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Government Reform of the Kingdom of  
Cambodia

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## **CHAPTER ONE**

### **Introduction:**

Before 1953, Cambodia was colony by French almost one century. In 1947 Cambodia declared first Constitution under the help of French's rulers. Under this Constitution, Cambodia formed a monarchy with two parliaments, the National Assembly and the Popular Assembly. All members of these parliaments were elected by general elections. Four year terms for members of National Assembly and two year terms for members of Popular Assembly. The Constitution of 1947 stipulated that all powers issued from the King. These Constitution was amended and became the second Constitution in 1957. The 1957 Constitution guaranteed Cambodian people of basic rights such as freedom of belief, the freedom of speech, writing, printing, meeting and assembly, Cambodia enjoyed economic prosperity and security under the leadership of Prince Norodom Sihanouk as Head of State. But 1960 the economic progress was downed.

On 18 March 1970, Sirik Matak and General Lon Nol made a coup d'etat ousted Prince Sihanouk from the power and formed new government named the

Khmer Republic in October 1970, General Lon Nol was a President. Khmer Republic introduced a new Constitution that president controlled all executive power and commanded the national armed forces. After ousted from power, Prince Norodom Sihanouk fled to China and formed forces to fight against Lon Nol's regime supported by United States. Communist forces in Cambodia, which had emerged in 1968, joined Prince Norodom Sihanouk to form the National United Front of Kampuchea. Cambodia's civil war was started, this conflict and social insecurity made Cambodian economy downed. The Lon Nol regime had no stability and the power was not strong.

The Khmer Rouge took Phnom Penh on 17 April 1975 and formed the new government named Democratic Kampuchea under the leadership of Pol Pot called Saloth Sar. The Khmer Rouge regime followed a Maoist communist system promoted ultra-collectivism, the Central Committee of Khmer Rouge regime led by Pol Pot controlled all the Executive, the Legislature, and the Judiciary. The Khmer Rouge regime abolished all market economy and business activities. The Khmer Rouge regime was supported by China, many Cambodian People were killed, especially educated people, professionals, military officers, and policemen in previous regimes. The Khmer Rouge brought Cambodia back to “ year zero ”.

The Khmer Rouge regime was ended when Vietnamese troops and Cambodian resistance forces supported by Vietnam entered into Cambodia expelled the Khmer Rouge regime from power on January 7, 1979. After escaped from Phnom Penh, but still occupied some areas along the Cambodian-Thai border and continue the civil war. The Khmer Rouge also continued to hold Cambodian seat at the United Nations. A new government was established in Phnom Penh named the “People’s Republic of Kampuchea (PRK)”, the Union of Soviet Socialist Republic (USSR) was a major assistance for People’s Republic of Kampuchea. The People’s Republic of Kampuchea was led by Mr. Heng Samrin as head of state and president of the parliament. Beside making laws, the National Assembly had the power to expel and elect the president, vice-president, and members of the State Council and Council of Ministers. The People’s Republic of Kampuchea was controlled by the communist party, named the people’s Revolutionary Party of Cambodia and then became the Cambodian People’s Party.

The reconciliation process began between Samdech Norodom Sihanouk and Prime Minister Hun Sen in 1987. The People’s Republic of Kampuchea was renamed the State of Cambodia in 1989 and 50,000 Vietnamese troops finally withdrew from Cambodia. The United Nations Transitional Authority in Cambodia

officially arrived on March 1992. The United Nations Transitional Authority in Cambodia's mission assisted in the governance of the country until general elections could be held. In May 1993 general elections were held under The United Nations Transitional Authority in Cambodia, Khmer Rouge party denied the result of the election and continue their fighting in the jungle until 1998. No any party could get enough votes to form the government alone, so a new coalition government was formed among the three major political parties, the arrangement of two co-prime ministers and also co-ministers of Defense and Interior.

A new constitution was established in 1993. The new government implemented the liberal democratic state and the market economy as the foundations of Cambodian political and economic future. King Norodom Sihanouk is a symbol of Cambodian Unity, but he doesn't have powers in policy. The second general election was held in 1998, three parties received seats in the National Assembly, Pol Pot the top leader of Khmer Rouge died in 1998, this event made Khmer Rouge soldiers integrated with new coalition government and finished the three decades of Cambodian civil war.

Now the main issue for the Royal government of Cambodia is the reform as the Prime Minister Samdech Hun Sen said that Reforms are a life and death issue

for Cambodia.

## **CHAPTER TWO**

### **Reform of Public Administration :**

The public administrative reform is not new issue for the Royal Government of Cambodia. The first government between 1993 to 1997 issued statements about administrative reform. The project of administrative reform were supported by aid funds such as United Nations Development Program and European Union. The Government prepared a revised plan for public administrative reform.

#### **2-1-Civil Administrative Reform**

On February 1999 a five-year program (1999-2003) of national administrative reform was presented by the government to aid agencies at Consultative Group Meeting. The first objective of Cambodian civil administrative reform plan is to “create a State administration that is neutral, closer to people, transparent, responsible, and responsive to the needs of the people”, the Royal government of Cambodia focus on the establishment of good governance for administrative reform in Cambodia. There are four key strategies were planed by the government for civil administrative reform first



rationalize the size of the civil service, second create a more professional, effective, and responsible administration with adequate remuneration for civil servants, third implement a modern management system to improve human resources within the administration, fourth implement de-concentration and decentralization of the government.

## **2-2-Institutional Framework for Administrative Reform**

The Council Administrative Reform tried to coordinate the Government's administrative reform, an inter-ministerial body was established by a sub-decree in June 1999. The Council Administrative Reform led by the Senior Minister in charge of the Office of the Council of Ministers and assisted by a secretariat. The Council Administrative Reform always organizes meeting with aid agencies. The capacity of the Council Administrative Reform is inadequate to carry out the administrative reform program has confirmed by the Donor Sub-Group on administrative Reform.

The Secretariat General of the Council Administrative Reform is led by a Secretary General and has 11 full-time staff since March 1999. According to the Government, there are 24 ministries and state secretariats created administrative reform working groups to coordinate reforms within their respective ministries/agencies. These

ministries working groups meet with the Secretariat General of the Council Administrative Reform to disseminate information and consider policy initiatives.

On October 27, 1999, the Government signed a sub-decree to create a council for “anti-corruption” by cooperated with the Secretariat General of the Council Administrative Reform. There are some representatives from concerning ministries and others authorities also joined with the Council. It was not clear what the unit authority will implement, and the role between the unit authority and the respective jurisdictions of the Ministry of Parliament Affairs and Inspection, each ministries have its own department of inspection. The overlapping functions, competition for authority of budgetary resources and inconsistent actions is very real possibility. It is not easy for the council to implement anti-corruption in Cambodia because all members of this new body have other positions in the government.

### **2-3-The program of Civil administrative Reform :**

There are two components serve as the foundation for the Government’s administrative reform plan: **a civil service census and a functional analysis of the public sector**. The civil service census’s preparation have began in August 1999 with the development of the initial work plan. In October 1999 the census questionnaire was

contributed to central and provincial representatives. The questionnaires collected personal data on each civil servant and immediate family as well as educational information, language skills and experience of job. The census conducted by one hundred staff drawn from all ministries with support from the World Bank. The process include several layers of validation and control prior to issuance of an identification card. The card also included a photo, fingerprint, and bar code recorded in a central computer system to prevent double entries and allow for cross-checking information.

There was a specific schedule for implementation of the census by ministry and province. The Government completely finished the census on March 2000 for the central administration and on June 2000 for the provinces. The International Monetary Fund had made completion of a civil service census one of the structural performance criteria for its new, three years Enhanced Structural Adjustment facility arrangement with Cambodia.

The second key activity of the administrative reform program is a functional analysis of each ministry. This activity began with an analysis of the Council of Ministers, State Secretariat of Civil service, and Ministry of Rural Development and gradually expand to cover all ministries. The Government intends the functional analysis was completed by June 2000. The Government commended for pushing forward with these two

fundamental tasks in the administrative reform program despite the current scarcity of resources. The civil service census and functional analysis are intended to establish the basis for the reorganization of ministries and professionalization of administration in Cambodia together. There are five ministries are using the system to date for their payroll. The progress had been made in the establishment of a computerized human resource management information system that includes a payroll system and personnel database. In order to ensure the validity of ministry payrolls, instating the computerized payroll system will now be synchronized with completion of the civil service census. This will prevent the system from simply computerizing the existing, unreliable, and perhaps “ghost-ridden” payroll records used by ministries. At the moment, some individual ministries maintain their own payroll systems. Many ministries do not know the exact number of civil servants in their pay include personnel departments have weak control over the rosters and no knowledge of number of personnel being paid in the provinces. United Nation Development Program is the main agency to support for these administrative reform beginnings. The Government is also starting to downsize, though on a modest scale to date. Government issued a sub-decree to enforce the mandatory retirement age of 55 for civil servants. The meeting with Donor Monitoring on October 1999, the Government reported to reduce the civil service by over 2000 personnel since

July 1999, half were retirees and other half irregular cases. Downsizing is one element of the Government's administrative reform program. Aid agencies have long called for cuts in the size of Cambodian civil service. The administrative reform strategy and program that includes annual downsizing is one of the structural benchmarks included in International Monetary Fund's Enhanced Structural Adjustment Facility arrangement. The reduction of civil servants from the public payroll was a required prior action for approval of the Enhanced Structural Adjustment Facility by International Monetary Fund's Executive Board. The International Monetary Fund urges deferring any general increase in civil service wages until a concrete plan for downsizing is adopted.

The administrative reform program's future components include the creation of a "core group" of civil servants working in priority sectors of government who can lead in the implementation of reform measures, or change management as it has been termed. In preparation for this action, Council Administrative Reform is planning a study to identify priority government missions and mechanisms to identify the core group. The plan also calls for the reclassification of civil servants and development of socioeconomic measures to help integrate "excess" civil servants into the private sector. The Government also wants to change the legal framework for administration in Cambodia. This includes sub-decrees on the organization and functions of all ministries

and state secretariats. Legal training of civil servants and standardization of administrative documents are also planned.

Strengthening the legal framework for public administration could also include a new governing the civil service in Cambodia to change the outdated Law on Civil Servants which will not be suitable for the redesigned administration that the Government is planning. Basic responsibilities and internal procedures for managing the civil service, including promotions, suspensions, and termination, should be defined in a law enacted by the National Assembly. The Government has mentioned the drafting of a document that will be officially adopted describing the “obligation” of all civil servants. Adoption of a manual to promote common administrative practices among public institutions was held in November 1999. However, the basic legal obligations and rights of civil servants, including proscribed activities and due process requirements for administrative practices, should be the subject of a law, not merely a governmental regulation.

There has been relatively modest progress with administrative reform thus far. However, the renewed initiative only began recently, and the government is proceeding at the moment with little financial support from aid agencies. It suggested that its “major achievement” in administrative reform to date is the establishment of the Council Administrative Reform, its Secretariat General, and other institutional

structures within ministries.

#### **2-4-Civil Administrative Reform Issues:**

The Government developed broad “ownership” of the reform initiatives. This issue involves the extent to which the planning of reforms reflects a consensus within the Government concerning major policies and elements of reform programs as well as the depth of political will, understanding, policy ideas, and commitment to implementing plans. The plan tabled by the Government at the Consultative Group Meeting resembles the original program for public administrative reform pursued unsuccessfully in 1995-1997. United Nations Development Program developed project documents for a second major administrative reform project which were finalized shortly. Discussions did not reveal any appreciable differences between the original Public Administrative Reform and the new Public Administrative Reform. However, the small group of senior officials responsible for overseeing the administrative reform program expresses strong feelings of ownership for the program and underscores the multi-ministry composition of the Council Administrative Reform. These are important factors that were not present during the first administrative reform program from 1995-1997.

Good governance has been described at the same time as one of the four components of the administrative reform plan as well as one of the three cross-cutting themes for

activities in all the components during the different phases of the plan. According to some, past discussions of administrative reform, as with other reforms, illustrated a worrying tendency to focus on funding. This has been mentioned as a cause of concern. In particular, it was noted that discussions of reforms, particularly in presentations by the Government, Government needs for funds from aid agencies and less on basic policy questions, developing mechanisms to ensure accountability and transparency, and sequencing of actions to provide confidence that actions in fact match commitments.

Downsizing of the civil service appears to be upper most in the minds of aid agencies. Some of them seem to give little attention to other key issues in the administrative reform program. This may be true because downsizing produces measurable results. Reforms aimed at restructuring administration or changing government process and practices, which are more important in the long term, are more difficult to quantify. However, some government officials did not view downsizing as a top priority in the civil service reform.

## **CHAPTER THREE**

### **Military Reform :**

Since 1995-1996 Cambodian armed service reform has been a major discussion point



between the government and the aid community. The military needs to adjust to a new role after the end of internal armed conflicts and the Government need to increase public investment in social sector, government has focused this issue at the top of the reform agenda. Even though the progress of these reforms were slowed, there was a consensus on the need to both reorganize the military and reduce its size. Despite had some obstacles, however the mobilization program is moving forward.

### **3-1-Structure of Institution**

There are two high level institutions have been created to plan, coordinate, and oversee reform of the military: the Council of Armed Forces Demobilization and Council of Reform of the Royal Armed Forces.

The Council of Armed Forces Demobilization is chaired by the Senior Minister in charge of the Office of the Council of Ministers and comprised of senior officials from eight ministries and the armed forces. The Council, which reports to the supreme Council of State Reform, is charged with initiating and overseeing the demobilization process.

The Council of Reform of the Royal Armed Forces is chaired by the co-Ministers of Defense and primarily consists of senior military officers. Its mission is to reform the military consistent with objectives set by the Supreme Council of State Reform. The

Council reports to the co-Ministers of Defense and is assisted by several commissions and sub-commission on demobilization.

The relationship and divisions of authority between these military bodies on demobilization were unclear. It appeared that the Council and a Secretariat General, comprised entirely of military personnel, are responsible for implementation of the registration process and delivery of identification card.

### **3-2-Military Reform Program:**

At the February 1999 Consultative Group Meeting, a plan for demobilization of the armed forces entitled the Cambodia Veterans Assistance Program was presented by Government to aid agencies. The original the Cambodia Veterans Assistance Program was prepared by the Government, and technical was supported by the World Bank during the 1995-1996 period, but was delayed preparations in 1997 because of factional conflict. There are four phases of the Program: registration, demobilization, reinsertion, and reintegration.

The first phase, registration, concerning with identification and data collection of all soldiers, issuance of identification cards, and creation of a personnel data base. The second demobilization phase involves the disarmament, health screening, discharge, and assisted dispersal of demobilized soldiers to host communities. Phase three, reinsertion,

focuses on the provision of a safety net of basic goods, food, shelter, clothing, education, household items, local transportation to demobilized soldiers. In with the plan has presented in early 1999, a lump sum payment of \$1,200 per veteran was vetted by the World Bank as the safety net. The reinsertion phase was intended to last between six and eight months. The last phase, reintegration, includes counseling, facilitation of access to land and credit, vocational training and other educational opportunities, support to special target groups such as disabled veterans and war widows, community services, and the development of veterans associations. Reintegration assistance would be provided during the first 12 months after discharge. Information, counseling, and referral services, however, would be available throughout the five-year the Cambodia Veterans Assistance Program period.

Provincial committees monitored implementation of the demobilization program in their respective provinces. In addition, the national Executive Secretariat has established provincial veterans offices, comprised of staff from the Ministry of Social Affairs and Labor and Ministry of Woman's and Veteran affairs, to execute the Cambodia veteran Assistance Program. Specifically, these provincial veterans offices would be in charge of finance, administration, monitoring, and community outreach activities. The relationship between provincial veterans offices comprised of ministry staff and which

receive funds from and report to the Executive Secretariat and provincial committees.

According to the original Cambodia Veteran Program, demobilization would be a five-year process of demobilization.

The Government reported that the registration of 140,693 military personnel was completed in December 1999. The Government had reported identifying a large number of “ghost” soldiers and “ghost” dependents, some 15,551 and 163,346 respectively, during the registration process. The aid agencies did not observe the detailed information on the registration process, was not disseminated.

The second step in the demobilization process is the development of a Pilot Demobilization Program to test mechanisms, assess program needs, or allow for redesign based on a smaller scale demobilization of 1,500-2,000 soldiers in several provinces. The Government has completed a draft project document for the demobilization program. There are four provinces Kampot, Kampong Thom, Battambang and Banteay Meanchey were identified for implementation.

One key goal of the Pilot Demobilization Program will help structure an effective and effective resettlement process that meet the actual needs of demobilized soldiers and their families. The World Bank said that “ Drawing lessons from experiences under the pilot demobilization, the transitional safety net, its level and composition, may need to

be reformulated prior to general demobilization”. In truth, the safety net was not formed, based on any specific socioeconomic data for Cambodian soldiers to be demobilized, it seems to follow or import from demobilization efforts in other countries without any reference to the situation in Cambodia.

Due to differences over the composition of the safety net for the reinsertion phase of demobilization, the actual safety net will be determined after gathering more information on the needs of demobilized soldiers and experiences in implementing the Pilot Demobilization Program. There is inadequate information on the needs of soldiers to be discharged, including needs of special target groups such as widows and child soldiers. Aid agencies confirmed that compiling a basic socioeconomic profile of households for both soldiers to be demobilized and host communities is a priority. One element of the Pilot Demobilization Program might be an individualized needs assessment for major support such as the provision of land or farm animals before a final determination is done.

Among the aid agencies, the tabling of a dollar amount for the transitional safety net caused much disagreement. Some of Aid agencies have opposed this approach because it creates unrealistic expectations based on incomplete information and uncertain funding levels. The Government and the World Bank were not enough consultation for

design of the plan. Following on past experiences with the return of refugees to Cambodia in the early 1990s, most aid Agencies as well as the Prime Minister placed greater importance on the reintegration assistance than the transitional safety net has provided during the reinsertion phase of demobilization. It is very important for aid agencies and the Government to take account of experiences with reintegration and lessons learned during the early 1990s.

### **3-3-Military Reform Issues:**

Initial implementation of the Government's military reform program illustrated another governance issue involving the speed of reform. The Government clearly wants to demonstrate its political will, capacity, and results in the implementation of the military reform. However, the Government often takes crucial first steps too quickly without first establishing the overall policy framework and mechanisms needed to ensure transparency and maintain the confidence of its aid partners.

Experience with the first phase of the demobilization program, the registration process was good example for this issue. In April 1999, aid agencies stressed the urgency and current "vacuum" with regard to the monitoring of the registration process given the short time available. At the same time , they recognized the need for highly

qualified expertise that agencies lacked. The Donor Sub-Group on Demobilization later noted that the lack of response to requests for information on the registration process. This left the impression among aid agencies that the Government was seeking to lock in the transitional safety net a \$1,200 per soldier amount vetted, imprudently and prematurely, by the World Bank.

More importantly, even though a recognized need for experts to monitor registration, the critical element of the demobilization process, it showed that monitoring by both civilian officials and aid agencies was insufficient. The senior military officials were unable to provide any information when were asked that what extent the registration was monitored.

The action of aid agencies contributed to this situation. In their haste to reduce the size of Cambodian military and reapportion the military's share of the national budget, they concentrated too much on demobilization and not enough on helping the government, especially the armed forces, establish an overall vision of a new structure and functions. Aid agencies erred by pushing demobilization without the policy framework for military reform in place.

Aid agencies raised this point at meetings of the Donor Sub-Group on Demobilization and with the Government directly, apparently with little impacted on the

current process that continued to move ahead without a policy on military reform. The demobilization process started before any coherent vision for the military's future structure and responsibilities was developed. In addition, the policy framework was lacking, and the Ministry of National Defense, with assistance from the Government of Australia, prepared a Defense White Paper completed in the first half of 2000. The action of aid agencies had the perverse effect of cutting off serious discussion within the Council of Armed Forces on Demobilization about alternative to the cash payment transitional safety net that they will withdraw later. By prematurely tabling a specific amount before any assessment of needs and existing resources of individual soldiers, they caused certain members of the Council to reject outright consideration of non-cash alternatives.

Certain members maintained that aid commitments to cash payments meant that consideration of alternative safety net system was unnecessary. So, discussions were effectively cut off, despite many aid agencies were in fact uncomfortable with a cash payment system based on past experiences in providing such lump sum payments to returning refugees in the post-Paris peace Accords period. Similarly, some senior military officers oppose entirely the idea of cash payments to demobilized soldiers, expecting widespread squandering of money by individuals inexperienced in managing



money.

There is a second, unintended result of discussions of troop reductions without a policy framework for reform. The number of soldiers remaining after demobilization, based on negotiations, may far exceed the ultimate needs of the Cambodian military. Some senior military officials have privately expressed the opinion that troop reductions should be 50 percent larger than the range currently have been discussed.

The lack of an overall reform policy for the armed forces has in turn impacted planning for demobilization. Military officials raise the possibility of a 20-30 percent reduction of troops in each province. An across-the-board reduction, though easiest to plan, may not serve the long-term interests of military reform.

In the absence of a clear policy framework, it has been easy for both the aid agencies and Government to gravitate toward paths of least resistance.

#### **3-4-Transparency of the Military's Role in Demobilization:**

The institutional structure for the Government's demobilization program did not clearly define the division of labor and authority between the various institutions involved in the demobilization process. Coordination between the two Councils concerned is obviously essential. There had no identifiable mechanisms to ensure

transparency of the activities of the Council of reform of the Royal Armed Forces and various sub-bodies such as the Demobilization Commission. It was unclear how these military bodies are accountable to the civilian authorities of the Government. According to its sub-decree, the Council of reform of the Royal Armed Forces has to report only to the co-Ministers of National Defense, who are also its co-chairpersons. On the other hand these military bodies in charge of reform were not explicitly accountable to anyone outside the armed services.

Notably, none of these military bodies communicated directly to aid agencies through the quarterly donor monitoring meetings of aid agency working subgroups. Aid agencies mentioned the lack of commitment and participation of “stakeholders” such as the armed forces in the planning process or “stakeholders” such as aid agencies in the implementation process for demobilization. In October 1999, a meeting was organized by the Donors’ Demobilization Working Group and the Council of Armed Forces Demobilization, there had no representative from the Ministry of National Defense, only one member of the Council itself, the Minister of Woman’s and Veterans Affairs, was present at the meeting. It was one of difficulties for aid agencies not to mention the public in assessing the progress of demobilization and accessing information generally about specific activities to implement military reform program including demobilization.

Such issues had been arisen.

Information on the registration process had not been made readily available to the Donors' Demobilization Working Group. Registration is the foundation upon which the whole demobilization process rests. Any loss of confidence in the registration process and result due to inadequate transparency would jeopardize the integrity of the demobilization process and possibly cost the Government financial and technical support.

In general, the military seems strangely absent from the discussions on demobilization. Certain senior military officials seemed uninformed about the demobilization plans and process. They had suggested contacting one civilian official on the Council of Armed Forces Demobilization. It had appeared important information and communication gap exist. It also appeared that "ownership" of the demobilization effort may not be broad-based with the Government.

### **3-5-Preparedness in the Provinces for Demobilization**

According to senior military officers, provincial governments knew little or nothing about plans of demobilization, even though the fact that demobilization occurred almost in the whole provinces. This was confirmed by the provincial governors and deputy

governors. Moreover, the plans for demobilization stressed the role of provincial veterans offices in the reintegration of demobilized soldiers and their families. These plans also call for provincial rural development committees to help supervise the reintegration process. So, implementation of the demobilization program relied to a large degree upon the capacity of provincial governments to manage major elements of the program.

In many respects, demobilization was a major exercise in decentralization. It requires provincial governments to shoulder new responsibilities involving thousands of people in a potentially long, complex program of resettlement, vocational training, land distribution, community relations, infrastructure development, conflict resolution, education, and financial management. Preparing for the implementation by provincial veterans offices and supervision by provincial rural development committees of the demobilization program was not easy task. At the moment, provincial authorities were uninformed of their future role and lack the human resources to handle it.

It is very important for the demobilization pilot program to concentrate heavily during the preparatory stages on strengthening the preparedness and human resources of provincial officials for their duties. In particular, there is an acute need to include broader participation of local government and non-government organizations in the

demobilization planning and project design processes. It is not only increase transparency but also allowed the Government to tap the expertise, experience, and information gained by officials and others working in the provinces. And it also provided critical information on the economic realities that thousands of demobilized soldiers will face. It was not clear that actual economic and agricultural conditions or prospects have adequately considered in the reintegration planning. It was not clear to what extent soldiers are already reintegrated into local communities. These issues are relevant not only to the composition of the safety net but also directly linked to the design of training programs associated with demobilization as well as community-oriented support and programs for employment creation. These issues require more attention and planning. Aid agencies recognized this crucial issue. The Donor Sub-Group on Demobilization highlighted the need for the Government to conduct major preparatory work in each province included in the pilot program. Even though had some difficulties but Government implemented the pilot demobilization program at the end of year 2001 Government was successful demobilized 15000 soldiers.

## **CHAPTER FOUR**

### **Reforms of Public Finance**

The Government's efforts to reform public finance is a policy focus throughout the

economic transition of the last decades. The agenda and priorities for reform changed from time to time. The transition started in earnest in 1989-1991 when the state of Cambodia faced a drop of foreign assistance from the former Eastern Bloc, mainly from Soviet Union. Lacking alternative sources of finance, it financed the deficits through monetary financing, and inflation has started. The rate of inflation was around 150 percent in 1990. The United Nations Transitional Authority in Cambodia operations in 1992-1993 inflation rates continued to persist at high levels of more than 100 percent.

In 1993, the newly established Government faced a major economic challenge containing inflation. The Government launched a major public finance reform through the Organic Budget Law adopted by the National Assembly in 1993. Public finance reforms under the 1993 Organic Budget Law showed effective in fighting inflation. In 1994 inflation rates begin declining and were kept below an annual 10 percent rate from 1994 to 1997. Its effectiveness had also showed after mid 1997 when twice shocks hit Cambodia's economy, domestic conflict in July 1997 and the Asian financial crisis. In the face of the twice crises, the Government kept inflation from 9 percent and 13 percent in 1997 and 1998.

Although effective in sustaining fiscal discipline, the 1993 Organic Budget Law and its institutional arrangements posed major challenges. The World Bank has described

that one of the fundamental problems is “ the Cambodian budgetary process sacrificed so much in terms of allocative and technical efficiency to maintain aggregate fiscal discipline. The Government also faced a challenge on the revenue side of public finance. Despite its ongoing efforts, Cambodia’s revenue-raising capacity has been very weak. Public revenue remained around only 9 percent relative to Growth Domestic Products between 1995 and 1997, and even declined in 1998. Although Cambodia has the potential to raise up public revenues significantly, some deficiencies in institutional arrangements hindered the effective capture of potential revenues.

Public financial reforms regained momentum after the formation of a new Government in November 1998.

#### **4-1-Institutional Framework for Public Finance Reform**

The Government has identified public finance as one of the four key areas of reform since 1999 Consultative Group Meeting. It was planned to establish a Council of Economic and Financial Reform under the Supreme Council of State Reform. Until now, the Government is still drafting the organic sub-decree for its establishment. Despite delays in the establishment of the Council, public finance reform appeared to have been undertaken vigorously under the initiative of the Ministry of Economy and Finance.

## **4-2-The Program of Public Finance Reform**

The Program of Public Financial Reform was proposed by Ministry of Economy and Finance focused on two areas of reforms, firstly, revenue-enhancing measures, secondly, measures to improve expenditure management.

### **Revenue-enhancing measures:**

#### **Tax revenues**

As part of the implementation on the Law on Taxation, Since January 1999 the Government has introduced value-added taxes. The Value-Added Taxes has replaced an earlier turnover tax and consumption tax, and its rate was set at ten percent. The Value-Added Taxes was applied to around 1,500 large firms with variable taxable income. The list of taxpayers subject to Value-Added Taxes was expanded towards the end of 1999 to broaden the tax base. According to a senior official of the Ministry of Economy and Finance, some 2,000 companies would be covered, and geographical coverage expanded to include five provinces: Sihanoukvill, Koh Kong, Siem Reap, Kampong Cham, and Battambang.

In addition to the Value Added-Taxes, Ministry of Economy and Finance has taken several measures to strengthen tax collection. The Ministry of Economy and Finance



has added 50 tax officials more at the Department of Taxation to meet increasing needs for tax experts. They were transferred from other departments within Ministry of Economy and Finance. It has also carried out on-the-job training in auditing at the Audit Office of the Department of Taxation.

Other measures were reported at the recent Consultative Group Meeting and donor monitoring meetings without assessing their progress, including: strengthening the discipline of tax officials, cleaning up the Department of Taxation, avoiding ad hoc tax exemptions outside the Law on Investment, and applied strict measures to recover arrears from taxpayers or withholding agents.

### **Customers revenues**

Customs duties (foreign trade taxes) are a major source of public revenue for Cambodia. Before introduction of the Value-Added Taxes in 1999, customs duties accounted for more than 50 percent of all tax revenue. The Government has launched pre-shipment inspection ( PSI ) services to enhance the capture of customs duties and facilitate foreign trade in 1995. PSI services were provided by a Swiss-based private company, SGS under direct contract with the Government.

Despite its revenue potential, the capture of customs revenue has not shown significant progress in recent years. Customs revenues remained within the range of

Riels 75-100 billion during 1996-1998, without any increasing. This contrasts sharply with a steady upward trend of domestic tax revenue. An abrupt suspension of PSI by SGS in July 1999 reportedly caused considerable disruption to customs operations. With the SGS dispute unresolved, the Government launched an open tendering process to resume PSI in the near term . In sum, there was a wide scope for improvements in customs revenue, although the 1999 budgetary target for customs revenue appears to be achievable. In addition to resuming PSI in 2000, the Government identified a variety of measures to strengthen customs administration, including:

- widely disseminating the customs code and relevant regulations
- streamlining and simplifying clearance procedures
- computerizing customs operation
- implementing a staff roster system, and
- upgrading human resources through promotions, discipline, motivation, and training.

Recognizing the problem of widespread smuggling, the Government also has declared that it would strictly implement measures to crack down on contraband, while taking stringent disciplinary actions against customs officials involved in illegal activities.

## **Non-tax revenues**

The Government has completed a full transfer of garment quota management fees and all revenues from quota auctions to the Treasury by October 1999. Revenues from this was transferred by the Ministry of Commerce are used to reduce the Government's net debt to the National Bank of Cambodia as a result of monetary financing of budget deficits in 1998. This measure has contributed significantly to the increase in non-tax revenues in 1999. It is very important measure, the full transfer from the Ministry presents an excellent model that other ministries should follow.

The Government also implemented measures to increase other non-tax revenues such as timber royalties, lease of enterprises, and post and telecommunications fees.

In addition the Government also took measures to improve poor management of state-owned assets, especially enforcing a direct transfer of rental income to the Treasury. Despite occasional warnings by the Ministry of Economy and Finance, line ministries sold or rented state-owned assets to the private sector without transferring the proceeds to the Treasury. In April 1999, the Ministry of Economy and Finance has issued an inter-ministerial circular to improve implementation of the prime Ministerial Order on the State Assets Management. This Circular required

all contracts related to the lease or sale of state-owned assets to include a clause, direct transfer of rental income to the Treasury. After this measure was introduced in April 1999, the income of rent increased sharply. The Government also strengthened the recovery of arrears that are estimated to total Riels 6.2 billion for the lease of state-owned assets, and Riels 50 billion for telecommunication companies.

### **Measures to improve expenditure management:**

#### **Improving efficiency in the budgetary process**

One of the urgent issues of public finance reform is to improve efficiency in the budget process. Disbursements to priority sectors such as education, health, agriculture, and rural development have been extremely slow and unreliable. These sectors under spend their allotted budgets each year. This issue is addressed, the impact of public expenditures on poverty alleviation and human resource development will remain poor. At the quarterly Donor Monitoring Meeting in October 1999, the Minister of economy and Finance summarized the situation saying, “ while the fiscal reforms have yielded some positive results on the revenue side, the public expenditure management has been less encouraging”. A Nobel Peace Prize laureate NGO working in the health sector,

Medicins Sans Frontieres, has informed the Government that it would withdraw from Cambodia if expenditure management issue did not addressed urgently.

To address the issue of the budgetary process, the Government has undertaken reforms primarily through three policy instruments: an Accelerated District Development system, Priority Action Program, and law on Financial Procedures and Provincial-Municipal Properties.

Health is one sector in which the Government, was supported by aid agencies and NGOs concerned, tried to decentralize finance responsibilities. The Ministry of Health and its network of provincial and district health officials have little authority over budget and spending decisions related to the provision of health services in the provinces. The Ministry of Economy and Finance has to approve any use of public funds by the Ministry of Health's provincial health departments. Most funds are channeled through provincial treasuries, not through the Ministry of Health which in effects has no control over its budget.

This process hinders both the planning and implementation of health care policies, leaving actual spending on health programs outside the control of the Ministry of Health and its provincial officials. During the first nine months of 1999, only 28 percent of the budget contributed for public health disbursed. Spending in 1999 in agriculture, rural

development and social affairs was similarly behind budget. Among other things, this situation showed the costs of overly centralized governance to the delivery of public services to the people.

In 1996 the Accelerated District Development system was introduced for the health sector. It gives program managers at rural public hospitals and health centers greater certainty in the availability of funds and greater flexibility in the use of funds. Program managers receive a fixed cash advance from the Ministry of Economy and Finance via the Ministry of Health for operational cost, from which they have discretion to contribute funds for predetermined, specific purposes such as patient food, emergency patient transport, and building maintenance. The Accelerated District Development system operated in 22 districts covering 3 million people in rural areas. The disbursement record of the Accelerated District Development system, however, has been unimpressive. In 1999 the Government doubled the Accelerated District Development budget to Riels 6 billion (\$1.6 million).

The Priority Action Program is an instrument to ensure the disbursement of budget to priority sectors in the face of revenue shortfalls. In the Priority Action Program, program inputs and outputs are made clear by identifying various indicators at the programming stage. Indicators used to monitor the execution of programs. In the year

2000 budget, implementation of the Priority Action Program planned on an experimental basis in five line ministries covering health, education, agriculture, rural development, and public works.

Since the 1999 Consultative Group Meeting, the Government has repeatedly expressed its willingness to embark on gradual decentralization of the budget system. This is intended to rationalize the roles of the central and provincial administration, and also to improve technical and allocative efficiency of the budgetary process. One key reform measure is the enactment of the Law on Financial Procedures and Provincial-Municipal Properties promulgated in February 1998. This law gave provincial and municipal authorities limited autonomy to collect revenues and disburse expenditures of their own budgets. In the 1999 national budget, Riels 35 billion were earmarked for spending by provincial and municipal administration.

In conjunction with decentralization, the Government promoted de-concentration to streamline authority for budget control at the provincial and municipal levels. This also aims to improve efficiency in the budgetary process. Under this system, budget disbursements by provincial departments of line ministries requires the approval of provincial governors, and must go through the provincial treasury. The Government transferred approval authority from provincial governors to directors of provincial

departments of line ministries. Anyway, no law or administrative order has yet to be enacted, though the current initiative was noted at the Donor Monitoring Meeting in October 1999.

### **Rationalizing public expenditures**

Cambodia as other developing country, has very limited financial resources for public expenditures. So it is very importance to establish a close linkage between planning medium to long-term development strategies and public expenditure programs under the national budget.

The Government has developed a medium-term plan and strategies under its National Program to Rehabilitate and Develop Cambodia (NPRDC), the Socio-Economic Development Plan (SEDP) 1996-2000, and its 3<sup>rd</sup> Public Investment Program (PIP) 1998-2000. The Ministry of Economy and Finance has introduced the Public Expenditure Program (PEP) in the year 2000 budget. The requirements for investment and recurrent costs set out by above plans are incorporated into the annual budget. The year 2000 budget was prepared within this framework and provides estimates of annual budgets for at least three consecutive years as annexes to the budget.

Another coordination mechanism to rationalize public expenditures is the Public Investment Management System (PIMS) was introduced by Council for Development



of Cambodia (CDC) in 1998. This was intended to establish the coherence and complimentary of separate capital budgeting activities among government agencies such as Council for Development of Cambodia, Ministry of Planning, Ministry of Economy and Finance, and other line ministries. Since the capital budgeting process involves planning, programming, budgeting, and monitoring by several agencies, it is very important for these agencies to coordinate. The Government also recognized the need to further strengthen the capacity of line ministries to implement the Public Investment Program.

The coordination among aid agencies is a key element to rationalizing public expenditures, especially through technical assistance to develop the capacity of ministries.

#### **4-3-Key Issues of Public Finance Reform**

Those key issues are:

- 1- Building human resources to carry out financial devolution
- 2- Need for political commitment to boost public revenues, and
- 3- Need for initiatives by the Government to coordinate external assistance

#### **Building human resources to carry out financial devolution**

Experiences with reforms suggested that a devolution of financial authority is key to

modernizing public finance management in Cambodia. The excessively centralized public finance system under the Organic Budget Law of 1993 achieved fiscal discipline by sacrificing allocative and technical efficiency in the budgetary process. The Government recognized the problem and has already taken important steps toward financial devolution. A major challenge facing the Government is to enhance efficiency of the budgetary process without compromising fiscal discipline. Overall, the public expenditure system ought to shift from a pre-audit to a post-audit system. More responsibilities will need to devolve to spending units to give autonomy and flexibility for their spending allocation. Audit has to be undertaken after budgets have been spent. This will improve the efficiency of the budgetary process without compromising fiscal discipline.

An important pre-condition for the success of a post-audit system is the capacity of spending units to carry out financial and accounting management. In short, the development of human resources is the key for the success of a post-audit system. It has to keep up with the pace of financial devolution if fiscal discipline is to be maintained.

In addition to increase salaries to retain competent people full-time, the need is to train finance officers at all levels of the Government is clear.

**The need for political commitment to boost customs and non-tax revenues**

The Government tried to further expand the domestic tax base for the Value-Added Tax to maximize the Value-Added Tax's contribution to enhancing domestic tax revenues. Despite the Ministry of Economy and Finance tried very hard, however, revenue-enhancing measures in others areas as well as customs revenues and non-tax such as forestry, and sales income from public property, revenues from post and telecommunications have produced improvement a little bit.

All non-tax revenue collection the Ministry of Economy and Finance need to cooperate with other ministries to collect these revenues. By the way line ministries can do by themselves because coordination is beyond their jurisdiction. Strong political commitment at higher levels within line ministries is needed for a coordination mechanism to perform its expected role. So the presence of a strong political commitment at the highest level to tackle powerful vested interests is the critical pre-condition if the Government is serious about boosting non-tax revenues.

#### **Need for the initiative of the Government to coordinate external assistance**

The Government built institutional and human resource capacities to link medium-term development plans and objectives to annual budgets. The case in point is the development of systems such as the public Investment Management System and Public Expenditure Program. This helped the Government plan annual budgets that are directly

and rationally linked to achieve medium to long-term development goals. This also provided the Government with useful information to identify and prioritize aid-funded projects in the future. Furthermore, this helped rationalize annual public expenditures, especially capital expenditures that have been suggested and requested by aid agencies.

The recent initiative by aid agencies to coordinate projects funded by them at the sectoral level, using tools such as a Sector-wide Approach Program is highly relevant to rationalizing public expenditures. While the importance of aid coordination can not be overemphasized, it might be also important to recognize its inherent limitations. It is natural that each aid agency wants to maintain the freedom to select projects. For example in 1999 the World Bank pointed out, “ the effective subordination of donor activities to mutually negotiated sector-wide strategies would be not easy and there would be problems of agreements among individual donors regarding responsibility for specific inputs and outcomes”.

Ultimately, it was Cambodia that owns all aid funded projects. So the Government, as the executive body, should play the key role in identifying and prioritizing aid-funded projects in collaboration with aid agencies. The Government was already taking important steps to develop mechanism to do so. It was suggested that these mechanisms be further developed and external assistance be gradually shifted from aid-driven

toward a Cambodian-driven basis. The Government-driven process of reform will only be effective to the extent that the Government is able to improve its governance practices to be more transparent, accountable and open to participation from non-government sector.

## **CHAPTER FIVE**

### **Decentralization**

#### **5-1-The Local Governance Reforms**

The Government is in process of planning potentially major reforms in decentralization in connection with the upcoming election to select members of commune councils for all communes in Cambodia. The commune elections was held in February 3, 2002, decentralization is the policy foundation for the law on commune Administrative Management. The commune chiefs have to elect every five years as general election, to replace the current system of appointed commune chiefs in Cambodia's 1,621 communes. Commune councils will have responsibility for promoting social and economic development, facilitating the delivery of certain services, including social services, promoting a healthy, safe, and peaceful environment for local citizens, protecting natural resources, and drafting and implementing development plans

for their respective communes. The councils will also serve as agents of the national Government on certain matters. They will not have authority with respect to the judicial system, national defense, foreign affairs, postal services, national monetary or policies, and forestry, national parks, or other areas were protected by law.

The Ministry of Interior officials have discussed plans to provide funds directly to the commune councils from the national treasury. The Law also stipulates that fees for carrying out duties as agents of the Government may be paid to commune councils. Related to development planning. The law described in some detail the duties of the commune councils for the preparation, adoption, and implementation of commune development plans. However, the Ministry of Interior is responsible for ensuring that commune development plans meet the Law's requirements and will instruct commune councils on how to implement the plans as well as to monitor, control, and evaluate the use of capital funds for the commune development plan. The Ministry of Interior also has the power to instruct the commune chief on the division of duties between the various deputies on the council.

The Ministry of Interior officials expressed little concern over the possibility of interference by higher officials in the commune councils. In their opinion, all levels of government have to respect the law and the powers it grants the commune councils.

Decentralization of political and administrative powers to the commune level is also likely to carry economic implications. “ For a village, proximity to centers of administrative and political power are important factors in garnering additional resources for its economic development”. Thus, successful decentralization of powers to the commune level, through a bold law on Commune Administrative Management, and an increased administrative role for communes has the potential for promoting the economic development of poor villages previously far from any centers of provincial or national government.

### **5-2-Decentralization of Fiscal/Financial Power**

A more significant reform in decentralized finance is the law on Financial Procedures and Provincial Multiple Properties. It was enacted in February 1998, the Law is intended to clarify the responsibilities of provincial governors for revenue collection and budgeting while also providing limited powers to raise and retain revenues locally.

The Law has confirmed that governors are responsible for collecting all fiscal and non-fiscal revenues in their respective provinces. It enabled the provinces to collect and keep certain minor taxes such as vehicle taxes, ferry transport fees, taxes on vacant land, and fees for the sale of power and water. Since the scope for raising revenues at the

provincial level is very limited under the law, revenues from such taxes are unlikely to be large, or directed toward financing local development. One should expect revenues to be spent at the provincial level for administrative functions, and not in support of development projects at the commune or village level. The law, once implemented, will be an important first step in the decentralization of fiscal authority and financial power to provinces.

## **CHAPTER SIX**

### **Conclusion and Remarks:**

In the last decade Cambodia had met very difficult transition of its political, economic and social systems. Cambodian post-conflict reconciliation among divided Cambodian citizens adds an extra dimension of complexity to the transitional problems. In the term of the difficult transition, the structure of governance has to be changed and strengthened to respond to the adjustment roles of, and the needs and expectations for the State.

During the last decade the challenges facing Cambodia, the leaders and authorities tried to rebuild and develop the nation. However, some of the critical issues of governance that can be positively or negatively impact the development process in



Cambodia. The government is on processing of the reform, to promote good governance, government has to consider several concrete actions such as government has to identifies and suggests for Asian Development Bank and its development partners some priority areas of assistance to promote good governance. The importance of good governance for Cambodia can not be overstated. Good governance is not merely for the improvement of welfare of Cambodian people. It is an increasingly important criteria used by business, international organizations, international credit rating agencies, and aid agencies in deciding where to put their money.

International business will put long-term investment in countries that possess competitive advantages in good governance and anti-corruption efficiency. Therefore, it is imperative to promote good governance if Cambodia wants to attract long-term investment in competition with neighboring countries. International lending institutions such as Asian Development Bank, the World Bank. And the International Monetary Fund will increasingly use good governance as a critical factor for their lending schemes. It is clear that Cambodia needs official grants and loans in the coming decade to meet financial needs for public development projects. The Government tried to enhance good governance will provide a favorable condition for the negotiation with those institutions.

The Government well reorganizes the importance of good governance, and has recently launched ambitious reform programs in some priority areas. The biggest challenge facing the Government now is to translate its commitments into sustained actions. While many challenges of good governance still lie ahead, the commitment demonstrated by the Government and the achievements made to date are heartening and inspire optimism for Cambodia's future.

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