

# **Decentralization Reforms and Commune-Level Services Delivery in Cambodia**

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## Acronyms and abbreviations

CDP	Commune Development Plan
CIP	Commune Investment Program
CSF	Commune/Sangkat Fund
DIW	District Integration Workshop
IO	International Organization
LDF	Local Development Fund
MoEF	Ministry of Economy and Finance
NCSC	National Committee for Support to the Communes/Sangkats
NGO	Non-Government Organization
NPRS	National Poverty Reduction Strategy
PBC	Planning and Budgeting Committee
POLA	Provincial Office of Local Administration

## Executive summary

Decentralization reforms in Cambodia are only two years old and the system of decentralized planning and financing of local development is still in its infancy. The major political development initiated with the 2002 election of Commune Councils, is yet to be followed by a number fiscal and administrative reforms that would strengthen the capacity of Communes to deliver services and fight poverty.

Such capacity is currently constrained by a still embryonic local administration and by system-wide problems that include gaps in the regulatory framework, limited financial resources, lack of inter-communal arrangements that address the viability of individual jurisdictions, lack of an effective provincial system of state support and supervision, and retards in the deconcentration reforms that could provide for more responsive and cooperative inter-governmental relations between Communes and the national sector agencies most concerned with pro-poor services delivery.

In spite of the above, two years into their first mandate, the Councils have started to deliver services, helped by the devolution of a minimum of freely programmable resources through the Commune/Sangkat Fund (CSF), a fiscal transfers facility supported by domestic and external contributions, and by the adoption of a statutory process of Commune Development Planning (CDP), jointly regulated by the Ministries of Planning and Interior. Through District Integration Workshops, a formal step in the CDP designed to harmonize local-level and provincial sector planning, Communes have also been able to access some of the resources of programs funded and managed by aid agencies, provincial departments and NGOs.

The focus of Communes' action has been on the development of small-scale infrastructure, whose financing absorbed all CSF resources in 2002 and 2003. In both years, over 60% went to rural transport projects (roads, small bridges and culverts). In 2003 the second most important category of projects (absorbing 16.3% of the CSF resources) included the construction and rehabilitation of canals and other irrigation structures. These two categories of investments, on which three quarters of the CSF resources were spent, reveal the strong local preference for *economic* infrastructures. As for the remaining quarter of CSF resources for *social* infrastructures, most went to improve access to drinking water and build school facilities, with only a minor share going to improve health care facilities.

This focus on economic infrastructure has been criticized as the product of a too narrow "roads and canals mentality", but whether or not Commune Councils should invest more in other types of activities remains at present open to question. Councils could certainly do more for the delivery of education and

health services, but this largely depends on the development of clear sector policies and related inter-institutional arrangements. Councils could also be (and somehow are starting to be) more active in delivery of traditional municipal services (urban transport, water supply and sanitation, solid wastes, markets, etc.). But again this will depend on how urban management responsibilities will eventually be structured and the mandate of Sangkats will be defined. Finally, some would like to see more action in the promotion of local “economic” development, beyond the Councils’ investments in transport and irrigation. But given their current institutional weaknesses, the risk is high that the Councils would not be guided by a public policy rationale in their support to private ventures (funding provision of buffaloes, fertilizers, support to enterprises, etc.) and that benefits from this kind of projects would be easily captured by the relatively wealthier and more influential local people with little or no effect on poverty reduction.

On the other hand, while systematic evaluations are still lacking, recent studies based on sample surveys, have concluded that Commune residents, including the poor among them, are generally satisfied with the outcome of the local planning and resources allocation process, and expect to benefit from the Commune funded roads, irrigation and schools projects, which then seem to reflect actual needs and a broad-based local demand. A concern, however, in terms of allocative efficiency, is the inadequate attention to maintenance, which may threaten the sustainability of locally created assets. Addressing this issue may require additional regulations specifying “mandatory development expenditures” that Communes must undertake to maintain assets for which they are legally responsible, before embarking on any new construction.

As to the efficiency with which Communes’ resources have been used, systematic evaluation data are not yet available. However, a recent study compared the actual costs of a large sample of Commune-funded construction projects with “reference prices” based on average market costs of materials and contractors’ overheads, and other agencies’ estimates and found that the costs of Commune projects were generally lower than the reference prices and those incurred by other agencies. Instead of being inflated to facilitate corrupt practices, as some had suggested, Commune-managed contracts prices were possibly failing to reflect the true costs of the works, resulting in pressures to “cut corners” during implementation and produce lower quality outputs. Indeed another recent survey of a sample of 13 Communes suggests that quality problems in Commune-managed infrastructure projects may be widespread; potentially reducing any productive efficiency gains derived from local competition and lower contract costs. A number of reasons seem at play in lowering outputs quality. Delays in transfer of CSF resources, (as those actually experienced in 2003), may create cash flow problems for contractors, compromise construction schedule and result in inappropriate wet-season operations. Also lack of Communes’ compliance with contractual obligations to provide labor or cash contributions may be used by contractors to lower their effort and deny

responsibilities. Commune Chiefs are still uncertain about their powers and their responsibility to stop payments when faced with unsatisfactory performance of the contractors. They rely entirely on the engineering services of provincial/district technicians whose accountability to the Councils remains weak and whose ability to provide the required contracts administration services may be overstretched. "Social auditing" by users groups and project beneficiaries of the performance of contractors and services' providers could help to enhance the quality of the produced outputs, but its practice has been sporadic and not well established.

Much remains to be done to enable Communes to play a greater role in service delivery and poverty reduction. The Government's commitment to increasing and predictable transfers via the CSF must be confirmed, reassuring Communes that the difficulties experienced in 2003 are the exception and not the rule. Local financial management regulations should be revised or developed to encourage spending in local assets maintenance and other recurrent costs associated with services delivery. The experimentation of innovative intergovernmental partnerships for delivery of services in the health, education, agriculture and rural development sectors must be initiated as soon as possible with credible commitment by concerned Ministries as to their evaluation and mainstreaming. The flexibility of provincial departments to respond to Commune requests in the frame of District Integration Workshops, must be enhanced by deconcentration of allocation decisions. And finally the government should invest in a provincial/district system of support and supervision to the Communes, adopting some of the successful practices and arrangements implemented under the Seila program and providing this system with a firmer footing than the current exclusive reliance on external aid.

Ultimately, enabling the Communes Councils to become significant services providers in the eyes of their local constituencies will also help realize the political goal of the Cambodia decentralization reforms: establishing a democratic State presence at the local level.

# Decentralization Reforms and Commune-Level Services Delivery in Cambodia

## 1. Introduction

This paper reviews the emerging role of elected Commune Councils as services delivery units within Cambodia's public sector.

Section 2 reviews the ongoing process of Cambodia's decentralization reforms, and highlights how such process is still at a very early stage, and is characterized by a marked asymmetry between the political, the fiscal and, most strikingly, the administrative, dimensions of the reforms.

Section 3 reviews the basic public expenditure financing and management systems that were developed and are being extended to the new authorities to enable them to address local development issues and assume increasing service delivery responsibilities.

Section 4 reviews the initial role of Commune Councils, two years into their first mandate, in local development management and services delivery. It looks at the Council's role both "on the demand side", where they may better articulate local services needs and priorities, and "on the supply side", where they may actually improve the provision and production of infrastructure and services. It then reviews the emerging allocative and productive efficiency issues.

Section 5 suggests ways forward to empower Commune authorities to take on a bigger role in the provision of local services and become more involved with the implementation of the national strategy for poverty reduction.

Section 6 provides a summary of the paper's main conclusions.

## 2. Cambodia's decentralization reforms: rationale, features and limitations

### 2.1. Political dimensions

One of the most significant dates in Cambodia's recent history was Sunday 3 February 2002. On that day 954 women and 10,307 men in all 1,621 Communes and *Sangkat*<sup>1</sup> of Cambodia were elected as members of Commune or *Sangkat* Councils. Each Council has 5, 7, 9 or 11 members, depending on the population of the Commune.

The rationale for the decentralization reform was first and foremost political; to strengthen the presence and legitimacy of the State at the local level through

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<sup>1</sup> The '*Sangkat*' is the equivalent of a Commune in a municipality. Communes are predominantly rural, and *Sangkats* are normally urban, but there are also "urbanized" Communes and "rural" *Sangkats*. From this point onward, the term 'Commune' will be used to refer to both the Commune and the *Sangkat*.

democratically elected local Councils<sup>2</sup>. Before the election, appointed Commune Chiefs and Commune Deputy Chiefs governed the Communes.

For the whole of Cambodia, the division of the seats between the three main parties: the Cambodia People's Party (CPP), the FUNCINPEC and the Sam Rainsy Party (SRP), by position in the Commune Council, is shown in Table 1.

	<i>Political parties</i>			
	CPP	FUNCINPEC	SRP	Other
Number of votes	2,674,303	958,326	731,150	8,934
% of votes	61.2%	21.9%	16.7%	0.2%
<i>Distribution of seats in Commune Councils</i>				
Chief	1,598	10	13	0
1st Deputy	789	547	285	0
2nd Deputy	154	852	615	0
Other Councilors	5,162	802	433	1
Total # of seats	7,703	2,211	1,346	1
% of seats	68.4%	19.6%	12.0%	0.0%

Table 1: Results of Commune Councils' elections, 2002

The CPP, as the dominant political party, was thus able to extend its dominance in national politics to the local level as well. Yet, the electoral system (a modified proportional system) also favored the association of minority parties to the management of the Councils. While the Commune Chief position went automatically to the top candidate of the winning party, the electoral rules required that the positions of First and Second Deputy Commune Chief be given to the top candidates of the party lists that obtained the second and third highest number of votes, even if, individually, these candidates had obtained less votes than other councilors from the winning party<sup>3</sup>. The intention was to promote sharing of responsibilities and cooperative behavior between opposing political parties. While, in practice, this is not without its problems, anecdotal evidence suggests that in most Communes, differences in political affiliation have not precluded effective collaboration between Councilors.

Another feature of the Commune-level governance system is the emergence of complementary forms of "territorial representation" and their articulation with the formal political / party-based, representation system embodied by the Commune Councils. Each Commune consists of a number of villages, but the local electoral system does not ensure that every village in a Commune will have a representative in the Commune Council. This highlights the risk that the attention and resources

<sup>2</sup> Two other objectives of Cambodia's decentralization reform were: to promote participatory development at the local level, and to contribute to poverty reduction.

<sup>3</sup> If only two parties obtain votes in a Commune, then the winning party obtains the Commune Chief and First Deputy Commune Chief positions, and the second party fills the Second Deputy Commune Chief position.

of the Council, may be biased in favor of just those villages where the elected Councilors live, or from which they originate.

Village-based representative structures, playing both an extension and advisory role vis-à-vis the formal Councils, are essential to address the above risk and improve local governance overall. One such structure, whose establishment is mandated by the Commune planning regulations, is the Commune Planning and Budgeting Committee (PBC). This is an advisory body which has a critical function in local public expenditures management and in which each village is represented by two persons (one man and one woman). These representatives may be able to voice the concerns of their villages, learn about, and assess, higher-order, commune-level priorities and both influence Commune-level resources allocations and play a political education role back in their communities.

Overall however, the articulation of village-based structures with elected Commune Councils remains a critical and somehow controversial point in the effort to foster community representation and participation in local-level governance. Such articulation should be clarified and strengthened, once the selection – hopefully the election – of village chiefs and village chief assistants has been regulated by the Ministry of Interior. This is one of the important outstanding regulations of the Law on Commune/Sangkat Administrative Management (the “Commune Law”).

## **2.2. Administrative and fiscal dimensions**

The Commune Law — approved in 2001 — provides the basic legal framework for the establishment and operation of the Cambodian local Councils. The Law empowers the Communes with legislative and executive authority and establishes the Commune Councils as the bodies representing their citizens. The Commune functions however, are defined by the Law, in broad and permissive, rather than mandatory, terms and include both the provision of general administration and local development services. Although Commune Councils may be able to recruit their own administrative staff, currently the local administration is headed by (and in most cases only consists of) a Commune Clerk recruited and paid by the Ministry of Interior.

With respect to local finances, the Law first requires each Commune to have its own financial resources, budget and assets. Second, it gives Communes the right to collect direct revenues from local taxes, fees, and other service charges. Third, it entitles Communes to receive transfers from a share of national revenue. Fourth, it provides for the central government to compensate the Communes when the latter perform any function on behalf of the national administration (agency functions). Fifth, it establishes the Commune/Sangkat Fund (CSF) as a primary mechanism for fiscal transfers. Sixth, it requires Communes to prepare an annual balanced budget. Seventh, it prohibits Communes from direct borrowing. Eighth, it provides for the transfers of certain government assets to the Communes. Finally, it establishes a local financial management system and entrusts the Ministry of

Economy and Finance with the responsibility to monitor and control Commune finances.

Overall, two years after the local elections, a mixed picture is emerging in which the newly created Commune Councils: (i) appear to have made a difference and have the potential to substantially improve local governance at the periphery, (ii) have obtained, through transfers, a minimum of resources which they are starting to apply to the promotion of local development and local services delivery, but (iii) are seriously constrained as services delivery units, by questions of fiscal and technical viability, the lack of clarity in assignment of responsibilities, the limitations of their own executive organs, and the difficulties in securing appropriate support from a national administration whose deconcentration has not yet followed in the steps of the decentralization reforms.

In the following sections we explore in greater details the challenges of the newly elected Cambodian Commune Councils as local services delivery units.

### 3. The emergence of Commune Councils as services delivery units

#### 3.1. Size of jurisdictions and viability of services delivery units

The scope for assuming services delivery responsibilities is obviously related to the size of the Commune jurisdictions. This varies greatly, as shown in Figure 1 which reflects the distribution of the Cambodian Communes by the size of their population.

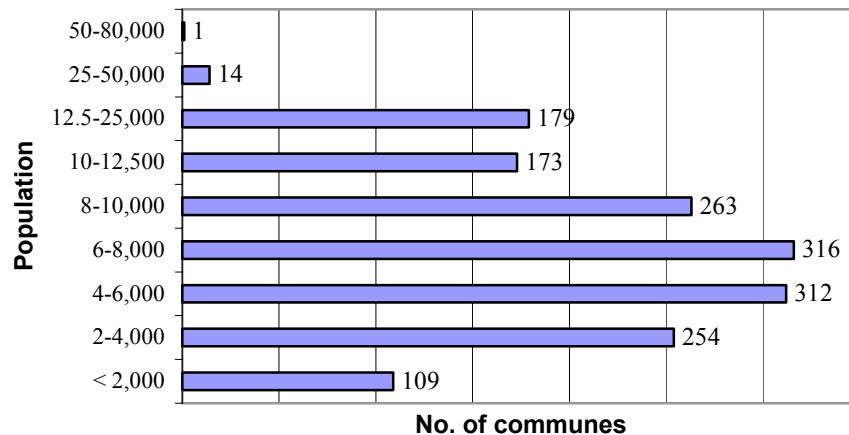


Figure 1: Distribution of Communes by population size

The smallest Commune has 205 inhabitants, and the biggest one (a town on the border with Thailand) has 79,406. The average Commune size is about 7,600 inhabitants. It is generally believed that many Communes are too small to be able to operate effectively as units of local government that are capable of adequately providing a minimum level of services. One of the working groups of the National

Committee for Support to the Communes/*Sangkat* (NCSC), which was established to oversee the implementation of the decentralization reforms and the completion of their regulatory framework, is responsible for reviewing the Commune boundaries, determine the viability of the Communes as services delivery units and assess whether they can operate in a sustainable and effective manner. This working group may also recommend the establishment of cooperative arrangements between Commune Councils, or the creation of multi- or single-purpose service districts, if such arrangements are suggested by the limitations of the fiscal base of individual jurisdictions or by economies of scale and other considerations in the service's delivery. So far, however this NCSC working group has not indicated how it plans to review the Commune boundaries and develop proposals of inter-communal cooperative arrangements for services delivery.

### **3.2. Legal mandate**

A basic principle underlying the Cambodian decentralization reforms is that Commune Councils were not elected only to deliver administrative services, mediate local conflicts and maintain law and order within their jurisdiction. Indeed Commune authorities were meant to assume primary responsibility for local economic and social development. To this effect, the Commune Law gives to local Councils, broadly defined powers to handle "local affairs", meet basic needs and serve the common interests of Commune residents.

Importantly, the Law recognizes that when promoting local development, Commune authorities may act either as representatives of a local political constituency, to implement their own policies and programs, with their own resources, or as "agents" of the State, implementing policies and programs defined and funded by higher-level authorities. To prevent unfunded mandates, the Law also stipulates that any State agency requesting Commune authorities to carry out administrative or developmental functions on their behalf, should ensure that the Councils have the capacity and obtain the financial and other means to implement such functions.

However, having stated such principles, the Law remains extremely vague as to the actual responsibilities of the Councils for services delivery. It stipulates that Commune authorities should "...arrange necessary public services and be responsible for the good process of those affairs...", but does not specify mandatory responsibilities with respect to any public service. This is true for both economic and social services in sectors typically regulated by national ministries (e.g. health, education, water and sanitation, etc.), and for services which are traditionally the exclusive responsibility of local authorities (like solid waste collection and disposal, street cleaning, upkeep of parks and gardens, etc.).

The absence of clearly articulated services delivery mandates for the newly elected Commune Councils, may become an impediment to move forward with decentralization and the related progressive devolution of responsibilities and

resources. However, it should not necessarily be considered a shortcoming of the early reforms implementation strategy. Decentralization in Cambodia is making its first steps and besides the unresolved issues of viability of many jurisdictions as services delivery units, there are real and widespread problems of local capacity that need to be taken into account before proceeding to wholesale devolution of functions.

By not imposing a wide array of functions onto the Communes, but letting them handle primarily administrative tasks (such as civil registration) and experiment with the contracting of local works, goods or services, the Councils gradually gain experience and build up self-confidence to take on, in due course, specific, and more demanding, services delivery obligations.

This point is worth stressing. Decentralization reforms in Cambodia could not be, and have not been, immediately concerned with the devolution of specific service delivery responsibilities. Instead they had first to address basic local-level governance and public expenditure management systems including the promotion of participatory planning, budgeting and implementation procedures. But to introduce such improved systems, some initial fiscal decentralization measures (a general-purpose fiscal transfers facility) were implemented to provide the resources through which Commune authorities could “learn by doing” the allocation, spending and accounting of public funds. Defying, in a sense, the common wisdom of the sequence: (a) create capacity in order to (b) devolve functions in order to (c) devolve resources, some resources were devolved first, in order to break a potential vicious circle and provide a powerful incentive to local capacity development. The following sections briefly describe the financing, planning and implementation systems that were developed to provide Councils with a basic public resources management framework within which they could start to assume local public services delivery responsibilities.

### **3.3. The Commune finance system**

The Commune Law establishes the basic principles on which the Commune finance system is to be built. Communes have their own financial resources, budget and assets and certain government assets may be transferred to them. They have the obligation to prepare an annual balanced budget and to manage and report their revenue and expenditures according to a local financial management system established and monitored by the Ministry of Economy and Finance (MoEF).

Communes have the right to collect direct revenues from taxes, fees and other service charges (own-source revenue) and they may be entitled to a share of national revenue instruments (tax sharing)<sup>4</sup>. They are however barred from borrowing. They must be compensated by the central government when they

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<sup>4</sup> The Communes can however not yet exercise their right to own-source revenue generation, because the Ministry of Economy and Finance has not yet issued the related implementing regulations.

perform any function on behalf of the national administration (agency functions). Finally, and most importantly at this early stage of the reforms, the Law establishes the Commune/Sangkat Fund (CSF) as a primary mechanism to channel central government funds, donors' loans or grants, and other resources, to the financing of Commune expenditures (fiscal transfers).

Actual CSF resource in 2002 and 2003, and expected funding level in 2004 are reflected in Table 2 below.

	Government of Cambodia (US\$)	Donors' contributions (US\$)	Total (US \$)
2002	5,000,000	1,417,722	6,417,722
2003	11,184,494	2,000,000	13,184,494
2004	12,500,000	2,000,000	14,500,000

Table 2: Capitalization of the Commune/Sangkat Fund

The total resources of the CSF are divided in two components and allocated by a formula (see Figure 2).

1. A General Administration Component, which cannot be more than 1/3 of the total distributable resources of the CSF. This component is distributed to each Commune Council in proportion to its number of councilors.
2. A Local Development Component, which cannot be less than 2/3 of the total distributable resources of the CSF. This component is allocated by three shares: an equal share, a share proportional to the population of the Commune (using the number of councilors as a proxy), and a share proportional to a poverty index, weighted by the population of the commune. For the poverty assessment, a Commune database with data on social indicators, by village, is used to produce a poverty ranking of the Communes.

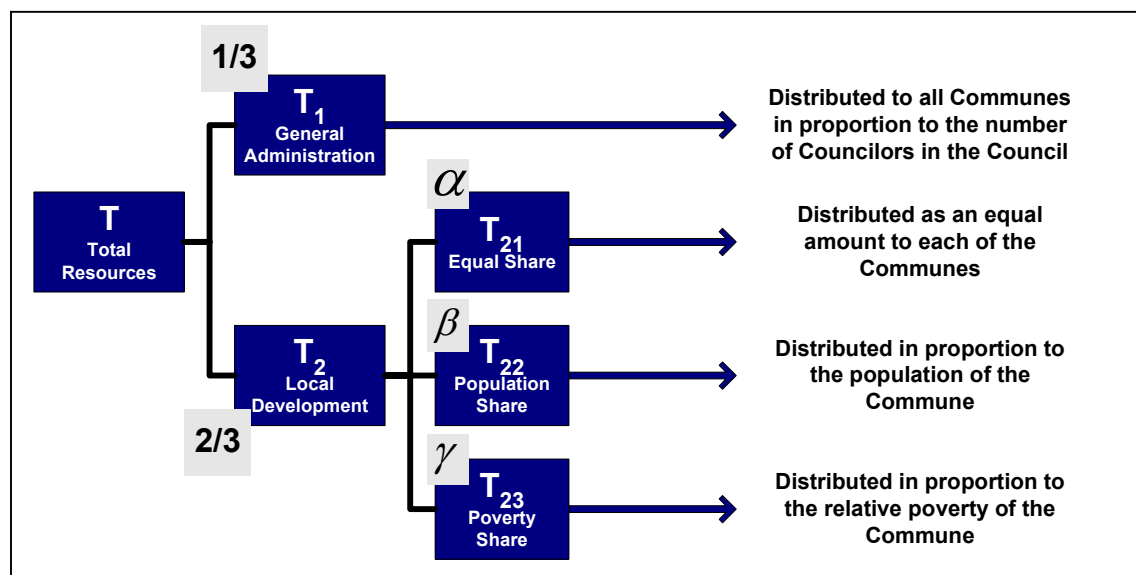


Figure 2: Distribution of CSF resources

The CSF provides the Communes with relatively modest but freely programmable resources that can be used to finance any expenditure (administrative or development, recurrent or capital) that is reflected in the Council's approved budget and does not violate the Commune Law or any other law and regulation issued by the government. The table below illustrates their classification.

	Recurrent Expenditures	Capital Expenditures
Administrative Expenditures	Allowances to Councilors Salaries of local staff and other personnel expenses Rental of office premises Routine repair and maintenance of administrative facilities Utility charges Fuel, lubricants and vehicles maintenance Other consumables and miscellaneous	Purchase of the Council's premises, Major repair and maintenance works on administrative facilities Furniture and office equipment for the Council's or administration's facilities Purchase of vehicles
Development Expenditures	Personnel and other recurrent costs associated with the operation of the local infrastructure and the delivery of related services. Support of community development programs managed by local NGOs and community-based organization, including education and information campaigns, environmental protection and natural resources management and other programs impacting on the welfare of local population. Routine maintenance of local economic and social infrastructure	The survey, design, construction, and major repair and maintenance of: Roads, bridges, Markets, Educational and health care facilities, community centers, Irrigation networks and structures, agricultural storage facilities, Water and power supply and Other economic and social infrastructure

Table 3: CSF classification of eligible expenditures

This matrix classification introduces some additional requirements in the process of local-level budgeting, as Councils will need to convert the general administration and local development transfers into contributions to recurrent and capital expenditures in their budgets. In the process, the Councils are expected to take into account any mandatory administrative or development expenditures that future regulations may assign to them, as well as the minimum or maximum amounts that may be earmarked for recurrent and capital expenditures.

It's important to stress that the CSF resources constitute the bulk of locally programmable resources for development spending. However they also stimulate further local resources mobilization since part of the cost of CSF-supported projects must be covered by local contributions. Depending on the project, such resources can either come from local taxes paid by all Commune citizens, or from specific contributions paid by the direct project beneficiaries. The modalities of this

local contribution have not yet been regulated, but interim guidelines in the CSF Project Implementation Manual require that local contributions in cash should be 10% of the estimated cost of the project, minus the cost of labor or materials that are provided in kind. The in cash contribution for a project should however not be less than 3% of its estimated cost.

The annual CSF transfers are relatively modest (less than 10,000 US\$/year per Commune, on average), but are comparable to what Communes have been receiving under the Seila program<sup>5</sup> during the period of piloting of the decentralization reforms prior to the local elections. The Seila experience demonstrated that, beyond helping to finance a few small-scale investments of local priority, the greatest value of modest but regular general-purpose transfers for development spending is in the opportunity that it gives to Commune Councils to undertake a meaningful local-level participatory planning and budgeting process as part of a regular commune-level public resources management cycle. Importantly, this local planning and budgeting process is an autonomous and statutory one which is not driven by the “supply” of resources by particular national and provincial agencies/programs that may support local development. At the same time it provides a local strategic framework within which to access such centrally or provincially managed resources.

### **3.4. The Commune development planning system**

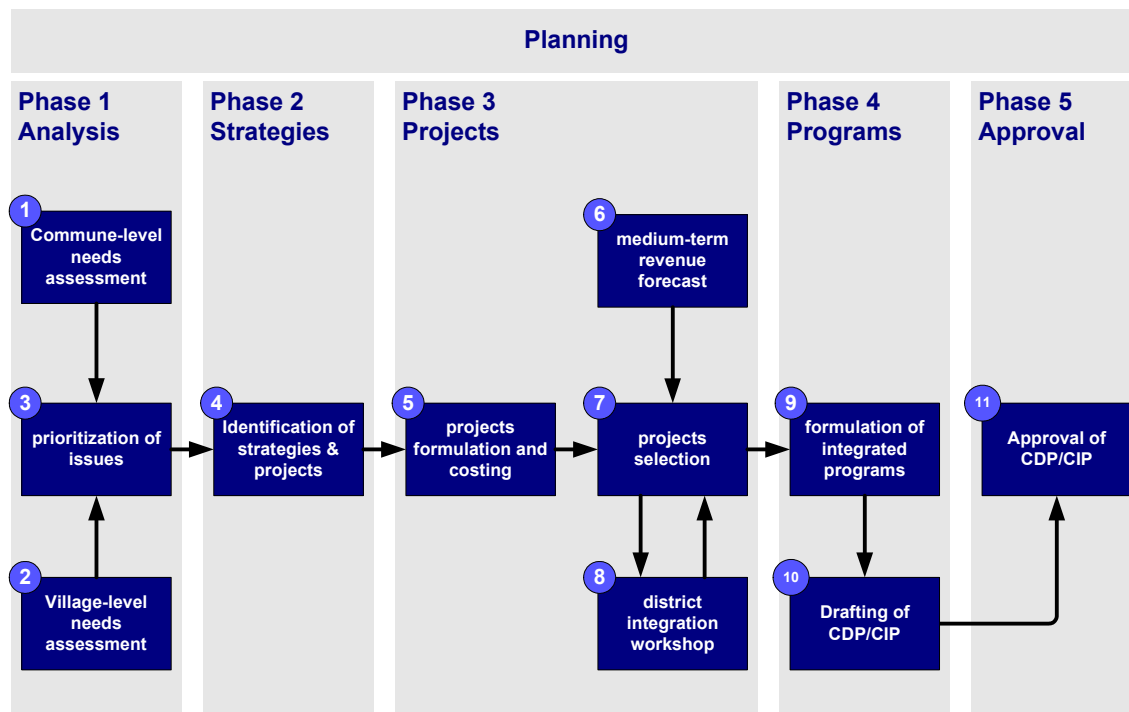
The Commune Law and its subsequent regulations, mandate all Communes to adopt and implement a five-year Commune Development Plan (CDP). The Plan is to be prepared and approved by the Councils in the first of the five years of their mandate, and must be reviewed and updated yearly. The CDP is meant to provide the framework for a multi-year Commune Investment Program (CIP) and for the preparation of the annual budget. The different phases and steps in the CDP process are summarized in Box 1.

Besides defining the CDP process, the regulations mandate the establishment in each Commune of a broad-based Planning and Budgeting Committee (PBC): a structure meant to facilitate the representation of village-level interests and priorities in the development of Commune policies and programs and in the allocation of Commune resources.

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<sup>5</sup> The Seila program is a Royal Government of Cambodia program which started in 1996 as a collaboration between seven ministries to promote rural development. During 1996-2001, the program, with financial and technical assistance support from a multi-donor project, created opportunities for government agencies and their staff at national, provincial and district levels to develop processes and procedures to support rural development. During the current phase (2001-2005), the focus of the program has been reformulated as support for decentralization and deconcentration to contribute to poverty alleviation through good governance.

## BOX 1 - The Commune Development Planning (CDP) Process



In February 2002, the government issued a planning regulation to guide the communes in preparing their development plan in a participatory manner. The Planning Process is articulated in five phases as illustrated in the above diagram. Schematically:

*Phase 1* is concerned with the identification of service needs and development problems that affect individual villages and the Commune as a whole and eventually with the prioritization of critical issues that the Council wants to address during its mandate.

*Phase 2* is concerned with generating a vision for the Commune development, transforming the selected critical problems/issues into goals and objectives and identifying the strategies and projects to address them.

*Phase 3* is concerned with the preliminary formulation and costing of the identified projects, their ranking and final selection, in light of the opportunity for financing that are offered to the Council by existing State, donors and NGO programs, as well as by the Council's revenue, be it from own sources or CSF and other intergovernmental transfers.

*Phase 4* is concerned with the integration of the selected projects and other routine activities of the local administration into sector or cross-sector programs of action that translate into concrete activities the local government's vision for development of its jurisdiction. It results in the actual production of a draft Commune Development Plan (CDP) and Commune Investment Program (CIP)

*Phase 5* is concerned with obtaining and integrating into the draft CDP/CIP comments and suggestions from both the local people and the provincial administration. It results in the approval by the Council of the CDP/CIP

A critical step in the CDP process is the “District Integration Workshop” (DIW). Here Commune authorities formally interact with other agencies involved in local development, including provincial departments of national ministries, donor-funded program implementation units and NGOs and negotiate the financing and implementation of projects and activities that either emerge from their needs identification or are otherwise worth including in their plans.

Once the DIW is concluded with the commitment of other actors to support certain local activities and projects, the Commune authorities can proceed with the final allocation of “their own” resources including any own-source revenue and the allocation of the Commune Sangkat Fund. The importance of the DIW is clear. It provides an institutional mechanism for the Communes to articulate the local demand of infrastructure and services, with the potential supply by line agencies and other actors, which currently remain the source of financing and the implementing agencies for the bulk of local investments and services.

The institutional innovation represented by the DIW is worth stressing. Consultation between different tiers of government, for the purpose of coordination of multi-level planning processes, is not in itself a novelty. What makes the Cambodia DIW different from similar consultative practices is that they directly and immediately result in clear commitments by participants about *what* local development activities will be supported in a given Commune and *who* will support them. At District Integration Workshops:

- Line departments and aid agencies make commitments with the Communes against known levels of resources available; they do not just collect Commune requests on which the decision to support will be taken later.
- The mutual commitments of line departments, aid agencies and Commune authorities are formalized in “Temporary Agreements”. These are temporary not because the possibility of funding is uncertain, but because the projects and activities the agreements are about may still have to undergo a feasibility study, which would confirm, inter alia, that their actual cost remains within the available resources.

District Integration Workshops are meant to be a specific step, common to the planning processes of both Communes and provincial sector departments. While this is still a new concept for sectors, and the ability of provincial departments to interact with Commune Councils remain constrained by their own limited autonomy with respect to central planning and funding of sector activities, there are signs that the DIW are starting to influence sector programming of government resources. In 2003, some provinces also committed some of their own resources, to be allocated together with donor funds in support of local activities.

At the District Integration Workshops there is not only discussion on the integration of commune, line department and aid agency development plans for the next year. The Communes also reflect on the implementation of development activities in the previous year. One important aspect of this is the review of the Temporary

Agreements that were signed the previous year, and the possibility for the Communes to ask for public accountability of line departments or aid agencies, for the Temporary Agreements that were not honored.

### **3.5. The Commune procurement and project implementation system**

As already mentioned, responsibilities for managing the delivery of specific public services, are not yet clearly assigned to Commune Councils and the Communes' administrations are still embryonic, consisting in most cases of just one centrally-appointed Commune Clerk dedicated to the provision of some basic administrative services and supporting the Commune Council in general. As a result, so far, the Councils' involvement in direct implementation of local development activities has been essentially limited to the procurement of small scale infrastructure facilities, by contracting out construction and other services.

Most contractors are based at district or provincial level and are registered by the provincial administration which certifies their general capacity to implement projects. Contractors are selected through competitive bidding processes, and sign contracts directly with the Commune Councils. A technical team at provincial level assists the Communes to monitor implementation of the projects and administer the contracts.

## **4. Commune-level services delivery: the early experience (2002-2003)**

### **4.1. Emerging policy recognition of the Communes' role**

The developmental rationale of decentralization reforms suggests that the newly elected Commune authorities of Cambodia may be able to improve local public services delivery:

- On the *demand* side, by giving voice to local communities and improving the way in which local service needs are assessed and prioritized. This is expected to lead to a more effective allocation of public sector resources, both those managed by the Councils themselves and those managed by other government agencies (including external aid)
- On the *supply* side, by direct provision or co-provision of services using their own administration or co-operative arrangements with other government and non-government agencies. This is expected to lead to more efficient production of local infrastructures and delivery of services (greater value-for-money).

It is in view of these potential allocative and productive efficiency gains, that the National Poverty Reduction Strategy (NPRS) document adopted by the government in December 2002, supports the involvement of Commune Council in the implementation of the strategy.

The NPRS expects the involvement of Communes to result in pro-poor outcomes through:

- The promotion of participatory governance, which enables the poor to have a voice, and to influence Commune spending for activities that are of benefit to them;
- The development of fiscal transfers, to finance local development and local delivery of services;
- The adoption of participatory Commune development planning and budgeting;
- Capacity building of Commune Councils and communities;
- Partnerships for local development and poverty reduction between Commune Councils, civil society and the private sector;
- The promotion of linkages and coordination between Commune Councils and sectoral agencies; and
- The delegation of agency functions for basic services (with corresponding resources and support) to the Commune Councils.

However, the practical inter-governmental arrangements through which Commune Councils should provide or co-provide basic services in the sectors with greater potential impact on poverty reduction (education, health, water and sanitation, rural infrastructure and agriculture) are not specified in the NPRS document.

Nevertheless, some Ministries are already starting to associate the Commune Councils to their service delivery systems.

The Ministry of Education sees the Commune Councils as key local stakeholders in the schools system management. As a result:

- Commune Councils are represented in a “provincial education facilities committee” responsible for the provincial schools construction program. (The committee is chaired by the provincial Departments of Education and includes also the Departments of Economy and Finance, and Public Works).
- A Commune Councilor elected in one of the Communes served by a “cluster school” is the head of the “cluster school committee”. These committees, which include teachers and parents representatives, make most decisions on cluster schools management and handle their own financial resources.
- The Ministry is trying to introduce a system of report cards for schools, which are to be prepared by local inspectors and submitted to Commune Councils

The Ministry of Health is also increasingly associating Commune Councils to the management of the health system. Approaches are being experimented in which the Councils do monitor the performance of health centres, and allocate exemptions of service payment to the poor.

The move towards a greater role of Commune Councils in services delivery is less clear in other sectors such as water and sanitation, or rural transport, in spite of the fact that it is perhaps in these sectors that a greater devolution of provision responsibilities to the Communes would produce the greatest benefits. The departments responsible for water supply (mostly wells) and sanitation projects (mostly latrines), or roads, still make their allocation decisions independently from the Communes. Decisions, on where and to what standard, to provide such services are still largely seen as purely technical. Consultation with the local communities is deemed useful (such as the consultation that takes place during the district integration workshops), but not obligatory.

#### **4.2. Communes at work: Local development initiatives (2002-2003)**

Whatever the limitations imposed on their role by the lack of definition of their responsibilities and the still embryonic inter-governmental arrangements, Communes have nevertheless started to address local development issues and to influence the delivery of local infrastructure and services. Articulating local demands through the mandatory local planning process outlined above, they have:

- Influenced, through the District Integration Workshops, the allocation of sector resources managed by provincial departments, NGOs and donor-funded programs;
- Allocated their own resources for development spending (essentially the Commune Sangkat Fund transfers), and
- Assumed responsibility for implementation of local development projects (mostly small scale rural/urban infrastructures and health and education facilities) worth about 4 and 7 million US dollars respectively in 2002 and 2003.

##### **4.2.1. *Influencing the allocation of domestic and external resources at the District Integration Workshops (DIW)***

We look first at the way in which Communes have attempted to access technical and financial resources managed by provincial agencies and other sources of funds through the DIW. The typical outcome of a DIW can be illustrated with data from the 2002 local planning exercises in the Otdar Meanchey province. Located in the northwest of the country, and bordering with Thailand, the province is divided in five districts and 24 Communes, with a total population of about 90,000 people.

During the planning process in 2002, the 24 Communes submitted a total of 1,260 requests for a wide range of development projects and activities. Table 4 shows these requests<sup>6</sup> by sector and type of project/activity demanded.

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<sup>6</sup> The numbers in the table are the number of Commune requests. When looking at the figures, one has to keep in mind that one request may well cover more than one unit of the requested item (e.g. a Commune request for health posts may be for two or three health posts).

Sector	Project/Activity Type								Commune Requests at DIW (total)	
	Local Infrastructure and buildings		Equipment and material /financial inputs		Services and in-Service training programs		Education and vocational training Programs		No.	%
	No.	Description	No.	Description	No.	Description	No.	Description		
<b>Agriculture</b>	77	- Reservoirs, Dams - Canals construction and rehabilitation - Wells	196	- Agricultural Tools - Pumps - Livestock - Seeds - Fertilizers - Credit	37	- Landmines clearance - Village-level veterinarians	68	- Agricultural production - Agro- processing techniques	378	<b>30%</b>
<b>Transport and Power</b>	150	- Rural Roads - Bridges - Culverts	3	- Electricity Generators	0	NONE	0	NONE	153	<b>12%</b>
<b>Health</b>	20	- Health Posts - Health Centers - Child Care Centers	19	- Ambulance - Motorbikes - Mosquito Nets and Sprayers	56	- Vaccination Campaigns - Health workers professional development	72	- General Hygiene - Births spacing - HIV/AIDS prevention	167	<b>13%</b>
<b>Water Supply and Sanitation</b>	94	- Water Ponds - Wells - Latrines	21	- Water Storage (Jars, pots)	0	NONE	22	- Sanitation practices	137	<b>11%</b>
<b>Education</b>	98	- Schools - Training Centers	3	- School Materials	56	- Teachers - Teachers training - Literacy classes	50	- Vocational Training - Culture education	207	<b>16%</b>
<b>Natural resources &amp; environment</b>	0	NONE	20	- Trees seedlings	0	NONE	41	- Environmental Protection - Waste management	61	<b>5%</b>
<b>Administration and security</b>	36	- Commune Office - Village Meeting Halls - Security Posts	2	- Bicycles for Village Chiefs	3	- Land Titling	44	- Commune and other Laws - Govt. Regulations	85	<b>7%</b>
<b>Gender</b>	0	NONE	0	NONE	0	NONE	72	- Gender in dev. - Human rights - Domestic violence	72	<b>6%</b>
<b>Total Number</b>	<b>475</b>		<b>264</b>		<b>152</b>		<b>369</b>		<b>1,260</b>	<b>100%</b>
<b>Total (%)</b>	<b>38%</b>		<b>21%</b>		<b>12%</b>		<b>29%</b>		<b>100%</b>	

Table 4: Priority requests presented by Communes at DIW in the Otdar Meanchey province (2002)

Almost 60% of the requests referred to the construction, repair or rehabilitation of physical infrastructure and the provision of equipment and material inputs. The emphasis on basic infrastructure is understandable as most rural Communes do perceive inadequate facilities and reduced accessibility as the greatest constraints to the better delivery of health, education and other services. Of the other requests, 12% were related to services that the Communes knew provincial departments and donor-supported programs could deliver. These included posting and training of teachers, vaccination campaigns, support to village veterinarians, clearing of landmines as well as the all important regularization of property rights by delivery of land titles. The remaining 29% of the requests referred to general education and vocational training activities. Obviously, if this distribution of Communes priorities was assessed in terms of costs involved, the claim on resources by infrastructure and material inputs requests would be greatly amplified and stand out even more clearly.

Commune requests to the DIW are generated within an autonomous Commune-level planning process. Nevertheless the outcome of such process, when it comes to the requests to be tabled at the DIW, is bound to be influenced by two important and often related factors. The first is the assistance that Communes might have received in the implementation of their planning process. The second is the knowledge that they might have of the potential “supply” of resources by existing domestic and externally-funded programs. For example in the case of Otdar Meanchey the very high number of requests for training and education activities related to health is due, at least in part, to the assistance given by UNICEF staff to Communes during the needs identification steps of the local planning process. It might also reflect the fact that Communes knew that such requests had a good chance of receiving a positive response. Such subordination of the “demand” to the perceived potential “supply” at DIW may also have occurred for other sectors and types of projects (such as landmine clearance, agricultural training and gender training activities).

Care should also be exercised in reading the data in Table 4 because they may be under-representing the requests for “natural resources and environment” activities, because many of the requests for agriculture projects and other sector’s infrastructures do also have clear environmental protection and natural resources management dimensions. The same applies to requests for “gender” projects, whose importance may be underestimated by the fact that many of the requests classified under “health” have also important “gender” dimensions.

Commune requests were presented at five district integration workshops held in the Otdar Meanchey province in October 2002. The participating line departments, NGOs and international organizations (IOs) gave a positive response to 407 of the 1,260 commune requests (32% of the total) and this was reflected in the signature of 407 “temporary agreements” that committed these agencies to fund the Commune projects, subject to the verification of their actual feasibility (see Table 5). But the response was not limited to “accepting” some of the Communes’ requests. The line departments, NGOs and IOs also “offered” to fund some 271

additional projects, which were not prioritized in the Commune-level planning exercises, but were nevertheless considered beneficial by the Commune authorities. The types of projects that were “offered” to Communes, which had not initially asked for them, are shown in Table 6. By and large, the project and activities covered by these additional offers, are not qualitatively different from what other Communes may have requested. Most of the projects that provincial departments pledged to support will eventually be financed from external aid resources.

Sector	Number of ...	Type of project				Total
		Local Infrastructure and buildings	Equipment and material /financial inputs	Services and in-Service training programs	Education & vocational training Programs	
Agriculture	Original requests	77	196	37	68	378
	Positive responses	13	39	21	43	116
	Additional offers	18	20	6	34	78
Transport and Power	Original requests	150	3	0	0	153
	Positive responses	1	0	0	0	1
	Additional offers	2	0	0	0	2
Health	Original requests	20	19	56	72	167
	Positive responses	3	12	41	60	116
	Additional offers	0	10	25	1	36
Water and sanitation	Original requests	94	21	0	22	137
	Positive responses	55	4	0	24 <sup>7</sup>	83
	Additional offers	0	1	0	16	17
Education	Original requests	98	3	56	50	207
	Positive responses	20	0	23	1	44
	Additional offers	1	13	17	33	64
Natural resources & environment	Original requests	0	20	0	41	61
	Positive responses	0	0	0	0	0
	Additional offers	0	0	0	0	0
Administration and security	Original requests	36	2	3	44	85
	Positive responses	0	0	0	1	1
	Additional offers	1	0	4	47	52
Gender	Original requests	0	0	0	72	72
	Positive responses	0	0	0	46	46
	Additional offers	0	0	0	22	22
<b>Total</b>	<b>Original requests</b>	<b>475</b>	<b>264</b>	<b>152</b>	<b>369</b>	<b>1,260</b>
	<b>Positive responses</b>	<b>92</b>	<b>55</b>	<b>85</b>	<b>175</b>	<b>407</b>
	<b>Additional offers</b>	<b>22</b>	<b>44</b>	<b>52</b>	<b>153</b>	<b>271</b>

Table 5 - Response to commune priority requests and additional offers for projects/activities, Otdar Meanchey, 2002

<sup>7</sup>. This figure may appear as a mistake, because the number of positive responses is higher than the number of original commune requests. This is not a mistake, but is due to the fact that various parties can respond to one commune request. A request for sanitation education has been filled partly by the Department of Health, partly by UNICEF funding, and partly by a national NGO.

Sector	Type of project			
	Local infrastructure and buildings	Equipment and material/financial inputs	Services and in-service training programs	Education and vocational training programs
Agriculture	Feasibility studies for dams ; community rice stores	Water cans ; agricultural tools ; seeds	Training for village veterinarians	Training on agricultural techniques
Infrastructure	Drainage canal ; culvert	—	—	—
Health	—	Emergency support for flood and drought victims	Water quality testing for arsenic content ; Training for health workers	Training for clean water committee
Water and sanitation	—	Rubbish bins	—	Education on the use of latrines
Education	School repair	Books on Buddhism	Teacher training	Training for monks ; vocational training
Natural resources & environment	—	—	—	—
Administration and security	Security fence	—	Land titling	Administration training ; dissemination of knowledge on laws
Gender	—	—	—	Training on trafficking prevention ; human rights education

Table 6 - Type of additional projects/activities, Otdar Meanchey, 2002

The results of the Otdar Meanchey's DIWs are generally in line with national averages. In 2002, 1,283 Communes in 17 of Cambodia's 24 provinces submitted 33,553 requests. There were 9,372 positive responses (28%) by departments and aid agencies, and 14,010 temporary agreements were signed for additional projects. However the data for Otdar Meanchey show a fairly high response to requests for water-related infrastructure projects which is not typical for other provinces where local authorities have complained about the mismatch of demand and supply for all types of infrastructure projects. The difference in Otdar Meanchey stems largely from the fact that most of the water and sanitation infrastructure requests were supported by UNICEF, which had also helped the Communes to finalize their plans and include those requests in them. The supply therefore influenced the demand. Nevertheless, even in Otdar Meanchey, the gap between local demand for transport infrastructure and the ability of provincial departments to even partially address it, remains huge. Some local leaders have characterized such mismatch as the "*We ask for a road, and we get a... gender training*" syndrome.

More generally, the outcome of the District Integration Workshops draws some light on the relations between the provincial administrations and the newly elected Commune Councils. The ability of provincial agencies, to respond to Commune requests, integrate local demands in their own sector planning process, and devise new partnership arrangements with Commune Councils for local services delivery, is still very limited. It is constrained by the lack of deconcentration and provincial autonomy in programming national sector resources, and by the limited resources available for provincial-level planning and budgeting exercises. In most cases it is easier for a provincial line department to offer to include a Commune in a program that the department is already executing, and whose general scope and timeframe, if not the location and sequencing, are already set, than to adjust flexibly the content of the programs it manages to better fit the demand from local planning exercises.

#### **4.2.2. Making use of the resources of the Commune/Sangkat Fund (CSF)**

Besides attempting to influence the allocation of the resources of line departments and aid agencies, through the DIW mechanism, Commune authorities do also allocate directly those local development resources that are transferred to them through the CSF.

In 2002, the first year of operation of the CSF, 506 Communes in 12 provinces received funds for development spending which averaged US \$ 8,533 per commune. These funds were used to implement the following types of projects.

Type of project	Number of projects	Commune Fund Amount (\$)	% of total	
			By number	By value
Rural Transport	501	2,665,546	59.1%	61.9%
Rural water supply	183	643,583	21.6%	14.9%
Education facilities	80	641,099	9.4%	14.9%
Irrigation	71	333,374	8.4%	7.7%
Health facilities	6	10,145	0.7%	0.2%
Other	6	14,970	0.7%	0.3%
<i>Community buildings</i>	6	14,970	0.7%	0.3%
<b>Total</b>	<b>847</b>	<b>4,308,717</b>	<b>100%</b>	<b>100%</b>

Table 7: Commune/Sangkat Fund use by project type, 2002

In 2003, the second year of operation of the CSF, all 1,621 Communes had access to resources for local development. The type of projects on which these resources were invested, as well as the number of villages and people that benefited from them, are given in Tables 8 and 9 below.

Type of project	Number of projects	Commune Fund Amount (\$)	% of total	
			By number	By value
Rural Transport	930	4,318,736	58.2%	62.0%
Rural water supply	223	728,395	13.9%	10.5%
Education facilities	85	574,506	5.3%	8.2%
Irrigation	297	1,136,207	18.6%	16.3%
Health facilities	6	18,407	0.4%	0.3%
Other	58	193,597	3.6%	2.8%
<i>Urban Transport</i>	14	76,642	0.9%	1.1%
<i>Urban Drainage</i>	28	73,528	1.8%	1.1%
<i>Urban Water Supply</i>	2	3,341	0.1%	0.05%
<i>Domestic Sanitation</i>	7	13,743	0.4%	0.2%
<i>Rural Drainage</i>	3	10,932	0.2%	0.2%
<i>Environ. management</i>	1	8,970	0.1%	0.1%
<i>Social interventions</i>	2	5,191	0.1%	0.1%
<i>Waste Disposal</i>	1	1,249	0.1%	0.02%
<b>Total</b>	<b>1,599</b>	<b>6,969,848</b>	<b>100%</b>	<b>100%</b>

Table 8: Commune/Sangkat Fund use by project type, 2003

Type of project	Number of projects	Beneficiaries	
		Number	% of total population
Rural Transport	930	2,312,601	18.75%
Rural water supply	223	404,522	3.28%
Education facilities	85	165,492	1.34%
Irrigation	297	734,911	5.96%
Health facilities	6	10,289	0.08%
Other	58	121,079	0.98%
<i>Urban Transport</i>	14	62,580	0.51%
<i>Urban Drainage</i>	28	33,239	0.27%
<i>Urban Water Supply</i>	2	2,765	0.02%
<i>Domestic Sanitation</i>	7	9,899	0.08%
<i>Rural Drainage</i>	3	2,389	0.02%
<i>Environ. management</i>	1	8,549	0.07%
<i>Social interventions</i>	2	1,237	0.01%
<i>Waste Disposal</i>	1	421	0.00%
<b>Beneficiaries</b>		<b>3,748,894</b>	<b>30.4%</b>
<b>Total Population of Cambodia</b>		<b>12,331,888</b>	<b>100%</b>

Table 9: Commune/Sangkat Fund: beneficiaries by project type, 2003

In 2003, about 30.4% of the total population and 28.6% of all women living in the Cambodian Communes, would benefit from about 7 M.US\$ worth of local small-scale public investments located in 4,726 villages (over one third of all villages of Cambodia) and planned, financed and managed by Commune authorities.

All CSF resources in 2002 and 2003 were used to finance civil works construction contracts. In both years, over 60% went to rural transport projects, involving the construction, improvement and/or repair of roads, small bridges and culverts. In 2003 the second most important category of projects (absorbing 16.3% of the CSF resources) included the construction and rehabilitation of canals and other irrigation structures. The prominence of these two categories of investments (claiming almost 80% of the CSF resources) suggests a strong preference of local authorities for economic infrastructures. As for social infrastructures, the greatest claim on CSF resources was made by projects improving access to, and quality of, drinking water. Investments in school facilities have also been relatively important, while only a minor share of the CSF resources has gone to improve health care facilities.

Two sets of questions are associated with public expenditures management and services delivery by Commune Councils. The first one concerns the efficient allocation of resources for local development and poverty reduction. The second concerns the efficient use of the resources directly managed by Communes (the value for money in the Commune-managed provision and production of local infrastructure and services). We turn to these questions in the two following sections.

#### **4.3. Allocative efficiency issues**

As noted, CSF resources have been invested in physical infrastructure facilities, with rural roads and irrigation works claiming the lion's share. Even before the establishment of Commune Councils in 2002, the Commune Development Committees, which were the forerunners of the elected Councils during the piloting period of the decentralization reforms (1996-2001), showed very strong preferences for investments in infrastructure. As a result, many external agencies expressed concern with what they perceived as a too narrow "roads and canals mentality" of the Commune Development Committees. Whether or not Commune Councils could or should invest more in other types of projects however remains open to question.

There is certainly scope, and an important pro-poor potential, for a greater involvement of Councils in the delivery of education and health services, but, this is currently constrained by the lack (or inadequate development) of an appropriate division of labor and related cooperative arrangements between Councils, sector agencies, other potentially important NGO providers, the private sector and users' communities. Another area where local action should (and somehow is starting to) expand is that of the traditional municipal services (urban transport, water supply and sanitation, solid wastes, markets, etc.). But again this will depend on how urban management responsibilities will eventually be structured and the mandate of Sangkats will be defined. Finally, some would like to see more action by the Commune Councils in the promotion of local "economic" development. To be true, this is what Councils are already focusing on when they improve the transport and irrigation economic infrastructure, but what the proponents of a "more-than-only-

infrastructure” local governance agenda have in mind are other, more direct ways of local public support to private ventures (provision of buffaloes, fertilizers, support to enterprises, etc.). Given the current institutional weaknesses of the Councils the risk is high that they would not develop and follow a public policy rationale for specific support to private ventures and that this kind of projects would end up benefiting only the relatively wealthier and more influential local people with little or no effect on poverty reduction.

In assessing the merits and feasibility of diversifying the portfolio of Commune investments into non-infrastructure projects, a key question is whether or not the Commune authorities’ choice to allocate the bulk of locally programmable resources to roads, irrigation and schools projects, actually reflect broad-based local needs and demand. While systematic evaluations are still lacking, a couple of recent studies based on sample surveys, have concluded that Commune residents, including the poor among them, are generally satisfied with the outcome of the local planning process, and expect to benefit from the choices made by Commune authorities.

An evaluation of the impact of the earlier Local Development Fund (LDF) on which the CSF was modeled, had already suggested that “... the intended beneficiaries have benefited well from the [LDF] project. Women would seem to particularly benefit from the expansion of public transport and marketing opportunities that accompanies the road improvements” (Tracey-White and Petts, 2001).

More recently a study aiming to assess the people’s empowerment resulting from decentralization reforms also concluded that “... people were satisfied with the choice that had been made [by Councils in allocating CSF resources]”. Based on a sample of 120 randomly selected villagers in villages where CSF-funded projects were located, the study reports that 88% of the total number of villagers expected to benefit from the project. When the sample was restricted to 120 very poor villagers, 73% declared also to expect to benefit from the project. The study then concludes that “The fact that a large proportion of villagers who lived in the village where a project was located reported that they would benefit from it seemed to indicate that elite capture was not generally an issue”. The study however also suggests that this general conclusion may not apply equally to all the decisions made by the Councils. While investments in roads and schools do distribute benefits in a rather egalitarian way, irrigation facilities do benefit the poor (mostly landless) only to the extent to which they result in an overall increase in the demand for day labour. Also, unless the rules of access to newly constructed water wells allow for their use by the whole community, wells end up benefiting only few and usually the wealthier and more influential members of the community. (Biddulph, 2003).

With the above qualifications, and considering the still widespread lack of basic infrastructure throughout the rural areas of Cambodia, the allocation of the bulk of CSF resources to basic (economic and some social) infrastructure facilities seems to match broad based local needs and demands. The focus on infrastructure does

not seem to point to inefficiency in resource allocation. In terms of the allocative efficiency of Communes' decisions, therefore, the immediate concern is not so much to diversify Communes' development spending, but to ensure that adequate resources are allocated to the operation and maintenance of the built infrastructure. The lack of proper plans and clearly specified responsibilities for maintenance remain a serious threat to the sustainability of locally created assets. A way to address this issue could be the specification of "mandatory development expenditures" covering Communes obligations for local assets management. This would ensure that before embarking on new construction, Communes would cover the maintenance expenditures for which they are legally responsible. While the establishment of mandatory development expenditures for operations and maintenance was discussed at the time of formulation of the CSF, a specific regulation providing guidance to the Communes is still to be developed by the MOEF.

Another key issue in the process of allocation of Commune-managed resources is the need to strengthen the Councils' accountability to their constituency by ensuring the proper functioning, and enhancing the role, of the Planning and Budgeting Committee (PBC): the main structure for village level representation and participation in Commune decisions making. A recent survey of 96 people representing their villages in Commune PBC, found that only 55% of them felt they had participated in, and influenced, the projects selection at Commune level. On the other hand, 49% of randomly selected villagers reported that they had been involved in project identification at village level. The two figures suggest a situation in which village-level participation in project identification and prioritization is relatively high, while village representation and participation in the projects selection and resources allocation processes, is still inadequate. (Biddulph, 2003).

#### **4.4. Productive efficiency issues**

Beyond their ability to allocate resources in a way that matches local needs and preferences, Communes need also to demonstrate that they can deliver infrastructures and provide services efficiently, i.e. that they can deliver better value for money, as compared to different, more centralized services delivery systems.

The first question is therefore whether the cost of the infrastructure and buildings for which Communes have taken planning, financing and implementation (managing construction contracts) responsibility, is higher or lower than that of similar facilities of comparable quality built by other public agencies or NGOs. A particularly relevant comparison is with the Ministry of Rural Development which commonly manages local small scale investments of the type the Communes have started to implement themselves.

A recent study sheds some light on this question (Abrams, 2003). The study was meant to check whether the prices of CSF-funded construction contracts were in line with expected normal values or inflated for corrupt reasons, as some external observers and government officials suspected. The study then assesses whether

CSF prices are “too high” either generally, or for specific provinces or specific types of output. The study makes use of an extensive Project Information Database containing technical information and unit costs for contracts funded from CSF resources in 2003 and worth a total of US\$ 7 million. Because of differences in the estimation techniques, the results of the study are presented separately for (i) wells, schools, bridges and culverts and (ii) earth and laterite roads.

#### **4.4.1. Wells, road structures and schools**

For this category of outputs the study compares actual contract prices with a “reference” or “normative” price constructed for each of the most common types of outputs using “average” material prices from three provinces and allowing for transport costs at \$6 per ton (approximately equivalent to a transport distance of 20 km) and for overhead costs and profit, at 10% of the direct costs.

Description	Quantity	Average Contract Price	“Reference” Cost estimate	Difference
VN6 Well	66	\$ 372	\$ 463	-20%
Afridev Well	59	\$ 1,198	\$ 867	38%
Open Mixed Well	78	\$ 429	\$ 509	-16%
Single 60cm culvert	74	\$ 313	\$ 403	-22%
Single 80cm culvert	65	\$ 428	\$ 606	-29%
Single 100cm culvert	61	\$ 604	\$ 819	-26%
Double 60cm culvert	41	\$ 480	\$ 641	-25%
Double 80cm culvert	40	\$ 703	\$ 980	-28%
Double 100cm culvert	46	\$ 986	\$ 1,332	-26%
Box Culvert 2 x 5m	16	\$ 1,882	\$ 2,006	-6%
Concrete bridge 4m long	4	\$ 5,069	\$ 6,628	-24%
Brick School room	95	\$ 3,898	\$ 4,784	-24%

Table 10: Comparison of contract prices for CSF-funded wells, road structures and schools with reference cost estimates

With the exception of the Afridev-type wells, the average price of CSF outputs are found to be substantially *lower* than the corresponding estimated reference cost based on market prices of materials and reasonable transport and overhead costs. In fact the difference may be a cause for concern, as if the reference estimates reflect the true cost of constructing these outputs, it will not be possible for the contractor to construct in accordance with the specification, and to make a profit.

#### **4.4.2. Laterite and earth roads**

For this category of outputs again the study compares the actual cost of road construction contracts in a sample of nine projects, with a reference cost, constructed through field interviews with contractors and exploring the real costs they face in implementing road projects. In estimating the reference prices the

study assumes a depreciation of 15% of the value of the equipment annually, and a capital charge of 20% per annum on the value of equipment employed. The reference costs additionally include 10% for overhead and profit. The following table reflects the results of the comparison.

Commune	Outputs	Contract Price	Reference cost estimate	Difference
Snoeng	Laterite road	\$ 12,231	\$ 12,807	-5%
Kdol Tahen	Laterite road	\$ 6,463	\$ 6,077	6%
Kampong Preah	Laterite road	\$ 6,868	\$ 6,511	5%
Boeng Reang	Laterite road	\$ 5,455	\$ 5,392	1%
Thipakdei	Laterite road	\$ 3,170	\$ 3,251	-3%
Thma Pun	Laterite road	\$ 1,231	\$ 1,359	-10%
Thma Pechr	Laterite road	\$ 10,810	\$ 6,944	36%
Krang Leav	Laterite road	\$ 9,720	\$ 14,232	-46%
Khvav	Laterite road	\$ 6,964	\$ 8,204	-18%
Robas Mongkol	Earth road	\$ 6,896	\$ 7,775	-13%
		<b>\$ 69,808</b>	<b>\$ 72,553</b>	<b>-4%</b>

Table 11: Comparison of contract prices for CSF-funded roads with reference cost estimates

While the picture that emerges is less clear than in the case of other type of projects, probably because of the greater difficulties involved in estimating reference costs for road projects, on average for the entire sample, contract prices are below the corresponding calculated reference value. This is in line with the fact that the average cost of the Commune-managed, CSF-funded, laterite roads (about 3,000 US\$/Km for a 4m. wide road) compares favorably with prices commonly cited as average values for similar projects managed by the Ministry of Rural Development or other agencies (for example, a recent ILO publication suggests \$8,980 as an approximate cost for laterite road within 10km of the laterite quarry<sup>8</sup>).

The study therefore concludes that, as a general rule, the costs of Commune-managed, CSF-financed projects, are lower than those incurred by other agencies and instead of being “too high” may in fact be “too low” and fail to reflect the true costs of the works as specified in the contracts. During implementation, this may result in strong pressures on the contractors to “cut corners” and produce lower quality outputs.

Indeed, the empowerment study mentioned above suggests that quality problems in Commune-managed infrastructure projects may be widespread; potentially denying any productive efficiency gains derived from lower contract costs. In a sample of 13 Communes where CSF-funded projects were implemented the study found that in 9 out of 13 cases, the Commune chiefs had approved payments, but

<sup>8</sup> Bamboo Reinforced Concrete: Pavement Options Series 2: MRD / ILO December 2002

that in 10 of the same 13 cases, villagers (including users and village representatives in the Commune PBC) were not satisfied with the quality of the construction, while opinions were divided in the remaining three cases. (Biddulph, 2003).

A number of reasons seem at play in lowering outputs quality. They reflect both contracts financing and contracts administration capacity problems. Delays in transfers of CSF resources, (as experienced in 2003), may delay payments, create cash flow problems for contractors, compromise construction schedule and result in inappropriate wet-season operations. Also lack of Communes' compliance with contractual obligations to provide labor or cash contributions may be used by contractors to lower their effort and deny responsibilities. Commune Chiefs are still uncertain about their powers and their responsibility to stop payments in front of unsatisfactory performance of the contractors. They rely entirely on the engineering services of provincial/district technicians whose accountability to the Councils remains weak and whose ability to provide the required construction contracts administration services may be both limited and overstretched. "Social auditing" by users groups and project beneficiaries of the performance of contractors and services' providers can help to enhance the quality of the produced outputs. Such activities have happened on a number of projects, but it is not an established formal mechanism that is practiced for all projects.

## **5. The way forward**

Throughout this case study we have stressed the limitations that affect the ability of the newly elected Commune Councils to take a more prominent role in managing local development, delivering services and reducing poverty. Expanding this role depends essentially on a continuing commitment of the central government to move forward with the decentralization and deconcentration reforms. As we noted at the beginning of this paper the fundamental thrust of the reforms was political. It is essential that the momentum be maintained and that further substantial progress be made on the fiscal and administrative fronts.

### **5.1. Maintaining the CSF promise**

The CSF was established to transfer a gradually increasing level of locally programmable resources for local development spending. The predictability of these resources is critical to sustain meaningful local planning and budgeting exercises, provide the means for Commune authorities to learn-by-doing and build the confidence of the communities and stimulate their participation in public decision making, thus building local democratic polities. The delays and uncertainties that affected the 2003 transfers of the CSF funds to the Communes, after the initial promising experience of 2002, may bring into question the government's continuing commitment to this critical mechanism for fiscal transfers and diminish the obvious advances made in the last two years. To counter such

risk, and as required by the Commune Law, the government should announce the minimum level of state funding to the CSF for at least the next three years period.

## **5.2. Developing a vision for the Communes' role on services delivery**

Most local services delivery will require a combination of decentralization, deconcentration and private sector involvement. This calls for in-depth discussions between the Ministry of Interior and key line ministries (especially health, education, rural development and agriculture) on a thorough assessment and possible reorganization of the delivery of local services, based on the principle of subsidiarity. The aim would be to locate powers and functions in service delivery to the lowest possible level of government that is still capable to deliver the service effectively and efficiently. Such restructured services can then best be piloted in a few places, to get the experience and develop the support mechanisms. The approach can then be expanded to other Communes, to give them the choice – or the obligation in case of a mandatory function – to engage in the delivery of such services.

Part of this discussion with the line ministries will concern the agency functions. At this moment, the only agency function which the Communes implement is civil registration, on behalf of the Ministry of Interior. The discussions with the line ministries should explore what agency functions are suitable for Communes to take on, and what steps should be taken at the various levels for this to happen.

## **5.3. Developing local financial management regulations that support increased Communes' responsibilities for services delivery**

The current exclusive focus of Commune development spending on physical facilities construction is also due to the lack of well-developed regulations and guidelines of the CSF and local-level financial management. Such regulations and guidelines could encourage local spending on maintenance, operation costs and non-infrastructure services delivery. Importantly also are the rules to reflect in local budgets the proceedings of the CSF and the related expenditures should specify both the administrative and development mandatory expenditures (essentially maintenance and assets management related) that Communes would be required to cover before embarking in the development of new facilities. The development of these regulations is critically important to allow Communes to diversify their spending patterns as their responsibilities for services delivery also expand.

## **5.4. Investing in a system of State support and supervision to Commune Councils**

Support for decentralization is provided at national, provincial and district level. At national level, to facilitate the implementation of the Commune Law, an inter-ministerial National Committee for Support to Communes/Sangkats was created, together with a Department of Local Administration in the Ministry of Interior, and a Department of Local Finance in the Ministry of Economy and Finance.

In each province, support to local Councils is provided through a “Provincial Office of Local Administration” (POLA)<sup>9</sup>, but these offices only have one or two staff members assigned to them and in no way can assume the rather diversified range of tasks associated with an effective system of central support and oversight of the local authorities system. Currently therefore most of these tasks are carried out by donor-supported staff, and coordinated by a donor-supported Provincial Rural Development Committee whose operational Executive Committee is chaired by the provincial Governor and includes representatives of several provincial administration departments, not only the POLA. These arrangements seem to work well, but are not – or at least not yet – institutionalized leaving unresolved the issue of developing a much-needed multi-functional provincial structure fully dedicated to support and supervise local authorities. There is therefore the need for the government to invest in a provincial/district system of support and supervision to the Communes, and to establish such system on a firmer footing than exclusive reliance on external aid.

## **6. Conclusions**

The Commune Councils elected in 2002 are meant to assume an important function in the promotion of local development and delivery of services. However the Commune Law that provides the regulatory framework within which Communes operate, while permitting a wide range of development initiatives, does not give them either specific services delivery mandates or substantive fiscal powers. Nevertheless a minimum of locally programmable resources for local development spending are devolved to Communes through the Commune Sangkat Fund (CSF), a national fiscal transfers facility capitalized through both domestic budgetary allocations and external aid contributions.

In essence the CSF resources, while too limited to finance more than one or two small scale projects per year in each Commune, do provide an incentive for the adoption of an improved local planning and budgeting process that provides for the formal association of village communities to the Commune Councils’ decisions on local public resources allocation.

With – in most Communes – only the CSF resources to allocate to development activities in 2002 and 2003, Communes invested the bulk of them in small-scale infrastructure projects, mainly roads, bridges and culverts, but also irrigation works, education facilities and domestic water supply. The limited evidence available from ad hoc sample surveys and other qualitative studies indicates that the allocation of funds by the Councils generally reflected broad based needs and local demand, and limited the elite capture of the CSF benefits. Still the efficiency of Commune level resources allocation could be improved by local financial management

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<sup>9</sup> This name is not completely correct, since no decree has been issued to give these provincial units the official status of an “Office”.

regulations that encourage investing in operation and maintenance of local assets, which the Ministry of Finance should develop as a matter of priority.

There is also evidence that overall the costs of the Commune-managed constructed facilities compare favorably with those of similar structures implemented by central agencies and NGOs. Concerns however have arisen about the quality of such works pointing at the need to improve both the system of technical supervision, currently entrusted to province and district-based technicians, and the ability of user groups to monitor the performance of contractors and request that corrective actions be enforced by Commune Councils and provincial authorities.

The prospects for Communes to assume a greater role in services delivery, beyond their development of some basic infrastructure facilities, remains however clouded by a number of issues that reflect both national policy choices and local capacity constraints.

There are issues of viability of many Communes which may be too small to be effective as delivery units for most local services. In spite of their potential importance, little has been done so far by the central government to develop and regulate joint single or multi-purpose service delivery units.

Also, and perhaps most critically, services in the sectors that have the greatest potential impact on poverty reduction (health, education, agriculture and rural development, water and sanitation) do often require inter-governmental arrangements associating Communes with provincial departments, community organizations and private sector providers. These arrangements are better developed through flexible experimentation and subsequent institutionalization. While some Ministries have shown interest for developing such arrangements, too little experimentation is currently going on to assume that major breakthroughs in intergovernmental cooperation, which will redefine and enhance the Communes' role in services delivery are around the corner.

The recent decentralization reforms in Cambodia have positioned the Communes as potentially important providers of local services. However, for this potential to be realized, the central government must provide more resources to the Communes, and elaborate a framework which indicates clearly the service delivery roles Communes can – or should – take on, and how such Commune roles relate to those of established, or emerging, other service providers (like government agencies, NGOs and the private sector). Enabling the Communes Councils to become significant in the eyes of their local constituencies will ultimately help in realizing the original rationale for decentralization in Cambodia: establishing a democratic State presence at the local level.

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