of animal health and production

Ministry of Rural Development:

rural sanitation services; clean water supply; and road development

Ministry of Social Affairs:

management of state and community orphan centers; monitoring of NGO orphan centers

Ministry of Tourism:

management of the tourist industry (e.g., guesthouse, clubs) and development of tourist sites

Ministry of Water Resources and Meteorology:

irrigation systems

The fact that decentralization cuts across the levels and functions of government is a key reason for examining Cambodia's public sector reforms, PFM, and PA as a holistic program, rather than examining the effects of decentralization in isolation.

Key Achievements in PFM Reforms

PFM reform program has benefited from effective prioritization and sequencing of reform under the platform approach. The sequencing of the PFM reform platforms was explicitly designed to consider political feasibility and modelled as a series of stepping stones—moving from the basics first to more advanced areas of reform within a relatively short period of time.

Since its inception, the PFMRP has enabled the government to build a robust PFM system at the central level and make significant progress in reforming public expenditure policy and public finance. As assessed by the External Advisory Panel in January 2010, most PFMRP performance indicators under the PFM Platform 1 were met. The achievement of this platform was to provide a foundation for future reform. Platform 2, which began in 2009, focused on providing greater financial authority to line managers. A centerpiece was the installation and implementation of an FMIS to support financial transactions and reporting. It is helping to provide timely and reconciled accounting reports and is operational at central offices of the MEF and all provincial treasuries.

The General Department of Taxation was transformed into de-facto and high performing executive agencies through improved incentives outside civil service administrative procedures and pay scales. Tax revenue administration was strengthened, contributing to a substantial increase in domestic revenues.

Revenue. Cambodian authorities in recent years have almost doubled domestic revenue as a share of gross domestic product (GDP), up from 10.3 percent in 2004 to 19.7 percent in 2017. This has happened due to many reforms, including the rolling out of the automated system for customs data and anti-smuggling measures. The MEF has developed and uses a macroeconomic forecasting model that has accurately predicted revenue outturns, allowing close alignment between expenditures and revenues. All sectoral priority spending, including education and health, has been boosted.

Budgeting. Improved revenue collection has facilitated budget implementation. Aggregate variance from the budget, at the level of the economic categories of staff-related costs, goods and services, and capital spending, is now reasonably tight. Disruptions caused by cash shortages are now avoided through a combination of more accurate aggregate budgeting and better cash management. The creation of a Treasury Single Account and elimination of most off-budget and off-record bank accounts has strengthened control, although a divide between management of recurrent and capital budgets continues to create problems. Despite these improvements, monitoring and control are increasingly important given the expansion of domestic revenues and pressures to sustain and improve service delivery.

An MTFF was prepared at the aggregate level, though it was not approved by the cabinet and remains incomplete. Since its initial formulation, its analysis and content have improved. It was expanded to include high level sector analysis and sector expenditure forecasts for recurrent expenditure, but not capital expenditure.

Key Achievements in PA Reforms

Significant progress has been made in terms of pay administration. A considerable increase in the pay and pensions of civil servants, mainly at the lower end of the pay scale, and mainstreamed and expedited procedures for family allowances has improved wages and payroll administration. Minimum salaries have increased by 150 percent since 2013 (Table 1). The minimum pension was increased from about \$22 per month in 2014 to \$104 per month in 2017 (Table 2). Incentives, including location-based allowances to encourage remote postings, for teachers and health-care workers have also been improved (Table 3). These changes have led to a significant wage compression between high- and entry-level officials. Overall, the wage bill has increased to 7.7 percent of GDP in 2017 (up from 4.4 percent in 2010) or 34.5 percent of public expenditure (up from 21.1 percent in 2010)—overall not overly high for the level of economic development in Cambodia (Figures 4, 5, 6). However, the wage bill as a share of expenditure is now on the higher side compared with similarly developed countries.

Table 1. Minimum Salaries from 2013 to 2017

| Classification | 2013 | 2014 | 2015 | 2016 | 2017 | Increase (%) |
|---------------------------------------|------|-------|-------|-------|-------|--------------|
| Administrative, diplomatic, technical | \$85 | \$105 | \$136 | \$173 | \$211 | 148 |
| Education | \$99 | \$136 | \$161 | \$198 | \$235 | 137 |
| Health | \$89 | \$136 | \$161 | \$198 | \$235 | 165 |
| Police | \$94 | \$114 | \$165 | \$198 | \$232 | 147 |
| Military | \$78 | \$98 | \$144 | \$194 | \$218 | 179 |
| Unweighted Average | | | — | — | — | 155 |

Table 2. Monthly Social Security Payments

| Year | Social Security |
|------|-----------------|
| 2014 | \$22 |
| 2015 | \$74 |
| 2016 | \$89 |
| 2017 | \$104 |

Table 3. Additional Monthly Allowance for Posting in Remote Areas

| Classification | Pre 2016 | From 2016 |
|--------------------------|----------|-----------|
| Difficult area | \$10 | \$20 |
| Remote area (category 1) | \$12 | \$25 |
| Remote area (category 2) | \$15 | \$30 |

Note: Figures are drawn from education and health sectors.

Figure 4. Wage Bill as a Percentage of Total Government Budget, 2009–18

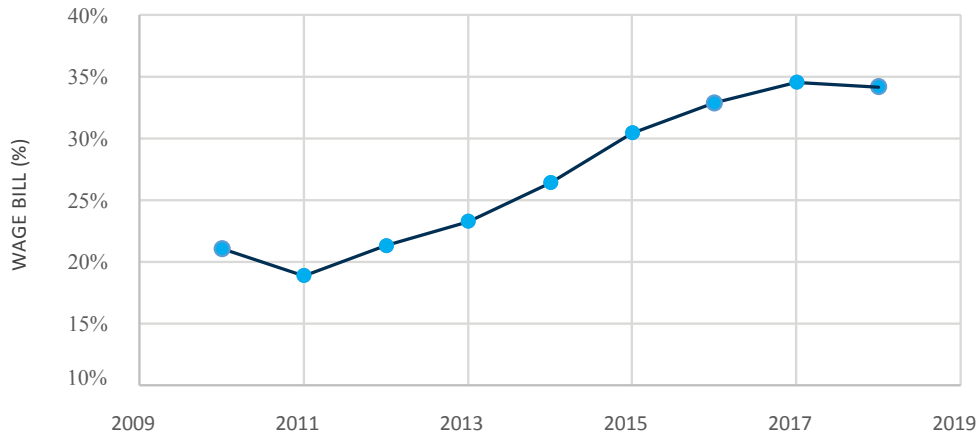
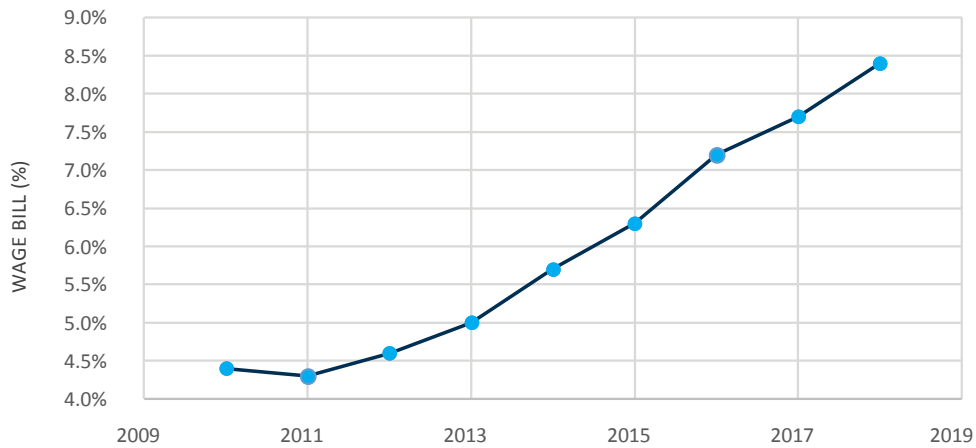


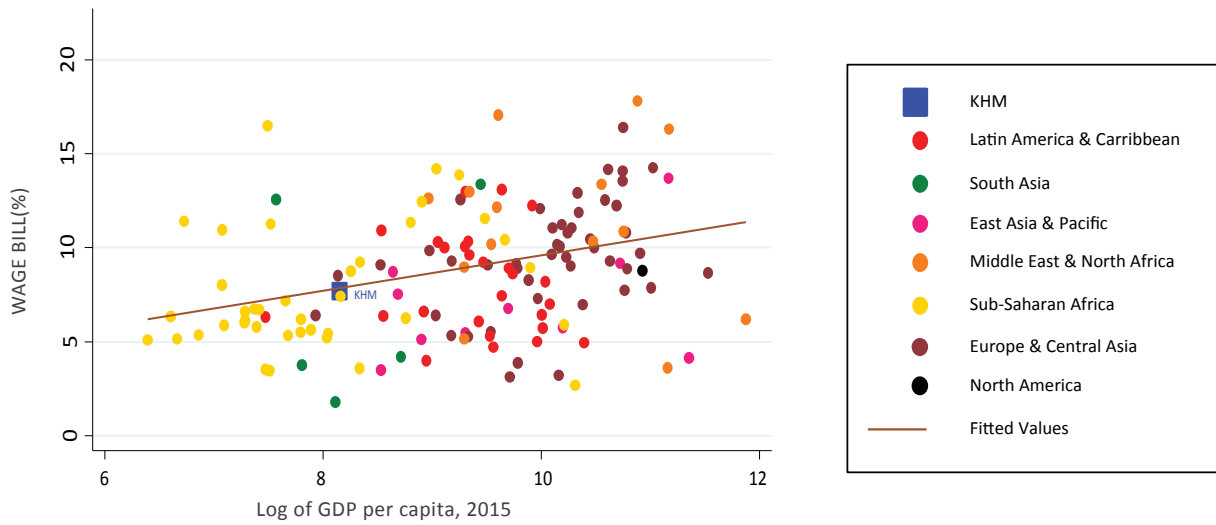
Figure 5. Wage Bill as a Percentage of GDP, 2009–18



Note: The 2017 and 2018 data are projections. Annual wage includes both civilians and security and defense staff as well as all contract staff on official payroll maintained by the Ministry of Civil Service. Salary for local councils is included in the transfer to them as a part of the discretionary budget and not part of the wage bill.

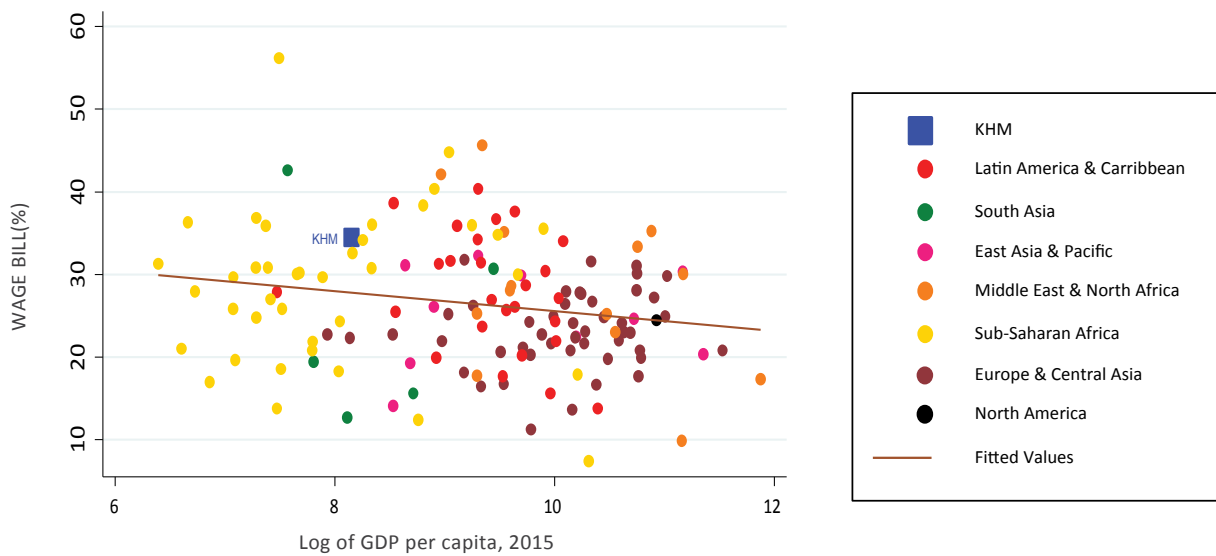
Figure 6. International Comparisons of the Wage Bill

A. Wage Bill as percentage of GDP



Note: GDP = gross domestic product; KHM = Cambodia country code.

B. Wage Bill as percentage of expenditures



Note: GDP = gross domestic product; KHM = Cambodia country code.

Salary scales were simplified and rationalized for the sake of efficiency and civil servant career movement.

To support HR processes and more streamlined payroll management, the Ministry of Civil Service (MCS) developed a computerized HRMIS. It is structured around a centralized digital HR database containing demographic and career history information on individual civil servants from appointment through to retirement. Data are arranged according to a 10-digit civil service identification (ID) and the database contains information on more than 200,000 civil servants and 20,000 contracted staff.

While line ministries and provincial offices manage their employees, they must send relevant information to the MCS. The MCS then regulates access rights to the database, including data visibility. The HRMIS produces monthly payroll reports, which are sent to individual ministries and provinces for salary disbursement. It also calculates pensions. The MCS is currently working with Ministry of Post and Telecommunication to develop an integrated HRMIS.

Some progress has been made on e-governance. The Ministry of Public Works and Transport currently allows the download of electronic application and renewal forms for drivers' licenses and other services (<https://www.mpwt.gov.kh>) and new offices have been located in more convenient locations. The Ministry of Commerce (<https://www.moc.gov.kh>) allows online business registration and many tax payments can be made electronically. Many ministries have delegated payment arrangements to commercial banks (for example, the Ministry of Land Management Urban Planning and Construction). A web-based public service gateway will be established in 2018. To promote the handling of complaints, MCS in 2018 is establishing a public service call center.

Cross-Cutting Achievements

Fiscal transfer mechanisms and SNA financial management procedures evolved as a result of the coordination between D&D and PFM reforms, resulting in an increased allocation of resources to SNAs. The PFM and PA reforms also worked jointly on pay reform and on improvements to salary administration, including the electronic payment of civil servant salaries.

Through cooperation between the D&D and PA reforms, a regulatory environment for decentralized SNA HR management is largely in place under the lead of the MCS. Powers and principles were developed through the "Royal Decree on Particular Statute for Subnational Administration Civil Servants" (approved by the king in April 2016). This action was followed up by a series of supporting guidelines and manuals. Operationally, these empower SNAs to manage effectively and develop the capacity of staff, to hold them accountable, to encourage civil servants to work at SNAs, to ensure the neutrality of staff in the discharge of their roles and duties, and to facilitate the transfer of staff to accompany the transfer of functions.

The PA reforms worked closely with the D&D reforms to establish OWSOs.

Coordinated policy support delivered clarity to SNAs. In 2012, the Secretariat of the National Committee for Subnational Democratic Development (NCDD), Ministry of Interior, and MEF (the national treasury) issued comprehensive guidelines with a menu of options to support commune councils in planning, budgeting, and organizing social service interventions.

3

ADDRESSING REFORM BOTTLENECKS

D&D Bottlenecks

While decentralization has a number of core strengths, it is less likely to translate into improved government performance and better socioeconomic outcomes unless certain preconditions are met. Decentralization can improve the allocative efficiency of government spending and strengthen downward accountability because lower-level governments have an informational advantage over a central government. Thus, bringing government closer to citizen means that the provision of essential services, such as health and education, can be better calibrated to meet local needs, and public infrastructure can be more responsive to citizens' preferences. Decentralization can also help address pockets of poverty that require tailored approaches – such as reaching ethnic minority populations, and geographically or historically isolated groups. Accordingly, the transfer of responsibilities and resources from central government to local subnational administrations has been a common feature in countries across the East Asia and Pacific Region.

However, it does not logically follow that the purported benefits of decentralization are automatic. Subnational administrations have inherent difficulties coordinating decision making across communities (because of intercommunity externalities or spill overs). This can weaken the incentives for subnational governments to prioritize spending on national development priorities (Ponce-Rodriguez et al. 2018). Further, the decentralization of government functions may also decentralize government failure. World Bank experience with countries undertaking decentralization in the East Asia and Pacific region highlights a number of common challenges:

- Allocations to subnational governments often do not effectively target the poor or incentivize improved performance, resulting in uneven performance.
- Weak top-down oversight mechanisms, such as PFM and M&E systems, can exacerbate these issues by not adequately holding subnational governments to account or incentivizing performance. Capacity support to subnational governments is neglected for various reasons.
- Transparency, participation, and recourse mechanisms are not well incorporated in subnational government processes, systems, capacities. This can lead to “civil society failure” (Mansuri and Rao, 2013), in which policymaking at the local level is vulnerable to being captured by local elites rather than effectively targeting the poor.

Experience shows that as countries in East Asia decentralize, many display “institutional limbo” in terms of function overlaps, confused accountability, weak capacity, and centralized human resource controls (World Bank, 2005). Aligning the 3Fs (funds, functions and functionaries) is generally a challenge. Countries may nominally decentralize functions and funds but may centralize control over functionaries (because of concerns of jurisdiction, influence, capacity or career) or may limit discretion over the use of funds. Lack of clarity over functional allocation, incomplete information, and poor accounting and auditing systems often inhibit the ambition of improved service delivery.

Strong central government institutions are a sine qua non for effective decentralization, as is a dedicated and sustained investment to strengthen subnational government capacities, accountabilities, and incentives. Rigorous top-down oversight mechanisms need to reliably track spending and service delivery outputs down to village level. Transparency and participation in subnational administration processes should be actively supported. Disbursements can be used to strengthen accountability, for example being made conditional upon publication of citizen's budgets and accountability reports.

Policy Inconsistencies

Key policy questions remain unresolved on decentralization in Cambodia because of the lack of an overarching vision and clear policy on decentralization. In general, decentralization is a means to create autonomy; however, the Organic Law is ambiguous on which level should be responsible for service delivery and which functions should be transferred (devolution versus deconcentration). National plans and strategies (like the National Strategic Development Plan) and the PA reform also do not clearly articulate how decentralization can be a means for improving service delivery. These documents do not advocate for a separation of policy and executive functions or for ministries to focus on policy, standards, support, and supervision. Without an overarching policy, Cambodia's vision for decentralization remains open to interpretation, which affects the design and implementation of all three reforms.

SNAs have inadequate funding for their development mandates in part from inconsistencies and rigidities in the transfer mechanism and the increase in civil servants' pay, a key achievement of the PA reforms. SNA development spending has predominantly been allocated to larger infrastructure projects such as rural roads, irrigation, and water supply projects, while spending on social services, social protection, and local economic development is less than expected. The demand for local development projects far exceeds the volume of available funding. For example, a typical commune has eight to nine villages, and only one village road can be financed each year. Other challenges include the following:

- Transfers to SNAs are inconsistent with broader policy objectives and not reflective of local conditions.
- The development and administrative components of the unconditional transfers to CSs and DMs are fixed proportions of the total. This means that the nominal allocation of the non-salary operational expense (24 percent of total) increases directly in line with the overall allocation and is not linked to a model of the standard costs of running a commune, district, or other administrative unit.
- Large civil service salary increases compromise the D&D reform objective of increasing local development spending. Until 2013, it was a legal requirement that the cost of administration not exceed one-third of all total funding. By 2017, the cost of administration reached 61 percent of total costs. This raises potential allocative efficiency issues, as the opportunity costs of high salaries is reduced development spending on capital projects and, by extension, reduced effectiveness of SNAs.

The sustainability and quality of capacity development and its value for money remain a concern. Key issues included: (i) an over-reliance on training rather than learning by doing and task specific activities and facilitation; (ii) weak accountability between the CD provider and recipients (IP3 phase III aimed to experiment with CD grants where SNAs could competitively procure CD services); and (iii) a focus on technical knowledge rather than attitudinal change.

There are vertical fiscal imbalances. Despite the expectation that districts and municipalities will become the main service providers, and although communes and sangkats are the citizens' first contact point with subnational administration, PCs are allocated a significant majority of all SNA resources (creating a "vertical imbalance"). In 2017, PCs were allocated \$268 million (68 percent of SNA allocations), mostly through tax

sharing. A number of taxes have been assigned as SNA's revenue (mainly for PC); however, all tax and most nontax revenues are being centrally collected by the General Department of Taxation and other bodies.

The transfer of functional responsibilities and service delivery as expected under D&D reforms is highly contested. There remains a lack of consensus on some key policy issues, such as fiscal decentralization and transfer of key functions. Ultimately, the reassignment of the obligatory functions of line ministries to SNA reforms has to be implemented by ministries and provinces. Despite considerable efforts by the Ministry of Interior to coordinate meetings with line ministries to come up with a decentralization plan, resistance remains on the part of some line ministries to commit themselves to transfer functions (Eng and Ear 2016). While some progress has been made within some key sectors, such as education or health, D&D is not universally viewed as a means to improve service delivery, which is imparting considerable drag on the process.

The slow pace of D&D reform reflects legitimate disagreements on the broad direction of the decentralization reforms. The changes envisioned required a new mindset (moving from central control to local initiative and incentives for performance) and imply a major restructuring of the state. Due to the inherently political nature and highly contested nature of some reforms, particularly D&D, the slow pace of reform is not, per se, negative. Indeed, the assumption is that a consensual "whole-of-government approach" to D&D, though slow and perhaps less comprehensive than imposing decentralization by fiat, would lead to better implementation. Developing and implementing decentralization policy is a long-term endeavor. It requires extensive consultation and political negotiation. The Bank-supported demand for good governance operation helped to move towards a consensus between civil society and the Royal Government of Cambodia on good governance, leading to the joint National Committee for Democratic Development – civil society organization social accountability steering committee. Project experience also helped design the ongoing social accountability framework implementation plan that provides for information to citizens, community scorecards, and joint action plans.

Sequencing Issues

SNA's are caught in a vicious cycle of slow and inconsistent progress in transferring functions and staff, which constrains capacity. For example, the government's phased transfer of the primary education function (to district and municipal levels) had to be scaled back due to human resource capacity challenges and issues related to financial flows and PFM at the subnational level. The transfer of solid waste management to the district level also faced challenges particularly around the procedure of fund flow and capacity to execute the service. As a result, garbage collection was delayed in various places.

The slow progress in transferring functions is also impeding implementation of conditional grants to SNAs. The result is the siphoning of funds from other purpose specific funds, such as climate change adaptation or social service delivery, through unconditional grant systems (the CS and DM funds).

Slow implementation of HR management, including performance management at SNAs, is inhibiting the speed of both PFM and D&D reform. To support the decentralization of HR management at subnational administrations, the "Royal Decree on Particular Statute for Subnational Administration Civil Servants" was approved by the king in April 2016. It outlines the principles of decentralized HR management. As of early 2018, however, only one of the 17 required guidelines were completed.⁵

⁵ The 17 guidelines are: (i) human resource planning and personnel projection, (ii) recruitment, (iii) study visit, (iv) official's appointment into cadre, (v) promotion, (vi) appointment, (vii) training and capacity development, (viii) local and overseas on-the-job trainings, (ix) performance based and incentives management, (x) shifting workplace (transfer), (x.i) staffing in a free status without pay, (xi) staffing out of earlier cadre stationed or to be out of position, (xii) leave management, (xiii) imposing punishment, (xiv) legal proceeding through court system, (xv) conflict resolution concerning civil service functions, (xvi) leaving civil service due to the disabilities, and (xvii) official cadre officially removed from the list, death, and retirement.

Capacity Constraints

The limited capacity of staff within line ministries as well as transferred staff, governors, and councils is inhibiting the ability of SNAs to implement new management and budgeting responsibilities. Budget reform objectives cannot be achieved without significant improvement in organizational process, HR capacity, and incentives management to support the change. Yet, in general, constrained human resource capacity to implement PFM reforms remains an ongoing challenge for the civil service despite considerable investment in PFM training in the past 13 years. The transfer of wider powers to budget entities, including the important step of out posting financial controllers to line ministries, has not yet been supported by adequate capacity development or positive incentives to use the delegated responsibility. Key actors within SNAs do not understand the broader possibilities of the general mandate. There is little evidence that line ministries know how to use their internal audit functions and act on audit recommendations to help them effectively discharge their financial management responsibilities. In this light, a daunting challenge remains of getting the basics right in terms of budget strategic planning and program structure for all line ministries and other institutions to provide complete functions and tasks for successful program-based budget implementation.

PFM Bottlenecks

Despite substantial progress, several shortcomings require attention to further advance progress toward longer-term goals. Specific PFM areas needing further improvement are described in this section.

Revenue. There is still ample scope to increase revenue based on similar economies. Tax legislation is comprehensive and clear, but some laws could be clearer. Discretionary powers regarding the profit tax, value-added tax (VAT), and excise duties need to be reduced to improve transparency and fairness. Information needed by taxpayers is available on government websites, but more capacity and resources are needed to regularly update and disseminate the information. A system of tax appeals has been set up, but it needs to become fully operational.

There are also issues with tax exemptions, which keep yields from the corporate income tax and VAT below cross-country averages. Tax exemptions mainly benefit foreign-owned garment factories, and amounted to about 3.9 percent of GDP in 2015, up from 2.6 percent in 2014.

Budgeting. Implementation of program budgeting faces some key challenges. Program budgeting is far more than simply a change in the way the budget is presented. Its real purpose is to have a major positive impact on the quality of public service delivery. Program-based budgeting has been implemented in all line ministries in 2018. These ministries have developed some well-structured program definitions. However, several challenges emerged including difficulty to capture complete program cost (personnel and capital expenditures under each program are not normally captured. This limitation hampers assessment of actual expenditure and performance); rigidity of detailed line item budget at service delivery level (for example, schools); and the lack of realism of budget strategic planning, which is disconnected from the available budget envelop, at line ministries.

There are some cost-effective ways to achieve greater performance orientation (Schiavo-Campo and Tommasi 1999). A unified chart of accounts, more detailed reporting on implementation of externally funded projects, and better systems to track resources flowing to service delivery units would all improve data on resource allocations that could be better linked to performance improvement. Successful implementation of the seven budget classification segments will contribute to this. Reduction of frequent in-year budget reallocations

and improved budget discipline with timely closure of financial account at year end would lead to greater alignment between budget priorities approved by the legislature, and actual spending.

The reform of transaction processing, and the better alignment of staff budgets and establishment controls have only been partially implemented. In some ministries, variance remains an issue. For example, the major spending ministries of health and education only managed to implement 92.9 percent and 88.5 percent, respectively, of their budget allocations in 2016. As delegation increases of budget management to budget managers and service delivery units, the financial management capacity of budget holders has become an emerging issue. The use of data and analysis by budget entities, in the formulation of budgets and allocation of resources, remain weak. Financial data available to budget entities are inadequate; for example, they exclude capital spending. This limits the ability to prioritize and implement budgeting informed by performance.

Because of the implementation of the FMIS (phase 1),⁶ which is operational at central offices at MEF and all provincial treasuries, timely and reconciled accounting reports have been prepared. The General Department of the National Treasury is working toward full compliance with cash-based international public sector accounting standards. The system has now become the accepted official record of spending compared to budget. In the past, accountability was undermined by the existence of various conflicting manual books of record.

The hierarchy within line ministries has been analyzed to identify accountable officers at different levels. Moves have been made to empower budget entities to implement their budgets more effectively by delegating wider powers to initiate and discharge expenditure on a timely basis.

The FMIS provides the potential to streamline transaction-related business processes, but phase 1 still allows for some old and cumbersome processes to be used, which are vulnerable to manipulation and abuse. Phase 1's emphasis has been on producing data in a timely manner, rather than how the data can be used for managing budget implementation and strengthening the accountability of budget holders. Similarly, the MEF has removed around 20–25 percent of the steps in its previously highly complicated processes, but those in spending bodies remain largely unchanged. The FMIS can generate information helpful for budget implementation, but flexible access to this information is not yet readily available to line ministries and budget entities. Phase 2 of the FMIS needs to provide budget entities extended and more flexible access to FMIS data, perhaps by downloading them to easily accessible spreadsheets (Mills and Wescott 2016).

The Budget System Reform Strategy 2018-2025 adopted in early 2018 provides the future direction and outlined some key reforms, which will help to address the above issues with an upgrade of human resources and management information systems to support the change. Its goal is that by 2025 Cambodia's budget system will be based on program budget with a comprehensive program policy and budget linkage and performance accountability. "Performance Informed Budgeting" in which allocated "resources are indirectly related to proposed future performance or past performance" is the adopted model for budget reform. Successful implementation of the strategy is expected to contribute to a more open and transparent budget process with timely reporting in line with international standards.

Public Investment Management. The goal of doing more and better with fewer resources has not yet been achieved. While Cambodia spends relatively high amounts on public investment relative to other lower-middle-income economies, there are limited improvements in infrastructure outcomes. The most

⁶ FMIS Phase 1 involves the implementation of six modules in central offices of MEF and all provincial treasuries. Phase 2, which is ongoing, will involve expansion of the system to line ministries and subnational budget entities.

recent Public Expenditure Review noted, “In 2011, an index of public investment efficiency classified Cambodia among the bottom 40 percent of developing economies, mainly due to weaknesses in investment project selection and appraisal” (World Bank 2011, xvi-xvii, 25–45; Mills et al. 2011). Addressing public investment management becomes increasingly critical as: (i) the grant portion of externally financed capital is expected to keep declining as a percentage of GDP (following Cambodia’s graduation to lower-middle-income status in 2015); and (ii) the wage bill continues to expand, putting a limit on the extent to which the government could increase the domestically financed capital budget. It is also important to expand strategic sector planning to other ministries beyond health and education to better align investments with policy priorities, and take into account the recurrent budget implications. A more developed medium term expenditure framework linked into the budget process would also help to improve investment quality.

Subnational Finances. Fiscal decentralization has lagged the progress made in decentralizing political authority. Subnational administrations are financed through: (i) unconditional grants (the CS fund, DM fund, and capital and provincial budgets); (ii) own-source revenues, mostly user fees; and (iii) project financing through the “subnational investment fund - SNIF.”⁷ A 2017 Prakas aims to increase the sources of financial resources for district, municipality, khan, and CS administrations through the sharing of tax revenues of PC using a population-weighted transfer. SNAs, however, still have no powers to raise new taxes or to change the nature, base, or rates of existing taxes.

The overall level of the CS fund is allocated as a percentage of the previous year’s recurrent revenues. Originally the allocation was 2 percent of the previous year’s budget (2003) and has since been gradually raised to an expected 3 percent in 2019, 3.1 percent in 2020, and 3.2 percent in 2021. The allocation of resources is based on a historical baseline, rather than need, rate of return, or impact on poverty. Moreover, the link to historical central budgets is inconsistent with the principle of linking the budget to policy. The CS fund is not a performance grant and therefore cannot be used to incentivize certain behaviors.

The DM fund allocation is formula based and does not include a performance element. In 2017, the DM fund development component was mostly used for the construction of offices and the purchase of office equipment (i.e., SNA capital investment rather than public infrastructure investment). This followed directions from the MEF.

Procurement Systems. Public procurement has seen limited progress. A new law was adopted in 2012. The development of sub-legislation required for the implementation of the new law, however, experienced some major delays. The procurement law provides an overarching legal framework governing procurement. In everyday practice in Cambodia, two separate systems have been maintained with more stringent standard operating procedures for procurement of externally funded projects and less stringent implementation of internal rules and regulations on public procurement using government funds. The government is exploring the possibility of harmonizing the two procurement systems under the PFMRP.

Some work on procurement reforms has been carried out to delegate greater authority to budget managers. Revised rules, guidance, and training have been provided. Contractors and suppliers are generally aware of the steps taken to devolve the procurement process. However, this step has not yet been effectively implemented, and budget managers are being inadequately held accountable for procurement. More importantly, there is no clear evidence that procurement reforms have had an impact in getting the goods and services of the

7 According to Article 246 of the Organic Law, own-source revenue for local governments includes: (i) local taxes; (ii) fees, charges, and other nontax revenues; (iii) revenues of district councils shared with communes and sangkats; and (iv) and voluntary donations.

right quality and price to the right place at the right time. The time that it takes to make an order and pay for delivery is still too long. Progress has been made in reducing the processing time for discharging bills within MEF from 90 days (exceeded in practice) to no more than 60 days (enforced by Phase 1 of the FMIS implementation). But this is still much longer than international norms and excludes the handling delay within budget manager organizations, which is likely to be considerable.

Greater use is being made of a competitive bidding process, and announcements are made on the MEF website. The MEF has a separate procurement manual for all externally financed projects in Cambodia (created in 2012) to increase competition and transparency. However, effective implementation of new processes is still needed.

Mechanisms such as post-procurement reviews have not been enforced. Internal audit teams have been put in place, but evidence that line ministries know how to use these units, and value and act on audit recommendations to help them discharge their financial management responsibilities effectively, is still limited. Developing more streamlined transaction processing that maintains adequate control but improves the ability of budget entities to implement budgets in a timely way and reduces contractors' costs of doing business with government requires improving business processes from beginning to end (including procurement and establishing a more transparent framework that sets clear targets for timeliness and value for money). This is likely to involve improved engagement with private sector stakeholders and suppliers.

Accountability. Despite substantial progress, strengthening accountability remains a major challenge and many of the reform objectives have not been completely realized. Those responsible for public expenditure, at all levels, still need to accept and be held responsible to manage public resources in an efficient and disciplined way with the effect that wastage, leakage, and inefficient use of resources are minimized. Under the current Organic Budget Law (public finance system law), the MEF is the public accountant. The ministry continues to be held responsible for the management of public finances, regardless of the ongoing delegation of authority.

Linking disbursement or financial rewards to the satisfactory completion of budget implementation reports, internal audit reports, responses to financial control issues, and adequate procurement review results will provide a foundation for more comprehensive performance-related incentives. The experience with FMIS has demonstrated that perverse incentives embedded in existing practices can subvert reform through both positive and passive resistance. Overcoming perverse incentives will require extensive change management to come up with strategies to address vested interests benefiting from present arrangements. Building coalitions of stakeholders to support decisive actions for improvement will also be needed.

Oversight. The capacity of the oversight institution saw some improvement from its inception in 2002, although more remains to be done. A peer review carried out by the New Zealand Audit Office in 2010, financed under the Public Financial Management and Accountability Project, concluded with the following three recommendations: (i) build National Audit Authority (NAA) existing systems and methodologies for its auditing activities; (ii) prepare the NAA for a wider contribution under the PFM reforms; and (iii) continue the implementation of strategies for developing its infrastructure including its workforce and a comprehensive and sustainable information and communications technology (ICT) platform.

Three years later, an assessment of the NAA by Transparency International Cambodia concluded that NAA staffing has been stable since 2002, and guided by a code of ethics. Since 2015, transparency has been gradually improved with timelier publication and publicizing of audit reports. The last audit report was published in 2016.

Despite some improvement, Cambodia's oversight institution remains weak in its governance and implementation of its mandate to support improved accountability in the management of public resources (Transparency International Cambodia 2014). Further, as PFM systems become modernized, improvement in capacity will be essential including, though not limited to, ICT audit and the ability to identify deficiencies and potential improvements.

As discussed above, well-structured program definitions have been developed, but program-based budgeting saw various limitations that can be expected when such highly complex systems are introduced in developing countries. Moving forward, the authorities should consider alternative actions to achieve greater performance orientation in budgeting, in line with capacities in line ministries and SNAs.

Finally, capacity and institutional capability, organization, and motivation and change management have also been inadequate. This situation prevents further advancement of PFM reform—budget entities are not yet sufficiently empowered, nor incentivized, to use resources more dynamically. In some cases, the reason for this inadequate capability may not be a shortage of skills, but rather because the lack of rigorous attention by government officers to enforcing budget and spending rules. Even when staff are given training, these interests may still find ways of blocking effective action without firm support from leadership to follow proper procedures combined with extensive effort in change management.

PA Bottlenecks

The large rise in civil service salaries risks placing additional budgetary pressure on SNAs and line ministries. Modelling of the future wage bill increases is needed in the context of GDP and revenue growth and private sector competition for scarce talent. This can help determine a sustainable trajectory of overall wage bill reforms. The remaining and more challenging PA reforms mirror the challenges facing both PFM and D&D reforms.

Performance management systems at the SNA level remain underdeveloped. The effective transfer of function to SNAs under D&D reforms and the implementation of more responsible budgeting under PFM reforms require effective performance management. This, in turn, requires an improved HRMIS at all levels of government. However, on each front, progress is lacking and Cambodia's public service demonstrates only modest internal management capacity.

Guidelines for performance management were completed in 2017, and pilots will be undertaken in 2018. The performance management system envisioned by the PA reforms includes seven elements: annual work plans; job titles and descriptions; work conditions; management of attendance; monitoring and evaluation; reporting; and individual performance appraisal.

While an HRMIS exists, its effectiveness is hampered by administrative shortcomings that make it cumbersome and vulnerable to error. Data are still submitted to MCS on paper—meaning data entry is duplicated at both the ministry level and at the coordinating MCS. Because unique civil service ID is not linked to the unique national ID assigned to all citizens by the Ministry of Interior, there is no unique identifier to validate each civil servant. This situation undermines data migration and heightens the risk of multiple personnel records. HR functions are fragmented across separate databases, undermining efficiency and control.

While a wide range of computerized web-based M&E systems are in operation, they were largely designed around central rather than SNA needs. Data are routinely input at provincial rather than district level, leading to significant delays and making the systems less useful to SNAs.

The development of competency frameworks is incomplete. Work on simple competency frameworks began in 2015, but is not yet complete. As of 2018, only 11 ministries and institutions and 8 provincial departments completed job titles and descriptions for management positions. The intention is to link competency assessments and standards with capacity development provision. Competency frameworks need to reflect any decisions made to decentralize service delivery, with sufficient managerial skills being essential at the service delivery level and with policy, support, and supervision skills present in ministries.

Grievance handling mechanisms are lacking at the SNA level. PA reforms focus on developing mechanisms of downward accountability at the central level, while SNA is being the predominant interface between government and the public. Ensuring adequate coordination between PA and D&D reform on a grievance handling mechanism will be important to ensure smooth progress in this area. The World Bank has supported design and implementation of a formal mechanism for dispute resolution between citizens and public officials through the district ombudsman (World Bank 2017a, 10–12). The complaints system is considered independent, credible and effective by citizens. The ombudsman function needs to be refined and scaled up to other SNAs.

A number of sub-decrees under development will provide guidance on cross-cutting issues within PA reforms. Service delivery rewards and competition are promoted under PA reform through a sub-decree on the recognition of best services, with a focus on health and education (adopted on April 30, 2018). Some M&E initiatives were begun with the ministries of health and education but have not been finalized.

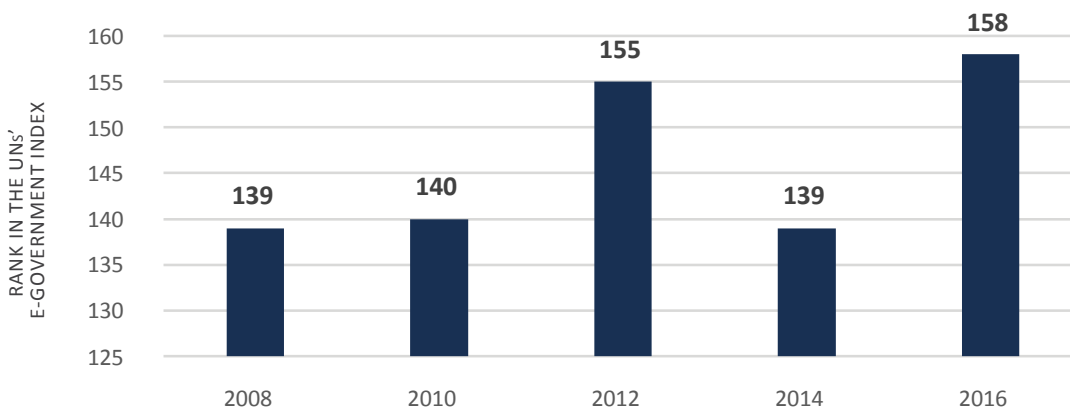
It is understood that the PA and D&D reforms are now under-funded. The PA reforms are under-resourced and have maintained a lower profile compared to the other reforms. The MCS was established in 2013. Historically, the D&D reforms were well funded until 2017, when the European Union, Sweden, and the Swiss Development Corporation withdrew financing of its basket fund following the Supreme Court's dissolution of the main opposition party. While the government funded 95 percent of the total costs of SNAs and D&D reform and 64 percent of all costs exclusive of fiscal transfers, the withdrawal of basket development partners' fund in 2017 places the reforms in jeopardy. Additional funding (about 15 percent of previous levels) was raised by the government to continue supporting decentralization reform.

E-government. Though progress has been made, initiatives remain at an early stage (Table 4; Figures 7, 8). Services mostly focus on two-way communication, rather than transactional interactions, where services are fully provided online. This rather early stage in e-government development is also reflected in the United Nations' e-government survey, which is published every 2 years. This survey indexes countries along four attributes: e-participation, online services, human capital, and telecommunications infrastructure. Cambodia's score remained relatively constant in the four surveys from 2008 to 2014. In 2016, its score dropped largely due to its e-participation rank. In 2016, it ranked 158th out of 193 countries (a number 1 ranking is best). In 2016, its score was only slightly higher than the least-developed country average, but lower than the index for Africa. Among its South-East Asian neighbors, only Myanmar ranked lower.

Table 4. E-government Indexes for the Southeast Asia Region, 2016

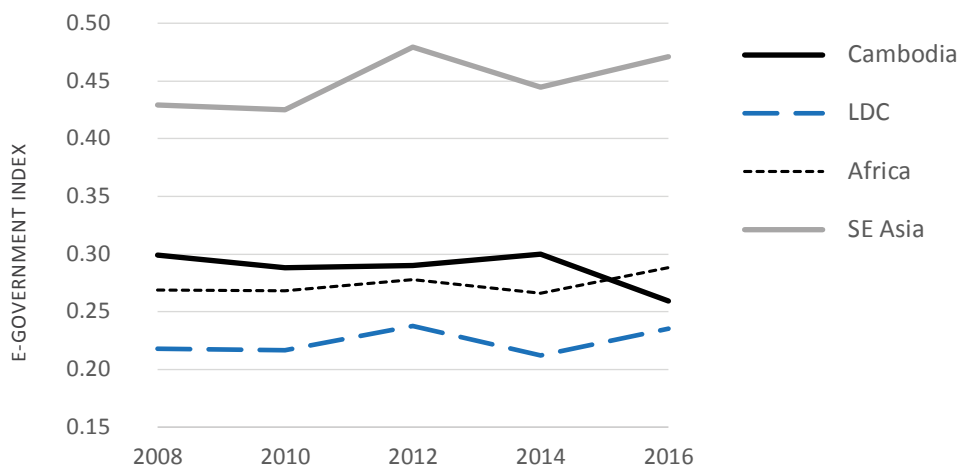
| Country | Rank | Score |
|-------------------|------|--------|
| Philippines | 71 | 0.5766 |
| Thailand | 77 | 0.5522 |
| Brunei Darussalam | 83 | 0.5298 |
| Vietnam | 89 | 0.5143 |
| Indonesia | 116 | 0.4478 |
| Lao PDR | 148 | 0.3090 |
| Cambodia | 158 | 0.2593 |
| Myanmar | 169 | 0.2362 |

Figure 7. Cambodia's Rank in the United Nations' E-government Index, 2008–16



Note: A rank of 1 is best. In 2016, Cambodia was ranked 158th of 193 countries, which is the sample size for all years.

Figure 8. Cambodia's E-government Index, 2008–16



Note: On a 0–1 scale. A score of 1 is the best. LDC = Least Development Countries (United Nations classification); SE Asia = Southeast Asia Region of the World Bank.

The Challenge of Effective Policy Coordination

Sustained progress in implementing the holistic reform agenda is inhibited by the weak coordination between reforms. Misalignments have arisen due to a combination of policy inconsistencies, sequencing issues, and capacity constraints. Coordination may also be resisted by stakeholders within key ministries that do not believe in it or find it threatening or inconvenient. This has resulted in an uneven pace to reform and systemic misalignments, which threaten to undermine the overall effectiveness of the reform agenda.

Policy coordination is a challenge faced by all countries. As the scale, scope, and complexity of the role of government continues to expand in countries across the world, the challenge of effective policy coordination has commensurately grown in importance. Responding to citizens' demands for better-quality service delivery and addressing complex and cross-cutting policy challenges, such as climate change, cannot be achieved by individual ministries. It requires a coordinated and consistent effort across networks of government agencies pursuing shared long-term goals.

Fundamentally, coordination is a problem of collective action. It is a challenge of organizing different interests to align in the pursuit of a common goal. Effective coordination provides common purpose, shared objectives and helps build credibility among participants by reducing uncertainty in individual's behavior.

The 2017 World Development Report identified coordination as essential for ensuring that policies yield their desired outcome. Coordination failures within government can lead to fragmentation, waste resources through duplication and lead to actors working at cross-purposes. They undermine the effectiveness and efficiency of public sector performance, threaten reform and lead to weaker development outcomes.

Coordination within government takes many forms, with the institutional form reflecting country-specific institutions and the task at hand. Recent analysis from the World Bank's Global Report on Public Sector Performance (World Bank 2018) notes that coordination can take place at a number of levels within government, ranging from strategic policy coordination at the highest level through operational coordination at the working level. Coordination mechanisms can be formalized as committees and structures:

- At the most strategic level, top-down coordination occurs within coordination mechanisms at the apex of government, such as cabinets, councils or politburos to set policy and reform priorities and allocate resources;
- Peak coordinating bodies within individual sectors, such as health, ensure high standards of performance by regulating barriers to entry, setting common standards and having the power to sanction non-performance;
- Special-purpose delivery units with political authority and resources are sometimes established by higher levels of government to drive implementation of high-priority reform or policy goals. These usually focus on issues beyond the purview of a single agency and are tasked with eliminating inter-agency bottlenecks;
- Horizontal coordination among agencies with equal status occurs through committees and joint working groups tasked with pursuing cross-cutting policy and operational initiatives;
- Formalized coordination mechanisms can also facilitate coordination between levels of government within decentralized systems, such as through inter-governmental councils, taxes, grants, and transfer payments (conditional or non-conditional).

Coordination can also occur informally and be embedded into the regularized ways in which government agencies interact, for example via:

- Government-wide M&E systems and budgeting systems based on common programmers, which break down organizational silos by coordinating different agencies around a common set of government objectives;
- Cadres of high-quality generalist senior civil service administrators, who are less inclined to be influenced by narrow, parochial bureaucratic interests;
- Networks of mayors at a sub-national level;
- Knowledge sharing initiatives, such as joint training and joint distribution lists;
- Through HR management, such as civil service secondment and rotation. and performance management that incentivizes inter-agency collaboration.

Ultimately, bureaucratic coordination is influenced by the prevailing societal context. The cultures and attitudes of individuals within government agencies, and the agencies themselves, are shaped by the larger value systems of society. More fractured societies, such as fragile and conflict-afflicted states, where the social contract is relatively weak, and behavior is less certain, are likely to be characterized by greater mistrust, siloed bureaucracies and rivalries, than more homogeneous and harmonious contexts.

Accordingly, governments focus on the socialization of cooperative norms within the civil service. Regular trainings of civil servants, conferences and retreats, for instance, can instill a sense of shared purpose and help break down sectoral rivalries and suspicions.

Effective policy coordination is a particular challenge in developing countries. In general, and relative to high-income countries, the role of government has expanded considerably, yet the capability of public institutions remains relatively weak. Fragmentation between government agencies inhibits coordination of resources as well as information, which tends not to flow as freely within and across ministries. Accountability relationships remain verticalized and often based on informal and personalized relationship.

Coordination among different groups can involve high costs, though these costs may be deemed necessary. The more inclusive and contestable the coordination process is, the more complex and time consuming it becomes, slowing the pace of reform. However, on the flipside, inclusiveness can facilitate greater buy-in from affected parties, overcome political resistance, curb power imbalances, build trust, and lead to better outcomes for all. The principle of “subsidiarity” should exist in inter-agency coordination, in that coordination mechanisms should seek to involve the minimum number of units necessary to ensure the successful ownership and buy-in of a given initiative.

Within more fragmented and decentralized systems coordination is essential, though more difficult. Fragmentated government systems disperse functions, tasks and responsibilities across a wider institutional framework and a large number of actors. Decentralized systems also distribute these responsibilities between levels of government.

Strong political leadership is essential to the successful coordination of reform efforts. Strong political leadership can provide direction and high-level political backing for reform. It can confer clear institutional responsibility and accountability on coordinating bodies, minimize overlaps and lend higher-level legitimacy to reform processes. The broader political environment clearly plays a role: within single party states, the bulk of policy coordination may take place within the ruling party and not through government institutions

and be less contested than in a multi-party context. Though even one-party states are seldom monolithic in their decision making.

Downstream, a combination of strong leadership with the requisite technical skills and political influence is needed to coordinate activity across a large number of disparate stakeholders. Strong and effective leadership can help facilitate collaboration and compromise within coordination bodies, build capacity within bureaucracies to plan and manage reform, and shape positive bureaucratic cultural norms.

As a post-conflict state, Cambodia has achieved considerable economic successes relatively quickly, yet its public institutions are still underdeveloped. Driven by a liberal trade and investment policy and structural macroeconomic reforms, Cambodia's economy has undergone considerable expansion—having grown at a yearly average growth rate in excess of 7.5 percent for more than two decades. PA remains heavily influenced by the urgent need to establish rule of law and a strong, credible government following the destruction of the social fabric and decimation of human capital during the Khmer Rouge regime. Accordingly, state structures and practices emerged that were highly centralized and hierarchical, with inadequate institutionalization. These practices remain largely in place to this day.

The government is facing the challenges of managing larger and more complex responsibilities. This requires structural reforms to the institutional framework of government, financing, and PA. Yet, Cambodia has struggled to deepen its reforms, largely as the result of coordination challenges.

From the perspective of policy coordination, the institutional structure of government in Cambodia has some structural advantages. A gradualist, consensual approach to change, as has been practiced, also ensures that the pace of change is measured.

However, offsetting these structural characteristics, a number of factors conspire to inhibit effective coordination. Within the civil service, patrimonial cultures predominate. Civil servants often remain within one ministry for their entire career, which creates silos. Close-knit vertical relations remain with strong informal procedures that tend to prioritize group loyalty over competence and performance. They result in weak accountability for performance and weak forms of accountability to citizens.

Coordination Mechanisms across the Three Reforms

There is a loose and fragmented procedure for coordinating the cross-cutting reforms. The board of the NCDD sets out the government's agenda for implementation of the D&D reforms through Organic Laws and the governance reform processes of SNAs in Cambodia. It comprises 15 participating ministers—including the ministers responsible for civil service and economy and finance—and is chaired by the deputy prime minister of the Ministry of Interior. Individual ministries are leading the other two reforms: the MCS for the PA reforms; and MEF for PFM reforms.

The reform secretariats have attempted to cooperate on a wide range of issues. Since 2016, the three reform teams meet quarterly to plan, report on, and harmonize their activities. Each reform secretariat takes a turn chairing the meeting based on its topics. A joint work plan for the three reform secretariats exists; however, it consists of 11 independent activities and does not reflect the converging areas of the three reforms. Conspicuously absent from these arrangements is the Ministry of Women's Affairs, which leads the Neary Rattanak IV (the Cambodian gender strategy).

Coordination and day-to-day management of the D&D reform process is provided by the Secretariat to the NCDD, a government department supervised by the minister of interior. The NCDD has entered into high-level discussions with key ministries, typically at the secretary of state level, to negotiate progress.

The three reform initiatives do not seem to have a common goal, and there is a lack of unambiguous higher-level guidance in the event of disputes around decentralization. The Organic Laws provide an insufficiently clear roadmap for Cambodia's decentralization. They constitute a political compromise between dueling visions of a "unified administration" as opposed to genuine local authorities distinct from the state and acting on behalf of citizens through locally elected councils. Key questions are unanswered, including which functions should be transferred, whether services will primarily be provided at the provincial, district, or commune level, which regulatory and supervisory responsibilities the provinces have, and whether provinces are local authorities or deconcentrated branches of the Ministry of Interior. As a result, policy evolved organically and in an unstructured way. While this led to a more realistic and relevant identification of D&D issues, it allowed critics of decentralization to point back to inconsistencies in the law and therefore to resist a more thorough form of decentralization.

Where D&D constraints have been encountered, the approach was to resolve policy differences "higher up." The prime minister's official decision to transfer 28 significant functions to SNAs is an example (see Box 1). This approach has significant limits as it requires considerable discretion and requires careful management of political capital.

4

RECOMMENDATIONS FOR DEEPENING REFORMS

Specific suggestions are offered to improve the coordination and sequencing of the three key public sector reforms in the short term. The focus is on three areas: (i) improving the overall coherence within the civil service to provide a favorable context for coordination—both for these reforms as well as other coordination problems; (ii) specific mechanisms to better organize and integrate the three key reforms; and (iii) suggestions for deepening the individual reforms by alleviating a range of constraints. It is important to note that the nature of bureaucratic coordination is set against a backdrop of the long-term societal issues such as the nature of the social contract and the party system in Cambodia, though these aspects are beyond the scope of this analysis.

Improved Coordination of the Civil Service

Strengthen civil service training, hiring, and staffing systems. The following specific ideas may be considered.

- Socialization of cooperative norms within the civil service is a powerful tool. Common, standardized training tools, especially at the time of induction, can instill a sense of shared purpose and help break down sectoral rivalries (see Box 2).
- Investment in a cadre of high-quality generalist senior civil service administrators (an “elite cadre”) is a common tool used by countries to overcome narrow, parochial bureaucratic interests. In theory, generalized managers are less likely to have a siloed mentality and more likely to have a preference for coordination with other managers and information sharing. Staffing policies need to find the right mix of specialization and breadth.
- Knowledge can be shared with civil servants through joint training, civil service secondment, and rotation. Operationally, placing some staff in different reform secretariats or using regular staff rotation can encourage peer learning, help to increase mutual understanding, and facilitate improved communication and coordination.

Box 2.**The Importance of a Common Shared Identity for Coordination**

The structure of the social groups within organizations determines, to a large extent, the performance of those organizations. On an individual level, a person's social identity influences their self-esteem and shapes their motivations and behavior. Collectively, a shared sense of social identity can coalesce into group norms and creates a preference for cooperation (Tajfel and Turner, 1979; Gary et al 2007; Rob and Zemsky, 2002; Charness, Rigotti and Rustichini, 2006). Social identity can also shape biases; creating ingroup favoritism as well as outgroup discrimination.

Well-functioning organizations invest considerable energy fostering a sense of a shared identity in their personnel. This is evident in military organizations, which, among other things, inculcate a shared identity in new recruits through initiation rites, uniforms and oaths. These investments turn "outsiders" into "insiders" who feel an affinity and responsibility toward the collective organization, which helps to ensure predictable, coordinated behavior in battle.

Similarly, within the civilian organizations, including government agencies, shared identities create an attachment among staff and lay the foundations for effective coordination. Aligning individual motivations to those of the wider organization can enhance productivity and save costs – both in the form of need for reduced supervision and as a supplement motivation to monetary compensation (Aketlof and Kranton, 2005). Accordingly, organizations invest considerable effort in fostering a shared sense of identity through developing a "corporate culture" and instilling a common set of values among their employees.

The flipside of a strong corporate culture and shared identity, however, is that it can create organizational rigidities. The emphasis on "insiders" and "outsiders" can encourage narrow parochial interests and result in the group loyalty being prioritized over all else (Alvesson & Willmott, 2002). From a supra-organizational perspective, strong internal identities and siloed cultures can lead to fragmentation and "departmentalism" where the narrow aims and objectives of the department are prioritized and the wider interests (of the organization or the public) are marginalized.

The bureaucratized structure of public service and the aggregation of particular technical skills within specific agencies, means that narrowly defined shared identities within government are likely to be inevitable. Nonetheless, governments can redefine and broaden what constitutes an inside group. Many Organization for Economic Co-operation and Development and non- Organization for Economic Co-operation and Development countries have taken steps to socialize a "common ethic" and a "cohesive culture" across the whole-of-government as a complement to structural reforms to improve horizontal coordination. This includes the establishment of a separate senior public service, as well as shared training of lower-level cadres and even job rotations (World Bank, n.d).

Improving the overall quality and performance of the civil service can help ensure sufficient capacity to implement coordinated policy actions so that instructions retain their fidelity as they move through the bureaucracy. The following specific ideas to attract and retain the best talent and incentivize performance may be considered:

- Moving toward consistency of pay competitiveness across skill areas through regular pay comparator surveys, and monitoring the number of qualified applicants for vacant positions as well as turnover rates for recent recruits in critical skill areas.
- Ensuring that promotion is based on performance, and not merely seniority. This applies to managing performance and service delivery at the level of the individual employee, the agency or ministry, and government as a whole.

Performance management. Systems of managing organizational and individual performance need to be strengthened to facilitate pursuit of a common cause. Incentives, both psychological and financial, are key and need to be developed at the strategic level to encourage policy alignment between the three reform secretariats:

- High-level key performance indicators for ministries and organizations can help promote such commitment, cooperation, and coordination to help overcome barriers.
- Public pronouncements as commitment devices may hold leadership and bureaucracies to account for implementing reform.
- Results agreements between the supervisors and subordinates within the subunits of ministries that are aligned to the larger national and systems goals will also help drive performance.
- High quality data systems for performance monitoring and sharing of information among agencies are central for robust performance management reforms, including the potential use of financial incentives.

Improved Sequencing and Coordination of the Three Key Reforms

Communication. Strengthening communication at the strategic level will help facilitate improved coordination among the three reforms. Specific suggestions include:

- The cabinet might consider having a 1- to 2-day retreat to discuss and ventilate the issues. The retreat would require a whole-of-government approach involving not only the three key ministries but also the affected ministries (i.e., those whose functions and services are to be transferred to SNAs).
- The government could appoint a peer review group of former, retired government officials who were involved in similar reforms in other countries to help to provide independent inputs for ongoing advancement of reform in Cambodia.

Leadership. Leadership is always critical to coordination. A senior member of the government could be appointed to coordinate the activities of the reform secretariats. The time of senior political leadership is scarce, but this key resource must be marshalled carefully to focus on key strategic priorities. The example of Malaysia's National Blue Ocean Strategy (NBOS) shows the importance of selecting the right leader to ensure sufficient influence to move reforms forward and to prioritize performance, while retaining close links to the apex of the executive (Box 3).

Box 3.

Leadership in Malaysia's National Blue Ocean Strategy

As part of its “People first, performance now” approach, in 2009 the Malaysian Government adapted an approach to facilitation from the private sector called National Blue Ocean Strategy (NBOS). The idea was to target bureaucratic “silos,” encourage collaboration between government ministries and agencies, as well as with the private sector, to quickly deliver high-impact and low-cost government reforms.

The approach had some early success in reducing crime by thinking beyond the existing administrative structures of the police force and developing a new cross-agency crime reduction strategy that also included the military.

Building on this early success, the NBOS program was widened and a formal secretariat established. An annual NBOS summit ensued, in which senior members of government were invited to develop a broad array of inter-agency initiatives. A broad array of issues was targeted. These tended to be closely aligned with the government's national development strategy, though individual ministries could also be propositional. An NBOS pilot required the involvement of multiple agencies or ministries or involve collaboration between government and civil service / private sector. Bringing together ministers, agency directors, and middle managers from different organizations together for the single purpose of working together helped to break down silos and reduce political resistance later on.

While the NBOS approach was initially pioneered by the office of Malaysia's prime minister, this secretariat was housed in the Ministry of Finance. That was part of the solution to driving efficiency gains and rapidly mobilizing resources while securing the influence close to the apex of the executive. Strong support from the prime minister, deputy prime minister, and chief secretary of the government further incentivized collaboration on NBOS initiatives. The secretariat was charged with facilitating collaboration between ministries, agencies, and the private sector, as well as monitoring the implementation of the NBOS initiatives and assisting when organizations involved ran into obstacles.

The NBOS process has led to a cultural shift in Malaysia's bureaucracy. It has helped overcome rigid functional silos that traditionally impeded cross-ministerial collaboration and created an environment in which successful collaboration is celebrated and rewarded. In the nine years since its launch, 120 NBOS initiatives have been created. A notable example is urban transformation centers, Malaysia's version of one-stop shops, which has reduced functional overlaps, improved service delivery outcomes and improved the technical efficiency of government spending. Source: World Bank (2018b)

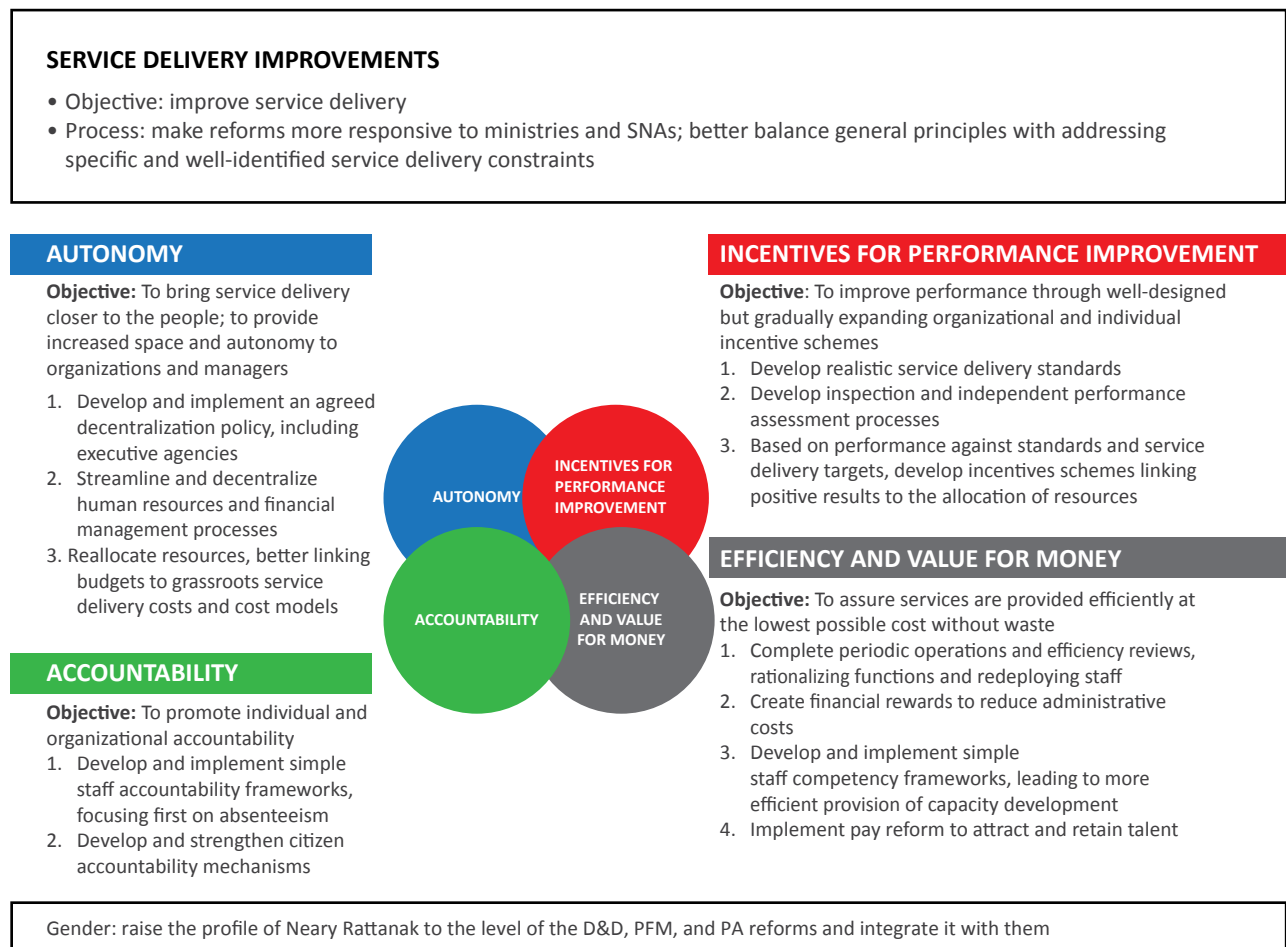
Develop a common organizing principle for the key reforms. At present, there is no single national or systems goal to guide strategic decision making. Key stakeholders therefore should work together to develop a clear overall problem statement and organizing principle for the cross-cutting reform agenda. Developing a high-level goal will provide the overarching framework around which performance goals can be designed.

Guiding any overarching framework should be the principles of autonomy, accountability, incentives for performance, and value for money. Figure 9 presents an example of a framework for improving service delivery and an accompanying suite of actions. Key issues include:

- Bringing the services closer to the people and making service providers more accountable to them by strengthening citizen monitoring and the availability of public information.
- Provision of autonomy to managers and budget holders.
- Accountability for performance and incentivization for high performers at all levels: public service needs to move toward incentive systems rather than command and control systems.
- Value for money in terms of staffing and administrative expense needs to be ensured. There is a need to reduce administrative costs caused by convoluted management and controls to directly channel increased resources into citizen-level development initiatives to the extent possible. For example, the modelling of future wage bill increases in the context of GDP and revenue growth can help determine a sustainable trajectory of overall wage bill reforms.
- Organizational structures, functions, and the allocation of resources need to reflect management and governance changes, focusing on value for money.

Including gender as a cross-cutting theme. At the strategic level, gender (or social equity and inclusiveness) needs to be more fully integrated into the PA, PFM, and D&D reforms. An essential element of good governance is understanding how women, and disadvantaged groups more generally, are affected by budgeting and PA decisions and taking steps to create more inclusive systems to empower these groups.

Figure 9. Overall Framework to Harmonize Cross-Cutting Reforms



Development partner’s support. Development partners can help strengthen the entire public sector performance across their portfolios by mainstreaming the tasks of strengthening governance and public sector performance that involves the three reforms in different sectoral projects.

Legislation. Several legislative changes are identified in this analysis that could facilitate improved coordination among reforms:

- A law on strengthening systems of public services can help several issues and gaps, including coordinating across sectors, sharing data among ministries, and setting up data interoperability standards, among others. Scope and coordination issues would need to be carefully calibrated.
- An amendment to the Organic PFM system law may be necessary to facilitate deconcentration of the management of public finances, while underpinning D&D reform. The amendment may then help resolve and clarify which specific financial management functions are delivered at what level in the context of decentralized PFM, and how public fund flows could be organized to ensure efficiency and timeliness of resource flow.

Approaches to Deepen Reforms

Further measures can be taken to deepen each of the individual reforms. The primary focus is on strengthening cross-cutting public administration issues, in large part because PA reform has been the least supported area in public sector reform in Cambodia compared to PFM and D&D, and has a considerable impact on these reforms. Specific ways forward for PFM and D&D reforms are also identified.

Improving the implementation and use of information management systems, such as FMIS and HRMIS, can deepen the range of reforms. Managing and incentivizing performance across the civil service and between different levels of government requires high-quality data systems that share information among stakeholders. Some important steps in setting up the use of an FMIS to achieve greater accountability are likely to include:

- Budget entities should be provided with extended, more flexible access to FMIS data. Report formats are needed for budget entities to explain the results of budget implementation, which requires them to draw on the expanded data available from FMIS. For example, if they underspend, they need to understand why they have underspent and what the consequences are. The MEF and parliament will need to respond positively to this type of information.
- More streamlined transaction processing is needed that maintains adequate control but improves the ability of budget entities to implement budgets in a timely way and reduces contractors’ costs of doing business with government. This approach requires improving business processes from beginning to end (including procurement) and establishing a more transparent framework that sets clear targets for timeliness and value for money. These steps are likely to involve improved engagement with private sector stakeholders and suppliers.
- A dialogue could be initiated with the Ministry of Interior to explore the potential of using the national ID to maintain a unique account of each registered civil servant.
- All HR functions from the existing HRMIS could be integrated into a centralized and integrated web-based HRMIS platform with standardized data entry mechanisms and automated business processes. Web-based systems, smartphone, and tablet-based platforms could be gradually introduced where all employing ministries and SNAs enter employee information into the centralized database.

Capitalize on available ICT. The collection, use, and transparency of granular, credible, and timely performance information—for both organizations and individuals—combined with linking pay increases and promotion

to performance, will be a key area needing attention by way of investments of time and funds. Innovative mechanisms are available to capitalize on the near-ubiquitous penetration of smartphones and wireless networks to cost-effectively capture large volumes of high-quality data to monitor and manage performance (Box 4).

Box 4. Using Information and Communications Technology to Support Performance Management

The rapid spread and falling cost of smart phones, with their capacity to capture large amounts of time-stamped geo-located information at relatively low marginal cost, provides dramatic possibilities to improve digital information collection and performance management.

In the context of decentralized governance, the timely collection of low-cost, high-volume digital data on outputs from mobile phones can provide a valuable link for central institutions to monitor the “last mile” of service delivery, which is typically the responsibility of subnational administrations. Highly granular digital information, down to the lowest possible unit and service provider, means tailored feedback can be shared with individual front-line service providers to assist with performance management and modernization of processes. Automation of data analytics can create dashboards that aggregate information in real time and feed into planning processes to enhance the responsiveness and accountability of government spending.

In Pakistan’s Punjab, mobile phone technology has been effectively used to monitor absenteeism of health workers as well as the spatial coverage of vaccination, programs. A formal evaluation found that the inspections doubled in the treatment areas where the health inspectors were required to take pictures with the staff of the inspected facilities to document their visits (Callen et al., 2018). The geographical coverage of vaccinators also widened considerably following the use of spatial tracking. In Niger, direct monitoring of an adult education NGO-run program in remote rural areas via weekly calls to village chiefs, students and teachers led to improvements in outcomes (Aker & Ksoll 2015).

A further opportunity for the use of mobile phone technology to improve performance management is through proactively soliciting feedback from citizens. Unlike standard “complaint” hotlines (which tend to be passive, focused on problems, administratively burdensome and open-ended) actively contacting identified users of public services using robocalls or SMS with specific questions related to the quality of service delivery or capital projects provides easily digestible, actionable feedback that lends itself more effective performance monitoring and redressing specific service delivery problems. The relatively low marginal costs also allow a much bigger scale of beneficiary engagement than would otherwise be possible. Directly soliciting feedback also signals a preparedness to address issues that could otherwise erode trust in subnational administration.

The approach has been successfully adopted in Pakistan’s Punjab, where some 14.5 million citizens have been individually contacted seeking feedback about sixteen different kinds of services. Around twenty-two thousand corrective administrative actions have been taken as a result. A similar method has also implemented in Albania, where 100,000 citizens were contacted during August 2015 to October 2016, and also in Myanmar.

Strengthen social accountability activities and better integrating them into SNA, PFM and service delivery systems. The example of the School Council Mobilization Program in Pakistan's Punjab shows there are innovative ways to improve social accountability cost-effectively and at scale using mobile phone technology (Box 5). This approach can aid in promoting sustainability.

Box 5. Innovative Ways to Improve Social Accountability: The Case of the School Council Mobilization Program in Pakistan's Punjab Province

The School Council Mobilization Program (SCMP) is an example of the broader success that Pakistan's Punjab provincial government is having utilizing ICT-based citizen engagement. Capitalizing on the high penetration of mobile phones and the low marginal cost of mobile phone technology, the program successfully provided sustained and targeted guidance to large numbers of local school-council members and induced behavioral change in the public interest.

Since 1994, school councils (SCs) have played a central role in the decentralization of educational decision-making in the Punjab region. The SCs are responsible for wide range of functions, including monitoring attendance, making efforts to increase enrolment and reduce dropouts, hiring temporary teachers and staff, managing SC funds, planning infrastructural development and keeping records of all transactions.

The members of each SC mostly belong to low-income backgrounds and have little or no education. In order to strengthen their capacity, the provincial government contracted an NGO to delivery training. However, the program, which involved a one-off three-day group session in all primary and middle schools, was costly, little attended and produced only patchy results.

In response to the implementation challenges of the capacity building program, a phone-based SCMP pilot was established in 2013. Using a government-contracted call center in Lahore, school council members (i.e., parents, community members, the head-teacher) were contacted each month for seventeen months and provided scripted information on one area of responsibility. Each call lasted six minutes and the members received calls from the same calling agent for the entire length of the pilot. In all, five thousand government schools were included in the intervention.

An evaluation of the program found that the SCMP increased enrolment of females, improved teacher attendance and improved school facilities (Asim and Dee, 2016). It also had a number of clear advantages over the one-off NGO-run capacity building sessions. The mobile phones allowed persistent and continuous engagement with SCs at one third of the cost per school. Furthermore, the SCMP model is likely to be substantially easier to scale up with high fidelity than more time- and labor-intensive training efforts.

Sequencing the implementation of the joint D&D work plan with some key “big results fast.” The three reform secretariats working together and addressing a few specific constraints at a time will help drive momentum. Many details need to be developed. Agreeing to transfer a function, for example, is only a first step. For implementation, each affected ministry would need to: (i) transfer staff and resources; (ii) develop the capacity of its transferred staff to implement new management responsibilities; (iii) assist with the development of the capacity of SNA governors and councilors to supervise new service delivery functions; (iv) verify and officially transfer staff and property; and (v) develop guidelines and reference materials.

Analytical Work. Improved understanding of sector PFM, D&D, and PA issues will help interventions be better targeted. The following studies and reviews should be conducted to strengthen PA reforms.

Any reform for grant of financial incentives and organizational restructuring needs to analyze current practice; for example, how, if at all, the exemplary performance on revenue collection has been helped by restructuring of tax agencies. Is there a role for problem-driven workshops, knowledge exchanges, and the strengthening of feedback loops to gather data on what is working or not?

- A review is needed of the current status of development, dissemination, and use of standards critical for long-term improvements in service delivery processes (including data collection and sharing within ministries and the public, time management, complaint handling, beneficiary feedback, business process, and functional review).
- A review of the status of major databases such as for citizens, firms, and property; their level of digitization and use; the human capacity of the ministry leading intersectoral e-governance efforts; in-depth understanding of ongoing service delivery reform interventions; and ongoing challenges will help inform the next stage of e-governance efforts.
- The status, quality, processes and results of the OWSOs operating at the district level need to be reviewed to support more improvement of their services.
- National surveys on the use of various channels to access services, the penetration of information and communications technology, the levels of unofficial fees, most important services, and more will also help establish a baseline and planning for better response to service delivery issues for businesses and citizens.
- Use of public-private partnerships and outsourcing or a purchaser-provider split are potentially important options to improve service delivery and to crowd in private sector financing and expertise. This approach would include a review to assess the current regulatory framework and examples that will help set the stage and inform policy decisions on next steps.

D&D Reforms. A consensus should be developed regarding the broad vision of D&D reforms. Without a clear sense of where these reforms are heading, progress will remain intermittent and fragmented. The following interventions can also help.

- Some analysis or assessment could be done on which functions or services are “transfer ready,” i.e., that could easily be transferred or decentralized in the short term with minimum disruption to service and little impact on service quality.
- Assessment could consider, among other things, to which level the functions should be transferred (i.e., province, district, municipality, commune, or sangkat), what resources and capacity are currently in place at this level, and what this means in terms of transfer of staff and budget.
- The assessment might also point to particular functions or services that could be transferred on a pilot basis to particular provinces, districts, municipalities, communes, or sangkats (e.g., selected on the basis of geographic location (perhaps starting with one or two closer to the capital and one or two farther away from the capital), population, or capacity of the SNA).

- In carrying out the pilots, the key roles would be: (i) sector or service delivery ministries would transfer the functions and ensure that the entity to which they are being transferred has the capacity to absorb them; (ii) the NCDD would facilitate the process of transferring the functions and help build the capacity of the receiving entity; (iii) the MCS would ensure that the necessary systems and procedures are in place for smooth and timely transfer of staff resources to the receiving entity, and that the conditions of service, remuneration, performance management, and disciplinary arrangements and processes are in place; and (iv) the MEF would ensure proper financial management arrangements exist for timely flow of funds and financial probity and accountability.
- The “experiment” could be carefully monitored and evaluated after 2 to 3 years to determine whether it is working according to plan and to make adjustments along the way.
- Based on the experience, the government could either: (i) refine procedures or processes to improve performance; (ii) scale up by expanding either the range of functions to be transferred or the number of SNAs to which they will be transferred, or both; (iii) extend the pilots; or (iv) go back to the drawing board.
- Align the incentives of SNAs with the broader goals of decentralization reforms through the introduction of performance-based components to the CS and DM funds.
- Review the model of regular wage bill increases to determine a sustainable trajectory of wage expenses at the SNA level.
- Ensure that transfers do not provide disincentives to SNAs to collect their own revenue.
- Consider allowing SNAs to set their own rates on locally mandated taxes, including the possibility of piggybacking off a centrally determined rate. Review the transfer system and tax sharing arrangements with a view to their effect on SNAs incentives to collect own-source revenues.

PFM Reforms. Ensuring that PFM systems have a positive impact on the quality of service delivery requires more progress, at both the central and sectoral levels, to improve the allocation and execution of public resources, and achieve increased value for money. Going forward the follow interventions are useful:

- Focusing on the current FMIS and the expansion of its functionality and coverage to the line ministries and budget entities. When supported by adequate streamlining of business processes and change management in both the MEF and line ministries, the FMIS would help to facilitate not only financial reporting on program expenditure, but also the timeliness of commitments and payments that will facilitate key public service delivery functions.
- Further improve program budget implementation by refining program structure to capture program costs, including capital expenditure, staff, and other costs. This facilitate an assessment of actual expenditure and performance.
- Adopting a medium-term expenditure framework (MTEF) and improving alignment with national priorities, while systematically monitoring performance data, will help to improve budget policy linkage and make program budgeting an effective tool of public policy in line with the government’s Budget System Reform Strategy.
- Strengthen the use of data and analysis by budget entities in the formulation of budgets and allocation of resources. A unified chart of accounts, better reporting on externally funded projects, and reduction in budget reallocations would all contribute to this.
- Strengthen public investment management through more transparent, consistent, and objective project selection and appraisal.
- Strengthen public procurement by (1) improving the enforcement of procurement processes to hold budget managers to account; (2) expediting the integration of more stringent standard operating procedure for procurement, currently being applied to externally funded projects, into public procurement using government funds.

- Incentivize the development of internal controls by linking disbursements or financial rewards to the satisfactory completion of budget implementation reports, internal audit reports, responses to financial control issues, and adequate procurement review.
- Considering the amendment of the PFM system law to recognize softcopy of documents and to support more accountability as more budget responsibilities are being delegated.

PA Reforms. Work is needed in three core areas: strengthening the quality and effectiveness of public service delivery, improving management and development of HR, and reforming pay and allowances. The latter is crucial and needs to consider affordability; equity, consistency, and coherence; and productivity. The following priority interventions can help.

- Regular reviews to assess the sustainability of wage bill increases
- Consistency of pay competitiveness across skill areas through regular pay comparator surveys and monitoring the number of qualified applicants for vacant positions and turnover rates for recent recruits in critical skill areas.
- Simplified pay structure that limits allowances and salary supplements to critical skill areas and job features, as part of a strategy of enhancing consistency of pay competitiveness.
- Effective oversight to ensure the underlying principles of equity and consistency in pay competitiveness are being followed as much as politically feasible.
- A modernized Code of Ethics and how it is communicated to civil servants through guidance or training, or in any other suitable way.
- Promotion based on performance, and not merely seniority. This includes management of performance and service delivery at the level of the individual employee, the agency or ministry, and the government as a whole.
- Development of organizational performance indicators with sub-indicators for constituent departments and a system for regular high level reporting and monitoring of performance.
- Modernizing of human resources management information systems to support performance management.
- Considering a functional and operational review in all ministries and optimizing the allocation of staff in line with strategic objectives. This will complement PFM reform and help with the refinement of program budget structure, implementation, and overall public spending efficiency.

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