

**International Studies Program  
Working Paper 08-36  
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Consolidating Central Power or  
Building Accountability from  
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(Draft: not to be quoted)

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***Decentralization in Cambodia:  
Consolidating Central Power or Building  
Accountability from Below? <sup>1</sup>***

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## **I. Introduction**

Cambodia has embarked on one of the more unusual decentralization processes in the world, and the environment in which this has been occurring could hardly appear less conducive or more challenging to the success of such reform. The country suffered from several decades of severe internal conflict and trauma up until the early 1990s. Even after a peace accord was signed in 1991, considerable instability and uncertainty in the national political and economic landscape persisted. Levels of economic and human development are improving but remain low, and government capacity is limited. Despite these conditions, the country is pursuing a seemingly ambitious decentralization effort that started in 2001 with the creation of semi-autonomous elected governments in 1,621 communes/*sangkats* (urban commune). It is now in the process of being extended to provinces/municipalities and their district/*khan* subdivisions under legislation passed in 2008. Government policy documents and public pronouncements suggest that decentralization is considered a central part of the national public sector reform agenda.<sup>1</sup>

Why did Cambodia decide to pursue a set of reforms that seems to represent a dramatic shift in the national approach to political processes and development? How significant and genuine is the Cambodian decentralization effort? How much progress has been made in advancing reforms, and what problems and challenges remain? Are the decentralization reforms likely to be sustained and deepened? Many Cambodians, representatives of international development agencies and others interested in democratic decentralization are pondering these issues as they watch the reform process unfold.

In this paper, we critically review the Cambodian decentralization process to date.<sup>2</sup> The next two sections set the stage by respectively providing a brief overview of Cambodia's economic, social, historical and political context and an outline of the basic organizational structure of government. The fourth section explores the forces driving the introduction and development of decentralization in Cambodia. The fifth and sixth sections respectively describe and evaluate the state of decentralization. The penultimate section outlines decisions that need to be made and challenges that will be faced in moving decentralization to the next level, followed by a few concluding comments. The Cambodian decentralization is recent and there is limited formal literature on the process, so much of the analysis here is based on interviews and our personal observations and experiences over more than a decade working on decentralization in Cambodia.<sup>3</sup>

## **II. The Basic Country Context**

Cambodia is located in Southeast Asia, bordering the Gulf of Thailand between Thailand, Vietnam, and Laos.<sup>4</sup> At just over 181,040 square kilometers, the country is about the size of the US state of Missouri. The country has nearly 14 million inhabitants with an estimated population growth rate of around 2 percent in recent years. More than 40 percent of the population is below 15 years of age. Educational levels remain low and more than a quarter of the population over the age of 15 is unable to read and write.

Relatively robust economic growth of 9.9 percent from 2001-2006 (compared to the ASEAN average of 6.5 percent) has increased living standards and somewhat reduced poverty levels. Cambodia started this growth spurt, however, from a low level. It remains poor and is classified as one of the 50 Least Developed Countries by the United Nations.<sup>5</sup> The 2007 GDP per capita was estimated to be about US \$570, and at least one third of the population lives below the poverty line. About 75 percent of the workforce is employed in subsistence farming. The economy is poorly diversified, and some key non-agricultural industries are either threatened by regional competition (e.g. textiles and garment manufacturing) or significantly conducted underground (e.g. forestry).

The population of Cambodia is relatively homogeneous ethnically and religiously. Approximately 90 percent of Cambodians belongs to the dominant Khmer ethnic group, while 5 percent is Vietnamese, 1 percent Chinese, and the remaining 4 percent other ethnicities. Nearly 95 percent of Cambodians practice Theravada Buddhism. The official language is Khmer, which is spoken by most of the population.

The public sector is relatively small, underdeveloped and aid dependent, although some progress has been made. In the past decade there has been a substantial shift in expenditure priorities from the military/security to development/basic services. In addition, there have been some major fiscal reforms, including the adoption of a Value Added Tax (VAT) in 1999 and the initiation of a major Public Financial Management (PFM) reform program in 2002. The domestically financed portion of the national budget, however, still accounts for only about 11 per cent of GDP in recent years, which is very low by international standards.

In short, Cambodia is characterized by socioeconomic and fiscal conditions that are not normally associated with an ideal environment for decentralization. The country is very small and extremely poor. The population is rather homogeneous in economic, ethnic and religious terms. Human resource development is weak, and the public sector is small by international standards and has limited capacity.

### **Political History and Implications for Receptivity to Decentralization**

Equally or more important for decentralization than its basic economic and demographic realities is that Cambodia has suffered from an unstable modern political history.<sup>6</sup> In 1863, King Norodom accepted France's offer of protection from Vietnam in exchange for access to resources. The French built on established institutions and reinforced a centralized state. After Cambodian independence in 1953, King Sihanouk's Popular Socialist Community dominated Cambodian politics until he was overthrown by Lon Nol in 1970. The Khmer Rouge, Sihanouk's resistance movement that was radicalized by the infamous Pol Pot, deposed Lon Nol in 1975. During Khmer Rouge rule, up to 1.7 million people died from execution or privation. Vietnam toppled Pol Pot in 1979 and created the single-party People's Republic of Kampuchea. Hostilities with the Khmer Rouge persisted for years, and a movement to restore the monarchy emerged.

The UN helped to broker the Paris Peace Accord in 1991. The negotiations established a constitutional monarchy and scheduled elections, which were held under the supervision of the United Nations Transitional Authority in Cambodia (UNTAC) in 1993. The main contestants were the Cambodian People's Party (CPP) under Hun Sen, who served as Prime Minister under the Vietnamese regime, and FUNCINPEC (the royalist opposition party) under Norodom Ranariddh, son of King Sihanouk. FUNCINPEC won, but Hun Sen retained a strong influence over the military and refused to yield power.

Rather than risk new hostilities, a coalition was created in which Ranariddh and Hun Sen became First and Second Prime Ministers, a pattern of power sharing replicated through the government system and subnational administration. This situation, which resulted in regular bureaucratic conflict and paralysis, collapsed in a 1997 coup d'état<sup>7</sup> engineered by Hun Sen. CPP narrowly won a 1998 election, and FUNCINPEC became the opposition. The 1998 election also saw the emergence of the Sam Rainsy party (SRP), named after a reform-minded former Minister of Finance. The CPP had another strong showing in the 2003 election, but it took a year of negotiation to form a coalition government because none of the parties received the two-thirds majority required to form a government under the Constitution adopted after the 1993 elections. The Constitution was amended in 2006 to require only a simple majority. In the July 2008 elections, the CPP emerged to dominate the National Assembly with 58 percent of the seats and the SRP gained 22 percent, with the diminished FUNCINPEC and several smaller parties picking up the remaining seats.

Although this political scenario may seem far from amenable to genuine democratic governance, the dominance of Hun Sen and the CPP in some ways opened the door to decentralization, as explained below. There are, however, other potential obstacles to establishing local democratic governance cited with respect to Cambodia.<sup>8</sup> First, perceptions of power and authority are traditionally very hierarchical. Second, there is strong aversion to conflict and losing face in Khmer culture that some observers believe constrains vigorous public debate. Third, the longstanding turmoil suffered by the country has somewhat undermined social trust and cohesion, and a culture of corruption and violence has been established and hard to overcome. Finally, the centralized socialist system imposed during the 1980s reinforced constraints on social interaction.

On the other hand, some observers believe that frequent power shifts in recent decades have created a degree of opportunism among Cambodians. As the political landscape changed, people often rushed to position themselves favorably relative to each new configuration of power. As decentralization unfolds, some are hopeful that people may seize and build on the small advances in freedom that it offers. In addition, the relative ethnic and religious homogeneity of Cambodian society may help to reduce the type of local conflicts that often undermine decentralization. Another positive factor is that a vibrant NGO sector began to emerge in the period after the peace accords, and they could over time help to nurture community cohesion, social capital and more robust democratic decision making. Finally, the central government has been unable to provide many basic services in much of the country, and there is some expectation that subnational governments could help to improve on the present situation.

### **III. The Basic Institutional Structure**

The institutional architecture of the Cambodian government is based on traditional structures, systems used during the French colonial and Vietnamese occupation periods, and a number of recent innovations. The 1993 Constitution established provinces and municipalities as the principal territorial subdivisions of the Cambodian state. Provinces are further divided into districts and communes, while municipalities are further divided into *khans* and *sangkats*. Villages are the lowest level of state presence. Provinces and municipalities (hereafter referred to as provinces unless something specific to municipalities is being discussed), districts and khans (hereafter referred to as districts) and communes and *sangkats* (hereafter referred to as communes) have been or will be involved as decentralization unfolds.

Provinces are historically the only subnational entities that have ever played any significant fiscal role in Cambodia. Districts, to the extent they have functioned, largely acted as agents of the provinces. Until the 2001 decentralization, the communes did little beyond serving as a vehicle for central and provincial government communications with rural villages and urban neighborhoods. The entire system deteriorated significantly during the internal conflicts the country suffered in the post-independence period.

Beyond the major political parties discussed above, several key government actors have played, do play, or will play important roles in decentralization. The Ministry of Interior (MOI) is the leading central agency involved in decentralization. The provincial governors and the provincial/district administration system fall under their jurisdiction. MOI has also taken the lead on commune decentralization, organizing a major push to develop the 2001 Commune/*Sangkat* Administrative Management and Election Laws. MOI chaired the National Committee to Support the Communes (NCSC) (explained below) and created a Department of Local Administration (DOLA) and provincial offices (POLA) to oversee commune councils. MOI drove the most recent legislation and has chaired all major national decentralization committees, including the current body, the National Committee for Democratic Development (NCDD).

The Ministry of Economy and Finance (MEF) has also been an important player in decentralization. The Provincial Budget Law (see below) was the first post-1993 election initiative by any ministry to empower provinces. MEF has also taken the lead on (albeit limited) fiscal decentralization. They oversee the commune intergovernmental transfer and financial management systems, delegating some tasks to their provincial departments. The national Public Financial Management (PFM) reform program, which includes fiscal decentralization responsibilities, is managed by MEF. The National and Provincial Treasuries also play a role in disbursement and managing subnational finance.

The Ministry of Planning (MOP) took the lead in developing commune planning processes based on the Seila experience (explained below) and will continue to play a role in redefining the planning system as decentralization evolves. The Ministry of Rural Development (MRD) and its Provincial Departments of Rural Development (PDRD) have rural infrastructure expertise and led the development of pre-decentralization subnational institutions, including local level development committees that served as the

foundation for elected commune councils. The Council on Administrative Reform (CAR) manages civil service reform (CSR). Finally, key sectoral ministries, including Agriculture, Forestry and Fisheries, Education, Health, Public Works, Water Resources, Land Management and Women's Affairs, play a key role in subnational activities.

In addition to the various regular government agencies, a number of special entities were created to manage key aspects of decentralization. The Seila Task Force (STF) and its Secretariat were the driving force in developing and mainstreaming Seila (see below), and the interministerial National Committee to support the Communes (NCSC) was created to complete and implement the legal framework begun by the two commune decentralization laws and for implementing reforms. All of these decentralization management structures have now been superseded by the NCDD noted above.

Finally, although the role of nongovernmental actors is not well defined in the Cambodian decentralization, it has been and will continue to be important. NGOs have played a critical role in providing expertise and building local capacity for Seila, and they continue to be involved in various ways with the commune councils. Private contractors have also been involved in local service delivery activities, and there is much talk about the private sector's potential role in further expanding service delivery.

#### **IV. The Atypical Genesis of Decentralization**

A prominent feature of UN support in the transition period of the 1990s was the Cambodia Resettlement and Reintegration (CAREERE) Project. It was intended to assist returned refugees displaced during the Khmer Rouge and Vietnamese years.<sup>9</sup> CAREERE evolved from an emergency relief project to CAREERE 2, which initiated subnational institutional and capacity development. Funding from the UN Capital Development Fund (UNCDF) in 1996 financed a pilot of the Local Development Fund (LDF), which introduced grants and a commune participatory planning and service delivery system. The LDF evolved into CAREERE 2's Seila (Khmer for foundation stone), a major program that over time introduced its systems to rural areas in many provinces. CAREERE 2 ended in 2000, and the Council for the Development of Cambodia (CDC)/Seila Task Force (STF) assumed responsibility for Seila with continued donor assistance under the Participatory Local Governance (PLG) project, which has now been replaced by the Program to Support Democratic Development (PSDD).<sup>10</sup>

CAREERE/Seila piloted and expanded a pre-decentralization planning and budgeting system for the delivery of basic infrastructure and services through Village Development Committees (VDCs) and Commune Development Committees (CDCs). CAREERE/Seila also created a provincial system of capacity building, technical assistance, and monitoring of commune processes. This was managed by Provincial Rural Development Committees (PRDCs—composed of representatives of subnational offices of line ministries and are chaired by governors), their Executive Committees (ExCom), and subsidiary District Development Committees (DDCs). The system also included formula-based transfers (initially managed by the UN) to support both the provinces—the Provincial Investment Fund, or PIF, allocated through Provincial Development Plans (PDP) and Provincial Investment Programs (PIP)—and communes—the Local

Development Fund, or LDF, managed through Commune Development Plans (CDP) and Commune Investment Programs (CIP).

The relevance of Seila here is that its systems and procedures provided the basis for developing communes as a level of local government, provinces as support agents of commune councils and decision makers in their own right, and key central agencies as regulators/facilitators of the overall commune system. In effect, Seila served as the foundation for decentralization in Cambodia.

At least three factors help to explain how a donor project came to be so influential. First, the central government remained in disarray well into the 1990s. The UN success in brokering 1993 elections (and most likely its decision not to defy Hun Sen's bid to stay in power despite his electoral loss) gave it the standing to largely bypass the government in developing subnational institutions and processes under CAREERE/Seila. Second, several key ministries and provincial governors must have seen great opportunities in CAREERE/Seila for improving their own influence, access to resources, and capacity. Third, the LDF started in a few provinces and communes that had benefited from the return of Cambodians who spent years in refugee camps at the Thai border and became familiar with donor values and approaches. These areas also enjoyed an abundance of NGOs generously funded by post-conflict international funding and familiar with community development. Initially, many NGOs probably viewed the LDF as competition, but they learned over time to work with, benefit from, and assimilate themselves into Seila.

These conditions explain why CAREERE/Seila was able to establish itself and operate effectively, but not why the government eventually decided to create a system of elected commune councils. A number of factors appear to be important here. The first is simply that CAREERE/Seila was so successful in delivering local services. The system was responsible for thousands of rural infrastructure projects that were far beyond the capacity of central ministries and provincial departments to provide, and in the process it created technical and governance capacity at provincial, district, commune, and village levels. This genuine addition to service delivery and capacity in this desperately poor country created internal pressures on the government to maintain CAREERE/Seila and to expand its coverage. Second, most major international donors enthusiastically support decentralized democratic governance. Cambodian leaders were certainly aware that major support would be forthcoming to develop local governments and expand service delivery. Third, the CPP, more at ease after the 1998 post-coup electoral victory, may have perceived the development of local systems with considerable external funding as a way to consolidate power at the grassroots level. The CPP must have been fairly certain that it would dominate the commune elections, as its strong base of support has always been in rural areas. Finally, as the stability and capacity of the CPP government grew and its priorities shifted from internal security to development, the logic of further expanding the subnational system to provide services likely became increasingly evident.

In June 2005, the Cambodian government adopted the Strategic Framework for Decentralization and Deconcentration Reforms (hereafter referred to as the strategic

framework)<sup>11</sup>. This document outlines the official policy for subnational democratic development through restructuring of all levels of subnational administration. The strategic framework envisions two major changes to the current system. First, in addition to directly elected commune councils, the government will establish indirectly elected councils at the province/municipality and district/*khan* levels and empower them with functions, resources and capacity to deliver basic services. Second, these new levels are expected to adopt unified administrations that will coordinate public administration activities within their territories aimed at promoting the development and provision of public services. In part, this is an effort that recognizes how difficult it will be to empower the small-scale commune councils. These higher levels, however, will work closely with communes, which are also expected to assume more important roles in planning, budgeting, service provision and development. In order to move the strategic framework forward, the government established in 2006 the National Committee for the Management of Decentralization and Deconcentration Reforms (NCDD).

With the passage of Law on Administrative Management of Capital, Provinces, Municipalities, Districts and *Khans* in April 2008 (hereafter referred to as the organic decentralization law), Cambodia has taken the next step in decentralization reform. Broadly following the strategic framework, the law establishes new levels of subnational government and reaffirms the existing commune/sangkat councils. The law also formally establishes unified administrations for each level, mandates mechanisms for public consultation, participation, equity, transparency and accountability, and creates a strong implementing authority to oversee implementation. Many details remain undefined, however, and considerable challenges lie ahead. The process is to be worked out through the National Program for Subnational Democratic Development (NP-SNDD) that is expected to last for ten years from 2009. The NP-SNDD is expected not only to create a framework, process and policies for the national and subnational governments, but also to guide development partners – international and national agencies and non-governmental organizations—to adopt common strategies and more harmonized approaches to support decentralization reform. This will be all be done under a new NCDD—the National Committee for Democratic Development.

Some observers see the adoption of the NP-SNDD and the passage of organic decentralization law as politically driven with the intention of consolidating the control and capacity of the CPP in the field. Others are more hopeful and believe that some positive aspects of the commune system can be carried over into reforms at higher levels. We return to the implications of this debate for decentralization policy below.

## **V. The Shape of Decentralization in 2008**

The current subnational government system in Cambodia consists of two major parts—the provincial-district administration, which has no elected representation and reports directly to the central government, and the elected commune councils. Substantial changes are envisioned to this system, as explained above, but they will take a while to define and unfold. In this section we outline the basics of the present system, focusing on the commune system since that has been the focus of decentralization in Cambodia to date. The discussion of provinces does not specifically treat districts as they are simply

subsidiaries of the provinces—in some cases they are delegated limited staff and various functions, while in other cases they barely do anything.

### **The Provincial System**

Prior to post-election public sector reforms in 1993, and especially during the Vietnamese occupation of the 1980s, the Cambodian provincial system was relatively decentralized in practice. In part, this simply reflected the weakness of the central state and its inability to control provincial governors and collect revenues, but it also derived from the greater ability of the governors to manage public sector and security functions on the ground in a poor country with limited transportation and communications infrastructure. Governors had the power to collect revenues, which officially had to be shared with the National Treasury. This made the center dependent on the unreliable compliance of the provinces. In addition, governors had substantial *de facto* independent expenditure powers and often dominated management of provincial sectoral departments.

In 1993, the National Assembly passed the Law on State Financial Systems, which re-centralized the overall system. This legislation formalized vertical accountability in the administration of line departments and put governors under the Ministry of Interior. The Ministry of Economy and Finance/National Treasury assumed responsibility for most revenue and financial management functions. The budget was centralized and managed through the line departments, and the governors were given a small discretionary budget through MOI known as the *salah khet* (hereafter referred to as the governor's budget)

After a few years of re-exerting authority, the MEF recognized that the system had become over-centralized. Accordingly, MEF introduced the Law on Provincial and Municipal Finances and Property in 1997, commonly known as the Provincial Budget Law. This law defines provinces as legal entities subject to certain restrictions, including prohibitions on deficits and borrowing. Governors, who serve both as head of the provinces and representatives of the central government, were given official budget authority (although often limited in practice). Provinces have responsibility for administering 'necessary' expenditures, mostly staff/administrative expenses, facility maintenance, and operating costs of certain services. The law also assigns very limited tax and non-tax revenues to provinces, including: tax on vacant land, stamp fees (on legal transactions), the *patente* (business license based on annual turnover), slaughter fee, tax on vehicles and transport, sale of power and potable water, and domain fees (markets, parking, ferries, etc.). Most of these sources, however, are minor, and tax bases, rates, and collection procedures are fixed by the center. The law opens the possibility of introducing additional provincial revenue sources, but this has never been done.

#### *Provincial Staffing, Planning and Budgeting*

Provincial staffing is largely managed by the central government. National ministries make decisions about how to use the resource envelopes allocated to them through the national budget, including major decisions on staffing their subnational departmental

offices. In practice, some provinces have a greater role in hiring than others, and non-staff casual employment decisions can also be made at the subnational level.

There is no official, universally implemented provincial planning process. Provincial Development Plans (PDPs) were initiated during Seila under the supervision of the MOP to help allocate off-budget PIF (explained above) resources. Most capital expenditure through the state budget is done by national line ministries. Where used, the PDPs cover a variety of sectors and activities, but most proposed projects in completed plans have not been implemented due to a lack of funding. Although PDPs help provinces to articulate a development vision and identify priorities, they are poorly integrated into the government resource allocation process.

There are two official types of provincial budget. The provincial component of the state budget is largely comprised of salaries, operating costs, and social benefits for line departments. In recent years, the provincial component has accounted for around 15 percent of the total state budget. There is no revenue component of the provincial budget. Provincial departments may submit proposals for capital projects to their parent ministries, but capital expenditures are only reflected in national ministry budgets.

The provincial budgeting process is supposed to be coordinated by the governor in consultation with the Provincial Department of Finance (PDF) and the provincial sectoral departments after being issued a budget enveloped by MEF. Based on provincial submissions and consultations with national ministries, MEF prepares an integrated state budget and submits it to the National Assembly for approval. The governor serves as accounting officer for disbursements for all departments except for defense and the judiciary. In reality, the process does not give either the provincial departments or the governor much budgetary control. The resource envelope is small, and salaries and social benefits are defined by the central government, so there is limited flexibility.

The second type of provincial budget is the governor's budget explained above. In recent years, it has been equivalent to about 20 per cent of the provincial component of the state budget. It covers expenditures associated with activities for which the governor is responsible. All tax and non-tax revenues allowed under the Provincial Budget Law are also included. The difference between approved expenditures and revenues from allowable sources is filled by a central subsidy. In recent years, the governor has received additional powers (including electricity, water, and solid waste) that are reflected in the budget, but related services tend to be contracted out. Although the governor's budget is more diversified and flexible than the provincial component of the state budget, the resources are limited. The discretion in using these resources appears to vary considerably, probably in proportion to how powerful and connected governors are.

#### *Extra-budgetary Activities*

A number of subnational service delivery programs managed beyond the traditional provincial budgets have been experimented with in recent years. There is not space to go into details here, but they include a wide variety of separately and differently managed approaches. The already mentioned formula-driven PIF (under Seila and now NCDD) is

allocated among provincial departments and overseen by the PRDC and ExCom. Two special programs initially introduced under the 2000 Budget Law provided key ministries with an opportunity to reform service provision. The Accelerated District Development (ADD) bypassed problematic provincial disbursement procedures in channeling resources to frontline sub-provincial service providers. The main ADD user has been the Ministry of Health (MOH), which established delivery-oriented Operational Districts (ODs) that are larger than regular districts but smaller than provinces. The Priority Action Program (PAP), which covered four sectors (agriculture, education, health, and rural development) and only applied to non-salary operating expenditures, has only been used in education and health. Based on budgets prepared by a PAP ministry, MEF opens a Treasury account that the ministry can use to meet requests from provincial departments on behalf of new Budget Management Centers (BMC). The BMCs are fairly autonomous and work directly with local providers, such as school boards. This differs from standard procedure in that the concerned ministry, rather than the governor, approves disbursement, and resources go directly to the BMC through the PM Treasury. Finally, Sector-Wide Approaches (SWAPs) are becoming more important in Cambodia.

These various programs share a number of characteristics. First, they are largely uncoordinated. Second, they primarily use special procedures and processes, which may be inconsistent with each other, and there is insufficient clarity on how and when they will be institutionalized. Third, the ADD and PAP were essentially intended to bypass, rather than to fix, problematic provincial institutions or procedures.

### **The Commune System**

The 2001 laws referred to above laid the groundwork for decentralization by providing for democratic elections with a five year mandate, allowing communes to provide certain functions and raise limited revenues, and setting up operating systems and procedures. The first commune elections were held in February 2002. The councils are elected on a proportional basis, such that more than one party can be represented. The council president is the individual on the majority party candidate list receiving the largest number of votes.

Although there were some worries about pre-election violence and the commune elections, most observers considered them to be generally less problematic than the 1993 or 1998 national elections.<sup>12</sup> There has also been unease expressed about the dominance of the CPP in the outcome, fueling earlier suspicion of RGC motives in pushing for decentralization. CPP emerged the clear winner, gaining 68 per cent of council seats and chair positions on nearly 99 per cent of all councils. Despite concerns about CPP dominance, opposition parties held seats on 1472 of the 1621 communes. Even some of the RGC's harshest critics, such as Sam Rainsy (2002), considered this to be a democratic achievement in the Cambodian context. The second commune council elections held in April 2007 saw a significant increase in the number of parties and candidates contesting seats. The results, however, again gave the CPP about 70 percent of all council seats and chair positions in 98 percent of the councils, with SRP winning 24 percent of the seats. It remains to be seen over time how the CPP dominance will play itself out over time and whether other parties will be able to make substantial gains in future commune elections

### *Commune Functions and Staffing*

The 2001 legislation does not assign mandatory sectoral functions to the communes. It simply provides a framework in which they are empowered to maintain public order and security; manage public services; enhance public welfare; promote socioeconomic development; preserve the environment, natural resources, and culture; promote tolerance and mutual understanding; and respond to citizen needs. Councils may jointly deliver services. The legislation also allows for agency functions that communes must perform on behalf of ministries/provincial departments, and it prohibits communes from acting independently in areas reserved for the center, such as security and forestry.

On the revenue side, the law assigns land tax, real estate tax, and rental tax to the communes. Elaboration of commune revenue sources, including types, rates, and collection processes, is required by the decentralization law before they can be used, but this has never happened beyond the devolution of certain administrative fees (such as birth, death and marriage registrations). The law also allows total or partial income transfers from national tax or non-tax sources, and it requires compensation for agency functions performed by communes on behalf of a state ministry or agency.

The elected councilors, who receive allowances, have formal authority for commune administration under the leadership of the chair. Direct staffing is initially very modest. There is a single commune clerk assigned and funded by MOI. The role of the clerk is to assist and advise the councils. In addition, the Provincial Treasury appoints a staff member to serve as commune accountant, and these posts cover multiple communes and are based at provincial headquarters. The councils may directly employ other staff, but subject to MOI approval. In practice this option is constrained by limited resources.

A commune council is authorized to select a chief in each constituent village. The village chief in turn appoints a deputy and an assistant. These three represent the village and must meet at least once a month. The village chief is the main link between villagers and the commune council, but has no direct powers.

### *Commune Finance, Planning, Budgeting and Accountability Systems<sup>13</sup>*

The main source of CS resources is the Commune/*Sangkat* Fund (CSF) that grew out of the Seila LDF. This is in effect an intergovernmental transfer program capitalized from domestic and external contributions (Table 1). The RGC contribution in FY 2002 was US \$5 million, or 1.2 per cent of RGC recurrent domestic revenue. It grew to 2.5 per cent (about US \$12 million) in FY 2004, where it more or less stagnated until peaking at 2.7 percent in FY 2007. Future external contributions are expected to rise, but negotiations are still underway. CSF resources are held in a protected Treasury account, and are allocated on the basis of a formula that includes a poverty measure.

	<b>2002</b>	<b>2003</b>	<b>2004</b>	<b>2005</b>	<b>2006</b>	<b>2007</b>
National Budget (*)	1.2%	2.00%	2.50%	2.52%	2.54%	2.7%
Seila-PLG (Million USD)	1.455	2.00	2.00	2.00	2.00	0.5

(\*): as a percent of domestic recurrent revenues

**Source:** National Treasury, Royal Government of Cambodia, as reported in the *Commune Sangkat Fiscal Review*

Commune councils are required to prepare a five year Commune Development Plan (CDP) and three year rolling Commune Investment Programs (CIPs). Each council appoints a Planning and Budgeting Committee (PBC). Participation is facilitated through a broad-based Planning Forum. Planning Forum membership includes commune councilors, two representatives (one male and one female) from each village, and one representative from each NGO registered with the council.

The annual commune budget is the responsibility of the council chair (assisted by the PBC) and is also supposed to be formulated through a broadly participatory process. The governor is responsible for ensuring compliance with rules, but has no right to demand modifications to the budget if legal and regulatory requirements are met. A commune accounting and payment system has been established to record transactions, produce reports, and provide a basis for monitoring budget implementation. Most commune financial recording and reporting activities are handled by the commune accountant in the Provincial Treasury.

Commune councils are mandated by law to actively promote and coordinate the democratic process by setting up mechanisms for consultation with residents, civil society organizations, and community groups. Residents can attend any council meeting. They do not vote but may ask questions make written submissions that the council is legally obligated to respond to. Councils are required to set up information boards at their headquarters and at every constituent village to display official notices. Thus, there has been some level of attention to basic accountability mechanisms beyond elections.

### *Commune Financial Performance*

Although commune councils still account for only a small percentage of public sector spending, the resources flowing to them have increased dramatically (Table 2). The volume of funds almost tripled from 2002 through 2006, rising from 31,698 million riels in 2002 to 91,102 million riels in 2006 (The riel-dollar exchange rate is approximately 4100:1). This increase has been driven by the growth of CSF transfers and a variety of grants that are challenged through the system (more on this below). Own-source revenues, on the other hand, reached their very minor peak in FY 2004, and they have been on the decline ever since (more on this below).

Another point of concern is that unspent resources being carried-over to the following fiscal year (reserve fund) have been increasing both in absolute value and relative to total revenues. This trend is likely attributable to a combination of limitations in absorptive capacity of some of the weaker communes and bottlenecks in disbursements through the provincial treasury system.

<b>Table 2 - CS Overall Fiscal Position (2002-06)</b>					
<b>Revenues</b>	<b>2002</b>	<b>2003</b>	<b>2004</b>	<b>2005</b>	<b>2006</b>
<b>Million Riels</b>					
CS Fund - General Admin	13,848	19,389	19,333	20,712	24,645
CS Fund - Local Develop	16,840	32,035	38,667	45,388	53,023
<b>Total CS Fund</b>	<b>30,688</b>	<b>51,423</b>	<b>58,000</b>	<b>66,100</b>	<b>77,669</b>
Other Grants	118	31	16,643	17,540	11,484
<b>Total Grants</b>	<b>30,806</b>	<b>51,454</b>	<b>74,643</b>	<b>83,640</b>	<b>89,152</b>
<b>Own-Source Revenues</b>	892	1,936	2,256	2,126	1,950
<b>Total Revenues</b>	<b>31,698</b>	<b>53,390</b>	<b>76,900</b>	<b>85,766</b>	<b>91,102</b>
Reserve Fund		2,310	11,920	24,946	38,081
<b>Available Resources (*)</b>	<b>31,698</b>	<b>55,700</b>	<b>88,819</b>	<b>110,711</b>	<b>129,184</b>
<b>Expenditures</b>					
<b>Recurrent Expenditures</b>	<b>13,686</b>	<b>16,726</b>	<b>18,751</b>	<b>22,565</b>	<b>27,630</b>
<b>Salary and Allowances:</b>	<b>11,699</b>	<b>14,083</b>	<b>14,169</b>	<b>14,252</b>	<b>14,581</b>
o/w Councilors Allowances	11,699	14,083	10,426	10,428	10,432
o/w Village Chief Allowances	0	0	3,618	3,619	3,618
<b>Administration Costs:</b>	<b>1,954</b>	<b>2,589</b>	<b>4,083</b>	<b>6,772</b>	<b>9,488</b>
<b>Local Services Costs</b>	-	0	314	885	1,504
<b>Social Intervention</b>	33	13	170	595	1,691
<b>Economic Intervention</b>	-	4	3	12	281
<b>Other Recurrent Costs</b>		37	13	48	85
<b>Capital Expenditure</b>	<b>15,688</b>	<b>27,062</b>	<b>45,123</b>	<b>49,941</b>	<b>65,837</b>
<b>Administration Investment</b>	147	135	8,830	13,878	5,641
<b>Local Development Investment</b>	<b>15,541</b>	<b>26,927</b>	<b>36,293</b>	<b>36,062</b>	<b>60,196</b>
<b>Total Expenditures</b>	<b>29,374</b>	<b>43,788</b>	<b>63,874</b>	<b>72,506</b>	<b>93,467</b>
<b>Carry-over</b>	2,323	11,912	24,945	38,205	35,717

(\*): Available resources - Total Expenditures

**Source:** National Treasury, Royal Government of Cambodia, as reported in the *Commune Sangkat Fiscal Review*

Total commune expenditures have more than tripled during the period covered by Table 2, from 29,374 million riels in 2002 to 93,467 million riels in 2006. The increase has been driven by the surge in local development investments, which quadrupled between 2002 and 2006 (from 15,541 to 60,196 million riels), while recurrent expenditures (mostly salaries) doubled during the same period. Four categories accounted during this period for 98 percent of the local development investments (Table 3): rural transport infrastructure (63 percent), irrigation systems (17 percent), rural water supply (6 percent), education facilities (6 percent) and urban transport infrastructure (3 percent).

	2002	2003	2004	2005	2006	2002-06
Rural Domestic Water Supply	16.23%	9.96%	6.78%	4.30%	2.81%	6.38%
Rural Transport Infrastructure	62.54%	62.51%	64.91%	65.68%	67.90%	65.31%
Education	12.43%	7.34%	5.46%	4.07%	4.26%	5.66%
Irrigation	8.26%	15.33%	16.79%	20.29%	18.41%	17.20%
Urban transport	0.00%	2.54%	3.27%	3.22%	4.30%	3.14%
Other	0.54%	2.31%	2.79%	2.44%	2.32	2.30
<b>Total</b>	<b>100.00%</b>	<b>100.00%</b>	<b>100.00%</b>	<b>100.00%</b>	<b>100.00%</b>	<b>100.00%</b>

**Source:** National Treasury, Royal Government of Cambodia, as reported in the *Commune Sangkat Fiscal Review*

One of the most worrying aspects of the commune finance system is the very weak performance of the own-source revenue system. As seen in Table 2 above, own source revenues have never been much above 3 percent of total commune revenues and in recent years have fallen closer to 2 percent. Table 4 below indicates that own-source revenues are dominated by local contributions to the cost of development projects, a holdover practice from the days of the LDF. Although administrative fees have risen as local contributions have been dropped as an official requirement, they are still insignificant, and they are often being charged at higher than legal rates since they communes have no other real option. We return below to the challenges and opportunities of enhancing commune own source revenues.

	2002	2003	2004	2005	2006	2007
Administrative and Service Fees	38.34	221.04	235.71	285.99	464.49	515.10
Local Contribution	853.47	1,715.40	2,000.73	1,837.34	1,485.55	1,370.61
<b>Total</b>	<b>891.80</b>	<b>1,936.44</b>	<b>2,236.44</b>	<b>2,123.34</b>	<b>1,950.04</b>	<b>1,885.71</b>
<b>Percent of Total</b>						
Administrative and Service Fees	4.30%	11.41%	10.54%	13.47%	23.82%	27.32%
Local Contribution	95.70%	88.59%	89.46%	86.53%	76.18%	72.68%
<b>Total</b>	<b>100.00%</b>	<b>100.00%</b>	<b>100.00%</b>	<b>100.00%</b>	<b>100.00%</b>	<b>100.00%</b>

**Source:** National Treasury, Royal Government of Cambodia, as reported in the *Commune Sangkat Fiscal Review*

### *Intergovernmental Relations*

The MOI has legal responsibility for monitoring and controlling commune activities, ensuring legal/regulatory control and assisting with capacity building. MOI control is exercised through the above-mentioned DOLA and largely delegated to provincial staff (POLA). The commune clerk, an MOI employee, also gives MOI access to information on routine council operations. Other government institutions may control commune councils in their areas of competence when allowed by legal instruments. If a central government agency wants to delegate functions to commune councils, however, NCDD

(formerly NCSC) authorization is required, and any agreements between central agencies and commune councils require MOI approval.

The governor, also as noted above an MOI appointee, is responsible for mobilizing and coordinating provincial departments to provide support and supervision to the commune councils, principally through the PRDC, ExCom and POLA. PRDCs are still functioning in Seila provinces and have been created elsewhere, but their roles in 'new' provinces and their desired roles in all provinces vis-à-vis the MOI POLA and other key PM actors are still not clarified. The evolution of the provincial role will continue as the larger subnational structure mandated by the 2008 organic decentralization law unfolds.

## **VI. Assessment of the Subnational System**

Although the above discussion highlights the progress that has been made in recent years, a number of issues with Cambodia's decentralization have emerged and need to be considered as the future system envisioned under the 2008 organic decentralization law is developed. Some are specific to the role of the provinces or the communes (the two main levels of focus to date), while others relate to the accountability and technical linkages between them.

### **The Role of the Provinces**

As indicated above, the provinces largely remain agents of the central government and have only limited capacity to deliver public services. Many of the efforts undertaken by the central government to improve subnational service delivery have not much helped to build the capacity of the provinces, to increase accountability to citizens, or to enhance local decision making authority. On the contrary, some key sectoral reform efforts have been characterized by attempts to circumvent provincial bureaucratic procedures to get money to frontline service delivery agents. In addition, as discussed above, some of these approaches have been highly self-contained and in conflict with each other. Creating a more substantial functional role for the provinces and districts, as envisioned under the 2008 organic decentralization law, cannot be done without developing a better understanding of existing activities and alternatives, the likely need for different approaches in different sectors, and the political feasibility of the options. If sectoral ministries continue to create inconsistent systems and procedures, they may reinforce problematic political and institutional dynamics and donor-government relations as well as undermine eventual development of an integrated multi-level public sector.

The revenue role of the provinces is equally constrained. The 1997 Provincial Budget Law establishes an initial basis for provincial revenue generation, but it gives very little concrete authority or discretion to provincial officials and it provides for only very modest revenues. The present system also fails to provide any meaningful incentive for resource mobilization, as the provinces are subsidized to cover the difference between their approved expenditures and the actual (non-normatively defined) yields of the allowable provincial revenue sources. Even a modestly decentralized fiscal system requires a more comprehensive set of provincial revenue sources, greater budgetary and managerial flexibility at the provincial level, and a more appropriate mechanism to share

revenues with provinces and to help equalize access to resources, such as a formula-based transfer mechanism similar to the types used for the CSF and the Seila PIF.

The provincial budgeting system is in critical need of consolidation. Providing the governors with a separate budget may have been politically necessary after curtailing their powers in the early 1990s, and the adoption of the off-budget PIF under Seila served a useful purpose at the time it was adopted. Ultimately, however, the provinces need a unified budget over which they receive a greater degree of control. In addition, the Provincial Development Plan, whatever its merits as an initial effort to experiment with new ways of thinking about the provincial resource allocation process, is not presently linked directly to government operations. The PDP is used primarily to allocate PIF resources and to help manage other off-budget sources of provincial investment. If a genuine decentralized system is desired, the PDP needs to be incorporated into an integrated provincial planning and budgeting process, such as the one that has been adopted for the commune system. And with the passage of the 2008 legislation, thought needs to be given to the nature of district budgets.

It must be acknowledged that reform and experimentation have been so piecemeal at the provincial level because the provinces were not originally part of the decentralization process that began in 2001, which focused on the commune system. With the provinces, there is of course much more at stake since the provincial budgets constitute a much larger share of public resources than the CS Fund. In addition, communes were given elected councils, but there was no comparable accountability mechanism provided at the provincial level. Now that the government intends to assign more substantial functions, hold elections and develop accountability mechanisms, the future of the provinces is poised to change considerably.

### **The Role of Communes**

Progress with the commune system has been more rapid than with the provincial system, largely because the example provided by Seila stimulated interest and pressures to generalize local service delivery. Although decentralization specialists often highlight the importance of clearly defined roles for each level of government, Cambodia's decision not to assign major mandatory functions to the communes initially seems appropriate at this early stage. Commune councils have many service needs, and most will not in the foreseeable future have the capacity or resources to meet more than a few of them. Requiring major service provision at this time would likely raise unattainable expectations and result in disappointment. Providing elected commune councils with modest resources to provide a few basic local priorities, however, serves the dual purpose of beginning to build their political credibility and capacity to deliver services, provided training and technical assistance are adequate and there is some attention given to fiscal responsibility and accountability.

Despite the initial positive trajectory, there are a number of concerns about the commune systems. First, if the communes are to serve as genuine local governments, they need to be assigned some specific functions, both independently and in conjunction with the provinces and districts as their role emerges under future decentralization efforts. Efforts

to work with sectoral ministries on functional assignment, however, remain at a very early stage.<sup>14</sup>

Second, there is a critical need to provide communes with some own source revenues, as mandated by the 2001 law. The limited and declining importance of own-source revenues is a direct result of the loss of the one major revenue the communes were collecting and the failure to add new ones. The “lost” source is the contributions to capital projects (3 percent minimum) that were originally required under the Seila LDF and were raised in different ways across communes. This practice was carried over for a while in Seila areas after decentralization, and there had been talk of regularizing these contributions as a betterment levy like revenue instrument, but this never happened, and the contributions are no longer formally required. Considerable discussion about creating own source revenues has never resulted in any concrete policies, and the entire process was put on hold during the drafting of the 2008 organic decentralization law. The future of commune own-source revenues will clearly be tied to the development of the overall intergovernmental system.

Third, although the commune councils in principle have a fair degree of autonomy provided they meet certain legal and regulatory requirements, higher level influence is potentially substantial. The only staff person at the commune level, the clerk, is an MOI employee (although councils can request replacement), and the role of commune accountant is played by Provincial Treasury staff, not by an employee of the council. Many communes are for the foreseeable future going to remain dependent on technical assistance from provincial departments, and the governors also have nontrivial oversight powers. Given the embedded hierarchical mentality in the Cambodian civil service and the institutional weaknesses in the system, even with legal safeguards and the very best of intentions, there are many opportunities for higher-level interference in commune affairs. Higher level oversight is appropriate in an emerging system, but it needs to be balanced with more attention to nurturing the accountability of the commune councils to the people who elected them.

Fourth, although a variety of participatory and accountability mechanisms have been developed, it is not clear how genuine these have been. Perfunctory participatory processes dominated by local elites and superficial accountability provisions that local residents do not know how to use are a problem in the developing world, especially in places with weak social capital.<sup>15</sup> Better participation might be expected in Seila provinces and where NGOs have operated extensively. Elsewhere people have had to learn how to participate and to hold commune councils accountable with far less training and technical support than the previous Seila communes had received. Particularly challenging is how to improve the involvement of marginalized groups, and this is not going to be solved, for example, by requiring that a certain number of women or underrepresented groups sit on councils or committees. The role of villages is also a concern. Although not elected/empowered governments, they are a key grassroots link and played a critical role in Seila. If they become too incidental to the overall decision-making process, the credibility of the overall system may be undermined, at least in some areas.

Fifth, a number of concerns have been raised about the possibly excessive complexity of commune planning, budgeting, and management systems and procedures, and these have persisted despite various simplification efforts. Although these systems are substantially based on lessons from well-tested Seila mechanisms, it took time for them to be understood and implemented in Seila provinces, and problems remain even there. The overall complexity is compounded by the large number of resources provided to communes that bypass the official systems. There may be further challenges on the horizon as the national PFM process unfolds and begins to get involved in the subnational systems and procedures.

## **VII. Future Trajectory and Challenges**

The basic path that decentralization is expected to take in Cambodia has been outlined in the 2008 organic decentralization law. At the same time, the details are, as noted above, very much uncertain. Beyond knowing that indirectly elected councils will be formed at subnational levels above the communes and understanding certain aspects of council formation, structure and general operations, a great deal needs to be decided.<sup>16</sup> What specific functions will be assigned to the various councils? What source(s) of revenue and type(s) of intergovernmental transfers will each type of council be allowed? How exactly will the councils at the various levels relate to and work with each other and the central government, and how will this differ across functions/sectors? How, beyond elections, will the councils interact with the citizens they represent? How will the decentralization reforms be linked to other major ongoing public sector reforms, such as the PFM and CSR programs? The answers to all of these questions are currently largely unknown, but a number of relevant issues are worth considering.

### **The Overall Environment**

As in most cases of decentralization around the world, reforms in Cambodia have been driven by politics and are embedded in a set of political, economic, fiscal and cultural realities that shape—and place some binding constraints—on the way the process has unfolded. Some aspects of what has happened provide grounds for optimism, while other aspects give cause for concern.

On the positive side, the development of the commune decentralization emerged from a set of systems and procedures that were somewhat separate from government systems and procedures. Even when they were formally integrated into the government system under the 2001 commune decentralization law, they in some respects kept a somewhat higher standard of recordkeeping and oversight than has been used by the central government to manage its own operations. In addition, since the commune decision-making processes were somewhat under the central government's radar screen, citizens have likely, at least in some areas, become accustomed to making at least some of their own decisions, even if only for small communal activities. Some observers are also

hopeful that the indirect election of district and provincial councils could help to maintain an accountability link to the citizens at the commune level.

On the other hand, there are substantial qualifications to these potentially hopeful perspectives. First are foremost, Cambodia suffers from a deeply embedded bureaucratic culture of hierarchy and patrimony. Even if the commune system has been somewhat protected from that culture in some respects and locations, this will be difficult to maintain as the decentralization expands to include other levels of government with much greater fiscal significance. Second, as discussed above, central government ministries are vested with strong powers of control over subnational levels of government, including the communes, and this is likely to remain the case and perhaps deepen under the expanded intergovernmental system. Third, there has been a general lack of attention to issues of corruption and the weakness of state-society links—even some of the seemingly solid efforts to nurture commune level participation and accountability noted above have been somewhat perfunctory and of unknown effect. Finally, the indirect election feature that gives some observers hope for maintaining a strong public sector accountability link to directly elected commune councils has some downsides as well. In addition to the concerns already noted about the robustness of commune council accountability, communes are small units that are unlikely to be thinking in terms of larger development requirements that higher levels of government need to be concerned about. Getting the responsibilities of each level right and finding the correct balance between upward and downward accountability are daunting challenges even in the most favorable circumstances.

### **Technical Decentralization Strategy**

As discussed above, the Cambodian government now has in place a basic framework, including laws and an institutional structure for further advancing decentralization. Once the elections for new types of councils are held and the immediate political objective of advancing the decentralized system has been met, the issue of how quickly the real decentralization of functions and resources will occur is uncertain, and how rapidly it should proceed requires careful consideration. After the first commune council elections were held, the modest system described above was put into place rather quickly. The development of the commune system was somewhat strategically framed as a process that needed gradually and pragmatically build on the basic system, but the definition and implementation of further reforms essentially stalled.

The strategic logic behind the commune system, although it was not really followed, would be pragmatic in a technical sense as the larger system framed by the organic decentralization law is developed. Care must be taken to create systems that ensure basic principles of good governance can prevail, and the reality that subnational entities have limited capacity and cannot absorb massive new responsibilities quickly has to be recognized. How to staff, remunerate, build the capacity of and manage the various councils and how they are going to work with each other will need to be worked out. In order to do all of this properly, careful background work is needed. The NCDD and the NP are charged with doing this, but they are still at a relatively early stage.

Another key strategic consideration is the substantial unevenness of capacity at all subnational levels, suggesting that a degree of asymmetry would be prudent. For example, stronger councils could receive more responsibilities and resources. Weaker councils could receive small grants and appropriate technical assistance, and those performing adequately could be successively awarded larger amounts in subsequent years until they can perform a basic set of functions adequately. Periodic performance monitoring could be used to reward, through the transfer system, the councils that perform well and penalize those that do not. This approach, however, may be controversial, and if adopted, is vulnerable both to being politicized and to paralysis.

Finally, as emphasized above, Seila laid the foundation for many decentralization reforms currently being enacted in Cambodia. Some Seila systems and procedures were developed separately from government operations, partly due to capacity constraints and partly to meet accountability requirements of international donors. As reforms have progressed, many of the mechanisms and procedures used by Seila have been folded into formal decentralized government systems. There is, however, a need to consider if and how to mainstream or replace other residual aspects of the procedures initiated by donors, such as externally financed salary supplements for key subnational staff.

In short, it is clear that further decentralization in Cambodia would benefit from a strategically conceived and implemented approach. Rapid, significant, poorly thought out decentralization poses a substantial risk of failure. Yet there will be political pressures from various directions, e.g., not to move too slowly, to treat all councils equally, etc.—that will make adopting a productively strategic approach challenging. There is also the danger that a gradual approach could become stalled at early stages of the process, as happened with the commune council system.

## **Coordination**

Experience in Cambodia and elsewhere suggests that one of the most problematic challenges with further developing and implementing decentralization is the lack of attention to coordination. On the surface, many of the decentralization coordination challenges that have emerged in Cambodia to date may appear to have been solved by the consolidation of formal government decentralization related committees and functions under the NCDD. In addition, the international donors formed a donor coordination group in 2003 that consults regularly.

Despite the legal mandate of NCDD, however, there are still reasons for concern. First, NCDD is interministerial and under the leadership of the Deputy Prime Minister (DPM), who is also the Minister of Interior. NCDD is being substantially managed by MOI, which has little experience in service delivery, revenue generation, financial management or other key aspects of an effective intergovernmental system. Experience with STF, NCSC and other coordinating mechanisms has indicated that MOI does not always do a good job of productively working with other central agencies that must be involved in the development of an intergovernmental system. Second, although they seem to be under control at the present time, MOI has in recent years had substantial internal struggles over control of its decentralization related responsibilities. It is possible that

these counterproductive tensions could re-emerge at some point and threaten genuine advances in reform. Third, both central government ministries and international donors have—despite rhetoric about harmonization—been pursuing a wide variety of relatively independent programs and projects that already do, eventually will, or could affect subnational functions and behavior, including sector-wide approaches (SWAPS), public financial management reform, civil service reform, and various types of inter-commune and district related experiments and activities.

In short, while the strategic vision of the national program and the NCDD seems to represent some movement in the right direction, there are multiple ways that inadequate coordination of and cooperation among government agencies and donors could undermine efforts to expand decentralization effectively. In addition, there is a danger that NCDD could be substantially co-opted by the CPP.

### **VIII. Concluding Remarks**

As noted at the beginning of this paper, Cambodia's decentralization effort is unusual and daunting in a number of respects. It is happening in a highly centralized, poor and low capacity country where a hierarchical mentality has long dominated the bureaucratic culture and citizen trust of the state is relatively weak. The reform is also being built in an integrated way from a lower subnational level to higher subnational levels rather than through the more typical although not exclusive scenarios in which intermediate levels of government are the starting point for decentralization reforms that eventually encompass lower levels or various levels are developed relatively independently with varying accountability relationships to the center.

The official case for subnational government reform in Cambodia may have been drawn from the textbook rhetoric about the economic and social benefits attributable to decentralization, but the logic underlying it had more to do with political goals than democratization and local autonomy. Although the national government clearly cares about development, the interest in creating a more robust intergovernmental system is believed by many observers to be significantly derived from the opportunity it presents for the dominant CPP to further consolidate its control. The high-profile achievements of the commune system clearly contributed to the political momentum to expand the reach of decentralization in Cambodia.

During the past five years, there have been great obstacles and challenges encountered in implementing even the very modest decentralization embodied in the commune system. At the same time, the development of the commune system that constituted the first step in decentralization clearly built commune technical capacity and at least some degree of citizen empowerment, and it helped to create simple managerial and oversight systems that brought some element of transparency, fiscal responsibility, and accountability to one part of a government system otherwise characterized by secrecy, illusion, and misappropriation of resources. Thus, although the central government and the CPP may be looking to decentralization to help consolidate power, the processes undertaken to date have created some local conditions that may not be entirely consistent with that

goal. Good local performance in executing public functions can be credited to the party in power and raise its stature, but it may also help to foster a sense of local empowerment and autonomy that could eventually lead to challenges to the status quo.

Despite officially documented objectives and the progress that has been realized to date, there is a very long way to go before well-functioning provinces/municipalities, districts/*khans* and communes/*sangkats* are in place in Cambodia, and the potential impediments to success are formidable. First, although a broad strategy and legal framework have been put into place for substantially expanding the decentralization, there is little detail on what the system will look like beyond a few basic features. Whether it will follow good principles of decentralization, develop a reasonable balance between central control and local autonomy, and create effective mechanisms for democratic participation and local accountability remain to be seen. Second, it is an open question as to whether the mechanisms put into place and the next steps taken will lead to effective institutional coordination and a pragmatic implementation strategy that helps to build appropriate capacities in all of the key players. Without reasonable coordination and a more strategic approach than has been taken to date, there are great risks of developing an inconsistent subnational system and trying to implement ambitious reforms more rapidly than the key players can manage. Finally, it remains to be seen how the future trajectory of party politics will affect the evolution of decentralization in Cambodia. The ruling CPP controls many of the communes/*sangkats*, but other parties, especially SRP, also won seats on many CS councils in the 2007 elections. It is not clear whether the CPP will try to unduly influence the councils as reforms proceed, or how they will react if other parties win additional seats in future elections. However it evolves, the Cambodia decentralization experience will make interesting and exciting viewing from many perspectives.

1. See, for example, the Governance Action Plan (RGC, 2001a), the Poverty Reduction Strategy Paper (RGC 2002), the Strategic Framework for Decentralization and Deconcentration Reforms (RGC, 2005), and the National Strategic Development Plan (2006). International donor views on Cambodia's decentralization policy are illustrated in Asian Development Bank and World Bank (2003).
2. Much of the background material in the first four sections of the paper is adapted from Smoke (2007).
3. Examples of relevant literature include Turner (2002), World Bank (2003), Blunt and Turner (2005), and Smoke (2007).
4. This basic information on Cambodia is taken from World Bank, US State Department and New York Times web sites as well as from Smoke and Taliercio (2007).
5. One of the three criteria of LDC is a low-income, based on a three-year average estimate of the gross national income (GNI) per capita (under \$750 for inclusion, above \$900 for graduation).
6. For more information on Cambodia's political history, see Chandler (1996), Curtis (1998), Hughes (2003), and Cambodian Institute for Cooperation and Peace (2004).
7. This is referred to in Cambodia as the "unusual events of 1997."
8. See, for example, French (1994), Ovesen et al. (1995), Biddulph and Vanna (1997), and Curtis (1998).
9. For more information, see 'Cambodia's Recent History: CAREERE 1' from UNCDF's web site ([www.uncdf.org](http://www.uncdf.org)).
10. For more information, see 'The Seila Initiative', from UNCDF's web site ([www.uncdf.org](http://www.uncdf.org)), Romeo (2000), Smoke (2007) and the UNDP Phnom Penh website ([http://www.un.org.kh/undp/index.php?option=com\\_content&task=blogcategory&id=2&Itemid=81](http://www.un.org.kh/undp/index.php?option=com_content&task=blogcategory&id=2&Itemid=81)).
11. See Morrison and Kugler (2007) for more on the NP-SNDD.
12. Asian Network for Free Elections (2002), Human Rights Watch (2002), Neutral and Impartial Committee for Free and Fair Elections in Cambodia (2002), Rainsy (2002), Ye Naing Moe and Ngep Navin (2002), and UNDP (2007).
13. References on various aspects of fiscal decentralization in Cambodia include: Prud'homme and Smoke (2000), Royal Government of Cambodia (2001b), Eng and Rusten (2004), Royal Government of Cambodia (2004), el-Mensi (2007) and Smoke (2007).
14. The Cambodia Development Resource Institute conducted a review of basic service delivery at the commune level in 2005 with United Nations Capital Development Fund support. The purpose was to begin to identify services that could be piloted as commune functions.
15. Biddulph and Vanna (1997) raised questions about how genuine participation was in the early Seila years, and similar problems might be expected as decentralized mechanisms are extended to other areas.
16. Hughes and Devas (2007) conducted a review of the organic decentralization law.

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