

CHAPTER 2: Increasing Public Financial Accountability¹

1. Strengthening public financial accountability is at the heart of an effective poverty reduction strategy. A well functioning system for managing the nation's financial resources raises, allocates and spends adequate resources for programs that strengthen the human capital of the poor, provide for their physical security and ensure adequate public infrastructure to facilitate economic growth. And hence, reduce poverty. The ultimate responsibility to resource the fight against poverty ultimately rests in the hands of Cambodian citizens. In theory, the legal framework provides for a system in which public financial policy-makers and managers are accountable to citizens. The Constitution of 1993/1999 (Articles 90 and 113) provides that the elected and appointed representatives of the Cambodian people, sitting in the National Assembly and the Senate, shall have the power to "approve the national budget." The Constitution (Article 57) also provides that "Tax collection shall be in accordance with the law" and that "The National Budget shall be determined by law" ("Cambodian Law of Public Finance", Office of the Council of Ministers, 2000). The Government "determines the national priorities" to be addressed by the budget. The Council of Ministers then adopts the expenditure directives for the Ministry of Economy and Finance (MEF) to use in budget preparation (Organic Budget Law, 1993). The Royal Government delegates its authority and resources to line ministries, guided by the central oversight ministries, to deliver the goods and services provided for in the budget. Thus, the budget should be the principal instrument for poverty reduction, through resource mobilization and expenditure policy and management.

2. There is considerable evidence, however, that the budget does not fulfill this key role. Resources do not reach their intended beneficiaries. The principal reason is that breakdowns in the chain of accountability create "governance failures" that undermine the budget's ability to reduce poverty. This chapter reviews Cambodia's recent experience raising, allocating, and spending resources for poverty reduction in light of the citizen—policy maker—civil servant accountability framework. The framework, applied to public financial management (PFM) and civil service reform, highlights a number of critical weaknesses in practice. The National Assembly does not provide effective oversight of public financial management, and citizens do not have effective mechanisms to demand that oversight. Policy makers deliver inadequate levels of resources, including wages, to service providers through the budget, in part because revenues are low. In turn revenues are low, in part, because taxpayers do not want to pay for poor services and because taxpayers face few, if any, consequences for not paying their taxes. Inadequate resources creates a civil service with both weak capacity to deliver and strong incentives to divert funds for other uses, blurring the line between the public and the private. Weak internal and external controls allows for a PFM system in which abuses can and do occur. All of this means that the public resource management system falls far below expectations in the fight against poverty.

Increasing Public Financial Accountability

3. While Cambodia has made some recent progress in reforming its PFM system, it will have to make much more headway on four principal fiscal, fiduciary, and institutional challenges in order to implement its development agenda. First, Cambodia will need to improve resource mobilization to ensure aggregate fiscal sustainability. Second, to reduce the fiduciary risk to public funds, the Government will need to engage in comprehensive reform of budget execution, cash management, and public financial control systems. Third, the Government will need to further rationalize public expenditure policy and management to reach the goals it has set itself in its various national strategies.² The Government has committed to undertaking these reforms as part of its PFM reform program, which has been endorsed by the Prime Minister.

4. Last, Cambodia will need to undertake an innovative civil service reform, focusing on selectively institutionalizing a merit-based pay and employment system, in order to deliver poverty-reducing services. Unfortunately, however, credible plans and strategies to tackle these problems head on have not yet been articulated. The following sections elaborate on these four core challenges and provide an outline of proposed solutions.

A. Improving Resource Mobilization

5. Despite the need for higher revenues to finance growth and poverty reduction, by adequately funding government services, Cambodia's fiscal revenue ratios, especially tax revenue, remain among the lowest in the world, including as compared against other low income agricultural economies. Indeed, without significant increases in revenues, there are serious risks to Cambodia's medium term poverty reduction program.

6. To be sure, the Royal Government has made progress over the past several years, given its inheritance of a grossly inadequate revenue effort. As a result of the reform efforts, and to the Government's credit, revenue rose from 10.2% of GDP in 1999 to 11.2% in 2002, before falling back, however, to 10.4% in 2003. This fall is due to external factors (SARS, the anti-Thai riots, and the elections) coupled with the continued impact of leakage in the system. Overall, given the urgency of increasing revenues, the Government responded with a program of reform that generated results, and though incomplete, provides a foundation for a new set of revenue-generating reforms.

7. It is clear that continued further improvement will be considerably more difficult as growth prospects diminish. The Government plans to raise revenues to 14% of GDP by 2009.³ Improving domestic resource mobilization will have to depend on improved tax administration in the short to medium term and improved tax policy in the medium to long term. Recent experience suggests that for improvements in tax administration to be sustainable, they must get at the root of the problem. The path chosen by the

Cambodia At The Crossroads

Government in its PFM reform program is to establish a merit, and performance, based pay system in select departments. An improved tax administration will necessarily confront Cambodia's culture of non-compliance, in which a vicious cycle of taxpayer non-compliance feeds on poor and corrupt administration and inadequate service delivery. Thus, progress will depend on addressing underlying governance challenges, including by improving transparency. Improvements in accountability will also come from reducing reliance on external assistance and increasing reliance on citizens as well as firms operating in Cambodia.

8. Non-tax revenue collection is also an area where governance challenges dominate. This is especially true of state assets leased to and used by the private sector and the procurement practices associated with contract awards. Measures to improve transparency could help offset future declines in some non-tax revenue items. In addition, revenue from leases could increase with improved monitoring of the use of state assets and as a result of the inventory of states assets underway.

B. Aligning Public Expenditures to Poverty Reduction

9. Since 1998, the Government has significantly improved the alignment of resources with its developmental objectives by increasing allocations for priority sectors, notably education and health. Government-executed spending on the priority sectors increased from 1.4% of GDP in 1998 to 3.2% in 2001. Furthermore, the NPRS indicates that the RGC intends to continue this strategy, presenting ambitious targets for growth in priority sector spending to 2005.

10. However, given current growth prospects, the ability to pursue further relative reallocations based on revenue growth will be limited. In fact, the reallocations over the period 1999-2003 occurred in relative terms, for the most part, meaning that most ministries' budgets increased in nominal terms. Only five institutions actually experienced budget cuts over the period 1998-2001. It is likely that to implement the SEDPII/NPRS and meet the Cambodian Millennium Development Goals, the Government will need to reallocate resources away from non-priority sectors and programs.

11. Moreover, socio-economic indicators demonstrate that the impact of these recent reallocations to the social sectors has been muted. Expenditure policy can only go so far toward reducing poverty given the state of Cambodia's expenditure and financial management system. To reach the stated poverty reduction goals, it is necessary to improve the effectiveness of spending by linking it more closely to priority outcomes and by strengthening mechanisms of accountability. Increased effectiveness can be attained by improving the pro-poor targeting of resources through more tightly linked sector plans and budgets. In education and health planning processes have improved and planning and budgeting are better linked, resulting in improved prioritization of

spending. Agriculture and road transport have yet to make progress on this front, though it is critical that they do so, in order to provide the foundation for improvements in allocative efficiency by directing more resources to the economic sectors.

12. Expenditures are targeted to the poor in education, but less so in health, and only marginally in agriculture. A significantly greater amount of education related public spending is estimated to benefit the poor in 2002 as compared with 1997 (Table 2.1). In 2002, it is estimated that the poorest 40% of the population received 39% of total education expenditure, and 50% at the primary level.

Table 2.1: Share of Education Subsidy Received by Income Quintile

(RGC Spending)

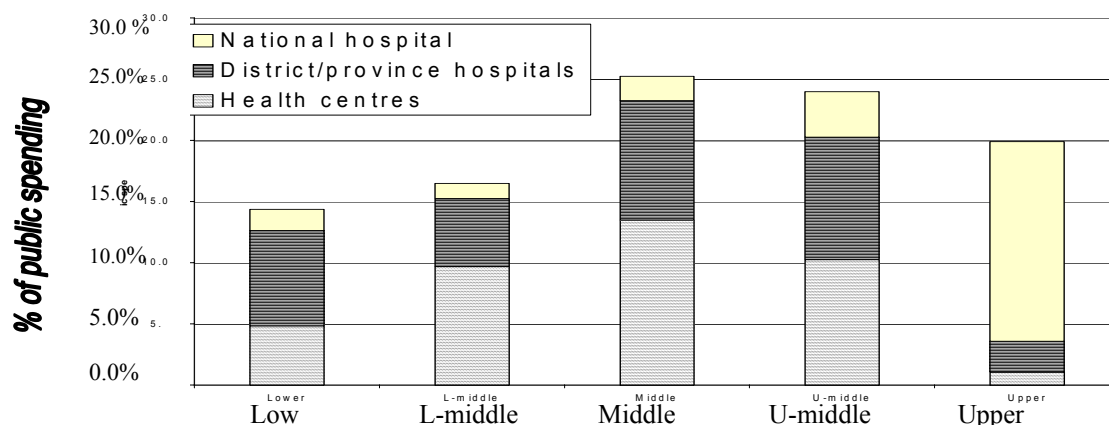
<i>Quintile:</i>	<i>I</i>	<i>II</i>	<i>III</i>	<i>IV</i>	<i>V</i>	
<i>% of Public Subsidy Using 1997 Enrolment Share</i>						
Primary	21%	21%	21%	20%	17%	100%
Lower Secondary	8%	12%	19%	23%	38%	100%
Upper Secondary	4%	4%	14%	21%	56%	100%
Post-Secondary	2%	0%	6%	15%	76%	100%
<i>Percentage of Government Subsidy Received, 2002 estimate</i>						
Total	19%	20%	19%	19%	23%	100%
Primary	25%	25%	21%	17%	12%	100%
Lower Secondary	11%	14%	19%	22%	34%	100%
Upper Secondary	7%	7%	13%	26%	46%	100%
Post-Secondary	1%	0%	12%	22%	65%	100%

Source: IFAPER, 2003

13. In health, on the other hand, the lowest income quintile consumes 13% of the resources, while the top quintile uses almost 20% (Figure 2.1). Inequality in resource distribution is most evident for the national facilities. By contrast, district hospitals appear to provide the greatest benefit to the poorest group. The budget formulation (and execution) process would need to radically reallocate health resources toward remuneration and steeply away from Phnom Penh and toward province/district services in order to have a material impact on MDGs for child and maternal health.

14. Resource scarcity thus makes expenditure rationalization a very high priority. There are a number of possible avenues for expenditure rationalization: (a) reduction of expenditures in the low priority sectors; (b) generation of additional savings from institutional rationalization, including consolidation of administrative structures; and (c) rationalization of operating expenditures by cutting administrative overheads while increasing maintenance spending and the wage bill.

Figure 2.1: Health Benefits Incidence Consumption Group
(RGC Spending)



Source: IFAPER, 2003.

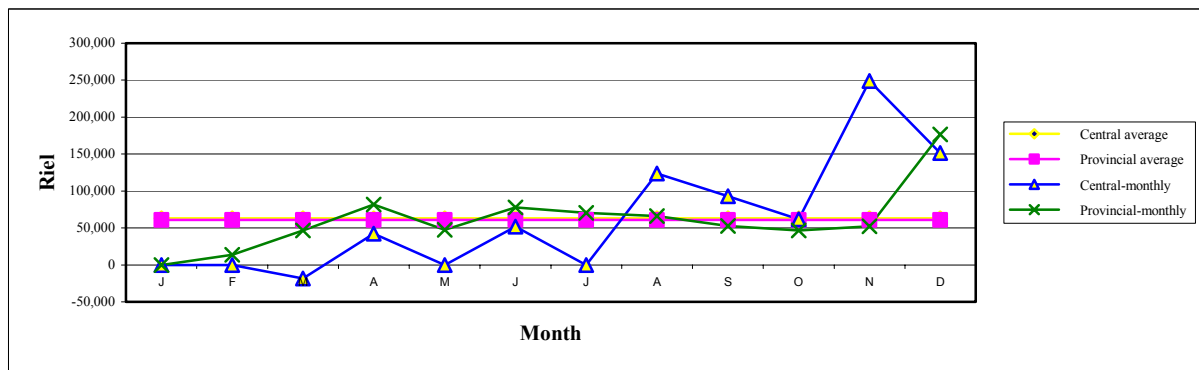
15. Development partners also share some of the responsibility for the allocation of resources. There has been a gradual shift in the functional composition of external assistance, though there is no marked trend toward the Government’s priority sectors. At the same time, Cambodia’s external assistance portfolio is heavily geared toward technical assistance. Spending on technical assistance, comprising both personnel charges and training and associated operational expenditures is estimated at around 45% of the external assistance project portfolio, excluding humanitarian assistance. On this basis spending on technical assistance is two to three times Government spending on civil administration wages. While technical assistance inputs provide an important contribution in terms of capacity building and institutional reform, over time there is a need to shift more resources toward investment, and, under the right conditions, toward financing operational costs through budgetary support. In the medium term, however, there is a case to be made for creative thinking about the possibility of re-channeling some technical assistance funds, including salary supplements, toward wage expenditures.⁴

16. Governance failures appear to be at the heart of why Cambodia’s poor do not benefit more from public spending. The weak policy-budget linkage is due principally to the underlying weakness in the accountability relationships between service providers and beneficiaries. Outcomes are more likely to improve when better information is available and opinion is mobilized that helps to hold politicians and civil servants to account.

C. Reducing Fiduciary Risk to Public Funds

17. Weaknesses in the public financial management system not only have high costs in terms of allocative and operational efficiency but also create unacceptably high levels of fiduciary risk to public funds. The cash-based payments system, which reflects historical difficulties as well as current ones, has endured as a major constraint. Increasingly, budget execution has suffered from delays and an unpredictable release of funds (even for salary payments; Figure 2.2), undermining operational planning and resulting in the build-up of arrears. Deficient accounting and reporting systems lead to a weak control environment and increase opportunities for corruption. Indeed, in comparative perspective, Cambodia’s PFM system ranks below average, indicating the need for substantial upgrading.

Figure 2.2: Monthly Salary Payments in the Ministry Of Health, 2001



Source: IFAPER, 2003.

18. The impact of attempts to address these problems by implementing pilot initiatives, notably the Priority Action Program (PAP), has been muted by liquidity constraints and concerns about the adequacy of control arrangements. It is noteworthy that execution rates for the priority sectors have trailed those for the civil administration as a whole, despite the channeling of a substantial share of sector expenditures through streamlined disbursement mechanisms (Table 2.2). The situation in 2002 was largely unchanged, though there was some improvement in 2003. The costs, in terms of planning and procuring goods and services in a sensible and efficient manner, are enormous. The PAP initiative has, however, improved the alignment of resources with policy and helped channel funds to operational units.

19. The challenge for the Government is to consolidate recent initiatives while gradually addressing the structural constraints imposed by weak financial institutions and limited capacity. The Government recognizes the need to focus on improving budget execution, cash management, and the control environment, all of which are addressed in the PFM reform program. Moreover, in spite of a comprehensive legal framework and a multiplicity of controls, reform will also need to address weak

Cambodia At The Crossroads

financial management practices, which currently undermine transparency and accountability, posing serious fiduciary risks. For example, widespread anecdotal evidence suggests that “facilitation” of Treasury transactions, specifically the release of budgeted funds, is a common and accepted practice.

Table 2.2: The Back-loading Problem: Percentage of Expenditures Posted in December, 2000 and 2001

<i>Economic/Sector</i>	<i>2000</i>		<i>2001</i>	
	<i>Central</i>	<i>Provincial</i>	<i>Central</i>	<i>Provincial</i>
Civil recurrent expenditure	43.4	22.8	31.6	29.9
Ch. 10: Salaries	11.6	19.4	14.1	23.7
Ch. 11: Operating costs	38.2	25.0	42.2	34.9
Ch. 13: Specific program activities	47.7	100.0	47.3	70.0
Domestically funded capital expenditures	10.8		18.2	
Defense and security	17.2		18.5	
Education	63.2	21.1	34.7	30.2
Health	59.7	31.7	71.4	43.6
Agriculture	41.2	18.6	30.7	28.0
Rural development	31.5	22.1	13.2	27.4

Source: IFAPER, 2003.

20. Though there has been some progress in improving the audit function, public oversight of government financial management remains extremely weak. Legislation establishing the National Audit Authority (NAA) was passed in March 2000, providing for an institutional framework, responsibilities, and competencies that are consistent with international standards. The NAA is independent of the executive, reports to the National Assembly, enjoys financial and administrative autonomy, and is authorized to determine the scope and methods of audits. The NAA carried out an audit of the year 2001 budget implementation as its first audit assignment. The audit was completed in September 2002 and was submitted to the National Assembly. However, the report has yet to be made public, which means that its potential impact in terms of improving accountability is, as yet, unrealized.

21. In parallel with the creation of the external auditor, the RGC has sought to build up its internal audit capacity. MEF’s General Inspection Department undertakes compliance audits at the agency level, though its effectiveness is limited, in part because it does not appear to have a strategic or risk-based audit program. Moreover, most line ministries’ internal audit units do not seem to be functioning adequately.

22. The other critical link in the expenditure management chain is public procurement. Fiduciary risk in procurement has lessened somewhat since competitive bidding was introduced in stages over the past eighteen months.⁵ However, the fiduciary risk is still rated high due to: weaknesses in the existing regulatory framework; the absence of a sovereign procurement law with a single focal point for monitoring and

Increasing Public Financial Accountability

enforcement; inadequate capacity at the line ministry level; the fact that civil servants have become used to negotiating contracts directly with contractors and suppliers, encouraging the making of unofficial “deals”; and the loophole in the 1998 Build-Operate-Transfer (BOT) Subdecree, which has encouraged the awarding of several concession contracts through direct negotiation on what appears to be a questionable basis.

23. Compared to countries that are recognized as having a sound basis for procurement activities, there are other weaknesses in the present legal framework pertaining to key areas such as company law, bankruptcy law, well-defined contract law, and commercial arbitration law. Another weakness is that procurement is governed by a range of sub-decrees, specifying different procedures for particular procurement activities rather than a sovereign law. Suppliers and contractors, as well as government procuring entities, often admit to being confused about the rules applying to a particular bid. In addition to the need for the establishment of a well-designed and enforced regulatory framework for the business and commercial sectors, it is important that RGC improves the dissemination of information related to procurement. All new laws, sub-decrees and prakas should be, but are not notified in the weekly *Official Gazette*, which should be made easily available to the public.

24. Efficient and transparent public procurement is a vital component of economic growth in any country and is a matter deserving of clear and unambiguous principles to be followed in all cases to minimize opportunities for corruption. As such, procurement reform is also featured prominently in the Government’s PFM reform program.

25. Legislative oversight of public spending, including procurement, is provided by the National Assembly’s Finance and Banking Committee (FBC), and the Assembly as a whole, though the link between legislative oversight and greater accountability is weak. The FBC reviews the RGC’s budget proposal and financial statements before submitting them to the plenary session. While there is active debate on budgetary issues, the FBC’s deliberations are neither public nor published. Though parliamentarians and senators have the authority to propose reallocations to the budget law, they rarely do so. The draft budget law is voted in plenary sessions after Government presentation and cursory debate. These debates are reported in the local press, though, for the most part, press coverage has tended to focus on investigations of corruption in the public sector rather than expenditure policy issues. Moreover, in past years the Assembly has given itself too little time to review the budget in detail.

26. Improving accountability is also hampered by a generalized lack of public sector transparency. The budget, for example, is not very accessible in its current format and is not widely disseminated. Budget execution data are not made public. Basic civil service information is closely guarded. Civil society is not consulted by the National Assembly on budgetary issues.

27. While on balance oversight arrangements are fairly sound, their effectiveness is severely limited, in part, due to capacity constraints. These will have to be addressed over the medium to long-term, by increasing both the numbers and in-service training of financial management personnel. At the same time limited capacity must not become an excuse for poor oversight, especially if the ability to report and combat abuse were constrained by a poor governance environment. In the meantime, the effectiveness of existing oversight arrangements could be greatly improved by ensuring that the NAA's audit reports are made available to the public. Moreover, attention should be given to the development of "bottom-up" oversight arrangements to complement formal oversight by the NAA and the National Assembly through beneficiary participation in monitoring service delivery and budgetary releases to regions.

D. The PFM Reform Program

28. The Government is aware of these difficult challenges and is committed to addressing them in a potentially far-reaching manner. MEF's newly appointed Reform Committee has developed a "Public Financial Management Reform Program," which has been endorsed by its ten development partners, with the following core components: (a) a concise strategy statement and a rolling, prioritized, sequenced, and costed, annual work program; (b) a performance management framework to assist in program formulation, improve transparency and accountability, monitor progress, and enable international comparisons; (c) complementary organizational reform and capacity building strategies, with a focus on appropriate incentives. The Government's program will build on past accomplishments, including, most recently, the reduction in arrears to suppliers, refinement of the chart of accounts, and higher tax arrears collections.

29. In the initial phase ("Platform One"), MEF's PFM reform program will focus on meeting the following objective: "...to achieve a position in which the budget becomes more credible as an instrument of strategic and day to day management of public resources, because it delivers a reliable and predictable resource to individual budget managers. This entails that the budget reflects all significant public resources and their deployment. It thereby enables steps in subsequent stages to hold budget managers more accountable for the proper, efficient and effective use of resources" (Royal Government of Cambodia, PFM Reform Program, 2004). In order to do this, the Government intends to: improve the comprehensiveness and integration of the budget (in formulation and execution); widen the scope for executing Treasury operations through the banking system by check or transfer; consolidation of Government accounts into the Treasury Single Account; establish procedures to prevent entering into commitments that exceed available budget resources; improve the realism of the budget in terms of forecasting and debt management; strengthen tax and non-tax revenue collection; streamline the ability of resource managers in the line ministries to spend in accordance with their budget allocations; rein-in extra-budgetary spending; strengthen procurement

Increasing Public Financial Accountability

procedures; and enhance coordination and decision making within MEF, in part by introducing motivational and capacity development measures.

30. A subsequent stage which aims to improve internal control and thereby hold resource managers accountable, would: (i) improve lines of accountability by clarifying governmental roles, functions, and responsibilities; (ii) improve accounting data and management; (iii) enhance reporting for managerial and performance management purposes; and (iv) improve both internal and external auditing.

31. Many of the highest priority items in the Government's action plan are set for implementation according to a timetable agreed with the PFM partners (Third Joint PFM Mission, 2004). These include: designing new transaction processing systems from commitment to discharge; implementing measures to collect Tax and Customs revenues by check and by direct deposit to the National Bank of Cambodia and accelerating payment of suppliers by check/transfer; setting up a transparent cash release plan for 2005 and a system of rolling three month cash flow forecasts; implementing the transfer of the Foreign Currency Unit to Treasury and redesigning processes to integrate cash flow management; further planning and progress with elimination of old arrears of payment; and developing a strengthened system for ensuring effective management of budget supplementaries. Implementation of the Platform One measures would restore credibility to Cambodia's national budget and would lay the foundation for holding managers accountable for compliance with mandated financial management practices.

32. The donor community has indicated its willingness to make a concerted effort to provide the necessary support for this urgent reform initiative. Toward this end, a series of joint missions involving ten development partners—ADB, AusAID, DFID, EC, French cooperation, IMF, JICA, SIDA, UNDP, WB—visited Cambodia during the January-July 2004 period to assist MEF with its program and to develop a coordinated donor mechanism. Partners have recognized that they can improve their provision of technical assistance to the Government, based on recent experience. The most difficult problems—fragmented and contradictory advice from partners, lack of alignment of assistance with Government plans, lack of accountability of assistance to Government, and lack of Government leadership—have been addressed with the establishment of the PFM sector wide approach. Thus, on both the Government's and the partners' side the institutional mechanisms are now in place to support sustained reform. Now is the time for implementation.

E. Reforming the Cambodian Civil Service

33. One of the other major reasons for low quality public services is the absence of an effective system of incentives and accountability mechanisms in the Cambodian civil service. Weak merit-based civil service management, low pay and pervasive corruption

Cambodia At The Crossroads

are the leading causes of Cambodia's relatively poor standing on public sector performance. The World Bank's Country Policy and Institutional Assessment (CPIA) ranks Cambodia in the fourth lowest quintile among fellow low income countries on issues pertaining to public sector management and institutions, indicating the need for significant improvement. Given these serious problems, a strategically sequenced civil service reform will need to be initiated in the short term and carried out over the medium term if the Government's vision of poverty reduction is to become reality. The reform program will need to take a broad approach to strengthening civil service management, by introducing a merit-based system that guarantees that human resource expenditures are subject to controls (viz., on hiring and promotion) and fully integrated with the budget formulation process; improving civil service pay, to attract and retain skilled staff, especially for high level management and priority sector staff; and rationalizing civil service employment, to ensure that human resources are wisely deployed in high priority sectors. Indeed, one of the principal risks to the government's poverty reduction strategy is the capacity of the civil service to deliver.

34. Though the Government has made some modest progress, including carrying out a civil service census and developing an automated payroll system, much more is required. In some of these areas, establishment control for instance, key measures such as the introduction of an establishment register will allow the Government to build productively on its previous successes, while in other areas, notably institutionalizing a merit-based system reinforced by higher pay, the Government will be challenged to push itself farther and faster than currently envisioned.

35. Though the most pressing issue facing the Cambodian civil service is undoubtedly the lack of a merit-based system for managing, recruiting, and promoting civil servants, the most pressing problem facing civil servants themselves is the low level of pay, in relation not only to wage levels outside the service, but also to the cost of living (Table 2.3). Cambodia's ratio of the average civil service wage to per capita GDP is one of the lowest in the region.

Table 2.3: Median Monthly Remuneration, 2002 (US\$)

<i>Category</i>	<i>Level of Education</i>	<i>US\$/month</i>	<i>Compression Ratio</i>
A	Secondary school + 4 years	40	1.9
B	Secondary school + 2 years	32	1.5
C	Secondary school	26	1.2
D	Other	21	--

Source: Council for Administrative Reform

36. With the exception of a very limited number of high level staff (approximately 700 out of nearly 168,000 in 2003), most civil servants earn very little, in either absolute or relative terms. Moreover, the compression ratio (that is, the ratio of average pay of the highest category to the lowest category, which is under two) is very low by international standards. The 10-15% per annum increase in salaries contemplated by

the Government would have no significant impact on recruitment or retention of skilled civil servants over the next decade.

37. This pay structure, coupled with the lack of merit-based practices, will not be sufficient to motivate civil servants already in the system or to attract the necessary quantity of qualified candidates to the civil service. Indeed, the extremely low pay levels encourage corrupt practices by blurring the lines between the public and the private. Anecdotal evidence indicates that civil servants survive, and in some cases prosper, thanks to patronage networks in which they pass resources up to their patrons and down to their clients. Reports of job buying abound. In some cases, jobs are reported to have been purchased for tens of thousands of dollars. At the other extreme, poor people find they need to buy their jobs. Thus the cycle continues.

38. The overall size of the civil service has been growing since the mid-1990s, indicating that political pressures overwhelm weak merit and promotion and establishment control practices. According to the budget laws, public sector employment has increased by about 13% since 1994, from 148,353 to 167,778 in 2003. The analysis also suggests that improvements could be made in the deployment of civil servants, both geographically and to the priority sectors (redeployment from center to province is necessary in some sectors, including agriculture and health, for example). A functional review, covering the appropriate institutional arrangements, organization, processes, and staffing of government functions in order to improve efficiency and effectiveness in service delivery, would be necessary to ascertain what the overall level of employment ought to be, where exactly the sectoral inefficiencies are, and what composition of public sector employment makes most sense for Cambodia.

39. A transparent, merit-based system, reinforced by higher pay through sequenced and targeted salary increases must thus become the key element of the Government's reform program. It would neither be feasible nor sensible to enact an across the board pay increase for the Cambodian civil service, given the problems noted above as well as the fiscal constraints, especially in the absence of improved management. The promising path for civil service reform is through a parallel, phased introduction of merit-based management and higher, decompressed pay for selected high priority sectors, functions, and skills. Eventually, long term rationalization of staff levels would have to accompany pay rationalization. Moreover, paying civil servants through the banking system, instead of by cash, would diminish the scope for corrupt practices.

40. As elsewhere in Cambodia, greater transparency of basic information would help to improve accountability and, in this case, ameliorate human resource management. Information on the number and level of civil servants by ministry is publicly available in most countries, yet in Cambodia it is treated as confidential. The fact that the Government does not use one set of official numbers when counting its civil servants creates confusion and undermines robust analysis. The core of the problem is that CAR's database (HRMIS) is not utilized outside of CAR. It is

Cambodia At The Crossroads

imperative for the Government to use a single, unified database, and for the budget to control the size and distribution of the establishment. To attain this end, MEF and the line ministries, at a minimum, would need to have complete access to CAR's database for budget preparation purposes. Granting wider governmental access to the database would improve the quality of data and policy analysis and is necessary for promoting transparency. Greater transparency is necessary for improving the management of the workforce.

F. Conclusion

41. The question of why Cambodia's poor do not benefit more from public spending places good governance questions squarely on the table. Shortcomings in service delivery performance, manifested through ineffective links between policies and outcomes and inefficiencies in expenditure, are often due to the lack of effective accountability mechanisms. Outcomes, particularly for the poor, can only improve when better information is available and opinion is mobilized that helps to hold politicians and civil servants to account. This suggests that in terms of sequencing improving public sector transparency, especially through greater dissemination of information on data and decision making, is the first step on the road to greater accountability.

42. Building up and institutionalizing accountability mechanisms will take time, and will ultimately involve deepening engagement between citizens and their government. The Government appears to recognize the challenges that need to be tackled in key areas in order to improve the quality and quantity of pro-poor service delivery. Most promising and high on the list of priorities for poverty reduction is the development of a prioritized and sequenced *public financial management reform* program by MEF. The PFM reform program deserves the full and generous support of Cambodia's development partners.

43. A no less vital arena, civil service reform, has unfortunately seen less progress. A prioritized, sequenced strategy for introducing the features of a meritocratic civil service in high priority sectors, and buttressing these reforms with enhanced pay, is noticeably lacking. Progress on civil service reform, critical for implementing the Rectangular Strategy, is too important to be allowed to fall behind.

End Notes

¹ Much of this chapter is based on the 2003 WB-ADB *Integrated Fiduciary Assessment and Public Expenditure Review* (IFAPER).

² Second Socioeconomic Development Plan (SEDP) and its National Poverty Reduction Strategy (NPRS) and the Cambodia Millennium Development Goals.

³ Non-tax revenue, from post/telecommunications, quota auctions and garment licenses, civil aviation, timber royalties, and others, is particularly important in Cambodia, where it made up roughly 29% of total revenues in 2002. Downward pressure on collections is expected in the short term. For example, revenue from the auction of garment quotas would end if the quota system is phased out in 2005, as scheduled, and export licensing requirements could eventually be eliminated.

⁴ See Chapter 2, IFAPER, for a full exploration of the externally-financed expenditure issues.

⁵ Since January 2004 all government ministries have been required to adopt “open” tendering (competitive bidding), as compared to direct contracting (only the Royal Palace is excluded).