Results-oriented Public Expenditure in Cambodia

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# Contents

**Acknowledgements** vi

**Acronyms** vii

**Executive Summary** ix

<table>
<thead>
<tr>
<th>Purpose</th>
<th>ix</th>
</tr>
</thead>
<tbody>
<tr>
<td>Context</td>
<td>ix</td>
</tr>
<tr>
<td>Budget process and budget reforms</td>
<td>x</td>
</tr>
<tr>
<td>Use of targets and indicators and factors of success and failures</td>
<td>xi</td>
</tr>
<tr>
<td>Conclusions</td>
<td>xiii</td>
</tr>
</tbody>
</table>

## Chapter 1: Introduction

| 1.1 Framework and process for the case study | 1 |
| 1.2 Commentary on TORs | 2 |

## Chapter 2: Scene Setting

| 2.1 The context | 5 |
| 2.3 Policy making – Institutional, legal and regulatory framework | 6 |
| 2.3 The budget process | 8 |
| 2.4 Budget reforms | 13 |

## Chapter 3: Use of Targets and Indicators and Factors of Success and Failures

| 3.1 Use of public service performance indicators alongside budgets | 19 |
| 3.2 Process of formulation of targets and cascading targets down | 28 |
| 3.3 Nature of incentives and rewards for achievement by service providers | 30 |
| 3.4 Monitoring performance and independent scrutiny and verification | 32 |
| 3.5 Role of donors | 34 |

## Chapter 4: Conclusions

| 4.1 Are the study hypotheses confirmed? | 36 |
| 4.2 Lessons learnt and conclusion | 42 |

## Bibliography

45

## Annex 1: Progress and Constraints in Developing Results-based Public Expenditure Management in the Cambodian Education Sector

| 1. Introduction | 49 |
| 2. Are priorities clearly stated and are they related to budgets? | 49 |
| 3. Are information systems and management capacities adequate? | 54 |
| 4. How well does the planning framework support a results-oriented process? | 59 |
| 5. To what extent is decision making and funding integrated across the sector? | 61 |
| 6. Do budgeting systems facilitate the development of results based sector financing? | 68 |
| 7. How well are staff incentives aligned with the objectives of programme performance? | 72 |
| 8. Conclusion | 74 |

## Annex 2: Progress and constraints in developing results based public expenditure management in the Cambodian health sector

| 1. Introduction | 78 |
| 2. Are priorities clearly stated? | 78 |
| 3. Are information systems adequate? | 82 |
4. How well does the planning framework support a results-oriented process? 83
5. Is funding and decision making responsibility fragmented across the sector? 85
6. How well are staff incentives aligned with the objectives of programme performance? 88
7. Do budgeting systems facilitate the development of results based sector financing? 90
8. Conclusion 93

Annex 3: Progress and Constraints in Developing Results Based Public Expenditure
Management in the Cambodian Legal and Judicial Reform 97

1. Introduction 97
2. Context: Poverty reduction and Governance in Cambodia 97
3. Situation Analysis in the Legal and Judicial Sectors in Cambodia 99
4. Legal and Judicial Reform Strategy 100
5. Achievements against benchmarks 102
6. Link between Results and Resources 103

Boxes
Box 1: Treasury and budget reforms 14
Box 2: Education Strategic Plan and Education Sector Support Programme 2002-06 52
Box 3: PAP Basic Education 2001 Perception Survey 57
Box 4: How MOEYS has used policy impact and benefit incidence analyses 58
Box 5: Key principles for MOEYS/ donors/ NGOs partnership in education 62
Box 6: Health Strategic Plan, 2003-07 81
Box 7: Achievements in reform of legal and judicial services 103
Box 8: On-going support to LJR 105

Charts
Chart 1: MOEYS Recurrent Budgets 1999-2003 68
Chart 2: Benefits incidence consumption group (RGC spending) 80

Figures
Figure 1: Financing Public Expenditure Programmes in Cambodia (before communal elections) 10

Tables
Table 1: Decision making for provincial education budgets 13
Table 2: Use of performance indicators and links to budgets on a sector by sector basis 21
Table 3: Sector Indicators 1994-99 50
Table 4: Distribution of Enrolled Students by Quintile and by Schooling Level, 1997 51
Table 5: Decision making for provincial education activities 64
Table 6: Trends in selected utilisation, access and health status indicators 80
Table 7: Comparison of output indicators in PAP and non-PAP areas 92
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**Acronyms**

<table>
<thead>
<tr>
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<th>Description</th>
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<tr>
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<td>ADESS</td>
<td>Agriculture Development Support to Seila</td>
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<td>CPA</td>
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Technical Cooperation

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Executive Summary

Purpose

The purpose of the study was to assess the extent to which Cambodia has defined the results anticipated from government’s broad development policies and programmes; identify at which ‘level’ these are identified (outputs, intermediate/ final outcomes, impact), and with what consistency; and to analyse whether the information on results is used for public expenditure management. We define results as being producing certain outputs as well as achieving certain outcomes and reaching certain policy objectives. Our analysis covers public expenditure management ‘core activities’ (budget system) as well as more ‘upstream’ steps’ (including government processes for the identification of broad development goals, policy-making and definition of national and sectoral strategies).

The Cambodian case study on Result-Oriented Public Expenditure (ROPE) was undertaken to complement country-specific on-going analytical processes such as the Integrated Fiduciary Assessment and Public Expenditure Review (IFAPER). This case study aims, where appropriate, to provide inputs to strategic planning exercises under way at national and sectoral levels, through close analysis of the National Poverty Reduction Strategy (NPRS) and focus on four sectors – (education, health, Legal and Judicial Reform, and agriculture/ rural development).

Context

Despite the impressive progress achieved over the 1990s, Cambodia still presents a number of features characteristic of a post-conflict country, including decision-making processes dominated at the highest levels in government by individuals (e.g. strong leadership from the Prime Minister). Party loyalty plays a determining role in government’s functioning, which is also characterized by competition between several central agencies. This includes the Office of the Council of Ministers (COM), the Ministry of Economy and Finance (MEF) the Council for Development of Cambodia (CDC), the Ministry of Planning (MOP) and the Ministry of Interior (MOI).

Whereas the somewhat fragile but nevertheless resilient coalition between the two dominant parties has provided much needed stability which helps in re-building the country, it has so far left relatively little space for alternative political and development agendas. Today it is not entirely clear if the coalition will be able to move away from the ‘status quo’ in order to provide the impetus required to reach the goals of the first NPRS (Cambodia’s PRSP). The lack of mid-career public servants and an ‘accumulation’ of administrative systems inherited from different traditions and often unreconciled with each other further complicate a relatively immature political, administrative and budgetary environment.

Policy-making is a complex and relatively unclear process: a number of Councils for Reform, which have been established to facilitate inter-ministerial coordination and joint government/ donor monitoring of cross-cutting reforms, compete with ‘regular’ ministerial and inter-ministerial mechanisms (including the COM). The lack of formalised connections between these parallel (Council-based and ministry-based) systems blurs the process of definition of overarching policy results.

Service delivery arrangements are likely to be profoundly modified over the medium term by the decentralisation and deconcentration policies adopted by the government. It is too early to assess
what role the recently elected Commune Councils will play in service delivery and how fast they will be able to support new target setting and accountability mechanisms, but there certainly are opportunities for this to happen. To date there is a ‘policy vacuum’ in the lack of an agreed role for sectoral provincial administrations in relation to national development policies, and a discrepancy between the centralized policy-making process and the considerable discretion given to Provincial Governors in implementing central decisions without correspondingly strong supervision mechanisms.

**Budget process and budget reforms**

Both budget formulation and execution are fragmented, with results determined by the interaction of several processes that differ depending on the source and type of funding. ‘Regular’ budget modalities also co-exist with several ‘new’ budget modalities introduced on a pilot basis over the last three years.

The regular budget formulation takes place within several weakly related planning / prioritisation frameworks. Recurrent and investment budgets are prepared separately and handled by different central agencies. The investment budget corresponds only weakly to government policies and screening and allocation processes are not transparent. Recurrent budgets are mostly line item based and agencies have little scope for decision on the mix of inputs and thus little incentive to try and formulate effective budgets. Means by which central agencies influence provincial budgeting are mostly indirect and at provincial level. Comprehensive budgeting is made difficult due to the multiplicity of different financial management and accountability channels. Better practices are emerging within the sectors that have opted for sector-wide management frameworks but this has yet to be recognised by the central agencies.

The execution of line agencies’ regular budget is rigidly submitted to multiple pre-spending central controls (‘pre-audit’ modalities). Budget execution is also hampered by cash constraints arising from weak cash management systems and capacities, and it is therefore also dominated by (potentially inconsistent) central agencies’ decisions which prioritise expenditures within the cash available. As a result, priority in budget formulation (e.g. the successful re-allocation of budget resources away from defence towards social sectors) does not translate to priority in execution. Budget execution is thus an uncertain affair for budget holders and overall budget performance is mediocre.

As a response to these limitations the government has undertaken to pilot a system of medium term, hard-constrained and result-oriented budgets through an MTEF process, and has established a Priority Action Programme (PAP) mechanism, also on a pilot basis, for a special budget chapter in four ministries. Education and health are amongst the pilot sectors for the two exercises.

The PAP (introduced in 2000) is designed as a decentralised, programme-based, result-oriented budget formulation and execution system. Budget holders have final decision-making powers on the use of funds against accountability for agreed results. The delegation of spending authority follows a sectoral route, direct from the Minister to heads of Budget Management Centres (BMC) at provincial, district and facility levels. Spending and results are meant to be post-audited. The system has been successful in shifting practices in the pilot sectors (especially so in education) towards programme-based budgeting and the use of results as the basis for budget bids and for reporting, at least for a part of the budget. Despite these achievements, the system has failed to really enhance budget execution. In particular, flows of funds have remained slow and unpredictable, making it difficult to apply the accountability framework underlying the system.
Most reasons for the limited success of PAP are related to process rather than substance; in its essence PAP is rather popular in the pilot line agencies. Problems have occurred because it has been introduced as a stand-alone, stop-gap measure and not as one step within a series of logically sequenced, necessary systemic changes. There has been insufficient attention given to trying to reconcile different stakeholders’ expectations; to analysing and addressing the shifts in roles and powers implied by the move to a post-audit system; and to developing systems and capacities accordingly in central and line agencies.

Another major initiative has been the introduction of the MTEF (in 2002) and the preparation of sectoral education and health MTEFs. This enabled the education ministry to firmly embed the previously developed Education Sector Support Programme in the MTEF, whereas in health it gave the impetus for building for the first time a comprehensive overview of all funding flows into the public health sector. MEF is committed to gradually roll out the MTEF approach and to use the MTEF as the tool enabling government to shape its budget in line with the NPRS policies and priorities. For this to happen, further work is required including the development of an overall framework clearly linking the various existing planning, prioritisation and budgeting processes and of an action plan agreed with all stakeholders. Policy formulation and follow-up mechanisms have to be strengthened. In particular, the Council Of Ministers’ responsibilities and capacities in relation to budget review have to be bolstered.

Most importantly, to reap the intended benefits of an MTEF in terms of improved efficiency and effectiveness of public expenditure programmes, sector agencies should be given more discretion in allocating resources, within approved policy and resource frameworks. This could be achieved through a progressive but steady move away from the prevailing inflexible budget formulation process.

There are a number of signs that senior management in MEF is truly committed to reforms that would enable government institutions to deliver the NPRS’ pro-poor policy outcomes. This includes a commitment to strengthen the basic budget implementation systems (e.g. treasury operations, cash management and information management) and to pursue the budget reforms under way (MTEF, programme-based decentralized budgeting) so as to further promote the use of results in public expenditure management. However, one fundamental decision has yet to be made and its implications fully articulated: namely, the move toward post-audit modalities for the whole of the government budget. This would require adapting the legal and regulatory framework and would have profound institutional repercussions in central and line agencies. The analysis of the IFAPER conclusions and associated negotiations for the forthcoming WB and IMF support programmes will test the government’s resolve to articulate a comprehensive and structured programme of public finance reforms addressing all of the aspects mentioned above and clarifying the institutional framework for its implementation.

**Use of targets and indicators and factors of success and failures**

Our analysis shows that there are cases where public service performance indicators are used alongside budgets, although this is limited to a few ‘islands’ in government structures and programmes (sectors such as education and health, and projects in other sectors). There is no generalised, government-wide system of result-based budget management, even if, as noted above, there is an intention to move towards such a system and initial steps have been piloted with the MTEF and PAP mechanisms. Sectors are at very different stages in strategic planning and therefore in linking budgets and results. This is most advanced in education and health where planning capacities were stronger and have been consistently supported over the last three years. Education
already links strategic objectives to operational programmes, which are in turn linked to a costed medium term action programme through the MTEF.

Similarly, although there are cases of good practice, there is no generalised system for government agencies to formulate and cascade down/ break down targets with a view to measuring various types of performance at various levels (e.g. decentralised administration, facility, target group etc.). Where targets exist they are usually fixed by central administrations, with little or no systematic consultation of the decentralised levels or of the public. Parliamentary involvement in policy development and target setting is at best limited and indirect (e.g. through legislation).

Encouragingly, the NPRS preparation has been remarkably more consultative than preceding exercises in the development of a national policy framework. This may well lead to further improvements in this direction. At sectoral levels, various consultation processes exist and are being strengthened (e.g. the formal partnership between the ministry, donors and NGOs in education). The intention of education stakeholders is to enlarge the partnership to other stakeholders. One priority when it comes to target setting should be to develop improved mechanisms for articulating central and provincial prioritisation processes and for ensuring convergence between local and national priorities and targets.

The stated aim of the National Programme for Administrative Reform (NPAR) is to enhance performance in service provision. There is a general recognition that this will require higher civil service remuneration. Unfortunately, many consider that the salary increases planned under the reform will not represent a sufficient incentive for public providers to perform better. Performance based schemes envisaged alongside the ‘across the board’ pay rises will only cover a very small fraction of the civil service. Moreover, the pay reform status is unclear as it is not consistently budgeted for, and the NPAR performance-based schemes compete for donor resources with the entrenched and generally un-coordinated donor-financed practice of rewarding performance for project-related responsibilities. There are, however, interesting and innovative practices within sectoral or project contexts, including the officialisation of user charges and the use of contracting modalities in health; and, in education, an ‘in-house’ programme of performance-based incentive payments for various categories of staff (financed out of the PAP budget) and a start in harmonising donor-supported incentive payment schemes.

Finally, capacities are limited and there are few mechanisms for independent monitoring of performance and the scrutiny of results by Parliament and the civil society is embryonic. The recent establishment of a National Audit Authority reporting to Parliament will progressively change this, alongside the strengthening of this agency’s capacities for result analysis. Horizontal accountability mechanisms are generally underdeveloped, be it for government-wide national development policies (including from the executive to the legislative) or at the facility level. It is too early to be able to foresee how the establishment of elected Commune Councils will modify this situation, and how this will be articulated with the development of more direct service provider – community accountability mechanisms and/ or the strengthening of the few existing ones.

If properly implemented the NPRS monitoring framework will represent major progress over previous experiences. To avoid the usual pitfalls, the government will have to tackle the prevailing weakness of most administrative information systems, which suffer from the general lack of incentives due to low salary levels and from an apparent lack of analytical capacities. This is already being addressed in some sectors. In particular, the education ministry has begun to implement a comprehensive monitoring framework which will enable it to provide the information required for the joint annual sector performance reviews.
Most importantly, there is a deliberate effort in the education ministry to shift the incentive framework toward improved information management through showing the effectiveness of good information systems for better programme implementation and improved policy making, and through intensive capacity building activities with an emphasis on the decentralised levels. There are already successful examples in which good data/information and support to policy-oriented data analysis led to the refinement of pro-poor education strategies and to the re-orientation of operational programmes in order to enhance their impact on the poor.

In summary, the intention of moving toward result-oriented systems is explicit in most cross-cutting reforms, although actual progress at government-wide level has been rather slow thus far. There are several examples of good practice which could provide the basis for developing generalised systems. In particular, the sector-wide approaches adopted in education and health have provided conducive environments to introduce systems of budgets related to results, measures of performance at various levels, systems for rewarding institution and staff performance and aligning this with programme and sector objectives, and systems for enhanced monitoring and scrutiny of results, within the sectors. Hopefully the NPRS process may provide the context in which these practices would be expanded.

Conclusions

- Cambodia has already adopted a number of performance targets related to its poverty reduction goals. To judge their relevance would require most sectors developing a better understanding of the links between programme outputs and policy goals, which hopefully will be a priority in implementing the recently completed NPRS.
- To different degrees (from not at all to considerably) Cambodia has translated these broad performance targets into medium term sectoral performance objectives. This has been greatly facilitated in sectors like health and education which have opted for a sector wide management approach and have comparatively stronger and better supported planning and budgeting capacities.
- More work is required to reliably cost programme and policy objectives and to cascade targets down, even in the most advanced sectors. The current weakness in these aspects limits the possibility of allocating resources in line with objective requirements. Other weaknesses include the fragmentation of sector funding and of resource allocation processes. The case of education demonstrates the effectiveness of a SWAp-like approach in lessening fragmentation thereby making resource allocations increasingly consistent with results sought. Strengthening the MTEF would go further in addressing weaknesses in resource allocations, provided that it would be given its due status at the policy and technical levels.
- Macro-economic stabilisation and aggregate public expenditure control have played both a positive and negative role in terms of pursuing results. On the one side, the government has been successful in stabilising budgets and re-directing resources away from defence to social sectors. On the other side, achievements in terms of macro stabilisation have relied on a very conservative expenditure policy, inducing a strongly centralised budget execution system which has proved to be slow, inefficient and somewhat arbitrary. It has also moved attention away from the purpose of the spending. Combined with poor cash management, this leads to the fact that budget allocations can be appropriate without this being a guarantee that actual spending will be as well. This significantly reduces the effectiveness of planning and of attempts to monitor targets.
- The NPRS and existing sector programmes are usually aware of ‘bad policies’ (inimical to poverty reduction goals) and in most cases, remedies and/or ways to avoid these are known. In some cases, solutions are not implemented owing to the lack of (corporate) political will. In other cases, it may be that ‘positive’ policy changes have to wait to become more politically
• There is a need for a lot more guidance to front-line providers and sub-national management structures on results that are expected from them. This is recognised and progressively addressed in education and health on three fronts i.e., capacity building, system and procedure development and strengthening of partnerships. The recently elected Commune Councils could play an important role in local target setting and accountability, which is both an opportunity and a challenge for consistent implementation of national sector policies.
• Thus far it has been the case that Cambodia public expenditure auditing practices pay little attention to results and it remains to be seen whether the emerging commitment to change will be sufficiently strong. Changes would require time, the strengthening of NAA and that MEF commitment to post-audit budget modalities (which is a reality at senior management level) be translated into reality at the technical level.
• Cambodia has significant progress to make in monitoring implementation and outputs of poverty-reducing expenditure programmes. However, this is due less to increased quantity of information than it is of making better use of already available data, including through broader dissemination of information, integration of existing systems and avoiding proliferation of systems and institutions.

We offer three conclusions that may well apply beyond the case of Cambodia:

• In order to succeed, reforms such as the introduction of result-oriented systems demand that attention be given to change management processes, and that modalities be put in place which enable stakeholders to reconcile potentially divergent expectations and to jointly assess and address the implications of the reforms.
• Donors should support government in this, and apply these principles to themselves through strengthening mechanisms that enable them to develop more collegial positions in their dialogue with government.
• Piloting result-oriented budgeting in a few sectors may be effective in further highlighting the broader systemic changes that are required for the approach to be generalised (and SWAp are an effective entry point for the result-oriented logic), but it has its limits. To consolidate ‘virtuous circles’ created in isolated sectors the demand for results must come from a strong central agency and be backed by government-wide corporate commitment to managing by results, and the various reforms required to reach this goal must be clearly articulated in a long term perspective.
Chapter 1: Introduction

1.1 Framework and process for the case study

This paper summarises and analyses the key findings of a study on the practices of Result Oriented Public Expenditure (ROPE) management in Cambodia. It is one of a series of seven such studies undertaken in PRSP countries by the Overseas Development Institute in the UK. The central purpose of the studies, as stated in the Terms of Reference, is to deepen the understanding of current practices and enhance these through cross-fertilisation of experiences in different contexts, at a time when ‘the adoption of results-based approaches to public expenditure management by PRSP [Poverty Reduction Strategy Paper] countries, alongside the strengthening of their fiduciary frameworks, is thus important not only for making governmental action to reduce poverty more effective but also to build the confidence of donors in government policies and programmes’.

In response to the Terms of Reference, key elements of the team’s proposal were to (i) ensure complementarity with on-going analytical exercises such as the Integrated Fiduciary Assessment and Public Expenditure Review (IFAPER) undertaken by the government, the WB and other donors in June 2002; (ii) involve government officials in the field work where possible; and (iii) focus on four sectors (namely, education and health, in which the team knew that sector strategic planning approaches were in place and which were involved in all recent budget reforms led by the Ministry of Economy and Finance; the Legal and Judicial Reform for its critical importance in framing other reforms in Cambodia; and agriculture/ rural development, for which integrated planning and joint result definition have proven internationally to be more difficult). The team was also proposing to link up with the civil service reform and decentralisation programmes which cut across the issues studied.

The study took place over a two month period starting on 15th September 2002. Most meetings took place during the second half of September; the field work for health overlapped and extended into early October. The study included visits to provincial and district authorities and health facilities in rural and peri-urban areas,¹ which were facilitated by the Office of the Provincial Governor and the Ministry of Health. Members of the study team had the opportunity to attend several key events related to on-going processes.² The team was also fully involved in the exchange of comments and discussions that took place throughout the study period on the finalisation of the National Poverty Reduction Strategy (NPRS).

The team is grateful for the time given by all those met in spite of their extremely busy schedule during the last quarter of the year 2002. We are confident that the on-going MTEF, IFAPER and NPRS processes will provide opportunities for further discussions with government and donor stakeholders who have expressed keen interest in the study results. We have also received indications that sectors will make use of the study findings through on-going policy analysis and development processes.

¹ Sufficient data was available on sub-national administrations and service delivery units in the other sectors studied through recent reports and surveys, and from materials collected during several recent trips in provinces in the context of other assignments.

² These included: (i) contribution to the first workshops organised by the government on selected chapters of the IFAPER; (ii) attendance at the 4th National Workshop on the 2nd draft of the government National Poverty Reduction Strategy (NPRS); (iii) contribution to the 2nd joint annual Education Sector Review; (vi) participation in ministries’ preparation for the draft budget 2003 and medium-term expenditure framework (MTEF) 2003-05 in health and education; and (v) attendance at a workshop organised by the Ministry of Agriculture, Forestry and Fisheries (MAFF) and ADB to brief other stakeholders on the Agriculture Sector Development Programme.
The report follows the structure suggested in the TORs. After a brief commentary on the TORs, Chapter 2 sets the scene and analyses the Cambodian budget system and reforms under way. Chapter 3 analyses the key findings from the sector reviews, taking account of broader government processes relevant to the study. The final Chapter 4 offers an assessment of the hypotheses put forth in the TORs and a few suggestions for consideration by governments and donor agencies embarked on public expenditure reforms in the context of poverty reduction strategies. Throughout the report suggestions are also made which are more directly relevant to reforms in Cambodia.

1.2 Commentary on TORs

What is/what are the purposes of ROPE?

The TORs highlight two potential reasons for a country to introduce result-oriented management frameworks and practices: (i) to make public expenditure more efficient, more effective and more relevant to poverty reduction goals and (ii) to help build donor confidence in government systems, thereby encouraging them to increasingly use government budgetary channels to support government programmes. As regards the former, result oriented public expenditure is seen as one instrument to (i) focus public funds where they have greatest benefit, (ii) help improve policies (through evidence-based evaluation) and (iii) contribute to enhanced governance (through transparency about objectives and priorities). The TORs also consider that these characteristics are more likely to be achieved if donor assistance is channelled through government systems.

Certainly, many would say that the debate on programme aid versus project support is not closed. More to the point for our study, we would argue that one key factor in introducing a reform such as ROPE (as for any other reform) is ownership and leadership. Donor pressure will be counter-productive if the reform is introduced to satisfy a new development model of donor agencies and has no national champions, that is, no senior government officials who are genuinely convinced of the need for it. This is particularly true for reforms which potentially affect the whole modus operandi of a government. Underlying all reforms is the question of whether they are worth the trouble.

Does ROPE need targets?

The TORs directly relate result-oriented management of public expenditure\(^3\) to defining targets and measuring performance against these (in places sounding very much like the approach of the UK National Audit Office). A number of academics and practitioners argue that it is not always possible to define meaningful targets. Some argue further that target setting is not necessary to apply result-oriented management techniques: in other words, it is argued that data and information on outcome indicators can (and should) be collected, analysed and used for budgetary decision-making without there being targets defined for these indicators. For example, is it useful to know the level of female literacy to make better resource allocation decisions? Most likely. Does there need to be a target for this? No. A target in this case may be an aspiration. Results can be measured in terms of changes and trends. The case differs when it comes to managing a service. Often this can be helped by forecasting output indicators some of which may be used to reward performing services – although we fully endorse the observation that failures also need to be resourced, if there is to be a chance of overcoming the failure (Maxwell 2002).

\(^3\) As in the TORs we will also often use the term “performance” and “performance indicators” in the study. It is important – and we will try to respect this principle - to specify the purpose specific nature of indicators and to be clear about the nature of the performance to be measured. We come back to this point later in the section.
Definition of terms and limits of models

The study team had to agree on definitions of terms that would constitute our conceptual framework. The TORs talk about goals, policies, impact, final and intermediate outcomes, outputs, activities, inputs and resources and about the importance of being able to translate some of these into others (e.g. linking outputs to outcome and matching resources to outputs). The focus of this study is to assess the extent to which (i) there are clear results defined at each level; (ii) how well these are articulated with each other level they are; and (iii) if the information is used for public expenditure management. We have used the following definitions:

- **Indicator**: statistic or process that can be tracked over time to achieve monitoring and evaluation.
- **Target**: level of an indicator which is intended to be reached in a given time period.
- **Final outcome**: indicator that is of direct importance for wellbeing / an indicator of socio-economic change (e.g. educational attainment, child mortality), regardless of causation.
- **Intermediate outcome**: indicator that depends on people’s response to public action and that is causally related to wellbeing (e.g. total educational demand, NER, health awareness and use of health services).
- **Output**: measure of the delivery of services by the public sector (defined by quantity, efficiency, quality and incidence dimensions – e.g. enrolment by region, sex, income group, health coverage by region).
- **Input**: measure of the financial or physical resources used by the public sector to deliver services (we would include staff, facilities including IT facilities, financial resources, goods and services).
- **Impact**: causal influence of public sector programmes, project and policies, including inputs and outputs, on outcomes.

On this basis:

**Input-focused management** will focus on how much inputs are made available to ministries, departments, service providers. The main aim is control of budgets for economy and possibly equity of inputs. This is often accompanied by process regulations (i.e. an emphasis on how things should be done).

**Output-focused management** will focus on quantity and quality of services and should include incidence measures. The main aim is allocative and operational efficiency (getting more or better or better distributed for less). Operational efficiency relates to administrative and management processes. Allocative efficiency has to do with making priorities in resource allocation and it raises key questions of how and where or by whom this is being done, and how or by whom quality is being defined. It is important to monitor the link between outputs and the intended policy goal (e.g. more university graduates may not contribute to economic growth if the skills and knowledge acquired are of no use in the country’s economic activity). Imperfect policy analysis may cause the pursuit of irrelevant outputs. External environment may change and this can affect the link between output and policy outcome.

New management systems tend to permit greater flexibility in inputs and processes in return for greater emphasis on results (which can be at output, intermediate and / or final outcome levels, depending on the purpose of the result measurement). Such systems further stress the importance of understanding and monitoring the links in the chain.

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4 We used several sources (ODI Aug 2002, Mokoro 2002) and suggestions from practitioners. We do not pretend avoiding certain ambiguities. E.g. some writers restrict the term “inputs” to financial inputs and treat all physical materials as outputs (e.g. textbooks) whereas others treat textbooks as an input. An output from one service can be an input for another.

5 Administrative improvements should not be considered as outcomes but as part of the quality of an output.
‘goals/ final outcome (improved health) \(\rightarrow\) policy (e.g. immunisation) \(\rightarrow\) intermediate outcome (reduced disease level) \(\rightarrow\) programme outputs (immunity level) \(\rightarrow\) service activities (immunisation numbers) \(\rightarrow\) inputs’.

One first question is, how can policy-makers identify actions and intermediate outputs that will effectively contribute to reaching desired policy objectives? For example, will a textbook: pupil ratio of 1:1 effectively deliver improved student learning, or are other programmes likely to be more effective in delivering this intermediate outcome? What does shape up into effectiveness? Outcome oriented systems demand knowledge of the potential impact of government policies on society. As advocated by the World Bank, more Poverty and Social Impact Analysis (PSIA) work is needed to identify ‘transmission channels’ in order to prepare and implement ‘effective’ PRS. However, as recognised in the World Bank PRSP reports, PSIAs are complex exercises, ‘flying over’ the capacities of most administrations and technical advisers. Booth and Lucas (ODI, July 2002) rightly emphasise the importance of learning from implementation, hence the priority to be given to establishing effective feedback mechanisms using relevant information from well-designed PRSP monitoring systems.

To note that policy analysis is difficult is not to argue against it, just to warn that it is an arduous task. To some extent it is less difficult to quantify inputs or to identify levels of activity required to produce identified outputs, although it requires data and information which is often not available in traditional, exclusively input-focused management systems.

A third difficulty in ROPE is in the allocation of results. Outcomes are usually achieved through a combination of intermediate outcomes and outputs and, therefore, through a set of programmes that may be implemented by different institutions. Thus, outcome-based systems require a lot more inter-departmental and even inter-ministerial coordination and ‘joined up’ work. Once again, what is needed is a good translation of outcomes into intermediate outcomes / outputs that can more easily be attributed to identified institutions which will be accountable for these. Related to this is the issue of independent variables i.e. the variables over which an institution has little or no control.

**Result** in our analysis is used as a generic term, which can encompass producing certain outputs, achieving certain outcomes, and reaching a certain policy objective. In this sense, a result-oriented public expenditure management (PEM) system relates every step of PEM to agreed results to be produced by each of these steps and eventually by the whole system. Following this logic, we found it important to analyse in some details upstream steps to public expenditure management. These include identification of broad development goals; policy-making; and definition of strategies (processes and institutions, and the consistency of the result framework arising from the processes).

In our analysis we also adopt the view that it is important to design measures of results specific to the purpose of measurement (e.g. strategic decision-making, organisational performance assessment, day-to-day management). Each purpose will usually require a specific mix of activity, output and outcome measures; and the measures / measurement processes may have to have different characteristics. Order of magnitude outcome measures may suffice for strategic decision-making, while for organisations the emphasis should be on the verifiability and accuracy of output measures. For day-to-day management, speed and clarity will be important. A balance has to be found between the costs of servicing a result oriented management framework at all levels and the actual value it adds in terms of bettering people’s welfare.
Chapter 2: Scene Setting

2.1 The context

Despite impressive progress Cambodia still presents some of the characteristics of a post-conflict country. The re-building of government institutions and of coherent and democratic political and policy-making processes has improved over time but with setbacks along the way (most notably in 1997-8). Cambodia has also re-gained its place in the regional community and was recently the host of the 8th ASEAN Summit, an important milestone for a country which became a member of ASEAN only 3 years ago. Suspicion of political complicity in recent anti-Thai riots in Phnom Penh in late January 2003, however, have set these achievements back considerably.

Much has been achieved and much remains to be done. In particular, the coalition government which has helped stabilise the country may well make reforms in public management systems more difficult to implement today. The opening up of the country has also highlighted the contrast between stated poverty reduction goals and disturbing signs of increasing wealth capture by the elites (including through corrupt practices). At present it is unclear whether Cambodia’s growing integration into the global economy helps accelerate internal reform processes or, on the contrary, if it reinforces the desire of many to preserve the existing, less threatening status quo.

The country’s recent past is manifest in (i) a lack of middle career public servants who could replace senior managers and have the necessary authority (age matters in Cambodia) and (ii) an ‘accumulation’ of administrative systems inherited from different traditions which have not necessarily been reconciled with each other. A case in point is the National Programme for Administrative Reform (NPAR), which is at times suffering from the tension between different understandings of the role of the State brought by the continental European tradition (in which the State manages society) and the Anglo-Saxon tradition (in which the State emerges from a contract between citizens and society). These are quite different bases for designing a single, coherent programme of administrative reform.

Government arrangements for service delivery (both political and administrative) are still evolving. For the first time under the present Constitution, local elections for Commune Councils took place in February 2002. This introduces a second level of political representation and accountability, one much closer to citizens than the national government. The central government is represented politically and administratively through 24 provincial and municipal governors appointed by the Prime Minister and reporting to the Minister of the Interior. Districts (185) constitute an administrative layer embedded in the provincial administration. Currently most public services are provided by the central government and de-concentrated provincial and district administrations. However, the evolution of the ‘twin policies’ of decentralisation and de-concentration will change this. Policy-making processes will have to adjust, together with processes for defining objectives, measuring how well objectives are attained, and making decisions on allocation of resources. Systems intended to facilitate these processes (such as ROPE) will have to follow suit accordingly.

Finally, it is important to note that Cambodia is not yet at a stage where it can use a fully developed MTEF process to translate into resource allocation terms the objectives and strategies agreed upon in a PRSP. The National Poverty Reduction Strategy has been finalised and approved (in December 2002) by the Council of Ministers as planned, and an MTEF has been introduced for the first time.

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6 We were told by the National Audit Authority Secretary General that Russian accounting systems were still in use in some parts of the administration.

7 There are 1621 Commune and urban councils with an average population of approximately 8,000 inhabitants
this year (on a pilot basis and in two ministries only). That Cambodia does not yet feature mature political and budgetary environments makes it all the more relevant as a case for a study on result-oriented public expenditure management practices in our view. It is our hope that the study may indeed contribute to the next steps in the reforms and processes which have been studied.

2.3 Policy making – institutional, legal and regulatory framework

In this section we briefly describe the mechanisms through which the Government makes policies and take decisions.

At national level the legislative powers are vested in two institutions, the National Assembly and the Senate (relatively new institution still in the process of establishing its role vis-à-vis the National Assembly). Although dominated by the two coalition parties these institutions have a sizeable number of opposition party members who use these platforms not to propose drastic alternatives to the government policy agenda, but to regularly challenge the government commitment to effectively implement the ‘hard points’ of this agenda (which would imply threatening powerful vested interests). While the government executive branch might appear to dominate the scene the legislature is not without power, including withholding critical laws until agreement is reached between the executive and the legislative. TV broadcasts of Assembly debates have also enhanced the transparency of the legislative process.

Since 1997/98, power within the executive branch is no longer equally shared between the two coalition partners. Party loyalty remains a very strong factor in the functioning of the executive, competing with and often superseding other ‘rational frameworks’ for decision-making. This is unlikely to change for some time as it is likely that the next national elections (scheduled for July 2003) will lead to a new coalition government comprised of the same two parties.

The undisputed leader in government’s decision making is the Prime Minister, who chairs weekly meetings of the Council of Ministers. At these meetings all key matters are discussed prior to decisions being made, usually by consensus but otherwise through final arbitrage by the PM. These meetings are prepared by the powerful Office of the Council of Ministers (established as a fully-fledged ministry headed by a Senior Minister).

Technical issues are discussed in Inter-Ministerial Committee meetings also organised by the Office of the COM, where proposals are prepared for decision by the full Council. Procedures regulating the functioning of IMCs and COM are currently being drafted, with a view to improving the efficacy of these institutions and to raising transparency and professionalism in IMC meetings. In particular, it is important that all stakeholders to the specific issues to be discussed in IMC meetings are represented by senior officials who are able and authorized to make decisions on behalf of their institution. This is too often not the case at present.

Other key ‘central agencies’ are the Ministry of Economy and Finance, the Council for the Development of Cambodia and the Ministry of Planning. The Ministry of Interior is also a powerful institution, in charge of the police and responsible for security and order, operating through the provincial Governors and the district Chiefs and their offices. Recently the MOI has

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8 The dual prime minister-ship arrangement was abandoned after the events of 1997. The Prime Minister belongs to and leads the Cambodian’s People Party (CPP). To date key executive posts are shared between CPP and Funcinpec, with the balance clearly tilted towards CPP.

9 The CDC is an inter-ministerial body chaired by the Prime Minister. It was established in 1994 to be the “one stop service of the RGC responsible for rehabilitation, development and investment activities” (RGC 1994) and to coordinate government dialogue with foreign investors (aid agencies and private investors). It is supported by a powerful Secretariat General which, amongst others, is in charge of organising the annual CG meeting.
also been entrusted with the chair of the National Committee in Support of the Communes (NCSC) which develops and monitors the government policy of decentralisation.

Whereas provinces, districts and communes have existed as administrative entities since the colonial era, the decentralisation and de-concentration policy objectives to date are more ambitious and aim to create semi-autonomous elected governments at the commune level, and to enhance the role of the provincial (including district) administrations as de-concentrated entities in charge of regional development ‘on behalf of the centre’. The Commune Council elections of February 2002 were a landmark in the development of the decentralisation policy. Progress is much slower in the design of de-concentration. There is a risk that the underlying approaches of the two policies may easily diverge as different institutions are in charge, the NCSC for the former and the Council for Administrative Reform for the latter.

Some of the basic elements of the legal and regulatory framework necessary for the newly elected commune / sangkat councils are in place. As the administrative communes had never been given much responsibility in terms of service delivery, the NCSC has decided that in a first phase the C/S Councils will ensure limited administrative functions, gaining more experience in local participatory development planning and implementation over time. C/S Councils have in principle some revenue raising powers – not yet defined – and are entitled to receive grants from the central government. To this effect the government has created a C/S Fund which also channels at the commune level ‘budget support’ provided by a number of donor agencies. Although current volumes of transfers are small this may well attract increasing donor support in the near future.

In the early years of the ‘re-construction’ the 24 provinces were basically independent of a very weak centre. This has progressively reverted to a system in which policy decisions are taken at and by the centre, there is no institutional forum through which provincial governors can influence central level policy-making. Governors nevertheless have broad – if loosely defined – powers and influence and in practice enjoy considerable discretion in implementing central decisions. However there is a danger of some form of ‘disconnection’ between centre and provinces: note for example that provincial administrations had no part in the NPRS preparation until a first draft had been finalised in September 2002. Moreover, to date there is no government-wide framework clearly stating the role of sectoral provincial administrations in relation to national development policies. This ‘policy vacuum’ is filled by different sectors in different ways. While diversity may present opportunities it also raises the risk of unbalanced sector development at provincial level.

Cambodia is heavily dependent on donor aid. 10 As is often the case in such situations, donors are instrumental in helping government shape its policies. The most visible form of this involvement is the CG monitoring mechanisms agreed between the government and the donors. At the annual CG meeting the government (executive) reports on key reforms supported by donors. Thematic Working Groups monitor the agreed reforms within the year and prepare CG presentations. The government has established a number of inter-ministerial Councils responsible for leading and monitoring the agreed cross-cutting reform programmes, broadly corresponding to the CG WG architecture. The Councils are supported by Secretariats, some of which have become powerful administrations operating in parallel to the regular government agencies. All Reform Councils report to the Supreme Council for Reform of the State chaired by the Prime Minister.

Arguably, these arrangements should facilitate cross-sectoral coordination and inter-ministerial planning and monitoring of cross-cutting reforms. The danger is in the lack of articulation between the ‘Reform Council architecture’ and the ‘regular’ inter-ministerial mechanisms (IMC meetings

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10 The World Bank PER 1998 indicates that 70% of public expenditure was financed through ODA. At the last CG meeting in June donors pledged a total amount of 635 million US$ for the year 2002. The government domestic current revenue for the same year are estimated at 450 million US$. 
and COM). The lack of formalised inter-connections between these two parallel policy-making systems blurs the process of defining final policy results and may lead to uncertainty and ineffectiveness in the institutionalisation of the reform programmes. In some cases ministries can decide to ignore decisions taken under reform programmes or circumvent these through the regular (IMC/COM) process.\(^{11}\) In others, Reform Councils (or their Secretariats) perform operational tasks that should be vested with existing government institutions.\(^{12}\)

Some policies are translated into Laws. One notable example is the country’s 5 years development plan (the second Socio-Economic Development Plan) which was recently endorsed by a law approved by the National Assembly.\(^{13}\) There are no recognised ‘policy instruments’ such as White Paper or Cabinet Paper at the level of the Council of Ministers. Several policies, strategies and plans have been approved by the COM (e.g. policy on electricity and forestry) but there does not seem to be a standard procedure for this to happen. It is left to the ministries, government agencies or individual Councils to seek approval, and senior officials have diverging opinions as to whether the Council of Ministers’ approval matters when it comes to real commitment e.g. in terms of resource allocations.

The decision of seeking approval by the COM may in cases be influenced by the wishes of the donor community. For instance, the Governance Action Plan 2001-03 (prepared and monitored by the Council for Administrative Reform - CAR) and the Cambodia Nutrition Investment Plan 2002-07 have been approved by the Council of Ministers. It is intended that the new (full) NPRS, currently in preparation under the lead of the Council for Social Development (CSD), will be ‘COM approved’ as well. By contrast, the Ministry of Education, Youth and Sports (MOEYS) and the Ministry of Health (MOH) have not sought approval from the COM for their sector strategic plan.

### 2.3 The budget process

The diagram overleaf illustrates how different sources of funds are used by the government to finance public expenditure programmes.\(^{14}\) The ‘budget process’ consists in reality of a series of different budget processes for different types of finances. There is an important distinction between ‘regular’ budget systems (described in this section), and recent innovations such as the Priority Action Programme (PAP) and Medium Term Expenditure Framework (MTEF), introduced as pilot modalities (and discussed in the following section).

The ‘regular’ government budget systems and many key legislative and regulatory texts date from the immediate post-UNTAC period (1993-95). The legal and regulatory framework for public finance suffers from the same weaknesses as those prevailing generally in the Cambodian legal system. These include (i) the use of subsidiary legislation to circumvent Laws (which may contradict other subsidiary legislation without necessarily cancelling it for the whole system); and (ii) the fact that there is no systematic and readily available record of these ‘amendments’ (including those made through the Annual Budget Laws, which may include provisions which permanently amend the Organic Budget Law (RGC 1993)). The result is a confused framework

\(^{11}\) A case in point is the tactic employed by the Ministry of Education, Youth and Sports, which has recently secured Council Of Ministers’ approval for recruiting a number of teacher trainees higher than the number agreed under the CAR strategy – even though the CAR pay reform strategy has also been approved by the Council of Ministers in October 2001.

\(^{12}\) One case in point is the unclear demarcation of roles, responsibilities and even tasks between the Secretariat General of CAR and the government State Secretariat for Civil Service.

\(^{13}\) Since 1991 Cambodia has had a National Plan for Reconstruction and Development (NPRD), followed in 1995 by the first Socio-Economic Development Plan (SEDP I, 1996-2000). The SEDP II covers the period 2001-05. It was passed as a Law in July 2002. The plan preparation is coordinated by the Ministry of Planning (MOP).

\(^{14}\) Since February 2002 there are additional outlays financed out of the Commune/ Sangkat Councils’ budgets: these have not been included in the diagram for sake of clarity.
known well by very few individuals at the centre. De-concentrating budget execution would require
that many more officials should be able to find their way within this complex construction.

Formulation stage

The fragmentation of the budget formulation process contributes to its relatively weak effectiveness
as a prioritisation mechanism. This is exacerbated by other, more political factors.

Firstly, the budget is formulated within several weakly inter-linked prioritisation frameworks, including:

- the five years SEDP (prepared under MOP lead);
- the three year, rolling Public Investment Programme. This is consolidated by MOP, with an
influential role for CDC, which ‘shall be the coordinator for setting the conceptual frameworks and
the public investment policies as well as setting up the priorities for public investment projects for the
medium term and for one year’ (RGC 1994);
- sector ministry strategic plans (not all sectors have such plans); and
- the annual budget preparation (dominated by MEF).
- It remains to be seen how precisely the NPRS will be grafted onto these (see Chapter III).

Secondly, recurrent and investment budgets are formulated separately. Classical problems arising
from this lack of integration are aggravated by institutional fragmentation (recurrent and investment
budget formulation processes are handled by different institutions and there is no inter-agency
mechanism for final consolidation).

Thirdly, at present the preparation of the investment budget cannot qualify as a transparent and
effective process of prioritisation of government investments. Ministries prepare annually a medium
term (3 years) framework in the form of a list of prioritised projects (based on the SEDP and on
their strategic plan) that they submit to MOP for screening, overall prioritisation and consolidation.
The CDC leads on the mobilization of external resources for investment, and it should coordinate
with MOP to ensure that this is adequately reflected in the PIP and in the prioritised list of
investments submitted to MEF for integration in the annual budget.

Problems occur with the presence of yet other resource mobilisation/ coordination agencies (e.g.
MEF Department of Investment and Cooperation and the Ministry of Foreign Affairs); the lack of
coordination between these agencies; the weak linkages between PIP, policy priorities and
prospects of funding; the lack of transparency in the mode of allocation of government own
resources for investment; the incomplete and inconsistent coverage of the investment budget (which
also includes substantial operation and maintenance costs); and the lack of mechanisms that would
ensure the integration of recurrent costs arising from the investments in the recurrent budget.

There are emerging cases of better management of external financing in sectors which have adopted
sector-wide approaches (such as health and education) and feature new (in Cambodia) processes for
joint government-donor policy dialogue and sector-wide planning and monitoring. Although in
early stages, these processes have proved more effective than the traditional government systems in
integrating donor support in sector financing and in ensuring that recurrent and investment spending
are balanced. It should become a priority to ensure that these better practices are acknowledged by
central agencies, and used to streamline government-wide processes and review existing aid
management mechanisms.
Fourthly, there is room for improvement in recurrent budget formulation (under MEF responsibility). The budget calendar outlined in the Organic Budget Law has shifted over the years, and current milestones in the preparation of the recurrent budget are now as follows:

- March: MEF preparation of macro-economic and overall budget framework, including agencies’ recurrent budget ceilings
- April / May: Budget framework submitted for approval by Council of Ministers
- June / July: MEF Budget Circular officially informing agencies about their ceiling
- August / early September: Timetabled face-to-face MEF/agency budget hearing meetings
- September / October: MEF consolidated draft annual budget submitted to COM approval
- November / December: Senate and Assembly review and debates
- Late December / early January: New budget approved by National Assembly

The macro-economic and budgetary framework, which must take account of parameters agreed with the BWIs, is based on broad policies expressed in the documents mentioned above and others such as the Government Development Platform (1998). A number of broad policy directions are well internalised, such as the re-orientation of spending away from defence and security in favour of the social services, which was cited by all officials interviewed on MEF basic budgeting policies.
This particular policy, re-iterated at each CG meeting, has been effectively implemented over the last years.\footnote{The draft IFAPER Chapter on Public Finance (MEF/WB 2002b) states that “Spending on national defence has fallen from 30% of total budgetary expenditure in 1998 to 20% in 2000.” Another analysis (Larsson 2002) gives trends for budgets as percentages of GDP between 1994 and 2000 as follows: Defence & Security from 6.38 to 3.64; Health and Education from 1.5 to 2.44 and Agriculture and Rural Development from 0.22 to 0.27.}

Other steps in the process present a number of characteristics weakening the usefulness of result-oriented approaches. In the first instance, Ministries’ and other agencies’ discretion in terms of budget formulation is limited (because budget ceilings are decided by MEF at a relatively detailed level, line ministries usually have little say on parts of the sectoral budgets spent at provincial level, and ministries do not budget fully for personnel costs). There is therefore little scope and little incentive for departments or spending units to try and find most effective input mixes and to prepare effective budgets. Internal to ministries, the process is usually largely dominated by Finance Departments; similarly, at provincial level MEF Departments of Finance are most influential.

Except for ‘special programs’ (see section on PAP below), the preparation of and decisions on recurrent budgets are mostly based on an incremental logic. There are only a few examples of uses of criteria or norms. One is the formula used by MOH to divide the O&M budget between provinces (based on number of facilities and level of services provided). Another example is the newly established C/S Fund, forecast over three years as a growing percentage share of government recurrent revenue, which is allocated across C/S Councils through a formula-based system with clear and transparent criteria.

Finally, there is no mechanism for inter-ministerial budget consolidation after the bi-lateral (agency-MEF and provincial-MEF) budget hearings. MEF has sole responsibility for consolidating the submissions from ministries, the list of prioritised investment projects forwarded by MOP, and the implications of donor financing in terms of counterpart funding. From interviews with senior officials it appears that the Council of Ministers is not used as a forum to collegially review policies, priorities and budget allocations and make decisions on necessary trade-off. Following the expressed preferences of the Prime Minister (who once said that the COM was not the place to discuss budget envelopes), adjustments are usually made before and in some cases after this meeting. Ultimately, resource allocation priorities may also be altered by ‘last minute’ decisions taken at the highest levels of government (e.g. on the establishment of the Road Fund for 8m US$ in the 2003 budget).

The Assembly can review the draft Budget Law, the revised estimates for the current year, and the previous year’s Budget Settlement Law drafted by MEF (year n-1). The Assembly could withhold the new budget if it were not satisfied with MEF report. The Audit Law brings one significant additional dimension to this procedure, requesting that the National Audit Authority provides to the Assembly its opinion on the MEF draft Budget Settlement Law. The Law’s provision will be applied in January 2003 for the first time, following the completion of the first audit operation of the recently established Authority.

### Budget execution

The current budget execution system leads to a situation described in the draft IFAPER (2002) as ‘government trying to fit a new policy agenda in an old budget system’. The political will to change spending composition is real, but is hampered by an over-centralised and unresponsive system of budget execution, characterised by (i) repeated MEF ‘pre-audit’ checks\footnote{The term “pre-audit” has become commonly used in Cambodia to describe controls carried out by MEF Financial Control. This includes verifying the conformity of spending agencies’ proposals with corresponding budget allocations and with spending} of agencies’ individual

16 Ministers, who are the sector Authorizing Officers, have currently no choice but to delegate this responsibility to the provincial Governor for sectoral budgets spent at provincial level. Separate budgets ceilings are provided to line ministries and to provincial administrations.

17 The term “pre-audit” has become commonly used in Cambodia to describe controls carried out by MEF Financial Control. This includes verifying the conformity of spending agencies’ proposals with corresponding budget allocations and with spending.
spending decisions (ii) budget execution monitoring exclusively centralised within MEF, (iii) centralised approval of payment orders and (iv) an ineffective system of payments by national and provincial treasuries. Ministries have no authority to vire budget allocations from one line item to another within the year.

Moreover, as government is supposed to operate a strict ‘cash based budget’ (i.e. there is no facility for short term borrowing from the local market), the budget execution system multiplies the stages at which, in a situation of cash constraint, various central agencies exercise some form of prioritisation on line agencies’ spending plans. As in the budget formulation process, different agencies are in charge of different ‘parts’ of budget execution. Prioritisation criteria are relatively general: thus central agencies can interpret these as they wish, in ways not necessarily consistent across agencies. The execution of the budget is, in addition, subject to unbudgeted claims on resources, some of which make sense (e.g. the necessity to respond to unforeseen natural disasters), but others do not (e.g. top level ‘extra-budgetary decisions’).

Cash constraints are the norm rather than the exception as cash management is also a very weak ‘link’ in the Cambodian public expenditure management system. Until recently, recurrent spending ceilings were issued by MEF without considering the government cash position (which is the Treasury’s responsibility). The establishment of a Cash Management Committee is a first step toward improving the system: however, other issues arise from the fact that the Treasury operates only a fraction of government’s budget (as government revenue is not consolidated under one government account). As a result of weak cash management arrears appear to have built up over the last two years. To date there has been no systematic attempt to redress this form of financing, in which one fiscal year’s expenditure is financed with revenue supposed to finance the expenditure of the next one.

In relation to cash management, the annual spending pattern is heavily back-loaded towards the 4th quarter of the year in all sectors. Reasons given for this differ. For MEF it mainly arises from the lack of prepared spending plans from line ministries and agencies combined with the centralised, pre-audit budget execution system described above. Other analyses identify the temptation – common in cash budget management – of building up a cushion because one does not know what revenue collection will look like in the remaining of the year. The result is, in the words of the DFID-financed TCAP Governance Adviser, that ‘the demand for improved liquidities is not expressed (most strongly) by the centre’. Provincial Treasuries appear to suffer from a chronic lack of cash, which then leads to the accumulation of arrears as noted above.

To summarize, priority in budget formulation does not translate in priority in budget execution. For spending agencies budget execution is an uncertain affair, dominated by central agencies which can withhold decisions somewhat arbitrarily. Leakages are not uncommon, and budget managers do not know for how long the funds they have received will have to last.

Under these circumstances budget performance (outturns against approved budgets) is mediocre even on an aggregate basis. It was the concern that this was even more pronounced for the social sectors (and especially the O&M budgets), which prompted the introduction of remedial modalities such as ADD and PAP (see below). For reasons which are explored further below these new modalities did not meet expectations, although a slight improvement in ‘protecting’ social sector allocations may be noted from the year 2000 to the year 2001. The draft IFAPER indicates that in both 2000 and 2001 the outturn rates for education and health were at best just equal to the outturn rate for the total recurrent budget of the government (92% in 2000 and 97% in 2001). This discrepancy between approved budgets and outturns has traditionally been more pronounced in
health than in education as a larger proportion of the health budget is for O&M. Salaries tend to be disbursed more regularly.

**Articulation of central and provincial budget processes**

As outlined in previous sections, central and provincial budgeting processes operate fairly independently from each other, although line ministries have indirect ways of influencing sectoral provincial budgets (e.g. fixing staffing levels or staffing norms). From a provincial perspective, comprehensive budgeting is made difficult if not impossible, due to the multiplicity of different financial accountability channels, depending on the sources of finance/ types of budgets (including non-sectoral funds). Table 1 below illustrates this point. The table also highlights the necessity, from a sectoral viewpoint, of better articulating central and provincial budget processes in order to improve the allocation of all resources available for the sector concerned (education in this example).

**Table 1: Decision making for provincial education budgets**

<table>
<thead>
<tr>
<th></th>
<th>Priority programme budgets</th>
<th>Non priority non wage budget</th>
<th>Salaries</th>
<th>Donor financed projects</th>
<th>NGO projects</th>
<th>Multi-sector finance</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Education finance</strong></td>
<td>Education ministry-led multi-annual strategic plan, annual detailed plan prepared by provincial education departments. Provincial education department reporting to ministry, currently no accountability to Governor for progress reporting (but intention to change this and suggestion that provincial education performance report would be submitted to Governor). Accountability to Governor for spending.</td>
<td>MEF fixes sub-ceiling in education annual budget ceiling, provincial education and finance departments negotiate detailed budget. Spending is through Governor with no accountability to MOEYS. (NB in health a system is in place for provincial financial returns to MOH.)</td>
<td>COM approve intake of teacher trainees, MEF fixes sub-ceiling for wage budget, new graduates are deployed by education ministry, detailed budget is prepared by provincial education and finance staff. Payment is through Governor with no return on spending to MOEYS. Provincial education staff reports to MOEYS on deployment.</td>
<td>Most often negotiated and planned at ministry level, often detailed planning at provincial level. Accountability to government education structures varies. Accountability to Governor often not formalised. Some projects ensure that there is accountability to both Governor and MOEYS.</td>
<td>Similar as for donor projects except that negotiation and planning may start at provincial level, in which case central ministry may not know about project.</td>
<td>Province Investment Fund (Seila programme) National-level strategic plan prepared by Government-led Task Force (education not a member). Provincial plan prepared by an Executive Committee (education not a member). Provincial plan may include annual contracts with education sector (depending on provincial selection of investments). No accountability to MOEYS.</td>
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**2.4 Budget reforms**

In response to the limitations outlined above, the government has agreed with the donor community on a series of measures related to public finance management, as part of a wider fiscal reform which is one out of five good governance cross-cutting programmes monitored through the CG arrangements (and under the WB SAC and the IMF PRGF). A coordinated programme of donor-financed technical assistance is in place to support the reforms (known as the Technical
Cooperation Action Plan – TCAP). However, to be fully effective the technical assistance should respond to a structured programme, genuinely articulated by the government and formally endorsed and steered by the relevant institutions. This has been lacking thus far. This may well change and the government may lead the reforms more firmly in the future, including in taking forward the TCAP Action Plan through the measures outlined in the Action Matrix prepared by MEF for the NPRS. It is most likely that donor support to the NPRS will focus on the continuation/acceleration of fiscal reforms.

The most important of the treasury/cash management measures proposed in the TCAP focus on consolidation of government accounts and strengthening of the fiscal reporting system, revision of the chart of accounts and of accounting practices (including computerisation) and, importantly, a review and re-definition of the roles and relationships of the national and provincial treasuries, including the removal of their banking functions. Reforms related directly to budget planning and implementation and cash planning and management are summarised in Box 1 below.

**Box 1: Treasury and budget reforms**

<table>
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<tr>
<th>Key features of a Modernized Budget System for Cambodia</th>
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<tr>
<td>- Single budget management system i.e. one system operating for all spending agencies and all expenditures</td>
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<tr>
<td>- Forward planning of expenditures by all ministries on the basis of a medium term fiscal framework, with specific funding requirements identified for the next budget year and indicative requirements for two more years (MTEF)</td>
</tr>
<tr>
<td>- Budget estimates and budget approvals formulated on the basis of ‘programmes’ of expenditure, with a set of basic performance measures for each expenditure programme to help evaluate government's policy and programme achievements.</td>
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<tr>
<td>- Effective delegation (de-concentration) of financial authority and control to line agencies</td>
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<tr>
<td>- Post-audit system for all expenditures, conducted by an Internal Audit Unit in each ministry and complemented/supported by the NAA external audit.</td>
</tr>
<tr>
<td>- Cash planning and management process which ensures the availability of sufficient cash within the national and provincial treasuries for smooth budget implementation.</td>
</tr>
<tr>
<td>- Re-organised structure and functions of the Budget Department to enable it to undertake new responsibilities associated with above reforms.</td>
</tr>
<tr>
<td>- Integrated and computerized financial management information system (FMIS).</td>
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</table>

The use of performance measures in public finance management is clearly proposed to be introduced as a feature of a modernized budget system in Cambodia. In the next sections we review two of the budget management reforms undertaken over the last three years and which have contributed to planting performance-based budgeting seeds in the budget system described in the previous section. These are the PAP and the MTEF, the former preceding TCAP and the latter under TCAP.

**Priority Action Programmes**

Once government had successfully raised social sector allocations for a few years it became clear that this would yield few results as long as access to approved budgets continued to be late, unpredictable and slow. There was a need to accelerate ‘cash disbursement’ to spending agencies.

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18 The Technical Cooperation Action Plan (TCAP) was launched in October 2001, it is supported by the IMF, the ADB, UNDP, DFID and the Netherlands. The World Bank provides support to the same broad range of reforms though separate programs, e.g. the recently approved credit for “Economic and Public Sector Capacity Building”.

19 Proposals outlined by the previous IMF Budget Manager who was in post until mid 2002. The pilot de-concentration of Chapter 2 (mentioned later in this paper) is a direct follow up to some of the measures proposed.
This prompted the introduction (as pilot programmes) of the ADD modalities in health in 1998 and of the Priority Action Programme (PAP) system for four ‘priority ministries’ in 2000. These are implemented under separate budget execution modalities applying for a specific ‘special programme’ (Chapter 13) in the vote of the concerned ministries. Modalities for the schemes have changed several times, reflecting how uneasy it is to ‘accommodate’ their post-audit nature in the present legal framework. Legitimising these schemes and any other move to post-audit as preferred budget execution modality would in reality require the Budget Organic Law to be amended.

Whereas the ADD programme main objective was to by-pass the regular budget execution system by providing cash directly from MOH to Operational Districts (See Annex 2 on health), the PAP was designed as a system of decentralised, programme-based, result-oriented budget formulation and execution. Budget holders were to have final decision-making powers on the use of funds against responsibility for delivering anticipated results. Spending was meant to be post-audited, with a view to accelerating budget implementation. Moreover, the delegation of spending authority was direct from the Minister to heads of Budget Management Centres (BMC) including for activities at provincial and sub-Provincial levels.

Only two of the four pilot sectors, education and health, have actually used the PAP modalities. They did so in different ways as will be further outlined in Chapter 3. There has been no formal review or assessment of these pilot modalities by the government (except for a limited assessment conducted as part of the IFAPER 2002). From interviews with senior officials in MEF and in line ministries it is nevertheless possible to present the following tentative conclusions with respect to the PAP.

On the positive side the PAP system has been instrumental – more so in education than in health – in introducing a medium-term budget planning perspective and concepts of programme- and result-based budgeting. In education it has brought increased budgetary transparency, e.g. showing on the recurrent side key programmes which, as they were previously ‘project-financed’, were erroneously categorised as investment. It is also seen as a way for donors to provide ‘targeted budget support’ i.e. support to the budget against government commitment to securing multi-annual budget envelopes for specific reform programmes and to demonstrating progress in achieving agreed results generated by the reforms. (The level of specificity of the targeting varies from one donor agency to another.) Moreover, the establishment of BMCs from district up to central line department within ministries has decentralised budget planning, execution and reporting functions which were previously entirely centralised in MEF or at the level of the ministries’ Finance Departments.

In health there has not been the same focus on programmes. Nevertheless, the PAP system has also brought some benefits in terms of earlier availability of cash (70% of the provincial budget for Chapter 13 had been disbursed by December 2001, compared to consistently lower disbursement rates for O&M budgets in previous years). This unfortunately cannot be said for the education sector. By the time of closure of 2000 credits the disbursement rate for education PAP was 36%. It was slightly higher at the end of 2001 (50%) but still unacceptably low. A relative improvement (for spending agencies) was that the system had been modified so that the remainder of the PAP budget could be disbursed as late as April 2002 and still be accounted for on 2001 PAP budget credit. At the macro level, this procedure is equivalent to arrears in payments (i.e. revenue of the next year financing expenditure planned the previous year) and further blurs the distinction between successive fiscal exercises.

Most reasons for the limited success of PAP have to do with the fact that the system was introduced as a stand-alone, stop-gap measure and not as one step within a series of logically sequenced, necessary systemic changes. There was insufficient discussion amongst stakeholders and little attention given to trying to reconcile their different understandings of and expectations from the
system. There was also insufficient preparation and attention given to system and capacity development in both MEF and line agencies.

There are examples of the system’s under-development in the two sectors, despite the difference in approaches:

- In health the emphasis has been on the operations of health facilities, Operational Districts (ODs) and provincial administrations. A chart of 43 account codes has been created as a budget planning guide and budget managers are supposed to have the flexibility of using funds as required when it comes to actual operations. In reality, many health officials continue to use the PAP budget as a strict line item budget, because of confusing directives issued by MEF which also lead treasuries to think that they can/should exert the usual line item control.
- In education the system has been recently strengthened through the jointly agreed definition of ‘spending principles’ which will provide a framework for post-auditing the expenditure incurred by the BMCs in carrying out the PAP programme planned activities. However, there were no specifications on reporting requirements arising neither from this nor on the form that post-audit would take.

After two years of implementation the post-audit system has yet to be defined, which has certainly exacerbated the risk of poor fiduciary accountability. Systems for accountability for results have not been formally agreed with MEF when they are in place such as for the education PAP programmes. The lack of a clear operational framework has translated into uncertainties and misunderstandings at all levels, and has undermined budget managers’ confidence. This, in some cases, may have been an additional reason to the still low disbursement rates. The lack of clear modalities has also made it difficult to build capacities in a systematic way.

Most (if not all) shortcomings mentioned above have to do with the process rather than the substance of the intended reform. From this a good number of lessons could and should be learnt and in particular, the PAP experience suggests that effective change management mechanisms and processes are necessary to pursue the reforms under way and facilitate the introduction of further reforms.

As stated in several documents (including the NPRS), MEF intends to progress towards a re-unified budget execution system which would maintain certain key characteristics of the PAP system while strengthening basic systems and capacities so as to guarantee both fiduciary and result accountability.

MEF has undertaken to gradually de-concentrate budget execution for non-PAP budgets. This is planned to start modestly in 2003 with a pilot scheme covering central O&M budgets in health and education. The Financial Controller (FC) would be re-located within the line ministries to facilitate budget execution in line with the ministry’s priorities, while remaining accountable to MEF in his/her capacity of controller. The pilot would also stress the preparation by line ministries of expenditure plans for fixed periods of time. It would include both some flexibility for line ministries to vire budget allocations from one line item to another within identified groups of lines, and first elements of a sharing of responsibilities between the FC and the line ministry in the regular (non-PAP) spending chain.

The pilot is designed as a first stage in a multi-annual programme of budget de-concentration which would gradually cover all administrations and budget categories. Its successful introduction, including the high level review planned after the first few months of operation in order to determine the way forward, would represent a signal of the government commitment to adopt budget execution modalities more conducive to result-based approaches for the whole budget. In the short
to medium term cross-fertilization with the PAP system should be encouraged (e.g. further de-concentration of non-PAP budgets within ministries).

**Medium Term Expenditure Framework**

Another major initiative was the introduction of an MTEF in 2002, also on a pilot basis. MEF prepared a medium term macroeconomic and budgetary framework and gave medium term ceilings for two pilot ministries (health and education) to prepare sectoral MTEFs for 2003-05, simultaneously with the preparation of detailed budget estimates for 2003. In health this prompted MOH to begin to build a comprehensive overview of all funding flows into the public health sector, which indicated that a large proportion of the funding fell outside MOH planning and prioritisation processes (see Annex 2 on health). In education this gave the ministry - which had prepared such an integrated planning tool the year before in the context of the first joint annual review of the sector programme – the opportunity to strongly embed its sector support programme framework in the government MTEF (see Annex 1 on education).

The government intended that the MTEF 2003-05 would be attached as an annex to the draft Annual Budget Law for 2003, to be submitted to the Assembly.\(^{20}\) As confirmed in the NPRS (albeit with little precision in terms of time scale) the intention is also to roll out the MTEF process to other ministries while strengthening the procedures used for the first iteration. MEF is committed to use the MTEF as the tool enabling government to shape its budget in line with the NPRS policies and priorities, e.g. it is intended that next year the MTEF will be presented at the 2003 CG meeting, as a forward-looking, government-developed plan to which donor agencies can react on a better informed basis.

From the above and interviews with the ministries involved in the pilot exercise, it is possible to suggest the following directions for further work during subsequent iterations:

- Strengthen the change management process by developing an MTEF medium term action plan with all key stakeholders.
- Develop an overall framework which clearly links preparation of the MTEF, annual budget, PIP and donor resource programming, taking account of specific sector planning processes where these exist (as in health and education).\(^{21}\)
- Strengthen policy formulation mechanisms (especially the Council Of Ministers’ proceedings in relation to budget review).
- Strengthen mechanisms and processes for ensuring that policy commitments are followed through. For the MTEF to embody government policy commitments it should be enforced that approved plans and strategies with financial implications should be fully incorporated in it (e.g. CAR pay reform, government NPRS, sector strategic plans).
- As suggested by international experience, build a comprehensive MTEF capacity-building strategy and programme, based on and supporting the programme of work of the agencies involved in the actual process of preparing or reviewing the MTEF.

In Cambodia as elsewhere, the MTEF is being introduced in order to improve efficiency and effectiveness of the government public expenditure programme, and in particular to enhance sectors’ use of government resources to implement their policies. However, to have an incentive to develop efficient sector MTEFs and budgets, line ministries need to see that they really have more power to allocate sector resources, within approved policy and resource frameworks. This, ultimately, calls for (i) certainty in the resource envelope and a guarantee that cost-efficiency is not penalized by resource re-allocation outside of the sector and (ii) a flexibility in allocating sectoral

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\(^{20}\) Although the documents reviewed by the COM on 29 October did not include such an annex.

\(^{21}\) The framework should also identify the procedural changes required to establish the necessary links, and outline stakeholder agencies’ new or changed responsibilities and tasks accordingly.
resources across budget categories which is not a characteristic of the current annual budget preparation process described above.

In other words, to make further progress in the MTEF process there should be a discussion on how two different budget planning conceptual frameworks will be made to progressively converge into one.

**Way forward**

There are a number of signs that senior management in MEF is truly committed to reforms that will enable government institutions to deliver the NPRS pro-poor policy outcomes.

Operationalising this commitment requires that MEF senior management address underlying budget management policy issues. One fundamental question is how committed MEF is to post-audit budget execution, which is the modality implicit in the Cambodian MTEF’s emphasis on results. Should a clear policy decision be taken – as a pre-requisite – this would have legal and regulatory implications and profound institutional repercussion within MEF (in a shift in roles of key structures e.g. Budget and Inspection Departments, re-orientation of functions e.g. Financial Controller, etc.), which it is obviously difficult to clearly visualize in the present context of multiple budget modalities. Moreover, basic systems (treasury operations, cash management and the information management tools necessary to improve these) have to be strengthened, whatever the system chosen.

In our and other analyses there is a commitment to the goal of a modern, result-oriented budget management system at senior management level in MEF. What has been lacking and which is now strongly promoted by the technical assistance in place is the development of a comprehensive and structured programme of reforms. This would bring together the various elements that have to date progressed almost independently and would sequence logically the measures arising from these various components that need to be taken forwards. The on-going analysis of the IFAPER conclusions, together with the negotiation for the next PRGF and the PRSC, provides a critical opportunity for the government to clearly articulate such a programme.
Chapter 3: Use of Targets and Indicators and Factors of Success and Failures

Given the context outlined above it is unlikely that indicators and targets would be routinely linked to budgets in Cambodia at this point. However, a number of processes have emerged which support and simultaneously demand a move toward result-oriented approaches (e.g. NPRS, MTEF, PAP, sector wide approaches). This chapter analyses current practices (or the lack thereof) and identifies examples of good practice in the use of indicators and targets, as a baseline which may be useful for further development of these processes. In this context it is premature to discuss factors of success and failures. Rather, we analyse the risks and potential threats and opportunities for the emerging result oriented approaches and where relevant we make suggestions on how risks could be mitigated and opportunities seized.

The structure used in the Chapter follows that outlined in the TORs. For each broad topic we outline the overall trends emerging from an analysis of relevant government-wide processes in the first place, thereafter focusing on the sectors studied. A comparative analysis of the sectors studied is summarised in a matrix form in Table 2 below. Further details on education and health sectors and the Legal and Judicial Reform are at Annexes 1, 2 and 3 respectively.

3.1 Use of public service performance indicators alongside budgets

The SEDP II (the current five-year socioeconomic plan) includes a set of outcome indicators and a policy action matrix which will be the basis for monitoring implementation. The links between the SEDP II and resources is tenuous. The plan is meant to be operationalised through the government PIP and budget, and implementing government agencies are required to report regularly on progress. The establishment of more specific links between sector strategies, plans and targets, and resources, depends on each agency.

In contrast with a number of PRSPs in other countries, the final NPRS does not identify a ‘short list’ of poverty outcome indicators and targets (whereas this was included in previous drafts). Instead, it is acknowledged that ‘this initial NPRS does not include a formal programme of quantifiable impact evaluation’ and that further work will be carried out to develop such a programme. The first NPRS includes two sets of indicators and targets:

- A rather long list of outcome / impact indicators (over 80) which it is intended to use for in-depth monitoring of each strategic area of the NPRS. All indicators have baseline values and an identified source of information. Further work is under way to complete the list with target values. Simultaneously, MOP has also undertaken a process of ‘localising the MDGs’. It is intended that the two tasks should feed one into the other.
- Indicators / targets proposed by government agencies in the Action Matrices. The nature and quality of these indicators vary considerably from one sector to another.

The NPRS states that ‘the implementation of the strategy will be closely linked to the national budget’. However at this early stage in the NPRS and MTEF processes the exact nature of this relationship and the process by which this will occur are only specified in relatively general terms. The NPRS stresses the importance of ‘the MTEF as a tool for NPRS in terms of allocations, implementation, and monitoring of the budget over time’. This now has to be addressed in concrete terms, such as

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22 These NPRS strategic foci are promoting opportunities (which includes macroeconomic stability and improving rural livelihoods); expanding job opportunities; expanding capabilities; reducing vulnerability; and social inclusion / improved governance.
clarification of budget prioritisation procedures and harmonization of annual calendars.\textsuperscript{23} It also raises the question of the role in this of the newly established Council for Social Development (which is leading the NPRS process) vis-à-vis the central agencies (in charge of resource mobilization and budget consolidation and arbitrages).

Another major challenge is to improve the costing of the NPRS (which has been relatively weak to date).\textsuperscript{24} In our analysis, a fundamental cause of this weakness is the lack of clarity that has prevailed from the onset on the concept of poverty reduction strategy and, in particular, the lack of a definition of the very nature of the public priorities that had be included (and therefore costed) in the NPRS, i.e. should the NPRS be a catalogue of targeted interventions exclusively, or should it embrace the systemic pro-poor reforms undertaken by some sectors. Arguably there may be different answers for different types of sectors. What seems to be missing is a discussion of this issue. As a consequence, in a number of sectors the construction of the matrix/ prioritisation of public actions has been a very ‘uncertain’ process based on contrasting logics. This leads to very different results at various stages of the process.

Owing to the lack of guidelines on this ministries have taken diverging approaches. Uneven strategic planning capacity further contributes to an overall lack of consistency in the Action Matrices. In the (final) first NPRS the overall costing is not clearly linked to the government budget and / or MTEF (although the two sets of information are presented side by side). Further progress in costing the NPRS and in establishing a clear financing framework linked to government budget and donor support will be an important part of the ‘next steps’ agenda.

Chapter 2 suggests that modalities such as the PAP, the MTEF and the pilot de-concentration have the potential to enhance public expenditure management effectiveness thereby facilitating the implementation of the NPRS. These benefits will be obtained in part through linking results and allocations (decentralisation of budgets/ spending, post-audit of finances and results, MTEF programme output statements with baseline and target outputs and programme overall outcomes etc.). However, Chapter II also stresses that there is some way to go before these emerging systems can be streamlined, stabilized and rolled out to all government agencies. Moreover, various planning / budgeting processes currently in existence have yet to be reconciled (e.g. MTEF/ PIP).

\textsuperscript{23} For example, what would be the most appropriate time for the NPRS annual review? How should this fit with the planning cycles for the budget / MTEF, for the line ministry annual reviews, and for CG meeting?

\textsuperscript{24} Weakness in costing is reported as one of the classical issues in all PRSPs developed so far, as analysed by ODI (May 2002) and also reported in IMF/ WB (Sep 2002b).
Table 2: Use of performance indicators and links to budgets on a sector by sector basis

<table>
<thead>
<tr>
<th><strong>Existence of a policy/strategic framework</strong></th>
<th><strong>Education</strong></th>
<th><strong>Health</strong></th>
<th><strong>Agriculture/Rural Development</strong></th>
<th><strong>Legal and Judicial Reform</strong></th>
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</table>

**Existence of policy/strategic result indicators and targets**

<table>
<thead>
<tr>
<th><strong>Outcomes and intermediate outcomes</strong></th>
<th><strong>Education</strong></th>
<th><strong>Health</strong></th>
<th><strong>Agriculture/Rural Development</strong></th>
<th><strong>Legal and Judicial Reform</strong></th>
</tr>
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<tbody>
<tr>
<td>Â Outcomes (intermediate) in ESP – targets 2005 linked to EFA targets (e.g. NER, literacy rate).</td>
<td>Â Outcomes and intermediate outcomes for HSSP 8 core strategies with targets (e.g. IMR, MMR).</td>
<td>Â No policy/strategic result defined at ‘sector’/ ministry level or not ‘recognised’. Internal fragmentation within MAFF. Departments supported by individual projects do not refer to Planning Dept.</td>
<td>Â GAP Performance Matrix includes benchmarks &amp; specific governance elements to be improved through LJR (e.g. extent of public consultation for law drafting – participation/ownership). Not quantified/often not quantifiable.</td>
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<tr>
<td>Â Process indicators (joint MOEYS/ donors/ NGOs policy action matrix).</td>
<td>Â Further work required to disaggregate outcomes by income level to capture HSSP impact on poor.</td>
<td>Â Strategic objectives in NPRS Action Matrix. Unclear ‘buy in’.</td>
<td>Â No intermediate outcome indicators for 6 inter-related LJR strategies (called ‘strategic objectives’) in draft LJR Strategy (e.g. outcome for ‘improve access to legal information’).</td>
<td></td>
</tr>
<tr>
<td>Â Selected outcomes MOEYS/ donors/NGOs jointly agreed (key sector performance indicators).</td>
<td>Â Consistent with NPRS strategic objectives in Action Matrices. ‘Poverty impact screening’ approach more pronounced than for education.</td>
<td>Â Strategic results defined within individual projects though unclear how these can address policy issues (e.g. ADB ‘sector programme’ under preparation has results at output level only e.g. improved knowledge systems, &amp; does not refer to SEDP II outcome indicators).</td>
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<tr>
<td>Â Sector performance indicators agreed with MEF &amp; linked to committed share of recurrent national budget.</td>
<td>Â Consistent with strategic objectives NPRS Action Matrix (broad definition of poverty reduction).</td>
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<tr>
<td>Â Consistent with strategic objectives NPRS Action Matrix (broad definition of poverty reduction).</td>
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**Existence of policy priority/operational programmes**

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<th><strong>Education</strong></th>
<th><strong>Health</strong></th>
<th><strong>Agriculture/Rural Development</strong></th>
<th><strong>Legal and Judicial Reform</strong></th>
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<td>Education</td>
<td>Health</td>
<td>Agriculture/ Rural Development</td>
<td>Legal and Judicial Reform</td>
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<tr>
<td><strong>Existence of programme result indicators and targets (intermediate outcomes, outputs, process, inputs)</strong></td>
<td><strong>Yes for national vertical programmes.</strong>&lt;br&gt;Output and process indicators defined under each HSSP core strategy (e.g. no. contacts per capita with public facilities, delivery by trained staff). Aggregated (national) targets.&lt;br&gt;Further work required to identify suitable programmes linked to outputs, and relate to HSSP outcomes/ strategies.</td>
<td><strong>Within individual projects/ programmes.</strong></td>
<td><strong>Draft Action Plan could relatively easily include indicators and targets (most often would be in terms of process outputs) – does not yet.</strong>&lt;br&gt;<strong>No indicators defined/ used for routine operations of Legal and Judicial sectors.</strong></td>
</tr>
<tr>
<td><strong>Costing of performance targets – realism/ adjustment with resources</strong></td>
<td><strong>Initial costing of ESSP priority programmes based on sub-sector unit costs. Relatively strong basis for projected budgets for some sub-sectors/ programmes, much less so for others (higher education, TVET).</strong>&lt;br&gt;<strong>Actual performance/ unit costs yet to be re-calculated taking account of project contributions to recurrent programmes (estimates only recently available).</strong>&lt;br&gt;<strong>ESSP broadest financing framework = integrated government/donor Medium Term Expenditure Plan (5 years, matching donor resources to ESSP programmes, identifying budget support and project inputs to recurrent activities). MTEP 2001-07 consistent with 3 years education MTEF 2003-05.</strong>&lt;br&gt;<strong>Further work required (MEF) to address current limitations in MTEF, incl. planning/ budgeting full personnel costs (lack of integration of CAR strategy), comprehensive investment planning/ budgeting (no local development budget allocations) &amp; comprehensive recurrent planning/ budgeting (no indication of project contributions to recurrent programmes).</strong>&lt;br&gt;<strong>MTEF process to be more strongly connected to annual budget preparation process, esp. in MEF.</strong></td>
<td><strong>Cost study (2002) has established cost of providing current levels of activity in typical province. Cost met by government budget for approx. 30%, remainder covered by external agencies, official &amp; informal user charges.</strong>&lt;br&gt;<strong>Health MTEF first attempt at bringing together various sources of sector funding against HSSP strategies (recording flows of funds).</strong>&lt;br&gt;<strong>Further work required to transform MTEF in planning tool. Issues:</strong>&lt;br&gt;<strong>MOH – incomplete information, lack of influence on external assistance &amp; other funding priorities.</strong>&lt;br&gt;<strong>MEF/ MOP – separation recurrent/ capital budgets.</strong>&lt;br&gt;<strong>Overall fragmentation in sector planning more pronounced than in education.</strong>&lt;br&gt;<strong>Result from above limitations: imperfect ‘match’ targets/ activities and resources; under-estimating costs of services.</strong>&lt;br&gt;<strong>Rolling nature of HSSP not clear.</strong>&lt;br&gt;<strong>Further work required to clarify integration of national vertical programmes in HSSP strategies.</strong></td>
<td><strong>Draft Strategy &amp; Action Plan not costed. Mapping of available/ pipe-line support scheduled.</strong>&lt;br&gt;<strong>Critical weakness is lack of link between LJ (and results and resources for it) &amp; regular operations of LJ sectors (now &amp; after reform). Sustainability issues to be addressed!</strong>&lt;br&gt;<strong>Government budgets insufficient, fragmented, not function/result/ task-based and lacking for critical recurrent functions.</strong></td>
</tr>
<tr>
<td><strong>Costing of performance targets – realism/ adjustment with resources</strong></td>
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<tr>
<td>Education</td>
<td>Health</td>
<td>Agriculture/ Rural Development</td>
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<tr>
<td>Â Target adjustment if budget cuts discussed during MTEF preparation without conclusion.</td>
<td>Â Links results HSSP strategies – government budget difficult to establish without operational programmes (see above).</td>
<td>Â No link for regular government budgets.</td>
<td>Â Result-based/ ‘contract’ approach used in specific projects. Practice could be extended to broader projects (e.g. WB) likely to cover larger parts of Strategy and Action Plan. Government officials unaware of, but interested by result-oriented approach.</td>
</tr>
<tr>
<td>Â ESP/ ESSP targets have to be rolled forward.</td>
<td>Â Link budgets to programme results through national PAPs (Ch 13) &amp; investment projects under ESSP umbrella priority programmes (capacity building, infrastructure).</td>
<td>Â Within individual project operations, depending on project policy/ practice (e.g. in ADESS no monitoring of training impact related to costs although largest programme costs. Planned for next year).</td>
<td>Â No link of results (or even activities) with government budgets for Legal and Judicial sector routine activities.</td>
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<td></td>
<td>Â Links results – budgets less clear for parts of government budget (O&amp;M), for some donor projects (information to be further improved/ systematized) and for some sub-sectors (higher education, TVET – strategies to be better outlined).</td>
<td>Â Use of a ‘contract approach’ for Seila provincial investment annual work plans (centre/ Governors, Governors/ provincial departments etc.).</td>
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<td></td>
<td>Â Several examples of formula-based resource allocation within individual priority programmes.</td>
<td>Â Use of a formula-based allocation mechanism for Seila resources to provinces – link with past ‘contract’ performance for small part of envelope.</td>
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**Consultation, target setting (top-down/ bottom-up), horizontal accountability**

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<tr>
<th>Education</th>
<th>Health</th>
<th>Agriculture/ Rural Development</th>
<th>Legal and Judicial Reform</th>
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<tbody>
<tr>
<td>Â Programme of information of CCs on ESSP.</td>
<td>Â Health centre management committees involving community representatives (not generalized).</td>
<td>Â Most often established within projects (e.g. small-scale irrigation scheme management committees, clean water users’ committees). Exception – fishery communities recognised in government regulations.</td>
<td>Â LJR stresses need for transparency &amp; accountability of legal and judiciary services and of government as a whole.</td>
</tr>
<tr>
<td>Â Proposed Governor’s review of provincial education performance report, role of PRDC in provincial planning for school construction.</td>
<td>Â Comparatively strong integration sub-national level planning and MOH planning &amp; budgeting for basic health care on an annual basis. Basic health care budgets built bottom-up (activity OD, province), matched to MEF resources and formula allocation.</td>
<td></td>
<td>Â Proposed development of a broad ‘vision’ document for LJ sectors might help in developing strategic outcomes for the draft LJR Strategy but should not delay process further.</td>
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<tr>
<td>Â Proposed legislation on higher education institution financial accountability.</td>
<td>Â Public disclosure of PAP operational budgets and use of funds (guidelines, all schools).</td>
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<tr>
<td>Â Indicators and targets need to be ‘localised’ (provincial ESSP?).</td>
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<tr>
<td>Â Critical need to articulate provincial/ central policy prioritisation and planning processes. Currently different/ divergent modalities (vertical ESSP, basic health care and national health programmes, many vertical agriculture &amp; RD projects, multi-sectoral provincial basis Seila). Government has yet to clarify de-concentration policy + mechanisms for provincial accountability for national policy targets.</td>
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<tr>
<td>Cascading targets down</td>
<td>Education</td>
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<td>Agriculture/ Rural Development</td>
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<tr>
<td>Â ESP/ ESSP outcome/ intermediate outcome targets not cascaded down on a multi-annual basis.</td>
<td>Â HSSP strategic targets not yet disaggregated in targets for health institutions/ structures (need to define clear operational programmes).</td>
<td>Â Targets are cascaded down in individual project operations (not studied in details). Most projects are not nation-wide.</td>
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<tr>
<td>Â Output targets cascaded down within each priority programme (provincial education dept’s) prepare annual implementation plans linked to outputs within fixed budgets for each priority programme).</td>
<td>Â Provincial PAPs not programme-based, difficult to relate to results.</td>
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<tr>
<td>Â Priority programmes implemented by 200 BMCs at district, provincial and central technical dept’s. Outputs and inputs specified at each level.</td>
<td>Â Link provincial budget to basic health care activity (through formula-based allocation of resources) – Demonstrated possibility of making budgets responsive to needs/ activities under line item budgeting.</td>
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</table>

<p>| Incentives/ rewards for achievement | | | |
|-----------------------------------|-----------|--------|-------------------------------|--------------------------|
| Â ESSP to be implemented through structures &amp; personnel in place, with institutional/ organisational dev’t &amp; CB. | Â Key issue = low salaries for health facility staff (as for whole civil service). | Â Institutional fragmentation at national agency level. Inter-ministerial Council (CARD) seems ineffective. | | |
| Â Informal fees for regular teaching in cities (prevent poor to attend). Unpredictability in pay reform (no dialogue CAR/ MEF) is an obstacle for MOEYS to act. | Â Various ways round include: | Â Probable existence of incentive schemes in projects, depending on donor policy. | | |
| Â Teachers’ income higher than for equivalent qualification staff (higher functional allowance). | Â Contracting in/ out of health services and pay policy decided by contractors (pilot basis) | | | |
| Â PAP1 (2002) – Enhancing personnel efficiency &amp; performance (re-deployment, performance-based incentives for school staff in remote/ difficult areas &amp; for BMC heads for PAPs at provincial, district &amp; school levels). Simple performance appraisal schemes introduced. | Â Authorized use of 49% of user charges to supplement staff salaries at health facility level in MOH recognised user charge schemes (perhaps &gt; OOs) | | | |
| | Â Various donor project schemes. | | | |
| | | | | |
| | | | | |</p>
<table>
<thead>
<tr>
<th>Verification of results achieved (monitoring, data/information, MIS)</th>
<th>Education</th>
<th>Health</th>
<th>Agriculture/ Rural Development</th>
<th>Legal and Judicial Reform</th>
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<tbody>
<tr>
<td>ESSP monitoring framework in place, operational guidelines currently rolled out.</td>
<td>Comparatively good MIS but require further strengthening to provide more regular data on (intermediate) outcomes and to better link results and budgets/spending.</td>
<td>Elaborated Seila MIS on provincial work plans/contracts and commune investments (in Seila supported provinces). Output level.</td>
<td>Monitoring within individual projects.</td>
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<tr>
<td>EMIS in place &amp; being improved &amp; decentralised (pilot basis). Data/information timeliness to be improved. Dep’t MIS being strengthened (medium term strategy) for PAP monitoring.</td>
<td>Outcome indicators to be disaggregated by income levels and systems to be able to analyse this.</td>
<td>Multi-sectoral ‘profiles’ completed for all villages &amp; communes (Sep 2002) by MOP (Seila assistance) as inputs for Commune Council participatory planning process.</td>
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<tr>
<td>Capacity for impact &amp; benefit incidence analysis being strengthened, using sector specific targeted &amp; general surveys and analyses.</td>
<td>Regular provincial returns to MOH on activity and budget implementation for basic health care operations.</td>
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<tr>
<td>Critical to further strengthen information systems (expanding scope e.g. quality, school management, TVET/ higher education/ NFE, personnel MIS; systems integration) and information management capacities (incl. policy analysis).</td>
<td>Planned provincial health report for Review in 2004.</td>
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<tr>
<td>Critical to further strengthen programme monitoring, financial management and internal audit systems (short term!) in order to better assess links spending/ results.</td>
<td>Surveillance systems for national programmes.</td>
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<tr>
<td>Demand for policy-level analysis is there at centre. Further MIS decentralisation needed to create incentive for good information management at provincial level.</td>
<td>Data accuracy issues due to lack of incentives and sometimes lack of understanding.</td>
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<tr>
<td>Need to strengthen mechanisms for horizontal accountability.</td>
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<tr>
<td>Role of donors</td>
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<tr>
<td><strong>Education</strong></td>
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<tr>
<td>Joint MOEYS/ donors/ NGOs policy matrix and key sector performance indicators.</td>
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<tr>
<td>Strong MOEYS/ donors/ NGOs partnership facilitate integrated planning &amp; monitoring.</td>
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<tr>
<td>ADB provide budget support, EC budget support start 2003. Target budget support 50% external assistance by 2005. Increasing alignment of donor priorities with ESSP programmes even for donors unable to provide budget support.</td>
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<tr>
<td>Partnership with NGOs being formalised and strengthened, less easy (what is &amp; how to tap ‘value added’ of NGO operations, direct donor agency/ NGO arrangements deny MOEYS leadership).</td>
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<tr>
<td>Further work required on mechanisms for provincial level coordination of external assistance.</td>
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<tr>
<td><strong>Health</strong></td>
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<tr>
<td>Partnership MOH/ donors/ NGOs being strengthened. No plans for budget support to HSSP.</td>
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<tr>
<td>Three like-minded donors (WB, ADB and DFID) aligning next support programmes with HSSP under one project. WHO technical assistance to HSSP development.</td>
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<tr>
<td>Joint HSSP support project (ADB, WB, DFID) appraised by donors and NGOs in Aug 2002.</td>
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<tr>
<td>Annual Review (of project?) planned.</td>
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<tr>
<td>Unclear position of some donor agencies re: HSSP. Further ‘donor alignment’ required.</td>
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<tr>
<td>HSSP should help address planning fragmentation, provided partners effectively align planning and prioritisation practices.</td>
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<tr>
<td><strong>Agriculture/ Rural Development</strong></td>
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<tr>
<td>Few/ no donors use/ refer to MAFF plans (e.g. no reference in ADB Sector Development Programme being developed, nor in EC PRASAC nor in ADESS programme of support to agriculture development through Seila).</td>
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<tr>
<td>Lack of structured and donor-coordinated policy and strategic dialogue.</td>
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<tr>
<td>Individual donor agency prioritisation with some joint financing/ prioritisation (e.g. ADESS co-financed by IFAD, UNDP/ AusAid and RGC, EC, ADB &amp; JICA support to 3 North East provinces).</td>
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<tr>
<td>Regular dialogue government Seila TF and Seila donors.</td>
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<tr>
<td>Can NPRS be an opportunity to begin addressing fragmentation?</td>
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<td>Could this start by closer integration of donor support in ‘self-contained’ sub-sectors (e.g. extension)?</td>
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<td><strong>Legal and Judicial Reform</strong></td>
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<tr>
<td>Draft LJR Strategy incl. donor comments on previous drafts.</td>
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<tr>
<td>Donor Coordination Group on Governance in place. WB appointed as coordinator for donor support to LJR Strategy.</td>
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<tr>
<td>Donor financing fragmented in projects supporting specific elements of draft LJR strategy (e.g. France support to School of Magistrates, Japan support to drafting Civil Code etc.) and through sectors for law drafting and regulatory developments.</td>
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<tr>
<td>WB broad support project for LJR strategy being prepared (with some difficulties leading to repeated delays).</td>
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Indicators and targets in the documents mentioned above are at country level. Data is available which enables planners to disaggregate some of these targets on a geographic basis (sometimes down to commune level) and following some other criteria (e.g. income group/ quintile). It is acknowledged that this is a necessary step, and that the disaggregated indicators and targets should be linked to resources (both for monitoring poverty outcomes and the cost-effectiveness of strategies and programmes, and for improved allocation of resources). This is another area where more work is required. To date, there are few examples of criteria-based resource allocation/targeting mechanisms. The government-donor Seila programme also uses a criteria-based allocation mechanism to finance provincial investments realized under the authority of the Governors through the Seila PIF. While the PIF is at present primarily donor-funded, government has begun to explore the relevance of allocating some own resources in the same way.

As illustrated throughout the NPRS preparation process, sectors are at very different stages in strategic planning and therefore in linking budgets and results. Table 2 above summarises the situation as regards the sectors that have been analysed more closely in this study (education, health, agriculture/ rural development and Legal and Judicial Reform). A few conclusions can be drawn from the table as regards the use of performance indicators and targets alongside budgets in these sectors:

- Performance objectives are incorporated into sector plans that have been developed by two of the sectors studied (namely education and health). In health some further work is required to identify which indicators are most appropriate. Education already links strategic objectives to operational programmes, which are in turn linked to a costed MTEF. Neither agriculture nor the LJR have yet established a programme framework with programme targets: indeed in these sectors a sector strategic framework needs to be established in the first place.
- Education is probably the most advanced sector in terms of specifying target-based budgets, although this principally applies to the programme-based segment of the sector. In health substantial work is required to make objectives operational. The planning manual is being revised (by year end): this is really the first stage in integrating financial and physical activity. Those responsible for different aspects of the HSSP and meeting targets have yet to be identified.
- Unsurprisingly, more ‘compact’ sectors such as health and education are easier to ‘plan for’ than a sector like agriculture, which involves close connection to rural development, natural resources management, and water management (especially in Cambodia), each of which is under a different ministry.
- Another reason for the more advanced stage reached by health and education in developing sector-wide, performance-based planning and budgeting is the relative strength of their planning capacities compared to other agencies. There is scope for further strengthening, including for linking more closely planning and budgeting capacities and structures, as has been undertaken under the processes of preparing the sector strategic plans and MTEFs.
- In education, where the links between plans and budgets are strongest, an additional factor was the extensive and process-oriented support that they have had over two to three years, un-tied to any specific donor project or programme and focusing throughout on building planning and budgeting capacities. The conditions which have enabled the education sector to use this extensive assistance with success are further explored in Section 3.5 below.
- As had to be anticipated, it is less easy to quantify and to link to budgets broad governance reform processes such as the Legal and Judicial Reform (LJR). However in this case, it is interesting to note that the link is made for specific activities financed through targeted donor assistance.

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26 Such as that from the Demographic and Health Survey (DHS) and the national household census.
27 Exceptional sectoral cases exist for government budgets, project-specific cases and the C/S Fund.
In the case of the LJR we suggest that it is crucial to assess how the reform would impact on existing budgets for activities that the reform intends to strengthen (e.g. regular publication of legislation, construction of courts, increase in the number of judges etc.). To a certain extent the results from the reform would have to be defined by looking forward and agreeing on desirable and sustainable results for the day-to-day functioning of the reformed Legal and Judicial sectors. This would require donors to be willing to undertake this exercise jointly with the government institutions in charge of the reform.

3.2 Process of formulation of targets and cascading targets down

Truly broad-based participatory processes have not been frequently used for national policy development. When they have, they have often focused on central level stakeholders. Policy consultation (and joint monitoring) with donor agencies and NGOs represented at the centre happens through the CG mechanism (see Chapter 2) and at sector level to a variable extent. As outlined in Table 2, stronger and more formalised partnership arrangements have emerged in some sectors. However, this is not the rule to date; neither is systematic consultation with the public and with de-concentrated administrations.

The NPRS has performed better but it has not entirely escaped this weakness. Whilst the preparation process has been very inclusive at central level (more so than any other so far), provincial and commune level authorities have not been consulted in a structured way. Some consultations took place on sectoral bases or in selected provinces, usually on specific issues. Steps are being taken to address this weakness. Nevertheless, owing to tight time constraints for finalisation of the NPRS³⁸ this has remained limited, and more work on consultative target setting will have to take place under the ‘next steps’ agenda. The NPRS 2003 action plan includes for instance a workshop which will discuss the consistency of SEDP II and NPRS with commune and provincial investment plans.

Beneficiaries – the poor – have been consulted to the extent that the NPRS has incorporated the qualitative results from a recently completed comprehensive Participatory Poverty Assessment (ADB 2001) which was also used to finalise the SEDP II. More generally there are numerous NGOs working at grassroots level. In some sectors it has become regular practice to consult them or analyse what their programmes and results ‘tell about the grassroots beneficiaries’ preference’, with the well-known dangers in terms of representativity.

At the sector level and when it comes to target setting (as opposed to mere consultation), national and provincial processes for planning are generally not well articulated. While there are cases of good practice (some of which are important both, in terms of policy lessons and financially) there is no government-wide framework. As a result, sectors adopt various modalities which are not always consistent with each other at either central or provincial levels. As can be seen in Table 2:

- Health and education emphasize vertical links between de-concentrated and central administrations. They focus mostly on vertical (sectoral) accountability for national targets (as often at early stages in SWAp-like processes which first strengthen central policy development capacities). This trickles down from planning / prioritisation to budgeting, at least for resources mobilised from within the sector.
- By contrast, the Seila programme (multi-sectoral in intent but focusing on rural development) stresses the importance of strong horizontal and cross-sectoral provincial decision-making processes and structures.

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²⁸ E.g. provincial Governors attended the national workshop organised to review the 2nd draft NPRS (12th November).
²⁹ The deadline of end 2002 (fixed by government itself) was mostly motivated by the timetable for the preparation of the next IMF and WB budget support operations (PRGF and PRSC), inevitably tight as current operations are coming to an end.
Table 1 (Chapter 2) further illustrates that accountability at sub-national levels is fragmented. Although the table focuses on financial accountability the same comment applies more generally, in terms of accountability for results and personnel performance.

For sectors where a strong national framework is in place or developed, the challenge is to define how the vertical processes being put in place or strengthened can both take advantage of and support horizontal ones (e.g. commune and Seila provincial planning, multi-sectoral horizontal accountability). This demands that truly integrated sector frameworks be developed. This would enable the planning of all resources available for a specific sector at provincial and other decentralised levels and which would include a process of definition of targets cascaded down to facility level.\(^3\) This requires considerable streamlining of provincial priority setting and planning and budgeting modalities, and attention to be given to ensuring adequate convergence between local and national priorities and targets.

In the long run, underpinning this there should be a clearer de-concentration framework. This would also tackle the issue of dual accountability of the provincial line departments (to their line ministries and to the provincial Governor). In the medium term it may be more appropriate to adopt an ‘organic’ approach, leaving to sectors the discretion to experiment on solutions in partnership with the provincial authorities.

Horizontal accountability mechanisms are generally under-developed in the public services, be it for government-wide national development policies or at the facility/ service provider level. Examples of good practice or practices being enhanced can be found mostly in education and health (See Table 2 above). The LJR also stresses the importance of transparency in various processes in order to enhance government accountability to the public. There are encouraging signs (e.g. broad consultation process for the drafting of the Fisheries Law, TV broadcasts of Assembly debates) but also signs that this is generally still insufficient.

The establishment of the elected Commune Councils provides a major opportunity. Mechanisms articulating ‘provincial priorities’ and commune plans are clearer than at the central / provincial juncture (thanks to the joint MOP/ MOI regulations on the commune participatory planning process). Commune Councils (which have access to un-earmarked local development resources through the C/S Fund from 2002) are legally accountable for organising a broad, village-based participatory planning process, the result of which is discussed and integrated with other local plans (provincial plans, donor projects, NGO support) at a district integration workshop.

The process is complex and will require substantial capacity building before it could be said to be effective in most CCs, but it has a strong policy backing. The pace at which the potential opened up with the communal elections can be realised (in terms of stronger involvement of beneficiaries in local target setting and monitoring) depends on several complex factors. These include (i) the willingness of sectors to consider this as part of the sector development and (ii) the pace at which commune-level capacities will be strengthened.

There also remains the outstanding issue of the desirability and feasibility of a more direct involvement of beneficiaries in target setting, and of direct service provider–community accountability mechanisms (also See Section 3.4 below). The establishment of the CCs should not be an excuse for not setting up and / or strengthening such direct mechanisms in a more systematic manner.

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\(^3\) In Annex 1 we argue that there is a need to “localise” the ESP and ESSP strategies, programmes and desired results, and that MOEYS and provinces should jointly disaggregate the agreed sector performance indicators on a geographic basis.
As regards the realism of target/performance costing, it is important to recognise that costing is still at a rudimentary stage across the public sector. (Once again, this has been highlighted throughout the NPRS preparation process). Health and education ministries were required to develop medium term estimates for the MTEF. In health, however, these are based principally on extrapolated expenditure by programme area rather than costs, and in education more work would be required to improve the cost basis of existing programmes. In health the difficulty is compounded by insufficient information on external financing and under-reporting/uncertainty on user charges and other out-of-pocket payments by families, which may lead to under-estimating actual costs of delivering services. In education the initial unit cost calculations would need to be re-done to include the additional and more accurate information on external financing which has become available.

Similarly it is too early to say much about target adjustments in the case of altered financial allocations. In the first place, mechanisms for rolling targets forward together with the financial timeframe have to be strengthened in the case of MOEYS, and more firmly established in the case of MOH.

3.3 Nature of incentives and rewards for achievement by service providers

Cambodian civil servants are in the paradoxical – although not uncommon – situation in which ‘lucky’ ones get more work together with a salary supplement (often with some form of performance appraisal) from a donor project, while ‘unlucky’ ones get a government salary which is for most totally insufficient to sustain their family, but for which much less work is required. Given the low salaries moonlighting is regular and generally tolerated and the (notional) civil servant performance evaluation system for pay promotion is not consistently applied across sectors. Until recently, there was really no reason for aiming at performance since pay promotion was de facto more or less automatic.

The low salaries are a major cause of inefficiencies and low productivity in service delivery. They also generate the more or less generalized practices of ‘charges’ which prevent the poor (or certainly the poorest) from obtaining access to these services. Moreover, even formalised user charges systems encourage non-optimal behaviour of service providers who will favour services that individuals are willing to pay for rather than socially optimal services. In sectors such as health and education with a large decentralised work force, there is the additional difficulty of deploying staff in remote and difficult areas of the country (areas which are also usually the poorest and where the potential for formal or informal additional payments is also lower) in the absence of a compensation/incentive package.

The National Programme for Administrative Reform has begun to address some of these issues through (i) a government approved pay reform strategy (2002-06) which will approximately double the average salary over five years (although this will still be lower than what many secretarial jobs pay in the private sector); and (ii) the establishment of special schemes for selected groups of staff. First elements of the revised system have been put in place in May 2002.

The pay reform is criticized as inadequate and the government has stated that it would study how it might be accelerated. This is to take place after the national elections of 2003, as it would inevitably require considering options for further rationalisation of the civil service. There is an element of performance-based pay promotion in the revised pay system but this has yet to be outlined and legislated (and will concern functional allowances only).
The special schemes are restricted to (very) small numbers of civil servants, through function-based schemes (e.g. the ‘AA’ category of senior officials) and mission-based schemes (Priority Mission Group). With the PMG, the government legitimises, under CAR management, substantial rewards for special performance of a small number of individuals recruited to work in teams on time-bound tasks deemed critical for implementing government reforms. Donors are invited to contribute in the form of training, equipment and even contribution to payment of the additional remuneration.

Both donors and government agencies have mixed reactions with regard to the relevance of the PMG. One concern often expressed is the lack of an ‘exit strategy’ which would re-integrate the PMG within the mainstream process of raising and reforming pay. This is of course related to the point made above about the need to find ways of accelerating the mainstream reform. In our view, the PMG is an illustrates the fact that NPAR reforms have so far concentrated on the ‘back office’ functions (for which it may make sense to adopt general / centralised systems together with small-scale, selective schemes) and have neglected service delivery functions. While it may be well-intentioned to leave this to line agencies due to the technical nature of the functions, the reform does not in reality leave these agencies much scope for manoeuvre.

Another critical weakness is in the continuing uncertainties surrounding the pay reform. This uncertainty is illustrated by, and due to, the fact that it is not budgeted for. Although the medium term CAR pay reform strategy has been approved by the Council of Ministers, annual salary increases continue to be decided annually and outside of the budget / MTEF preparation process, as has traditionally been the case. In this context, sectors in which staff motivation and performance (or simply regular provision of services) have become critical factors for the success or failure of the reforms have to find alternative ways of filling the gaps left by the NPAR.

Table 2 above outlines how this is addressed in health through regularizing user charges, contracting-in/out health services, and exploring the possibility of PMGs for critical initiatives (e.g. implementation of HSSP support project co-financed by ADB, WB and DFID). In education, Table 2 describes how these issues are addressed through the PAP1 (re-deployment of staff and performance-based incentive payments for staff posted in remote and difficult schools and for staff having critical responsibilities), and through exploring the potential for harmonization of donor-financed output-based payment schemes for administrative staff in the context of annual capacity-building departmental plans.

It is worth noting that, under MOEYS pressure, the government has agreed to maintain a differential in favour of teaching staff through a considerably higher functional allowance (relative to staff with equivalent qualifications in other functions in the sector, and in other sectors). Conditions are such that it becomes now possible for MOEYS to consider taking action on informal charges levied by teachers in cities. However, it remains difficult to do so given the uncertainty surrounding government decisions on future pay rises.

The rather different, but innovative, approaches in health and education have no equivalent that we know of in the other sectors studied. In the agriculture / rural development sector, the Seila programme is a model of efficiency in achieving the results defined for the programme: but it also serves as a critical illustration of the difficulty generated by incentive schemes which create distortions which cannot be accommodated in the foreseeable future in the current pay reform strategy. The welcome recent decision of the government to increase the earnings of judges illustrates the dilemma for a programme like NPAR. While the level fixed for the judges’ functional allowances is certainly high compared to all other such allowances, many doubt that it will be sufficient to effectively curb corruption in this profession.

31 The scheme is intended to include 2500 civil servants amongst the 160,000 plus of the total civil service.
As a conclusion we suggest that (i) providing more scope for line agencies’ decision-making on personnel management policies, including remuneration, may well be a better alternative than the current rather centralised approach and (ii) that the MTEF may provide the instrument for this, if line agencies were to be given the responsibility and the power to allocate resources available for the sector in line with appraised and agreed policies (including for personnel); and (iii) it is crucial to closely monitor all payment incentive schemes in order to verify their effectiveness in raising personnel performance. This should include an appraisal (stock-taking) of the benefits of those already in use.

3.4 Monitoring performance and independent scrutiny and verification

As outlined in Chapter 2 there is little scrutiny of policies by the Legislature. There is even less scrutiny of results, except for the annual Budget Settlement Law – which is now to be accompanied by the independent opinion of the National Audit Authority. Causes for this include the lack of mechanisms, and the weak capacity of the Legislature owing to the weak capacity of the technical staff attached to the Assembly and the Senate.

Similarly, opportunities for the civil society to scrutinize the results of government policies are relatively limited, as is the capacity to perform this role. The press offers a broad and mostly free coverage of government activities, with the limitation that it is not yet easily available throughout the country. The use of web sites (e.g. those of CAR or MOEYS) is rising, and urban (mostly Phnom Penh) citizens have access to information centres opened by donor agencies and private or semi-private (often donor-sponsored) institutes such as the Cambodia Development Resource Centre (CDRI). Trade unions (e.g. teachers, garment factory workers) focus on their core sectoral interests and so have a limited scrutiny role. The Chamber of Commerce (in Phnom Penh only) has some way to go before being able to monitor the impact of government policies on businesses.

At the executive level there have been few mechanisms for broad monitoring of government policies. Monitoring of SEDP I was not very effective and it is not clear that the mechanisms outlined in SEDP II will do better. In Chapter 2 we noted the existence of the CG monitoring mechanism. This has improved year on year, but its effectiveness is limited by the highly political or diplomatic content of the discussions. Previous sections of this report point at the limited effectiveness of the Council of Ministers as a forum for policy debates. As a result, exercises such as the recent IFAPER are considered by individual government agencies to be of equal importance and may in this way influence policies, more a result of these agencies taking up issues (or not) than of concerted decisions taken collegially by the government.

The NPRS outlines an elaborated monitoring framework integrating broad poverty outcome monitoring and line agencies’ monitoring of strategies and ‘actionable measures’. Considerable work has gone into identifying how existing instruments such as the decennial census, the Demographic and Health Survey (DHS) and Cambodia Socio-Economic Surveys and other multi-sectoral data collection will feed into NPRS monitoring. Work is continuing and hopefully it will also focus on ensuring that the integration with line agencies’ information systems is effective and efficient, and that these systems are adequately strengthened. The importance of policy and operational information being made broadly available (including for sector policy work) should be further stressed in the NPRS.

32 The exceptions are the annual Budget Law, the Five Years Development Plan, and Laws which act as policy platforms (e.g. investment, land, forestry).
33 All WGs have now developed monitoring benchmarks agreed upon with their government counterparts.
Considering that the NPRS is clearly the result of hard work by (some) ministries, there may indeed be an opportunity for making its monitoring more effective. There is also some awareness of the importance of streamlining NPRS and CG monitoring, and of taking into account processes which may be established at a later stage, e.g. around the ‘localised MDGs’. Further pursuit of (cost-) efficiency and effectiveness in result monitoring is a responsibility shared between both the government and the donor agencies which support the various processes which are to be streamlined.

Within this context, two of the sectors studied (health and education) have proposed innovative mechanisms for joint monitoring of progress of their sectoral result frameworks at all levels (see Table 2). This is particularly true of the education sector, which is farther advanced in implementing the ESSP. Joint monitoring mechanisms in these two ministries includes annual joint reviews of sector performance reports\(^{34}\) and of revised / rolled-forward programme and financing frameworks (based on the sector MTEFs). There are plans for this to be informed by provincial performance reports in the near future.

In these two sectors administrative monitoring and supervision mechanisms and information systems are at various stages of development. The current relative weakness in terms of limited availability of financial return information in education is now the focus of the ministry’s intensive remedial efforts, with facilitating technical support and dedicated budgets assured. MOEYS is also the only government agency to date to have established an internal audit function in compliance with the new Audit Law. Technical support is readily available to assist the unit over the following one to two years.\(^{35}\)

In the education sector the requirements arising from the joint MOEYS / donor monitoring process have shifted incentives towards improved information management, in a direction which facilitates result-based management. At central level especially, there is a growing demand for information and an increasing awareness of the effectiveness of good information and analysis in enhancing policy making and programme implementation. The Ministry has started to develop a capacity to design and implement targeted surveys to help monitor the links between programme outputs and strategic outcomes. It has also started linking education information with available cross-sectoral data in order to monitor the extent to which the ESSP is really pro-poor. Appropriate support and carefully designed plans for further decentralisation can help to further change incentive frameworks at sub-national levels, and to address critical needs for improved management capacities at these levels.

In several sectors there are small-scale mechanisms (most often not yet generalized) for horizontal accountability at service provision level (e.g. health management committees, water users’ committees, school community involvement in PAP financial management). These generally would need further strengthening: a stronger regulatory basis is needed at an early stage if they are to become part of the government policy for the sector (as is the case for the examples cited for health and education).

One outstanding issue related to result verification for sectors like education and health is the lack of a clearly articulated post-audit framework. In addition (as noted in Chapter 2), while it makes sense to measure results whether or not budgets are properly executed, it is impossible to hold managers accountable for the lack of results or assess programme cost-efficiency when budget execution is not reliable. In other words, the effectiveness of result-based management is more

\(^{34}\) In health there is the danger of confusing the monitoring of the HSSP as a whole on the one hand and the monitoring of the ADB-WB-DFID project in support of the HSSP on the other. It is also not clear that the HSSP is meant to be a rolling framework.

\(^{35}\) Surprisingly it appears that the three like-minded donors who will jointly support the HSSP have no plans to assist in this area, beyond the limited support in place through an ADB-financed TA straddling the NAA, MEF, MOEYS and MOH.
limited in such a context. It will also be crucial to pay sufficient attention to issues of capacities and incentives for the proper operations of information systems and to ensure that there are effective mechanisms for policy take-up of the lessons learnt through these systems.

3.5 Role of donors

The question of the role of donors has been partly addressed in previous sections and chapters. To summarise, there is in place a structure – comprised of the CG WGs and the CG meeting platform – for a structured dialogue on government reforms. It might be desirable to further open up this structure to more direct involvement of line agencies. We have also stressed the responsibility of donors to avoid costly redundancies through overlap of broad monitoring mechanisms (NPRS, MDG, SEDP II) and to help government address sustainability issues (as in the LJR strategy).

With regard to prioritisation, our sectoral studies have outlined cases in which the alignment of donor priorities with government policies and /or their support to government processes can be further improved. This includes the case of the NPRS preparation process, regarding which it is important that government and donors discuss how to mitigate the risk of this continuing to be the case for the next steps. Other cases relate to on-going reform processes. A notable example is the coexistence of TCAP (financed by IMF, ADB, DFID, UNDP and the Netherlands) in parallel to recently approved WB credit for ‘Economic and Public Sector Strengthening’: both of which are intended to support the government economic and fiscal reforms.

As is often the case, the responsibility for sub-optimal donor coordination is shared. Weaknesses on the side of government include (i) lack of clear leadership at the appropriate seniority level; (ii) fragmentation or unclear demarcation of responsibilities amongst government agencies and / or Reform Councils;36 and (iii) inconsistency in policies (e.g. MAFF and MRD implementing vertical rural development projects while operating simultaneously as members of the Seila Task Force). These would clearly always limit what donor co-ordination might achieve.

In health there are still questions related to donor alignment with the HSSP, and the risk that HSSP could be seen as mainly a vehicle for the assistance of three donors through fairly conventional modalities which ‘avoid’ the difficult pitfalls of using some of the government systems. There are also unresolved questions on the position of donor agencies (e.g. USAID) which have been less closely associated with the development of the HSSP and have a tradition of operating outside of the government structures.

In education we have outlined in previous sections how one key role that donors have had and will continue to have in the ESP/ESSP process is the support provided to enhance the Ministry’s capacity to lead the process (including making available a substantial amount of technical assistance). However, the determining factor for the achievements to date is the direction of this assistance under the leadership of the Ministry’s senior management. The second determinant factor is the trust displayed by donor partners from a very early stage in providing ‘untied’ technical assistance. Another important factor was the attention paid to change management processes in the emergence of new relations between the Ministry, the donors and the NGOs. This included the formalisation of the partnership in a step by step approach and the responsiveness of both donors and NGOs to the need to better organise themselves in order to be able to participate more meaningfully in policy dialogue.

36 Table 2 shows for instance overlapping mandates for MAFF, MOWRAM, MRD and MOE. Another example is the lack of clear institutional arrangements for the LJR.
Although there are aspects that need improving in the MOEYS/donors/NGOs partnership (e.g. a clearer role for the NGOs), it has brought undeniable benefits in strengthening the ESSP sector policy, result and financing frameworks. In health the HSSP provides a critical opportunity. Taking maximum advantage of it may well require more attention to change management processes and dialogue on expectations, both between donors and MOH and amongst the donors. Because of the weaknesses outlined above it is less clear how potential opportunities can be taken up in the cases of agriculture / rural development (as seen in the NPRS and existing examples of joint donor prioritisation) and of the LJ(R (draft strategy finalisation process).
Chapter 4: Conclusions

This final chapter will firstly outline to what extent the findings and analyses in the previous chapters support the hypotheses proposed in the TORs. Secondly, this chapter draws out a few lessons learnt from Cambodia and compares these to those emerging from other countries and from donor agencies which are stakeholders in similar processes of public expenditure management reforms oriented towards more effective poverty reduction.

4.1 Are the study hypotheses confirmed?

The set of hypotheses which have guided this study follow a logical sequence. This can be summarised as follows:

- Is it true that the Cambodian government (a) has already adopted a number of performance targets relevant to its poverty reduction goals; (b) has translated these into medium term sectoral performance objectives; but (c) has not satisfactorily costed targets, or operationalised targets by line managers, so that resources allocated are inappropriate to results sought. The Government (d) has been distracted from the pursuit of results by the priority given to the need for macroeconomic stabilisation and aggregate public expenditure control, (e) pursues policies that are inconsistent with or inimical to the announced poverty reduction objectives, (f) gives little or no guidance to frontline service providers on the results expected from them and (g) has public expenditure auditing practices that still pay little attention to results. It (h) gives rather superficial political and parliamentary scrutiny to the causes of performance below expectation and is reluctant to hold those responsible to account and (i) still has considerable way to go in monitoring implementation and outputs of expenditure programmes which (directly or indirectly) support poverty reduction objectives.

These hypotheses are successively addressed below.

(a) Cambodia has already adopted a number of performance targets relevant to its poverty reduction goals – Broadly yes.

Setting nation-wide poverty reduction targets has been a major challenge, addressed during the preparation the National Poverty Reduction Strategy. The NPRS includes a comprehensive set of poverty reduction-related indicators across all sectors. Targets exist for some and are being set for others, based on pre-existing targets when this is possible and with a focus on those targets which would make the most difference to the poor.

With regard to relevance, there are wide variations in the nature of the NPRS strategies and priority public actions and therefore, in the nature of what is used as performance benchmark. Depending on the sector, this range of strategies may include all or only some of following categories: (i) targeted interventions for targeted groups (e.g. scholarships), (ii) focusing of un-targeted subsidies to a sub-sector or type of services most used by the poor (e.g. focusing public funds on basic education), (iii) economic growth promotion measures (e.g. facilitating the development of higher education) and (iv) systemic strengthening of institutions involved in sector management (e.g. the development of legislation or regulatory frameworks, information / knowledge systems, etc.).

Another issue related to the relevance of the proposed targets is that the knowledge and understanding of causal links (between goals / final outcomes, policy, intermediate outcomes, programmes and outputs, service activities and inputs) is still limited in most sectors, although
growing in a few (primarily social sectors). Examples of this limited understanding of process linkages is apparent in several of the NPRS sections.

(b) Cambodia has translated these into medium term sectoral performance objectives – To different degrees, ranging from considerably to not at all.

There are few sectors which have a recognised sector strategic plan (i.e. a plan used by a critical mass of stakeholders as a planning and priority-setting framework) accompanied by an overall programme framework with a cascade of medium term performance objectives. Such a situation does prevail in one of the sectors studied, namely education, where the ESSP is in place for the second year and links strategic objectives to programmes which are in turn linked to a costed MTEF. One challenge for the education sector is to localise programmes, strategies and results as well as strengthening local horizontal accountability patterns at provincial and commune levels. The concept of provincial ESSPs might be a vehicle to further explore how this could take place.

Health now has a strategic plan (launched August 2002) and a number of programmes are in place. The challenge is to identify which indicators are most appropriate to each sector programme. Neither agriculture nor LJR sectors have yet established overall strategies (in spite of having ‘priority action’ targets in the NPRS matrices). An overall strategy is being prepared for LJR (with difficulties). The agriculture sector has been fragmented in terms of policies, strategies and operational modalities for programmes. The NPRS process may be an opportunity to start redressing this, using the action matrix as a platform for further policy and strategic planning work.

Unsurprisingly, SWAp-like approaches have been easier to develop in more ‘compact’ sectors such as health and education. The role of public services in these sectors is also easier to define than in agriculture (and other sectors not studied), and less controversial. These are also ‘poor’ sectors relative to the productive sectors, i.e. powerful vested interests have less at stake in these sectors than in any productive sector (the EU CAP is a case in point). Given Cambodia’s current stage of development the role of the state in the social sectors is quite directly related to service provision: as a result, the public services are to some extent in a better position to influence outcomes. The link between results and public funding is – or should be – easier to make.

We also suggest that comparatively stronger planning capacities supported by technical assistance have been crucial. These have helped to set out sector strategies of a quality which was acceptable to donor partners. In education two factors have helped to make this possible whilst simultaneously strengthening government leadership in the approach: these are (i) the provision of ‘untied’ technical assistance and (ii) the initial and continuous leadership of the Ministry’s senior management who were active in directing the assistance received.

(c) Cambodia has not satisfactorily costed targets, nor has it operationalised targets by line managers, so that resources allocated are inappropriate to results sought – There are other reasons perhaps more important to explain why progress in this is slow.

Costing is at a rudimentary stage across the public service. Costing exercises have taken place, with mixed results, in the majority of the sectors for the preparation of the NPRS. Government management systems have traditionally relied on centralised decision-making responsibility so that

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37 Although the role of the public sector perhaps should be regarded as more controversial in these sectors: there is a pressing case for making regulation of the quality and cost of private sector providers, who absorb the great majority of total health spending in Cambodia, more central to MoH strategy.

38 Seventeen out of the thirty-one Action Matrices were costed in the second draft circulated for discussion early November 2002.
the concept of line managers used not to go deep within agencies’ structures. There has traditionally been little use of targets (or more loosely defined results to be achieved) in the day to day management of services. There are regulations related to hours of services (e.g. minimum teaching workloads in education) which are often not complied with for reasons related to low salaries and lack of incentives.

Both education and health have medium term estimates for the MTEF. In health however these are based principally on extrapolated expenditure by programme area rather than on costs, and those institutions and structures responsible for different aspects of the plan and for meeting targets have yet to be identified. Education is probably the most advanced sector in terms of specifying target-based budgets, although the programme-based part of the budget does not yet cover the whole sector. Institutions and individuals responsible for achieving output results are identified, and work planning is becoming a norm for management tasks. More work may well be required for more qualitative targets and their translation into simple individual performance standards.

Better costed programmes / targets and identified line managers may not suffice to guarantee appropriate resource allocations. Other fundamental issues include: (i) fragmentation of funding and, with it, (ii) fragmentation of processes and of agencies responsible for resource allocations (external assistance/ government budgets; recurrent/ capital budgets; personnel/ other budgets; national/ provincial processes).

The MTEF has the potential to address issues of mismatch between resource allocations and results, if a number of conditions are met. These include (i) it is able to achieve its declared status as the instrument through which the government collegially assures funding for existing policy commitments and considers and decides on trade-offs between well-documented proposed new policies and priorities; (ii) measures are taken at policy and technical levels that enable this to happen (including strengthening the procedures for review of the budget and MTEF by the Council of Ministers; focusing on institutionalisation and rationalization of processes; and clarifying the status of existing ‘policy commitments’ such as the pay reform); (iii) line agencies are provided with clear and consistent principles to guide them in the preparation of their submissions and policy proposals; and, finally, (iv) line agencies are given more discretion on the balance between types of expenditures (e.g. recurrent / capital and personnel / non personnel), within the context of appraised and approved policies.

The case of education demonstrates the effectiveness of a SWAp-like approach supported by an MTEF-like financing framework in reducing funding and decision-making fragmentation and thereby making resource allocations increasingly consistent with results sought. Its effectiveness relies in part on the establishment of a strong partnership with donor agencies (allowing strengthening of the accuracy and budgetary transparency of the sector financing framework), which it has proven beneficial to formalise step by step.

The institutional fragmentation, incomplete donor coordination and policy inconsistencies affecting the agriculture and rural development sectors offer a strong contrast. The difficulties affecting the finalisation of the LJR strategy belongs mostly to the first category of issues mentioned here (institutional fragmentation and disputed leadership). However, these difficulties are no excuse for donors to fudge sustainability issues in designing programmes of support to the upcoming strategy. The need for a broader conceptual design of the strategy which would fully outline the financing requirements of the reform has taken too long to emerge as an issue to be tackled in the preliminary draft of government GAP2.
(d) Cambodia has been distracted from the pursuit of results by priority given to the need of macroeconomic stabilisation and aggregate public expenditure control – Not as such: the problem is systemic, inappropriate systems and structures stifle reform.

Over the past five years the government has been successful in restoring macroeconomic stability. Real GDP growth averaged 4.1% from 1995 to 2000 and 5.25% in 2001, and inflation has remained subdued since 1998. Despite these trends, the economy remains susceptible to periodic shocks. Domestic revenues have shown a steady increasing trend, with nevertheless cases of shortfalls compared to annual targets. At the same time, the government has adopted a policy of expenditure restraint, maintaining a small current budget surplus since 1996, and it remains committed to a policy of avoiding bank financing of the budget deficit. Nevertheless, domestic resource mobilization is well below the regional average and there is considerable pressure on public spending, not least from the low levels of public pay and spending on key poverty reduction services.

Government has sought to gradually increase the share of budget resources allocated to social sectors whilst reducing allocations to defense and security, with considerable success over the past five years. Simultaneously, achievements in terms of macro stabilisation have relied on a very conservative expenditure policy, and this has translated into a strong centralisation of decision-making powers in the spending chain. This is one fundamental cause of slow budget execution: it has also moved attention away from the purpose of the spending. In order to change this situation, different sets of issues would need to be addressed, including: (i) regulatory issues (as many aspects of centralised execution are enshrined in the existing legislation and successive regulations have strengthened this characteristic over time); (ii) institutional, system and capacity development; and (iii) ‘incentive’ issues, including the desire to maintain a system which offers opportunities to easily supplement low salaries.

The centralised budget execution system combined with poor cash management means that cash disbursement within the year has been extremely slow for all sectors. Back loading has become a regular phenomenon with most spending occurring in the last few months of each year. Though the extent of the problem varies between different sectors and categories of expenditure, this is a generalized issue which has not been redressed, or has been redressed to only a limited extent, by the introduction of the PAP in pilot ministries (including education and health). To relate this point to the previous one, budget allocations may be appropriate but this alone may not guarantee that spending will be. Thus, the characteristics of budget execution significantly reduces the effectiveness of planning and attempts to monitor targets.

Furthermore, a vicious circle appears to have been created in the case of the PAP: it has evolved from a rather hastily designed and isolated measure into an unclear / underformulated operational framework, making it difficult to strengthen capacities and procedures. This makes managers uncertain of their powers and has undermined their confidence in using the system. This is an important lesson learnt, and now needs to be addressed.

(e) Cambodia pursues policies which are inconsistent with or inimical to the announced poverty reduction objectives – Policy changes are multi-faceted and some may have to wait to become more politically acceptable.

Giving an affirmative or negative answer to this question would presume that there is sufficient clarity on which policies and strategies are most appropriate to reach poverty reduction objectives. This is never fully the case. Even in sectors – such as health and education – which have made significant progress in policy analysis and development, there remain difficult questions related to
the appropriate balance between the categories of strategies outlined above (targeted interventions, subsidies to services most used by the poor, economic growth promotion measures and systemic management changes). In the health sector, such questions include defining the appropriate use of user charges; in education, they include the relevance of focusing large sums of loan assistance on the development of higher education.

There are successful examples in education of good information and support to policy-oriented data analysis leading to both the refinement of broad pro-poor strategies and the re-orientation of more specific operational policies in order to enhance their impact on the poor.

There are however also clear examples of policies for which causal links are known and are known to be inimical to poverty reduction objectives. In the agriculture sector, these would include subsidies to rubber plantation; in the forestry sector, provision of an inadequate period of consultation for logging concessions’ development plans to be appraised by communities raise questions. Several of the budget policies fall under the same category, including the policy of centralised procurement, which is inimical to small suppliers and contractors.

The prevailing low level of civil service salaries may well be considered as such an inimical policy. This is a major reason for the emergence of charges (directly affecting the poor) and a significant cause of technical inefficiency and low levels of productivity (‘stealing’ money away from more productive, pro-poor uses). This (and other examples cited above) raises the question of whether certain pro-poor policies are politically unacceptable. The government has stated that it cannot simply increase salaries to an acceptable level given prevailing constraints, which have to do with economic growth, revenue collection level and the ‘historic’ size of the public administration. It is to be hoped that this position would be reviewed after next year’s elections so that it is possible to explore options to accelerate pay reform.

(f) Cambodia gives little or no guidance to front-line providers on the results expected from them – The shift to decentralisation/de-concentration has the potential to change this, but it would need better coordination.

The process of de-concentrating/decentralising the planning process is not well articulated on a government-wide basis in the case of the former, and at very early stages in the case of the latter.

Different approaches co-exist with regard to provincial planning, across sectors and even within a sector. In health and education, provincial departments are given resource envelopes within which to plan, although planning and budgeting modalities are not consistent for all types of budgets within a sector (e.g. PAP, non-PAP and personnel in education). Moreover, it does not seem easy to fit an annual provincial planning cycle within the annual budget cycle. In these sectors it might be best to move progressively towards multi-annual provincial planning. Further work would be required in the two sectors (health and education) to disaggregate national performance targets into provincial targets, and to help provincial authorities (line departments and Governors) to develop provincial-level integrated plans for a sector. Work is planned to help them prepare provincial performance reports.

Further guidance to provincial and other decentralised managers is thus needed. This will involve (i) training and capacity building; (ii) system and procedure development and (iii) partnership development (so that there can be convergence between national sector priorities and provincial priorities). The first two aspects are addressed in the ministries’ plans; the importance of the third aspect is beginning to be much better understood. However, better provincial planning and budgeting will not be enough on its own. Irregular disbursement of funding is particularly severe at
provincial level: service providers are thus rightly sceptical about assuming responsibility to perform against targets when they cannot rely on a predictable and timely flow of resources.

For sectors which have clearly defined national priorities and targets, the establishment of elected bodies at commune level is both an opportunity (for stronger involvement of beneficiaries in local target setting and monitoring) and a challenge (as it would require the involvement of commune authorities in the development and review of the sector policies so that there can be local ‘buy in’ to these policies). This is also better understood in some sectors than in others.

**(g) Cambodia has public expenditure auditing practices that pay little attention to results – This has been the case and it remains to be seen whether the emerging commitment to change will be sufficiently strong. Changes would require time.**

The auditing system of government is still based on the pre-audit of spending and is not well suited to providing post-audit of expenditure and performance. Although the PAP mechanism is a post-audit system, the mechanisms for control are still under-developed, leading some to argue that financial control has actually deteriorated under PAP. Better post-spending financial control systems within ministries and across government is needed, together with a system for the audit of performance. The move from pre-audit to post-audit modalities cannot be completed successfully in the absence of an action plan which sequences simultaneous measures to be taken in three dimensions (namely, institutional, system and capacity development).

MEF commitment to the move to post-audit systems, implicit in the MTEF emphasis on results, has so far been confined to senior management and not translated into practice. The move would have profound institutional implications within MEF (in terms of shifts in departments’ role, functional focus and skills required). As described above, basic systems (treasury operations, cash management and information management tools necessary to improve these) have to be strengthened to make result verification meaningful.

The analysis of the IFAPER conclusions and the negotiations of the upcoming PRGF and PRSC will be key tests of the government’s resolve to enhance the public finance management reforms. Such commitment would require articulating a comprehensive and structured programme and clarifying the institutional framework for its implementation.

**(h) Cambodia gives rather superficial political and parliamentary scrutiny to the causes of performance below expectation and is reluctant to hold those responsible to account – This is broadly true, and would have to be addressed if performance based systems are not to fail.**

There are issues concerning the lack of capacities and mechanisms that need to be addressed in order to enable more and better-informed scrutiny by the Assembly and the Senate. Progress in this direction (e.g. NAA opinion on MEF budget execution report) needs to be pursued and accelerated. The legislature would also have to be involved more closely in ex-ante scrutiny of government policies and targets (note the lack of involvement in NPRS preparation).

At the executive level the problem is partly that there is a lack of mechanisms for policy review (there is no system of ‘cabinet paper’ or ‘policy paper’), but also that other agendas tend to dominate debates. Institutional fragmentation of mandates prevails in some sectors. This appears to be aggravated rather than solved by the creation of an infrastructure of inter-ministerial Reform Councils which operate in parallel to the regular government mechanisms (IMC and Council of Ministers) with no formalised or systematic mechanisms for inter-connection. As a result, it is
unclear when a decision taken within either one of the two systems does effectively represent an obligation of performance for which adequate resources will be provided.

At the technical level, we have underlined that it is difficult to hold managers to account when they are not given the degree of discretion (e.g. over personnel policies) necessary to make decision-making meaningful, and are not given the means to operationalise decisions taken (e.g. approved budgets not forthcoming). This is exacerbated by the fact that they are earning little and (with the exception of selected groups) have little prospect for earning more in the short term.

Two other factors seriously weakening the relevance and effectiveness of ROPE are: (i) lack of clarity in how broad level targets are fixed and the strength of commitment to these targets and (ii) the distorted incentive framework for service providers and their managers (due to current salary levels and the uncertainty surrounding the pay reform).

(i) Cambodia has considerable progress to make in monitoring implementation and outputs of (directly or indirectly) poverty-reducing expenditure programmes – The quantity of data may be less important than strengthening the use of already available data at all levels.

Within all sectors there are clearly data and information gaps. In the most advanced sectors (e.g. health and especially education), the focus is now on strengthening systems and capacities to process information more easily and analyse it more thoroughly. Attention is also given to enhancing progress monitoring (in particular, financial progress monitoring, which is presently weak). Further support will be required, with a need for particular attention to the capacity building needs of provincial and district administrations and to changing the information management incentive framework at these levels through carefully designed plans for further decentralisation.

With regard to government-wide information and poverty outcome information, we would challenge the argument that broadening or deepening the scope of data to be collected is the first priority. Rather, the following three aspects may require immediate attention:

- Broader dissemination of simple information (prior even to a focus on results)
- Better use of existing data (including to disaggregate indicators and targets and to inform policy debates)
- Integration of existing systems, avoiding the proliferation of costly and redundant systems and institutions in charge of operating these.

Donor agencies have a heavy responsibility in supporting this ‘streamlining’ approach.

4.2 Lessons learnt and conclusion

We would like to conclude by offering two suggestions (lessons to be learnt) which might help address some of the issues raised above and which underpin all other suggestions made in previous sections and chapters. These are as follows:

Most reform processes in Cambodia have paid too little attention to change management and change management processes. That is to say, there is a need to ask how the reforms will be introduced and streamlined or integrated with existing systems; who are the stakeholders and how they would be affected; and what implications the reforms have on existing institutions. There is also a need for dialogue around and transparent management of stakeholders’ mutual understanding
and shared or divergent expectations. This applies for both sector-wide and government-wide policy level processes (e.g. CAR pay reform).

It is particularly critical to address the change management dimension when undertaking to implement the NPRS. In our view this is needed amongst government agencies as well as amongst donors, and between these two constituencies. For this to be meaningful on the government side it may have to wait until the new team is in place after the national elections. On the donor community side, there are no good reasons to delay. The IMF/WB Joint Staff Assessment scheduled for January 2003 could be an opportunity for a thorough dialogue on donor expectations and a platform for a more broadly-based donor assessment.

Change and expectation management processes should also underpin more technical reforms. Although we are well aware of the political dimensions we would include public expenditure management reforms in this category. In our view, a substantial amount of clarification at a more technical level would be possible in the short term on the public finance reforms under way while the broader processes would become clearer at a later stage.

The above may also suggest a new role for the Councils of Reform. These could function as institutions in charge of the change management processes that should accompany government reforms, while reforms would be designed and implemented by the government agencies and responsibility for decisions would be unambiguously assigned to the regular IMC/COM system.

We would also like to suggest four specific responsibilities for the donor community:

- Be clear on their expectations from the government as a community, which requires that there should be mechanisms for donors to manage their own varied expectations and to more clearly recognise agencies’ limitations or reservations. This is critical with regard to the NPRS.
- Following this, take measures to strengthen their own arrangements for better and more collegial dialogue with the government. This has started to happen with the CG meeting process: it should be built upon, and perhaps formalised as it has been in education.
- Raise issues of sustainability with the government at an early stage.
- Raise at an early stage issues of cost-efficiency (including in terms of process streamlining) and ask for clarity in government institutional arrangements. Avoid contributing to the proliferation of un-coordinated and unrelated processes which in turn often aggravate institutional fragmentation on the government side.

By way of conclusion, we would argue that, it is not clear that result-oriented budgeting is possible, or useful or meaningful, when upstream processes (government-wide policy-making and prioritisation) are not clear. It is clear that it is not possible nor meaningful when basic systems (cash management, budget execution procedures, reporting and accounting procedures etc) do not deliver what is expected (reliable flow of funds, accurate and integrated financial information).

One question is whether it is possible that attempting result-oriented budgeting on a pilot basis (as has been done in education these last two years) can exert sufficient ‘bottom up’ pressure to force through reforms in upstream and basic systems. We think that piloting has clear limits. Whereas sector approaches have engendered virtuous circles towards the use of results in budgets within the sectors concerned (and there are prospects elsewhere), for the process to be consolidated the demand for results should originate from one strong central agency, backed by government’s corporate commitment toward management by results.

MOEYS and MOH have certainly been instrumental in stressing the need for budget reforms and in highlighting weaknesses in basic and upstream systems, but the staff in these ministries have grown
anxious about being constantly chosen for ‘pilot programmes’ without a clear view of what the pilots are aimed at, and with no guarantee that the government as a whole is committed to the reforms piloted in this way. In other words, piloting has been useful (though hard on both MEF and line ministries), but further progress needs now to take place in the context of a comprehensive, long term and sequenced perspective. As mentioned above, attention needs to be paid to processes of changes and how they will be managed.

It may be important for government to address directly the question of whether result-oriented budgeting practices could be useful and should be formalised in Cambodia. Our conclusion above is that such practices exist in some ways in some sectors: however, what has been lacking is the recognition that this was not an accident or anomaly. Clarifying the status of ROPE reform would, in a change management approach, require that it is widely discussed at senior management level in government and with the donor community, and that implications (including in terms of political acceptability) would be assessed thoroughly and realistically.

To recall the comments of government officials involved in the LJR, they are not against ROPE, but they were not aware that they had used it (in projects) and they can see the advantages of a more ‘structured’ way of getting budgets for well-defined tasks. In the case of the LJR sector these officials would need support to outline how this could happen for areas of work that are broader than individual donor-financed projects. In education, the next steps would be different and would have to focus on the institutionalisation of the approach at decentralised levels.

Thus, transforming isolated initiatives into a structured reform process does not mean that there exists a blueprint which could be applied in the same way to all government agencies. On the contrary, in its design the long term programme that we advocate above should continue to accommodate the possibility for some sectors to move faster than others. However, one shared pre-requisite would be a guarantee that the broader budget systems would evolve in a supportive way, progressively easing the tensions that have appeared in the most advanced initiatives.
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RGC (2002b) Royal Government of Cambodia Sub-Decree on Creating and Functioning a PMG programme, Council Administrative Reform, Phnom Penh, September.


See additional reference documents in Annexes 1 to 3.
Annex 1: Progress and Constraints in Developing Results-based Public Expenditure Management in the Cambodian Education Sector

1. Introduction

This annex examines the extent to which results oriented public expenditure management has been implemented in the education sector, the problems overcome and the main constraints to progress likely in the future. The section is structured around the following six questions:

- Section 2 - Are priorities clearly stated and are they related to budgets?
- Section 3 - Are information systems and management capacities adequate?
- Section 4 - How well does the planning framework support a results-oriented process?
- Section 5 - To what extent is decision making and funding integrated across the sector?
- Section 6 - To what extent is decision making and funding integrated across the sector?
- Section 7 - How well are staff incentives aligned with programme performance objectives?

It is important to realise that although the sector has made good progress in developing results based management systems this is still at an early stage, and it is also now ‘rubbing’ against broader government system limits. Bearing this in mind, the annex will briefly review the extent to which results based budgeting is actually done. It will mostly focus on the extent to which a framework is in place, together with any shortcomings with the existing structure. It will also identify the challenge that will have to be addressed in further developing result based management frameworks in education.

2. Are priorities clearly stated and are they related to budgets?

Following the regime change after the Khmer Rouge, the eighties and early nineties in Cambodia were a lengthy phase of emergency relief and system recovery in all sectors. Education priorities included the reopening of many primary schools, community-led rehabilitation of facilities, gradual curriculum reform and emergency deployment and training of the teaching service. Adding an additional year of primary education (from four to five years of schooling) was another key step in the early-mid eighties. A sixth year was added in 1997. From the early nineties, with some capacity in place in the government structures, it was possible to increasingly shift the focus to quality improvement through continued restoration of buildings, supply of textbooks, expanded teacher training and efforts to improve end of (lower and upper) secondary education examinations.

The mid- to late nineties confirmed the transition to reconstruction and development. Simultaneously to the preparation of the first Socio-Economic Development Plan (SEDP I) 1996-2000 that sets out the broad government development priorities, the Ministry of Education, Youth and Sport (MOEYS) formulated an Education Investment Plan 1995-2000, which detailed priority strategies, programmes and investment requirements. MOEYS capacity to lead, plan and manage these programmes was gradually put in place, supported by substantial levels of international advisory support and with donor support broadly fitting in MOEYS Plan.

The relatively ‘piecemeal’ profile of the technical and vocational education and training and higher education sub-sectors is partly explained by the uncertain labour market outlook throughout the nineties. Economic growth over this period has been relatively steady\(^\text{39}\) and some service sectors

\(^{39}\) Annual GDP growth rate around or above 5\% throughout the period 1994 – to date, except for the two years immediately following the unrest in 1997. Levels of FDI have never fully recovered since then.
(tourism in particular) are now expanding. The country still lacks of a reliable industrial basis. Most of the (rapidly increasing) population live from subsistence agriculture and fishing.

In the early nineties the international donor community and multilateral agencies helped re-build the foundations of post-secondary education, which included providing resident lecturers at the Royal University of Phnom Penh and the few other higher education and technical institutions. A number of schemes of vocational training were also put in place, many managed and delivered by international NGOs. In the mid nineties MOEYS, with donor support, took a more active role in the TVET sub-sector. Technical and vocational centres were built in several provinces, a National Training Board was established and a Fund was put in place to provide public resources for short term vocational training programmes which was delivered by public, private and voluntary sector providers.

Despite this activity there remained a poor match between graduates’ qualifications and employment opportunities. The quality of higher education had also remained problematic, with resultant negative effects on the quality of teaching at lower education levels. The opening of the country and the growth of the non-agriculture formal and informal labour markets have generated new demands for computer training, accounting, languages etc. As a response to this, recent years have seen private provision of these skills expanding considerably. Moreover, several private higher education institutions have opened their doors over the past three years and attract a sizeable student population, despite high fees in some of them.

Throughout the nineties key programmes such as teacher training and the provision of textbooks to schools were entirely donor financed through a few large scale projects, complemented by a myriad of other medium and small initiatives developed under various modalities of collaboration with the government. The integration of project financing in the education sector was variable, making it difficult to get an overview of the ‘full costs of the sector’ and so to measure results in relation to these.

An overview of the results of the period is given in table 3 below.

Table 3: Sector Indicators 1994-99

<table>
<thead>
<tr>
<th></th>
<th>1996/7</th>
<th>1997/8</th>
<th>1998/9</th>
</tr>
</thead>
<tbody>
<tr>
<td>Primary net enrolment G1-6 90% by 2000</td>
<td>86%</td>
<td>78%</td>
<td>78%</td>
</tr>
<tr>
<td>Primary - 900 hrs p.a. teaching time by 1999</td>
<td>1994 est. 600</td>
<td>553</td>
<td></td>
</tr>
<tr>
<td>LS Net enrollment G7-9 85% by 2000</td>
<td>(97 distortion)</td>
<td>23%</td>
<td>16%</td>
</tr>
<tr>
<td>Gender equity in G1-6 by 2000</td>
<td>44.8%</td>
<td>45.1%</td>
<td>45.7%</td>
</tr>
<tr>
<td>45% female in G7-9 by 2000</td>
<td>37.0%</td>
<td>34.8%</td>
<td>34.4%</td>
</tr>
<tr>
<td>G1-6 rep. Reduce 30% by 2000</td>
<td>(27%=&gt;19%)</td>
<td>27%</td>
<td>26.3%</td>
</tr>
<tr>
<td>85% in G1 complete G6</td>
<td>(97 distortion)</td>
<td>28.2%</td>
<td>32.8%</td>
</tr>
<tr>
<td>65% G9 to pass exam</td>
<td>(97 figure for G8)</td>
<td>35.4%</td>
<td>39.2%</td>
</tr>
<tr>
<td>Education budget up 1-2% p.a. to a min. 15% by 2000</td>
<td>8.6</td>
<td>8.1</td>
<td>10.4</td>
</tr>
<tr>
<td>Basic education (G1-9) recurrent 80% by 1998</td>
<td>(G1-6) 49%</td>
<td>48%</td>
<td>50%</td>
</tr>
<tr>
<td>Literacy 100% (goal, no time specified)</td>
<td>Various estimates</td>
<td>66%</td>
<td></td>
</tr>
</tbody>
</table>

Source: Indicators from SEDP I evaluation for SEDP II preparation (2000). A few other indicators which have been relatively consistently used are also showed.
Additional analyses based on the CSES 1997 and others such as the PER 1998 made it clear that the benefits of public spending on education were disproportionately focused on the wealthier sections of Cambodian society. Due to a combination of supply and demand factors including lack of schooling opportunities in remote and some rural areas, direct costs to families (e.g. various forms of fees levied by schools and teachers to supplement insufficient government funding) and significant opportunity costs (uncertain return on investment due to poor quality and relevance), the representation of the poorest drops sharply from one education level to another. This is illustrated in Table 4.

Table 4: Distribution of Enrolled Students by Quintile and by Schooling Level, 1997

<table>
<thead>
<tr>
<th>Per Capita Expenditure Quintile</th>
<th>Poorest</th>
<th>II</th>
<th>III</th>
<th>IV</th>
<th>Richest</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td>Primary</td>
<td>20.32</td>
<td>21.22</td>
<td>21.59</td>
<td>18.87</td>
<td>18.01</td>
<td>100</td>
</tr>
<tr>
<td>Lower Secondary</td>
<td>4.85</td>
<td>13.34</td>
<td>18.51</td>
<td>24.85</td>
<td>38.44</td>
<td>100</td>
</tr>
<tr>
<td>Upper Secondary</td>
<td>1.96</td>
<td>4.23</td>
<td>11.98</td>
<td>20.83</td>
<td>61.00</td>
<td>100</td>
</tr>
<tr>
<td>Post Secondary</td>
<td>0</td>
<td>3.74</td>
<td>4.88</td>
<td>34.35</td>
<td>57.02</td>
<td>100</td>
</tr>
</tbody>
</table>

Source: MOEYS, MEF and Staff Estimates (PER 1998)

With a fast growing school age population, it became increasingly clear that the government was facing three challenges (MOEYS Sector Strategic Study, 2001):

‘A first priority is to broaden the availability of education services, especially lower secondary provision. A second priority is to alleviate cost barriers to access to primary and secondary education. A third priority is to examine equitable resource allocation policies, possibly including some affirmative poverty indexing in public spending on basic education and the promotion of public/private partnership in the provision of post-basic education and training’.

It was also recognized that, although priorities had been fairly well identified - perhaps more so in basic education – the overall education development approach had suffered from a number of limitations (lack of a long-term vision for education reform, limited linkage to broader poverty reduction strategies, poor integration of education financing plans into public expenditure planning and management). The project approach, which had been appropriate in that it allowed progress whilst minimizing demands on the under-developed education ministry, was now undermining policy coherence and government leadership, making it hard to address broader sectoral institutional and financial issues. It became increasingly evident that the brain drain to, and diversion of capacities on, project system operation was undermining efforts to build government capacities.

In mid-1999, the Minister initiated a policy review and development process which took a broader and more comprehensive, sector wide approach to education development. The intention was to establish an organic sector development programme guided by a long-term vision of the outcomes and processes of the sector. The policy review included a continuous process of consultation with other Government's agencies and decentralised levels, and with donors and NGOs, in order to facilitate the desired shift from ‘donorship’ to partnership.

Key documents produced in 2001 for the education reform process included: a Strategic Analysis, an Education Strategic Plan (ESP) for 2001-05 and an Education Sector Support Programme (ESSP) for 2001-05. The policy, strategic and programme frameworks were jointly appraised by the government, donors and NGOs in a first joint Appraisal/Review in June 2001. The Review also
discussed and agreed on education priorities, expected results and targets. Some donors expressed concerns about the ambitious nature of the plan and it was agreed that success would depend on sustained support to help MOEYS build the necessary capacities to manage the sector in a radically different way.

The ESP and ESSP priority and result frameworks are summarised in Box 2 below. To monitor progress, partners have agreed on a set of sector performance indicators related to a sector policy matrix. The indicators will be measured annually and progress discussed at an annual joint sector review. The ESSP results are expressed in terms of broad outcomes, intermediate outcomes; and outputs, inputs and process improvements in a systematic manner linking each to the others by indicating how programmes contribute to strategies aimed at policy goals. The ESSP has been developed as a rolling medium term framework to reach the longer term goals of Education For All, currently being articulated in the Cambodia National Action Plan for Education For All (under preparation). It is intended that the Action Plan will include broad financing scenarios which would provide directions to the successive ESSPs.

**Box 2: Education Strategic Plan and Education Sector Support Programme 2002-06**

<table>
<thead>
<tr>
<th>Goal (ESP)</th>
<th>Outcomes</th>
</tr>
</thead>
</table>
| Develop an inclusive, easily accessible and high quality service available to all, enabling economic growth, broad-based participation in education development and mutual accountability between the government and the communities and civil society | • 9 years of quality and efficient basic education accessible to all by 2010 and full EFA goals by 2015  
• Improved relevance of TVET and higher education  
• Enhanced provision of post-basic education opportunities including for the poorest  
• Decentralised and community responsive management of education services |

<table>
<thead>
<tr>
<th>Strategies and programs (ESSP)</th>
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<tbody>
<tr>
<td>Access – supply and demand strategies (e.g., NER broken down by geographical areas and gender)</td>
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</tbody>
</table>
- Provide primary and secondary facilities in currently under-served areas and optimize use of existing facilities.  
- Demand-driven approach to post-basic education facilities development  
- Provide operating budgets to public education institutions to off-set private costs especially in basic education.  
- Expand NFE (re-entry programs for drop out students, skill training for youth and adults who cannot re-enter).  
- AIDS awareness programs for in and out of schools.  
- Provide targeted incentives / scholarships for the poorest and most vulnerable groups. |
| Quality and Efficiency (e.g., repetition rates, PTR, ratio textbook:pupil) |  
- Ensure efficient and equitable deployment of qualified and motivated educators (redeployment of staff to teaching positions and to under-served areas, provision of performance-based incentives to selected staff.  
- Provide school operating budgets to all public education institutions.  
- Free access to core instructional materials in basic education and targeted groups in post-basic education.  
- Selective remedial measures (e.g., remedial classes in primary schools) and other sub-sector specific measures to raise education quality. |
| Improved sector management and decentralisation of education services (e.g., financing targets, number of budget management centres) |  
- Comprehensive sector wide management and program management capacity building program including institutional, legal and regulatory and governance developments.  
- Expand and focus sector performance, program and school / institution monitoring at all levels. |

*Source: Ministry of Education, Youth and Sports, 2001 and 2002*
The Ministry of Economy and Finance is a party to the ESSP process: *inter alia* (i) sector performance indicators have been jointly endorsed by MOEYS and MEF and (ii) financing targets are triggers for release of donor sector budget support (refer to Section 5).

Agreed financing targets would not have been sufficient for donor agencies to justify the use of budget support in the absence of an established relation between sector financing and anticipated results. As an initial basis for this, the ESSP five year framework links costs to results through jointly agreed and annually reviewed, result-based and costed priority programmes. Costs have been established through an iterative process of bottom-up, ‘need-based’ planning and top-down, resource-constrained budgeting. This was facilitated by (i) early indications from MEF of a broad medium term ‘resource envelope for education’ in documents such as the I-PRSP and (ii) improved information on donor support.

The introduction of programme-based budgeting for a part of the education budget through the Priority Action Programme modalities (see Section 7 below) allowed the link to be made between programmes and government recurrent budgets. PAPs are implemented through Budget Management Centres which are accountable for both budgets and results for the programme(s) that they manage. In 2002 there are 11 nation-wide PAPs and approximately 200 BMCs (districts, provincial education departments, higher and TVET institutions and central departments) handling 26% of the recurrent budget allocated to education.

Progress in linking results and budgets was reviewed at the second joint ESSP Review in August/September 2002. The Review analysed: (i) a sector performance report covering the sector performance indicators, and various supporting analyses; and (ii) a revised and rolled forward ESSP in which the first three years match the Medium Term Expenditure Framework 2003-05 prepared for MEF. Donors provided full coverage information on their support in a Donor Report. The second Annual Review Report summarises the partners’ conclusions and recommendations which are the basis for 2003 final programme planning and budgeting and for longer term policy and strategic developments or re-orientations.

It is intended that for the 2003 Review, provincial education departments will prepare provincial education performance reports which will focus on impact and outcomes, based on regular monitoring of provincial and district programme and school performance (see section three on information systems). This would clearly facilitate the ‘localization’ of the ESP and ESSP strategies and programmes and of education outcomes, enabling MOEYS and provinces to disaggregate sector performance indicators on a geographic basis.

The education section of the National Poverty Reduction Strategy is fully consistent with the ESP and ESSP. The NPRS education action matrix, indicators and costing are based on the understanding that poverty reduction strategies include broad systemic changes (e.g. re-orientation of public spending towards programmes benefiting the poor rather than the wealthier, improvement in personnel productivity and deployment through performance based pay policy) as well as more targeted interventions (provision of scholarships to off-set residual costs to families, expansion of non-formal education opportunities). Furthermore, strategies improving the contribution of the education and training sector to economic growth through better defined policies and strategies in post-basic education are also crucial.

In summary, education priorities have emerged through an iterative and negotiated process and are increasingly related to an integrated sectoral plan.

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40 E.g., using estimate basic education unit costs and reversing over 5 years the ratio of public versus private finances needed to meet the costs, to estimate the budget envelope required to ‘cut costs to parents’ and provide operational budgets to schools.
3. Are information systems and management capacities adequate?

The revised ESSP 2002-06 sets out a comprehensive monitoring and supervision / control system for sector performance, programme outcomes, outputs and implementation progress, and school performance. Monitoring and supervision / control responsibilities are identified for individual departments and other structures of the Ministry. Having such a system fully operational is a medium to long term undertaking. However, having information systems in place provides a good basis upon which to build. Most importantly, the vision and objectives of the system are clearly articulated in recognition of the result-based approach of the ESSP.

There are a variety of systems that in principle provide information to education policy-makers and managers, some in place since a relatively long period of time. Sectoral systems include:

- An Education Management Information System maintained by the EMIS section in the Planning Department of MOEYS
- An Aid Management Information System maintained by the PMMO section of the same Department
- Several (HQ) departmental management information systems established by departmental managers initially because of the late availability of the EMIS data.
- A Facility Management Information System maintained by MOEYS Department of Materials and State Property
- A Personnel Management Information System at MOEYS Personnel Department.

There are plans to upgrade the information management capacity of the MOEYS to enable it to better handle the requirements of the sector wide approach. A Forward Strategy Paper has recently been prepared by a (UNICEF funded) TA, presenting options which should be discussed in the near future by MOEYS senior management. The paper outlines strengths and weaknesses of systems in place and proposes options for the way forward. Key improvements required for the proper operation of result-based management frameworks in the education sector include:

- The development of a Financial Management Information System
- The improvement of the existing Personnel Management information system so that information stored is available for analysis, or the development of a new system if this is more cost efficient
- The integration of the existing systems.

The EMIS covers the primary and secondary education system country-wide, through a detailed annual school survey.\(^{41}\) Statistics were first issued for the school year 1996/97 and have been produced regularly since then. The content of the main publications is continuously improved to respond to the needs of various users including users from outside of the ministry (donor agencies, researchers etc.).\(^{42}\) Indicators now include outcomes such as GER, NER, repetition rate and gender gap, disaggregated on a provincial basis in the country-wide abstract. Decentralisation of data entry and processing is currently piloted in a number of provinces before being rolled out in all twenty four provincial administrations. In the medium term, this will ensure earlier availability of the secondary data and analyses by dividing the data entry and processing tasks into smaller batches. Equally importantly, it will help progressively strengthen provincial level management, as intended in the ESSP.

The Aid MIS was developed around the same time as the EMIS (1997). Over time it has appeared increasingly difficult to get complete returns, whether from donor agencies, NGOs or project units.

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\(^{41}\) The survey captures data on school enrolment (by grade, age and gender) and key inputs including staff (age, qualification, years of service, teaching subject/ specialization etc.), facilities and their status and textbooks.

\(^{42}\) This year, the leaflet summarising key statistics includes trends over 6 years for key outcome indicators.
Provinces which are supposed to forward information on NGO projects active at their levels do not have much incentive to do so as the system is not decentralised and there is little feedback. The link between the education AMIS project coding and the PIP coding of the Ministry of Planning is intended to facilitate the preparation of the PIP estimates, however, owing to incomplete AMIS data the PIP estimates for 2003-05 were prepared manually. In its present make up the system is of limited use as the report formats, developed prior to the definition of the ESP/ESSP framework, do not match the information requirements specified in terms of priority programmes.

As mentioned above, in 2002 primary data on donor assistance is collected by the donors and transferred to the Ministry. The Ministry wants to explore with its partners the possibility of continuing in the same way, which would help focus the Planning Department on a more strategic role in education development planning. Proposals along these lines are scheduled for discussion later in the year or early in 2003. Amongst others it is proposed that formats for the collection and transfer of data on external assistance would be modified so that the data could be matched against the data available on ESSP priority programmes, in order to facilitate integrated planning and monitoring of both government and donor resources. The Ministry also proposes that data on project implementation performance would be made available twice a year to allow consolidated monitoring of ESSP priority programmes.

With the rapid expansion of the PAPs (also see section seven) there was a strong pressure to put in place administrative information management systems that would enable priority programme management (at BMC level) and monitoring and planning and budgeting (at provincial and central levels). A set of detailed monitoring guidelines has been prepared and is currently being finalized and rolled out, together with reporting formats for all levels (schools/institutions, districts, provinces and centre). The system relies on monthly transmission of progress and financial data by schools and districts and quarterly preparation of consolidated reports at the provincial level. Donor support and PAP budgets from a programme specifically dedicated to strengthening monitoring are available to help ‘quick start’ the system for the remaining months of the year 2002.

Simultaneously, departmental systems have recently been revamped. Systems have been tailored to incorporate intermediate outcomes for departmental monitoring of ESSP priority programmes (e.g. repetition rates in relation to remedial teaching). Further progress was also made in system automation and in providing basic system maintenance skills. The MIS strategic paper recommends that departments should discontinue the practice of collecting separately primary data once there is an adequate central system for data collection and processing. However, it also emphasizes that this may take a couple of years, and suggests that in the meantime further assistance is required to strengthen the departmental systems.

Several key aspects of the ESSP strategies are not well captured by the existing systems. Education quality and external efficiency and school management effectiveness are key dimensions for which indicators mentioned in the ESSP are still mostly at input level (e.g. PTR and ratio textbooks: pupil). This is explained by the history of the sector: for instance, in 1998 there were less than a hundred qualified secondary school inspectors for approximately 300 schools. To address this weakness it is planned to focus school inspection reports on a system of scores for key school management performance indicators. More work is required to clearly articulate a way forward to operationalise this system.

MOEYS has started in 2000 to consider how to improve availability of information on education spending. Historically there had been no system for provincial financial returns to be forwarded to

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43 Development planning, financial management, partnership with the community, teaching and learning processes, learning environment, school environment and promotion rates.
the central MOEYS, even though provinces have always managed approximately 70% of the education recurrent budget. However, whereas this budget used to be almost exclusively teachers’ salaries it now represents a large proportion of the education PAP budgets, which are spent under a post-audit system. In this system (and in contrast with the traditional ‘pre-audit’ system still applicable for all non-PAP budgets), BMCs have to prepare all necessary financial information for the post-control of their financial performance (see section seven). Furthermore, MOEYS is responsible for reporting to MEF on the execution of PAP for further funding to be released. These two reasons (monitoring of BMC and reporting to MEF) made it essential to establish a financial management information system channelling information from BMCs to MOEYS.

A dedicated Financial Office for Provinces Section (FOPS) was established in early 2001 in the Department of Finance of MOEYS, with the task of monitoring BMC financial performance. FOPS put in place a first, rudimentary system of information on PAP budget management by provincial and other decentralised levels which was used for PAP 2000 and PAP 2001. The Department of Finance is now designing an improved system including computerized storage of BMC financial information at provincial and central levels, which will produce standard consolidated provincial and programme reports. Budget management forms for schools, districts, provinces and central departments have been developed. Some training took place, as early as 2000 for the BMCs involved in the first phases of the PAPs. Technical assistance and budgets are in place to now support the development and roll out of the computerized system.

MOEYS has identified the need for a PAP ‘fund tracking system’, given the considerable uncertainty which has prevailed until now in the flows of funds and in cash availability (see section seven). The system has yet to be thought through and it is unlikely that it could be rolled out before some time next year. In the meantime, fund tracking summary reports would continue to be delivered at the centre through regular phone calls between the provincial education departments and FOPS.

In order to be able to relate education spending to performance at sector, programme and geographic levels in a more comprehensive manner it is also necessary to have financial returns on non-PAP budgets spent at provincial levels, and to develop a system of financial monitoring for non-recurrent priority programmes and projects or to link the Department of Finance system to systems in place for these projects.

Critical needs for improved management capacities have emerged at provincial and district levels and will be exacerbated by the expansion of the PAP system in 2002 (at a recent workshop several provincial officials stressed that capacities were already over-stretched and that they lacked staff to handle the new responsibilities). MOEYS teams are currently in the field to assess existing capacities and to identify most critical needs. Fortunately, there is also more technical support available than before and one can therefore realistically expect to see a substantial improvement in the information on provincial activities in 2002.

The Ministry is also aware of the need to address the classic issue of incentives for information transmission. It is currently discussing a proposal which would be an example of ‘good practice’ with regard to this issue. The key information node in several education PAPs is at district level, where financial and other information should be compiled for all schools under the district administration. For the largest districts this may be above a hundred schools. Few districts are currently equipped with computers, and manual compilation of the information would be a very tedious task, with the risks of errors made at that level then travelling up the system. One option is to by-pass districts by asking them to forward the raw data for entry directly at provincial level. The proposed alternative is for provinces to allocate slots of time for districts to enter the data on the provincial system (under provincial supervision if required). This modality has the advantage of (i)
signalling to the province which districts are problematic (no shows), and (ii) the districts can obtain summary reports immediately before returning.

Data and information systems on TVET and higher education and on non-formal/ literacy programmes are less well developed and have not kept pace with the expansion of private and NGO provision. This makes it difficult to obtain reliable indicators, even in terms of inputs and outputs. Whilst the focus on basic education is understandable, strengthening information systems on these other sub-sectors should not be forgotten in the upcoming MIS strategic plan. As identified by the Ministry, a first priority is to refine further the sub-sector policy and strategic and institutional frameworks. This in itself will require information. The policy developments scheduled in the ESSP forward plan for 2002/03 will pave the way for better integration of the sub-sectors in the sector performance based approach44 and will help further specify requirements for improved information management at these levels.

The Ministry has started developing a capacity to design and implement targeted surveys which will help it better to understand and monitor the links between programme outputs / outcomes and strategic outcomes. Although this is at an early stage, it has already contributed to the re-orientation of a number of ESSP operational policies. Box 3 below summarises the policy analysis and decision-making process which used the results from two surveys on the implementation of the PAP basic education in 2000 and 2001.45 The survey was designed to measure parent and teacher awareness and perception of PAP basic education programmes.

Box 3: PAP Basic Education 2001 Perception Survey

<table>
<thead>
<tr>
<th>Focus:</th>
<th>Selected results/conclusions</th>
<th>Operational policy decisions</th>
</tr>
</thead>
<tbody>
<tr>
<td>1. Reduced costs of Basic Education for parents.46</td>
<td>Most important dimension for parents and one of the most important for teachers.</td>
<td>Continue.</td>
</tr>
<tr>
<td>2. Provide schools with a budget for learning materials and teaching aids</td>
<td>Important for teachers, less so for parents who see availability of textbooks as more critical and who like to see improvements in the school physical environment.</td>
<td>No changes in school spending guidelines (parents may not be sufficiently aware of the importance of teaching and learning aids).</td>
</tr>
<tr>
<td>3. Improved transparency of school budget</td>
<td>Mixed information showing an increase in transparency but limited to the PAP budget.</td>
<td>No decision yet.</td>
</tr>
<tr>
<td>4. Improved quality of teaching and learning</td>
<td>Parents did not see much improvement in teachers’ motivation, which they see as the most critical factor for good teaching and learning.</td>
<td>PAP 1 in 2002 will provide performance based incentives to all teachers in remote and difficult areas and to all head masters.</td>
</tr>
<tr>
<td>5. Increased participation from parents in school planning</td>
<td>Parents are more concerned about getting information on their child’s progress than about being involved in school expenditure policy.</td>
<td></td>
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<tr>
<td>6. Reduced repetition rate through remedial classes for students in Primary School.</td>
<td>Both parents and teachers considered remedial classes as very important, and that they should continue to be organised during the vacation.</td>
<td>Continue during vacation, improve remedial curriculum and guidance to teachers.</td>
</tr>
</tbody>
</table>

44 Legislation on higher education institutional autonomy and performance and higher education quality assurance has been prepared with WB support and is to be followed by a loan. MOEYS has some support from the ADB to refine the strategic framework for the TVET sub-sector over the forthcoming two years.

45 The basic education PAP focuses on quality and efficiency improvement in primary and lower secondary schools. It started in 2000 in seven provinces and was implemented nationwide in 2001.

46 The introduction of the policy of providing school operating budgets was coupled to an instruction from MOEYS that schools had to stop collecting start of the year fees. The survey shows that the policy is relatively well applied.
The most critical challenge for education policy-makers is to monitor the extent to which the ESSP is pro-poor in reality. Sectoral data are not able to capture the two-way link between education and poverty. Fortunately, several sources of multi-sectoral data provide information allowing benefit incidence and policy impact analyses. This is an entirely new type of analysis for Ministry staff. A first achievement has been the preparation of a PAP basic education 2001 Impact Report and a Discussion Paper on Poverty Analysis of Education Access Trends for the ESSP Review – 2002.

The analyses have correlated (i) MOEYS routine data from EMIS and information on PAP results; (ii) a commune poverty ranking developed by WFP; and (iii) 1998 Census Data. A number of results are strikingly clear and have fed into the preparation of several programmes for 2003 and later years. Box 4 below illustrates the use of sectoral and multi-sectoral data for policy-oriented analyses in support to policy-making.

The use of survey and correlation with non-education indicators is also important for assessing the extent to which non-education programmes contribute to educational outcomes (the issue of allocation of results). This is an area which will require further, multi-sectoral policy analysis, a trend which might hopefully be strengthened under the NPRS process.

Box 4: How MOEYS has used policy impact and benefit incidence analyses

<table>
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<tr>
<th>Findings:</th>
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<tbody>
<tr>
<td>• High correlation between primary school enrolment increase over last two years and commune poverty - 25% growth rate for primary school enrolment in 20% poorest communes i.e., 10 percentile points higher than for next commune quintile.</td>
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<tr>
<td>• This is not the case for lower secondary education: enrolment growth is only marginally higher in poorest communes.</td>
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</table>

Tentative policy conclusion:

• Whereas the abolition of the start of the school year fees may suffice to allow most parents to afford to send and keep their children in primary schools (which are also more numerous and more easily accessible), this is not the case for lower secondary education where other costs to families (direct and indirect, including transport to farther schools) are higher.

Risks:

• ESSP medium term targets for access to lower secondary education will not be met for poorest and remotest areas.

Examples of proposed remedial measures:

• Review weighting of priorities in school facilities construction programme to ensure accelerated provision of secondary education places in the most severely under-served areas.

• Quick start and focus on transition Gr6 to Gr7 programmes of scholarships for the poor.

This section suggests that very substantial progress has taken place and many lessons have been learnt. Nevertheless, information systems and capacities for their management will require further improvements if they are to deliver on a sustainable basis the high level analyses required for ESSP and education policy performance review. It also requires tackling data accuracy issues as provinces and districts will see some benefit in over- and under-stating data (which are also used for budget allocation purpose). This stresses the importance of periodic sample surveys to cross-check administrative data.

47 Most important are the Census (every 10 years) and the DHS and other socio-economic surveys (CSES 1997 and CSES 1999) conducted by the National Institute of Statistics. A full inventory of data and information systems is being completed simultaneously to the final stages of preparation of the NPRS.
The proposed ESSP monitoring system has yet to be tested, including in its institutional and organisational dimensions at each level and across levels. The development of the system and the trade-off between the need for more and better information and the costs of collecting and processing it will need to be continuously kept under review in a context of increasing but still tight budgets.

On the positive side, there is a growing internal demand for information and an increasing awareness of the effectiveness of good information and good analysis in enhancing policy and programme implementation and reaching better results. In other words, the incentive framework for information management and analysis has begun to change in a direction which will facilitate result-based management. With appropriate technical support and carefully designed plans for further decentralisation to help change incentive frameworks at decentralised levels there is scope for substantial progress in a short period of time.

4. How well does the planning framework support a results-oriented process?

At the central level the ESSP framework facilitates result-oriented planning and budgeting through its structure in national programmes. The ESSP planning process at national level is also progressively clarified, although integration with the PIP remains problematic. The other, more critical issue in education planning is the need to articulate an appropriate framework for provincial and other decentralised levels’ planning in relation to central level planning. Whereas the ESSP national programme approach facilitates the links with national results and targets, one weakness with regard to planning at other levels could be summarised in the statement that ‘there is no provincial ESSP’. There are both technical issues to be addressed and one policy question to consider.

ESSP is predicated on simultaneity of physical and financial planning. Following two annual planning and review exercises, the broad calendar which appears to best fit the financial planning (and annual budget preparation) cycle at the centre is as follows:

- February-March-April: Preparation of the ESSP Review – Where are we now, where do we want to go.
- April-May: Preparation of the ESSP Review – Preliminary indication of resources available for 3 to 5 years and central strategic planning including financial planning (preparation of preliminary MTEF/ MTEP).
- May-June: Joint ESSP Review, agreement on strategic plans and amendments.
- June-August: Preparation of programme and other budget plans.
- October-November-December: Adjustment of plans and budgets (following budget hearings and Council of Ministers’ discussion of the budget and MTEF).

This calendar is currently being discussed by MOEYS, education donors and NGOs, all of whom intend to use it as a basis for strengthening integrated planning and monitoring of government and external resources for the sector. It reflects another underlying principle of the ESSP approach, namely that planning is best done under financial constraints (known or estimated), preferably for a medium term period (even though it is advisable to show consequences of financial constraints for results – financial gap and implications).48 One critical assumption in the calendar is the reliance on MEF to provide indicative budget ceilings for a three year period as early as (late) April / May.

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48 ‘Incremental planning’ like incremental budgeting can almost be done without ‘ceilings’, if one can predict what the increment is likely to be from one year to another based on past practice. This is not the case for program- or result-based planning or budgeting as it would be useless to plan for unattainable results. Put in a long term perspective, this is the classical issue of sustainability.
Should this be feasible, the calendar should also indicate how provincial and other decentralised level planning fits in.

A number of difficulties which have hampered smooth and systematic planning are temporary and related to the newness of approaches and processes. They will disappear more easily if systems are allowed to stabilize after a first phase of rapid development.

These difficulties include:

- Firstly, central level PAP planning and implementation has a backlog delay, which must be absorbed as a pre-requisite for stabilizing processes. This, in turn, depends on the adoption of a more systematic approach to the development of the PAP regulatory and planning framework by MEF and other involved line ministries. There has been some progress recently with an agreement on ‘spending principles’ but substantial work is still required to transform into reality the intention (expressed at the Review) that PAP should start as soon as the new budget is approved.
- Secondly, PAP planning has occurred simultaneously with the implementation of an ever expanding number of activities through a system which is not yet well specified. The same institutions which should be planning are over-stretched and unable to ensure that implementation proceeds and that training takes place at their and other levels. This should be eased once the main programmes are in place.
- Thirdly, a number of planning functions required by PAP planning were new in education (e.g. formula-driven allocation of resources) and are not yet well internalized. On a multi-annual basis they require better capacities in enrolment and staff requirement projections. On an annual, school by school basis they require some capacity to compute rather large amounts of data, which most provinces are still lacking. As mentioned in section three there are plans (and budgets) to substantially upgrade provincial information management capacities as soon as possible.

Other weaknesses are more fundamental. They include annual planning processes which are as yet neither fully outlined nor reconciled at the centre. PIP preparation is done separately from the PAP planning and generally from the ESSP planning process. The personnel requirement planning function would need strengthening and must be better linked to financial planning over the medium term.

In this context and within the logic of resource-constrained planning, there are two approaches to the provincial planning process:

- A two-step process in which provinces would prepare preliminary plans for the next year (or for several years) at the same time as they review progress and prepare the provincial education performance report (February-April). MOEYS would have to give provinces indicative ceilings for individual PAPs for two or three years. Detailed planning would take place later in the year, based on firmed-up budget ceilings.
- A one-step process in which the emphasis is on provincial planning within fixed and guaranteed envelopes. This might have to start as late as October / November i.e. after the budget hearings and Council of Ministers’ meeting when budgets are generally considered as fixed. This is also the time at which enrolment is known for the new school year.

The two approaches pre-suppose fairly different roles for the provincial education department (and, indeed, the provincial administration) in education development planning. The option adopted so far in education is the second one: the role of the provincial education departments in PAP planning is limited to detailed annual planning of activities which will take place within each PAP in the
following year. However, it is not clear that the one-step approach is practical, and it might not be institutionally sustainable in the medium term.

International experience indicates that planning processes are more easily reconciled and articulated across different planning levels on a multi-annual basis. The strong emphasis of the ESSP on decentralisation of education management also suggests that provincial education departments should over time become more responsible for education performance in their provinces. One prerequisite for this is of course some form of localization of the ESSP results (disaggregation of national targets), which as mentioned in section two could be considered as the next step in decentralisation. This could either follow or facilitate some internalization of the process by which provincial education performance reports are prepared by the provincial authorities.

This process could also be progressively geared toward the development of a framework for integrated provincial planning and monitoring which would encompass all education development activities within a province, including those planned under different, non-sectoral planning authorities and mechanisms⁴⁹ (horizontal integration, whereas previous sections deal with vertical integration). The faster this can be done, the better. Provincial education resource frameworks have to be comprehensive to avoid biasing the analysis of the links between provincial budgets and provincial results.

Beyond the technicalities of multi-sectoral and multi-level planning is the question of authority over the development of a sector in a deconcentrated and decentralised context. This is addressed in the second part of the next section.

5. To what extent is decision making and funding integrated across the sector?

In order to compare results with resources it is necessarily to build up an accurate picture of the total resources being spent on different programmatic areas. It is equally important to assess the extent of integration or fragmentation in decision-making and prioritisation in order to better understand the pattern of accountability for results. In education there has been significant progress over the last two years in bringing together all available resources and in strengthening various partnerships which should facilitate ‘joined up’ accountability. This is reviewed in this section, as well as constraints that still remain to be tackled.

The ESSP approach is predicated on the strengthening of partnerships between institutions which have (or should have) a say in education development (often because they provide resources). As put by the Minister of Education, Youth and Sports at the recent Education National Forum, the sector approach is about

‘getting all people in a bus to travel together to an agreed destination rather than having small groups of people trying to get there by their own means. As driver I am happy to take advice and that we agree together on the best way to go there, as long as it means that all on board share the difficulties as well as the enjoyment of the road.’

⁴⁹ It will be necessary to reconcile several annual planning cycles and frameworks at provincial level as well. Provincial education departments, for example, plan for the province personnel requirements, will be leading the annual planning for school construction in 6 pilot provinces, and may have a role in planning for the recently approved pilot program of scholarships for the poor (JFPR). See section 5 for multi-sectoral provincial planning processes.
**External funding**

A strong partnership between MOEYS, donor agencies and NGOs is seen as a critical feature of the ESSP. It took several steps to reach the current partnership modalities, and there are concrete plans to develop this further. Early steps included the signature of a ‘Statement of Intent’ by donors and NGOs expressing their support to and involvement in MOEYS policy review process (March 2000), a joint seminar on SWAp (late 2000), specific studies on education partnerships (MOEYS, 2001) and the establishment of a structured NGO Education Partnership (NEP) as a policy / strategic interlocutor. A key milestone was the adoption of ‘New Principles for Education Partnership’ at the first joint ESSP Review in 2001.

These partnership principles are summarised in the box below.

**Box 5: Key principles for MOEYS/ donors/ NGOs partnership in education**

<table>
<thead>
<tr>
<th>Overall objective</th>
<th>Facilitate implementation of sector reforms through a rolling framework of priorities within agreed policy and strategic development directions.</th>
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<tbody>
<tr>
<td>Partnership based on a consultative process aimed at:</td>
<td>Setting annual milestones in agreed reforms, including through annual performance review. Establishing mechanisms for negotiation between stakeholders on policy priorities, strategic options and alternative modalities for education financing reform. Creating opportunities to fit strategic negotiation and financing discussions with government budget planning cycle.</td>
</tr>
<tr>
<td>Practices</td>
<td>Main partnership stakeholders are MOEYS, donors and NGOs. Broader consultation and modalities for this to be decided on an ‘as needs be’ basis. Difference between coordination within specific constituencies (within MOEYS, amongst donors and NGOs) and direct consultation between various partners. Wherever possible, each constituency will attempt to achieve a consensus position on individual issues ahead of direct consultation. Official donor agency representatives to attend consultation events (and not to be replaced by donor-supported MOEYS Advisers).</td>
</tr>
</tbody>
</table>

Milestones in implementing the partnership principles include:

- Two joint annual Reviews in 2001 and 2002, resulting in jointly agreed recommendations on the way forward for ESSP implementation.
- Regular meeting of the ESWG which has been strengthened to become a coordination mechanism through which donors and NGOs prepare joint positions, share information and prepare the consultation meetings and annual review. The ESWG also links ESSP joint monitoring to the broader government / donor agencies CG monitoring process. It is supported by a Donor Coordination Advisor.
- The appointment of NEP Board and establishment of a NEP liaison office in Phnom Penh.

Major achievements to the credit of the partnership include substantial improvements in integrated planning for education. There have been remarkable changes in trends in volumes and in modalities for provision of external resources over the last five years, no doubt facilitated by the growing confidence of partners in each other:
• Up until 1999 donor projects accounted for around 45-50m US$ p.a.\textsuperscript{50} against a recurrent budget of just above 30m US$ in 1999 (less than 10% of total government recurrent budget). Thereafter the education recurrent budget increased steadily to represent a share of 18.2% of the total government recurrent budget for the year 2002 (just above 70m US$). Over the same period there was a ‘dip’ of two years in donor financing (especially in 2001, when it amounted to less than 25m US$),\textsuperscript{51} with the winding up and closure of a few large projects. Many project activities are now financed through government recurrent PAP budget (e.g. provision of textbooks, financing of TTC for pre- and in-service teacher training activities).

• Projections show that donor support is returning to its pre-2000 level in 2002-03, indicating donor confidence in the ESSP broad directions (55m US$ in 2003, 59m US$ in 2004).

• There is a shift in the nature of donor funding, with the introduction of budget support operations. The ADB initiated the sector budget support approach through an education policy loan (2002-04) providing funds to the budget against achievement of conditions related to the implementation of the ESSP reforms and programmes. This is combined with a project component for support to implementation of the ESSP school facilities development programme and capacity building programme. A second similar ‘combined’ loan is in the pipe-line. The EC HQ in Brussels has most recently approved a sector budget support programme for the period 2003-07, which is a ‘first’ in the region. Other donors, including Sida, have stated that they will consider this approach for their next support operation. According to plans, budget support as a share of donor financing would grow from 15% in 2003 to 23% in 2006.

• Financing targets for education include a share of 20% of the total government recurrent budget by 2005 (signed off by MEF as a condition for ADB budget support) and a target of 50% of donor assistance through budget support modalities by 2005 (fixed by donors: it remains to be seen if this is achievable in such a short period of time).

• Increasingly donor agencies design new projects against identified ESSP programmes in order to show clearly how the resources contribute to the ESSP results (e.g. UNICEF/Sida, Belgium, JFPR). The on-going Ministry/World Bank discussions on the ESSP programmes, requirements and gaps have also led to shifts in priorities that had been previously identified more unilaterally by the WB. On-going programmes (e.g. WFP school breakfast programme) explore modalities for joint and integrated planning and monitoring of all ‘incentives/scholarships for the poor’ programmes, led by the Ministry.

There are still shortcomings. In particular:

• NGOs are less certain of their place in the partnership. The role of NEP may need to be further clarified whilst taking into consideration the diversity of its intended constituency (international and national NGOs, provincial-based NGOs etc.). Partners also need to identify the specific ‘value added’ that NGOs can bring to the ESSP implementation, now that there is less of a need to substitute for government in terms of service delivery. Amongst others, there is a need to devise modalities which enable partners to tap lessons learnt through small-scale NGO operations in order to inform the policy debate and vice-versa, which direct pilot programmes in areas of need for policy development.

• There is a growing reluctance on the side of MOEYS to accept direct bilateral donor agency / NGO arrangements, in which MOEYS is still too often not involved in programme preparation/monitoring.

• One mechanism for coordination of external assistance at provincial level is the multi-sectoral PRDC chaired by the Governor. The effectiveness of this mechanism is probably variable across provinces. No such mechanism has been formalized for the education sector in relation to the ESSP implementation.

\textsuperscript{50} The US$ / Riels exchange rate is 1US$ = 3,800-4,000 Riels. The rate has been between these two limits for the last three years.

\textsuperscript{51} All data on donor assistance from 2001 onwards are from the Donor Report prepared by the donors for the Review 2002.
The first two issues above have been identified at the last Review and there are recommendations on how to start tackling them. It is on the partners’ agenda to agree on a better defined partnership calendar which would fit with the internal timing requirements of the sector and with the government budget cycle. The point of improved coordination of education external assistance by provincial authorities remains outstanding.

Central Provinces

As noted in section four there are fragmentation issues in relation to central / provincial decision making. Table five below illustrates this point.

Table 5: Decision making for provincial education activities

<table>
<thead>
<tr>
<th></th>
<th>PAP budget (RGC)</th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>MOEYS (multi-annual strategic plan), PED (annual detailed plan and consolidated reporting to MOEYS), no accountability to Governor for plan, accountability to Governor for spending clearance? Planned: provincial education performance report submitted to Governor.</td>
<td></td>
</tr>
<tr>
<td></td>
<td>Non PAP non salary budget (RGC)</td>
<td>MEF (sub-ceiling in MOEYS annual budget ceiling), PED with PFD (budgeting), spending through Governor, no accountability to MOEYS.</td>
</tr>
<tr>
<td></td>
<td>Salaries (RGC)</td>
<td>COM (approval for number of teacher trainees), MEF (as above), MOEYS and PED (deployment of new graduates), PED with PFD (budgeting), payment through Governor, no return on spending to MOEYS, some form of return on deployment. System of returns to MOEYS might be strengthened through PAP1.</td>
</tr>
<tr>
<td></td>
<td>Donor financed projects</td>
<td>Most often, MOEYS (negotiation and planning), PED (detailed planning), accountability to PED and MOEYS variable, though being strengthened at central level (aggregated information). Accountability to Governor often not formalized. For ESSP school construction programme accountability to Governor (through PRDC), and to MOEYS.</td>
</tr>
<tr>
<td></td>
<td>NGO projects</td>
<td>Similar as for donor projects except that negotiation and planning may start at PED level in which case MOEYS may not know about project.</td>
</tr>
<tr>
<td></td>
<td>Multi-sector finance</td>
<td>Seila Province Investmen t Fund</td>
</tr>
<tr>
<td></td>
<td>Commune Fund (RGC)</td>
<td>Block grant in two sub-grants for (i) CC administration and (ii) commune development plan. MOEYS not directly involved.</td>
</tr>
</tbody>
</table>

Table 5 provides a picture of the various decision-makers involved in education development and management at provincial level. It brings together sectoral finance and multi-sectoral finance from which there are opportunities for resourcing education.
The role of communes and of provincial-level decision-making in education development is currently small or indirect but it may grow in the future.

- Perhaps the most significant influence at present, which has been found to be an issue in some cases, is that of the Governor. He (all Governors are currently male) is able to influence education priorities, both in prioritising access to cash resources at the provincial treasury and also in influencing the use of education budgets.
- In Seila provinces, the provincial Governor has control (through a broad-based planning committee and a smaller Executive Committee of provincial executive heads from selected provincial departments) over a budget, part of which can be used to develop education services. There are discussions about further institutionalising this through a central government budget set aside for non-earmarked provincial development transfers, as has been achieved for the Commune Fund.
- The government is also committed to allocating increasing development resources to communes, and has the support of several donors in this goal – including the same donors as are involved in the education partnership. Over time, Commune Councils with better capacities and more resources could provide additional resources for investment in education, if they feel they are treated as partners.

In this context, table five indicates that there is indeed some way to go in developing clearer mechanisms for integrated development and management of education services at the provincial level. Underlying this is the issue of dual accountability of the provincial education departments. The ESSP process has clearly begun to strengthen the vertical accountability of the education administration for national policy results. Consideration should now be given to strengthening mechanisms for horizontal accountability for localized results.

In the absence of an overarching framework for de-concentration and decentralisation it is difficult for a sector to venture too far. However, MOEYS has recently started to send strong signals that it is ready to explore opportunities to work with deconcentrated and decentralised levels as partners in the future. Examples include the suggestion that provincial education performance reports would be approved by the Governor and that provincial planning for education facilities would be under the umbrella of the PRDC. Initial steps are also being taken to inform the communes about the ESSP and to involve them in the scholarship programme that is about to start. Further steps will require careful planning and monitoring to ensure growing convergence on the objectives of national and provincial policy priorities for education. But there are no good reasons to believe that with time this cannot be achieved and that these new partnerships should not generate benefits similar to those achieved through the MOEYS/donors/NGOs partnership.

**Capital and recurrent budgets**

The ESSP is a framework integrating recurrent and capital investment programmes. Recurrent and capital activities have been planned in correspondence with one another so that all necessary inputs can be provided to achieve the agreed outcomes (sector expansion and quality), at an aggregated national level. In other words, if the balance between recurrent and capital expenditure is kept ‘right’ and if systems are efficient in using resources according to plans, there should be no classrooms without a teacher and without books for the pupils, and no schools without a school operating budget.

As always, the devil is in implementation, and several issues related to budget management might affect the ESSP results through unpredictable shifts in the recurrent/capital balance:
Firstly, the PIP – which is intended to express government prioritisation of public investment over 3 years – is used as a mechanism to record projects (most often largely donor-financed) which almost invariably cover recurrent activities (i.e. PIP budgets are development budgets, not capital ones). Although PIP submissions should distinguish capital and recurrent costs this is not done systematically.

Secondly, the two budgets have different decision-making/prioritisation mechanisms (line Ministry – MEF – consolidation by MEF for the recurrent budget; line Ministry – MOP – consolidation by MEF for the capital budget). There is a risk of divergent prioritisation schemes and of phasing which may run out of sync.

Thirdly, in reality the effectiveness of government processes in terms of prioritisation is limited in both cases. As regards the PIP, different donor agencies use different negotiation lines (e.g. directly with line ministry, through CDC, through Ministry of Foreign Affairs, with MEF) which do not always involve MOP. It is unheard of for MOP to reject a project for which funding has been assured, but it needs to be informed and this is not always the case. Project contributions to the recurrent budget will of course not appear if the information does not reach MEF through MOP. Currently, even if it does it is not posted in the recurrent budget.

Fourthly, the budget for locally financed investment is not allocated to line ministries in the annual Budget Law voted by the Assembly (even though the Organic Budget Law provides for this as for the recurrent budget). There is a separate process of MEF selecting individual investment proposals during the year within the approved budget.

Thus, government recurrent and capital/development budgets together may not (and do not in reality) capture all public resources budgeted or which will be spent during the year for a sector, and an unknown proportion of recurrent spending is hidden in the capital budget. This makes it irrelevant to assess the appropriateness of the balance recurrent/capital on this basis, whether on an annual basis or on a multi-annual basis (MTEF).

In education partners have been trying to minimize the risks of running out of sync through the development of sectoral mechanisms to plan and monitor education budgets in an integrated manner. The most comprehensive financing framework for the sector is MOEYS’ Medium Term Expenditure Plan, which projects government and donor resources over five years and which identifies donor financed project contribution to the ESSP recurrent programmes and records these separately on the recurrent side of the framework. It has been estimated that the additional recurrent financing raised through projects may be as high as one quarter of the government recurrent budget for 2002. Although this proportion decreases with the rise in budget support, it remains significant for the period of the MTEP estimates (up to 2006).

In conclusion, inefficiencies and risks arising from the current fragmentation in planning processes include:

- Lack of transparency of government budget and under-estimated services costs.
- Waste of staff time in preparing different ways of showing the same information.
- Difficulty of reconciling information from different sources/formats which do not cover/include the same resources.

**Medium Term Expenditure Framework**

In 2002 education and health, as pilot ministries, were requested to prepare an MTEF 2003-5. Some training was provided by MEF (with ADB assistance) to staff from Finance and Planning Departments. Line ministries were given ceilings for three years and forms to prepare the MTEF

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52 E.g. in 2001 the education sector was allocated 17bn Riels from the local development budget during the year. In 2000 contributions from several large projects were not recorded in MEF outturn (e.g. EC PASEC).
submission (this was disconnected from the annual Budget Call Circular, and both ceiling and forms were amended in the course of the MTEF preparation). At the request of MOEYS two meetings were held to review preliminary versions of the education MTEF in which MOEYS was trying to include the ESSP Review recommendations and (late) indications by MEF to budget for ‘full’ personnel costs.53

Unfortunately due to a lack of communication between the two ministries – and also to the fact that MOEYS was late – the final draft was not submitted. It is a previously prepared version, which it was intended to incorporate in MEF submission to the Council of Ministers, which has been submitted. It was also intended that the MTEF would be submitted as an annex to the Budget Law for scrutiny by the Assembly, although it is not clear that this will be the case this year. We know for certain that the note of presentation of the draft Budget Law 2003 prepared by MEF includes the MTEF projected budget shares for health and education, which represents a significant achievement from this pilot phase.

Based on MEF clarification that ceilings were for the recurrent budget exclusively, MOEYS developed an MTEF 2003-05 which is a sub-set of the MTEP 2002-07: that is, the MTEF does not include project contributions to recurrent ESSP programmes. Except for this the MTEF and the MTEP are fully consistent one with another and the MTEF programme output statements are based on the agreed ESSP indicators. Finance and Planning Departments have worked closely together on the preparation of the MTEF.

Building on these achievements should be easy, provided that the process gets more internalized, in particular by MEF departments which play a key role in the annual budget preparation process.

Directions for improvements include:

- Better alignment between annual budget and MTEF preparation processes. This an be achieved through a clearer annual timetable and processes that make provision for improved policy / programme formulation and review/appraisal and for feedback, including during final consolidation by MEF.
- Greater clarity in principles underlying (i) government MTEF computation and (ii) line ministries decisions for policy and programme formulation and for preparation of ceiling- based medium term budget estimates. Consistency is needed between MTEF and annual budgeting principles, e.g. for personnel cost estimates.
- Agreed criteria for definition of on-going programmes and development of an inter-ministerial mechanism to review new policies and select new programmes for eligibility for additional resources from the MTEF ‘allocable ceiling’.
- Allocation of medium term ceilings to line ministries for local development.
- Indications of preliminary ceilings in advance to the annual ESSP Review in order that education partners could jointly review a preliminary medium term sector financing outlook at the Review as a basis for donors to confirm previous indications of support.

Finally, links which are currently being established between the MTEF and the NPRS costing (in line with recommendations provided on the first NPRS draft) should be maintained. This is not only a matter of budget envelopes but, more importantly, of prioritisation mechanisms for both medium term budget plans and for annual budget preparation. This, and the developments suggested above

53 Integrating the combined effect of the projected rise in teachers’ number and an estimate annual salary rise of 10% (given by MEF). The latter is usually not budgeted for. Salary increases are decided after the vote of the budget by the Assembly. Budget credits of line ministries are supplemented as needed, out of a contingency line in government budget which is set aside to that effect and for other unforeseeable expenditure.
are crucial for the education sector to continue to progress in the use of a result-oriented approach to planning, budgeting and budget management.

6. Do budgeting systems facilitate the development of results based sector financing?

Until the introduction of PAP (2000) budget management in education presented the same characteristics of incremental budgeting and pre-audit execution as most other government agencies. At the headquarters all financial management responsibilities which were not vested with the MEF Financial Controller (who approves every individual transaction commitment and payment order above 125 dollars) were in the hands of the Department of Finance, managing the budget through vetting requests from line departments. Provincial education budget management is delegated to the Governor and approvals at various stages are by MEF provincial administration. National and Provincial Treasuries also perform a – statutory – control prior to effecting the payment.

Other characteristics of MOEYS budgeting included (i) budgeting for deployment of new teachers but not for annual pay increase, (ii) no central guidance/ control on provincial budgeting (in contrast with health). Difficulties in accessing budget credits during the year have always been less acutely felt than in health, in part because non salary budgets had little to do with effective provision of services at school level (there were no budgets allocated to schools before the introduction of PAP) and also because exam costs (second largest expenditure) were disbursed as an advance payment.

The Chart below illustrates the magnitude of the changes which occurred in MOEYS recurrent budgets over the past five years (1999-2003).

**Chart 1: MOEYS Recurrent Budgets 1999-2003**

- Total recurrent budget allocation raised by 267% between 1999 and 2003.
- Salaries (Chapter 10) decreased from 73% to 55% share of total recurrent budget.
- Chapter 13 (PAP) budget allocation is 26% of total budget in 2002, and 28% in 2003.

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54 The Budget Organic Law is explicit about the pre-control system which applies to all government spending except special provisions. The number of such pre-controls is not specified in the Law nor is the exact nature that they would take.

55 On 29th October 2002 the COM approved the draft budget for 2003 which shows a government recurrent envelope lower than previously planned (linked to lower projections for revenue collection). The education budget has been cut by 10bn Riel. Discussions were scheduled to take place as this results in non compliance with the 18.5% target share for the education recurrent budget which is an ADB condition for the disbursement of next year tranche of the policy loan (5m US$).
In previous sections we have outlined the impact of PAP in reality (for schools) and in terms of contribution to policy making and the opportunities created for result-based planning. In this section we focus on the revolution that PAP also brought to MOEYS budgeting.

In contrast with processes for non PAP budgets (which have remained unchanged to date) the PAP budgeting and execution process includes:

- Strengthening of communication between provinces (sending basic data necessary to assess PAP budget requirements) and central Ministry.
- Combination of bottom-up process (provincial information, line departments programme budgeting and incorporating ESSP Review recommendations on PAP operational policies, consolidation by Finance Department) and top-down process (MOEYS/MEF agreed PAP budget share, ESSP/ MTEF indicative multi-annual ceilings for each PAP, provincial allocations for detailed activity planning and budgeting).
- Internal arbitration at senior management level in MOEYS to fix final annual envelopes for individual PAPs (centre) before submission to MEF.
- Formula- or criteria-based allocation of budgets to decentralised levels/BMCs within PAP envelopes.
- Funds disbursed to BMCs/under BMC signature for payment of suppliers by treasuries. BMCs responsible for spending (plans, guidelines) and reporting.
- Returns from schools to districts to provinces to centre on financial and implementation progress – To be systematized.
- Accounting documents prepared by BMCs for post-audit – to be systematised.

The above shows that, although it would need to be formalized, the internal budgeting and execution process for PAP is responsive to needs and transparent. Other parts of the education budget in comparison remain a black box for outsiders and even for MOEYS in the case of provincial budgets for Chapter 11 for instance (O&M).

However, a number of weaknesses have seriously constrained PAP implementation:

- The process of PAP approval by MEF is not clearly specified. There needs to be a clearer distinction between requirements at various stages of the process (MTEF submission/ annual budget preparation, detailed PAP planning and budgeting etc.).
- Although the system is designed on a quarterly release schedule this has never happened in reality. In fact it may not be the most appropriate modality given the programmatic nature of PAP spending and Treasury/ MEF cash constraints. Verbal indications that releases will be linked to submission of financial returns for the (last but one) release should also be formalized.
- Procurement is an outstanding issue (despite progress made in agreeing on revised ceilings for PAP budgets.) The discussion between MEF and MOEYS zeroes down on the principle of consolidation in application for government agencies. Applied to the school operating budgets (all schools procure supplies) this threatens the very intention of MOEYS of providing cash to schools for local decision-making.

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56 Also a conditionality under the ADB education policy loan.
57 In 2002 the lack of specification has led to a lengthy process of pre-evaluation of activities followed by pre-evaluation of spending rates to get a final agreement to start spending in October 2002. Neither the requirements for the release of the 2nd tranche nor the timetable for PAP 2003 preparation are clearly specified.
58 Procurement is centralized and slow and its lengthy procedures are prone to leakage. Central procurement transactions above 20 millions Riels (5,000 dollars) require an additional visa by MEF. MEF Financial Controller has to be present at various stages for procurement above 15 millions Riels. Under the PAP BMCs can procure up to 10 millions Riels, which is still rather low for higher education institutions for instance. However, procurement capacities have also to be taken into consideration.
The most crucial issue has been the apparent difficulty faced by BMCs in obtaining access to cash from provincial treasuries (a large part of PAP spending is cash, bar the school procurement issue). In 2000 no more than one-third of the PAP budget had been disbursed at the end of the year (the balance was actually ‘lost’ as it was drawn against PAP 2001 budget credit). The last disbursements for PAP 2001 were in May 2002 (in the meantime the system had been amended so that cash can be spent any time after the closure of the financial year provided that MEF ‘release’ takes place within the year).

Various explanations are given various emphases by stakeholders:

- MEF emphasize the lack of absorptive capacity and that cash is available but not withdrawn or that the documentation is not sufficient (which is a more spurious argument as requirements are not clearly specified).
- MOEYS emphasize that treasuries use regulations which they should not and are not aware of the correct procedures, and that cash is not available.

There has been no systematic ‘release and funds tracking’ which would give a clearer picture. There is no disagreement that both Treasury operations and cash management are weak. At central level MEF has established a Cash Management Committee which since early 2002 reconciles weekly the budget releases authorized by the Budget Department and the cash position of the Treasury. This may well have started addressing the problem at central level. The issue of the provincial level where most of the PAP operations take place remains pressing.

The PAP system has been rolled out rather quickly and capacities have not always kept pace – financial management capacities for the BMCs and post-audit capacities in general. A priority would be to clarify the post-audit system and the role and tasks of agencies involved in audit and in some form of financial control/ supervision (MEF, education internal audit unit, NAA). Certainly to date financial returns have been patchy and little post-audit has taken place, which leaves the system open to the risk of a break down in financial control. In education PAP accounting has remained under-developed, there does not appear to be an account chart common to all PAPs and agreed with MEF. This should also be addressed as soon as possible.

The operational issues are well known and MOEYS is currently taking steps to remedy those under its remit, including:

- Strengthening of financial reporting and monitoring (see section three)
- Strengthening of internal audit. With the establishment of the internal audit unit in the Department of Finance and Administration of the Inspectorate General (in September 2002), MOEYS belongs to the most advanced government institutions in the implementation of the Audit Law. The unit is currently being structured and staffed. It will develop its first work plan in the forthcoming weeks. The focus is likely to be on PAPs in the first place.

MOEYS has already secured some technical support and will have more in the near future (budget support donors provide technical support to assist the unit to start functioning, and the EC capacity building programme joined with the planned budget support operation largely focuses on PAP budgeting and execution strengthening). More broadly, other elements of the government post-audit machinery are being put in place (strengthening and first operations of NAA, on-going discussion on changing role for MEF Inspection Department).

The underlying budget management policy issues remain. One fundamental question is how committed MEF is to the shift from pre- to post-audit budget execution, which at the moment is no more than an exception to the prevailing legal framework. Besides legal and regulatory implications
this would also have profound institutional implications within MEF (shift in roles, tasks and skills required in key Departments and functions including Budget and Inspection Departments and Financial Controllers in particular), which it is obviously difficult to clearly enunciate in the prevailing context of multiple budget modalities. Moreover, basic systems (treasury operations, cash management and the information management tools necessary to improve these) have to be strengthened whatever the system chosen.

Short to medium term plans for budget reforms are stated in MEF contribution to the NPRS actions matrices, including:

- Strengthening/internalizing of MTEF and progressive rolling out to other agencies.
- Progressive de-concentration of non-PAP budgets, with a view to transforming the whole budget execution so that it gives to budget managers the same benefits as the current PAP system. This is scheduled to start in January 2003 in health and education, with a limited de-concentration of Chapter 11 (O&M) at central level. The specifications of the system are under discussion59. Although changes might be timid in the first instance this would be one more step toward a more comprehensive budget reform programme.
- Continuous reform of Treasury operations including a high level review of Treasury’s role in government.
- Continuous improvement in cash management through the CMC.

Moreover, in our and other analyses, there is a commitment to the goal of a modern, result-oriented budget management system at senior management level in MEF. What has been lacking and which is now strongly promoted by the technical assistance in place is the development of a comprehensive and structured programme of reforms bringing together the various elements that have to date progressed almost independently.

Certainly a smoother path to reforms in the future is crucial. Over the last three years there were several times where de-motivation due to the continuous ‘chaffing’ against the system limitations was about to get stronger than MOEYS desire to pursue well-embarked reforms.

Should a more conducive climate materialize, MOEYS would be in relatively good position to take advantage of it, in order to take forward result-based financing in education. The PAP system has led to profound changes in the ‘budget culture’ which should be used as a basis to go further.

One risk is that whereas the Ministry structure is still feeling its way as to how best it can accommodate the changes, next year’s agenda is an ambitious one (strengthening MTEF and PAP execution and reporting and accommodating the changes required by the pilot de-concentration of Chapter 11). However, the support now in place is greater than in the past. Furthermore, the relations between MEF and MOEYS, which have tended to fluctuate over time, might improve in the near future. There are plans for a joint MEF/MOEYS review of the role, composition and tasks of the inter-ministerial Education Financial Management Committee (established in October 2001) which has a mandate to facilitate changes in the two ministries amidst the various reforms undertaken. Whereas the EFMC has not met expectations so far, there are now indications that the two Ministries have indeed found this unsatisfactory and have agreed that a ‘change facilitator’ was needed which would be more effective.

59 E.g. expenditure planning and release system, extent and ceilings for system of power sharing between MEF Finance Controller and line ministry. The system would entail the relocation of MEF Finance Controller in the line ministry, although he/ she would remain accountable to MEF.
7. How well are staff incentives aligned with the objectives of programme performance?

In Cambodia as elsewhere teachers are considered as the key to quality education. The government has never denied this, and improving education personnel performance and living conditions is a centerpiece of the ESSP. However, MOEYS’ desire for fast reforms in personnel management is constrained by the slow progress of the National Programme for Administrative Reform, which encompasses all government civil servants. Once again, PAP has been the opportunity for a breakthrough. This is reviewed in this section.

Wages of teachers have traditionally been higher than those of the rest of the civil service since the introduction in 1992 of a ‘prime pédagogique’. The initially small amount was successively raised to reach 12 US$ per month in 1999, in addition to the average civil service salary of around 20 US$. The prime was intended to attract young qualified individuals to train as teachers at a time when the teaching force had to be entirely rebuilt. Originally intended only for classroom teachers, the prime was extended to all administrative personnel working for MOEYS (many of whom are teachers by qualification).

The launching of NPAR pay reform in 2002 (reform of pay system and average pay rise of around 40% possible thanks to payroll ‘cleaning’) has changed the landscape in education as for the whole of the civil service:

- The differential between teachers and other civil servants remains, though it is planned that it should decrease over time.
- The new system of functional allowances introduces a differential between teaching and non-teaching education personnel. Teaching and inspection functions attract much higher functional allowances than any other education function with equivalent qualifications (e.g. 26.5 US$ per month for a lower secondary teacher starting work compared to 5 US$ per month for a colleague in an office).
- There are plans to devise a system of increase linked to performance for the functional allowances (base salary scales are based on qualifications at recruitment and salary increases with the length of the period of service).
- Education personnel have again been given a (much smaller) prime pédagogique.

In principle, the pay reform kicked in at a good time, enabling MOEYS to reach the ESSP target of doubling the average teacher’s income by 2005 (baseline year 2000). The ESSP financing projections are based on NPAR plans for personnel numbers and salary increases and they ‘guarantee’ that the target is reached. In practice, there is no such guarantee as (i) it is unclear that the government will use the budget/MTEF to project more predictably medium term salary envelopes based on the NPAR plan (it was not done for the preparation of the annual budget for 2003 and of the MTEF 2003-05) and (ii) line ministries are not given discretion on salary envelopes.

The NPAR strategy is generic for the whole civil service and does little to tackle two outstanding issues in education: namely, the unbalanced deployment of qualified teachers which catches remote and rural areas in a low education quality trap, and the practice of informal charges levied by teachers for regular teaching.

Informal payment to teachers is an urban practice, still almost exclusively confined to Phnom Penh and a few other urban centres in expansion. In these cities it remains an obstacle which makes it unaffordable for many poor families to send children to schools or to continue to do so when unforeseen expenditure claim priority. This was discussed at the last review and there was a general
agreement that the Ministry should act on this issue without further delay – though cautiously. It was felt that teachers’ income had increased sufficiently over the last five years to start regulating this practice.\textsuperscript{60} It was recognized that teachers’ incomes were still not sufficient and teachers would continue to have to supplement their government income. This should be authorized as long as teachers would perform to an acceptable standard for regular teaching without charging extras for this.

No one in the sector underestimates the complexity of the task. For MOEYS leadership to undertake it, it would have to be able to present a credible scenario to teachers and not only the promise of the ESSP target. At the very least, there should be a clear message coming from highest bodies in government that the NPAR pay strategy will be implemented. The logical instrument to signal this commitment would be the government budget. Unfortunately as mentioned above this opportunity was not seized by the government for the preparation of the annual budget for 2003.

The PAP\textsuperscript{1} which has recently been approved by the Council of Ministers is the cornerstone of a comprehensive strategy aimed to remedy the lack of qualified teaching staff in the ‘difficult’ areas of the country. Under PAP\textsuperscript{1} all teachers who serve in these areas will receive an extra payment of 10 to 15 US$ per month (depending on the location). A minimalist performance appraisal system will check that teachers remain in their posts and teach the hours due. Other PAPs and the ESSP construction programme provide opportunities to focus other measures to support these teachers (e.g. construction of teachers’ housing or loans to teachers, provision of more regular in-service teacher training opportunities).

The introduction of an element of performance related pay is another timely feature of the NPAR strategy. However, a lot depends on how this concept is developed and implemented as it is, in fact, not a new thing for the Cambodian civil servants.

It is generally agreed, both broadly and in education, that the variety of incentive schemes traditionally practised under donor financed projects is unsustainable. The financial issue is obvious and unfortunately it is clear that the pay level reached by 2005 under NPAR plans will not address it.\textsuperscript{61} In addition, it is understood that the continuation of these practices jeopardizes government’s attempt to bring some consistency in personnel management and that it raises equity issues. This second issue may be slightly easier to tackle.

Education partners have initiated a discussion on the concept of output-based incentive payments for administrative staff. This modality has been used in some projects and it appears to have been used by some departments in 2002. Finances were raised from departmental budgets for annual capacity building plans prepared in the context of the ESSP strategy of strengthening sector wide management and priority programme implementation, financed by UNICEF and managed by MOEYS. The intention is that the annual departmental plans for capacity building should be an umbrella for support by several donors. Further discussion would be needed to examine the feasibility of (i) generalizing to all departments the practice of output based incentive payments under the umbrella CB plans and (ii) bringing under the plans all projects currently providing some incentive to education personnel.

The PAP\textsuperscript{1} also attempts to tackle the issue of education personnel performance. In addition to allowances for teachers in remote or otherwise difficult schools, PAP budgets will finance:

\textsuperscript{60} Preliminary calculations done after the Review show that in 2002 primary teachers earn between 45 and 60\% more than in 1998 (1998 price terms). Lower and upper secondary teachers earn between 65\% and 90\% more.

\textsuperscript{61} Many agree that the 2005 average salary planned under NPAR will not suffice to reach NPAR goal of a professional and motivated civil service. Any alternative for faster increase would require a revision of the NPAR strategy of containment and a reduction in the overall number of the civil service. This is not for discussion at least until after the national elections.
Payment for relocation to personnel re-deployed from administrative to teaching duties and across locations (for both administrative and teaching staff)

- Performance-based incentive payment for critical functions in the implementation of the ESSP priority programmes, including in 2002 all school headmasters, district education chiefs and provincial education directors. Performance is measured in terms of timely preparation of accurate PAP reports (allowance range from 75 US$ to 150 US$ annually).

- Higher mission allowances for PAP monitoring missions (financed under PAP11) as an incentive to get monitoring done.62

All these initiatives raise classic challenges (such as ensuring adequate implementation and monitoring of performance appraisal and output based payment schemes and avoiding the establishment of perverse incentive patterns, such as the proliferation of uncoordinated monitoring missions under PAP11). It is also unclear how the payment of an incentive to directors or chiefs will be considered by the two or three most active BMC members who usually carry the job of preparing the PAP reports. However, the system should be given a chance to show how it works. It is clearly well fitted with the ESSP approach of implementing reforms through enhancing structures and capacitating individuals in place.

The concept of Priority Mission Groups under the NPAR is an alternative to some of the PAP activities. With this system the government legitimizes rewards for special performance of a small number of individuals recruited to work in teams on time-bound tasks critical for the implementation of government reforms. The management of the scheme is under tight control by the CAR. The scheme is uniform across sectors and provides substantial additional remuneration against performance to the PMG members (between 50 and 120 US$ monthly depending on base salary category). Donors are invited to contribute in the form of training, equipment and even contribution to payment of the additional remuneration. The Prime Minister has approved the scheme and there is a government budget for it to start in 2002, although it looks now more likely that it will only be launched in 2003.

Several elements of the scheme appear to make it unattractive to MOEYS senior management, who noted that (i) the mechanism for selection of the PMGs might not be transparent, (ii) it was difficult to ‘recruit’ people for what should be their permanent function (ESSP reforms are implemented through and by MOEYS structures), and (iii) the allowances were too high and would introduce unacceptable discriminations amongst individuals performing broadly similar functions with broadly equal performance levels.

Close monitoring of both MOEYS and the PMG schemes is needed in order to inform future personnel management policies that would better support result-oriented management frameworks in the civil service.

8. Conclusion

Result based framework and indicators

The ESSP framework and indicators are in place and broadly endorsed by a growing number of partners. Links between indicators at various levels (inputs, outputs and outcome) are clearly based on the links between programmes, strategies and policies. This clarity has been maintained in the

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62 PAP1 raises the question of a justification for a differential treatment between education personnel and other civil servants. One aspect of the response is the recognition that with 6,000 schools education is by far the most decentralized service provided in Cambodia.
preparation of the education contribution to the (draft) NPRS, and the links with a longer term perspective on the EFA goals are being strengthened.

One challenge for the education sector is to localise programmes, strategies and results; another is to strengthen local horizontal accountability patterns (provincial and commune levels). The concept of provincial ESSPs might be a vehicle to further explore how this could take place.

Information systems and capacities to provide adequate information for pro-poor policy and programme monitoring and development and for progress monitoring (including financial progress) are being enhanced. Further support will be required, and a particular attention to the capacity building needs of provincial and district administrations and to changing the information management incentive framework at these levels through carefully designed plans for further decentralisation.

Planning framework

Developing provincial ESSPs would require the design of a phased process in order to progress from the currently used planning modalities (provincial planning of education priority programmes limited to detailed annual planning within individual and centrally fixed PAP envelopes, lack of integration with other provincial planning processes) to multi-annual and integrated provincial education planning with some discretion to adjust national programme budget envelopes to local priorities. This is clearly a long term undertaking and it would require progressive clarification of the broad government framework for decentralisation and deconcentration.

At national level one priority is to address the institutional dimensions behind the multiplication of financial planning and prioritisation frameworks (PIP, MTEF, NPRS costing plan) and to further clarify how the education sector planning approach can best fit the broad government financial planning cycle. The MTEF approach has the potential to streamline currently fragmented processes (especially capital and recurrent budgets and integration of donor project resources). For this to happen it should (i) be given its status of financial instrument of government policies and (ii) be more clearly institutionalised and internalised by MEF Departments.

The increasingly close partnership between MOEYS and supporting donor agencies and NGOs has demonstrated that this is the way to address fragmentation in priorities, decision making and planning processes and – over time – implementation and funding modalities. One lesson to learn is that this has required that the partnership is progressively formalised. Another is that each partner must see some benefits accruing from the partnership, even if these may take some time to materialize and to appreciate that there will also be inconveniences.

These lessons should be translated to facilitate the strengthening of other partnerships, in particular that between MOEYS and local authorities (Governors and Commune/Sangkat Councils) and with the government central agencies.

Budgeting framework

Enhanced partnership with MEF and the articulation of a comprehensive and clear public finance management reform programme by MEF will be crucial to enable education to further progress in result based resource management.

The PAP system has proved to be instrumental in several key dimensions. In particular, it has been used as the vehicle to link education costs and budgets to the desired results and to the institutions responsible for both results and budgets. However, it cannot function as long as basic systems
which should guarantee that approved budgets are available and spent (treasury, cash management) are not strengthened. Financial management and post-audit systems and capacities need strengthening within and outside the education sector. It is important that this takes place in the context of a medium term strategy to reach the goals that would be outlined in the MEF public finance management reform programme.

**Personnel incentive framework**

Improved living conditions and enhanced professional incentives for education personnel are another key to the success of the ESSP reforms. This remains a difficult issue and contradictory signals are given as to the government’s commitment to implement the plans of the Council for Administrative Reform for pay reform. Although formally approved, these plans are not reflected in the government’s first MTEF 2003-05. In addition, it is unclear that these plans are sufficient to reach the goal of an efficient and motivated civil service. The post-election period will be critical to assess the feasibility of bolder strategies and to quickly put these in place if appropriate.

In the meantime, the implementation of the PAP1 in 2002-03 will test MOEYS capacities to successfully deliver better results in key policy areas against additional payment to education personnel. This needs close monitoring.

**Strengthening MOEYS management capacities**

It is clear from the above that the changes required in MOEYS management capacities at all levels are tremendous. The second ESSP Review underlined that this was a medium term undertaking and that it was imperative to assure continuity in supporting changes over a corresponding period of time. Prospects for the two to three upcoming years are satisfactory in this regard. However, this raises two critical issues:

- In the ESSP, priority is focused on enhancing teachers’ living conditions as a fundamental requirement for improving both efficiency and equity in access and quality of education. However, considering the demands that the reforms put on the management personnel at all levels it will be crucial to maintain a ‘fair’ balance and to also enhance working conditions for them. That PAP1 also includes incentive payments for key BMC administrative personnel shows that MOEYS is aware of this necessity: it remains to be seen how an initiative such as PAP1 could be more firmly embedded in the mainstream CAR reform.

- So far the ministry has been particularly successful in managing the technical assistance provided. This has primarily been due to the personal leadership demonstrated by the Minister and the Secretaries of State, who paid continuous attention to ensure that the TAs would respect the need to progress at the pace of the ministry’s staff. It will be very important that this continues to be the case in a situation where the volume of TA inputs is planned to increase over the coming year. Coordination of TA inputs by the Ministry will need to be strengthened and this will have to be attentively monitored by the MOEYS/donors/NGOs partnership.

**References**


Annex 2: Progress and constraints in developing results based public expenditure management in the Cambodian health sector

1. Introduction

This annex examines the extent to which results oriented public expenditure management has been implemented in the health sector, the problems overcome and the main constraints to progress likely to be present in the future. The section is structured around a series of six questions as follows:

- Section 2 - Are priorities clearly stated?
- Section 3 - Are information systems adequate?
- Section 4 - How well does the planning framework support a results-oriented process?
- Section 5 - To what extent is funding and decision making responsibility fragmented across the sector?
- Section 6 - How well are staff incentives aligned with the objectives of programme performance?
- Section 7 - Do budgeting systems facilitate the development of results based sector financing?

It is important to realise that results based expenditure management in the sector is still at an early stage. Some of the requirements are in place, while others are planned. The chapter will not, therefore, attempt to critique the extent to which results based budgeting is actually done. Rather it will examine the extent to which a framework is in place, together with any shortcomings with the existing structure, and also focus on the impediments that will be faced by the sector in establishing further elements of a result based process.

2. Are priorities clearly stated?

During the Khmer Rouge regime and afterward during the prolonged period of unrest when the Khmer Rouge were still active from bases in Thailand, much of the health system infrastructure was degraded. Unsurprisingly then, the main emphasis was to rebuild the infrastructure. The previous system had been based on four levels: national centres, provincial hospitals, smaller district hospitals and commune health centres. The recognition that it was better to concentrate resources led to a new structure, embodied in the health coverage plan of 1996. For the purposes of providing health care, administrative districts were amalgamated into new ‘operational districts’ (OD) to serve a population of around 100,000 each. Each OD should have a referral hospital which, in principle, are to provide the same standard of care. This package of care is known as the complementary package of activities (CPA). In practice, in many areas, the provincial hospital continues to provide a higher standard of care than in surrounding ODs. Each health centre should serve a population of around 10,000 which means that larger communes may have their own health centre while smaller ones must share. The health centre should provide the minimum package of activities (MPA).

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63 It should be noted that while ODs often follow the boundaries of administrative districts, sometimes they do not so that an administrative district might be shared between two or more operational districts.
64 Comprises consultation and advanced diagnosis for referred patients, medical and surgical emergencies, hospitalisation and dentistry (Ministry of Health, Health Centre Manual, Phnom Penh, 1997).
65 Comprises most essential first level services including initial consultation and primary diagnosis, emergency first aid, chronic disease care, routine child health, maternal care including normal delivery and birth-spacing advice, health education and onward referral.
Until recently the key target has been the extension of the 1996 coverage plan to the country. This is measured in terms of:

- Numbers of health centres and OD hospitals established in relation to the target numbers, and
- The extent to which each facility provides either MPA or CPA.

In practice many facilities continue to provide less than CPA or MPA while other provide an enhanced service (sometimes known as CPA+). Since the coverage plan was to ensure that the majority had physical access to services, achievement towards the target is sometimes couched in terms of proportion of population within a certain distance from each facility.

The SEDPII reports progress, up to year 2000, towards the two targets in the following way (Royal Government of Cambodia 2002):

- 55% of the population were within 10 kilometres or a two hour walking time from a health centre
- 92% of hospitals had drugs necessary for providing operations under the CPA but only 30% were able to provide the surgical care (they lacked other facilities such as a fully functioning operating theatre).

The 2002 Ministry of Health Budget book indicates that 82% of the health centres are now able to provide MPA while 40% of OD hospitals are now able to provide the CPA.

What is clear is that results in the health sector during the 1990s were based largely on inputs, numbers of facilities relative to population, and to some extent processes as the ability of each facility to provide a requisite standard of care. The exception to this has been that some of the national programmes, notably Malaria and HIV/AIDS, which published and evaluated progress on the basis of infection rates, deaths and treatments provided. These are published annually in the reports of each programme. What is largely lacking in these reports is any clear relationship between the results of the programmes and the resources used. A key issue is that the programmes simply do not know how much resources are being provided from external sources which provide the majority of funding for these programmes (See Section 5).

Since 2000, there has been much greater awareness of the need to look not only at inputs and processes but also the effect of these on outputs and outcomes. Successive reports from both donors and government emphasise the continuing low use of public facilities by the population and dependence on the private sector. Although estimates vary, out of pocket spending on health care accounts for between 60 and 85% of spending. The majority of this out-of-pocket spending is purchased from private providers. Statistics also suggest that activity within the public sector is not keeping pace with the considerable health problems in the country. Between 1997 and 2000 the numbers of contacts per capita in public facilities actually fell slightly from 0.33 to 0.31 (table 6). Although the infant mortality rate fell prior to 1986, it actually rose between 1986 and 1997 (National Institute of Statistics / ORC Macro 2000). Other indicators, notably adult (15 to 49) HIV prevalence, have improved but the overall position is extremely mixed.
Table 6: Trends in selected utilisation, access and health status indicators

<table>
<thead>
<tr>
<th></th>
<th>1997</th>
<th>1998</th>
<th>1999</th>
<th>2000</th>
<th>2001</th>
<th>Provincial variation</th>
</tr>
</thead>
<tbody>
<tr>
<td>Number of contacts per year</td>
<td>0.33</td>
<td>0.31</td>
<td>0.29</td>
<td>0.31</td>
<td>0.35</td>
<td>0.09 to 0.9</td>
</tr>
<tr>
<td>(public facilities)</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Bed occupancy (not all facilities)</td>
<td>45%</td>
<td>45%</td>
<td>47%</td>
<td>51%</td>
<td>51%</td>
<td>9.8% to 122%</td>
</tr>
<tr>
<td>Prenatal coverage</td>
<td>33%</td>
<td>30%</td>
<td>36%</td>
<td>41%</td>
<td>43%</td>
<td>5.6% to 65.2%</td>
</tr>
<tr>
<td>Delivery coverage (health centre/hospital as % of expected deliveries)</td>
<td>6.9%</td>
<td>5.7%</td>
<td>7.7%</td>
<td>9.2%</td>
<td>8.6%</td>
<td>0.01% to 9.2%</td>
</tr>
<tr>
<td>Measles coverage</td>
<td>0.68</td>
<td>0.63</td>
<td>0.63</td>
<td>0.69</td>
<td>0.715</td>
<td>0.27 to 0.90</td>
</tr>
<tr>
<td>Malaria – cases per 100,000 population</td>
<td>1,549</td>
<td>1,246</td>
<td>1,199</td>
<td>1,104</td>
<td>1,111</td>
<td></td>
</tr>
<tr>
<td>Malaria case fatality rate</td>
<td>0.51</td>
<td>0.44</td>
<td>0.64</td>
<td>0.47</td>
<td>0.46</td>
<td></td>
</tr>
<tr>
<td>Adult HIV prevalence</td>
<td>4.55%</td>
<td>3.46%</td>
<td>3.2%</td>
<td>2.8%</td>
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</tbody>
</table>


There is evidence also that, as in many other countries, the incidence of public spending favours middle and upper income groups rather than the poor. The proportion of public spending estimated to benefit the poorest quintile is 13%, compared to 25% for middle income groups (Chart 2). Of particular note is the relatively low use of health centres by the poor despite efforts to increase physical accessibility to remote areas through the coverage plan.

Chart 2: Benefits incidence consumption group (RGC spending)

Source: computed from data in table six and CSES data on utilisation, (National Institute of Statistics 1999)

In August 2002 the Ministry of Health completed its health sector strategic plan (HSSP) for the period 2003-07. This identified, through a process of national and local consultation, a series of eight strategies that were seen as key to meeting the central outcomes of the health system and overall goal of improving health and contributing to poverty alleviation (See Box 5). Each of the strategies are linked to indicators and targets to be achieved by 2007. Most of the indicators are output based. So, for example, indicators for the extension of basic services include number of contacts per capita with public facilities, delivery by trained staff and contraceptive prevalence rate. They also include process indicators such as the proportion of hospital attendances that originate through a referral from a health centre – testing the development of a clear referral system – and proportion of staff and clients aware of defined standards of care.
The health sector section of the Poverty Reduction Strategy is broadly consistent with the HSSP. The PRSP (renamed the NPRS) presents a sub-set of indicators that reflect a greater focus on poverty.

There are a few outstanding questions. One is that the indicators are mostly not broken down by income or wealth groups. There is a danger that this could mean that targets for indicators, such as contact rates or even reductions in infant mortality, are achieved without improving these indicators for the poorest and most vulnerable. Another issue is that the costs finally indicated in the second draft NPRS have not been explicitly linked to the HSSP preliminary financing framework/MTEF developed earlier in the year. There also appears to have been a lack of guidance as to how narrow or broad the ‘screening’ of the HSSP to identify the NPRS pro-poor public actions had to be.

**Box 6: Health Strategic Plan, 2003-07**

<table>
<thead>
<tr>
<th>Goal</th>
<th>Outcomes</th>
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| Enhance health sector development in order to improve the health of the people of Cambodia, especially mothers and children, thereby contributing to poverty alleviation and socio-economic development. | • Reduced infant mortality rate  
• Reduced child mortality rate  
• Reduced maternal mortality rate  
• Improved nutritional status among children and women  
• Reduced total fertility rate  
• Reduced household health expenditure, especially among the poor  
• More effective and efficient health system |

**Strategies**

**Health service delivery**

1. Further improve coverage and access to health services especially for the poor and other vulnerable groups through planning the location of health facilities.
2. Strengthen the delivery of quality basic health services through health centres based upon minimum package of activities.
3. Strengthen the delivery of quality care, especially for obstetric and paediatric care, in all hospitals through measures such as the complementary package of activities.

**Behavioural change**

4. Change for the better the attitudes of health providers sector wide to effectively communicate with consumers especially regarding the needs of the poor through sensitisation and building interpersonal communication skills.

**Quality improvement**

5. Introduce and develop a culture of quality in public health, service delivery and their management through the use of Ministry of Health quality standards.

**Human resource development**

6. Increase the number of midwives through basic training and strengthen the capacity and skills of midwives already trained through continuing education.

**Health financing**

7. Ensure regular and adequate flow of funds to the health sector especially for service delivery through advocacy to increase resources and strengthening financial management.

**Institutional development**

8. Organizational and management reform of structures, systems and procedures in the Ministry of Health to respond effectively to change.

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66 To some extent the health MDGs suffer from the same problem. Gwatkin observes that improvements in overall infant mortality, for example, might be more easily achieved by addressing health problems of middle income groups emphasising the importance of disaggregating key indicators where possible Gwatkin, D. R. (2000). ‘Health inequalities and the health of the poor: What do we know? What can we do?’ Bulletin of the World Health Organization 78(1): 3-18.
3. Are information systems adequate?

There are a plethora of regular information systems and sample surveys that in principle provide information on target achievement. These include:

- Health information system maintained by the Department of Planning and Health Information, MOH
- Financial report system, collated by the Department of Budget and Finance, MOH
- Surveillance systems maintained by national programmes
- Surveys including the Socio-economic survey (1997, 1999 and ongoing for 2002) and also the Demographic and Health Survey (2000)

A recent report on monitoring and evaluation stressed a number of issues that need to be addressed in order to develop a functioning system that can be used for monitoring purposes (Lucas 2002). First there is the lack of incentive, given low salaries, to provide accurate data. At worst data may even be made up and over-inflated to indicate more favourable targets. One contracting-in OD, for example, found that the number of contacts actually fell during the first few years of the pilot according to official statistics even through observation suggested that occupancy in facilities was higher. Further investigation suggested that numbers prior to the pilot had been exaggerated. On the other hand MOH conducted a sample survey to check the validity of statistical returns and found no evidence of inflation.

A more benign form of the problem of data accuracy is that if local managers do not understand the reason for collection they may put little effort into ensuring timely and accurate returns. One positive example here is the human resource database maintained by the Department of Human Resource Development in the MOH. This is a record of the numbers and types of staff and their qualifications and training in each facility across the country. It is to be linked with the payroll database maintained by the Personnel Department. The data are collated in the Ministry of Health but then transferred to CD and copied to PHD and OD offices enabling local use and feedback. This approach, which is quite different from the command approaches usually adopted, seems to be a good model for the future in encouraging data accuracy by demonstrating the usefulness of the reports produced to local levels.

A second issue concerns the use of data. Currently there are very few attempts to draw together information, for example on utilisation and spending patterns, in order to compare the impact of levels of spending on outputs. Part of this problem is associated with the institutional separation of planning and finance wings in the MOH. Another issue concerns the capacity of the MOH to undertake such analysis. In fact the MOH does have capability since good analyses have been completed in the past by staff. It raises the question of incentives since these analyses have only been carried out when donor money was available to provide MOH staff with incentive payments. There may here be a role for the PMG structure to develop a group of people in the MOH capable of combining financial and activity data in way that permits comparisons of relative cost-effectiveness.

Routine information systems are mostly unable to provide accurate data on outcomes or provide any estimate of benefits incidence, for poverty tracking, beyond very broad indicators based on geographic area. This information must be obtained through sample surveys. The DHS is now established in Cambodia and the 2000 survey was thought to be well conducted. Lucas strongly suggests that donors should support one really good DHS towards the end of HSSP in order to provide an indication of changes in outcomes (Lucas 2002). More regular surveys would, he argues, be too costly and probably not sensitive to any impact of HSSP on outcomes which tend to be lagging indicators.
Some measurement of benefits incidence is possible through the DHS but since this depends on assets rather than income or consumption they are less reliable than broader based socio-economic surveys (CSES). In principle the CSES should provide the best information on usage of facilities by consumption group. The 1999 CSES was heavily criticised in providing information on private spending that was significantly below other surveys. It is important that this survey regains its reputation if it is to provide trusted information for monitoring the implementation of the sector strategies and PRSP.

An immediate problem in the health sector is that many of the outcomes that might be used to judge performance are influenced by factors that go far beyond the boundaries of the health care sector or responsibility of the average Ministry of Health. So, for example, infant mortality is probably influenced as much by social, economic and demographic factors as it is by health services. Even a focus on outputs rather than outcomes does not always alleviate this problem. The focus of Ministry of Health activity is traditionally on the supply of health services. So, for example, in order to influence an expectant mother to seek qualified attention around the time of delivery the emphasis is likely to be on ensuring that skilled health workers are present in health centres and hospitals together with the requisite supplies provided at an affordable price. Yet the factors that determine attended delivery, and indeed any other health service demand, are much more complex and include distance costs, community and family expectations about place of birth and information. In Cambodia, where transport systems are extremely underdeveloped, increasing attended delivery may be as much influenced by the building of a bridge over a previously impassable river as by the presence of a skilled attendant in a health centre.

This suggests that the scope of health sector influence may need to be expanded if the key output indicators are to be influenced effectively. In particular, the sector may have to pay much greater attention to demand side barriers to access, such as costs of health care, distance, information, and cultural and community attitudes, in addition to the traditional focus on the supply of services. Inter-sectoral approaches, particularly at the local level, provide another avenue that ought to be further explored.

This section suggests that while there is an established information system, problems of data accuracy are likely to persist for some time. This reinforces the importance of ensuring that data can be cross-checked through the use of periodic sample surveys. The Cambodian DHS is now well established and provides much useful information for this purpose. Its coverage of socio-economic issues is partial: this means that analysis will continue to depend on the Socio-economic survey. Concerns over the reliability of this survey must, therefore, be addressed if it is to be used as a trustworthy complement to the routine data collection sources.

4. How well does the planning framework support a results-oriented process?

There are a number of issues that must be addressed for the planning process to provide a reliable framework for programme result monitoring. First, changes are required in the planning cycle to so that activity plans fit with, and inform, budget preparation. A second issue is the development of a system of operational plans that reflect priorities and indicators contained in the health sector strategy. Thirdly, it is necessary to incorporate or at least acknowledge the role of local institutions in the planning of health services.

The current planning cycle impedes timely implementation and monitoring of activity or programme based plans. Budgets for the next fiscal year are prepared by end of July for submission to MEF. In contrast activity plans, which are prepared first by each operational district, consolidated at PHD level and then submitted to the Ministry of Health are not prepared until October each year.
They are therefore constrained by the budget envelope already established for each budget management centre and line item.

The problem is further exacerbated by the structure of the Ministry which divides responsibility between three director generals (administration, health and inspection). The Department of Budget and Finance, responsible for the development of the budget, is under the DG administration while the Department of Health Planning and Information, responsible for the development of provincial plans, is under the DG Health. This division in accountability means that there are serious disconnects in the development of financially realistic plans, although cross department committees, such as the MTEF working group, have begun to alleviate this problem. Ideally, however, institutional review and change is needed in order that these key departments are placed under the same authority.

A new planning manual is currently under development which will synchronise the physical and financial planning process. The proposed steps are (Ministry of Health 2002):

- February-March: annual review, where are we now?
- February-March: setting objectives, where do we want to go?
- April: Prepare action plan, how do we get there?
- April-May: costing of action plan and preparation of budget
- November-December: adjustment of operational plan and budget
- Monitoring throughout the year and end-year evaluation.

The planning process at provincial level will also be adjusted in order to align the budget and activity planning process so that operational plans and budgets are developed at a similar time.

A second issue is that the strategies developed in the HSSP cannot directly be used to develop operational plans. Strategies cut across many programmes and providers in the health care system. So, for example, the behavioural change strategy (4) will be implemented through basic provincial services, national programmes and nationally developed IEC campaigns. Linking the MTEF programmes to the HSSP is underway but the major gap is in developing operational plans for provincial and national programmes that relate resources available to the indicators and targets proposed in the health sector strategy. One approach favoured by some MOH staff is to channel most of the funding and responsibility for programmes through provinces, leaving national programmes in a strategic role. There is a view that national programmes certainly should not be involved in the delivery of bed-nets for malaria control or contraceptives. Yet such a transition will take time and it will be important for the MOH to develop both a vision of deconcentrating services to provinces and also a transition plan for reaching the target.

The role of local government in the health sector is currently small but likely to grow in the future. The governor has control over a budget part of which can be used to develop health services. In addition, and perhaps more significantly, the governor is able to influence priorities both in prioritising access to cash resources at the treasury and also in influencing the use of line budgets. Such opportunities may have increased with the introduction of post-audited funds (see discussion of PAP in section 2.7). There have been cases, for example, of local governors and PHD departments utilising post-audited funds for capital renovation of government offices.

A second tier of local government involvement is through the newly established Commune Councils. Already in some parts of the country the Seila programme has provided funding for the construction of health centres. Although health care funding from this source represents a small proportion of the total, as the councils become more active, sophisticated and perhaps better resourced they may begin taking a more active role in the health sector. This will however take
considerable time. Another role of communes is through representation on health facility financing committees that decide the level of user charges and the extent of exemptions in health centres. OD and PHD directors report some negative experience of this involvement, with commune leaders sometimes demanding a share of the user fee income.

The role of non-MOH deconcentrated and decentralised institutions in the planning of health services requires careful planning. Although their influence is probably not that great at the moment, examples of involvement clearly indicate that objectives may not always coincide with the priorities of the health sector. Even where there is no malign intent, the fact that some local authorities will have more resources at hand to spend on health necessarily has an effect on any attempt at needs based allocation of resources.

5. Is funding and decision making responsibility fragmented across the sector?

In order to compare results with resources it is necessary to build up an accurate picture of the total resources being spent on different programmatic areas. This picture is severely constrained by the fragmented nature of spending in the health sector. There are two main issues. First, incomplete knowledge on funding makes it difficult to gauge the total volume of resources being used in each programme area. Second, the fragmentation means that it may be difficult to programme priorities across the sector. This latter problem is particularly important for external funding that is disbursed outside the government system. Fragmentation has a number of elements.

Salaries

One dimension of fragmentation is the many and varied ways that staff are paid within the health sector. While the main government route remains the payroll, external funding agencies use a variety of incentives to improve performance. Increasingly the government also employs or is developing new ways of paying staff (See Section 6). The key issue is that these methods are largely uncoordinated so that there is no guarantee that individual incentives to deliver services are necessarily aligned with the institutional requirement to improve performance according to planned targets.

External funding

Public funding of the health sector is dominated by external sources. In 2001 donors accounted for around 68% of public funding for health care (Ensor 2002). Both CDC and the Ministry of Health have databases on external funding but these are incomplete. There is quite accurate data on allocations made by development banks and, to a lesser extent, UN agencies. Information on bilateral donors and international NGOs is available from CDC on source of funding only. This does not identify which part of the health sector or region of the country benefits from spending. The MOH database is set up to store information on distribution of funding but the data are far from comprehensive. A consequence of this is that it may be difficult to identify whether a higher performing sub-sector or area of the country is providing good value for money or because it receives substantial funding from off-budget sources.

The picture on coordinated priority setting is quite mixed. A number of donors have explicitly signed up to the idea of sector wide working which, although it does not include fund pooling, does imply joint planning of inputs and programme outputs. The World Bank, Asian Development Bank and DFID are in the process of finalising a health sector project that is broadly in line with the new sector strategy. The initial slow speed of progress in developing a sector strategy meant that initially these donors began to develop their own project. This in turn attracted criticism that they were
acting independently and outside the spirit of sector working. While some of this feeling remains, it is now generally apparent that the new project will support the strategy in most of its components. UN agencies, notably WHO, are also heavily involved in the sector wide approach.

It is not yet clear how far other donors that traditionally disburse outside the government system, particularly USAID, can be included within a programme based approach. The problem is both in obtaining information on funding flows and in influencing these flows to advance programme targets. Much currently depends on the strength of national programme or provincial leadership. Strong national programmes, such as HIV/AIDS, have been quite successful in including the resources of a wide variety of donors into their plans and strategies. In other cases, the planning has not taken place. According to the PER external funding allocated outside the government sector accounts for around 40% of external and 27% of total public funding. Its current omission from the programme approach to planning is significant.

**National programmes**

Priority activities of the public health system are divided between two groups of organisations. Provinces, which receive about 57% of government funding, are responsible for operating health centres and referral hospitals and delivering priority programmes (Ensor 2002). At the same time the national programmes, which are all based in Phnom Penh, receive about 19% of funding, to oversee and help deliver interventions for priority diseases such as malaria, dengue, HIV/AIDS and maternal health.67 They support provincial activities in these areas through the provision of technical advice, supplies, training and outreach supervision.

This arrangement means that planning for key services is divided between provincial plans and plans of national programmes. This further implies that many of the targets developed for the sector are the joint responsibility of provincial departments and national vertical programmes. This dual responsibility for targets may make it difficult to ensure accountability for targets, particularly when it is so difficult to track which groups benefit most from national programme spending.

**Capital and recurrent budgets**

A final issue of fragmentation is the continuing separation of the capital from the recurrent budget. While the recurrent budget is administered by the Ministry of Health, capital is allocated at the national level by the Ministry of Finance and at the provincial level by the local governor or, in the case of the Seila programme, local commune administrations. Once a health sector capital programme is complete then the Ministry of Health becomes responsible for its maintenance and running costs.

This is an extremely complex issue. In the future it may be possible to develop a system for properly depreciating assets and ensuring that the line ministries are responsible for selection and are charged for the investments. In the short term joint planning of recurrent and capital funding, at least at the national level, is necessary. Here the dichotomy between planning and finance departments is important. The annual public investment programme (PIP), which includes planned and ‘hoped-for’ investments into national programmes and hospitals is developed by the Planning Department of MOH and sent to the Ministry of Planning. The national budget, which deals with recurrent spending is developed by the Budget and Finance Department of MOH. Although the PIP includes both recurrent and capital funding these have largely been estimates and bear little relationship with the budget figures sent to the MEF.

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67 The remaining funding is allocated to national hospitals and the central Ministry of Health.
The Medium Term Expenditure Framework

A major step in establishing a consolidated budget picture, first for information and second for planning purposes, is the development of a medium term expenditure framework (MTEF). Health is one of the two pilot ministries that have developed an MTEF for the first time for the period 2003-05. This will be included as an annex to the budget for 2003. During 2003 the MTEF will be extended at least to the rural development and agriculture ministries and possibly to others such as transport and environment. It is intended to table the MTEF for 2004 at the next CG meeting (late 2003) so that donors can begin to examine how they might react to the priorities of government.

Inevitably the estimates in the first year are based on many assumptions, but the first achievement is to bring all resources available to the public health sector together into one document. This includes both government resources, direct support to government programmes by external funding agencies, and externally funded projects. The approach also establishes a series of programme categories. These closely accord with existing national programmes, specialised institutions and provincial programmes to avoid major difficulties with costing of programmes. The second achievement of the 2002 MTEF is that for the first time recurrent and capital estimates provided in the PIP, MTEF and recurrent budget submission use a consistent set of figures.

A remaining issue is that figures are still submitted to two separate agencies, PIP to the Ministry of Planning and MTEF to MEF. As a result, it might be possible for MOP and MEF to make revisions independently and so still end up with documents that were inconsistent. The way MOH envisage that this will be tackled is that neither MOP nor MEF will make revisions to the capital estimates but they will be updated on a rolling basis by the line ministry in the next fiscal year. There is a strong recognition that the capital estimates are still based on a wish list rather than considered priorities within an estimated resource envelope. It is thought, however, that these figures will become firmer in future years as costing and budgeting techniques improve.

While the development of a consistent and reasonably comprehensive set of funding estimates through the MTEF is an achievement, several further developments are required before it becomes an effective tool for planning. These include:

- A mapping of the sector strategy indicators to the programme areas adopted by the MTEF
- Development of operational plans that indicate how outputs and outcomes attached to each programme will be achieved
- Costing of operational plans and a comparison with resources available
- Identification of institutional and individual responsibility for the attainment of the targets established under each plan. Where there is a dual responsibility, as is the case with provincial plans and national programmes, it is necessary to identify how the responsibility is to be shared.

The discussion of the role of the MTEF in addressing fragmentation also stresses the continuing importance of a sector wide strategy to management and funding. Although it may be neither feasible nor, perhaps, desirable, for all funds to be managed through such an approach (there should be some room for local preferences), greater coordination in management is required if the MTEF is to be converted from a basic description of funds raised and spent in the sector into something that can be used in an active way to programme resource flows.

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68 CG meetings usually take place in June, which is a more convenient timing for donors to react to government plans and donor inputs stated at the CG to be incorporated in the final plans for the next budget year (January). The postponing of the CG meeting in 2003 takes account of the national elections, scheduled for mid 2003.
6. How well are staff incentives aligned with the objectives of programme performance?

In common with the entire public sector, wages of health sector staff are chronically low. The average monthly total salary for MOH workers is currently around 20 US$. While this has increased over the last five years, and particularly since agreement on a new pay structure in 2001, it is still far below what is considered to be a minimum subsistence level.69

The low level of salaries, and consequent poor staff motivation, is one of the central issues within the sector. Many methods are being used to address this problem in addition to gradual civil service reform and better funding for salaries across the public sector. Many donor projects include allowances for per diems, incentives and training allowances for government staff involved. Some donors, where their rules permit, incorporate explicit salary supplements. In other cases, staff take leave of absence so that they can work full time on the project and receive a project salary.

A number of pilot projects have had as the central motivation the payment of bonuses to staff based on explicit criteria for improved performance. One ADB supported project in Takeo, Prey Veng, Kampong Cham experimented with contracting arrangements for district level services. A case controlled evaluation of this experience suggested that the contracting arrangements led to improvements in output indicators and a reduction in the financial burden on patients (Keller and Schwartz 2001).

The contracting project used two main models. Contracting-out led to all services in the district being handed over to a non-government contractor. The contractor then managed facilities and employed staff. Many government staff took leave of absence to work in the pilot. Salaries of between four and ten times the government levels were paid to workers. A second model, contracting-in, was also tested, in which a contractor took over the management of the facility and employed the main administrators but health staff remained on the government payroll. Even in this case some small salary supplements were paid to government workers. Other projects are experimenting with strategies for increasing salaries of government employed staff through performance based internal contracts.

Many of the projects aiming to boost government salaries attempt to regulate the level of incentive based on results. Under the ADB contracting project a range of criteria were used. These included staff not asking for unofficial payment, keeping regular working hours and maintaining patient confidentiality. The management requirements of the system are quite intensive since staff are assessed on a monthly basis. It is also not clear how far many of the criteria can be measured in an accurate or objective basis. Nevertheless, the contracting pilot appears to be the only project that has been subject to evaluation (Keller and Schwartz 2001). This included case-control since some districts were chosen as controls for the pilot, they were given additional resources but were not subject to the management changes taking place in the areas. Although the evaluation suggested that the intervention was cost-effective in reducing total (public and patient) costs it was significantly more expensive for the public sector.

Support to National Council for HIV / AIDS and Dermatology (NCHADs) for HIV/AIDS interventions has also followed a performance based route. In the past a supplement was paid to staff by UNAIDS regardless of performance. This later turned into an attendance allowance to ensure that staff were at their desks during office hours. This is likely to evolve further into a performance based payment. Increasingly donors are providing fixed payments to teams for

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69 As an example the minimum daily consumption, according to the draft PRSP, is $0.5. Assuming 5 people per household (CSES, 1999) and 2 wage earners on average health worker salaries, implies household income only 53% of what is required. Requirements will, of course, vary across the country but the example illustrates how low the wages really are.
completing tasks to avoid having to monitor individual work performance and also to avoid the perverse incentive effect that payment per head tends to lead to an larger number of staff being hired (a brief overview of some of the systems used is provided in Grace, Wilkinson et al. 2002).

A further source of salary supplement is the development of user charges in many facilities throughout the country. Health facilities establish their own health financing committees which set tariffs for service and control who are exempted from charges. Schemes must receive approval from the Ministry of Health but the main national guideline to be followed is that revenue must be divided 49% for salary supplements, 50% for operational costs and only 1% to be returned to the treasury. The range of salary improvements obtained through user charges varies from just a few dollars per month in some health centres to 100 dollars or more in some hospitals.

Although these various strategies to raise incentives have undoubtedly improved health worker salaries significantly they do raise a number of issues that impinge on the ability to develop results oriented planning.

A key problem is that there is wide variation in the incomes of health workers depending on what projects exist, where user charges have been established and what local resources are available for paying charges. Even though user charges should be reported to the PHD and Ministry of Health, reports indicate consistently lower figures than estimates obtained from individual user charge evaluation. This suggests there is significant under-reporting. In these circumstances, even if activities can be measured with some precision it may be difficult to obtain accurate estimates of the resource inputs made into individual programmes, making it difficult to compare results with financial commitments.

A further problem is that since much of this funding is on a project basis (user fee income being the main exception), there is no exit strategy for ensuring services beyond the end of the project. As a consequence there are plenty of examples of areas where staff have suddenly lost incentives when a project finishes and productivity suffers.

A third issue, connected with the consistency question, is that there is evidence that incentives do not necessarily encourage good practice and efficient use of resources. User charges present a particular challenge since evidence in Cambodia and elsewhere suggest that charges, particularly when going directly into the pockets of health staff, tend to promote curative medicine, poly-pharmacy and inappropriate medical procedures. One evaluation, for example, quoted a health services director as saying ‘we have been somewhat extravagant in providing medicines…..we give them what they want for fear they will no longer use our health service’ (Wilkinson, Holloway et al. 2001). In the case of supplements provided through PAP and donors for particular projects, there are suggestions that this leads to excessive provision of training workshops that are well suited to the per diem supplements that such projects provide. Another example is the supplements paid to workers for outreach activities through provincial and national programmes. Workers are provided with incentives for giving vaccinations to children in remote areas. Because the incentives are paid for individual activities rather than comprehensive care, workers do not provide other services such as child health checks, which reduces the effectiveness of service provision.

A new proposal for developing performance based incentives is the priority mission group (PMG) concept, developed by CAR, which will provide budgeted payments to teams of people carrying out well defined, time limited reform tasks. Payments funded by government will be through chapter 10 (personnel costs) and financed at a fixed rate for each category of staff. Teams will be monitored on a monthly or at least a quarterly basis. Donors will be asked to sign up to the PMG group by funding supplements on the same basis using the framework established by CAR. This would certainly help to reduce the recurrent problem of inconsistent and often totally unsustainable
The World Bank is sceptical about the role and reason for PMGs and prefers to concentrate on the structural problem of reform of civil service pay, conditions and staff allocations. The PMG approach complements other RGC strategies such as the AA scheme whereby top civil servants are paid substantial allowances to free them from having to take on extra employment.

7. Do budgeting systems facilitate the development of results based sector financing?

The Ministry of Health follows a similar process of budget formulation to other ministries with one important exception. In 1997 the Ministry of Health proposed, and got approval for a budget allocation formula for allocating resources to provinces according to a number of characteristics. Operational budgets (chapters 11 and 13) are allocated according to the following criteria (2002 allocations in brackets):

- District health offices – fixed allocation for each office (CR 40m)
- District referral hospitals – fixed allocation (CR 400m for hospitals providing all the CPA, otherwise CR 150m)
- Health Centres - fixed allocation (CR 20m if offering all the MPA, otherwise CR 4m - special allowance for health centres with beds)
- Provincial health offices – mark-up (25% of total OD allocation)
- Activity – allocation according to number of inpatients (CR 20,000) and outpatients (CR 1,000) treated in the province based on historic data
- Special – some allowances for remote provinces & regional training schools

In addition the salary budget (chapter 10) is allocated to PHDs according to civil service pay scales and numbers of staff in post.

Before the July budget circular is issued by MEF, the Ministry of Health requests all provinces to provide information on activity and number of facilities. It then divides the budget first between central and provincial allocation and then between provinces according to the formula. This information is sent to MEF which uses it in establishing the funding envelope for health. Provincial governors are then informed of the envelope and are asked to divide the allocation between line items.

At the province level, the PHD organises a meeting for the technical unit, accountant and director to agree on the individual envelopes for operational districts. In turn ODs prepare detailed plans by line item and by facility based on the formula provided by the MOH. The payroll is administered from the province so the budget at OD level covers the non-regular salary budget. It should be noted, however, that since salary levels are extremely low non-payroll items at provincial level accounts for around 85% of the total budget (2001 figures).

Once the OD and PHD budgets are consolidated they are sent to the governor’s office, which amalgamates all sector budgets and submits them to MEF. The governor has to agree to the finalised budget and in principle could take issue with the details of individual sector allocations. According to interviews in PHDs this rarely if ever happens in the health sector.

While budgeting in the health sector remains dominated by a detailed line based system, the development of the regional budget allocation formula has enabled it to be somewhat responsive to health sector targets of increasing access. The budget formula rewards provinces and districts that succeed in extending physical coverage either by building more facilities or raising the standard of
services up to MPA or CPA level. There is also some reward for increased activity. Thus the budget system enables some performance based incentive within the confines of the detailed line items. It is, however, ill suited to the development of a system based on outcomes or more complex output indicators.

**Accelerating disbursement of funding**

Health is one of two sectors piloting the Priority Action Programme (PAP) approach to post-audit funding. The idea of this approach is that funding is disbursed in advance to line ministries and provincial departments on a programme basis. Spending is then accounted for using 43 line items (account codes specifically developed for the health sector PAP) before the next disbursement. Together with Accelerated District Development (ADD) System, which also provides advance disbursement of part of the operational budget, more than 36% of the budget was allocated on the basis of post-audit in 2001. PAP has now been extended to all national programmes, most national hospitals but still only seven out of twenty four provinces (to increase to nine in 2003).

Several issues have arisen in implementing the PAP concept. The first issue is that the implementation of PAP in the health sector has been rather different from implementation in the education sector. The original idea behind PAP was that funding was made available for priorities within the sector. In education this was interpreted through the introduction of a series of targeted programmes such as operational budgets for schools, provision of school books and extra coaching. In the health sector the view was taken that all services were considered a priority both at the province level and also in the national programmes that made original use of the PAP approach. As a consequence it was not clear what outputs were expected from the priority financing. Nevertheless, it might have been feasible to introduce the concept of outputs for the ‘regular’ activities of these existing programmes that became financed through the PAP system. This does not seem to have been considered.

A second issue concerns the extent to which the existing accounting and audit system is designed to cope with the post-audit, programme based objectives of the PAP system. Until October 2001 all supporting documents were required by the MEF to support the spending statement before a further advance was made. Now only the statement is required. Yet the post-audit functions within government still remain weak and some worry that PAP could lead to a break down in financial control.

One aspect is continued strengthening of the government-wide audit capacity. A new National Audit Authority has now been established and the first audit of a government department, actually the Ministry of Finance, began in May 2002. But in order to ensure ongoing control, it is important that the line departments themselves, in this case the Ministry of Health, establish their own ability to develop internal audit of spending throughout the public system. A further aspect is the need to develop a value for money auditing function that can judge the extent to which results have been achieved against resources disbursed. This appears to be within the mandate of the NAA but there are no firm plans. There is a further issue here on the extent to which such a function might encompass all resources provided to the sector and not just those obtained from domestic revenue. This is obviously complex, but it would seem a little perverse if all the results of a sector were considered as output but only the domestic resources as inputs.

There has been some misunderstanding about the operation of the PAP. The lines used are primarily for indicative planning and reporting of spending but managers are permitted to vire between lines in a way that is not permitted under the conventional operational budget (Chapter 11). Yet some directors at local level still appear to be confused by this and continue to treat them as conventional detailed restrictions on item spending. This problem may be exacerbated by
circulars emanating from the Ministry of Finance that reach facilities via the provincial governor’s office which do not benefit from explanation from Ministry of Health.

A further issue that has arisen is that those in charge of spending often find it difficult to fully account for the last disbursement before the next one is due. This is particularly true when advances are squeezed into the second half of the year. MEF has recently suggested easing the restriction by requiring justification of a given advance before the next-plus-one disbursement is made.

Finally, although PAP appears to have improved access to cash by cutting the pre-audit requirement, the system still suffers from the weaknesses in overall cash management. In 2002, for example, the first advance to provinces was not made until May and this was significantly below the 25% of total that should have been provided.

Despite these problems there is evidence that PAP is very popular at local level in providing much needed resources to finance essential items. In 2001, figures indicate that while by the end of the year both PAP and non-PAP spending represented a similar proportion of the budget, the major advantage of PAP was that cash was made available to programmes much earlier in the year. This is likely to have had a significant impact on the ability of provinces to deliver activities, although no formal analysis of impact has yet been carried out. ⁷⁰

Limited evidence on the impact of PAP on provincial performance indicators is mixed. Comparing trends in PAP and non-PAP areas from before the establishment of the system to end 2001 suggests that antenatal coverage has increased more rapidly in PAP areas (table two). In contrast contacts per capita have increased in both groups but faster in non-PAP areas. The rate of attended delivery shows some decline in PAP areas. A key problem with this type of analysis is the presence of confounding factors that exacerbate or retard the measured impact of the disbursement method. More fundamental analysis would need to divide up the impact by operational district or even facility and attempt to take account of confounding factors such as the presence of user charge income and external project support provided.

Table 7: Comparison of output indicators in PAP and non-PAP areas

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<tr>
<td><strong>Contacts per capita</strong></td>
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<tr>
<td>PAP</td>
<td>0.42</td>
<td>0.40</td>
<td>0.37</td>
<td>0.39</td>
<td>0.39</td>
</tr>
<tr>
<td>Non-PAP</td>
<td>0.30</td>
<td>0.28</td>
<td>0.28</td>
<td>0.32</td>
<td>0.37</td>
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<tr>
<td>Total</td>
<td>0.36</td>
<td>0.34</td>
<td>0.32</td>
<td>0.34</td>
<td>0.37</td>
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<tr>
<td><strong>Antenatal coverage (% of estimated pregnancies received care)</strong></td>
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<tr>
<td>PAP</td>
<td>43.0%</td>
<td>30.6%</td>
<td>29.9%</td>
<td>36.7%</td>
<td>47.8%</td>
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<tr>
<td>Non-PAP</td>
<td>32.1%</td>
<td>23.1%</td>
<td>23.2%</td>
<td>32.7%</td>
<td>32.3%</td>
</tr>
<tr>
<td>Total</td>
<td>38.5%</td>
<td>27.6%</td>
<td>27.4%</td>
<td>33.9%</td>
<td>36.8%</td>
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<tr>
<td><strong>% deliveries in hospital/health centre</strong></td>
<td></td>
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<tr>
<td>PAP</td>
<td>12.5%</td>
<td>10.9%</td>
<td>6.8%</td>
<td>9.6%</td>
<td>5.8%</td>
</tr>
<tr>
<td>Non-PAP</td>
<td>4.4%</td>
<td>5.3%</td>
<td>4.3%</td>
<td>4.8%</td>
<td>6.2%</td>
</tr>
<tr>
<td>Total</td>
<td>6.8%</td>
<td>6.9%</td>
<td>5.0%</td>
<td>6.2%</td>
<td>6.1%</td>
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Once programmes are made operational the final stage is the implementation and monitoring of results based on resources used. Several issues are apparent.

⁷⁰ An evaluation (Elmensi, M. (2001) Review of PAP operations in 2000, Health Sector Reform Project, Ministry of Health, Phnom Penh) was carried out in January 2001 but it this was really too early to be able to measure any noticeable impact and most the report makes informed speculation about the likely positive and negative effects.
The system of cash management at local and national level continues to be one of the major obstacles to any plan fulfilment. The experience of PAP suggests that even if a post-audit budget system can be developed the fundamental weaknesses in managing day to day cash requirements of the public sector will impede the fulfilment of plan objectives. Results based, programme budgets based on a medium term planning framework will remain a fiction unless funding can be disbursed in a timely way.

The trend to post-audit certainly increases the likelihood that funding can be made available. However the substantial outstanding issue concerns the inherent weaknesses in the cash management system. This issue has been extensively explored most recently in the IFAPER, yet the fundamental reason for the substantive back-loading of payments remains unclear. The roots of this run deep and include, *inter alia*, lack of capacity to project short-term cash needs, lack of a strategy for short term borrowing, weakness of the treasury system, underdevelopment of the banking system and low use of the system to make payments even where it does exist. It is apparent, however, that tools such as the MTEF and sector strategy will fail to provide a framework within which to plan resources on a programme basis unless the weaknesses in the cash management system can be resolved.

A further issue centres on the procurement process. Procurement is centralised through the Ministry of Health, for national institutions, and local governor offices, for provincial spending. This concentrates power of purchase into a small number of hands and encourages a widespread practice of kick-backs from companies to supplement meagre salaries. The artificial inflation of prices is alleged throughout the sector so that far less can be purchased for resources available. This problem was, until recently, aggravated by the fact that all medical supplies were purchased through the state pharmaceutical company Sokimex. From 2002, the rules requiring procurement through this company have been relaxed and the Ministry of Health can potentially purchase from a larger group of suppliers. According to MOH this has led to substantial savings as a result of fairer prices.

8. Conclusion

*Development of a results-based framework and indicators*

The public health sector in Cambodia has been constrained by the same system of input based, pre-audited public expenditure management faced by all sectors. Until recently, planning was based mainly in facility coverage. In many ways the Ministry of Health has used the budget system quite innovatively to ensure that resources flow to those areas implementing the coverage plan.

The HSSP, which feeds into the NPRS, has developed a series of mainly output (some process) targets that relate well to the outcome indicators for the sector. Some of the performance indicators need to be better targeted. The activity indicators, for example, are measured at the aggregate level without identifying specific changes in use of public services for the poorest groups. Given that user charges do appear to increase overall activity but may impair use of services among the poor,71 it is particularly important that the indicators are made more sensitive.

The recent development of the HSSP is a major development which for the first time identifies key goals, objectives and strategies for the health sector. Output based indicators are specified within a time bound framework.

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71 Certainly at the hospital level: see discussion later.
Modifying the planning framework

A sector wide approach to planning is still at an early stage. Some donors have signed up to the idea of sector wide working and coordinated planning although not, in most cases, pooling of funds. The continued development of this process is important for ensuring more coherent and sustainable support for the sector.

There is still some way to go to make this plan operational. In particular, strategies must be matched to programmes in a way that clearly delegates responsibility for targets to responsible teams and individuals. Substantial costing and development of operational plans is still required. An MTEF for health has been prepared and has forced the MOH to think programmatically. The MTEF provides a framework for government and donors to consider medium term objectives.

Uncertainties in linking current policy and the results suggested by a programme budgeting approach

The PER for health indicates that much of the benefit from public funding accrues to the middle and upper middle income groups, mostly in Phnom Penh. The tendency is encouraged both by government and donors. Several large capital projects have been started in Phnom Penh. In 2001 much of the limited capital spent on health went on the purchase of land for a new hospital in Phnom Penh. Some donors have also tended to contribute to national hospitals and programmes, not primarily for allocations that benefit provinces (through national programmes), but to the construction of facilities.

So there is certainly a case for more targeting and more allocations through provincial level. Another perspective on this, however, is that even when allocations get to the province level they may be spent on central administrative or hospital facilities. A case in point is the way PAP money in some provinces has been used to renovate (and, in one province, practically rebuild) the PHD office and provincial hospital.

However, it would be nonsensical to suggest that pro-poor objectives for the health sector can be achieved by channelling all funding through health centres and district hospitals. Much treatment, particularly the major acute treatment the payment for which can be catastrophic to the household economy, is more efficiently provided in medium size hospitals and some specialist facilities. This concentration is particularly likely when, as in Cambodia, there is a shortage of qualified personnel and equipment. In this case a pro-poor strategy requires that the health sector thinks creatively about which services it can efficiently take to the people and, on the other hand, when it should help the people get to the services. There needs to be a much greater emphasis on demand side financing that helps the poorest to reach hospital when they need treatment and, once there, pay for the treatment.

User charges are another example of a policy that may be at odds with the poverty targets. Introduction of user charges was natural given the extreme shortage of cash in local facilities and payment of unofficial charges. Legitimising the practice has meant that patients in most case know what charges to expect, and assessment conducted after a few years suggested that the formalisation of fees may even have increased utilisation by the poor at the Health Centre level, where fees are extremely small. Yet there is a problem in protecting the poor, particularly in district hospitals. There is also a problem with the perverse incentives that encourage providers to over-prescribe and over-treat. The answer probably is not to abolish charges but to remedy their weaknesses (in particular, access by the poor) through the use of targeted equity funds and to address the problem of perverse incentives that encourage excessive provision of certain types of services. Both are complex challenges.
A major reason for the development of charges is the low level of salaries across the public sector. This is likely one of the major reasons for technical inefficiency and low levels of productivity. The government cannot simply increase salaries to an acceptable level. It could, however, work with donors to develop a consistent policy on bonuses, incentives and pilot projects so that projects do not consistently poach staff from government facilities and so that when projects end there is some possibility that activities do not suddenly decline to nothing.

**Constraints to the continuing development of a results-based approach**

The main constraints to successful development of results-based planning can be divided into those that are internal to the sector and those that are general to government.

Those that are external include:

- Continuing problems in cash management
- Centralised budget systems that still place, with the exception of PAP, an emphasis on pre-audit
- Low salaries and consequent poor incentives for delivering the programme of work
- Separation of capital and recurrent budgets and lack of any strategy for ensuring maintenance and replacement of capital items

Those are that internal to the sector include:

- The separation of finance and planning departments under different DGs
- The confusion of funding and outcomes between national and provincial programmes
- The fragmentation of funding continues to mean that the volume of resources available to different parts of the health sector are not fully known although the MTEF process is helping to develop a more comprehensive public health account.

**References**


Annex 3: Progress and Constraints in Developing Results Based Public Expenditure Management in the Cambodian Legal and Judicial Reform

1. Introduction

This annex analyses the extent to which a result based approach has been used to define and start implementing the Cambodian Legal and Judicial Reform. In contrast with some other sectors and reforms the LJR has not yet developed an approved strategy. Nevertheless specific measures have been implemented to strengthen and improve each sub-sector in parallel to the process of developing the strategy. In this context it was relevant to the study to assess (i) whether in these two parallel processes result-oriented concepts had been used and (ii) to what extent the two processes had supported one another towards the definition of the LJR strategy objectives.

The LJR is an element of a broader set of governance reforms aimed at directly contributing to poverty reduction through strengthened governance. This annex starts by analysing how this has been articulated. It then reviews progress so far in both (i) the development of the LJR strategy and (ii) the implementation of specific measures which de facto contribute to reforming the Legal and Judicial systems in Cambodia. Links are made with budgets in so far as this has been possible and some conclusions are drawn at the end of the annex.

2. Context: poverty reduction and governance in Cambodia

All of the key documents which have successively spelled out the government national development plans have emphasized the absolute necessity of poverty reduction (SEDП I, SEDП II, the Government Platform 1998 and the I-PRSP). The government is currently finalizing the first National Poverty Reduction Strategy which is the culmination point of efforts to progressively sharpen the analysis of poverty dimensions in Cambodia and the design of relevant and cost-effective strategies to address these.

All documents mentioned above, including the NPRS, are predicated on the need for a stronger governance environment to underpin the implementation of all other strategies and to ensure that the results aimed at are reached. Within this environment, properly functioning legal and judicial services have a considerable importance in ensuring that all other reforms take place within, and are accompanied by the strengthening of, an appropriate and transparent legal and regulatory framework with the means to enforce it.

Considerable efforts to adjust and reform the governance structure towards a liberal democracy and a market economy have been made since the promulgation of the sixth Constitution of Cambodia in 1993. New Laws have been enacted, and a large number of administrative orders issued to implement these laws; and new institutions and organisations were created to carry out important responsibilities in the public sector. However, studies which were commissioned or facilitated by the RGC in 1999 to gauge the state of governance within State institutions72 made it clear that efforts were falling short of the policy objectives.

The main weaknesses identified included:

72 One such study on governance and corruption was conducted by Lidee Khmer, with World Bank support. Another on governance and sustainable development was conducted by CDRI, with ADB support.
• The need to strengthen predictability, transparency, accountability, due process and efficiency, each of which is a key element of the rule of law.
• A need to improve the fundamental rights of the citizen, especially of the disadvantaged and vulnerable.
• Need to provide better access to legal and judicial information, and to promote fair and consistent application and enforcement of law.
• Need to further promote democratic values to establish a favorable political and security environment.
• Need for a more complete legal framework for the private sector.

In response government initiated the preparation of the Governance Action Plan (GAP), having recognized that:

• A society built on the rule of law and administration of justice has proven to be one of the most conducive factors for sound economic growth,
• A well-functioning judicial and legal system is the ultimate guarantee or safeguard of predictability, safeguarding that before the law all are equal and that the words of the law are to be trusted because an independent judiciary interprets them. An effective judiciary applies and enforces law and regulations impartially, predictably and efficiently,
• Access to justice is important for providing incentives for growth,
• Providing to the poor the opportunity to assert their individual and property rights, and improved access to justice empower the poor to enforce those rights,
• The integration of Cambodia’s economy into the regional and world economies is not only a necessity for its sustained growth but is part of the irresistible worldwide process of globalization.

The first GAP was approved by the Council of Ministers in March 2001, for the period 2001-3. It outlines the Royal Government’s strategy and programme of actions to further good governance as the backbone of sustainable development, social justice and poverty alleviation. Strategies are articulated in five cross-cutting areas: (1) Judicial and Legal Reform; (2) public finance reform, (3) public administration reform, (4) anti-corruption reform and (5) gender equity. The Government recognizes that without credible actions in these areas, the basic values of good governance will not take hold in Cambodia. In addition to these cross-cutting areas, the Government has identified two specific policy issues on which governance reforms must be implemented in order to ensure sustainable national development and poverty reduction, namely, demobilization and natural resource management.

A Performance Matrix was set up for the GAP, mentioning for each sector or area (i) the main governance issues to be addressed, (ii) the governmental institutions in charge, (iii) the actions to be taken in the short term (within one year) and in the medium term (in two to three years), (iv) monitoring benchmarks and (v) the specific governance elements that would be improved, (vi) donors involved and (vii) resources (these last two columns were not used in the plan). The section of the GAP Performance Matrix focusing on the Legal and Judicial Reform constitutes therefore the first reference framework to assess the LJR performance.

The Council for the Administrative Reform (chaired by the Senior Minister in Charge of the Office of the Council of Ministers and created in 1999) is formally in charge of the GAP and in this capacity it is responsible for reporting on progress in the Performance Matrix. The CAR is overseeing the Legal and Judicial Reform as an element of the GAP. In addition, the government has recently decided to establish a specialised Council, the Council for Legal and Judicial Reform, 73 Supported by the WP and Canada
which will work under the auspices of the Supreme Council for the State Reform (CSR) chaired by the Prime Minister

3. Situation analysis in the legal and judicial sectors in Cambodia

In this section we briefly review the main remaining weaknesses of the Legal and Judicial services as the backdrop to the development of the LJR strategy (reviewed in Section 4). It is also worth recalling that the Constitution of 1993 declares liberal democracy and a multiparty system as the foundations of the political regime of the Kingdom of Cambodia. It stipulates that Cambodian citizens exercise their powers through three separate branches of the State namely, the Legislature, the Executive, and the Judiciary. The Judiciary is explicitly established as an independent branch of the government. The Constitution also defines a market economy as foundation of Cambodia’s economic system. Ownership of private property such as land is guaranteed under the Constitution. The situation analysis of the two sectors reveals that these provisions of the Constitution are not effectively complied with.

Legal sector

The public’s perception is that laws and courts are unreliable, which underpins the tendency to seek the intervention of high officials to solve disputes or problems. The private business sector also stresses that laws are not enforced.

The situation is thus characterized by:

- Key weaknesses in the law-making process, including:
  - Limited role of the Assembly (often hurried review of bills drafted by executive, no active role in legislation initiation)
  - Weakness of the Inter-Ministerial Committee, not sufficiently qualified to meaningfully discuss draft laws
  - Absence of a notice-and-comment period prior to the approval of a law or regulation, and of formal mechanisms for informing and consulting with the private sector and the public.
  - Lack of formal notification in advance of new laws and regulations coming into effect.
  - Ineffective coordination amongst agencies involved in law drafting (lines agencies, COJ etc.).
  - Lack of consistency in the procedures for forwarding draft laws to the Constitutional Council.74
- Weak legislative capacities of the National Assembly, Senate and line ministries.75
- Dissociation between law drafting and drafting of regulatory texts (sub-decrees) necessary for the implementation of the law. This limits government agencies’ accountability, and in some cases these texts are used to undermine the main Law.
- Lack of dedicated budgets for functions which should be part of the routine of a well functioning government, e.g. publication of existing and new legislation.76
- The lack of a comprehensive assessment of major gaps and inconsistencies in the existing legislation. The Council of Jurists (COJ), the body which is supposed to be in charge of this matter, is ill-equipped to perform its tasks.

74 Except for organic laws, other laws are forwarded directly to the King for promulgation without prior Council review, contrary to the clear constitutional requirement.
75 With limited funding Konrad Adenauer Stiftung (KAS) is assisting these institutions in law drafting. Further assistance has yet to be secured.
76 This was done (in three languages) by the Legal Reform Unit (LRU) at the COM with WB funding for one year. The publication has stopped once the WB funding stopped.
Judicial sector

With regard to law enforcement, the impunity of public officials remains the most serious weakness in the operation of Cambodia’s judicial system. A Law on Corruption has been under discussion for some time and is now overdue. Of equal concern are the interferences in the Judiciary by other branches of the government which persist despite the Constitution’s declaration of the separation of powers.

There is an urgent need for a civil code and a civil procedure code as well as a Penal code and a Penal procedure code. A Japanese team is currently working on this and is expected to finish the draft of civil code and civil procedure code in March 2003. A French team had assisted with drafting the Penal code; however, this initiative seems to have been discontinued.

In the absence of an administrative law, non-State parties have no effective legal recourse against the state for any violation of the law or breaches in commercial dealings. To meet the need for the arbitration of commercial disputes the establishment of a specialized commercial court has to be considered.

There is no effective mechanism or guarantees of transparency in the collection and weighing of evidence undertaken by investigating judges. It is important to increase the transparency of the process, particularly when a case is before an investigating judge. The mandatory presence of a lawyer for the accused and proceedings open to the public are two necessary reforms that could have immediate, positive impact. Another measure to increase transparency in the criminal process is forbidding trial judges from reviewing evidence prior to trial.

The separation of the judiciary’s budget from the budget of the Ministry of Justice is the key to the judicial reform. Equally important are improved human resources. Weakness in human resources is particularly obvious with regard to commercial cases. Moreover, the legal and regulatory framework of the judicial system is under-developed. A Law on Court Clerks needs to be drafted. A law on the courts passed prior to the election in 1993 and which left many issues of jurisdiction unsettled is still in effect. Rules governing judges, prosecutors, and the functioning of the judiciary are not yet effected.

There is an urgent necessity to clarify roles and tasks between the Ministry of Justice and the Supreme Council for the Magistracy (SCM). The SCM has been established under the King’s Presidency, in reference to the article 132 of the Constitution which gives the SCM the mandate of assisting the King in guaranteeing the independence of the Judiciary. This is at present not recognized in the day-to-day functioning of the Judiciary.

4. Legal and judicial reform strategy

Donor Coordination Group on Governance. The new draft incorporates comments and recommendations from the donor community and it is accompanied by an Action Plan. The two documents have been prepared by the Council of Jurists in the Office of the Council of Ministers with assistance from a World Bank consultant.

An important step to accelerate progress in the finalization of the strategy is the recent creation of the Council for Legal and Judicial Reform (June 2002). The CLJR will subsequently be in charge of overseeing the implementation of the strategy. It is co-chaired by the Chief of Justice (President of the Supreme Court) and the Senior Minister in charge of COM (Minister of Justice is Deputy
Chairman) and assisted by a Permanent Coordination Body (chaired by the Secretary of State of the COM).\textsuperscript{77}

There are still issues to resolve which have mostly to do with institutional arrangements and coordination of donor support.

- Firstly, there have been discussions about the need to establish a Secretariat-General to implement the Reform programme, reporting to the PCB and the LJR Council. Its status and functioning have yet to be agreed between the government and donor agencies which plan to support the Secretariat (WB and Japan).
- Secondly, assistance from The Danish Centre for Human Rights (DCHR) was proposed recently and appears to somewhat take the process one step back, by insisting on the formulation of a vision document for the Legal and Judicial Reform and scheduling this for July 2003. Whereas such a broader framework might be a welcome element, it should perhaps not further delay the implementation of the first steps required to take the current reform strategy forward.

Immediate steps planned in the process are the review of the new draft Strategy and the Action Plan by the Council for Legal and Judicial Reform, followed by a consultation with the institutions involved in the Legal and Judicial Reform to request their comments on the draft Action Plan. These comments will be incorporated in the draft before submission to the Council of Ministers for approval.

The draft strategy sets out the strategic goal as follows:

‘Establishment of a credible and stable legal and judicial framework for upholding the rule of law and fostering private sector led economic growth.’

This is further articulated in six inter-dependent strategic objectives:

- Improve the protection of fundamental rights
- Modernize the legislative framework
- Provide better access to information
- Enhance the quality of legal services
- Strengthen judicial services
- Introduce alternative dispute resolution system.

For the legal sector, main areas of activities in the draft Action Plan (where they are called strategic inputs) include training, awareness raising, development of guidelines on human right protection for various target groups, finalize pending legislation, identify and fill priority gaps in the legal framework through participatory methods, strengthen institutions and government officials involved in law drafting, publish all existing legislation and keep this updated and ensure availability to identified groups, establish a case law digest for information on court judgments, focus quality legal assistance services on the poor and vulnerable groups, increase the number of lawyers across the country and enhance training of lawyers.

The judicial sector strategic inputs in the draft Action Plan include training and better remuneration to judges to enhance accountability, credibility and transparency, establish a framework for judicial personnel management and ethics, enhance court techniques and infrastructures so that sufficient

\textsuperscript{77} The Council members are representatives from the ministry of Justice, the Judiciary, the Ministry of Economy and Finance, the Ministry of Commerce and the COJ. Members of the PCB are representatives from the Ministry of Economy and Finance, the Ministry of Commerce, the CDC, the Supreme Council of Magistracy, the director of the School of Magistracy, the Cambodia Bar Association, the Ministry of Justice and the COJ.
courthouses are available across the country, meeting the private sector’s needs for the arbitration of commercial disputes, improving law enforcement, and improving representation of the accused.

It can be seen that in principle, the Strategy and the Action Plan ‘inputs’ respond to the issues raised in the situation analysis. However, these are still fairly general areas of work. The detailed activities of the Action Plan address a number of aspects in further details. As it stands the Action Plan would need to be costed and resources identified to meet the costs.

5. Achievements against benchmarks

In the context of result-oriented management, one first question as regards the LJR draft Strategy and Action Plan is whether there is a system of results or benchmarks to monitor its implementation. As mentioned there is the broad result framework at the level of the benchmarks and specific elements of governance to be improved in the GAP-Performance Matrix. This framework also indicates who is responsible for results. Neither the GAP nor the SEDP II identifies resource requirements and sources of funding. This framework is regularly reviewed at the CG meetings: however, it is relatively general and does not constitute a real measure of progress made in the legal and judicial sectors to address the issues raised above.

At this point in time, the draft LJR Strategy does not have a ‘next level down’ result framework nor are there targets for the activities detailed in the Action Plan. It is suggested here that a crucial – and perhaps pre-requisite – step might be the definition of broad but tangible results to be achieved at the level of the broad areas of work (strategic objectives) of the LJR Strategy, so that the relevance of the more detailed activities of the Action Plan might be assessed in terms of their contribution to the broader results set out for the Strategy.

Secondly, and as a related point, it would be important to further outline how the inputs provided and activities completed under the reform process will have an impact on the day-to-day functioning of the sectors and what the requirements to sustain this impact are. The development of the vision document might be a useful vehicle for this approach, which would aim at looking forward towards a vision in practical terms.

In the final version of the NPRS the Action Matrix for the LJR strategy has been broadened compared to earlier versions which were focusing on key strategic objectives and actionable measures having (or thought to have) a most direct impact on poverty reduction. These were (i) human resource development (with specific targets such as increasing number of judges – three or four more – in specified provinces); (ii) legal promulgation and governing based on law (for which there is no targets); (iii) legal propagation (for which targets are not quantified) and (iv) strengthening infrastructures (for which there are quantified targets in terms of new courts being built etc.). The final matrix does not indicate costs.

Against these emerging and incomplete result frameworks, Box 7 below presents an assessment of the progress which has taken place simultaneously to the preparation of the GAP, the LJR Strategy and Action Plan and the LJR section of the NPRS.
Box 7: Achievements in reform of legal and judicial services

<table>
<thead>
<tr>
<th>Legal framework</th>
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<tbody>
<tr>
<td>• Creation of the Senate (following amendment of the Constitution in March 1999), acting as a filter with power to review legislation and compel consideration by the Assembly before its promulgation.</td>
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<tr>
<td>• National Assembly more active and dynamic, increased transparency to general public through TV broadcasts of debates.</td>
</tr>
<tr>
<td>• Key laws enacted (Investment, Trade and Commerce, laws on violence and trafficking, Land law), at the initiative of line ministries (assisted by technical assistance under bilateral agreements).</td>
</tr>
<tr>
<td>• Agenda for Enacting Laws for WTO Conformity and Adopting Regulations/Instructions (prepared by Ministry of Commerce) submitted to the WTO.</td>
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<tr>
<td>• Drafts on procedures to improve development of laws within executive branch ready to be ‘piloted’ (upon approval by COM). Possibility of a stronger enforcement character later on.</td>
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<tr>
<td>• Creation of the School of Lawyers.</td>
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</tbody>
</table>

<table>
<thead>
<tr>
<th>Judicial services</th>
</tr>
</thead>
<tbody>
<tr>
<td>• Draft laws being prepared to govern Magistrates and to reform the Supreme Council of Magistracy.</td>
</tr>
<tr>
<td>• Creation of the Royal School of Magistracy (plans for training of thirty judges per year and replacement of around 70% of existing judges and prosecutors – timing unspecified, in collaboration with the General Secretariat of SCM).</td>
</tr>
<tr>
<td>• Approval by COM of Sub-Decree on earnings of magistrates raising functional allowances under CAR new pay scale system (300 US$ per month). Doubts however as to whether this level is sufficient to curb corruption.</td>
</tr>
</tbody>
</table>

A preliminary assessment of these achievements against the broad strategic areas of the draft strategy tends to suggest that some areas lag behind others. In particular there seems to be little progress on the protection of human rights; progress is slow and not established on sustainable bases with respect to the provision of improved access to legal information; and no activity has been started on the development of alternative dispute resolution systems. The public at large and many analysts will also stress that progress in strengthening the Judicial services is much falling behind expectations.

6. Link between results and resources

The GAP formulated two conditions for the success of the Judicial Reform. The first is to ensure the availability of financial resources for the implementation of the Action Plan and increase the budget for the judiciary. The second is the capacity of the judiciary to manage itself and to become independent from the tutelage of the Ministry of Justice (MOJ).

With regards to resources, it is apparent that the national budget is insufficient to meet the challenge. The only resources available to reach the reform results as they are framed to date (that is, mostly in terms of process) are to be obtained from donors. This section analyses the extent to which each of the sources funding, national budget and donor finance, is available and whether their use is in some instances related to identified results.

National Budget

The draft annual law for the year 2003 outlines that the budget focuses essentially on the Priority Programmes laid down in the GAP, and it includes a specific emphasis on further implementation of the governance reforms in which the LJR figures. Indeed, there has been modest but year on year granted increases in the MOJ budget from 1997 (CDRI 2001) and to date (RGC 2002), albeit from a
very low level. The result is still barely sufficient to ensure minimal functioning of the existing courts under the MOJ vote (on average a provincial court will get approximately 4,500 US$ per month to operate, including salaries for an average 31 persons working at the court).

Moreover there is either no national budget for a number of newly created functions and institutions (e.g. CLJR in charge of the LJR, School of Magistrates and School of Lawyers); or these budgets are unspecified/untied to the function (as is generally the case in government budget system). Such cases include the lack of an identified budget for the role of coordination and review of the law-making process entrusted with the Council of Jurists, whereas it is clearly a ‘recurrent’ role and would remain so in a ‘non reform’ environment.

As we have seen above, resources are available for laws to be initiated as we have seen above: these are often externally provided to line ministries. From there to the COJ the budgets for law drafting follow the process itself and are therefore under various institutions as follows:

- Law making (most often) initiated by line ministry (legal department with operational budget depending on line ministry internal budget policy) with donor assistance
- Review (mandatory before submission to Parliament) of draft by OBSES (Council of Ministers Organism in charge of Economic and Social Survey) for economic matters and by COJ for legal matters, through submission by line ministry to Secretary General Council of Ministers. Budgets of these three institutions under Office of COM budget
- Discussion on draft at IMC meeting (Office of COM budget)
- Review by Commission on Legal Affairs of the National Assembly and Legal Commission of the Senate before Parliament approval (Commissions under respective budgets of Assembly and Senate).

Depending on the agreement the assistance granted to the line ministry may extend to some or all consultation and coordination activities, as was the case for the development of the Land law. However, this is unpredictable. Moreover, institutions may not all have access to budgets when it is needed and this can stall the process. Finally, line ministries are not always able or willing to undertake priority legislative or regulatory developments.

As regards the judicial sub-sector, the vote of the Ministry of Justice (MOJ) includes budget allocations for the central office of the MOJ, the Supreme Court, the Court of Appeal, the provincial / municipal Courts (under a provincial administration section as for other sectors), and the Supreme Council of Magistracy. Given the centralised nature of the budget execution in Cambodia this gives little autonomy to any of the institutions covered in this way.

It is implicit in previous sections and explicit in the interviews conducted for this study (and supported by the general knowledge of the author) that little thinking has taken place about how the national budget could be used in a reform context. Without dismissing key arguments of government officials – that the budget is insufficient and fragmented and that it does not cover key functions and/ or is difficult to access – and without saying that the budget should decrease – most likely the costs of functioning legal and judicial sectors would be higher than what the government allocates to this at the moment – arguably, budgets could be better used. In our view, the reform is a crucial opportunity to analyse how the reformed system could be sustained by the government over time, and what efficiency gains would be possible through the reform.

**External resources for the LJR and links with results**

In the absence of a government-approved strategy and a costed Action Plan it is difficult for donor agencies to identify specific elements of the reform (and related results as they are defined) that
they support or intend to support. It is our understanding that such an identification of committed (on-going) and pipe-line resources against each of the Strategy areas is part of the next steps on the CLJR and PCB agenda.

Box 8 summarises what we have identified in our analysis regarding how within each supported initiative outputs are identified. It shows that, on a case by case basis, links between results and financing are established for individual projects which, even if ‘unknowingly’, fit in the LJR Strategy.

**Box 8: On-going support to LJR**

- Law/ regulation drafting (targets and monitoring benchmarks designed by line ministries with external assistance). E.g.:
  - ILO and others – technical assistance to development of Labor Law. Output: Law.
  - WB – technical assistance to development of legislation for higher education. Planned follow-up loan for higher education development (conditional upon approval of legislation) in order to help government initiate revised legislation framework. Outputs: legislation and loan-financed programme of reform activities.
- WB contract with the Legal Reform Unit (LRU) in COM (capacity building on legal skills targeting COM young officials, drafting and printing of trilingual bulletin of existing laws and regulations). Contract elapsed after one year (2002), not renewed.
- France and Japan – technical and financial assistance to School of Lawyers (no operating budget from national budget yet). Monitoring benchmarks: lawyers’ qualification.\(^1\)
- France – technical and financial assistance to Royal School of Magistracy (no operating budget from national budget yet).

To date, any broader support to the Reform initiative would be through the World Bank and DCHR:

- From May 2002, after one year with no progress in the discussion, the World Bank re-initiated preparation with the RGC of a loan for a project in support to the LJR. The loan would amount to approximately 5 million SUS and would also provide access to a PDHR Grant from Japan for the preparation of the project.\(^78\) The project preparation, which was expected to start in September 2002, may be further delayed due to a disagreement between the World Bank and the Council for Legal and Judicial Reform on a number of institutional issues (e.g. the status and functioning of the Secretariat which would be established to serve the PCB and the CLJR). In principle the project design should be completed by July 2003.
- **Currently the DCHR consists mainly in the presence of a resident legal adviser who will work with the PCB to draft the Vision document for the Legal and Judicial Reform as mentioned above. The elaboration of the vision document is expected to proceed simultaneously to the preparation of the WB project design based on the Strategy.**

It is suggested here that close coordination between these activities offers the opportunity to establish the currently missing links between reforms and reformed systems and services. The DCHR process of development of a vision for the LJR should be used to help define the results that

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\(^78\) This is a similar order of magnitude as for the WB support to the CAR and MEF through the recently approved ‘Economic and Public Sector Capacity Building Project’.
would arise from the improved legal and judicial sectors and the financing requirements associated with these results.

7. Conclusions

This section draws three conclusions related to the LJR and a more general one for consideration in the context of the study on result-oriented public expenditure management in Cambodia.

As regards the LJR specifically, firstly we note that the process of the reform is not new, but it has been slow and it might still be further delayed due to fundamental issues of coordination and institutional arrangements which have not yet been solved. This is very unfortunate considering the LJR critical importance for other reforms. A clear institutional framework for the Reform is critical, because it is the key to (i) ensure that the Reform will receive the attention it deserves in reality and not only in plans and strategies, and (ii) identify more precisely results that each institution would be responsible for.

Secondly, in the framework of the LJR there is a need for a broader conceptualisation of the reform financing requirements and a thorough inventory of all potential financing sources. Such a broader LJR financing framework should:

- Clearly outline the impact of the reforms on the government’s existing budgets for activities that the reform intends to strengthen (e.g. construction of courts, increase in the number of judges etc.). To a certain extent, the results from the Reform would have to be defined by looking forward and agreeing on desirable and sustainable results for the day-to-day functioning of the reformed Legal and Judicial sectors.
- Assure a ‘guaranteed budget package’ for financing essential activities and institutions including (i) functioning of the CLJR/ PCB, (ii) strengthening of law drafting and reviewing capacity of all stakeholders (legal departments of line ministries, COJ, OBSES, Inter Ministerial Meeting and Legal Commissions of Assembly and Senate) and (iii) support the Schools for Lawyers and Magistrates. Whereas it is understood that this is likely to have to be financed by external assistance in the short run, it should be negotiated in the framework of an agreement between the government and the donors so that an exit strategy for donor financing is developed, simultaneously to the first years of implementation of the LJR.

In the form of a more general conclusion, from the analysis of practices, the study of the relevant documents and interviews conducted for this report we propose the following lead to result-oriented approaches:

- Together with financial aid received by Cambodia from the donor community a monitoring system should be set up with the donors, with benchmarks and targets/indicators allowing the verification that activities intended to be supported take place in reality. This is the case for individual projects and, increasingly, for broader reforms through the CG process. At the end of each CG meeting there is always an agreement between the Government and its development partner on a number of benchmarks to be realised by the next CG meeting. Thus, Government pushes itself to reach the targets required, without knowing that it is using result-oriented management of some budgets.
- What are the budgets that Government uses to realise the benchmarks? In the case of the LJR, a proportion comes in fact from the national budget, with the most recent example of the increase of the judges’ earnings. The largest proportion of the budgets used against results is from donors from whom the Government requested assistance.
Our interviews indicated that government officials were never against the result-oriented management of the budget, but they were just not clearly aware of it. They can see the advantages of a result-oriented approach to budgeting as it might also ensure easier access to budgets identified against these results, instead of being ‘lost’ in general O&M-type budgets.

Although donor assistance contributes to the government goals, and it has the advantage of a more ‘structured’ (result-oriented) framework, it has disadvantages as well in the form that it is currently provided. These include: (i) it is fragmented across objectives, (ii) not reliable and (iii) tightly tied to results/ objectives which may loose their relevance or their urgency and should be re-phased, which is most often not possible.

With technical assistance from the donor community and other specialised International Institutions, the government is putting in place result-oriented frameworks such as the GAP, the SEDP, the NPRS, and it is developing tools to operationalise these frameworks in terms of financing with the MTEF. These are clear signals that the government system should move towards a better link between results and financing over time, and which might be welcome by government personnel, provided that budgets would be better assured and more flexible.

There are two challenges to this, in our analysis:

• In order to provide an incentive for the government to pursue reform in this way and to progressively use its own budget against results, donors may have to take some risks and adopt government objectives and support these more clearly, including through more loosely defining the application points for their financial assistance as the result frameworks are not yet very clear in some cases and,
• It remains to be seen to what extent the government is really committed to some of the ‘hard to reach’ results in the reforms under way and being prepared, there is also a quite strong desire to preserve the existing, less threatening ‘status-quo’ in the current Government.

References


