

**Cambodia**  
**Governance and Corruption Diagnostic:**  
*Evidence from Citizen, Enterprise and Public Official Surveys*

**May 2000**

**Prepared by The World Bank at the Request of the Royal Government of Cambodia**

## **Acknowledgements**

This report was prepared with World Bank's assistance in response to Government's request for technical assistance for capacity building in enhancing governance and fighting corruption. It was prepared by a team comprised of Su-Yong Song (task manager, EASPR), Young Lee (IRIS at the University of Maryland and WBIGF), Andrew Stone (PSDBE), Pablo Zoido-Lobaton (WBIGF), with assistance from Elsa Pilichowski (EAPVP), under the guidance of Barbara Nunberg (EASPR), in collaboration with the Royal Government of Cambodia, in particular the Council for Administrative Reform, with contributions of Lidee Khmer.. The team thanks the thousands of citizens, public officials and enterprise managers who kindly participated in this survey.

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## **Executive Summary**

Governance is the way in which public power and authority is formed and used to control and manage society's resources. Good governance rests on four pillars: (a) accountability, meaning that public officials can be called to task for their actions; (b) transparency, meaning that relevant information is accessible at low-cost; (c) predictability, meaning that policies, laws and regulations are clear, known in advance and are uniformly and effectively enforced; and (d) participation, meaning that the public is consulted on government actions that affect them. Cambodia's new government is keenly aware of the need to improve macroeconomic policies, mobilize resources for investment, rationalize expenditures and address governance problems as a way of starting the country down a path towards sustainable growth. The Royal Government of Cambodia has placed good governance as the cornerstone of its development agenda for poverty alleviation and sustainable economic development with equity.

As a first step towards tackling governance and corruption problems, on July 8, 1999 the Royal Government of Cambodia wrote to the World Bank requesting technical assistance for capacity building in enhancing governance and fighting corruption. On August 19, 1999, the Royal Government of Cambodia wrote to the World Bank confirming the Government's commitment to develop a program to build capacity in enhancing governance and fighting corruption. This was the first survey of its kind to be conducted with assistance from the World Bank in Asia. Similar in-depth country governance surveys are being or have been implemented with assistance from the World Bank in numerous countries including Albania, Georgia, Latvia, Russia, Slovakia, Ecuador, Bolivia, Paraguay, Thailand, Benin, Ghana, and Nigeria. The key components and principles of this program are:

1. A **broad commitment** to a process resulting in concrete governance and institutional reforms (for which mainstreaming through the Bank lending operational support could take place in due course)
2. A **participatory process** from the outset, involving broad and continuous engagement of civil society, leading to consensus-building and collective action. This includes the collaboration of both civil society and the private sector as an important element for strategy and action program formulation.
3. An **in-depth diagnostic** based on three types of surveys carried out by independent, local organizations with World Bank Institute (WBI) methodological support.
4. **Transparency** in the sharing and wide dissemination and discussion of the diagnostic findings.
5. **Collective action** to design a concrete action program of anticorruption with the participation of all major stakeholders.

Both the Royal Government of Cambodia and the World Bank recognize that strengthening governance and combating corruption is an integral element for promoting sustainable development in Cambodia. In full collaboration with government, diagnostic governance surveys of public officials, citizens, and enterprises were conducted by a local NGO (Lidee Khmer) in November and December 1999 under the World Bank's supervision. These surveys present objective evidence based on personal interviews conducted in Cambodia during November and December 1999, involving 1068 households, 326 private enterprises, and 671 public officials in Phnom Penh and four provinces. The surveys were designed to assist in policy and strategy formulation for an action program to enhance governance in Cambodia in at least three ways: 1) collecting the perceptions and experiences of households, enterprises and public officials in Cambodia, 2) measuring the benefits of good governance, and 3) helping to identify the sources of good governance, and highlighting priority areas where it can be strengthened. The evidence presented complements other important experts' analysis and case studies including a recent ADB and CDRI review of governance issues in Cambodia. As with all surveys, although the current work sheds

important and valuable light on a problem on which there is very little data, the results should be taken in perspective. The surveys provide an accurate representation of the views and quantitative estimates of those who responded – but they cannot assess the level of knowledge or honesty of each respondent, nor can it represent information withheld from the interviewer.

### **I. The Status of Governance in Cambodia**

In-depth country survey results provide qualitative reviews of public service delivery and integrity which suggest that there are problem areas. Both households and enterprises perceive that the quality of several public services to be relatively poor -- especially courts, customs and tax authorities, road services, and police. Public corruption is perceived as a leading problem for citizens and enterprises of all types, ranking first or second for all groups as the leading constraint. Some functions of government, such as the judiciary, revenue collection bodies, and bodies managing public assets are rated particularly poorly, and deserve priority attention in reform efforts. The judiciary is reported not only to provide service of the poorest quality but also to require large bribes of those using it. Customs, business licenses, police, standard inspections, and tax authority provide poor quality services and require the largest bribes from enterprises.

### **II. Costs of Weak Governance and Corruption**

Survey results show that the perception of weak agency performance is closely related to the perception of weak integrity. Furthermore, bribes are found to be associated with poor service quality ratings – that is, paying bribes is not viewed as contributing to better service delivery. In addition, the survey suggests that weak governance may be losing the government revenue, both through evasion of taxes and customs duties and through diversion of resources from their intended destination. In fact, both enterprises and households express a willingness to pay more for good governance. Next, the household survey results suggest that corruption may not only weaken government's ability to deliver services to the poor, but also may disproportionately burden them through the informal payments they must make. Finally, enterprise responses strongly suggest that foreign companies encountering corruption are deterred from further investments in Cambodia.

### **III. Sources of weak governance**

The detailed data on organizations characteristic and operating conditions collected in the public officials survey combined with other survey results, permit some strong correlations to be observed regarding the sources of strong and weak governance. The data available for Cambodia suggest that the following factors may influence performance and integrity:

- Wage levels and timeliness of payment.
- Appropriate match between financial resources and assigned tasks.
- Personnel management practices which reward merit and professionalism combined with frequent performance evaluation.
- Budget management practices that are clear and transparent.
- Information and knowledge that flow efficiently within and across organizations.
- Penalty systems that are impartially applied in the necessary cases.
- Effective complaint mechanisms that are linked to penalty systems.

The surveys reveal strong support within government for governance reform and anti-corruption measures. Officials find a wide variety of measures helpful, and the following very helpful:

- Establishing a living wage for public officials.
- Establishing personnel management system in the public sector, where compensation and promotion are specifically based on performance.

- Greater oversight of government functions by the general public and civil society.
- Regular declaration of assets of public officials.

The support expressed by public officials, combined with the willingness to pay expressed by households and enterprises, suggest a positive environment for good governance and anti-corruption reforms.

International experience shows that the solution to governance problems only begins with expert diagnosis. As the introduction notes, the solutions must be found by committed members of government, civil society and the private sector, working in a participatory and transparent manner to agree on the problem and on an action plan to address the problem, then working collectively to implement solutions. They must arrive together at an agreed-upon strategy and plan of action, including both short-and long-term measures designed to strengthen governance and reduce corruption.

Strengthening governance involves a complex mix of approaches including reforms in economic policies, financial controls, public and civil society oversight, the legal system and judiciary, and civil service. But there is no one recipe for the perfect mix of these elements. Different countries have pursued a variety of different initial steps along the long path to good governance. Some immediate actions, such as establishment of a code of conduct can be taken quickly. Others, such as comprehensive reform of personnel and financial oversight systems, take longer.

This report will be presented by the World Bank at the Consultative Donor Group meeting in May for discussion of its findings and implications. This report will complement the information from other inputs, such as the Governance Report prepared by the Asian Development Bank to develop Governance strategy in Cambodia. It is expected that these reports, analyses and findings, will be used by the Government under the leadership of the Office of the Council of Ministers and various stakeholder groups to further develop, in the months to come, the Governance Action Plan drafted by the Government. For such a strategy to succeed, Government must engage in this effort not only its internal resources and will, but also civil society, private sector, and donors.

Once the Government has reviewed the document internally and endorsed its content, and before the consultations on the draft Governance Action Plan are launched (mid-July), the document will be published as a joint document, with Government and World Bank authorship. It will be widely disseminated by the Government in Khmer and English at a major National Governance Workshop to be held mid-July. This workshop will help build support and momentum for reform forming a broad coalition to improve governance and curb corruption in Cambodia. All major stakeholders will attend this workshop, which will be open to the press. The success of this initiative, as noted by his Excellency HUN SEN in the conference on Democracy, Good Governance, and Transparency, critically depends on the active participation of all players concerned.

## **I. Introduction**

*“Good governance is of paramount importance to ensure successful economic development [...] The principles of good governance require active participation of all players concerned, from both the government institutions and civil society at large.”<sup>1</sup>*

*“As a Country, we will need to prioritize and agree on realistic sets of sequenced actions that reinforce one another [...] To succeed we all need to work together: government, NGO’s, private sector.”<sup>2</sup>*

### **A. Background**

Governance is the way in which public power and authority is formed and used to control and manage society’s resources. Good governance rests on four pillars: (a) accountability, meaning that public officials can be called to task for their actions; (b) transparency, meaning that relevant information is accessible at low-cost; (c) predictability, meaning that policies, laws and regulations are clear, known in advance and are uniformly and effectively enforced; and (d) participation, meaning that the public is consulted on government actions that affect them. Corruption, commonly defined as abuse of public office for private gains, is a key symptom of weak governance. The main objective of this report is to support the efforts of the Royal Government of Cambodia to enhance governance and fight corruption for poverty alleviation and sustainable development.

The formation of the Royal Government --a coalition government-- in 1993 allowed Cambodia to stabilize the economy, restore economic growth, and begin reforms to transform the economy into a market-oriented one. Since 1996, however, the Government’s reform efforts weakened due partly to internal political developments, the lack of international aid following the July 1997 events, and some fundamental fiscal and governance problems developed. A new coalition government led by Prime Minister Hun Sen emerged in November 1998 and the political situation became more stable. As demonstrated in the Royal Government of Cambodia’s Platform on Second Term, 1998-2003, and the Prime Minister’s statement at the third CG meeting held in February 1999, the new Government is keenly aware of the need to improve macroeconomic policies, mobilize resources for investment, rationalize expenditures, implement state reform, and address governance problems as a way of starting the country down a path towards sustainable growth. The Royal Government of Cambodia has placed good governance as the cornerstone of its development agenda for poverty alleviation and sustainable economic development with equity.

The new Government renewed reform efforts and undertook some notable policy actions including implementing the value-added tax; curtailing illegal logging and canceling concession contracts in violation of the terms of contracts; eliminating ghost soldiers and initiating military demobilization with registration of soldiers; and amending the Implementing Regulations for the Law on Investment to further tighten exemptions. The Government’s recent policy actions have created new momentum for reform.

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<sup>1</sup> *Samdech HUN SEN*, Prime Minister, Royal Government of Cambodia, Keynote Address to The Opening Ceremony of the National Conference On “Democracy, Good Governance and Transparency” 14 March 2000.

<sup>2</sup> H.E. SOK AN Senior Minister in charge of the Office of Council of Ministers, Permanent Member of the Supreme Council of State Reform, and Chairman of the Council of Administrative Reform. Concluding remarks to the National Conference on “Democracy, Good Governance and Transparency” 14 March 2000.

The World Bank's Structural Adjustment Credit (SAC) and the IMF's Poverty Reduction and Growth Facility (PRGF) are now in place to help move forward the Government reform agenda, the core of which lies with enhancing governance in economic management.

Cambodia is now at a critical juncture in making a transition to sustainable development. To make a successful transition, the Government recognizes that it must tackle its underlying governance problems in economic management, strengthen basic capacities, improve the quality and efficiency of public services and reduce corruption. As a first step towards tackling governance and corruption problems, on July 8, 1999 the Royal Government of Cambodia wrote to the World Bank requesting technical assistance for capacity building in enhancing governance and fighting corruption. On August 19, 1999, the Royal Government of Cambodia wrote to the World Bank confirming the Government's commitment to develop a program to build capacity in enhancing governance and fighting corruption. This was the first survey of its kind to be conducted with assistance from the World Bank in Asia. The key components and principles of this program are:

1. A **broad commitment** to a process resulting in concrete governance and institutional reforms (for which mainstreaming through the Bank lending operational support could take place in due course)
2. A **participatory process** from the outset, involving broad and continuous engagement of civil society, leading to consensus-building and collective action. This includes the collaboration of both civil society and the private sector as an important element for strategy and action program formulation.
3. An **in-depth diagnostic** based on three surveys carried out by an independent, local organization with the World Bank methodological support.
4. **Transparency** in the sharing and wide dissemination and discussion of the diagnostic findings.
5. **Collective action** to design a realistic action program to improve governance and curb corruption with the participation of all major stakeholders.

Both the Royal Government of Cambodia and the World Bank recognize that strengthening governance and combating corruption is an integral element for promoting sustainable development in Cambodia. The World Bank immediately replied favorably to the request by approving an Institutional Development Facility (IDF) grant of US\$200,000 for technical assistance. With this assistance, in full collaboration with government, surveys of public officials, citizens, and enterprises were conducted by a local NGO (Lidee Khmer) in November and December 1999 under the World Bank's supervision.<sup>3</sup> In full collaboration with the Royal Government of Cambodia, the World Bank, with contributions from Lidee Khmer, prepared this report in consultation with donors, NGOs, private sector, and representatives of civil society. Dissemination of this diagnostic study is supported by a condition for the second tranche release of the Structural Adjustment Credit (SAC).

This diagnostic study aims to provide a vital and objective basis for formulating policies for enhancing governance and fighting corruption. The careful diagnosis of governance issues presented in this report is intended to encourage a constructive and transparent debate by all stakeholders, resulting in the concrete institutional reforms necessary for preventing corruption and strengthening governance in Cambodia. In developing the first draft of its Governance Action Plan, the Government has used the findings of this survey as well as numerous studies such as the ADB/CDRI Governance Study. Consultation process to

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<sup>3</sup> With assistance from the World Bank, similar in-depth country governance surveys are being or have been implemented in numerous countries including Albania, Georgia, Latvia, Russia, Slovakia, Ecuador, Bolivia, Paraguay, Thailand, Benin, Ghana, and Nigeria.

develop the governance action plan will be launched with a major Workshop organized by the Government of Cambodia planned for mid-July involving high level participation by government, the private sector, civil society, donors, and international experts. .

International donors are united in supporting efforts to strengthen governance and combat corruption. Through elements of their programs and policy work, several are already supporting diagnostic and remedial work. In parallel with this diagnostic study and also the World Bank's legal diagnostic study, other donors and NGOs are also helping the Government in tackling governance problems, for example the Asian Development Bank (ADB) and the Cambodian Development Resource Institute (CDRI) on broad governance issues, Australian Agency for International Development (AUSAID) on the training of officials on anti-corruption, and Canadian International Development Agency (CIDA) on legal governance. The findings and recommendations of all these initiatives have provided a key basis for formulating the first draft of the Governance Action Plan which, along with this diagnostic study, will be discussed at the CG meeting in Paris, May 24-26, 2000. One critical outcome of the Workshop must be a shared perspective on these issues, and on the priorities for action. A common action plan can also serve to coordinate the work of diverse actors pursuing common goals: participants can agree on how to share and apportion responsibility for assisting or carrying out concrete, time-bounded activities.

**The Governance and Corruption Diagnostic** This report is the result of a close collaboration between the World Bank and the Royal Government of Cambodia. It presents an objective study of the evidence collected through three large-scale governance surveys carried out in Cambodia during November and December 1999 and involving 1068 households, 326 private enterprises, and 671 public officials.<sup>4</sup>

These surveys were designed based on the World Bank's experience in other countries<sup>5</sup> and the knowledge and expertise of the Council for Administrative Reform and Lidee Khmer on governance issues in Cambodia. The surveys were designed to assist in policy and strategy formulation for an action program to enhance governance in Cambodia in at least three ways: 1) collecting the views and concerns of households, enterprises and public officials in Cambodia, 2) measuring the dividend of good governance, and 3) helping to identify the sources of good governance, and highlighting priority areas where it can be strengthened. The evidence presented complements other sources of information such as experts' analysis and case studies.<sup>6</sup>

This report is intended to form the basis of a neutral, factually-based discussion. Survey data can be a powerful tool to help to build consensus among key stakeholders. Government, civil society, and the private sector can make use of this report to promote a constructive debate on real institutional reform for improving governance. Rigorous empirical analysis can de-politicize discussions about concrete reforms by focusing attention on evidence of performance and the relationship between institutional characteristics and outcomes. Data on the perception of the quality and integrity of particular public

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<sup>4</sup> The surveys were carried out in Phnom Penh and four provinces spanning the country: Kandal, Siem Reap, Kampon Cham, and Sihanouk Ville. Subject to limitations on information on the general population of households, enterprises and public officials (there is no census available of any of the three populations) each sample was designed to be representative. The following criteria were used in selecting the sample: size and sector for the enterprise survey, income level and location for the household survey, and organization for the public officials' survey.

<sup>5</sup> The enterprise survey is based upon the World Bank Group's World Business Environment Survey, augmented by the survey team, while parts of the public official's survey draw from earlier work by the World Bank Institute in Ecuador and the work of the Poverty Reduction and Economic Management team for Eastern Europe, as revised by the survey team. For more information on governance surveys, PREM Note # 7 by D. Kaufmann, S. Pradhan, and R. Ryterman. Available on the web at: [www.worldbank.org/wbi/gac/wp](http://www.worldbank.org/wbi/gac/wp) and Daniel Kaufmann, Auron Pasha, Zef Preci, Randi Ryterman, and Pablo Zoido- Lobaton "Governance and Corruption in Albania: The Imperative of Institutional Reforms". Available on the web at: [http://worldbank.org/wbi/gac/alb\\_surv.htm](http://worldbank.org/wbi/gac/alb_surv.htm).

<sup>6</sup> For example, a recent study by ADB/CDRI reviews in-depth the state of good governance in Cambodia in the year 2000.

services focuses the debate on institutions, rather than individuals. In addition, surveys can be used to establish quantitative benchmarks for monitoring the success of reforms.

As stated above, the main objective of this report is to assist the efforts of the Cambodian government in enhancing governance. To this aim, it addresses the following questions: *What is the status of governance in Cambodia?* How do households, enterprises, and public officials perceive public service quality, and where do they place governance issues among other concerns? *What are the benefits of good governance and costs of weak governance in Cambodia?* How do households, enterprises, and public officials rate the performance and integrity of public institutions and public services? What is the relationship between performance and integrity? What are the revenue mobilization implications of good governance? How does governance affect the poor? How does it affect foreign direct investment? *What are the sources of strong and weak governance in Cambodia?* What are the causes of institutional strengths? How effective are accountability mechanisms?

The remainder of this section places Cambodia in an international perspective. The second section presents the survey evidence, the status of governance in Cambodia – especially with regard to the quality and integrity of public services, the benefits of good governance and costs of weak governance, and sources of strong and weak governance in Cambodia. The third section concludes with a summary of the main findings of this report and recommended next steps on improving governance in Cambodia.

## B. International perspective

The quality of governance is determined in large part by the ways in which government exercises public power in managing the resources entrusted to it. Key factors influencing this include (1) the process by which government is selected, monitored, and replaced, (2) the capacity of the government to effectively formulate and implement sound policies and effective services, and (3) the respect of citizens and the state for the institutions that govern economic and social interactions among them.<sup>7</sup>

Based on this understanding, a World Bank study developed six aggregate governance indicators to measure six fundamental aspects of governance, using over 300 cross-country indicators from more than a dozen sources. Figure 1 shows that Cambodia is roughly comparable to its neighbors, slightly above Vietnam and Laos and below Thailand (although none of these comparisons is statistically significant).<sup>8</sup> Note that very few international datasets include Cambodia, thus only three of the six aggregate indicators are available for Cambodia. The very lack of international data suggests the importance of diagnostics such as this one, which not only serve to document the state of governance in Cambodia and provide

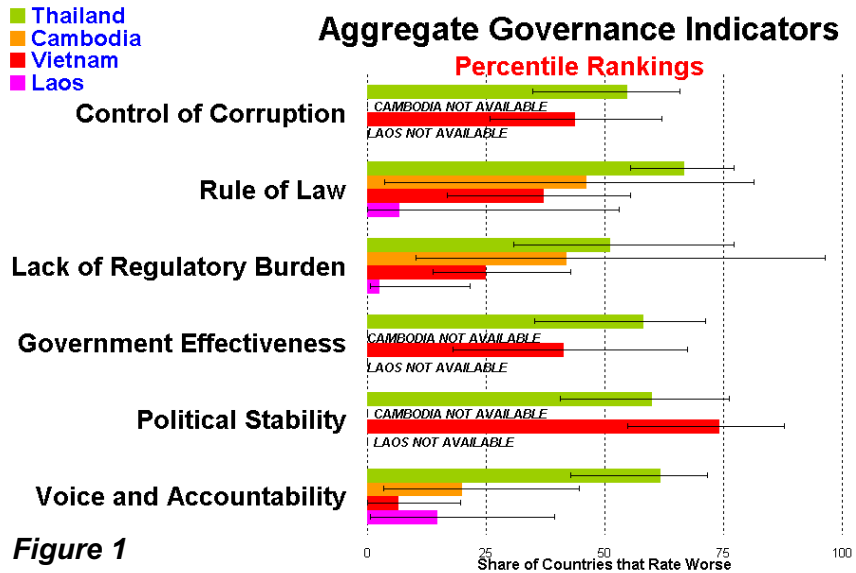


Figure 1

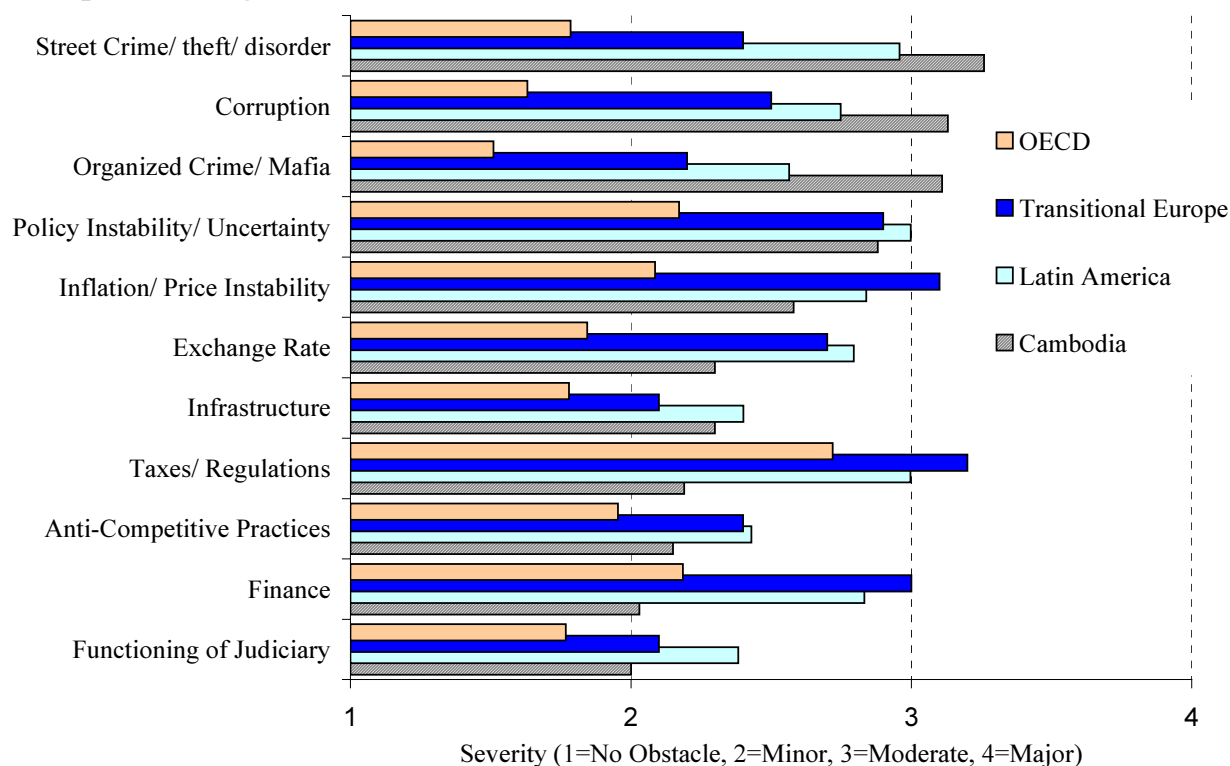
<sup>7</sup> Kaufmann, Kraay, and Zoido-Lobaton (1999a and b): “Governance Matters,” Policy Research Working Paper Series 2196 and “Aggregating Governance Indicators,” Policy Research Working Paper Series 2195. Available on the web at: <http://www.worldbank.org/wbi/gac/index.htm>.

<sup>8</sup> In figure 1, the bounded lines in each bar represent the 95% confidence interval. See footnote 19 for detail.

benchmarks to measure progress in reforms, but also serves to provide the basis for including Cambodia in a growing body of cross-country empirical work that allows international comparisons of governance.

Figure 2 shows the kind of comparative power yielded by the current study. It places results from the enterprise survey component of the Cambodia governance study in parallel with average results from 20 Latin American countries, 20 transitional European and Central Asian countries, and 9 OECD countries. In this case, it suggests that some of the problems troubling other regions are less severe in Cambodia, including taxes and regulations, and finance. However, with regard to some constraints, Cambodian enterprises identify more severe constraints than firms in other regions – including street crime, corruption, and organized crime.<sup>9</sup>

**Figure 2: General Constraints to Enterprises, Cambodia and Comparator Region**



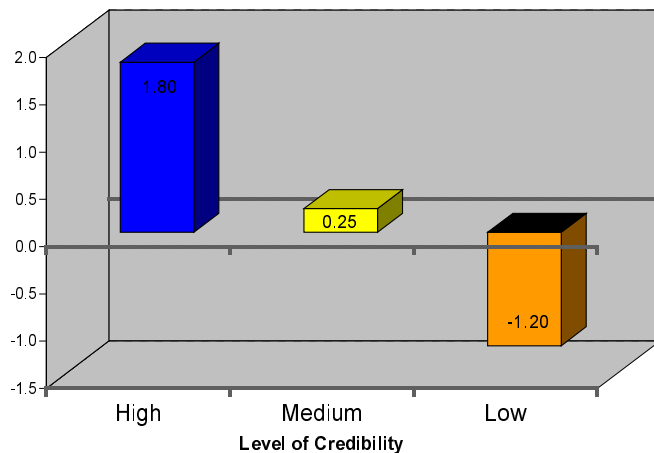
A substantial amount of cross-country evidence shows that improved governance leads to better economic and social development outcomes. This evidence, from a large number of countries, illustrates that economic and social development outcomes such as higher income levels, lower illiteracy and infant mortality rates, are not only closely associated with better governance, they are brought about by improved governance. An one standard deviation improvement in the rule of law from the low level prevalent in Russia today to the middling level in the Czech Republic, or, alternatively, a reduction in corruption from the high level prevalent in Indonesia to the lower level in Korea, leads to between a two and fourfold increase in growth of per capita incomes, a decline in infant mortality of similar magnitude, and a 15-25 percent improvement in literacy levels.<sup>10</sup>

<sup>9</sup> Source: World Business Environment Survey, The World Bank Group ©2000. The substantive issues raised by the survey are discussed in the following section of the paper.

<sup>10</sup> Kaufmann, Kraay, and Zoido-Lobaton (2000) "Governance Matters: From Measurement to Action" Finance and Development. The International Monetary Fund. Available on the web at: <http://www.imf.org/external/pubs/ft/fandd/>

Furthermore, good governance, by ensuring law and order, protecting property, and applying rules and policies fairly and predictably, enhances government credibility with investors, which encourages investment and growth (figure 3).

**Figure 3. Growth of GDP per Capita (Percent per Year)**



According to the World Bank's 1997 World Development Report (WDR 97), there is a strong correlation between private investors' evaluation of a government's credibility and its record of growth and investment, evidenced by a survey of 3,685 private enterprises in 69 countries.<sup>11</sup>

Given the proven importance of good governance to growth, investment and social development, this report seeks to use the best available tools to

document it.

## II. Survey Evidence from Cambodia on Governance and Corruption

This section presents evidence from the three large-scale surveys carried out in Cambodia during November and December of 1999 by Lidee Khmer with the technical support of the World Bank. This section consists of three parts. Part A describes the survey methodology. Part B discusses the status of governance and corruption in Cambodia as reported by those interviewed. Part C presents survey evidence on the benefits of good governance and the costs of weak in Cambodia. Part D presents evidence on the sources of good governance in Cambodia based on the responses of those interviewed.

### A. Survey Methodology

In interpreting the survey data, one should keep in mind that survey data have advantages and disadvantages. The main advantage of surveys is that they provide practical source of data on issues in which hard data is absent or difficult to produce. The main disadvantage of surveys such as those used to produce this study is that they are based on the experiences and subjective evaluation of those interviewed. Individuals may have limited or biased experiences and perspectives, influenced by their own situation

Therefore, survey results should always be taken in perspective. The surveys provide a reliable representation of the views and quantitative estimates of those who responded – but they cannot assess the level of knowledge or honesty of each respondent, nor can they represent information withheld from the interviewer.

Nonetheless, the current study has made every effort to overcome the potential limitations of this methodology. First, the survey instruments were carefully designed based on the World Bank's and other organizations' experience in a number of other countries with governance diagnostics. They mix

<sup>11</sup> World Development Report 1997: The State in a Changing World. (New York: Oxford University Press, 1997). (Source: figure 1).

questions of perception and values with those of actual experience to provide a richer perspective on the actual situation. They provide a cross check of evaluations between the perspectives of citizens, enterprise managers and public officials. This “triangular” approach has proven valuable in countries in Eastern Europe, Latin America and Asia. Second, the survey was well-timed after the new government was established and during a period when there were no systemic crises in the country or region that might influence responses.

Third, the surveys were conducted in circumstances designed to elicit the candid and reliable results. Interviews were carried out in person by trained interviewers, to ensure that questions were clearly explained, answers were recorded in a uniform manner, and an element of trust was engendered between the interviewer and the respondent. The interviews were carried out privately and the respondents were guaranteed anonymity, in order to improve the accuracy and candor of responses.

Finally, the survey samples were designed (subject to important time and financial limitations) to ensure a high quality of data. The margin of error associated with each of the measures presented here is very much dependent on the absolute number of people that responded each question. The surveys implemented in Cambodia involved large samples, which insure small margin of errors for global measures. However, some questions and the analysis of some question by particular groups of individuals maybe based on a small sub-sample, for example the firms that actively exported.

The entire sample design was worked out with the recommendations of government counterparts and Lidee Khmer team, nonetheless, at the time of the survey, there were certain inherent limitations to the sample design. First, there was no comprehensive census available on which to base the samples of households, firms and public officials. To compensate for this, the sample was based on the best available studies on income distribution (achieving representative distribution among low, medium and high income households) and expert government counterparts on the distribution of public officials and the centrality of various public agencies to economic development objectives. Finally, the sample of enterprises was redesigned in response to feedback from government on an earlier pilot effort requesting broader representation of larger and foreign-owned enterprises in view of their potential importance. A second limitation was one of time and logistics – in order to have results available for the Consultative Donor Group meeting in May, the survey had to be conducted in a limited number of locations (Phnom Penh and 4 provinces) and to focus disproportionately on areas of higher population density.<sup>12</sup> Thus there are a disproportionately large number of urban households in the sample. To compensate, the study at times disaggregates the sample to observe the similarities and differences in responses between rural and urban households. Similarly, some of the enterprise survey results are divided to show the comparative perspectives of domestic and foreign-owned enterprises. Table 1 presents the sample distribution by various characteristics. The sample distribution of the public officials survey by organization is in Appendix 1.

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<sup>12</sup> Nonetheless, because the focus of the survey is on the quality of public agency performance and service delivery, and urban households are disproportionately larger consumers of public services, there is some merit to oversampling urban households to get a representative picture of the performance of key agencies.

**Table 1: Cambodia Governance and Corruption Survey Sample Distribution**

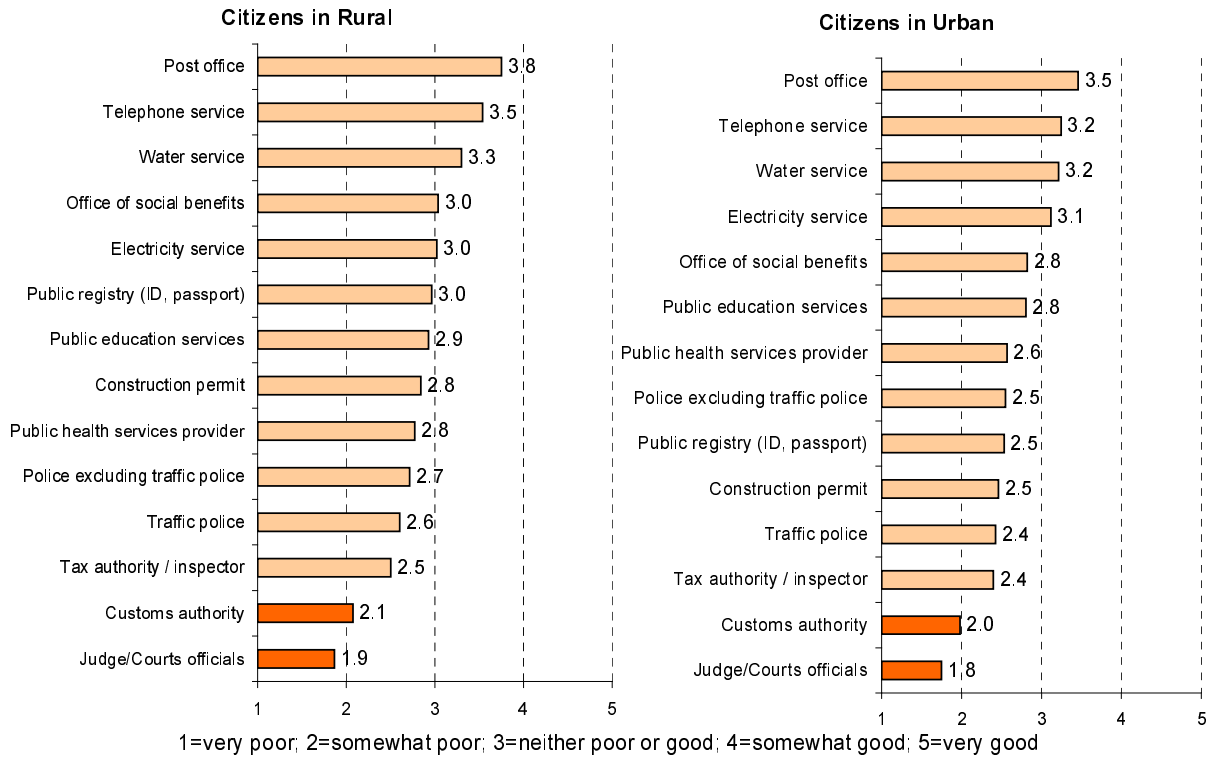
<i>Distribution of Households Sample</i>							
by location	%	by urban and rural	%	by income level	%	by education level	%
Phnom Penh	30	Urban	57	Low, <500k riel	41	Illiterate	10
Kandal	14	Rural	43	Med, <2m riel	29	Below secondary	34
Siem Reap	16			High, >2m riel	30	Gen. secondary	36
Kampon Cham	22					Spec. secondary	7
Sihanouk Ville	19					College	11
						Post-graduate	2
total	100		100		100		100
<i>Distribution of Enterprises Sample</i>							
by location	%	by size	%	by sector	%	by foreign participation	%
Phnom Penh	39	Micro (bt 1 & 5)	25	Manufac.	46	Domestic	78
Kandal	19	Small (bt 6 & 20)	34	Service	27	Foreign	22
Siem Reap	13	Medium (bt 21 & 75)	21	Commerce	17		
Kampon Cham	16	Large (larger than 75)	20	Agr.	4		
Sihanouk Ville	13			Others	6		
total	100		100		100		100
<i>Distribution of Public Official Sample</i>							
by location	%	by type of position	%	by age	%		
Phnom Penh	55	Org. head/deputy head	5	20s	7		
Kandal	12	Dept. head/deputy head	9	30s	29		
Siem Reap	11	Other senior manager	13	40s	42		
Kampon Cham	11	Junior manager	43	50s	21		
Sihanouk Ville	11	Supporting staffs	17				
		Other	14				
total	100		100		100		

## B. Perceptions on the Status of Governance in Cambodia

**B.1. Perceptions of Performance: Public Service Quality** One key measure of governance in any country must be the quality of services government delivers, whether it is in the form of law enforcement, regulation of markets or social services such as health and education. This section presents the evaluations of households and enterprises with regard to service quality.

The surveys asked respondents to rate a variety of public services in terms of their quality and efficiency. On average, households give modest ratings to public services, an average rating of 2.7 on a 5 points scale where 1 is “very poor” and 5 is “very good”. The enterprises give modestly favorable ratings to public services, giving an average rating of 3.9 (“slightly good”) on a 6-point scale. Generally, most of the ratings ranged between “somewhat poor” and “somewhat good” for households and “slightly poor and slightly good” for enterprises. Both households and enterprises give low ratings for the quality and efficiency of services with regard to courts, customs, tax administration and traffic police in terms of their quality and efficiency of service (figures 4 and 5). The courts are rated (statistically) significantly lower than any other public services listed. Households and foreign enterprises rate customs the second worst. Among public services, the post office and telephone service are rated better than others.

**Figure 4. Citizens' Evaluation of the Quality of Various Public Services**



**Figure 5. Enterprise' Evaluation of the Quality of Various Public Services**

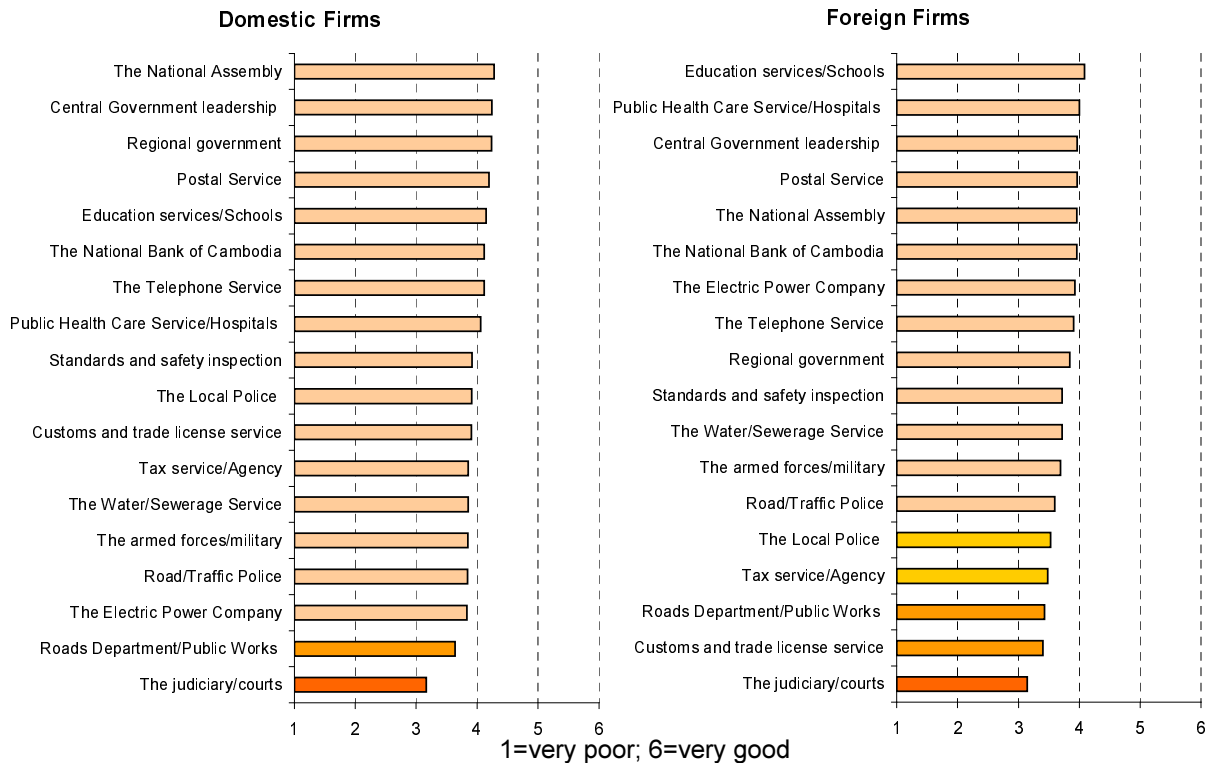
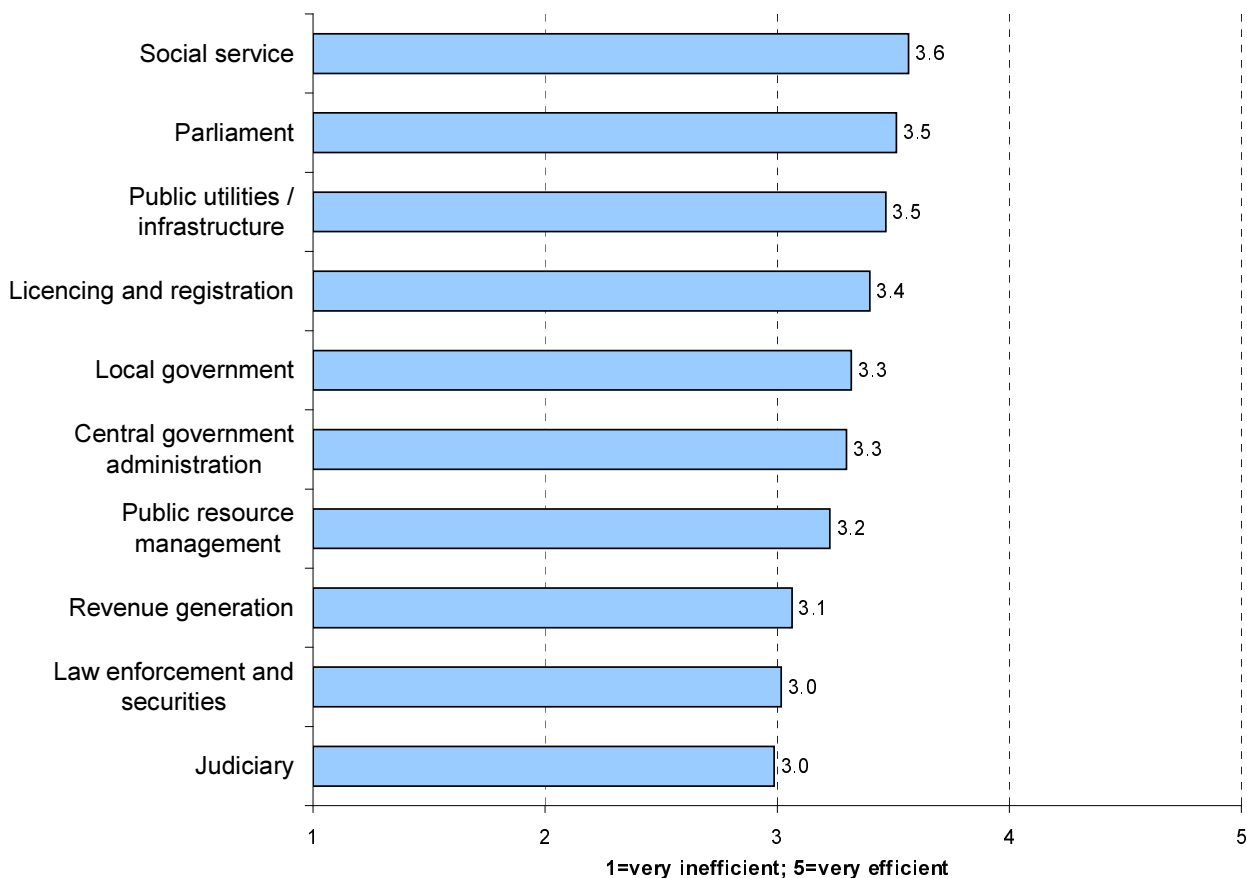


Figure 4 shows that the perceptions of urban and rural households are very nearly identical in their ordinal ranking of service quality, although in general rural households rate services slightly higher than urban households. Figure 5 shows some ordinal differences in ranking between domestic and foreign firms, but the absolute ratings are very close. Both domestic and foreign firms agree on a “slightly poor” rating for the roads department and the judiciary, although foreign firms rate the tax and customs service more negatively than do domestic firms. Domestic firms give their most favorable ratings to the national assembly, central government leadership, regional government and the postal service, while foreign firms place education and health services just ahead of central government leadership and the postal service.

**Figure 6. Public Officials' Evaluation of Performance of Public Organizations**



Public officials were also asked to evaluate performance of 27 public organizations other than their own. These 27 public organizations are grouped into 10 broad categories to contribute to provide an overview of the patterns reported, help build coalitions among different institutions, and avoid ‘finger pointing’. How public organizations are categorized is presented in Appendix 2. On average, social services, parliament and infrastructure services received the most favorable ratings. On the other hand, the judiciary, law enforcement and security services (police and military), and revenue generation authorities (tax and customs) rated more poorly.

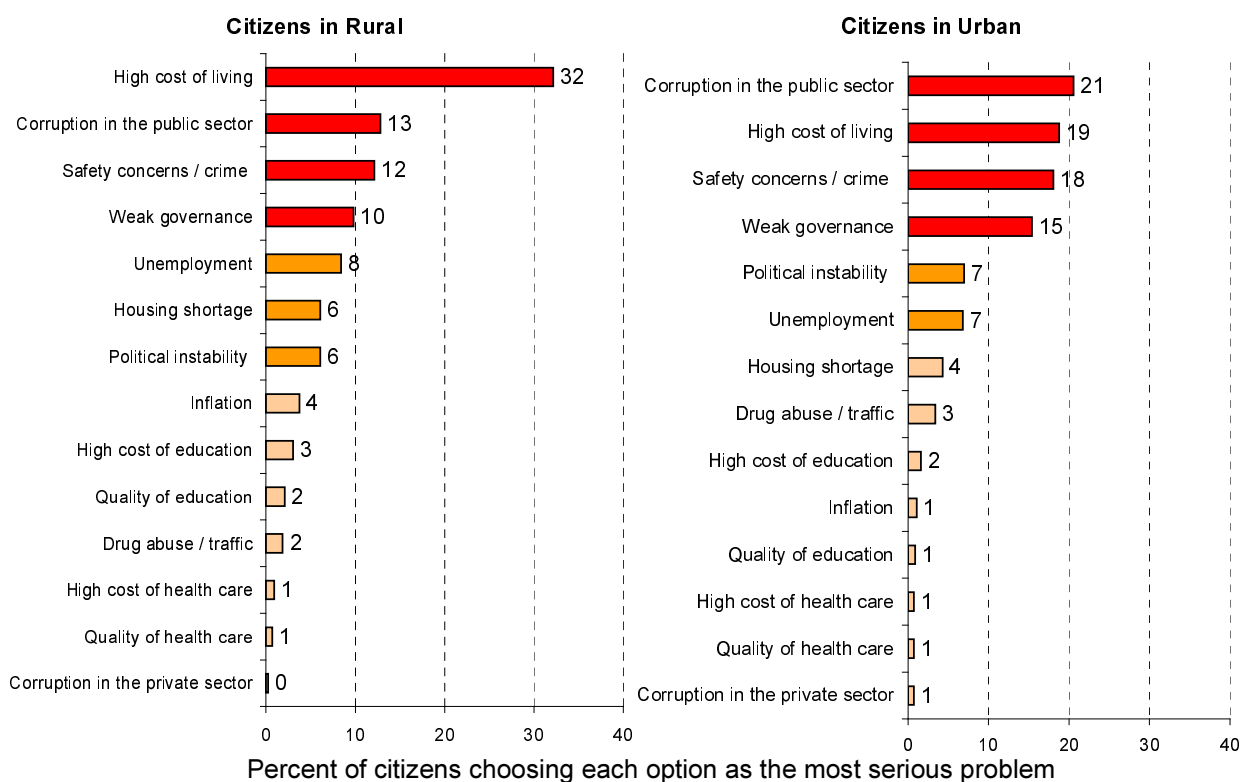
## B.2. Perceptions of Integrity and Corruption

Service quality is one measure of the strength of governance. A second is integrity and, inversely, corruption. The following subsections examine indicators of corruption and integrity

### a. Corruption as a constraint to development:

One key finding of the surveys was the perception of households and enterprises on the importance of public sector corruption as a key constraint to development in Cambodia. Households were asked to identify the most serious problem in Cambodia out of a list of 14 possible problems (figure 7, below). The results suggest a significant difference between the views of those households interviewed in rural and urban areas. The problem chosen by the largest number of rural households was the high cost of living, which stood out from all others. Almost a third of households interviewed in rural areas choose the high cost of living as the most serious problem. Corruption in the public sector was the second most frequently chosen problem as the most serious, by 13 percent of households interviewed in rural areas. The problem of safety concerns / crime closely followed, chosen by 12 percent of households interviewed in rural areas as the most serious problem in Cambodia. In urban areas, the problem chosen by a highest number of households interviewed was corruption in the public sector, by 21 percent of households interviewed. The problems of high cost of living and safety concerns / crime closely followed, chosen by 19 and 18 percent of households, respectively, as the most serious problem in Cambodia.

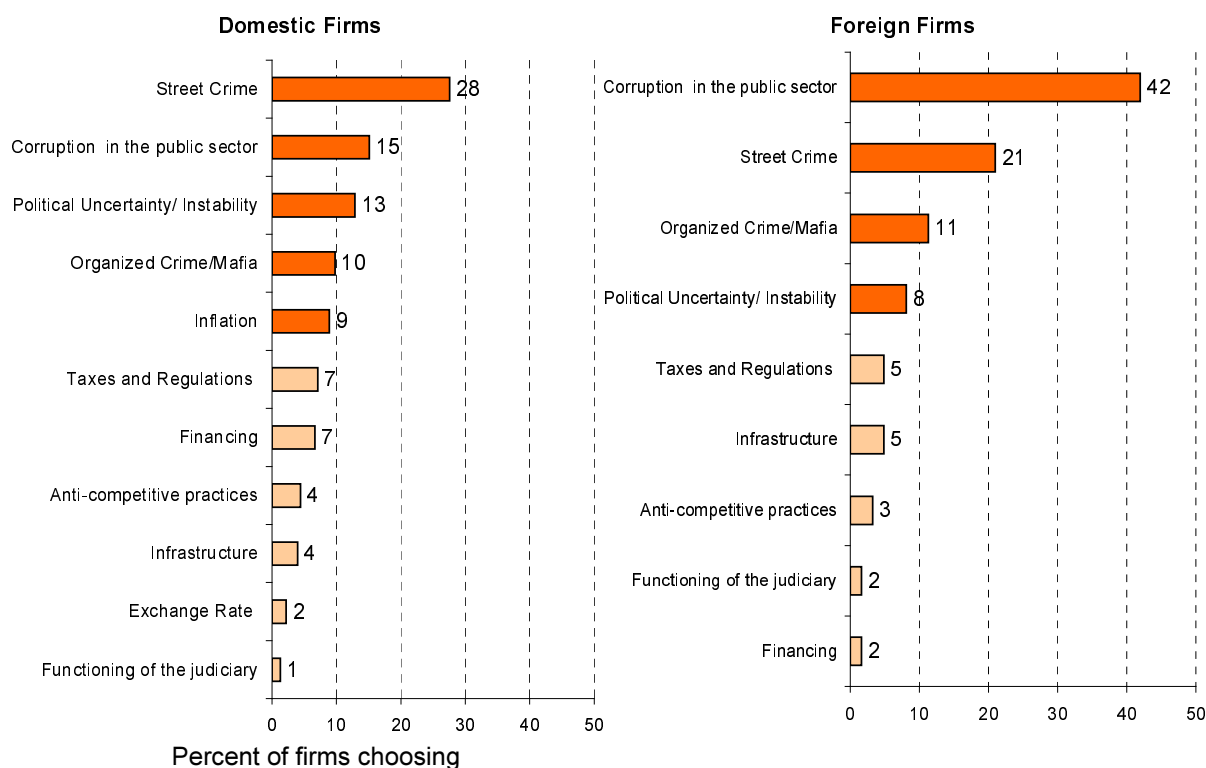
**Figure 7. Citizens' View on the Most Serious Problem in Cambodia**



Enterprises were asked to identify the most important obstacle for the operation and growth of their business. There is a significant difference between the views of domestic and foreign enterprises interviewed (figure 8). The problem that most domestic enterprise interviewed chose as the most important one was street crime. Twenty-eight percent of those domestic enterprises chose street crime as

the most important obstacle for the operation and growth of their business. This was followed by corruption in the public sector and political uncertainty / instability, chosen by 15 and 13 percent of domestic enterprises interviewed respectively. The problem that most foreign enterprises interviewed chose as their leading constraint was corruption in the public sector. 42 percent of foreign enterprises interviewed chose it. This was followed by street crime and organized crime, chosen by 21 and 11 percent of foreign enterprises interviewed, respectively.

**Figure 8. Enterprises' Views on the Leading Constraint to Business**



Several enterprise concerns fall under what could be characterized as “rule of law” issues. These include uncertainties about laws, regulations and policies; the administration of laws and policies (as reflected in the rating of public corruption), and adjudication (the weak evaluation of court performance). These issues are explored in greater depth in the sections on the legal and regulatory framework and the judiciary, below.

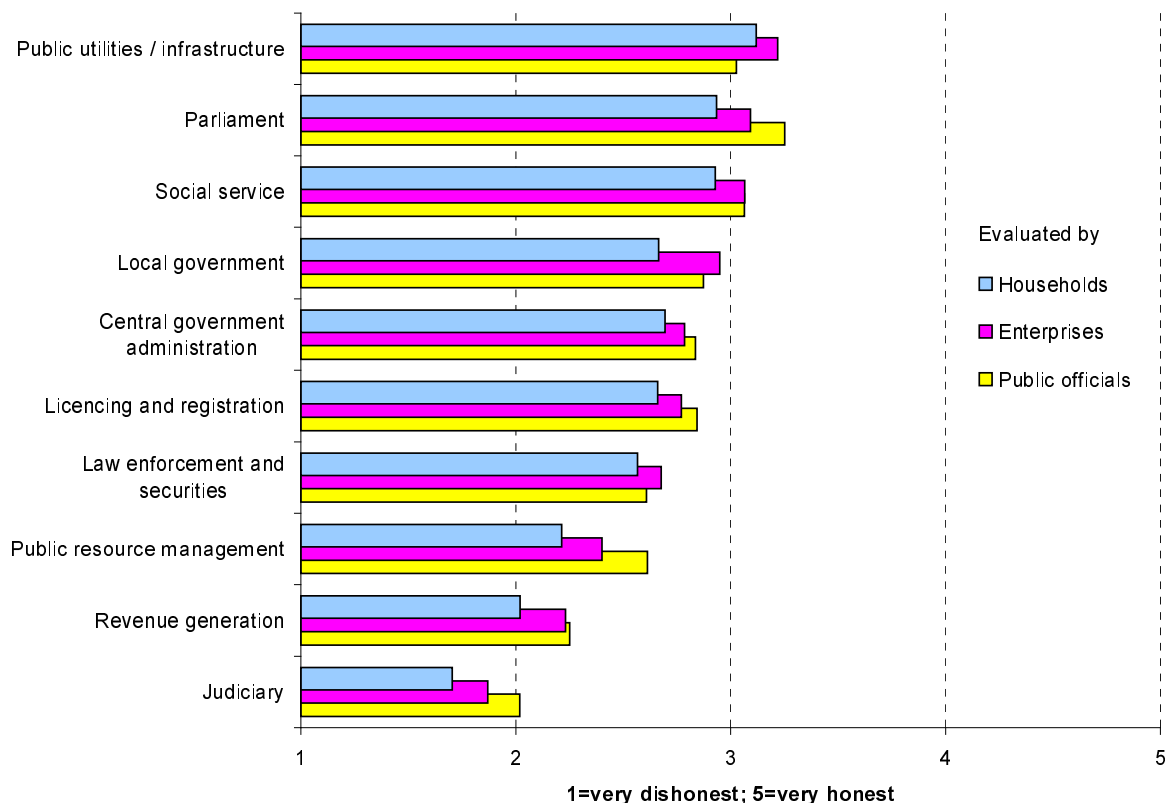
**b. Public Agency Integrity**

Enterprise and households were asked to evaluate the integrity of 27 public organizations.<sup>13</sup> In addition, public officials were asked to rate the integrity of organizations other than their own. As with performance evaluation by public officials, these 27 public organizations are grouped into 10 broad categories. Figure 9 shows ratings of the integrity of the 10 categories of public organizations on a one-to-five scale, where one is very dishonest and five is very honest. Views from these three types of

<sup>13</sup> Although households and enterprises are asked about the integrity of the same list of 27 public organizations as in the public official survey, they are not asked to evaluate the performance of all of these organizations. Instead, they were asked to evaluate the quality of a smaller number of public services or agencies with which they were most likely to have had contact.

respondents for the 10 categories are highly correlated with correlation coefficients between 0.95 and .99, indicating there is a general agreement on the integrity of most public organizations.<sup>14</sup>

**Figure 9. Evaluation of Integrity of Public Organizations**



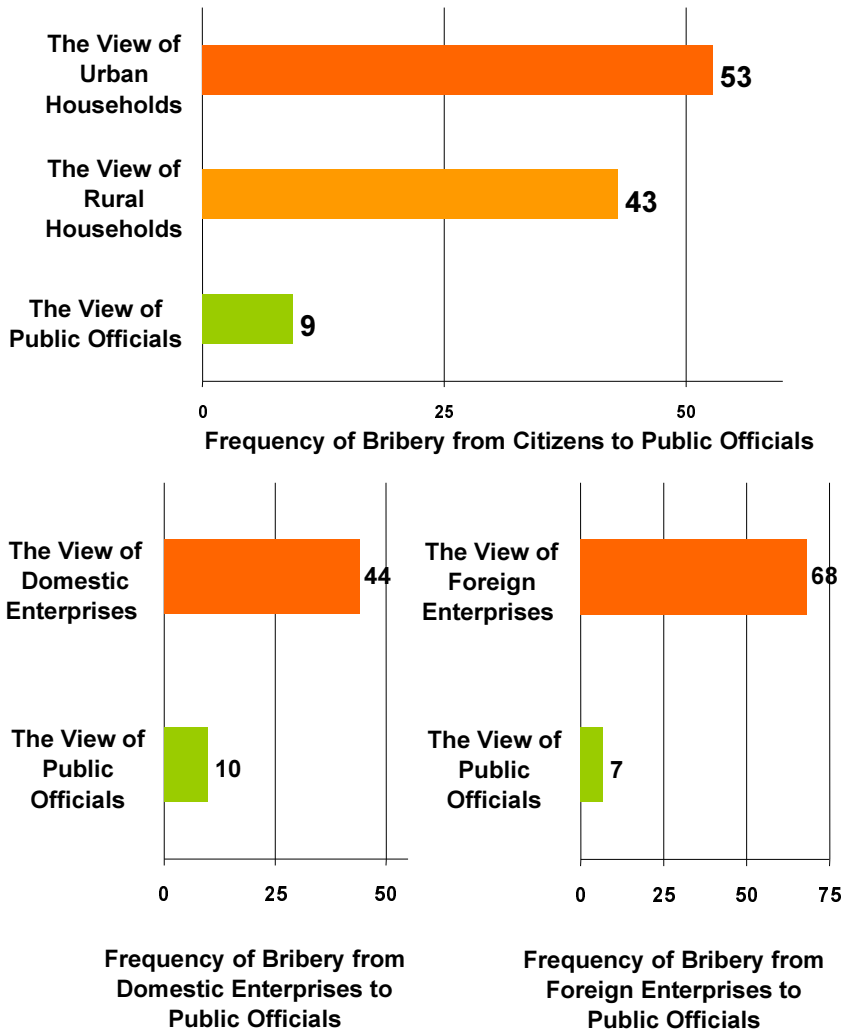
In figure 9, public organizations are sorted by the average of ratings from public officials, households, and enterprises. The organizations with the highest rating for honesty/integrity are public utility/infrastructure services (such as the Post Office, the Water Service Provider, the Telephone Service Provider), the Parliament/National Assembly, and Social Services (e.g. Social Welfare). The lowest rated organizations for integrity are the Judiciary, Revenue-related Authorities, and agencies involved in the management of public assets. These organizations were rated as, on average, “somewhat dishonest.” Although households’ responses are highly correlated with those of enterprises, they rate all these categories of agencies somewhat lower, on average, than do the firms.

**c. Unofficial Payments: How Frequently, How Much, By Whom, to Whom?**

Given the widespread identification of a corruption problem, it is reasonable to ask how common is the problem? One important aspect of the problem is illicit payments to public officials required either to get them to do their job or to afford special benefits to the payer. Citizens, entrepreneurs and public officials were asked to estimate the frequency with which contacts between citizens or enterprises and public officials involve informal payments to the officials.

<sup>14</sup> When the two variables are perfectly correlated, correlation coefficient is equal to one. Correlation between enterprises evaluation and public official evaluation is 0.96, that between enterprise evaluation and household evaluation is 0.99, and that between household evaluation and public official evaluation is 0.95.

**Figure 10. Perception about Frequency of**



On average, public officials estimate that domestic enterprises pay unofficial payments in 10% of their contacts with public officials, citizens in 9% and foreign enterprises in 7% of their enterprises. Compared with the estimates of the enterprises and households interviewed, public officials consistently estimate a lower frequency of payments. The data indicate that the rural households interviewed report having to pay bribes for public services on average 43% of times in dealing with public officials. Urban households report having to pay on average 53% of times. Foreign enterprises interviewed report having to pay on average 68% of times. Based on the potential bribe payers' estimates, illicit payments are more commonly made by foreign firms, followed in frequency by urban households, then by rural households and least frequently by domestic firms. However, from the officials' perspective, payments from

citizens are rare.

In addition to these overall insights into who pays and how often, the survey asked households and enterprises experience-based questions about the frequency of contact, the frequency of bribe paying, and the amount of bribe with regard to various public services. Table 2 presents the percentage of households that ever contacted each public service during the past year, the percentage of households that paid any bribes in that period, the frequency of a bribe payment given a contact, and the average amount of each payments (calculated from households reporting positive amounts paid), and finally the average expected amount of bribes for the sample calculated taking into consideration different rates of contact, payment frequency, and payment amount.<sup>15</sup> On this basis, the analysis reveals that households on average pay a larger amount of bribes to the courts, customs and tax authority than any other public services, each household on average paying more than nine US dollars to each of these three services a year.

<sup>15</sup> A restricted sample is used in the calculation. Households that reported paying a bribe to any public service larger than 50% of their income are dropped from the sample.

**Table 2a. Number of Contacts, Frequency and Amount of Bribes  
(Citizens' Survey)**

	Percent of Household with any contact	Likelihood to pay any bribes	Likelihood of paying bribes, conditional on contact	Amount of bribes, each contact	Total amount of expected bribes
<b>Public Services</b>					
Judge/Courts officials	8%	5%	68%	\$212	\$11
Customs authority	2%	1%	79%	\$148	\$10
Tax authority / inspector	36%	23%	66%	\$10	\$9
Public education services	63%	24%	41%	\$13	\$5
Construction permit	7%	5%	71%	\$72	\$5
Public health services provider	52%	28%	57%	\$7	\$4
Public registry (ID, passport)	44%	25%	59%	\$11	\$3
Traffic police	15%	13%	89%	\$9	\$3
Police excluding traffic police	11%	8%	79%	\$10	\$2
Electricity service	53%	17%	37%	\$9	\$2
Water service	30%	10%	35%	\$16	\$2
Telephone service	9%	1%	11%	\$16	\$0
Post office	8%	2%	26%	\$0	\$0
Office of social benefits	2%	1%	38%	\$4	\$0

**Table 2b. Composition of Total Bribes Paid by Households**

Public Services	Proportion of bribes paid to each service, as % of the total bribes
Judge/Courts Officials	20%
Customs Authority	17%
Tax Authority/Inspector	16%
Public education services	9%
Construction permit	8%
Public health services provider	8%
Public registry (ID, Passport)	6%
Traffic police	5%
Police excluding traffic police	4%
Electricity services	4%
Water services	3%

Out of the total average amount of annual bribes paid to the listed 14 public services by households -- US \$56 (5.9% of their income), US \$30 are paid to the three public services: Courts, Customs, and Tax Authorities. In terms of frequency, informal payments are made most often to Traffic Police, Customs, Police, the Courts, and Tax Authority.

Enterprises tend to pay the largest amount of bribes to customs, which is followed by business license authorities and local police (Table 3).<sup>16</sup>

**Table 3a. Contact, Frequency, Amount of Bribes  
(Enterprises' Report)**

Public Services	Percent of Firms with any contact	Likelihood to pay any bribes	Likelihood of paying bribes, conditional on contact	Amount of bribes, each contact	Total amount of expected bribes
Customs and trade license service	23%	18%	80%	\$1,268	\$30,617
Business License Authorities	61%	31%	53%	\$742	\$8,983
Other Police	31%	28%	91%	\$153	\$5,067
Traffic police	16%	14%	85%	\$58	\$673
Standards and safety inspection	26%	16%	63%	\$208	\$594
Tax Agency/ Inspectors	78%	33%	46%	\$184	\$365
Politicians influencing polices affecting your firm	2%	2%	100%	\$2,975	\$99
Construction permit	20%	11%	57%	\$501	\$61
Government Procurement Agents	7%	4%	63%	\$107	\$39
Telephone Company	36%	5%	20%	\$16	\$11
Electric Power Company	57%	11%	28%	\$48	\$7
Judges/ Court officials	4%	2%	40%	\$407	\$7

**Table 3b. Composition of Total Bribes Paid by Enterprises**

Bribes Paid by Domestic Firms		Bribes Paid by Foreign Firms	
Public Services	Bribes paid to each service, as % of the total bribes	Public Services	Bribes paid to each service, as % of the total bribes
Business license authorities	39%	Customs / trade license services	67%
Standards and safety inspection	15%	Business license authorities	19%
Customs / trade license services	13%	Other police	11%
Tax agency/Inspectors	11%	Other	3%
Other police	6%		
Traffic police	4%		
Other	12%		

<sup>16</sup> As with the households, a restricted sample is used in the calculation. Firms report paying a bribe to any public service larger than 50% of its sales are dropped from the sample.

Out of the total amount of annual bribes paid to the listed 12 public service (US \$46,500; 3.8% of their income) more than US \$44,500 (95% of the total bribes) is paid to customs, business license authorities and local police. Note that unlike those figures for households, enterprises' frequent contacts with key agencies leads their expected annual payments to be larger than the average payment, because firms dealing with these agencies must pay off these agencies several times in a year.

Unofficial payments paid by foreign firms are concentrated on customs, business licenses, and other police (Table 3b). In addition to these three public services, domestic firms also made a large amount of unofficial payments to standard and safety inspection, tax authorities, and traffic police. Enterprises paid only a small amount of bribes to courts, which is mainly due to infrequent use of courts by enterprises. This suggests that enterprises may have decided to stay away from formal contract enforcement mechanism due to serious corruption problem in the courts. This argument is supported by the finding that enterprise gave lowest rates to courts in terms of honesty among 10 broad categories of organizations (see Figure 9) and the lowest score in terms of quality among services (see Figure 5).

The public services where enterprises must make payments most frequently once there is contact with them are: Police, Traffic police, Politicians, and Customs. Enterprises reported that each of these four services requires informal payments in more than 80% of instances of contact.

Note that the cost of a payment varies a great deal, in part in relation to the size of firm, the value of transaction subject to the regulatory or service authority, and the agency involved. The average amount per bribe reportedly paid to the telephone company, electric power company, and traffic police are less than 60 US dollars, far smaller than the amount required in dealing with customs and business licenses, where a few businesses allege that officials accepted payments in the thousands of dollars, and many others suggest payments in the hundreds of dollars. Enterprises report that during the past year they paid on average per firm over US \$30,000 to Customs, nearly US \$9,000 to business license authorities, over US \$5,700 to police and traffic police, almost US \$600 to standard and safety inspectors, and over US\$350 to tax authorities.

	<i>% of bribes shared (for those with positive estimate)</i>	<i>% of bribes shared (for those with non-missing estimate)</i>	<i>% Respondents with Positive Response</i>	<i>% not responding</i>
<b>with superior</b>	37	15	41	69
<b>with his colleagues</b>	26	13	49	68
<b>with politician/political party</b>	14	2	12	72

Public officials were also asked to estimate the proportion of unofficial payment that is shared with superiors, colleagues, and political parties within their organization. When shared, public officials interviewed estimate that a larger proportion of the unofficial payments are shared with superiors (more than one third) than with colleagues (about one quarter of the unofficial payments). Those public officials that responded to these questions (more than a quarter of those interviewed) estimated that unofficial payments are shared less than half of the time (less than 50 percent of those that responded reported positive proportions) with superiors and colleagues. This figure is smaller for political parties (only 12 percent of those interviewed that responded to this question reported that positive proportions are shared).

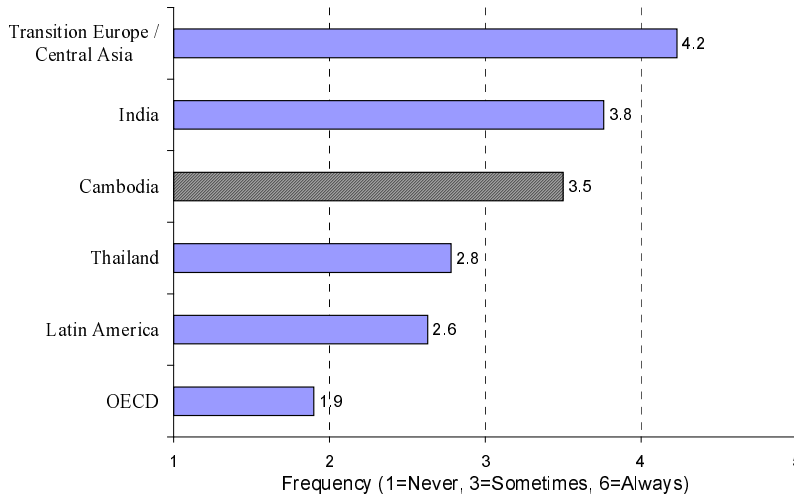
<i>Average Estimate, % of Jobs Bought (including zero responses)</i>	<i>Percentage of public officials not responding</i>
7%	95%

**Table 5**

Another way that illicit payments are shared in some countries is through the sale of public positions. Cases

have been documented internationally where the “price” of a public sector job relates to the expected illicit revenue of the position. In Cambodia, public officials report this practice is rare but not unheard of. Of the 5% of officials who made estimates, they suggested that an average of 7% of public jobs are bought.

**Figure 11. Frequency of Informal Payments by Country/Region**



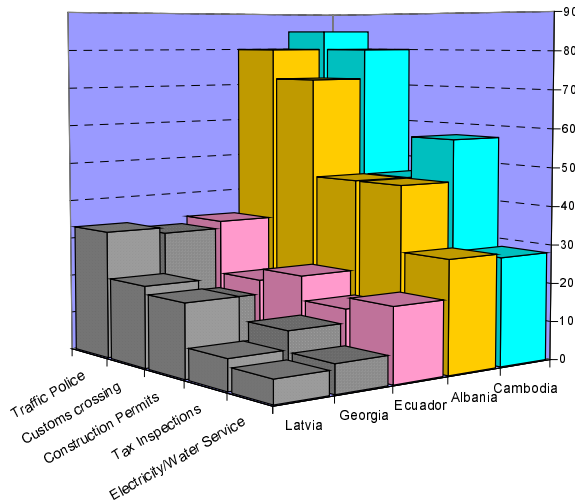
How prevalent is corruption perceived to be by enterprises in Cambodia as compared to enterprises in other countries? Figure 11 compares the Cambodian enterprise survey results on frequency of payments with the averages from three regions and two Asian countries where parallel enterprise surveys were carried out as part of the World Business Environment Survey. The regional averages represent 20 Latin American and Caribbean Countries, 9 OECD countries of Western Europe and North America, and 20

transitional economies of Eastern Europe and Central Asia. It can be seen that Cambodia’s frequency of bribe payments is substantially higher than that of industrialized countries, and that of Latin American countries. It is also higher than the reported rate for neighboring Thailand. At the same time, Cambodia has a less frequent incidence of payments than do Eastern European/Central Asian transition countries and is roughly comparable to the rate reported for India.

Figure 12 compares Cambodian data to a few countries where a similar Governance and Corruption survey program was implemented. This preliminary comparison suggests that enterprises in Cambodia reportedly pay bribes more frequently than enterprises in Latvia, Georgia, and Ecuador. Their frequency of paying bribes are similar to those by enterprises in Albania which was rated to belong to the bottom quintile by Transparency International in 1999. This suggests the challenge ahead. Cambodia is the first country in the region willing to undertake this comprehensive Governance and Corruption Survey, and

**Figure 12. Frequency of Paying Bribes by Enterprises**

Comparison among Cambodia, Ecuador, Albania, Georgia, and Latvia



has the opportunity to become the regional innovator in using this tool to strengthen governance.

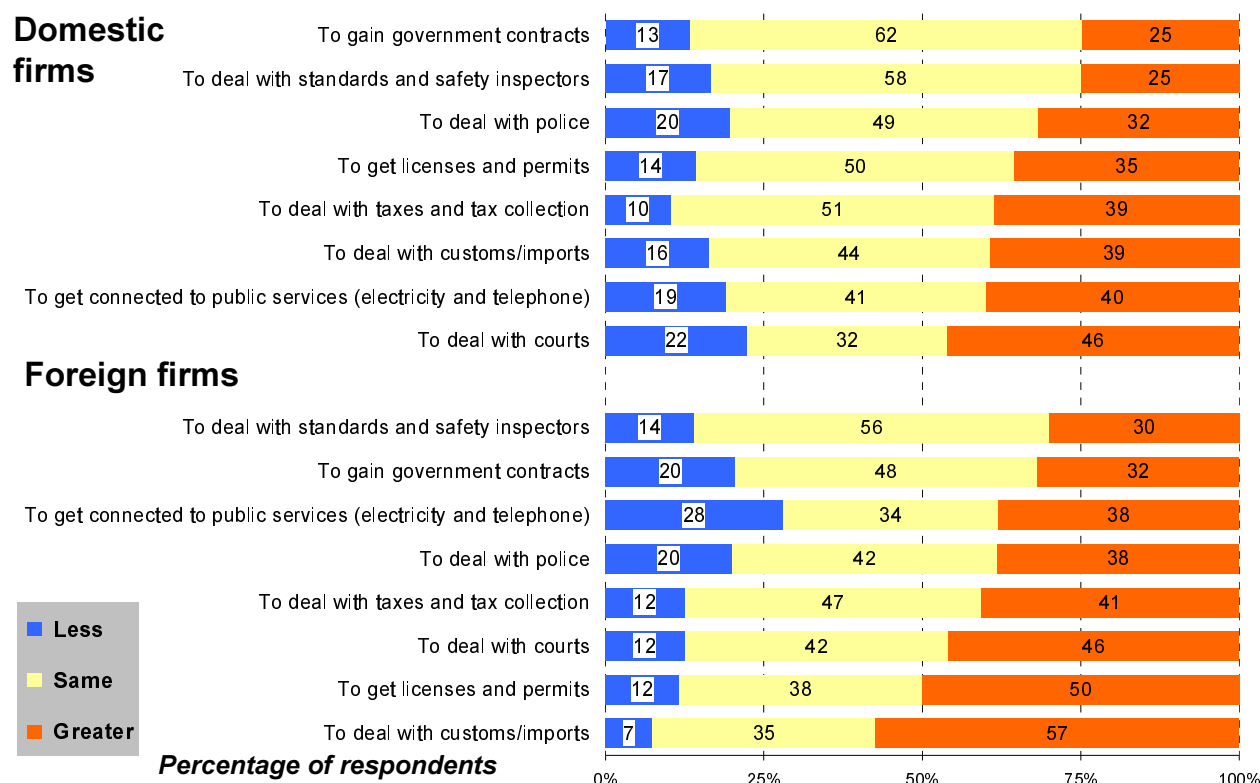
#### d. Trends: Is corruption perceived to get better or worse?

Each survey asked respondents to estimate how aspects of corruption had changed over time. Households were asked how they perceived that corruption had changed over the past three years, on a scale where one meant much worse, three meant no change and five meant much better. With 99 percent of households responding, 66 percent of households interviewed chose much worse (Table 6) and 20 percent said worse. No one perceived the problem to be much better.<sup>17</sup>

<b>Table 6. Compared with 3 years ago, corruption problem in Cambodia today is:</b>					
<i>much worse</i>	<i>2</i>	<i>3</i>	<i>4</i>	<i>much better</i>	<i>No response</i>
<b>66%</b>	<b>20%</b>	<b>10%</b>	<b>4%</b>	<b>0%</b>	<b>0.7%</b>

Enterprises were asked to express their opinion about the change in the need for unofficial payments with regard to a number of public services and interactions ranging from dealing with the police to getting connected to public services such as electricity and phone. They were asked to choose between ‘less’,

**Figure 13. Enterprises' View on Change in Need for Bribes**

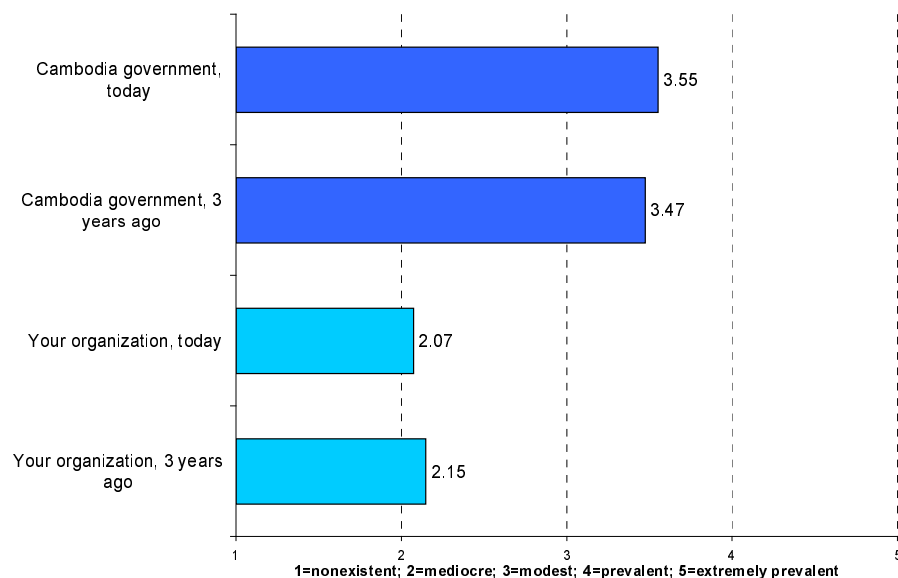


‘same’, or ‘greater’ need and they were given the option of not responding or responding ‘don’t know’. There is a significant difference in the opinion of foreign and domestic enterprises. Some 28 percent of foreign enterprises responding chose ‘less’ for “getting connected to public services (electricity and phone)”. This was the largest percentage of firms choosing ‘less’ for any of the functions mentioned (figure 13). The functions for which a larger number of domestic enterprises chose ‘greater’ were ‘dealing with customs’ and ‘getting licenses and permits’. For both of these, 50 percent or more of those foreign

<sup>17</sup> In this case, there is practically no difference between the views of rural and urban households interviewed, therefore the global average is presented.

enterprises interviewed who decided to respond to this question chose that the need for unofficial payments was ‘greater’ now than three years ago. The items for which a larger percentage of domestic firms interviewed chose to respond the question with ‘greater’ were ‘dealing with the courts’ and ‘getting connected to public services’.

**Figure 14. Public Officials' View on Prevalence of Corruption**



Public officials were asked to rate corruption today and three years ago for Cambodia and for the organization in which they work on a scale from one to five, where one is ‘non-existent’ and five is ‘extremely prevalent’. Figure 14 shows that public officials perceive little change in the overall level of corruption either in government generally or in their own organization. On average they rate corruption in Cambodian government from modest to prevalent

(rated around 3.5 out of 5, where 5 stands for extremely prevalent) for Cambodia today and three years ago. They rate corruption within the organization for which they work today and three years ago as significantly more moderate – rated just over 2 on a scale of 1 to 5.

For Cambodia as a whole, 49 percent of public officials interviewed gave the same score for corruption today and three years ago. They perceive that corruption is the same now than three years ago. 24 percent perceive an improvement and 27 percent perceive an increase in the level of corruption from three years ago to today. Only one percent of public officials interviewed did not respond to these questions. For their own organization, 74 percent of public officials interviewed gave the same score for corruption today and three years ago. The majority of public officials interviewed think that the corruption level within their organization remains the same. 16 percent of public officials interviewed gave a lower score to corruption today than to corruption three years ago, indicating that the situation has improved. 10 percent of public officials interviewed report a higher level of corruption today compared to three years ago.

### C. Benefits of Good Governance, Costs of Weak Governance

This subsection consists of two parts: 1) an analysis of the benefits of good governance and the costs of weak governance and 2) sectoral issues including the legal and regulatory framework, the judiciary, and customs. It shows that perceptions about honesty in government and high-quality ratings of public services are inextricably tied.

**C. 1 Benefits of good governance, costs of weak governance** This section quantifies various types of payoffs to good governance including better performance, extra revenue mobilization, poverty alleviation, and encouragement of investment.

**a. Performance and integrity**

**Figure 15. Correlation between Integrity and Performance**

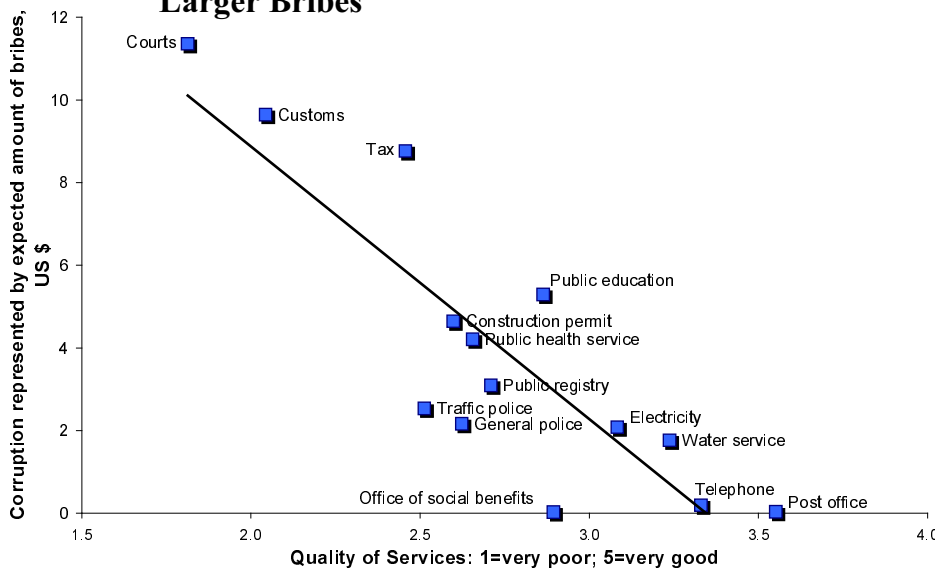


Results from the public officials survey show that institutions for which performance is rated higher are also the ones perceived as more honest (figure 15). This correlation reflects the notion that integrity and performance go hand in hand.

**b. Quality of service delivery**

Poor public service quality ratings are associated with corruption represented by the amount of bribes. It is often argued that bribes speed up the process resulting in improvement of perceived quality. This evidence does not support this notion. Indeed, it points to the fact that the relationship runs on the opposite direction. Figure 16 shows that households paid a larger amount in bribes to Courts, Custom and Tax Authorities, and Police –the very organizations they rated low in terms of

**Figure 16. Poor Public Service Quality Is Associated with Larger Bribes**



quality of service. A similar correlation is found between bribe frequency and quality evaluation.

### c. Revenue mobilization

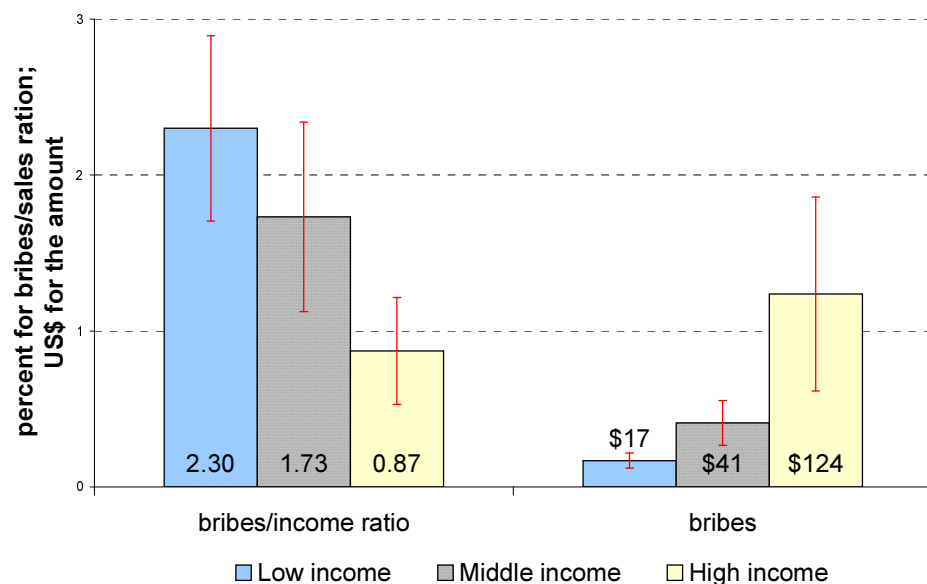
Households estimate that on average unofficial payments to public officials are 2.2% of their income. However, when asked how much they are willing to pay to eliminate corruption they report an average of 10.9% of their income.<sup>18</sup> Enterprises estimate that on average unofficial payments to public officials are 3.6% of their gross revenues. As with households, the overall costs of corruption appear to be even higher for business development in that firms report to be willing to pay 6.5% of their income if corruption were to be eliminated. This empirical estimate not only suggests the high direct cost of corruption for business but also signals to the Treasury the potential public revenue foregone due to corruption. Enterprises in the sample estimated that a typical firm operating in Cambodia reports only 53% of its revenue to the government for tax purposes, suggesting again that enhancing governance would help mobilize revenue.

Larger bribes are reportedly required to obtain government contracts than in other areas. The full sample of surveyed firms reported that approximately 7% of government procurement contracts involve any unofficial payments and on average they need to pay 4.5% of the overall value of the contract as bribes to be awarded such a bid. However, firms with actual contact with government procurement agents reported a considerably higher bribery rate related to procurement. Of 518 contacts the 18 firms had with government procurement agents, 418 required unofficial payments, suggesting that 81% of contacts relating to procurement require bribes. These unofficial payments in procurement also indicate loss of expenditures, either in the form of misallocation or embezzlement.

Table 3 indicates that enterprises paid, for example, more than 30,000 US\$ to customs and 9,000 US\$ to business licenses, which is another indication of large forgone tax revenues. Similarly, part of bribes paid by households to various public services can be changed to tax revenues through user fees.

### d. Poverty alleviation

**Figure 17. Lower Income Households 'Pay' Disproportionally**



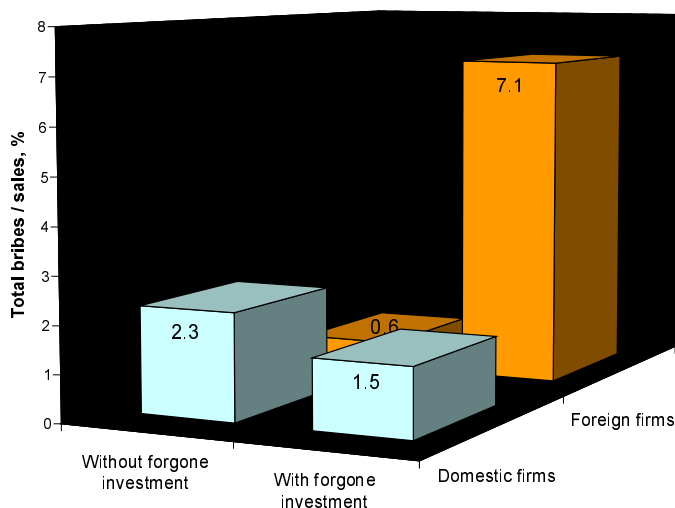
Low-income households bear a larger burden of corruption as measured by the bribe/income ratio, although the absolute amounts paid are obviously smaller. Figure 17 clearly illustrates the regressive nature of corruption, suggesting anti-corruption measures would help the poor. Further analysis of composition of bribes indicates that a large part of the burden of corruption on low-

<sup>18</sup> In figure 19, the bounded lines in each bar represent the 95% confidence interval. For example, in corruption in the public sector, the bounded line indicates that the mean can be confidently (with 95% chance of being correct) said to be between 4.42 and 4.52. When the bounded lines from two different bars do not overlap, it can be said that these two means are statistically different.

income households is due to bribes for basic public goods, namely health and education. Unlike low-income households, high-income households pay a large number of their bribes to the courts, customs, and tax authorities.

### e. Bribery deters Investment, Especially Foreign Investment

**Figure 18. Bribes and Forgone Investment**



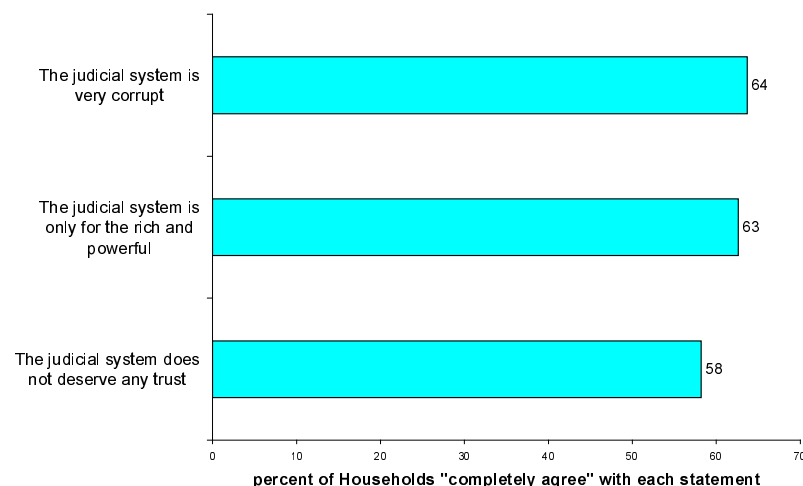
Many studies have found cross-country evidence that corruption discourages investment, which in turn leads to lower economic growth (Mauro 1995; World Development Report 1997), suggesting that the economic costs of corruption are not just in terms of the payments made and benefits misdirected, but also in terms of the distorted incentives created by weak governance. Figure 18 shows that those foreign firms having decided not to make a planned investment are those that

paid much more in bribes.<sup>19</sup> This pattern is not found with domestic firms in the sample.

## C.2 Sectoral issues

### a. The Judiciary

**Figure 19. Citizens Opinion About the Judicial System**



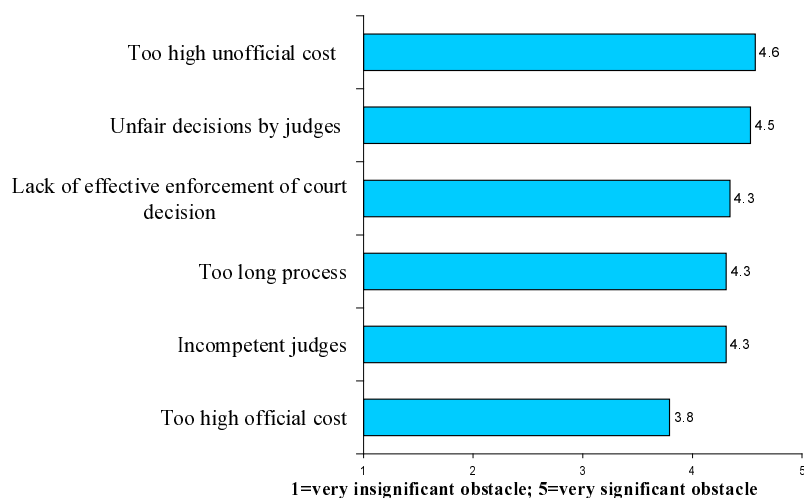
The courts are rated very poorly in terms of their quality and efficiency of service delivery (Figures 4 and 5), and their integrity (Figure 9). Furthermore, the data suggest they are the destination of large bribes. Infrequent use of courts by enterprises suggests they may have avoided using the formal court system.

Figure 19 shows how citizens perceive the judicial system. Around 60 percent of households completely agree with each of three statements: that the judicial

<sup>19</sup> Many studies underscore the importance of foreign direct investment, not only as a source of capital, but also knowledge and new technology (e.g. Eduardo Borensztein, Jose de Gregorio, and Jong-Wha Lee, March 1995, "How does foreign direct investment affect economic growth?" NBER Working Paper No. 5057.).

system i) is very corrupt; ii) serves only the rich and powerful, and iii) does not deserve any trust.

**Figure 20. Citizens Opinion about Obstacles to Using Courts**

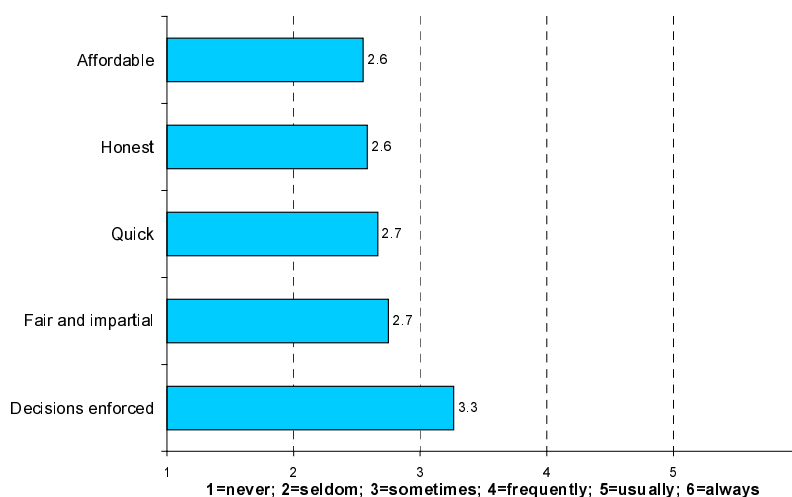


Responses indicate that around 35% of households who went to court received an indication from court officials or judges that they should make extra payments to court officials in order to obtain a favorable decision. Other payments may have been rendered without such indications: 68% of household contacts with the courts reportedly involved unofficial payments. Furthermore, high unofficial cost is reported the most significant obstacle to using court, rated 4.6 on a 1-5 scale, above any other potential

obstacles (other possible obstacles included unfair decisions, lack of enforcement, and too lengthy a process).

Enterprises also report unfavorable perceptions about and experiences with the courts. 40% of enterprise contacts with courts reportedly involved unofficial payments. Furthermore, enterprises find the courts tend to be unaffordable, dishonest, slow, unfair and unreliable, as opposed to affordable, honest, quick, and fair (figure 21).

**Figure 21. Enterprises' View on Quality of the Judiciary System**



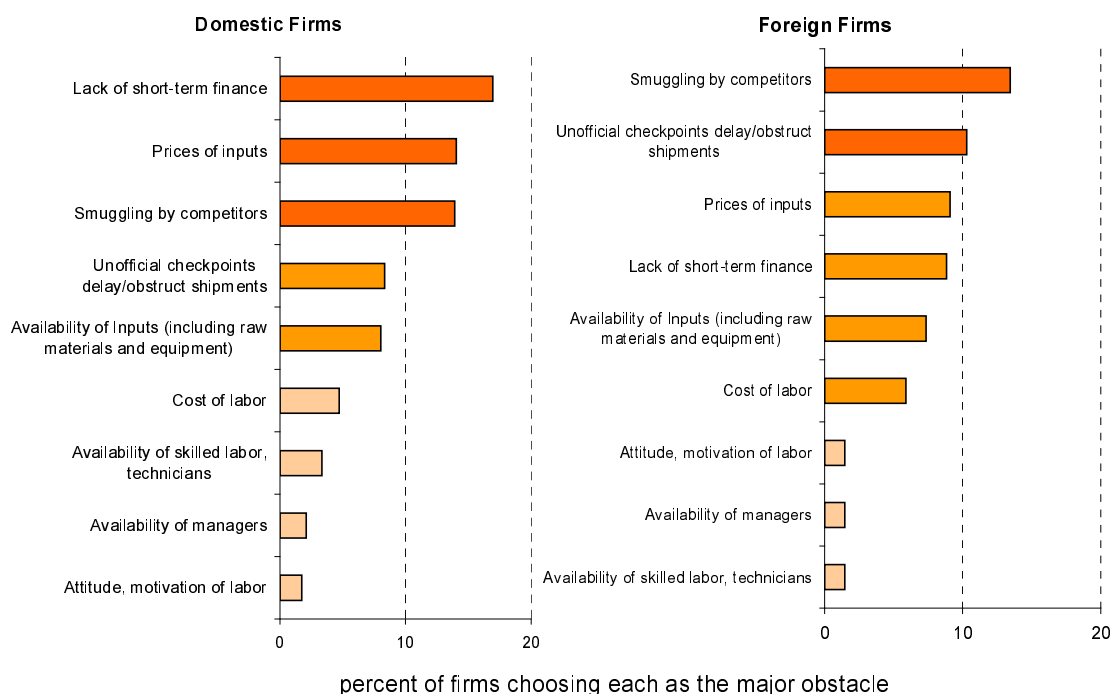
Only 4% of the surveyed firms and 8% of the survey households ever contacted the courts during the last 12 months, indicating that lack of credibility about the effectiveness and fairness of the judicial system apparently may have discouraged households and enterprises from using the formal judiciary system. Almost half of the surveyed households reported that during the past two years, they have felt the need to use the court system, but decided not to.

As an alternative to the use of the courts, formal and informal alternative dispute resolution mechanisms (ADR) are reported to be used frequently by enterprises. Over the last three years, ADRs have reportedly been used by 11% of enterprises, a higher rate than the proportion of firms that went to courts as plaintiff (8%). Among various ADRs listed in the survey, the use of family/friends and formal mediator/arbitrators are most frequently used.

**b. Customs and Trade**

Customs authorities also received a low rating in terms of both quality and integrity (see Figures 4, 5 and 9). In general, the processing of traded goods takes a long time. First, enterprises report that on average, pre-shipment inspection process takes more than 4 days, ranging from 1 to 30 days. Second, from the time goods arrive at their point of entry until the time the enterprise can claim them from customs it takes on average 12 days, with a range from 1 to 90 days. These delays add to the costs of trade, and the large variations in waiting times create opportunities for officials to collect “expediting” payments.

**Figure 22. Enterprises' Opinion About Input Procurement Related Problems**



Problems related to import/export are perceived more serious by foreign firms than domestic firms since foreign-owned firms are more involved in international trade. Furthermore, foreign firms identify their two leading input supply problems as relating to the regulation of trade: first, illegal smuggling by competitors and second, unofficial checkpoints on roads that delay or obstruct shipments. Both suggest that competitors are able to violate trade rules and officials of the army or customs are able to obstruct trade with unofficial checkpoints.

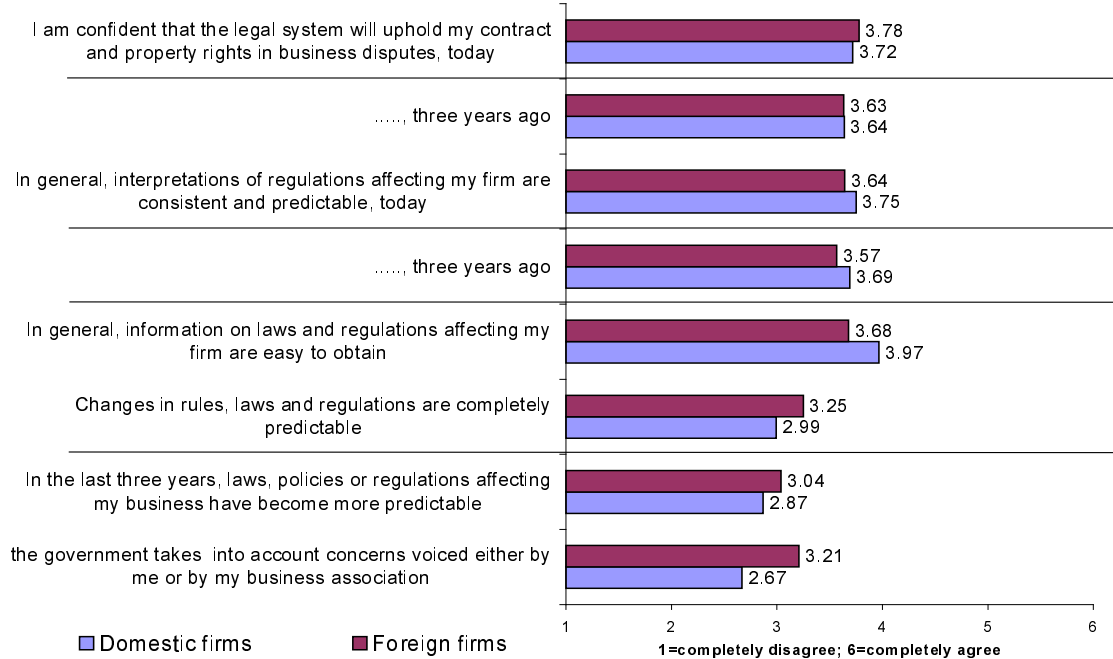
### c. Quality of laws and regulations

In general, both domestic and foreign firms express limited confidence in the legal system, rating it roughly 3.8 out of 6 in their confidence it will uphold their property and contract rights. Regulations and laws get the same modest marks for their accessibility, and for their predictability. Both domestic and foreign-owned perceive that changes in rules, laws, and regulations are somewhat inconsistent and unpredictable. Surveyed firms, especially domestic ones, perceive that their voice is usually not taken into consideration by the government with regard to matters affecting them. Among various tax and regulatory constraints, high taxes were most frequently chosen as a major obstacle by both domestic and foreign firms.<sup>20</sup> High taxes are often the leading constraint in this category for firms around the world, as they are

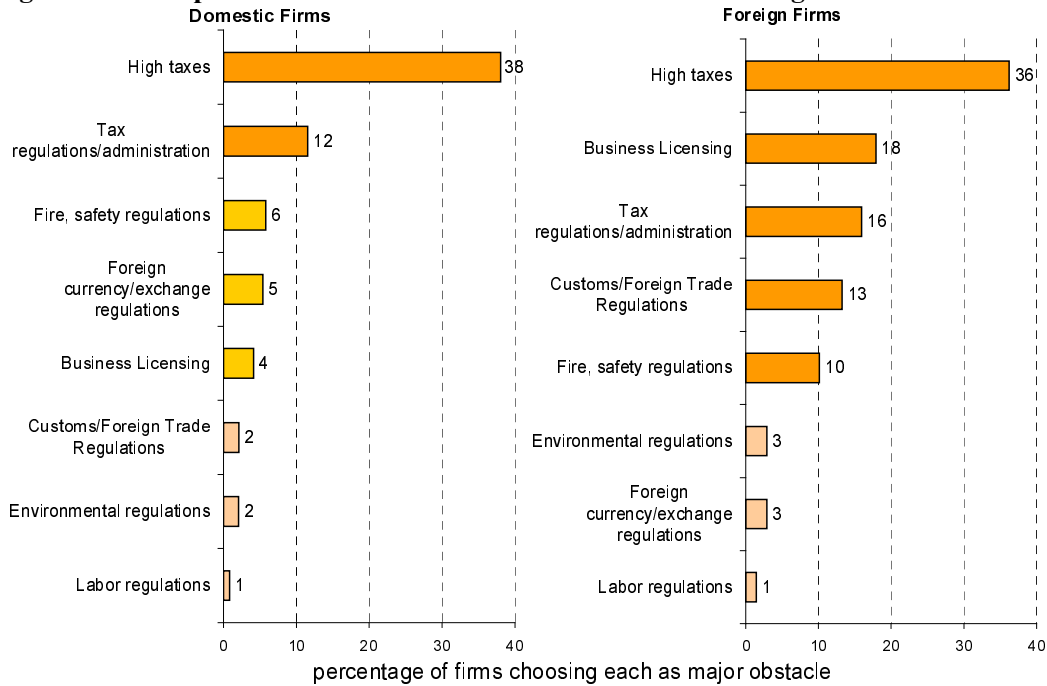
<sup>20</sup> Note that in this question firms were asked to compare various regulatory areas, not with other general constraints to business. When asked about constraints to business in general, firms chose crime, corruption, and political uncertainty as the leading constraint more frequently than taxes and regulations (see Figure 8).

an unavoidable and major expense of doing business. Tax administration is a much lesser constraint, and figure 24 shows that foreign firms are more likely to identify business licenses as a major constraint than tax administration. For foreign firms, around 12% identify customs as a major constraint and 10% suggest fire and safety regulations are also a major problem.

**Figure 23. Enterprise Evaluation of Quality and Accessibility of Regulations**



**Figure 24. Enterprises' Evaluation of Burdens from Taxes and Regulations**

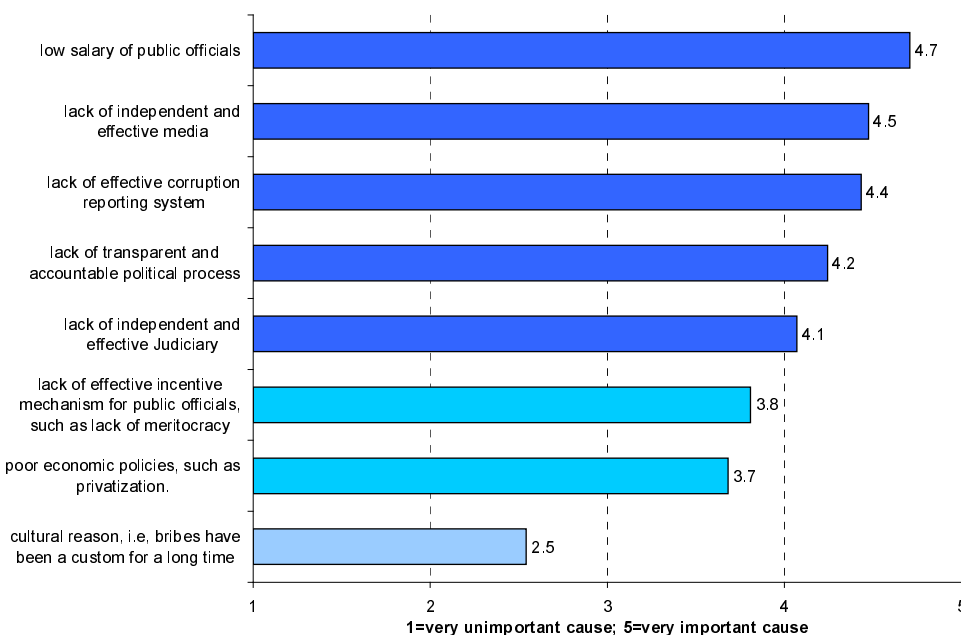


## D. Sources of Strong and Weak Governance in Cambodia

This section reviews the evidence from the surveys of households, enterprises, and public officials to explore the sources of good governance in Cambodia. This section explores first the opinion of public officials about the causes of weak governance. Then, it reviews the relationships between performance and integrity assessments from households, enterprises, and public officials, on one side, and institutional structures and governance/transparency/accountability mechanisms as reported by households, enterprises, and public officials, on the other side.

### D.1. The opinion of public officials

**Figure 25. Public Officials Opinion About the Causes for Corruption**



Public officials interviewed were asked to rate a number of possible causes of corruption in Cambodia on a scale from one to five, where one was a ‘very unimportant cause’ and five ‘a very important’ cause. The highest average score (4.7) was received by ‘low salaries of public officials’, and the lowest (2.5) by ‘cultural reasons, i.e. bribes

have been a custom for a long time.’

Other reasons that were generally rated as important (average score above 4) were ‘lack of independent and effective media’ ‘the lack of effective corruption reporting mechanisms’, “the lack of transparent and accountable political process”, and “the lack of an independent and effective judiciary”. All these rule of law, accountability, and transparency issues were rated with higher average scores than public administration reforms such as improving incentive structures and privatization. However, even public administration reforms were judged as “important” on this rating scale.

### D.2. Institutional arrangements

This section reviews the relationship between the performance and integrity ratings perceived by households, enterprises, and public officials interviewed on the one side, and institutional attributes as revealed by the public officials interviewed. The public officials’ survey included questions on the quality, enforcement, and practices of internal policies. A detailed study of these relationships (i.e. simple correlations between organizational attributes and the outcome variables of service quality, agency integrity and the level of unofficial payments) can help identify which aspects are more significantly, strongly, consistently associated with higher levels of performance and integrity.

**Variables Correlated with Agency Performance and Integrity** Public officials rated a number of administrative characteristics of their agencies. The characteristics studies were quite detailed, but there were six broad categories of characteristics studied:

I. Personnel Management.

1. Quality of Administrative Procedures in Personnel Management.
2. Practices in Personnel Management.
3. Salaries and other Compensation
4. Performance Evaluation
5. Disciplinary Actions

II. Budget Management.

1. Agency Involvement in Formulation Process
2. Quality of Administrative Procedures
3. Practices in Budget Management
4. Institutional Penalties for Budget Mismanagement

III. Procurement Management

1. Quality of Administrative Procedures

IV. Service Delivery

1. Extent of Complain Mechanisms

V. Information Management

1. Quality and Transparency of Information Management
2. Public Officials Voice

VI. Institutional Environment

1. Support for the Policies Implemented by the Agency
2. Resources are sufficient
3. Client Orientation
4. Poverty Orientation
5. Attitudes toward Bribery
6. Access to and Quality of Corruption Reporting Mechanism
7. Commitment to Fight Corruption
8. Support for Reforms

To determine which factors of governance are more significantly, strongly, and consistently linked with higher performance and integrity rating, the authors analyzed correlations between all factors of governance rated by public officials and the performance and integrity ratings provided by households, enterprises, and public officials.

On factors of governance, public officials were asked to rate governance and institutional factors ranging from issues in personnel, budget, procurement, service delivery, and information and knowledge management, institutional environment, values, and personal characteristics.

On performance ratings, as described above, households' and enterprises' were asked to assess the quality of the services that they received. Public officials were asked to evaluate the performance of the public agencies in which they work as well as that of other public institutions. Public officials also rated the quality of the services their institution provides whether or not they are produced cost effectively, whether or not they are accessible to the poor, and whether or not they help reduce poverty in Cambodia.

On integrity ratings, households, enterprises, and public officials were asked to assess the integrity of several institutions (presented earlier in this report). Households and enterprises were asked about the frequency and cost of bribes in public services they received. Public officials were asked to evaluate, for

the institutions in which they work, the levels of nepotism and patronage, the frequency of unofficial payments paid to buy public positions, the frequency with which they have to pay to receive their salaries, the existence and extent of leakage and fraud in budget management, the overall level of corruption, the frequency of bribes from citizens, foreign enterprises, and domestic enterprises, the likelihood of public officials taking the initiative and asking for bribes, the proportion of the bribes that are shared with superiors, colleagues, and political parties, the typical bribe-wage ratio, the proportion of jobs that have been bought, and whether or not they had personally observed a case of corruption within their institution.

In all, this analysis covered over 300 hundred variables. The results from this analysis were then checked for consistency both at an individual and at an institutional level. There were also checked to insure that they were not driven by extreme responses (outliers). Finally, they were checked to insure that they were robust with regard to the characteristics of those who responded to the questions.

The data available for Cambodia point to the following important factors as related to higher levels of performance and integrity as perceived by public service users (households and enterprises), and providers (public officials):

- Competitive wages that are paid on time. Delays in salary payments are correlated with lower performance and integrity ratings, as are salaries lower than comparable private sector wages.
- Financial resources that adequately reflect the tasks at hand. Organizations with sufficient resources (as judged by their own officials) are rated better in terms of both performance and integrity.
- Personnel management practices which reward merit and professionalism are strongly associated with officials' favorable ratings of their agencies' performance and integrity. Frequency of performance evaluation is significantly associated with integrity ratings.
- Budget management practices that are clear and transparent. The existence of extra-budgetary mechanisms is negatively associated with performance and integrity ratings. The existence of institutional penalties for budget mismanagement is strongly associated with performance and integrity ratings.
- Information and knowledge that flow efficiently within and across organizations, and
- Penalty systems that are impartially applied in the necessary cases.<sup>21</sup> There is a significant correlation between the existence of fair (just) disciplinary actions and higher integrity ratings.
- Effective complaint mechanisms that are linked to penalty systems. Agencies where complaints actually lead to disciplinary actions receive higher ratings of performance integrity.

These results emerge not only from the correlation of perceptions of public officials on performance and integrity on institutional and governance structures. They include cross checking of information from the three surveys conducted, including information on experience and use by households and enterprises of public services.

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<sup>21</sup> The results presented here are based on a limited list of organizational features measured by the public officials list. Clearly, there are other factors relevant to strong governance not captured by the survey.

**Figure 26. Sources of Good Governance (Illustrative Examples)**

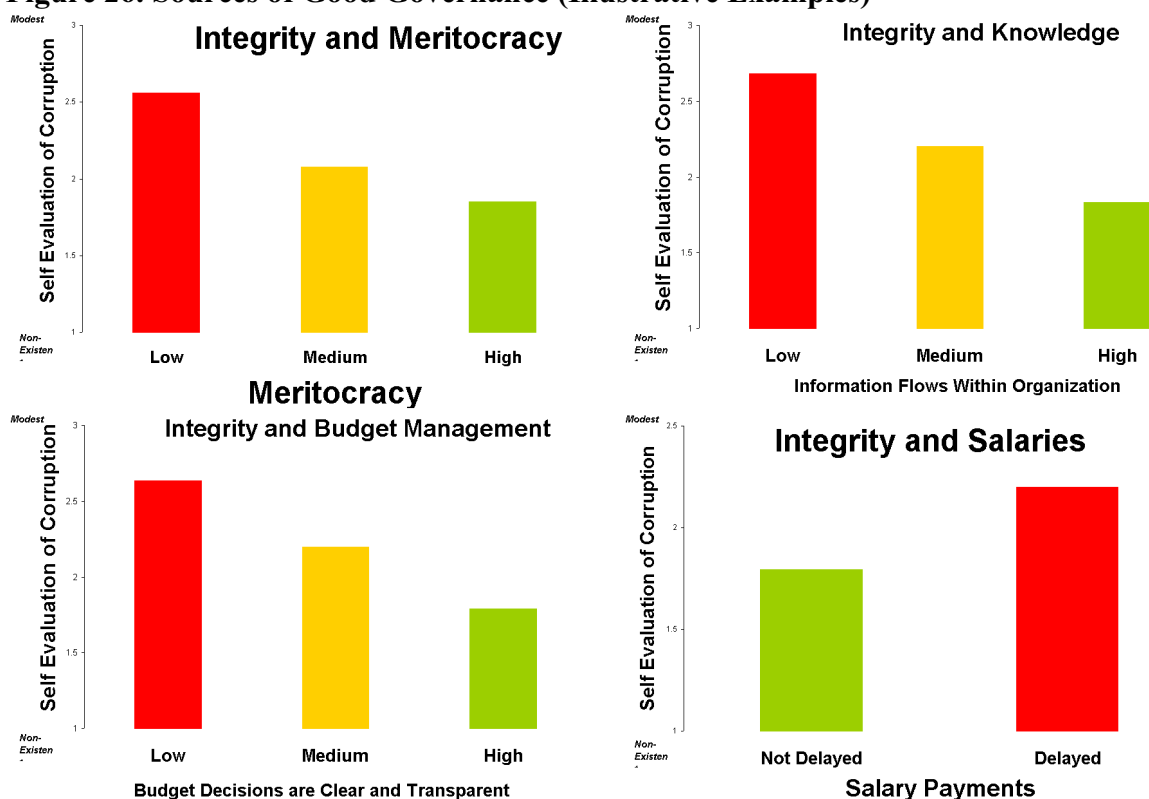


Figure 26 represents the relationship between four different measures of institutional attributes or conditions which are, based upon the responses of households, enterprises, and public officials interviewed, closely linked with performance and integrity ratings. For this concrete example, in the first three graphs, on the horizontal axes different groups of public officials are divided into three categories: high, medium, and low, according to their characterizations of the particular features of the institutional environment in which they work (meritocracy, information, and budget). The graph shows that those public officials who rated the quality of these institutional arrangements as low are also those that rated their own institution's corruption level as relatively higher. Those that rated the quality of the institutional arrangements as high also ranked their institutions as relatively free of corruption. For salaries, the figure presented here divides public officials interviewed in two groups, those that said that their salaries are not delayed and those that say they are. The group that says that their salaries are delayed also ranks the corruption level in their institution at relatively higher levels.

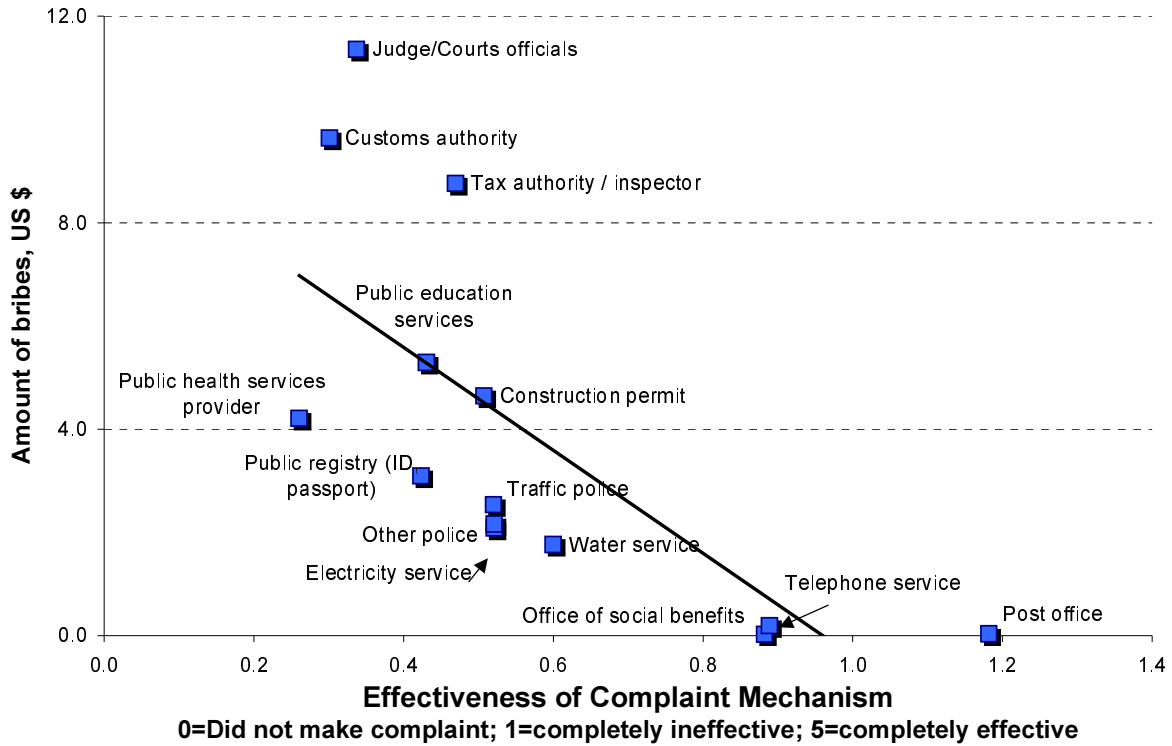
### D.3. Integrity, Corruption and Accountability

This section presents the findings from the household, enterprise, and public officials surveys on accountability and its relationship with performance and integrity as rated by those interviewed. The surveys generated data on two sets of accountability mechanisms: First, households and enterprises were asked about the accessibility and effectiveness of complaint mechanisms in public service delivery. Second, public officials were asked to assess the accessibility and effectiveness of corruption-reporting mechanisms.

**a. Complaint mechanisms.**

Households were asked whether or not they had had reason to complain when accessing public services. If they did, they were asked whether or not they did in fact complain. If they did complain, they were asked to rate the effectiveness of their complaint on a scale from one (very ineffective) to five (very effective). These effectiveness ratings are significantly and inversely associated with the amounts households report that they have to pay unofficially to receive these public services (figure 27). Services where these amounts are high are also those where households and enterprises perceived the complaint mechanisms to be the most ineffective.

**Figure 27. Effective Complaint Mechanisms Check Unofficial Payments**



**b. Corruption reporting mechanism.**

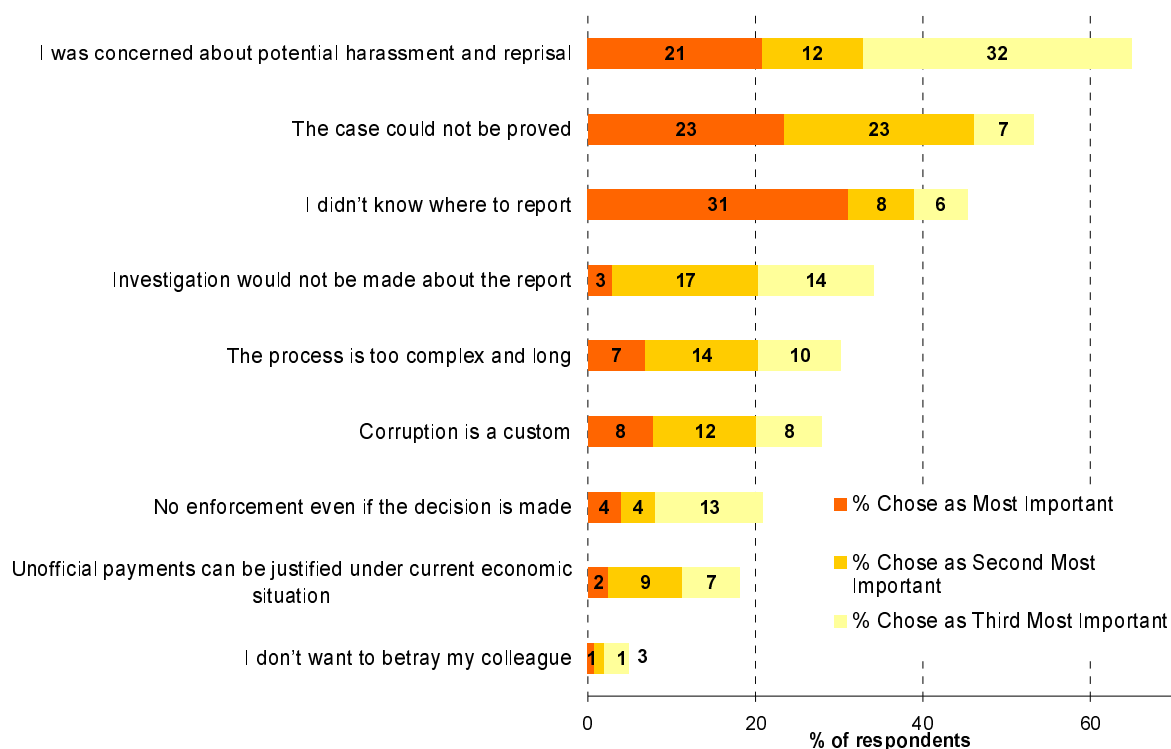
The survey asked public officials whether or not they had observed a case of corruption of public officials in the last two years. 65 percent of the public officials interviewed responded that they had (only 2 percent of those interviewed decided not to answer this question). 96 percent of those that had observed a case of corruption of public officials did not report it (all public officials included in this category responded this question). That is to say, only 4 percent of the public officials interviewed who reportedly had observed a case of corruption of a public official decided to report it. Public officials were asked whether or not they know the process to follow in reporting a case of corruption. 16 percent of public officials interviewed responded that they do, 83% report they do not (only one percent chose not to respond to this question). Of the 96 percent of public officials interviewed, who observed a case of corruption and did not report it, 20 percent knew how to report it and 80 percent did not.

Those that decided to report a case of corruption were asked to evaluate the effectiveness and simplicity of the process as well as the extent to which ‘whistleblowers’ are well protected from potential harassment (Table 7). Very few public officials had reported a case of corruption (only three percent of those interviewed). On average, public officials interviewed who had reported a case of corruption tend to disagree that the process is efficient and simple. 48 percent of those interviewed completely disagree with the statement “The process was effective”, and 45 percent completely disagree with the statement “The process was simple”. It is unclear from these results whether public officials interviewed who reported a case find that protection against potential harassment is effective or not – 26% say “whistleblowers” are well protected, 26% have no opinion, 26% somewhat agree and 21% agree completely.

Characteristics of Corruption Reporting Mechanisms						
In percentages	completely disagree	2	3	4	completely agree	No response
<b>Effective</b>	48	19	10	14	10	97
<b>Simple</b>	45	10	25	15	5	97
<b>Whistleblowers well protected</b>	26	0	26	26	21	97

**Table 7** Percentage of those that responded

**Figure 28. Public Officials Views on Reasons for Not Reporting Corruption**



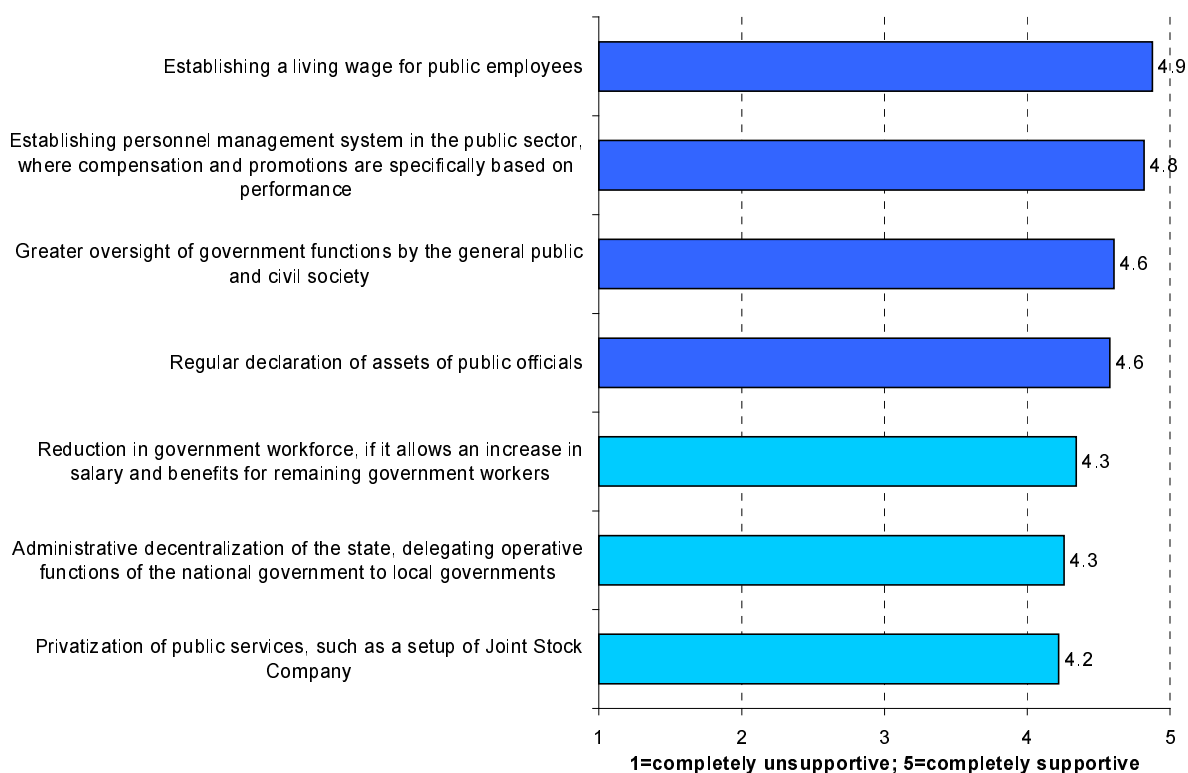
Public officials who had observed a case of corruption and who decided not to report were asked why they decided not to report. They were asked to choose the three most important reasons from a list of 9 possible reasons (figure 28). Aggregating all the three together, the reason chosen by the largest number of public officials either in first, second, or third place was “I was concerned about potential harassment

and reprisal”. The second leading reason was lack of proof. The third leading reason, and the reading more people gave as the “most important” reason, was “I did not know where to report”, chosen by 31 percent as the most important. Only 2 percent of public officials interviewed chose ‘Unofficial payments can be justified under current economic situation’ as the most important reason for not reporting, and 8 percent chose ‘Corruption is a custom’.

#### **D.4. Support for reforms**

The survey suggests that public officials are broadly supportive of a number of potential public sector reforms. Public officials were asked for their level of support for different public sector reforms (on a scale from one to five, where one corresponded to completely un-supportive and five to completely supportive). The public sector reform that received the highest average score of support was ‘establishing a living wage for public employees’ with a 4.9 out of 5. All of the proposed reforms achieved average scores of support above four. Measures achieving average scores above 4.5 included ‘Establishing personnel management system in the public sector, where compensation and promotion are specifically based on performance’, ‘Greater oversight of government functions by the general public and civil society’, and ‘Regular declaration of assets of public officials’. Importantly, each of the other reform options offered in the survey garnered a positive average response.

**Figure 29. Public Officials Opinion About Various Reform Measures**



Public officials were also asked about the level of support to for an anticorruption campaign, both from the government and the public institution for which they work. 52 percent of senior managers interviewed completely agree with the statement “In your organization there exists a genuine and sincere sentiment to fight against corruption at this time.” 44 percent of other public officials interviewed completely agree with that statement. When the statement is referred to the government, half that figure completely agree with the statement (28 percent of senior managers and 28 of other public officials).

**Table 8. Genuine and Sincere Commitment to Fight Corruption**

		Completely disagree	2	3	4	Completely agree
<b>(a) In your organization</b>	<b>senior management</b>	2	4	14	29	52
	<b>other</b>	5	7	18	26	44
<b>(b) In the government</b>	<b>senior management</b>	8	13	27	24	28
	<b>other</b>	10	14	26	21	28

*percentage of respondent*

### **III. Conclusions and Recommendations**

Cambodia needs good governance in order to achieve economic growth and opportunity, as well as poverty alleviation for of its citizens. Beyond this, strengthening governance will strengthen government credibility, and enable citizens to live their lives in a society they regard as fundamentally just under a government that they regard as making effective and fair use of the powers and resources they entrust to it.

This study has presented a broad, empirically based diagnosis of the perception of problems of government performance and integrity. It identifies which services perform well and poorly, and which ones are most subject to corruption and low integrity. It also identifies the attributes of agencies most associated with good performance and high integrity.

#### **A. Summary Findings and Recommendations**

The main findings are summarized in the following three points: the status of governance, the cost of weak governance, and sources of weak governance.

##### **(1) The Status of Governance and Corruption in Cambodia**

In-depth country survey results provide qualitative reviews of public service delivery and integrity which suggest that there are problem areas. Both households and enterprises perceive that the quality of several public services to be relatively poor -- especially courts, customs and tax authorities, road services, and police. Public corruption is perceived as a leading problem for citizens and enterprises of all types, ranking first or second for all groups as the leading constraint. Some functions of government, such as the judiciary, revenue collection bodies, and bodies managing public assets are rated particularly poorly, and deserve priority attention in reform efforts. The judiciary is reported not only to provide service of the poorest quality but also to require large bribes of those using it. Customs, business licenses, police, standard inspections, and tax authority provide poor quality services and require the largest bribes from enterprises.

##### **(2) Costs of Weak Governance and Corruption**

Survey results show that the perception of weak agency performance is closely related to the perception of weak integrity. Furthermore, bribes are found to be associated with poor service quality ratings – that is, paying bribes is not viewed as contributing to better service delivery. In addition, the survey suggests that weak governance may be losing the government revenue, both through evasion of taxes and customs duties and through diversion of resources from their intended destination. In fact, both enterprises and households express a willingness to pay more for good governance. Next, the household survey results suggest that corruption may not only weaken government’s ability to deliver services to the poor, but also

may disproportionately burden them through the informal payments they must make. Finally, enterprise responses strongly suggest that foreign companies encountering corruption are deterred from further investments in Cambodia.

### **(3) Sources of Strong and Weak Governance**

The detailed data on organizations characteristic and operating conditions collected in the public officials survey combined with other survey results, permit some strong correlations to be observed regarding the sources of strong and weak governance. The data available for Cambodia suggest that the following factors may influence performance and integrity:

- 1) Wage levels and timeliness of payment.
- 2) Appropriate match between financial resources and assigned tasks.
- 3) Personnel management practices which reward merit and professionalism combined with frequent performance evaluation.
- 4) Budget management practices that are clear and transparent.
- 5) Information and knowledge that flow efficiently within and across organizations.
- 6) Penalty systems that are impartially applied in the necessary cases.<sup>22</sup>
- 7) Effective complaint mechanisms that are linked to penalty systems.

The surveys reveal strong support within government for governance reform and anti-corruption measures. Officials find a wide variety of measures helpful, and the following very helpful:

- 1) Establishing a living wage for public officials.
- 2) Establishing personnel management system in the public sector, where compensation and promotion are specifically based on performance.
- 3) Greater oversight of government functions by the general public and civil society.
- 4) Regular declaration of assets of public officials.

The support expressed by public officials, combined with the willingness to pay expressed by households and enterprises, suggest a positive environment for good governance and anti-corruption reforms.

## **B. Next Steps**

The study has shown that citizens, enterprises and households are each willing to contribute to the solution to the governance challenge. The next step is for representatives of the government, civil society and the private sector to meet together, to learn from each other and from the in-depth diagnostic evidence available, and to agree on an action plan to begin to address the deep and pervasive governance weaknesses impeding Cambodia's developments. Donors must play a key facilitative and supportive role, but the fundamental work is for Cambodians.

This report has provided an empirical basis for developing a concrete action plan. It identifies problems, particular areas of weak governance, public administrative characteristics associated with weak governance, and even reform measures supported by public officials. This study is intended both to complement other recent and ongoing work and to provide a factual basis for greater consensus about what is to be done. Some findings of the report may be complemented by a narrower, more focused diagnostic work. For example, to help understand relatively low quality rating of public services found in the survey, a more detailed study on the process of public service delivery can be carried out. Also, public official's concern about low salaries expressed in the survey can be analyzed by detailed review of salary structure.

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<sup>22</sup> The results presented here are based on a limited list of organizational features measured by the public officials list. Clearly, there are other factors relevant to strong governance not captured by the survey.

This report will be presented by the World Bank at the Consultative Donor Group meeting in May for discussion of its findings and implications. This report will complement the information from other inputs, such as the Governance Report prepared by the Asian Development Bank to develop Governance strategy in Cambodia. It is expected that these reports, analyses and findings, will be used by the Government under the leadership of the Office of the Council of Ministries and various stakeholder groups to further develop, in the months to come, the Governance Action Plan drafted by the Government. For such a strategy to succeed, Government must engage in this effort not only its internal resources and will, but also civil society, private sector, and donors.

Once the Government has reviewed the document and endorsed its content, and before the consultations on the draft Governance Action Plan are launched (mid-July), the document will be published as a joint document, with Government and World Bank authorship. It will be widely disseminated by the Government in Khmer and English at a major National Governance Workshop to be held mid-July. This workshop will help build support and momentum for reform forming a broad coalition to improve governance and curb corruption in Cambodia. All major stakeholders will attend this workshop, which will be open to the press. The success of this initiative, as noted by his Excellency HUN SEN in the conference on Democracy, Good Governance, and Transparency, critically depends on the active participation of all players concerned.

## **APPENDIX 1. Distribution of Public Officials Survey Sample by Organization**

<b>Organization</b>	<b>number of interviews</b>	<b>percent of sample</b>
Office of Council of Ministers	10	1.5%
Tax Department	32	4.8%
Customs Department	32	4.8%
Department of State Budget	10	1.5%
Treasurer	5	0.7%
Department of State Assets	5	0.7%
Ministry of Commerce	31	4.6%
Ministry of Industry, Mine and Energy	22	3.3%
Ministry of Planning	6	0.9%
Ministry of Tourism	22	3.3%
CDC	6	0.9%
CMAC	18	2.7%
National Bank of Cambodia	24	3.6%
Ministry of Environment	10	1.5%
Ministry of Health	18	2.7%
State Hospital and Policlinics	23	3.4%
Ministry of Education, Youth and Sport	22	3.3%
State Educational Institutes/universities	31	4.6%
Ministry of Social Labor, and Youth Reh	12	1.8%
Ministry of Agriculture and Forestry	24	3.6%
Ministry of Communications	24	3.6%
Ministry of Public Work and Transport	24	3.6%
Ministry of Urbanization and Land	27	4.0%
Civial Aviation	10	1.5%
Department of Enterprise Registry	11	1.6%
Ministry of Justice	5	0.7%
Ministry of Interior - Police	43	6.4%
Ministry of Interior - Traffic Police	23	3.4%
Local Courts	32	4.8%
Water companies	25	3.7%
Electricity companies	23	3.4%
Province government	18	2.7%
Municipal government	43	6.4%
<b>Total</b>	<b>671</b>	

## **APPENDIX 2. Broad Categorization Of Public Organizations**

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<b>Broad categories</b>	<b>Public organizations</b>
<b>Central government administration</b>	Office of Council of Ministers Anti-corruption ministry/committee
<b>Social service</b>	Ministry of Education Ministry of Health Office of social welfare
<b>Revenue generation</b>	Custom authority Tax authority
<b>Public resource management</b>	Department of State Assets Ministry of Agriculture and Forestry State budget authority
<b>Licencing and registration</b>	CDC Ministry of Commerce National Bank of Cambodia Public registry (ID, passport)
<b>Local government</b>	Municipal government Provincial government
<b>Judiciary</b>	Courts Office of prosecutor
<b>Law enforcement and securities</b>	Police excluding traffic police The armed forces/military Traffic police
<b>Parliament</b>	Members of National congress
<b>Public utilities/infrastructure</b>	Electricity provider Ministry of Public Work and Transport Post office Telephone service provider Water service provider

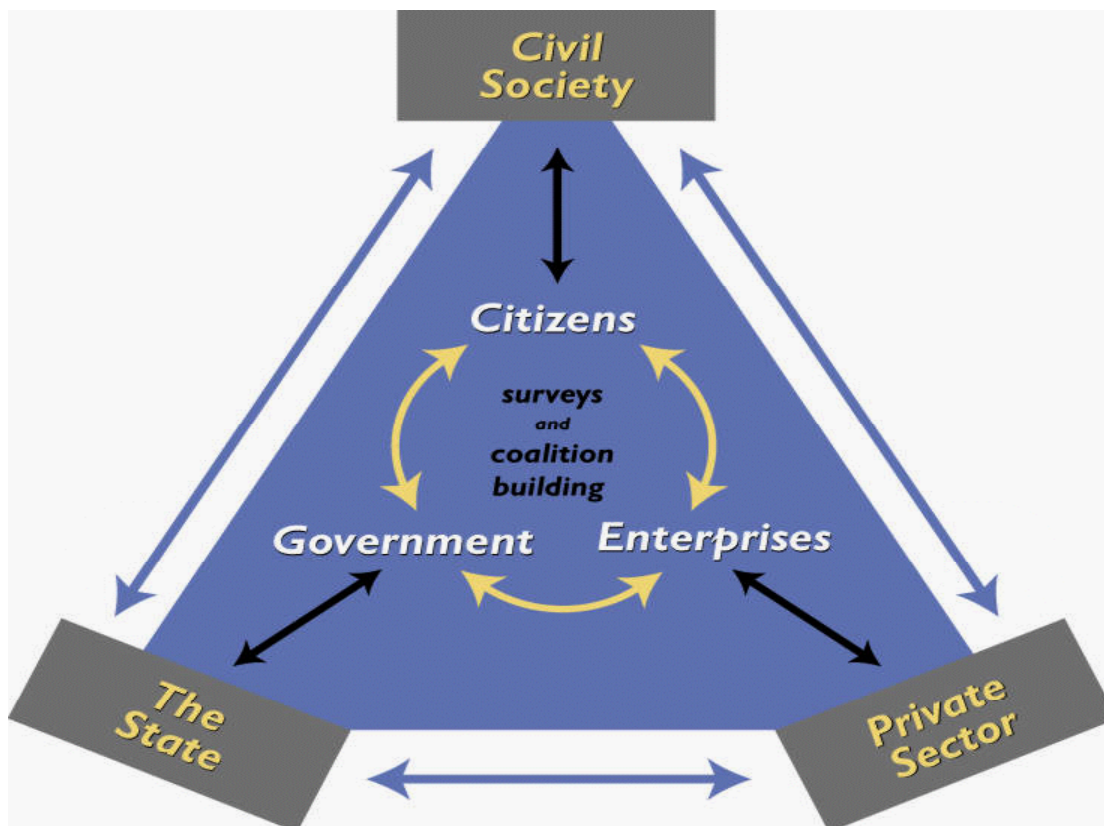
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### **APPENDIX 3. Lessons from International Experience**

International experience shows that the solution to governance problems only begins with expert diagnosis. As the introduction notes, the solutions must be found by committed members of government, civil society and the private sector, working in a participatory and transparent manner to agree on the problem and on an action plan to address the problem, then working collectively to implement solutions (figure 30). They must arrive together at an agreed-upon strategy and plan of action, including both short-and long-term measures designed to strengthen governance and reduce corruption.

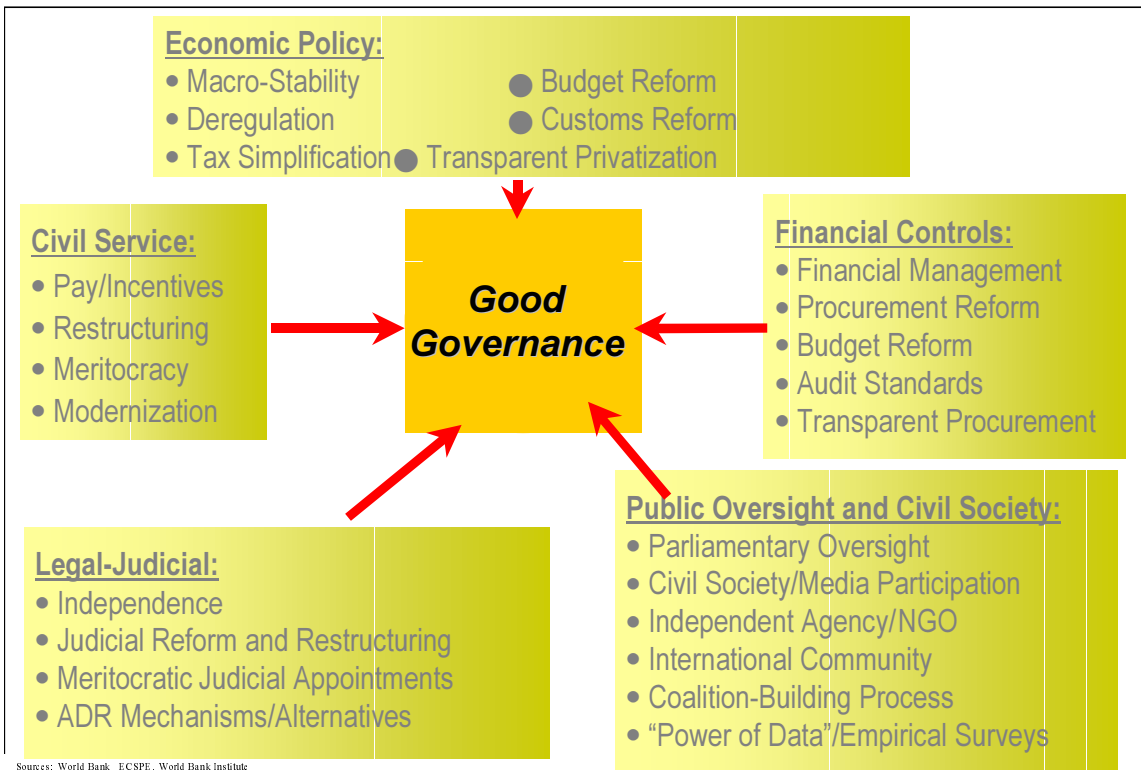
**Figure 30. Coalition Building**



Each survey is of course, limited by the experience and perspective of the group responding, and there can be some systemic issues that do not fully emerge in such an analysis.

Strengthening governance involves a complex mix of approaches including reforms in economic policies, financial controls, public and civil society oversight, the legal system and judiciary, and civil service (figures 31a and 31b). But there is no one recipe for the perfect mix of these elements. Different countries have pursued a variety of different initial steps along the long path to good governance. Some immediate actions, such as declaration of officials' assets and establishment of a code of conduct can be taken quickly. Others, such as comprehensive reform of personnel and financial oversight systems, take longer.

## Good Governance/ Anti-Corruption Strategy: Elements



## Examples of Strategic Elements in Various Countries

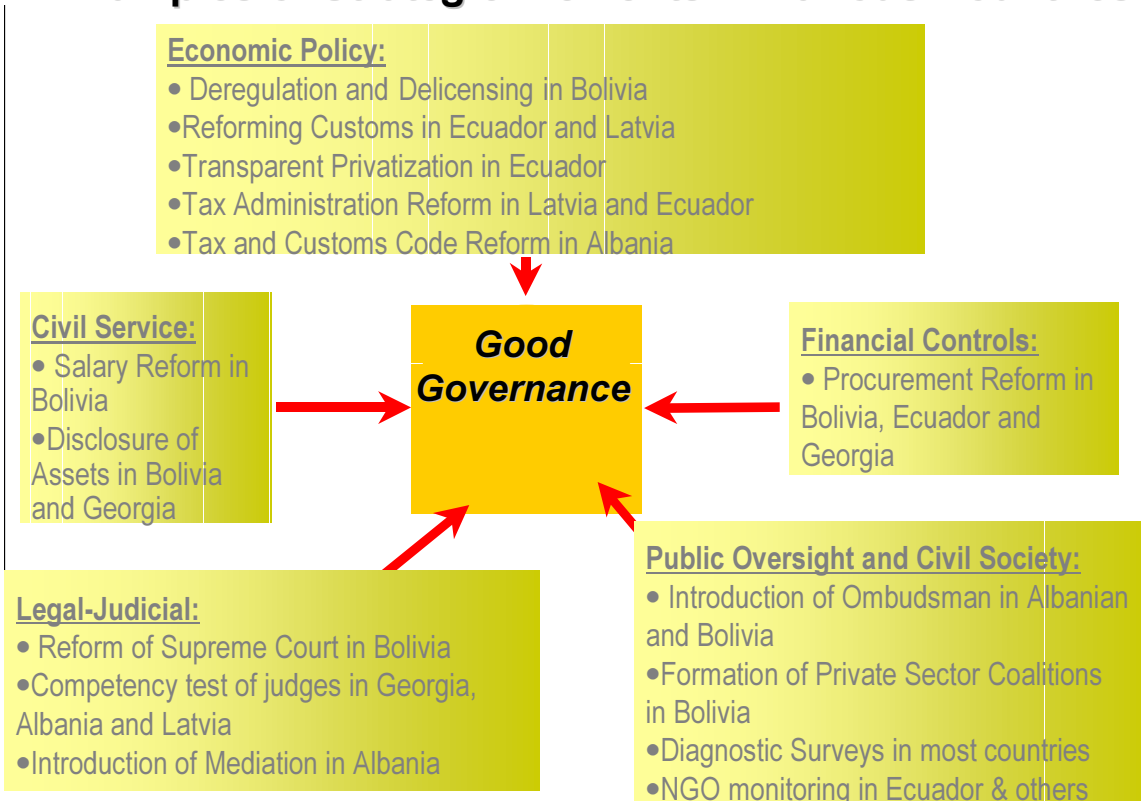


Figure 31a and 31b

**The Essence of Anti-Corruption Programs** The essential priority for successful reform is changing policies and systems, rather than hunting for isolated culprits, adding new laws and regulations, or calling for a moral renovation. Where there is the combination of monopoly plus official discretion minus accountability ( $M + D - A = C$ ), we will tend to find corruption. When public officials are paid meager salaries without rewarding performance, and when penalties against the corrupt are rare and mild, we can expect corruption to flourish. Corruption tends to be reduced by the separation of powers, checks and balances, transparency, a good system of justice, and clearly defined roles, responsibilities, rules, and limits. Corruption loves multiple and complex regulations with ample and uncheckable official discretion. Corruption tends not to thrive where there is a democratic culture, competition, and good systems of control, and where people (employees, clients, overseers) have rights to information and rights of redress.

Successful reforms address these systemic problems. A strategy against corruption, therefore, should not begin or end with fulmination about ethics or the need for a new set of attitudes. Instead, it should cold-bloodedly look for ways to reduce monopoly power, limit and clarify discretion, and increase transparency, all the while taking account of the costs, both direct and indirect, of these ways. There is another crucial point in designing an anti-corruption strategy: corruption is a crime of calculation, not of passion. Having a strategy also means that we should usually not attack all forms of corruption at once. We must distinguish various types of corruption. Having a strategy means developing a clear idea of ends and means in the short, medium, and long terms. To be credible, an anti-corruption campaign needs an early success.

The proposed framework for design of an anti-corruption strategy (which is outlined in some detail) is based on the following elements:

1. Understanding corrupt systems, which require analytical tools.
2. Diagnosing how specific corrupt systems now work, in a particular context.
3. Overcoming political and bureaucratic resistance, and garnering support.