National Committee
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Situational Analysis for Potential Sources of Funding for Capital/Provincial Development Plans and Investment Programs

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National Committee for Sub-National Democratic Development

Project for Capacity Development for Implementing the Organic Law at Capital and Provincial Level

(PILAC2)

Preface

The promulgation of the "Law on Administrative Management of Capital, Provinces, Municipalities, Districts and Khans" in May 2008 provides the legal foundation on the Decentralization and De-concentration Reform (D&D Reform) in Cambodia. The election to establish new councils was successfully conducted in 2009 at the capital, provinces, municipalities, districts, and khans nationwide. The "National Program for Sub-National Democratic Development" (NP-SNDD) was formulated in 2010 to lay out the comprehensive process of the D&D Reform from 2010 to 2019, and the first "Three-Year Implementation Plan for the National Program for Sub-National Democratic Development 2011-2013" (IP3) was approved in 2011. The series of progress above provide the common basis for the Royal Government of Cambodia (RGC) and the Development Partners to move forward.

In line with the progress of the D&D Reform, PILAC2 was launched in March 2010 in cooperation with the National Committee for Sub-National Democratic Development Secretariat (NCDDS). PILAC2 has conducted several surveys to contribute to the advancement of the D&D Reform. The four reports listed below are the accomplishment of the surveys.

Report I: Situational Analysis of Baseline Data of Socio Economic Condition for Capital/Provincial Development Plans and Investment Programs

Report II: Situational Analysis for Potential Sources of Funding for Capital/Provincial Development Plans and Investment Programs

Report III: Study on Human Resource Development - Training Programs for Civil Servants on Local Administration under the Ministry of Interior

Report IV: Situational Analysis 3 - Capital/Provincial and District/Municipal/Khan Administration Management

The reports deal with different topics but share the purpose to describe the latest situations in relation to local administrations in Cambodia. I believe the reports are timely and provide useful information to understand the progress of the D&D Reform and envisage the future of the reform in Cambodia.

On behalf of the NCDDS, I would like to express my sincere gratitude to all the RGC officials and the Development Partners who provided valuable time and information for this study. In addition, I greatly appreciate the generous support of the Government of Japan through the Embassy of Japan and JICA for the D&D Reform, and the Japanese experts for PILAC2 who provided technical support for the study.

Phnom Penh, March 2012

Secretary of State, Ministry of Interior and
Chairperson of the NCDDS

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Abbreviation

ADB	Asian Development Bank
BSP	Budget Strategic Plan
C/P	Capital/Province
C/PRDC	Capital/Provincial Rural Development Committee
C/S	Commune/Sangkat
C/S Fund	Commune/Sangkat Fund

CDB	Commune/Sangkat Database
CDC	Council for the Development of Cambodia
CDCF	Cambodia Development Cooperation Forum
CDRI	Cambodia Development Resource Institute
CMDGs	Cambodian Millennium Development Goals
CPDP	Capital/Provincial Development Plan
CPI	Consumer Price Index
CPIP	Capital/Provincial Investment Program
CR	Cambodian Riel
CRDB	Cambodian Rehabilitation and Development Board
D&D	Decentralization and Deconcentration
DEPFP	Department of Economic and Public Finance Policy
DFT	District Facilitation Team
DIW	District Integration Workshop
DOLA	Department of Local Administration
DPs	Development Partners
EFI	Economics and Finance Institute
ExCom	Executive Committee
GDCC	Government-Donor Coordination Committee
GDLA	General Department of Local Administration
GDP	Gross Domestic Product
GDT	General Department of Taxation
IP3	3-Year Implementation Plan
JMI	Joint Monitoring Indicators
LAA	Local Administration Advisor
LALoT	Law on Amendment to the Law on Taxation
LoT	Law on Taxation
LTD	Large Tax Department
MAFF	Ministry of Agriculture, Forestry and Fisheries
MEF	Ministry of Economy and Finance
MLMUPC	Ministry of Land Management, Urban Planning and Construction
MOEYS	Ministry of Education Youth and Sports
MOH	Ministry of Health
MOI	Ministry of Interior
MOP	Ministry of Planning
MPBF	Ministry Planning and Budget Frameworks
MRD	Ministry of Rural Development
MRDC	Municipal Rural Development Committee
MTEF	Medium Term Expenditure Framework
MTEP	Medium-Term Expenditure Plan
MWA	Ministry of Women Affairs
MWRM	Minister of Water Resources and Metrology
NAA	National Audit Authority
NCDD	National Committee for Sub-National Democratic Development
NCDD-S	NCDD Secretariat
NLCS	National League of Commune/Sangkat
NPAR	National Public Administration Reform Program
NP-SNDD	National Program for Sub-National Democratic Development
NSDP	National Strategic Development Plan
P/MRDC	Provincial/Municipal Rural Development Committee

PFM	Public Finance Management
PFMR	Public Finance Management Reform Program
PFT	Provincial Facilitation Team
PIF	Provincial Investment Fund
PILAC	Project on Improvement of Local Administration in Cambodia
PILAC 2	Project for Capacity Development for Implementing the Organic Law at Capital and Provincial Level
PIP	Public Investment Program
PRDC	Provincial Rural Development Committee
PSDD	Project to Support Democratic Development through Decentralization and Deconcentration
PWG	Planning Working Group
RGC	Royal Government of Cambodia
SNA	Sub-National Administration
SNIF	Sub-National Investment Facility
SSCS	State Secretariat for Civil Service
TA	Technical Assistance
TFC	Technical Facilitation Committee
TNA	Training Need Assessment
TORs	Terms of Reference
TWG	Technical Working Group
UNCDF	United Nations Capital Development Fund
UNDP	United Nations Development Programme
WG	Working Group

Executive Summary

1. Background

The Royal Government of Cambodia (RGC) adopted the Strategic Framework for Decentralization and Deconcentration (D&D) in 2005 in order to spearhead D&D reform in Cambodia (hereinafter the Strategic Framework).

One of the major achievements is the adoption of two organic laws that stipulate the framework for the election, administration and management of the provincial and district councils in Cambodia. Another important achievement is the launch of the formulation of the National Program for Sub-National Democratic Development (NP-SNDD), a ten-year program whose goal is to achieve the strategic vision elaborated in the Strategic Framework for D&D.

2. Objectives and Methodology of the Study

Here are the main purposes of the study.

1. Identify and quantify the volume of the potential sources of funding (internally generated revenue such as taxes, charge, and funding) for the implementation of the capital/provincial development plans and investment programs;
2. Estimate the volume of funding for the development plan and investment program of the capital and provinces; and
3. Prepare a preliminary mechanism for funding.

The study is to be conducted based on three methods: 1) literature review, 2) interviews with selected ministries and development partners, and 3) field surveys of the capital and provincial administration.

3. Potential Sources of Financing

Following the description of the legal and policy framework on financial matters and D&D reform, the potential sources of financing is reviewed and analyzed.

3.1 Public investment Requirements

To achieve the overall and sectoral GDP growth targets for the period covered by the NSDP Update 2009-2013, the government has set a target of total capital investments at US$ 15.1 billion, in which private sector capital investments are estimated to be US$ 10.8 billion (71.7 % of total capital investments) and public sector capital investments are estimated to be US$ 4.2 billion (28.3%).

3.2 Annual budget

The government raises revenue from various sources to fund government administration, services, and development programs and projects. The source of revenue is divided into 1) current revenues, 2) capital revenues and 3) investment revenue from outside sources.

The total revenue has been increasing from 2009 to 2011. Total revenue is expected to increase by 13% in 2009-2010 and 17.2% in 2010-2011.

Tax revenue (fiscal revenue) and non-tax revenue (non-fiscal revenue) make up the total current revenue. Tax revenue is expected to increase by approximately 13%/year, while non-tax revenue is expected to increase by 5.3% in 2009/2010 and 20% in 2010/2011.

Capital revenue includes 1) domestic capital revenues, mainly from financial investments and 2) capital revenues from external sources, which are made up of the budget support fund, loans and grants. The share of capital revenue is a small percentage of the total budget revenue, only 4-5%.

Investment revenue from overseas source, which is mainly the grant and loan from bilateral and multilateral organizations, is expected to significantly increase by 17.6% in 2009/2010 and 30% in 2010/2011 and steadily increase the share in the total revenue from 23.7% in 2009 and to 27.4% in 2011.

Furthermore, capital revenue and investment revenue, especially revenue from outside (e.g. development partners) seems to show more fluctuation from year to year compared with domestic revenue.

The government expenditures have been steadily increasing in the last few years. Current expenditures have increased by 15.3% and 9.5% in 2009/2010 and 2010/2011 respectively, partly because the salary of the government official has increased. On the other hand, capital expenditures in 2011 increase by 32.8%, which is much higher than 2010 (a 12.9% increase compared with 2009).The share of current and capital expenditures has been constant at 60% and 40% respectively in 2009 and 2010.

The capital and provincial administrations are allocated approximately 25% of the current expenditures, but zero percent of the capital expenditures. This fact seems to indicate that the capital and provincial administrations do not have discretion to spend the budget for capital expenditure based on their own decisions.

In addition to the gap which exists between the budget of the central ministries and SNAs, there also exists the gap between the budgets of the SNAs.

3.3 Tax revenue

In Cambodia, 16 different types of taxes are collected under the LoT. The tax revenue of Cambodia is expected to increase by about 13% per year from 2009 to 2011.

3.4 Non-tax revenue

The non-tax revenue are categorized into five areas: 1) revenue from state property, 2) revenue from the sale and rental of properties and services, 3) revenue from fines and penalties, 4) financial income and 5) other sources of income and special incomes.

Non-tax revenue is much less than tax revenue: it is about 20% the size of tax revenue. Of the five categories, the revenue from the sale and rental of property and services constitutes the largest share, i.e., more than half of the total non-tax revenue. If combined with the revenue from state property, the share reaches 63%.

3.5 Intergovernmental Transfer

The share of the current expenditures of the capital and provincial line departments are approximately 30%, though the majority of the expenditures are for the payment of salaries and does not influence the level of spending on development programs and projects.

No capital expenditures are allocated to the capital and provincial line departments, implying that the decisions for spending of capital expenditures are under the responsibility of the central ministries.

3.6 Funding of Development Partners

Nearly 98% of the capital revenue (i.e., the total of the total capital revenues and the total investment revenue) comes from development partners.

The financing from development partners is important in terms of financing the budget deficit. The budget deficit of 2010 reached US$ 573 million. The funding from development partners is 90% of the necessary financing to make up for this budget deficit.

The funding of development partners from 2006 to 2008 shows a surplus (i.e. disbursement was larger than forecast). The funding from the respective development partners may change significantly from year to year.

If the total amount of the expected amount (2010-2012) and the committed amount so far are compared, there is still a large gap, especially the gap in the funding from development partners. If the RGC is to implement the PIP as expected, the RGC must try to fill this gap.

The funding of development partners for sub-national development comes from many sources and is channeled in different ways from the original funding organizations to the SNAs at each level.

The ratio of the distribution to provinces of the development assistance is identified. Approximately 60% of the development assistance was disbursed at the provincial level.

The per capita distribution to the provinces shows a contrasting picture. The largest beneficiary province is Mondul kiri, which receives US$410 per capita. Phnom Penh, which ranks at the top in terms of total funding, receives US$ 53 per capita.

4. Conclusion

The concluding remarks attempt to show 1) a trial calculation on the scale of the fund for the capital and provincial development and 2) the distribution mechanism within the capital and provinces.

4.1 Scale of funding to the capital and provinces

The primary purpose of the calculation are to show the possible criteria of such calculations and compare the results of the calculations between the provinces; and not to indicate the exact amount necessary for the development of the capital and provinces.

The criteria selected for the calculations are 1) an amount, which is equally dispersed among the provinces, 2) the population, and 3) the poverty ratio. The equally divided share amount is intended to distribute a certain amount of funds equally to each province and has the effect of reducing the gap in the funding scale which will be brought about by other criteria. The criterion of population functions to increase the gap, but guarantee to provide the same amount of money per capita. The poverty ratio is used for the policy purpose of reducing poverty and balancing development between the provinces.

However, in reality, other types of criteria can be used to comply with the particular priority policy purposes. For example, if the fund is primarily intended for infrastructure development, an indicator of infrastructure such as the length of unpaved roads can be used.

Trial calculation on the scale of the development fund for the capital and provincial administrations

	Equal amount	Population (2008)		Poverty rate (2010)		With equal amount		Without equal amount	
						Total fund	Per capita fund	Total fund	Per capita fund
	US$	Persons	US$	%	US$	US$	US$	US$	US$
Banteay Meanchey	100,000	677,872	67,787	29.7	297,000	464,787	0.7	364,787	0.5
Battambang	100,000	1,025,174	102,517	28.7	287,000	489,517	0.5	389,517	0.4
Kampong Cham	100,000	1,679,992	167,999	24.3	243,000	510,999	0.3	410,999	0.2
Kampong Chhnang	100,000	472,341	47,234	30.4	304,000	451,234	1.0	351,234	0.7
Kampong Speu	100,000	716,944	71,694	30.1	301,000	472,694	0.7	372,694	0.5
Kampong Thom	100,000	631,409	63,141	32.7	327,000	490,141	0.8	390,141	0.6
Kampot	100,000	585,850	58,585	19.1	191,000	349,585	0.6	249,585	0.4
Kandal	100,000	1,265,280	126,528	15.9	159,000	385,528	0.3	285,528	0.2
Koh Kong	100,000	117,481	11,748	25.1	251,000	362,748	3.1	262,748	2.2
Kratie	100,000	319,217	31,922	37.1	371,000	502,922	1.6	402,922	1.3
Mondul Kiri	100,000	61,107	6,111	37.1	371,000	477,111	7.8	377,111	6.2
Phnom Penh	100,000	1,327,615	132,762	0.1	1,000	233,762	0.2	133,762	0.1
Preah Vihear	100,000	171,139	17,114	41.5	415,000	532,114	3.1	432,114	2.5
Prey Veng	100,000	947,372	94,737	25.5	255,000	449,737	0.5	349,737	0.4
Pursat	100,000	397,161	39,716	32.0	320,000	459,716	1.2	359,716	0.9
Ratanak Kiri	100,000	150,466	15,047	41.2	412,000	527,047	3.5	427,047	2.8
Siem Reap	100,000	896,443	89,644	31.1	311,000	500,644	0.6	400,644	0.4
Preah Sihanouk	100,000	221,396	22,140	19.6	196,000	318,140	1.4	218,140	1.0
Stung Treng	100,000	111,671	11,167	41.1	411,000	522,167	4.7	422,167	3.8
Svay Rieng	100,000	482,788	48,279	21.5	215,000	363,279	0.8	263,279	0.5
Takeo	100,000	844,906	84,491	23.4	234,000	418,491	0.5	318,491	0.4
Otdar Meanchey	100,000	185,819	18,582	36.5	365,000	483,582	2.6	383,582	2.1
Kep	100,000	35,753	3,575	21.4	214,000	317,575	8.9	217,575	6.1
Pailin	100,000	70,486	7,049	28.1	281,000	388,049	5.5	288,049	4.1
					Grand total	**10,471,568**		**8,071,568**	

The figures significantly change if the calculation formulas are changed. For example, if the equally divided fund is excluded from the calculation, the grand total of the fund decreases by nearly 20%.

Although these calculations are not substantiated based on a rigorous assessment on the potential requirements of the province-wise public investment plan, the calculations can show indicative figures based on the policy goals and intentions of the government.

4.2 Selection mechanism within the capital and provinces

The capital and provincial development plan (CPDP) and investment program (CPIP) should be a major reference point for prioritizing the programs and projects and for allocating the disbursement of the fund.

The report describes a preliminary idea on how to select projects for funding, which becomes necessary once the mechanism for funding the development efforts of the capital and provinces has been established. The processes are assumed to be taken after the CPIP has been prepared and before allocating the fund for the implementation of the projects on the CPIP's list.

Possible process of selecting project proposals

Process	Content
1. Selection of priority sectors	Priority sectors may be selected, especially when the number of projects in CPIP is large compared with the volume of the fund.
2. Preparation of detailed proposal	More detailed project proposals should be prepared as the information in the CPIP is brief making it difficult to compare and make decision for selection.
3. Selection of project proposals	Project proposals need to be discussed and selected among the board of governors, representatives of the line departments and other stakeholders. A tentative list of selected projects needs to be approved by the council.

1. Background

The Royal Government of Cambodia (RGC) adopted the Strategic Framework for Decentralization and Deconcentration (D&D) in 2005 in order to spearhead D&D reform in Cambodia (hereinafter the Strategic Framework).[1] Since then, the RGC has been making a number of important advancements in implementing the Strategic Framework.

One of the major achievements is the adoption of two organic laws that stipulate the framework for the election, administration and management of the provincial and district councils in Cambodia.[2] The two laws were promulgated in May 2008, and the first election of provincial and district councils was held in May 2009. The National Committee for Sub-National Democratic Development (NCDD) is taking the lead in preparing a set of regulations and guidelines that accompany the organic laws for the establishment and operationalization of the provincial and district councils.

Another important achievement is the launch of the formulation of the National Program for Sub-National Democratic Development (NP-SNDD), a ten-year program whose goal is to achieve the strategic vision elaborated in the Strategic Framework for D&D.

The Project for Capacity Development for Implementing the Organic Law at Capital and Provincial Level (PILAC2), which was launched in March 2010, has a duration of five years which is finished in March 2015, and is divided into four (4) implementation phases. As one of the outputs of PILAC2, the Situational Analysis for Potential Sources of Funding for the Capital/Provincial Development Plans and Investment Programs is to be conducted.

2. Objectives and Methodology of the Study

2.1 Objectives

Here are the main purposes of the study.

4. Identify and quantify the volume of the potential sources of funding (internally generated revenue such as taxes, charge, and funding) for the implementation of the capital/provincial development plans and investment programs;
5. Estimate the volume of funding for the development plan and investment program of the capital and provinces; and
6. Prepare a preliminary mechanism for funding.

The above findings will be utilized to improve the training curriculum and materials under the PILAC2, and identify potential areas of further research.

2.2 Methodology

The study is to be conducted based on three methods: 1) literature review, 2) interviews with selected ministries and development partners, and 3) field surveys of the capital and provincial administration.

First, the study identifies and reviews the literature on the laws and regulations on such matters as financial issues, policy framework, and budget figures.

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[1] Royal Government of Cambodia (2005). *Strategic Framework for Decentralization and Deconcentration Reforms*. (Phnom Penh: Royal Government of Cambodia).

[2] Royal Kram No.NS/RKM/0508/017 (2008). *Law on Administrative Management of Capital, Provinces, Municipalities, District and Khans.* Kingdom of Cambodia.; Royal Kram No.NS/RKM/0508/018 (2008). *Law on Elections of Capital Council, Provincial Council, Municipal Council, District Council and Khan Council*. (Phnom Penh: Royal Government of Cambodia).

Secondly, interviews are conducted with selected departments of the Ministry of Economy and Finance (MEF), CDC, NCDD, and other organizations to build an understanding of the existing financial resources to the capital and provincial administrations and to analyze them.

Lastly, field surveys in the selected provinces are to be conducted through interviews with the board of governors and the line departments to better understand the revenue inflows and expenditure of the capital and provincial administrations.

3. Legal and Policy Framework

This chapter describes the legal and policy framework regarding the financial aspects of Sub National Administrations (SNAs), focusing on the capital and provincial administrations.[3]

3.1 Legal framework

Several laws and regulations influence the financial status of SNAs. The table below lists the relevant laws and regulations. The following sections briefly describe the content of the major laws and regulations.

Table 1: Laws and regulations related to financial matters of SNAs

Law, Parkas, Decision	Title	Year
Law		
Royal Kram No. NS/RKM/0297/03	Law on Taxation (as amended in 2003)	1997
Royal Kram No. CH/RKM/0298/03	Law on Financial Regime and Property of Provinces and Municipalities	1998
Royal Kram No. NS/RKM/0300/10	Law on Audit	2000
Royal Kram No. NS/RKM/0301/05	Law on Administrative Management of Commune/Sangkat	2001
Royal Kram No. NS/RKM/0508/016	Law on Public Finance Systems	2008
Royal Kram No. NS/RKM/0508/017	Law on Administrative Management of the Capital, Provinces, Municipalities, Districts and Khans	2008
Draft Law	Draft Law on Financial Regime and State Property Management for Sub-National Administrations	2010
Sub-Decree		
Sub-Decree No. 84 OrNKr/BK	Sub-Decree on General Rules of Public Accounting	1995
Sub-Decree No. 93 OrNKr/BK	Sub-Decree on the Transfer of State Budget to Commune/Sangkat Fund	2010
Prakas		
Prakas No. 171SHV.BrK	Prakas on Organization and Functioning of Department of State Property	2001
Prakas No. 181SHV.BrK	Prakas on Organization and Functioning of Department of Local Finance	2003
Prakas No. 236SHV.BrK	Prakas on Organization and Functioning of Department of Non-Tax Revenue	2005
Others		
Government Order No. 30 BB	Government Order on State Property Management	1997
Government Order No. 04 BB	Government Order on Strengthening of Non-Tax Revenue Management	2006

[3] The description of this chapter heavily depends on ADB's "Deconcentration and Decentralization Reforms in Cambodia: Recommendations for an Institutional Framework" (2010).

3.1.1 Law on Financial Regime and Property of Provinces and Municipalities (1998)

The legal framework for the financial systems of SNAs in Cambodia has been evolving gradually, particularly since the passing of the Law on Financial Regime and Property of Provinces and Municipalities (1998).

Budget and asset

According to Articles 2, 3 and 4 of this Law, provinces and municipalities are the legal entities designated to manage budgets and assets through governors and deputy governors as representatives of the central government.

Article 6 stipulates that governors are required to formulate and implement provincial and municipal budgets, including the administration of tax and non-tax revenues and expenditures. Article 14 defines the obligatory expenditures of provinces and municipalities, such as the maintenance of office space, building and documents, salaries and allowances, the provision of social services, and the maintenance of public property and infrastructure. Apart from expenditures stated in Article 14, provinces and municipalities may also allocate budgetary funds for miscellaneous (non obligatory) expenditures such as fees for protocols, meetings and visits. All investment projects with cost exceeding a prescribed ceiling can be included in the budget only with prior approval of the MEF.

Tax and non tax revenues

Article 17 stipulates that provinces and municipalities are given tax and non-tax revenues.[4] The tax revenues assigned are: 1) tax on unused land, 2) registration tax, 3) patent tax, 4) slaughter house tax, and 5) means of transportation tax.

The non-tax revenues assigned are: 1) revenues from the local electricity supply, 2) income from the local water supply, 3) revenues from managing state assets (markets, parking, harbors, storage facilities etc.) 4) fees and charges in relation to administration (e.g. provision of documents, certification of documents etc.), 5) administrative approvals and 6) charges of public services provided.

3.1.2 Law on Administrative Management of Capital, Provinces, Municipalities, Districts and Khans (2008)

The Law on Administrative Management of Capital, Provinces, Municipalities, Districts and Khans (2008) (Organic Law) is a fundamental law of D&D reform. The power of the SNAs is assured under the principles of a democratic unified administration in a unified State. The SNAs defined in the Law function as legal entities with a legally elected council. Councils have various roles, duties and authority.

Article 36 stipulates that councils can make the necessary decisions on issues on: 1) new, obligatory or permissive functions, 2) the five-year development plan and three-year rolling investment program 3) the annual budget plan and the mid-term expenditure framework, 4) the public finance management system, 5) structures and committees of the councils, 6) asset management, 7) consultations with citizens, and 8) other duties prescribed by law.

Development plan and investment program

Councils are required to formulate and approve a five-year development plan to be updated annually through a three-year rolling investment program. Annual monitoring and evaluation of the plan and the program should be done.

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[4] See “4.1 Tax revenue” and “4.2 Non tax revenue” for more detail.

Financial affairs and budget

Article 43 stipulates that the council shall manage its financial affairs in a way that is transparent and accountable to all citizens. As provided in Article 44, the capital, provincial, municipal and district councils shall have their own budget which is referred to as the budget of the SNAs while the khans and sangkats in the capital shall have their budget in the budget of the capital, and the sangkats in a municipality shall have its budget in the budget of the municipality.

Revenue of SNAs

According to Article 244, the councils have the right to receive revenue from local, national and other sources in accordance with the Law on Financial Regime and Management of Assets of SNAs, whose draft has been formulated in consistence with the Organic Law and which is scheduled to be approved by the National Assembly and the Senate in 2011.

The local sources of revenue include: 1) local taxes, 2) fees, charges and other non-tax revenues, 3) revenues of district councils generated from taxes, fees and charges to be shared between the district council, the commune and sangkat councils within the district, 4) voluntary donations, and 5) other sources that may be defined by Law or sub-decree. The revenues from national sources include: 1) shared revenues, 2) national transfers, and 3) agency fees for special services performed by the council on behalf of a government ministry or institution.

Conditional and unconditional transfers

Article 249 stipulates that the councils are entitled to receive national revenue through conditional and unconditional transfers of funds. The national transfer of funds shall be made in installments each year.

The conditional transfer is the fund which should be used by the councils for 1) administering obligatory functions transferred to the councils through delegation or assignment, 2) continuing to implement permissive functions that have previously been implemented by a government ministry or institution, or 3) defined obligatory functions. The unconditional transfer is the fund which should be used by the councils for 1) fulfilling their legal duties, 2) fulfilling their functions and duties to establish, promote and sustain democratic development, 3) covering their administrative costs, and 4) administering permissive functions that they choose.

Asset management

To ensure that the councils are able to perform functions and duties in accordance with the Organic Law, the necessary assets can be transferred to the SNAs. Article 255 stipulates that the state assets that are transferred to SNAs are the assets that SNAs can manage, utilize and generate revenue from.

In the event that the council receives one or more functions but the necessary assets are insufficient or do not exist to administer that function, the council shall receive financial resources to address its needs, stipulated in Article 258. As indicated in Article 261, the council shall prepare a plan for the maintenance of the assets of the SNA to be included in the annual budget to ensure the efficiency, effectiveness of management and utilization of the assets. The council shall also prepare an inventory of the assets of the SNA that will be updated every year.

3.1.3 Law on Public Financial Systems (2008)

Article 39 of this law provides an overview of the whole process of formulating an annual budget. There are three stages in the budget formulation process.[5]

[5] Schedule of formulating MTEF and annual budget is described in more detail in Table 6.

Table 2: Stages for formulating the annual budget

Stage 1: Preparation of budget strategy plan (March-May)	▪ Prepare new macroeconomic policy and a medium-term public finance framework coherent with the national policy on development for approval by the Council of Ministers (first week of March) ▪ Issue Circular on how to prepare the budget strategic plan (BSP) in accordance with the previously mentioned macroeconomic policy and medium-term public finance framework (first week of April) ▪ Based on the above Circular, ministers, heads of public institutions and capital/provincial governors prepare a BSP for own budgets (Mid May)
Stage 2: Preparation of budget package (June-September)	▪ Draft Guideline on how to prepare a budget to be adopted by Council of Ministers (first week of June) ▪ Ministers, heads of public institutions and capital/provincial governors provide details on their revenue and expenditures and send this to the MEF ▪ Discuss with ministers, heads of public institutions and capital/provincial governors their proposals (August) ▪ Finalize the balance of revenue and expenditure (September)
Stage 3: Approval of budget (October-December)	▪ Draft budget law and submit it to Council of Ministers for approval (first week of October) ▪ Submit draft law to National Assembly (first week of November) ▪ Submit draft law to Senate (first week of December)

Source: Law on Public Financial System (2008)

It should be noted that the central government is given control over budget formulation and approval. The annual budget law (i.e., Law on Finance for Management) allocates a financial envelope to SNAs but without details. The Minister of the MEF has authority on all public finance matters.

SNAs develop and manage plans and budgets with accountability to the policies of the central government. Governors of all SNAs must send to the MEF, by prescribed dates, proposed plans and budgets for approval. In August, the MEF negotiates budget outcomes with governors of all provinces and the capital. Importantly, procedures for approval of the budget are limited to approvals by the National Assembly and do not refer to approvals by elected councils, as provided in the Organic Law. Thus a very centralized approach is taken towards the preparation and approval of SNA budgets – at least at the capital and provincial levels which conflicts with the Organic Law.[6]

Budget implementation, accounting and reporting are based on centralized and deconcentrated approaches. Ministers are managers of their budgets but may delegate powers to SNA governors and to heads of their own capital and provincial departments with the prior approval of the MEF. Governors of SNAs are responsible for executing the budget and for preparing and sending the standardized reports on budget and project execution to the MEF.

Governors of SNAs must develop frameworks and manage the operations of internal auditors (based on MEF guidelines). The MEF is provided powers to conduct financial inspections of SNAs. Financial operations (revenues, expenditure, and cash) and public accounting at SNAs shall be centralized in the National Treasury based on international accounting standards and in line with the MEF-approved Chart of Accounts.

The central government is given strong control over revenue as well. All taxation and excise matters must be addressed via a central government law with controls through the MEF over

[6] Local Finance Department is going to review the current legal framework and revise or formulate the relevant laws and regulations to comply with the SNA financial law.

revenues from state assets. No mention is made of SNA assets in this law; revenues of the provinces and the capital belong to the State budget and cannot be managed directly by SNAs.

Based on the Law on Financial Regime and State Property Management for Sub-National Administrations, which is described below, the law on public financial systems and related regulations are likely to be revised.

3.1.4 Draft Law on Financial Regime and State Property Management for Sub-National Administrations (2010)

The Law on Financial Regime and Property Management for SNAs (SNA financial law) ensures that the councils of SNAs formulate, approve and implement their budgets the management of their property with proper financial accounting practices, and with internal and external audits on the council's budget and finances in accordance with rules, systems and procedures.

The draft of the Law was approved by the NCDD on 16 November 2010 and will be submitted to the National Assembly and the Senate for review and approval in the coming months.

Budget

According to Article 20 of this draft law, the SNA budget is to be formulated, adopted and executed in accordance with the following principles: 1) full information about budget formulation, adoption and implementation must be disclosed; 2) all revenues and expenditures must be part of a unified budget; 3) the budget shall include all expenditures and all revenues of the concerned SNA; 4) revenues must be collected and accounted for based on their gross amount such that no expenditure is offset from collected revenues; 5) no revenue is earmarked for the payment of a specific expenditure unless such earmarking is permitted or required by separate regulations; 6) the total planned expenditures are fully covered by the total expected revenues; and 7) no revenue or expenditure is collected or undertaken outside the approved budget.

Execution of SNA budgets currently follows the rules and principles which are defined in the 2008 Public Finance Systems Law with regard to accounting, procurement and control.[7] Councils approve such matters as the plans, budgets, and financial statements. The Governor, on behalf of the Council, has principal authority regarding the collection of revenues and spending commitments, and other payments based on the SNA's approved budget. The Governor is also responsible for managing, opening and closing the administrative account. The Treasury of the SNA acts as Public Accountant for the SNA and is responsible for payments, funds management, accounting, reporting etc. with payments to be verified by the Chief of Finance and authorization provided by the Governor. All expenditures are also subject to the prior review and control of MEF officials. The Chief of Finance and Treasury prepare the annual financial statements, while the MEF prepares provincial and national consolidations for the National Assembly and Senate.

Financial resource

Article 25 of this draft law stipulated that SNA financial resources include the following: 1) local source revenues; 2) national source revenues; and 3) other revenues as determined by law or sub-decrees. Local source revenues include tax and non-tax revenues. National source revenues include the following shared revenues: 1) funds transferred from the national budget (conditional transfers and unconditional transfers to be defined by Law) and 2) service fees for agent functions carried out by a Council on behalf of the ministries and agencies of the government.

[7] Based on the SNA financial law, MEF is going to revise the Law on Public Financial Systems and formulate relevant regulations.

Internal audits and performance monitoring

All SNAs are required to establish an internal audit function and conduct performance monitoring with reporting on these functions to the Governor. Monthly, mid-year and annual budget realization reports and financial statements are to be prepared for the Council and MEF, while annual external audits are to be conducted by the National Audit Authority. The accounts and performance may be subject to MEF and any other legal inspection. The Governor has to ensure proper accounting and management of SNA assets in line with MEF guidelines.

Right to enter into financial arrangements

Article 22 states that SNAs do not have the right to enter into financial arrangements such as loans and bonds, or undertake any other actions that lead to the financial obligation of the Royal Government of Cambodia.

Separate laws and regulations

The SNA finance law describes the general aspects of financial matters without detail. The MEF has started preparing 18 separate laws and regulations.

Table 3: List of laws and regulations to be prepared for the SNA finance law

Subject	Article	Type	Responsible organization
1. Selection process and required qualifications of the Finance Chief for SNAs	12	Inter-Ministerial Prakas (Proclamation)	MoI and MEF (proposed by the Minister of Interior, appointed by the Council upon approval by the Minister of Economy and Finance
2. The modality, structure and procedure for integrating budgets of Khans and Sangkat into Capital budget and the Sangkat budget into a Municipal budget	15	Ministerial Prakas	MEF (by the Minister of Economy and Finance after consultation with the Minister of Interior
3. Procedures on budget preparation, budget format and budget classification (can be duplicated with no.16)	19	Ministerial Prakas	MEF
4. Guideline on the format of the Medium Term Expenditure Framework, the modalities of formation and adoption	21	Ministerial Prakas	MEF
5. Budget expenditures relating to performance of other roles and responsibilities (besides administrative operations, obligatory functions and permissive functions)	24	Law or Sub-Degree or Regulations	As proposed by the MEF
6. Other revenues of SNAs (besides local source revenues and national source revenues)	25	Law or Sub-Decree	As proposed by the MEF
7. The distribution and proportion of local tax and duty types to each SNA	26-1	Law	As proposed by MEF
8. The distribution of local non-tax revenues to each SNA and the maximum amount of service fees and other non-tax revenues	26-2	Ministerial Prakas or Inter Ministerial Prakas or Sub-Decree	The MEF and MoI (as proposed by the Minister of Economy and Finance, with agreement from the Minister of Interior)
9. Types and distributions of shared revenues to SNAs	28	Law or Sub-Decree	As proposed by the Minister of Economy and Finance in agreement with the Minister of Interior

10. Procedures and modalities for the determination and payment of transfers (grants) from national budget to SNAs	29	Sub-Decree	Same as above
11. Rules, procedures and modalities on the determination and payment of conditional transfers (grants)	30	Sub-Decree	Same as above
12. Rules, procedures and modalities for the determination and payment of unconditional transfers (grants)	31	Sub-Decree	Same as above
13. Formulation and executing rules on the District/Municipality Fund	32	Sub-Decree	Same as above
14. Rules, procedures and modalities on the use of resources to fulfill the role of agent function	34	Ministerial Prakas	MEF (as proposed by the Minister of Economy and Finance and agree to by the Minister of Interior)
15. Circular and Guidelines on the preparation of the Budget Strategy Plan based on development plan, investment program and medium term expenditure framework	36-1	Ministerial Circular	MEF
16. Technical circular and guideline on budget preparation specifying budget formats and procedures based on development plan, investment program and medium term expenditure framework	36-2	Ministerial Circular	MEF
17. Financial Management and Accounting Transactions coherence between the rule of PFM, public procurement and general provisions of public accounting	45	Law, Sub-Decree and Prakas	MEF and as proposed by the MEF
18. Guideline on transfer and assignment of any properties to sub-national administrations, subject to any such transfer and assignment are to be processed in returnable condition	48	Sub-Decree	As proposed by the Minister of Economy and Finance in agreement with the Minister of Interior through NCDD

Source: Local Finance Department, MEF

The Local Finance Department prioritizes the tasks out of 18 laws and regulations and is working on 1) the District/Municipality Fund (DM fund) and 2) those related to budget process (No. 3,4, 15,16, and 17 in the above table).

3.1.5 Law on Taxation

The Law on Taxation (LoT), which was promulgated in 1997, provides the guidelines on various types of taxes. The Law on Amendment to the Law on Taxation (LALoT), which was promulgated on 31 March 2003, has introduced changes to the taxation of qualified investment projects and widened the tax net on payments to non-residents of Cambodia. With the Financial Act 2007, MEF has revised the LoT again (notably Article 7), to introduce a taxation on capital gains on immovable property, investment property and financial property.[8]

Sub-Decree No. 134, dated 15 September 2008, promoted the Tax Department to the General Department of Taxation (GDT).[9] Starting from November 2008, the Large Tax Department

[8] Diagnostic Analysis of Cambodian Tax System and Tax Reform of Leasing (DFDL Mekong 2008)
[9] Appendix 2: Structure of DGT

(LTD) only governs large taxpayers[10], while medium taxpayers in real regime and taxpayers in estimated regime are governed by the khan[11]/provincial tax branch.

While the khan tax branch does not have offices at the sangkat level, each provincial tax branch has offices in almost every district (district tax office). Where there is no district tax office, the provincial tax branch collects the taxes. A division of labour is made according to tax regimes, in which the provincial tax branch collects taxes from businesses in real regime. The district tax office is authorized to collect most of the tax categories within the district jurisdiction. In terms of the tax regimes, the district tax office is responsible for collecting taxes from businesses in the estimated regime. The types of taxes that the district tax office commonly collects are as follows: tax on business turnover, tax on profit, tax on the means of transportation, registration tax, unused land tax, patent tax, slaughter tax, and street lighting tax.[12]

The tax authority is also responsible for informing and explaining to taxpayers their tax liability to ensure that they understand and comply with the tax laws and regulations. This is important for businesses within the estimated regime, since records are rarely kept and the tax registration of businesses is not common. With regard to the calculation of tax on business turnover, for example, the tax authority determines the amount of annual turnover through a rough assessment and a calculation with consultation with the taxpayers. However, this procedure is rarely used in practice, as it is time consuming and the district/khan tax offices rarely request information on business turnover and capital investment for their assessment and calculation. Therefore, businesses in the estimated regime usually pay a different amount of tax as requested by district/khan tax office, even if the scale of business is similar/the same. There is room for negotiation and bargaining between taxpayers and tax collectors. This creates space for rent seeking and non-uniform tax collection across time and location (ibid).

The GDT prepares the annual implementation plan by outlining the categories and amounts of taxes to be collected by its department, and provincial/khan tax branches. GDT is also responsible for ensuring that the tax collection is inspected and the account is audited at the tax branches. Each tax branch has the responsibility for ensuring that the actual tax amount collected corresponds to the planned figures.

Provincial tax branches collaborate with the district tax offices in preparing a detailed work plan and in registering for tax collection.[13] District tax offices usually prepare two types of registration as a basis for and evidence of tax collection within each district: 1) registration for tax on business turnover and for tax on profit; and 2) registration for the patent tax. The first registration is prepared monthly, and has data on types of businesses, the estimated monthly turnovers, applicable tax rates, amount of tax to be collected, and contact addresses. The second registration is prepared annually and details all types of businesses that are subject to patent tax collection in the district. At the khan tax branch, these registrations are prepared by the office of taxpayer services and registration.

The collection of the taxes with registrations is tightly enforced, and fines are regularly and strictly imposed. For the tax authority, these two registrations enable them to revisit and re-

[10] Prakas No. 931 (MEF), dated 3 October 2008 provides the criteria of the large taxpayer, as follows: 1) a qualified investment project; 2) a branch of foreign enterprise or multinational company; or 3) other enterprises that have an annual turnover exceeding CR1 billion (approximately US$250,000).

[11] Phnom Penh capital does not have the capital tax branch, but has seven khan tax branches in which each khan tax branch has equal ranking with the provincial tax branch.

[12] Fiscal Decentralisation: An Exploratory Study on Existing Taxation and Options for Commune/Sangkat Own Source Revenues (CDRI 2004)

[13] Khan tax branches do not have sangkat tax office, so they prepare the detail work plan and registers for tax collections through their four technical offices: 1) taxpayer service and registration office; 2) return processing office; 3) tax audit office; and 4) tax arrears collection office.

classify businesses on a quarterly or semi-annual basis in order to update the amount of tax due, and the tax regime classification. Most of the businesses registered in the two registrations tend to be located around market areas at the district level, as these businesses are easier to control and reach for tax collection than those in more remote areas. According to officials at several provincial tax branches, tax collection from businesses far away from the provincial center and district offices rarely take place, if at all.

Besides these two registrations, there are no other registrations or record books for the collection of other categories of tax. The collections of other taxes are monitored through receipt books filled in as payments are collected.

3.2 Policy framework

Following the description of the legal framework on financial matters and D&D reform, this section briefly reviews the policies on 1) development planning at national level, 2) multi-year budget planning and 3) D&D reform.

Table 4: Policy framework on development planning, budget planning and D&D reform

Category	Policy framework
Development planning	1. National Strategic Development Plan
	2. Public Investment Program
Budget planning	1. Medium-term Expenditure Framework
	2. Budget strategic plan
D&D reform	1. National Program for Sub National Democratic Development
	2. First Three-year (2011-2013) Implementation Plan

3.2.1 National Strategic Development Plan

The National Strategic Development Plan (NSDP Update 2009-2013) is prepared to accomplish two primary goals. The first goal is to adjust the time period covered by the NSDP Update 2009-2013 with the term of the Fourth Legislature of the government in order to ensure that the actions, programs, and projects of all ministries and agencies are coordinated to implement the prioritized policies outlined in the Rectangular Strategy Phase II. The second goal is to ensure that the actions of the ministries and agencies used to implement these prioritized policies are formulated considering the potential impact of the global economic downturn on socio-economic development of Cambodia.

The NSDP Update 2009-2013 has been prepared focusing on identifying 1) ***who*** is responsible for implementing the priority policy, 2) ***what*** specific actions the responsible institutions have planned in order to implement the priority policies, and 3) the responsible institution's best estimate on ***how*** much it will cost to implement the planned actions during 2009-2013.

On the other hand, the NSDP Update 2009-2013 has been formulated through a participatory approach and a bottom-up planning process in which the Task Force, chaired by the Ministry of Planning (MoP) manages the efforts in strengthening the harmonization of planning, public investment expenditures, and resources from all sources available to implement the RGC's public investment program. As part of this effort, the MoP and MEF work closely with the ministries and agencies to ensure that the process of identifying the public investment projects by the ministries and agencies is closely linked to the formulation of the budget strategic framework.

3.2.2 Public Investment Program

The three-year rolling Public Investment Program (PIP) is intended to serve three main important purposes: 1) to function as a main mechanism for identifying and listing specific projects and activities needed to achieve the broader sectoral goals and targets of the NSDP; 2) to lay a foundation to assist all line ministries and agencies, and to attract and direct the assistance of development partners to priority programs and projects (including through annual consultations of the Cambodia Development Cooperation Forum (CDCF) for aid-mobilization); and 3) to function as a mechanism for aligning external resources and the government's own investment programs to the priorities in the NSDP, as well as being used as a tool for monitoring the progress of this alignment over time.

To align with the schedule of the annual budget, the Mid-term Expenditure Framework (MTEF) and the CDCF the formulation of the PIP is scheduled as shown in the table below.

Table 5: Schedule for formulating the PIP

Month	Tasks
October	The MoP issues and sends a circular for the formulation of the PIP to line ministries and agencies (LMs/LAs).
November-January	LMs/LAs prioritize and select project proposals for submission to the MoP.
January-February	The MoP collects and enters all projects data into the PIP database.
February	The MoP prioritizes projects in line with policy priorities as mentioned in the NSDP.
February	The draft PIP is produced and presented to the inter-ministerial meeting.
March	The draft PIP is approved by the Council of Ministers.
March	The PIP is approved by the Council of Ministers and submitted to the MEF for the annual budget, the MTEF and to the CRDB/CDC for the CDCF.

Source: MoP, Public Investment Program, Three-Years-Rolling 2010-2012

The government recognizes that the PIP requires improvements to ensure that: 1) the recurrent expenditure requirements that have implications for the "annual budget" are an integral part of the information collected in the formulation of the PIP and 2) projects included in PIP need to be prioritized.

3.2.3 Medium-Term Expenditure Framework

The Medium-term expenditure framework (MTEF) is a three-year rolling plan and has the following objectives[14]: 1) to allocate the overall budget of line ministries and agencies; 2) to guide the conversion of general sector objectives into specific annual budget expenditures for each line ministry/agency; 3) to integrate current and capital budgets; 4) to guide 60% of overall expenditures towards rural development; and 5) to provide monitoring and feedback to facilitate the update and revision of the NSDP.

The MTEF is a top down (three-year rolling budgeting) sectoral policy based on key macro indicator targets. The MTEF has been introduced since 2000. The MTEF is used by the Department of Economic and Public Finance Policy (DEPFP) of the MEF to guide the annual budget plan.

The MTEF was initially piloted at two ministries: the Ministry of Education, Youth and Sports (MOEYS), and the Ministry of Health (MOH) and has been expanded to include more priority ministries. The MTEF is now implemented by the MOEYS, the MOH, the Ministry of Water Resources and Metrology (MWRM), the Ministry of Rural Development (MRD), the Ministry of Agriculture, Forestry and Fisheries (MAFF), the Ministry of Land Management, Urban Planning and Construction (MLMUPC), and the Ministry of Women Affairs (MWA). It will eventually be expanded to include all the remaining ministries.

The MTEF is one of the instruments used to operationalize the NSDP. The NSDP states that the PIP, MTEF and annual budget are all needed to break down the broad NSDP outlays into clear annual current and capital expenditures. The MTEF is supposed to include both current and capital expenditures, while the PIP contains only capital expenditures that may or may not be fully funded either by the government or by development partners. Just as the NSDP

[14] MTEF in Cambodia, JICA Executive Advisory Economist Office, MEF, 2009

helps the MoP decide which projects and programs are to be included in the PIP, the NSDP also helps the MEF decide the amount of resources to be allocated to line ministries and agencies as part of the MTEF and the annual budget.

However, there is no concrete sequence, linkage or harmony between the PIP, the MTEF and the annual budget. Currently, MTEF's expenditure projections are made but are not used as the basis for preparing the annual budget. The Budget Department of the MEF simply uses the MTEF as a comparison tool for the annual budget. Similarly, capital expenditure projections are made in the PIP but most of them are not incorporated into the annual budget. Little progress on the linking issue has been so far.

Process of formulating the MTEF

The management of MTEF is under the responsibility of Department of Economic and Public Finance Policy (DEPFP) and Budget Department of MEF. The process for preparing the MTEF is broken down into four stages as shown below. Although the process outlined below results in an annual budget, it should be noted that, in practice, the annual budget does not seem to be prepared using this process. The annual budget has another process, although it shares some common procedures with the MTEF process.

Table 6: Schedule for preparing the MTEF and annual budget

Procedure	Tasks
1. Review and Preparation Stage (January-February)	▪ The MEF reviews the previous year's budget and its achievements towards NSDP. ▪ The DEPFP prepares the Medium-Term Macroeconomic Framework (MTMF), which shows the forecast of macroeconomic conditions over the next three years. ▪ Based on the above the MTMF, DEPFP prepares the Medium-Term Fiscal Plan (MTFP), which shows the domestic revenues expected from tax and non-tax sources over the three-year term of the MTEF. ▪ Based on the results of all the above, the MEF decides on the resources that set the limitations of the operating budgets of the line ministries.
2. Strategic planning stage (March-May)	▪ The MEF issues line ministries with the preliminary budget call circular, which contains the MTMF, MTFP, the resource limitations for each line ministry/agency, the agenda for submitting the budget proposals and the request to prepare their Ministry Planning and Budget Frameworks (MPBF). ▪ The objective of the MPBF is to provide a three-year outline of ministerial operating revenues and expenditures. The operating expenditures need to be aligned with such things as ministerial mission statements, the strategic objectives covering the next three years, the key policy and resource management issues of the ministry and the ministry's main spending programs. Consultations may be made between the MEF and line ministries to allow them to complete their MPBFs. The MPBFs are considered management guidelines, not detailed expenditure allocations. ▪ MPBF provides the bottom-up input into the MTEF process.
3. Budget preparation stage (June-August)	▪ After a draft MTEF is prepared and approved, another budget call circular is issued to line ministries. This circular is more comprehensive than the preliminary budget call circular. It includes the total resources available to the government (domestic tax and non-tax revenues, and external resources from development partners), while the preliminary budget call circular only includes domestic resources for preparing operating expenses only. ▪ Line ministries now know the total resources available for both their operating and capital budgets. Line ministries can prepare their detailed line-by-line budget expenditures for the next year.
4. Budget finalization and approval stage	▪ The detailed budget and MTEF are sent to the Council of Ministers for review and approval. They are then sent to the National Assembly and

(September-December)	the Senate for approval. It is finally signed by the King before the end of the year. The budget and MTEF become law and will be used to control expenditures for the next year.

MTEF 2010-2012

MTEF projections for 2010-2012 assume that the government will continue to take measures to increase public revenues. Current revenues are projected to increase by 0.25% of GDP per year in the period of 2010-2012 and have reached or expected to reach 12.9% and 13.4% of GDP by 2010 and 2012 respectively. However, Cambodia still continues to rely on external resources to finance the budget deficit, especially public investment projects.

Table 7: Medium term macroeconomic, fiscal and expenditure framework

	2010p	2011p	2012p
1-Medium-Term Macroeconomic Framework			
Real GDP Growth (%)	3.0%	7.0%	7.0%
GDP Deflator (% change)	3.1%	2.5%	2.5%
CPI Inflation (end of period, % change)	3.5%	3.5%	3.5%
GDP Nominal, CR billions	50,166	54,989	60,331
GDP per capita (US$)	777	827	880
Exchange rate, CR/US, average	4,205	4,255	4,305
2-Medium-Term Fiscal Framework (% of GDP)			
Total Domestic Revenue	**12.9%**	**13.2%**	**13.4%**
Central Government Tax Revenue	10.3%	10.5%	10.7%
Central Government Non Tax Revenue	1.8%	1.8%	1.9%
Capital Revenue	0.2%	0.2%	0.2%
Total Expenditure	**15.8%**	**15.9%**	**15.9%**
Central Government Current Expenditure	9.1%	9.3%	9.5%
Capital Expenditure	6.3%	6.2%	6.2%
Central Government Current Surplus	**3.2%**	**3.3%**	**3.4%**
Overall Surplus/Deficit	**-2.8%**	**-2.7%**	**-2.6%**
3-Total Expenditure and Allocable Ceiling (Million US$)			
Nominal GDP	11,930.1	12,923.4	14,014.2
Overall Budget Ceiling	1,880.4	2,055.0	2,235.3
Central Government Current Expenditure	1,083.7	1,199.5	1,337.7
Capital Expenditure	747.4	802.1	862.3

Note: "p" is projection.
Source: MTEF 2010-2012: Linking Planning and Budgeting, MEF

3.2.4 Budget Strategic Plan

In contrast with the MTEF, the Budget Strategic Plan (BSP) is a bottom-up three-year rolling budgeting plan which requires all line ministries to present both recurrent and capital budgets including all external financing from development partners. The BSP has been introduced since 2008 to all line ministries as well as the capital/provincial line departments. It is being used by the Department of Budget of the MEF as an input in preparing budget circulars and developing budget envelops for line ministries.

The BSP consists of 1) policy objectives in relation to the Rectangular Strategy and the NSDP, 2) priority programs and strategy including information on timeframes and budget requirements, 3) Indicators for programs and strategies including the baseline, milestone and target indicators, and 4) an estimate of revenue and expenditures for respective years.

If there is a discrepancy between the MTEF and the BSP, the Budget Department cross-checks them. Such discrepancies occur due to 1) the low capacity of line ministries and 2) errors of macro indicators. When the quality of the MTEF and the BSP reaches the target or is acceptable, they will be consolidated and integrated into the budget in the annual budgeting process.

The quality of the BSP must be improved as a bottom-up multi-year budget plan based on a sectoral and ministerial strategy development plan and annual budget implementation. Moreover, the quality of the MTEF needs to be improved as top-down sectoral targets based on macro indicator targets to guide the annual budgeting plan.

3.2.5 National Program for Sub-National Democratic Development

The National Program for Sub-National Democratic Development (NP-SNDD) was adopted by the Royal Government of Cambodia on 28 May 2010 and launched on 9 August 2010. The NP-SNDD is considered a major milestone of the D&D reform process. The NP-SNDD is formulated based on the vision of the Organic Law and aims at developing a system of SNAs in which democratically elected councils promote sub-national democratic development through executive and administrative structures.

The NP-SNDD is expected to produce three results: 1) develop the D & D policy and legal framework, completing the regulations of the Organic Law and developing complementary legal instruments for fiscal and sector decentralization; 2) develop the institutions and capacities of the emerging SNAs; and 3) channel resources to SNAs for investments in infrastructure and public services, natural resource management and promotion of local economic development.

Based on these expected results, the NP-SNDD is divided into five program areas listed as follows: 1) the establishment of the sub-national structures; 2) the development of human resource management and systems; 3) the transfer of functions and resources; 4) the establishment of the financial management system for SNAs; and 5) the establishment of support systems for D&D reform.

Table 8: Summary of the five program areas of NP-SNDD

Program Area	Content
1. **SNA Organization Development**: to create functioning SNA institutions through the establishment of a management system in line with democratic participation principles	1.1. Establishing the fundamental organizational body of the SNA corresponding to the expectations of respective levels 1.2. Establishing standard operating procedures and management systems that support the new and adjusted lines of accountability and increase management responsibilities 1.3. Establishing programs that promote citizen participation and protect people's rights 1.4. Operating intra-SNA management systems and inter-governmental coordination systems 1.5. Establishing gender equality standards incorporated in the management systems of SNAs 1.6. Instituting information Technology and Communication Program at SNAs 1.7. Implementing program for climate change mainstreaming in SNA planning, management and service delivery
2. **Human Resource Management and Development Systems**: to institute a highly motivated and professional civil service in SNAs that is accountable to and managed by the Council	2.1. Establishing the necessary legal framework for decentralized HRM that enables councils to manage and control civil servants through an established fully functioning HR management system and structure 2.2. Completing redeployment of line ministry personnel in accordance with functional transfers through a transparent process 2.3. Creating human resource development program 2.4. Ensuring a human resource management and capacity development programs are gender sensitive 2.5. Professionalizing SNA civil services
3. **Transfer of Functions and Resources**: to	3.1. Reviewing and transferring functions in accordance with a uniform approach and process

promote the delivery level and quality of public services through the transfer of functions corresponding with the responsibility, authority and resources to carry out those functions	3.2. Ensuring that responsibilities and authority for transferred functions occurs with no disruption in service provision 3.3. Developing and implementing clear sectoral plans (inclusive of the review of sectoral laws) for transferring functions 3.4. Promoting gender equality and increasing responsiveness to vulnerable groups through the transfer of functions 3.5. Improving access and utilization of services in SNA in accordance with the citizen's needs, and to be accountable to the citizens
4. Sub-National Budget, Financial and Property Management Systems: to establish and institutionalize a functioning, coherent system to enable SNAs to obtain/raise adequate resources over which they have varying degrees of discretion; to allocate these funds in a transparent and accountable manner	4.1. Establishing a clearly defined development planning and budget system as well as an accounting system which promotes accountability and transparency and is consistent with PFM principles 4.2. Promoting gender equality and increasing responsiveness to vulnerable groups through finance, budget and asset management systems 4.3. Establishing efficient, responsive cash management and revenue system to ensure the smooth functioning of the SNAs operations and respect for their budget decisions which they can rely on 4.4. Ensuring SNAs receive timely grant transfers, consisting of both unconditional and conditional grants, with adequate discretion in use and allocated based on transparent / objective criteria 4.5. Assigning specific own-source tax revenues -100 percentage or shared with another tier to each tier of SNAs 4.6. Ensuring SNAs receive and effectively manage appropriate non-tax revenues sources under their control 4.7. Ensuring additional funds are distributed in a transparent /equitable manner to Communes and Sangkats in the districts 4.8. Transferring the property and assets required to carry out functions in a timely manner, and developing asset management systems 4.9. Developing and institutionalizing transparent /effective procurement systems & practices 4.10. Developing and institutionalizing internal audit systems 4.11. Conducting financial inspections of SNAs by the MEF to ensure compliance with legal/statutory procedures according to rules and guidelines. 4.12. Ensuring the National Audit Authority has the capacity to carry out SNA audits 4.13. Ensuring the SNA can transparently plan and account for the cost of climate change
5. Support Institutions for D & D Reform: to strengthen national institutions that will guide the implementation of the 10-Year Program and support SNAs	5.1. Adopting appropriate legal instruments and operational procedures relating to NP-SNDD policy commitments 5.2. Developing structures and processes that reflect new roles and responsibilities of ministries with respect to SNAs 5.3. Instituting an administrative mediation and conflict resolution mechanism 5.4. Reorganizing NCDD M&E unit to carry out the NP-SNDD M&E program 5.5. Developing mechanisms and implementing legality checks on sub-national legislative codification 5.6. Ensuring individuals and institutions meet the ongoing development needs with responsibility at the national and sub-national levels for sub-national democratic development 5.7. Promoting gender equality and equity, and being responsive to vulnerable groups through the institutional environment for D&D reform 5.8. Ensuring independent leagues and associations of SNAs have the capacity to provide demand based programs and are financially sustainable

3.2.6 First Three-year Implementation Plan of NP-SNDD

The Implementation Plan 2011-2013 (IP3) of NP-SNDD was adopted by the NCDD in its fifth meeting on 30 November 2010. The IP3 focuses on 1) the establishment, governance, functioning and oversight of SNAs and 2) the completion and further development of the overall policy and regulatory framework.

Sub programs

The outputs of the IP3 cover 17 components in six sub-programs. Six sub-programs are categorized based on the mandates of the implementing agencies: NCDD Secretariat (NCDD-S), the Ministry of Interior (MOI), MEF, State Secretariat for Civil Service (SSCS), the MoP and the National League of Commune/Sangkat Councils (NLCS). The NCDD-S will also coordinate and monitor the implementation of the other sub-programs on behalf of the NCDD. The following table provides a summary of the components under each sub-program.

Table 9: Summary of the six sub-programs

Implementing agencies	Component
1. NCDD-S	▪ Developing the regulatory framework of SNDD reforms ▪ Strengthening capacity for policy development and program management ▪ Advancing sector decentralization reforms and functional reassignment ▪ Providing a Council mentoring system
2. MOI	▪ Setting up and staffing SNAs under a temporary regulatory framework ▪ Supporting SSCS to develop a HR strategy and drafting a new SNA Civil Service Law ▪ Developing the capacity of SNAs and their staff ▪ Improving SNA system operating conditions
3. SSCS	▪ Putting in place initial HR arrangements for staff assigned to SNAs ▪ Developing a regulatory framework for SNA HR
4. MEF	▪ Putting in place a policy and legal framework for SNA financing mechanisms ▪ Developing SNA financial management and financial accountability systems (including reviewing the existing Commune/Sangkat financial management system to enable Commune/Sangkat in joint funding and managing the intra administration projects ▪ Building SNA capacity for (a) financial management and (b) financial accountability ▪ Building the capacity of central institutions for support and supervision
5. MOP	▪ Developing the planning systems of SNAs ▪ Building SNA planning capacity
6. Association	▪ Advancing the strategic development of the C/S Association and organization representing other councils of SNAs

Source: Implementation Plan of First Three Years 2011-2013 of NP-SNDD (IP3)

Financial resources of SNAs

The IP3 states that the resources should be under the control of the SNA, but subject to compliance with legal controls. The plans suggested in the IP3 are to: 1) establish a District and Municipal Fund (DM Fund), 2) establish a Sub-National Investment Facility (SNIF), 3) review and revise the arrangements for the current C/S Fund and 4) develop a criteria-based provincial budget system to ensure equity, transparency, accountability and effectiveness.

The District and Municipal Fund is intended to transfer funds to each DM on the basis of a predetermined formula. The DM Fund covers the administrative costs of the SNA and the development budget for the general mandate of the SNA such as provision of public services and the maintenance of public assets).

The level of the grant provided by the DM Fund should be predictable and known in advance without a significant gap between the planned and actual disbursement. The governance and control mechanism should be structured.

The Sub-national Investment Facility (SNIF)[15] is a facility that funds larger infrastructure in order to respond to sectoral strategies and is designed to undertake multi-year projects. The governance arrangements for the SNIF will set out the objectives of each window, the process, forms and timetable for submitting proposals, the criteria and arrangements for assessing and appraising proposals and the modalities for implementation, reporting and monitoring.

A formula-based provincial transfer mechanism covers both administrative and developmental costs of the capital and provincial administration, under their general mandate. The formula needs to make adjustments on the collection and retention of their own revenues.

Implementing cost of IP3

The total costs of IP3 include: 1) the costs of capacity development (CD), program administration (PA) and technical assistance (TA) and 2) the financial assistance to all levels of SNAs under various fiscal transfer mechanisms.

Table 10: Cost Forecast of IP3 (Unit: Million US$)

Category	2011	2012	2013	Total	%
CD + PA+TA	31.3	23.2	18.4	72.9	14%
Financial assistance	139.8	150.6	160.0	450.4	86%
Total	**171.1**	**173.8**	**178.4**	**523.3**	**100%**

Source: Implementation Plan of First Three Years 2011-2013 of NP-SNDD (IP3)

4. Potential Sources of Financing

The section begins first with the public investment requirement being briefly described in order to better grasp the scale of the funds required for this country. Next, the annual budget at both the national and sub-national level, especially capital expenditures that influence the implementation of development programs and projects, will be reviewed. Third, revenue from tax and non-tax, which constitute the major source of government revenue, will be described in 4.3 and 4.4. Fourth, the transfer from national to sub-national level is described. Next, the experience of provincial investment fund will be reviewed. Lastly, the funding from development partners, which is a major source of funding for development programs and projects, will be analyzed.

4.1 Public investment requirements

The MoP has asked each line ministry/agency to provide information on their public investment requirements for 2009-2013 to update the NSDP (on-going development programs and projects as well as planned high priority pipeline projects).

The projections of key macroeconomic variables and capital investments by the public and private sector financial sources used to achieve the projected GDP growth rate are also included in the NSDP update.

To achieve the overall and sectoral GDP growth targets for the period covered by the NSDP Update 2009-2013, the government has set a target of total capital investments at US$ 15.1 billion, in which private sector capital investments are estimated to be US$ 10.8 billion (71.7 % of total capital investments) and public sector capital investments are estimated to be US$ 4.2 billion (28.3%).

[15] Terms of reference for the design study of the SNIF is already approved by the NCDD is to be financed under the ADB's TA.

Table 11: Capital investments required to achieve GDP growth targets and potential sources of financing needed for investment (2009-2013)

						Unit: Million US$
Source of Funding	**2009**	**2010**	**2011**	**2012**	**2013**	**TOTAL**
Total Capital Investment	**2,418.2**	**2,757.9**	**3,023.1**	**3,308.4**	**3,619.3**	**15,127.0**
1. Public Capital Investment	711.5	802.6	841.0	919.7	1,003.4	4,278.2
1.1 Financed by Domestic Resources	179.9	186.0	194.9	213.1	232.5	1,006.5
1.2 Financed by External Resources	531.6	616.6	646.1	706.5	770.9	3,271.7
2. Private Capital Investment	1,706.7	1,955.3	2,182.1	2,388.7	2,615.9	10,848.8
2.1 Financed by Domestic Resources	1,192.0	1,356.0	1,505.8	1,644.2	1,795.3	7,493.2
2.2 Financed by External Resources	514.7	599.3	676.4	744.6	820.6	3,355.6
Total Capital Investment	**2,418.2**	**2,757.9**	**3,023.1**	**3,308.4**	**3,619.3**	**15,127.0**
1. Financed by Domestic Resources (1.1+2.1)	1,372.0	1,542.0	1,700.7	1,857.3	2,027.8	8,499.8
2. Financed by External Resources (1.2+2.2)	1,046.2	1,215.9	1,322.5	1,451.1	1,591.5	6,627.2

Source: Adapted from NSDP Update 2009-2013, Table 11, p. 95

Note: "Financed by external resources" includes capital investment component only and excludes TA component.

As is clear from the above table, private capital investments play a more important role than public capital investments in terms of the volume of investment. It should be also noted that the share of external resources (76.4%) is larger than domestic resources in public capital investments, while domestic resources (69.0%) are larger than external resources in private capital investment.

4.2 Annual budget

As shown in the analysis in the previous section, the volume of private capital investment is significantly larger than public capital investment. However, as this report focuses on the potential sources of funding for development programs and projects for capital and provincial administration, this section attempts to understand and analyze 1) the budget of the government as a whole and 2) the budget of the capital and provincial administration in particular.

4.2.1 Revenue

The government raises revenue from various sources to fund government administration, services, and development programs and projects. The source of revenue is divided into 1) current revenues, 2) capital revenues and 3) investment revenue from outside sources.

The total revenue has been increasing from 2009 to 2011. Total revenue is expected to increase by 13% in 2009-2010 and 17.2% in 2010-2011. The share of current revenue and capital revenue, both of which compose the total amount of revenue through the National Treasury is consistent, approximately 70% and 5% respectively for the total budget revenue (75% of the total budget revenues).

Table 12: Breakdown of revenue (2009-2011)

					Unit: Million US$	
	2009	**%**	**2010**	**%**	**2011**	**%**
Total budget revenues (I + II)	**1,707.0**	**100.0%**	**1,929.7**	**100.0%**	**2,261.7**	**100.0%**
I. Total revenues through National Treasury (A + B)	**1,302.3**	**76.3%**	**1,453.5**	**75.3%**	**1,642.6**	**72.6%**
Domestic revenues in total revenues	1,222.5	71.6%	1,366.9	70.8%	1,561.1	69.0%
A. Total current revenues (Group 1 + Group 2)	**1,211.1**	**70.9%**	**1,355.4**	**70.2%**	**1,547.5**	**68.4%**
Group 1: Real revenues (Category 1 + Category 2)	1,211.1	70.9%	1,355.4	70.2%	1,547.5	68.4%
Category 1: Fiscal revenues	1,018.3	59.7%	1,152.5	59.7%	1,304.0	57.7%
Category 2: Non-fiscal revenues	192.8	11.3%	202.9	10.5%	243.5	10.8%
B. Total capital revenues (Group 1 + Group 2)	**91.2**	**5.3%**	**98.1**	**5.1%**	**95.1**	**4.2%**
Group 1: Real revenues (Category 1 + Category 2)	91.2	5.3%	98.1	5.1%	95.1	4.2%
Category 1: Revenues from direct sources	11.4	0.7%	11.4	0.6%	13.6	0.6%
Category 2: Revenues from outside sources	79.8	4.7%	86.7	4.5%	81.5	3.6%
II. Total investment revenues by oversea grants	**404.8**	**23.7%**	**476.2**	**24.7%**	**619.0**	**27.4%**
Category 2: Revenues from outside sources	404.8	23.7%	476.2	24.7%	619.0	27.4%
Investment grants	214.3	12.6%	250.0	13.0%	381.0	16.8%
Loans and parallel liabilities	190.5	11.2%	226.2	11.7%	238.1	10.5%

Source: Law on Finance for Management (2010, 2011)
Note 1: The figures of the budget are converted into US$ with the exchange rate of 4,200 Riel/US$.
Note 2: The original budget does not include the figures of "Group 2" in "A. Total current revenues", "Group 2" of "B. Total capital revenue", and "Category 1" of "II. Total investment revenues by overseas grant".

Tax revenue (fiscal revenue) and non-tax revenue (non-fiscal revenue) make up the total current revenue and will be described in detail later. Tax revenue is expected to increase by approximately 13%/year, while non-tax revenue is expected to increase by 5.3% in 2009/2010 and 20% in 2010/2011. The volume of tax revenue is significantly higher than that of non-tax revenue, 85% and 15% respectively.

Capital revenue includes 1) domestic capital revenues, mainly from financial investments and 2) capital revenues from external sources, which are made up of the budget support fund, loans and grants. As the table clearly shows, the share of capital revenue is a small percentage of the total budget revenue, only 4-5%.

Investment revenue from overseas source, which is mainly the grant and loan from bilateral and multilateral organizations, is expected to significantly increase by 17.6% in 2009/2010 and 30% in 2010/2011 and steadily increase the share in the total revenue from 23.7% in 2009 and to 27.4% in 2011.

Table 13: Trend of capital revenue and investment revenue

				Unit: Million US$	
	2009	2010		2011	
	Amount	Amount	Change (%)	Amount	Change (%)
Total capital revenues (Group 1 + Group 2)	**91.2**	**98.1**	**7.6%**	**95.1**	**-3.0%**
Group 1: Real revenues (Category 1 + Category 2)	91.2	98.1	7.6%	95.1	-3.0%
Category 1: Revenues from direct sources	11.4	11.4	0.0%	13.6	18.8%
Category 2: Revenues from outside sources	79.8	86.7	8.7%	81.5	-5.9%
Investment grants	42.4	67.6	59.6%	37.0	-45.3%
Bilateral (Japan and others)	20.5	24.8	20.9%	22.2	-10.4%
Multinational (World Bank, ADB)	21.9	42.9	95.7%	14.8	-65.4%
Loans and parallel liabilities	37.4	19.0	-49.0%	44.5	133.8%
II. Total investment revenues by oversea grants	**404.8**	**476.2**	**17.6%**	**619.0**	30.0%
Category 2: Revenues from outside sources	404.8	476.2	17.6%	619.0	30.0%
Investment grants	214.3	250.0	16.7%	381.0	52.4%
Loans and parallel liabilities	190.5	226.2	18.8%	238.1	5.3%

Furthermore, capital revenue and investment revenue, especially revenue from outside (e.g. development partners) seems to show more fluctuation from year to year compared with domestic revenue. For example, "investment grants" as a percentage of total capital revenues shows a 59.6% increase in 2009/2010, but is expecting a reduction by 45.3% in 2010/2011.

There is a gap between the commitment and actual disbursement from development partners, the trend of revenue from development partners, which comprise the major sources for capital expenditure, may significantly influence the implementation of public investment programs.

4.2.2 Expenditures

The government expenditures have been steadily increasing in the last few years. Current expenditures have increased by 15.3% and 9.5% in 2009/2010 and 2010/2011 respectively, partly because the salary of the government official has increased. On the other hand, capital expenditures in 2011 increase by 32.8%, which is much higher than 2010 (a 12.9% increase compared with 2009).

Table 14: Current and capital expenditure (2009-2010)

Unit: Million US$

	2009	2010	2011	2009/2010 (%)	2010/1011 (%)
Current Expenditure	1,038.30	1,197.30	1,310.60	15.3%	9.5%
Capital expenditure	690.1	778.8	1,034.50	12.9%	32.8%
Total	**1,728.50**	**1,976.10**	**2,345.20**	**14.3%**	**18.7%**

Source: Law on Finance for Management (2010, 2011)

The share of current and capital expenditures has been constant at 60% and 40% respectively in 2009 and 2010. However, in accordance with the relatively large increase of capital expenditures in 2011, the share changed to 56% and 44%.

Table 15: Share of current and capital expenditure

	2009	2010	2011
Current Expenditure	60.1%	60.6%	55.9%
Capital expenditure	39.9%	39.4%	44.1%
Total	**100.0%**	**100.0%**	**100.0%**

Source: Law on Finance for Management (2010, 2011)

4.2.3 Structure of revenue and expenditures

Although the revenue side (tax and non-tax) and external financing are explained in the following sections, the trend of revenue and expenditures in recent years is reviewed as a percentage of GDP.

Table 16: Financing of the central government

Unit: % of GDP

	2006	2007	2008
A. Total revenue & grants (1+2)	**12.7**	**14.2**	**16.3**
1. Domestic revenue (1.1+1.2)	10.2	12.0	13.1
1.1 Tax	8.6	10.2	11.2
1.2 Non-tax	1.6	1.8	1.9
2. External grants	2.5	2.2	3.2
B. Total expenditure (1+2)	**14.2**	**15.0**	**16.1**
1. Current expenditure	8.5	8.8	9.6
2. Capital expenditure	5.7	6.2	6.5
C. Balance (A-B)	**-1.5**	**-0.8**	**0.2**
D. Net financing	**1.5**	**0.8**	**-0.2**
1. External financing	2.2	3.0	2.0

2. Domestic financing	-0.7	-2.2	-1.8
F. Government debt	**18.2**	**18.3**	**17.2**

Source: PDP Australia Pty Ltd, "Public Finance Management Assessment Cambodia Based on the Public Expenditure Financial Accountability Framework (PEFA) Final Report", February 2010

The total revenue intake has steadily increased from 12.7% of GDP in 2006 to 16.3% in 2008. In particular, the relative ratio of increase in tax revenue is larger than that of non-tax revenue. As total revenue has been increasing faster than total expenditures, the balance deficit (total revenue minus total expenditure) has become smaller and a surplus emerged in 2008.

4.2.4 Comparison between the MTEF and the annual budget

It is worth reviewing the MTEF and the annual budget as the former is a rolling multi-year plan of expenditures and its credibility can be checked by comparing these two.

As the table below shows, there exists a gap between the MTEF and the annual budget. As there is a difference in approaches between them and the MTEF is a multi-year forecast, this gap seems inevitable. The MTEF is prepared based on a top-down approach, where the figures are decided based on macro indicators and fiscal targets set by the MEF, while the figures of annual budget are decided by bottom up approach, where line ministries and sub national administrations prepared budget proposals based on needs, but in line with the NSDP.

Table 17: Gap between MTEF and annual budget

							Unit: Million US$
	2010			2011			2012
	1. MTEF	2. Budget	Gap (2.-1.)	1. MTEF	2. Budget	Gap (2.-1.)	MTEF
Overall Budget Ceiling	1,882.6	1,976.1	5.0%	2,081.9	2,345.2	12.6%	2,291.2
Central Government Current Expenditure	1,085.0	1,197.3	10.4%	1,215.2	1,310.6	7.8%	1,371.2
Capital Expenditure	748.3	778.8	4.1%	812.6	1,034.5	27.3%	883.8

Note: Figures are converted into US$ from Cambodia Riel at the rate of 4,200 Riel/US$.
Source: MTEF 2010-2012: Linking Planning and Budgeting, MEF, Law on Finance for Management (2011)

4.2.5 Revenue and expenditures of SNAs

The analysis of the government budget as a whole does not explicitly reveal the allocation of the budget to capital and provincial administration. The table below shows the summary of the expenditures of the 2011 budget with the category of central and capital/provinces. As shown in the table, the capital and provincial administrations are allocated approximately 25% of the current expenditures, but zero percent of the capital expenditures.[16] This fact seems to indicate that the capital and provincial administrations do not have discretion to spend the budget for capital expenditure based on their own decisions.

Table 18: Breakdown of expenditure (2011)

						Unit: Million US$
	2009		2010		2011	
	Current	Capital	Current	Capital	Current	Capital
Total expenditure	**1,038.3**	**690.1**	**1,197.3**	**778.8**	**1,310.6**	**1,034.5**
1. Central administration	786.2	690.1	909.4	778.8	987.8	1,034.5
2. Capital/Provincial line departments	252.2	0.0	288.0	0.0	322.8	0.0

Source: Law on Finance for Management (2010, 2011)

In addition to the gap which exists between the budget of the central ministries and SNAs, there also exists the gap between the budgets of the SNAs.

[16] However, in reality, the capital and provincial administration seem to be spending the budget for capital expenditures, which are allocated to the ministries. This issue will be discussed later.

The revenue and expenditures of the provinces are characterized by a significant gap between the capital Phnom Penh capital and the other 23 provinces. This gap seems to clearly reflect the scale and output of economic activities.

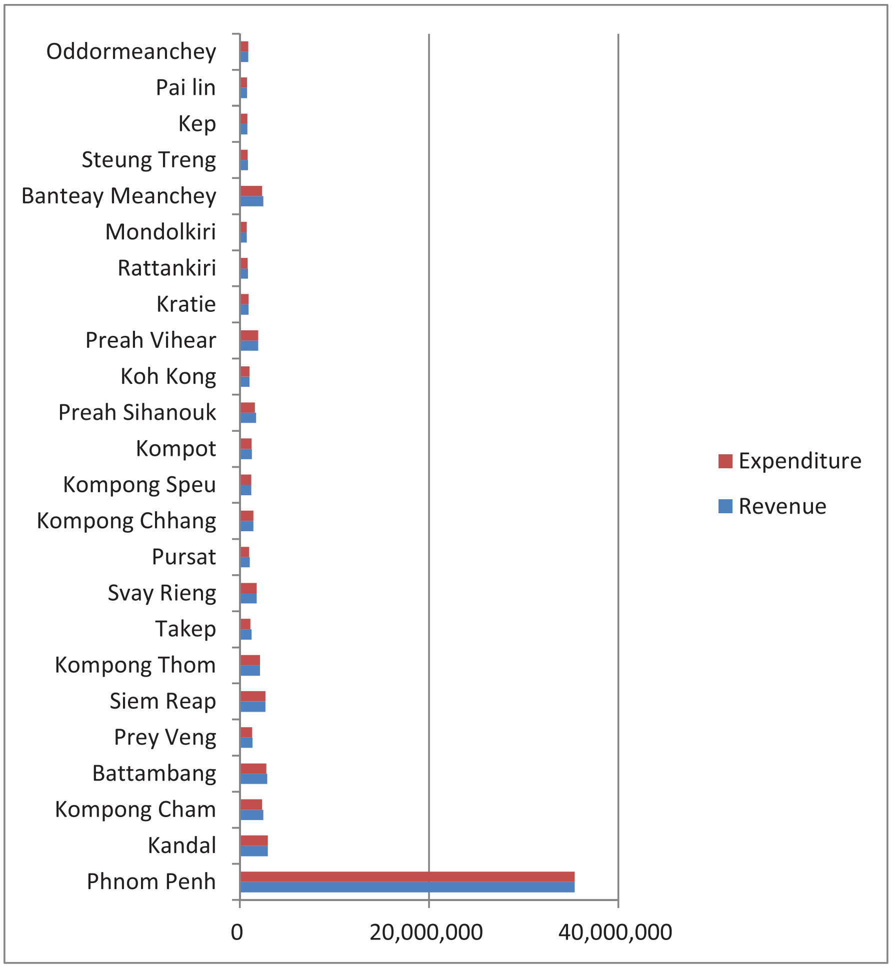

Figure 1: Revenue and expenditures of the provinces (2009) (Unit: US$)

This gap may imply that the preferential funding to the disadvantaged provinces can be justified if the government prioritizes a policy for correcting the regional imbalance. Indeed, one of the criteria for the allocation of C/S fund is addressing poverty ratio.[17]

4.3 Tax revenue

4.3.1 Type of taxes

In Cambodia, 16 different types of taxes are collected under the LoT. Whether a given tax is collected in a particular place depends on the local tax base and on whether there is a local tax administration. Tax revenue is collected from all 16 categories in some provinces, while in other areas revenue is collected from only a few of these categories (see Appendix 1 for more detail).

[17] The criteria of allocating the fund to capital and provincial administration will be discussed in Chapter 6.

Table 19: Type of tax

Level	Type of tax
National	1) tax on salary, 2) tax on profit, 3) tax on rental of house and land (tax on rental income), 4) minimum tax, 5) Value Added Tax (VAT), 6) tax on turnover, 7) specific tax on certain merchandises and services (excise tax), 8) stamp tax
Capital/ provincial	1) registration tax (property transfer tax or sealing tax), 2) patent tax (business registration tax), 3) tax on unused land, 4) tax on street light, 5) accommodation tax, 6) tax on means of transportation; 7) slaughter tax and 8) property tax

Tax on profit can be divided into two categories: 1) the self-assessment system (Real Regime) and 2) the official assessment system (Estimated Regime).[18] These two regimes are characterized by 1) the amount of annual turnover and 2) the type of business license. The real regime[19] consists of large and medium-sized businesses with licenses approved by Ministry of Commerce, and with an annual turnover in excess of CR500 million (US$121,951) for business which supplies goods, CR250 million (US$60,975) for business which supplies services, and CR125 million (US$30,487) in the case of taxable turnover resulting from government contracts.[20] Usually, real regime businesses keep accounting records and financial statements. The businesses within the real regime are supervised by the provincial/khan tax branch.

The estimated regime refers to those smaller businesses other than the real regime businesses on which the taxes are officially determined for a certain period of time during the calendar year. These businesses get their license approved by the capital or provincial offices. Usually, they are not required to keep proper accounting records and financial statements, and are supervised by the district/khan tax offices. Most of the small enterprises and business activities at the commune and village level are classified as estimated regimes.[21]

Table 20: Two types of tax on profit

	Real regime	Estimated regime
Annual turnover	Goods > CR500 million (US$121,951) Services > CR250 million (US$60,975) Gov't contract > CR125 million (US$30,487)	Goods ≤ CR500 million (US$121,951) Services ≤ CR250 million (US$60,975) Gov't contract ≤ CR125 million (US$30,487)
Type of license	Large and medium businesses	Small businesses

There is a clear division of responsibility in tax collection according to the level of administration. Both the national and capital/provincial administrations are entitled to receive revenues from tax collection. The national government receives revenues from eight types of taxes, while the capital and provincial administration is entitled to receive the remaining eight categories of tax revenue.

4.3.2 Amount of tax

The tax revenue of Cambodia is expected to increase by about 13% per year from 2009 to 2011 according to the Law on Finance for Management (2010, 2011).

[18] There is a simplified system as the third option, but it is not practiced in reality.
[19] In 1994, the real regime was applied only in Phnom Penh and administered exclusively by the Large and Medium Taxpayer Bureau. It was spread to 10 provinces in 2002 and 6 more provinces in 2005, and this system is being implemented nationwide in 2008.
[20] Tax revenue under the real regime was collected over 90% of the total of about 13,000 taxpayers (large and medium businesses) while the estimated regime was applied approximately 48,000 taxpayers (small business) as of July, 2009.
[21] Fiscal Decentralisation: An Exploratory Study on Existing Taxation and Options for Commune/Sangkat Own Source Revenues (CDRI 2004)

Table 21: Breakdown of tax revenue

					Unit: Million US$
	2009	**2010**	**2011**	**2009/2010**	**2010/2011**
1. Tax on income, profit and compensation (physical person)	35.1	60.0	70.4	71.3%	17.4%
2. Tax on income, profit and compensation (legal person)	142.7	170.5	178.1	19.5%	4.4%
3. General tax on properties and services	375.9	432.6	481.5	15.1%	11.3%
4. Tax on determination of property	156.7	185.2	239.1	18.3%	29.1%
5. Tax on determination of services	36.9	33.7	37.6	-8.7%	11.5%
6. Tax on use of property or implementation activities	0.3	1.7	1.8	399.0%	8.9%
7. Fiscal revenue	3.5	3.9	3.5	11.4%	-9.1%
Sub total: Fiscal domestic revenue (A)	**751.1**	**887.7**	**1,012.1**	**18.2%**	**14.0%**
1. Imports duties	238.0	238.0	267.6	0.0%	12.4%
2. Exports taxes and duties	29.3	26.8	24.3	-8.3%	-9.3%
Sub totalTax revenue on oversea business (B)	**267.3**	**264.8**	**291.9**	**-0.9%**	**10.2%**
Total (A+B)	**1,018.3**	**1,152.5**	**1,304.0**	**13.2%**	**13.1%**

Source: Law on Finance for Management, MEF (2010, 2011)

Note: The categorization of taxes in the table does not seem to fit exactly with 16 types of taxes. Tax (physical person) includes tax on salary and on land and house as sub-categories. Tax (legal person) includes tax on profit (corporate tax) and on land and house. Tax on property and services includes VAT. More than 16 sub-categories of tax are indicated in the original table.

As explained earlier, the capital Phnom Penh is different from the other 23 provinces. The planned tax revenue of Phnom Penh (2010) is US$ 37 million (fiscal revenue in the table below), which is 70 times of that of Kampot province. The per capital tax revenue of Phnom Penh province is approximately US$ 28, which is 30 times higher than Kampot province.

Table 22: Planned revenue of the capital Phnom Penh (2010)

	Unit: 1,000 US$
Total budget revenues (I + II)	**40,119**
I. Total Current Revenue (Group 1 + Group 2)	**40,119**
Group 1: Real revenues (Category 1 + Category 2)	40,119
Category 1: Fiscal Revenues	37,143
Category 2: Non-Fiscal Revenues	2,976
Group 2: Revenue bylaw	0
Category 3: Revenue bylaw (not go through cash)	0
II. Total of Capital Revenue (Group 1 + Group 2)	**0**
Group 1: Real Revenue (Category 1 + Category 2)	0
Group 2: Revenue bylaw	0

Source: Phnom Penh

Table 23: Tax revenue of Kampot province

									Unit: 1,000 US$)
	2007			**2008**			**2009**		
Types of Tax	**Plan**	**Actual**	**Share (%)**	**Plan**	**Actual**	**Share (%)**	**Plan**	**Actual**	**Share (%)**
1. National tax	**185.2**	**188.1**	**39.7%**	**209.3**	**185.2**	**22.2%**	**196.2**	**165.6**	**30.9%**
Tax on Salary	6.2	6.2	1.3%	4.8	5.9	0.7%	5.5	5.7	1.1%
Tax on Profit	27.1	28.3	6.0%	32.1	42.3	5.1%	44.8	42.0	7.8%
Tax on rental house and land	6.2	5.6	1.2%	6.2	9.8	1.2%	9.5	9.7	1.8%
Tax on turnover	91.0	72.5	15.3%	82.6	86.8	10.4%	91.7	90.5	16.9%
VAT	41.9	65.3	13.8%	71.4	27.7	3.3%	31.4	11.7	2.2%
Specific taxes	0.2	0.2	0.1%	0.2	0.2	0.0%	0.2	0.3	0.0%
Tax on stamp	3.1	3.2	0.7%	3.6	4.5	0.5%	5.0	5.9	1.1%
Tax on fines and penalties	7.1	4.0	0.9%	6.0	6.9	0.8%	7.1	1.0	0.2%
Tax from selling documents	2.4	2.6	0.5%	2.4	0.9	0.1%	1.0	0.9	0.2%
2. Provincial tax	**166.4**	**285.6**	**60.3%**	**189.5**	**648.9**	**77.8%**	**326.9**	**370.6**	**69.1%**
Tax on unused land	3.6	6.0	1.3%	3.6	16.4	2.0%	7.1	3.6	0.7%
Tax on registration	20.5	106.7	22.5%	35.7	420.7	50.4%	142.9	131.9	24.6%
Tax on public light	1.4	1.3	0.3%	1.7	1.6	0.2%	1.7	2.0	0.4%
Tax on patent	19.0	21.3	4.5%	20.2	23.2	2.8%	23.3	26.2	4.9%
Tax on slaughter	8.3	7.8	1.6%	8.3	8.3	1.0%	7.9	7.7	1.4%
Tax on means of transportation	113.1	141.4	29.9%	119.0	177.5	21.3%	142.9	197.9	36.9%
Tax on residency	0.5	1.0	0.2%	1.0	1.2	0.1%	1.2	1.3	0.2%
Total tax revenues	**351.7**	**473.7**	**100.0%**	**398.8**	**834.1**	**100.0%**	**523.1**	**536.2**	**100.0%**

Source: Kampot province

4.3.3 Challenges of the current tax system

Tax revenue is the primary source of budgetary funds and has shown a steady increase in the last few years, although it is influenced by domestic and international economic conditions (e.g. the financial crisis triggered by defaults on sub-prime mortgage loans in the US).

The current tax collection system in Cambodia faces a number of challenges.[22] One is the lack of competency among tax officials to carry out their tasks. Other challenges include vague regulations and guidelines as well as the poor quality of basic data available to the tax authority such as tax records. Low salaries and inadequate incentives for the tax authorities also hinder tax collection. The staff of the tax administration is under the payroll of the General Department of Taxation of the MEF, and hence they receive the same salary and incentive packages as other public officials. Due to the problems above, government officials in general are permissive about rent seeking.

Another important issue is a lack of understanding by taxpayers. In practice, it is not clear to the taxpayers what types of taxes are being collected, which institutions are responsible, and how these taxes are being calculated. Taxpayers are not well informed about their obligations concerning tax payments.

4.4 Non-tax revenue

4.4.1 Legal framework

Non-tax revenue includes the revenue generated from the use, rental or sale of state property, income from concessions, income from public services, income from fines/penalties, donations/charities, financial gain, special income and other form of income.

Since the SNA financial law is not approved or enforced yet, non-tax revenue is currently managed based on the RGC's order dated 25 December 1997. Line ministries/institutions and the capital/provinces must collect non-tax revenue and transfer all of the revenues to the national treasury.

[22] See World Bank 2003 and Hughes and Conway 2003.

4.4.2 Types and amount of non-tax revenue

The non-tax revenue are categorized into five areas: 1) revenue from state property, 2) revenue from the sale and rental of properties and services, 3) revenue from fines and penalties, 4) financial income and 5) other sources of income and special incomes.

Non-tax revenue is much less than tax revenue: it is about 20% the size of tax revenue.

Of the five categories, the revenue from the sale and rental of property and services constitutes the largest share, i.e., more than half of the total non-tax revenue. If combined with the revenue from state property, the share reaches 63%. As a part of the state property is likely to be transferred to SNAs, non-tax revenue may become an important source of revenue that SNAs can manage.

Table 24: Non tax revenue (2009, 2010, 2011) (Unit: Million US$, %)

Category	2009		2010		2011	
	Amount	Share	Amount	Share	Amount	Share
1. Revenue from state property	29.7	15.4%	23.8	11.7%	27.0	11.1%
2. Revenue from sale-rental of property and services	120.7	62.6%	109.0	53.7%	126.5	52.0%
3. Revenue from fines and penalties	0.5	0.3%	0.5	0.2%	0.4	0.2%
4. Financial income	9.5	4.9%	9.5	4.7%	12.6	5.2%
5. Other incomes and special incomes	32.3	16.7%	60.0	29.6%	77.0	31.6%
Total	**192.8**	**100.0%**	**202.9**	**100.0%**	**243.5**	**100.0%**

Source: Law on Finance for Management, MEF (2010, 2011)

Non-tax revenue tends to fluctuate, though the figures in the table are based on the planned budget, not on actual revenue. Revenue from the sale and rental of state properties and services, showed a decrease of 9.7% in 2009/2010, but is expected to increase 16.1% in 2010/2011.

Table 25: Change of non-tax revenue (2009/2010 & 2010/2011) (Unit: Million US$, %)

Category	2009/2010		2010/2011	
	Amount	%	Amount	%
1. Revenue from state property	(5.9)	-19.9%	3.2	13.3%
2. Revenues from sale-rental of property and services	(11.7)	-9.7%	17.5	16.1%
3. Revenue from fines and penalties	(0.0)	-7.1%	(0.1)	-18.5%
4. Financial income	0.0	0.0%	3.1	32.8%
5. Other incomes and special incomes	27.8	86.2%	16.9	28.2%
Total	**10.1**	**5.3%**	**40.6**	**20.0%**

Source: Law on Finance for Management, MEF (2010, 2011)

Furthermore, the non-tax revenue that can be legally retained for spending is the user fees of health care institutions.[23] The revenue from health user fees reached up to 27.6 billion Riel in 2008.

Although it may be possible to increase non-tax revenue, it should be borne in mind that the surplus from tax and non-tax revenues, which can be spent for capital expenditures, is relatively small as explained in Table 30. Non-tax revenue may not become a major source for financing sub national development plans.

4.5 Intergovernmental transfer

This section focuses on the distribution of the budget within the government system, although previous sections focused on the revenue side as a whole.

[23] PDP Australia Pty Ltd, "Public Finance Management Assessment Cambodia Based on the Public Expenditure Financial Accountability Framework (PEFA) Final Report", February 2010

As described in "4.2.4 Revenue and expenditures of SNAs", the allocation of current and capital expenditures is characterized with no direct allocation of capital expenditures to the capital and provincial administration.

Table 26: Allocation of current and capital expenditures between central and capital/provinces

(Unit: Million US$)

Level	Current Expenditures		Capital expenditures	
	2010	2011	2010	2011
Central administration	909.4	987.8	778.8	1,034.5
Capital/provincial department	288.0	322.8	0.0	0.0
Total	**1,1973.4**	**1,310.6**	**778.8**	**1,034.5**

Source: Law on Financial Management (2010, 2011)

The share of the current expenditures of the capital and provincial line departments are approximately 30%, though the majority of the expenditures are for the payment of salaries and does not influence the level of spending on development programs and projects.

No capital expenditures are allocated to the capital and provincial line departments, implying that the decisions for spending of capital expenditures are under the responsibility of the central ministries.

As for current expenditures, there is a significant difference between ministries in terms of 1) the volume of budget and 2) the share of the central and capital/provinces.

Table 27: Ministry wise allocation of current expenditure (2011)

Unit: Million US$

	Central	%	Capita/province	%	Total
Ministry of Interior - General Administration	13.3	100.0%	0.0	0.0%	13.3
Ministry of Parliament Affairs and Inspection	2.1	55.7%	1.7	44.3%	3.8
Ministry of Economy and Finance	16.6	79.2%	4.4	20.8%	20.9
Ministry of Planning	3.6	59.9%	2.4	40.1%	5.9
Ministry of Information	9.8	79.1%	2.6	20.9%	12.4
Ministry of Health	115.6	69.9%	49.7	30.1%	165.3
Ministry of Education, Youth and Sport	65.8	30.2%	152.3	69.8%	218.1
Ministry of Culture and Fine Art	4.5	60.9%	2.9	39.1%	7.5
Ministry of Environment	3.6	60.9%	2.3	39.1%	5.9
Ministry of Social Affairs, Veterans and Youth Rehabilitation	7.9	12.9%	53.5	87.1%	61.5
Ministry of Religions and Culture	2.7	52.3%	2.5	47.7%	5.2
Ministry of Women's Affairs	3.3	49.0%	3.4	51.0%	6.7
Ministry of Labour and Vocational Training	14.3	75.7%	4.6	24.3%	18.9
Ministry of Industry, Mines and Minerals	2.0	44.7%	2.5	55.3%	4.5
Ministry of Commerce	9.0	79.9%	2.3	20.1%	11.3
Ministry of Agriculture, Fisheries and Forestry	15.2	64.8%	8.3	35.2%	23.5
Ministry of Rural Development	13.6	66.5%	6.9	33.5%	20.5
Ministry of Post and Telecommunication	6.1	76.3%	1.9	23.7%	8.0
Ministry of Public Works and Transport	4.6	46.1%	5.4	53.9%	9.9
Ministry of Tourism	8.5	81.6%	1.9	18.4%	10.5
Ministry of Land Management, Urban Planning and Construction	10.7	77.0%	3.2	23.0%	13.9
Ministry of Water Resources and Meteorology	5.7	57.6%	4.2	42.4%	9.9

Source: Law on Financial Management (2011)

The Ministry of Health and Ministry of Education, Youth and Sports have many personnel at health centers and schools as well as infrastructure that requires maintenance expenditures. The volume of current expenditures allocated to capital and provinces as well as the total budget is therefore larger than other ministries.

In terms of share, the Ministry of Social Affairs has the highest share of the budget among capital and provinces (87.1%), followed by Ministry of Education, Youth and Sports.

However, in reality, the capital and provincial line departments are spending the budget for capital expenditures (see 4.7.3 Funding of development partners to SNAs for more detail).

4.6 Provincial Investment Fund

This section describes the Provincial Investment Fund (PIF). Though the scale of the fund was small and the scheme has already been terminated, it is worth reviewing the experiences of the PIF as the fund was a discretionary fund in that the capital and provincial administrations were authorized to make decisions on the allocations of the fund.

4.6.1 Framework of the PIF

The PIF was developed under the Seila Program. The PIF was financed by the government and development partners to provide support and to deliver infrastructure and services at the local level. The PIF was also characterized by the establishment of a common local planning, implementation, monitoring and evaluation system for the capital and provincial administrations to manage the fund. This implies that the capital and provinces were able to use a common system for managing the PIF through which funding from the government and participating donors were channeled.

4.6.2 Planning and management of the PIF

Part of the PIF was allocated to 1) planning activities of the Capital/Provincial (C/P) Department of Planning and 2) the gender mainstreaming activities of the C/P Department of Women's Affairs.

The allocation of the remaining portion of the PIF was decided by C/P Rural Development Committee (C/PRDC) and the sectoral line departments based on the predetermined criteria. The decision process for determining allocations was made in response to the proposals with a prioritization that took into consideration: 1) the objectives formulated by C/S Councils and compiled by the districts 2) the performance of the line departments, and 3) the level to which they complemented other activities. However, in reality, it was more flexible for C/PRDC to consider and make decisions.

Table 28: Criteria to select the projects to be funded by PIF

Criteria	Content
1. Objectives of proposed activities	▪ Contribute to poverty alleviation ▪ Be consistent with the investment program of line departments and C/S ▪ Maximize the benefits of the economy and the social affairs of women and children ▪ Minimize the impact to the environment or improvement to the environment ▪ Be efficient in value (by comparing the expenses for each beneficiary), and minimize external dependencies. ▪ Be consistent with national and provincial policies (including the Provincial Development Plan and the Provincial Investment Program).
2. Performance of line departments	▪ The department achieves more than 90% for the previous-year contract. ▪ The department has sufficient capacity and equipment in order to implement the proposed project. ▪ The department can get enough technical supports or equipment to implement projects.
3. Good cooperation with other projects	▪ The activity is a result achieved by the efforts made by one or more C/S. ▪ The activity is linked with other activities in the C/S or with other line departments or NGOs/IOs. ▪ The proposed activity is necessary to solve inter-commune or inter-district issues. ▪ The proposed activity benefits other projects.

Source: PSDD Annual Workplan and Budget 2009

With this provisional allocation, the line departments planned and funded the activities mainly through district integration workshops. Then, subcontracts were signed for the agreed activities and operational costs were determined (no more than 25% of the total cost) between the C/PRDC and the line departments.

4.6.3 Allocation of the PIF

The total budget of the PIF was around US$2 million in 2009. The fund was distributed to line departments based on the criteria explained above, though there was flexibility in the allocation among provinces. As the table shows, education, rural roads, and water resource management were the top sectors for funding. However, it should be noted that the allocation of the fund per province was small and many of the projects using PIF seemed to focus on capacity building such as training activities.

Table 29: Sectoral allocation of PIF in 2009

Sector	Amount (US$)	Share (%)
Agriculture	218,418	9.80%
Commerce	7,200	0.30%
Culture	51,757	2.30%
Education	262,897	11.70%
Gender	179,651	8.00%
Health	168,282	7.50%
Information	25,009	1.10%
Land use management	47,591	2.10%
Labor	77,135	3.40%
Mine action	16,910	0.80%
Natural resource management	91,111	4.10%
Planning	214,533	9.60%
Public works	50,446	2.30%
Religion	14,752	0.70%
Rural roads	339,243	15.20%
Social	52,000	2.30%
Tourism	43,477	1.90%
Water and sanitation	150,872	6.70%
Water resources management	227,533	10.20%
Total	**2,238,817**	**100.00%**

Note: Sectors underlined are those sectors with more than a 10% share of the total fund.
Source: PSDD Annual Workplan and Budget 2009

Though the table above indicates the sector wise allocation of the PIF, each province has different priorities and allocated the fund based on such priorities. As the table below clearly shows, there is a significant difference between the four provinces visited for the field survey in the allocation of the fund. For example, Battambang, Kampot and Phnom Penh allocated more than 15% of the PIF to the agriculture sector. Ratana Kiri did not allocate the fund to the sector.[24]

This prioritization can be justified because the volume of funds per sector is really small (US$ 5,000 or less) if the fund is evenly distributed to every sector.

[24] Zero allocations to agriculture of Ratana Kiri province might have reflected the relatively small share of agriculture in the province's economy as well as the existence of other priority sectors.

Table 30: Sectoral allocation of PIF in the provinces visited (2009)

								Unit (US$, %)
	Battambang		**Kampot**		**Phnom Penh**		**Ratanak Kiri**	
	Amount	**Share**	**Amount**	**Share**	**Amount**	**Share**	**Amount**	**Share**
Agriculture	**24,750**	**18.7%**	**18,620**	**18.5%**	**23,050**	**16.3%**	0	0.0%
Commerce	0	0.0%	0	0.0%	0	0.0%	0	0.0%
Culture	3,792	2.9%	3,804	3.8%	0	0.0%	0	0.0%
Education	5,398	4.1%	**15,120**	**15.0%**	0	0.0%	**11,000**	**19.7%**
Gender	13,500	10.2%	11,850	11.8%	10,800	7.6%	**9,500**	**17.0%**
Health	14,355	10.8%	0	0.0%	**49,775**	**35.1%**	0	0.0%
Information	0	0.0%	4,554	4.5%	0	0.0%	3,875	6.9%
Land Use Management	8,500	6.4%	0	0.0%	9,000	6.3%	0	0.0%
Labor	6,000	4.5%	4,554	4.5%	0	0.0%	6,000	10.7%
Mine Action	0	0.0%	0	0.0%	0	0.0%	0	0.0%
Natural Resource Management	7,450	5.6%	0	0.0%	12,530	8.8%	0	0.0%
Planning	13,200	10.0%	9,325	9.3%	9,670	6.8%	**9,500**	**17.0%**
Public Works	0	0.0%	0	0.0%	0	0.0%	0	0.0%
Religion	0	0.0%	0	0.0%	0	0.0%	0	0.0%
Rural Roads	16,500	12.5%	12,720	12.6%	0	0.0%	0	0.0%
Social	5,065	3.8%	0	0.0%	0	0.0%	6,000	10.7%
Tourism	0	0.0%	3,120	3.1%	0	0.0%	0	0.0%
Water and Sanitation	5,915	4.5%	0	0.0%	**27,000**	**19.0%**	**10,000**	**17.9%**
Water Resources Management	8,000	6.0%	**16,908**	**16.8%**	0	0.0%	0	0.0%
Total PIF	**132,425**		**100,575**		**141,825**		**55,875**	

Note: Sector whose share is more than 15% is bold and underlined.
Source: PSDD Annual Workplan and Budget 2009

4.7 Funding of development partners

First, the significance of the funding by development partners is analyzed by looking at the volume of the fund and the share of the fund in total fund to be spent for capital expenditure.[25]

Secondly, the recent trend of the scale of the support of development partners is reviewed, especially with reference to the commitment and actual disbursement.

4.7.1 Significance of funding from development partners for capital expenditure

Nearly 98% of the capital revenue (i.e., the total of the total capital revenues and the total investment revenue), which is the major source for capital expenditures, comes from development partners. In addition, it is crucial to understand and forecast the commitment and disbursement of the funds from the development partners as there tends to be a gap between them, which influences the level of implementation of the development programs and projects.

[25] Briefly speaking, the mechanism for aid coordination consists of three levels: 1) the Cambodia Development Cooperation Forum (CDCF) works as a forum for policy dialogue and review of the NSDP and the Joint Monitoring Indicators (JMI), 2) the Government-Donor Coordination Committee (GDCC) functions as a more frequent forum for technical and policy dialogue, and 3) 19 Technical Working Groups (TWGs) serve in the role of coordination, implementation, and monitoring of respective sectors.

Table 31: Trend of capital revenue (2009, 2010 & 2011)

					Unit: Million US$
	2009	2010		2011	
	Amount	Amount	Change (%)	Amount	Change (%)
Total capital revenues (Group 1 + Group 2)	**91.2**	**98.1**	**7.6%**	**95.1**	**-3.0%**
Group 1: Real revenues (Category 1 + Category 2)	91.2	98.1	7.6%	95.1	-3.0%
Category 1: Revenues from direct sources	11.4	11.4	0.0%	13.6	18.8%
Category 2: Revenues from outside sources	79.8	86.7	8.7%	81.5	-5.9%
Investment grants	42.4	67.6	59.6%	37.0	-45.3%
Bilateral (Japan and others)	20.5	24.8	20.9%	22.2	-10.4%
Multinational (World Bank, ADB)	21.9	42.9	95.7%	14.8	-65.4%
Loans and parallel liabilities	37.4	19.0	-49.0%	44.5	133.8%
Total investment revenue by outside sources	**404.8**	**476.2**	**17.6%**	**619.0**	30.0%
Category 2: Revenues from outside sources	404.8	476.2	17.6%	619.0	30.0%
Investment grants	214.3	250.0	16.7%	381.0	52.4%
Loans and parallel liabilities	190.5	226.2	18.8%	238.1	5.3%
Total capital expenditure (A)		**778.8**		**1,034.5**	
Category 2 Revenue from outside + Total investment revenue (B)		562.9		700.6	
(B)/(A)		72.3%		67.7%	

Source: Law on Finance for Management in 2010 & 2011
Note: Figures of 1) Group 2 of "total capital revenues" and 2) Category 1 of "total investment revenue by outside sources are not found in the original document.

The financing from development partners is important in terms of financing the budget deficit. The budget deficit of 2010 reached US$ 573 million. The funding from development partners is 90% of the necessary financing to make up for this budget deficit.

The surplus from current budget (current revenue minus current expenditures, US$ 158.1 million) finances only a part of the capital expenditures requirement (US$ 743.1 million), while nearly 70% of the capital expenditures are financed by the external fund. Thus, the funding from development partners significantly influences the availability of the fund for capital expenditures, which in turn influences the level of development in the country.

Table 32: Financing of budget deficit

	Amount (Million US$)
I. Domestic revenue	**1,366.9**
1. Current revenues	1,355.4
2. Domestic capital revenues	11.4
II. Total expenditure	**1,940.4**
1. Current expenditure	1,197.3
2. Capital expenditure	743.1
2.1Domestically financed by public investment	266.9
2.2 Externally financed public investment	476.2
Surplus of current budget (I.1 – II.1)	158.1
Deficit of general budget (I – II)	(573.6)
III. Financing	**573.6**
1.External financing	527.1
1.1 Budget support fund	86.7
1.2 Direct external public investment fund	476.2
1.3 Loan payment	(35.7)
2. Domestic financing	46.4
2.1 National Bank financing	46.4

Source: Law on Finance for Management in 2010

Even if private investment is taken into consideration, the official development assistance is still an important source of financing the development of the country. While the level of the private investment reached 13% of Cambodia's GDP in 2009, the official development assistance was 9.1% in the same year.

Table 33: Amount of financial source in relation to GDP

Souce of financing	2006	2007	2008	2009
Domesitc revenue (% of GDP)	11.5	11.9	12.0	12.0
Official development assistnce (% of GDP)	9.8	9.3	10.0	9.1
Private investment (% of GDP)	14.8	14.7	13.7	13.0

So urce: IMF Article IV December 2009, RGC Cambodia Aid Effectiveness Report 2010

4.7.2 Trend of funding by development partners

The trend of development partners funding, which represents the largest source of revenue for capital expenditures, is reviewed in this section. The funding of development partners from 2006 to 2008 shows a surplus (i.e. disbursement was larger than forecast).[26][27]

Table 34: Gap between the forecast and disbursement of the funding of DPs in 2006-2009

(Unit: Million US$)

Year	Forecast	Disbursement	Gap	Gap (%)
2006	600	713.2	+113.2	+18.9%
2007	695	777.5	+82.5	+11.9%
2008	760	955.6	+195.6	+25.7%
2009	810	989.5	+179.5	+22.2%

Source: MoP, Public Investment Program, three-Years-Rolling 2010-2012; RBMG/VBNK, Cambodia Country Study Report Final Version, December 2010.
Note: Figures of disbursement includes the fund from NGOs.

The table below shows the disbursements from development partners and suggests that the funding from the respective development partners may change significantly from year to year. The changes in 2009/2010 show that some development partners increased their funding by more than 50%, while others reduced their funding; however such significant changes may be reflecting the assistance policy of development partners.

[26] However, Figure 44 in the UNDP's "Achieving Cambodia's Millennium Development Goals" (2010) shows somewhat contracting figures. According to this Figure, while 2006 and 2008 show a positive gain of +7% and +17% respectively, 2007 and 2009 shows a minus gap, -1% and -12% respectively. In addition, according to Cambodia Country Study Report (p.37), in 2009, 93% ($885 mil. compared with the planned $951 mil.) of ODA budget allocations by development partners was disbursed. The 2010 projected disbursement was $972 mil. compared with $1,097 mil. as indicated by development partners in the 3rd CDCF meeting in early June 2010. Thus, there is a discrepancy in the figures quoted in the references.

[27] As the figures of the ODA come from the ODA database, the accuracy of the ODA data depends on the ODA database. CDC not only checks the data of the database but also regularly organizes training for those who are in charge of entering the data.

Table 35: Disbursement of development partners

								Unit: Million US$
	2006	2007	2008	2009		2010		2009/2010
					Share (%)		Share (%)	Change (%)
UN (core)	54.0	58.3	68.3	74.8	7.6%	95.8	8.8%	28.1%
World Bank	24.5	47.5	44.0	60.4	6.1%	122.7	11.3%	103.1%
IMF	83.5	0.9	0.0	0.0	0.0%	0.0	0.0%	#DIV/0!
ADB	67.5	69.4	145.7	89.5	9.0%	124.5	11.5%	39.1%
Global Fund	21.9	21.1	38.6	47.9	4.8%	41.2	3.8%	-14.0%
UN & Multilateral	**251.2**	**197.1**	**296.6**	**272.6**	**27.5%**	**384.2**	**35.4%**	**40.9%**
Belgium	7.3	7.2	2.8	3.1	0.3%	1.2	0.1%	-61.3%
Denmark	4.1	9.8	10.1	14.2	1.4%	16.4	1.5%	15.5%
Finland	4.5	5.2	6.6	6.3	0.6%	1.6	0.1%	-74.6%
France	21.8	21.7	31.3	25.5	2.6%	26.7	2.5%	4.7%
Germany	32.4	20.7	36.5	32.5	3.3%	60.2	5.5%	85.2%
Netherland	0.1	0.1	2.2	0.7	0.1%	1.2	0.1%	71.4%
Spain	2.8	3.5	6.5	16.8	1.7%	22.9	2.1%	36.3%
Sweden	16.0	17.3	15.9	22.9	2.3%	26.7	2.5%	16.6%
UK	20.7	23.7	29.6	32.5	3.3%	31.6	2.9%	-2.8%
EC	46.5	44.0	47.2	50.3	5.1%	57.8	5.3%	14.9%
EU partners	**156.1**	**153.2**	**188.6**	**204.8**	**20.7%**	**246.3**	**22.7%**	**20.3%**
Australia	22.5	29.6	31.2	23.7	2.4%	36.3	3.3%	53.2%
Canada	7.9	12.6	17.2	13.1	1.3%	7.9	0.7%	-39.7%
China	53.2	92.4	95.4	114.7	11.6%	100.2	9.2%	-12.6%
Japan	103.7	117.2	126.2	148.4	15.0%	104.7	9.6%	-29.4%
New Zealand	1.7	4.5	2.8	2.7	0.3%	3.3	0.3%	22.2%
Rep of Korea	13.3	31.3	33.0	46.5	4.7%	26.5	2.4%	-43.0%
Switzerland	2.4	3.6	3.9	2.8	0.3%	2.8	0.3%	0.0%
USA	51.0	58.1	55.7	56.9	5.8%	61.2	5.6%	7.6%
Other bilateral	**255.7**	**394.4**	**365.5**	**408.8**	**41.3%**	**343.0**	**31.6%**	**-16.1%**
DPs Total	**663.0**	**744.7**	**850.7**	**886.2**		**973.5**		
NGO (own funds)	50.2	77.7	104.9	103.3	10.4%	112.4	10.3%	8.8%
TOTAL	**713.2**	**777.5**	**955.6**	**989.5**	**100.0%**	**1,086.0**	**100.0%**	**9.8%**

Source: Aid effectiveness report (2010)

The future funding level of development partners has yet to be determined. The table below shows the expected and committed amounts of the funding from the government and development partners.[28]

Table 36: Expected and committed amount of funding from the government and DPs

(Unit: Million US$)

Source	Expected amount			Total	Commitment	Gap	Gap (%)
	2010	2011	2012				
RGC	230	240	260	730	311.3	418.7	-15%
DPs	500	700	700	2,100	1,039.8	1,060.2	-37%

Note 1: The figures of the RGC are of the current surplus, excluding the budget or program support from DPs.
Note 2: The figures for the DPs include the budget support.
Source: MoP, Public Investment Program, Three-year rolling 2010-2012

If the total amount of the expected amount (2010-2012) and the committed amount so far are compared, there is still a large gap, especially the gap in the funding from development partners. If the RGC is to implement the PIP as expected, the RGC must try to fill this gap. Indeed, the predictability of aid flows has been always a concern. Aid volatility in 1992-1996

[28] However, the figures of Table 34 may be inappropriate in that the figures of the fund from DPs are much smaller than the actual disbursement of 2008 and 2009 and the estimate of 2010 in Table 33.

is estimated to have been about 10.3%, though it has recently become less volatile is down to only 6.4% between 2002 and 2006.

Furthermore, the PIP (2010-2012) shows a sector wise breakdown of the total requirements, available resources and the additional funds needed resulting from the gap between the requirements and the available resources.

Table 37: Sector wise summary of PIP 2010-2012

							Unit: Million US$	
	Total planned program (2010-2012)		**Available resources (ongoing and committed projects)**				**Additional funds needed**	
			RGC	**DPs**	**Total**			
Sectors	**Amount**	**%**	**Amount**	**Amount**	**Amount**	**%**	**Amount**	**%**
Social sectors								
Helath	486.2	17.2%	194.7	140.3	335.0	24.8%	151.2	10.2%
Education	400.7	14.2%	7.4	109.2	116.6	8.6%	284.1	19.2%
Sub-total	**887.0**	**31.3%**	**202.0**	**249.5**	**451.6**	**33.4%**	**435.4**	**29.4%**
Economic sectors								
Agriculture & land management	373.2	13.2%	11.5	105.7	117.2	8.7%	256.0	17.3%
-Crops	189.6	6.7%	1.7	38.3	40.0	3.0%	149.6	10.1%
-Others	183.6	6.5%	9.8	67.4	77.2	5.7%	106.4	7.2%
Rural development	287.3	10.2%	18.1	143.1	161.2	11.9%	126.1	8.5%
Manufacturing, mining & trade	71.9	2.5%	0.3	7.1	7.3	0.5%	64.5	4.4%
Sub-total	**732.4**	**25.9%**	**29.9**	**255.8**	**285.7**	**21.1%**	**446.6**	**30.2%**
Infrastructure								
Transportation	485.3	17.2%	18.2	340.7	358.9	26.6%	126.4	8.5%
Water & sanitation	125.1	4.4%	7.8	41.6	49.4	3.7%	75.7	5.1%
Power & electricity	119.0	4.2%	15.0	71.6	86.6	6.4%	32.5	2.2%
Ports & telecommunications	54.0	1.9%	9.1	15.2	24.3	1.8%	29.7	2.0%
Sub-total	**783.4**	**27.7%**	**50.1**	**469.0**	**519.2**	**38.4%**	**264.2**	**17.9%**
Services & cross-sectoral								
Gender mainstreaming	3.0	0.1%	0.0	0.5	0.5	0.0%	2.5	0.2%
Tourism	35.3	1.2%	0.0	0.8	0.8	0.1%	34.6	2.3%
Environment & conservation	90.2	3.2%	0.8	3.4	4.3	0.3%	86.0	5.8%
Community & social services	70.7	2.5%	2.2	13.2	15.4	1.1%	55.3	3.7%
Culture & arts	31.5	1.1%	0.0	0.0	0.0	0.0%	31.5	2.1%
Governance & administration	196.5	6.9%	26.1	47.6	73.7	5.5%	122.8	8.3%
Subtotal	**427.3**	**15.1%**	**29.1**	**65.5**	**94.6**	**7.0%**	**332.7**	**22.5%**
Grand total	**2,830.0**	**100.0%**	**311.3**	**1,039.8**	**1,351.1**	**100.0%**	**1,478.9**	**100.0%**

Source: MoP, Public Investment Program, 3-Years-Rolling 2010-2012

4.7.3 Funding from development partners to SNAs

The funding of development partners for sub-national development comes from many sources and is channeled in different ways from the original funding organizations to the SNAs at each level.

The Cambodian Rehabilitation and Development Board (CRDB) of Council for the Development of Cambodia (CDC) has identified the ratio of the distribution to provinces of the development assistance. According to the Aid Effectiveness Report (2010), approximately 60% of the development assistance was disbursed at the provincial level. Top ten beneficiary provinces, with Phnom Penh and Siem Reap standing in the first and second places respectively, received US$ 370 million, which is significantly larger than that of other 14 provinces (US$ 215 million). However, it should be noted that the level of distribution does not necessarily reflect the decision making power of the provinces in allocating the funds and such decisions may be made by the ministries.

Table 38: Distribution of funding to the provinces

				Unit: Million US$
	2007	**2008**	**2009 (est)**	**2010 (proj)**
Phnom Penh	69.1	75.0	71.1	59.9
Siem Reap	43.2	55.4	56.1	58.6
Battambang	21.2	29.9	37.5	36.7
Kandal	53.8	77.9	37.0	45.9
Kampong Thom	16.6	20.6	36.4	43.4
Preah Sihanouk	41.6	25.3	36.3	43.6
Mondul kiri	13.8	18.7	25.4	19.1
Preah Vihear	4.8	8.8	25.1	27.7
Kampong Chhnang	8.8	18.5	22.6	26.6
Banteay Meanchey	15.9	21.6	22.5	27.0
Other provinces	164.7	190.6	214.5	291.9
Sub total: Provinces	**453.5**	**542.3**	**584.5**	**680.4**
Nationwide	**324.0**	**413.2**	**404.9**	**405.4**
Total	**777.5**	**955.5**	**989.4**	**1,085.8**

Note: The figures of 2009 are estimated figures, while those of 2010 are projected ones.
Source: CRDC/CDC, Cambodia Aid Effectiveness Report 2010

The per capita distribution to the provinces shows a contrasting picture. The largest beneficiary province is Mondul kiri, which receives US$410 per capita, followed by Preah Sihanouk (US$ 161), Preah Viear (US$ 145) and Pailin (US$ 141). Phnom Penh, which ranks at the top in terms of total funding, receives US$ 53 per capita.

4.7.4 Future funding from development partners to SNAs

The share of budget support is very limited. It is less than 3% of the total disbursement as the table below shows. If this trend continues, it will be difficult to create and increase the financial base for discretional funds for the SNAs, especially the capital and provincial administration as it is assumed that the DM fund is to be established under the draft SNA finance law.

Table 39: Types of official development assistance (2004-2010)

								Unit: Million US$
	2004	**2005**	**2006**	**2007**	**2008**	**2009**	**2010**	**Share (%)**
Investment project/program	260.8	290.1	351.9	419.1	594.3	613.3	737	67.9%
Technical cooperation	263.5	287.3	248	293.9	313.3	299.7	267.7	24.7%
Budget support	6.4	6.9	91.2	42	15.8	36	30	2.8%
Food aid & emerfency	20.2	17.1	20.7	21.7	29.9	26.1	32.8	3.0%
Unknown	4.6	8.5	1.4	0.9	2.4	14.4	18.4	1.7%
Total disbursement	**555.5**	**609.9**	**713.2**	**777.6**	**955.7**	**989.5**	**1085.9**	**100.0%**

Note: "Share (%)" is calculated based on the figures of 2010 as a share of each item in the total disbursement.
Source: Aid Effectiveness Report 2010

Additionally, the details of new financial system for the SNAs are not clear at the time of writing this report. Although the MEF is in the process of preparing the regulations for priority areas such as the DM Fund and financial management systems, it is likely to take more time

5. Issues

Having reviewed the various aspects of the potential sources of funding for the capital and provincial administrations, several issues must be revisited in order to consider the possible future mechanism of funding.

5.1 Legal status of SNAs in obtaining funds by loan and bond

As mentioned earlier in 3.1.4, SNAs do not have the right to enter into financial arrangements such as loans and bonds. This means that SNAs need to seek, obtain, and increase the funds available for the public investment from 1) the revenue internally generated by tax, non tax, and/or the rent and sales of property, 2) transfers from the central government based on a predetermined formula, 3) funding schemes specifically intended for the SNAs development (e.g., SNIF) and 4) the assistance of development partners.

5.2 Unclear funding mechanism

As mentioned earlier, the regulations concerning the funding mechanisms for SNAs have not yet been finalized, approved and enforced yet. The draft SNA finance law has articles that define transfers from the national budget, though separate regulations and formulas need to be formulated. It may take a longer time than expected to formulate and enforce the law and regulations, which specify the mechanisms and procedures of financing.

5.3 Expected roles of the capital and provincial administrations

The Organic law regulates the assignment and delegation of functions in general terms. However, the details of the functions to be transferred to the capital and provincial administration as a whole, and to respective line departments have not yet been decided. As financial resources are provided and attached to the transferred and delegated functions, it will be difficult to discuss the future funding mechanisms.

6. Conclusion

Though the scale of funding scale and the mechanisms of the capital and provincial administrations for their own development are unclear at the time of writing this report, there is a possibility that more discretionary development funds will be allocated to the capital and provinces through SNIF and/or new transfer mechanisms from the central government, which are under review and discussion. Therefore, the concluding remarks attempt to show 1) a trial calculation on the scale of the fund for the capital and provincial development and 2) the distribution mechanism within the capital and provinces.

6.1 Scale of funding to the capital and provinces

This section attempts to simulate the scale of the development fund required for the capital and provincial administration based on several possible criteria. The primary purpose of the calculation are to show the possible criteria of such calculations and compare the results of the calculations between the provinces; and not to indicate the exact amount necessary for the development of the capital and provinces, for instance, based on the list of the planned program and projects.

The criteria selected for the calculations are 1) an amount, which is equally dispersed among the provinces, 2) the population, and 3) the poverty ratio, which are in line with the allocation criteria of the C/S fund. In the case of the C/S fund, 35% of the fund is an equally divided share, 35% is based on the population, and the remaining 30% is based on poverty ratio of the respective C/S. The budget of the C/S fund reaches up to nearly 3% of the government revenue.

Table 40: Percentage of C/S fund in the government revenue

	2008	2009	2010
Percentage of C/S fund in revenue	2.7%	2.75%	2.8%

Source: PDP Australia Pty Ltd, "Public Finance Management Assessment Cambodia Based on Public Expenditure Financial Accountability Framework (PEFA) Final Report", February 2010

Each of the criteria has its own purpose as the table below explains. The equally divided share amount is intended to distribute a certain amount of funds equally to each province and has the effect of reducing the gap in the funding scale which will be brought about by other criteria. The criterion of population functions to increase the gap, but guarantee to provide the same amount of money per capita. The poverty ratio is used for the policy purpose of reducing poverty and balancing development between the provinces.

Table 41: Criteria for calculation of the scale of the fund

Criteria	Remark
1. Equal amount	An equal amount is allocated to each province regardless of the population and the level of development. This criterion has an equalizing effect that reduces the gap and corrects the imbalances of the fund allocation system which is based on the other two criteria (population and poverty ratio).
2. Population	The criterion of population is included to guarantee the allocation of an equal and minimum amount per capita.
3. Poverty ratio	This criterion works to allocate more funds to the poorer provinces in order to correct the imbalance of development between the provinces. The poorer the province is, the more fund is allocated to the province.

However, in reality, other types of criteria can be used to comply with the particular priority policy purposes. For example, if the fund is primarily intended for infrastructure development, an indicator of infrastructure such as the length of unpaved roads can be used. If the central government puts a higher priority on the achievement of the CMDG, then education and health related indicators may be used.[29] Prioritization can be made by changing the multiplying factor as well.

The table below shows the result of a trial calculation used to estimate the scale of the fund. The differences in the population size are large. For example, the population of Kampong Cham (1.6 million) is 44 times larger than Kep (36,000), which results in a significant gap between these two provinces who receive the largest and smallest amounts of the fund.

The poverty ratio shows a much smaller gap between provinces if Phnom Penh is not compared with other provinces. The poverty ratio of Preah Vihear (41.5%), which is the poorest province, is 2.6 times that of Kandal (15.9%), though it is 415 times that of Phnom Penh (0.1%).[30]

[29] The MOP has published "Achieving Cambodia's Millennium Development Goals" in 2011 and evaluated the level of achievement of the respective goals as being either on track, slow or off track.
[30] The poverty ratio of Phnom Penh is only 0.1%, while all of other provinces have a ratio ranging from 15% to more than 40%. This huge gap between Phnom Penh and other provinces obviously indicates an imbalance in development.

Table 42: Trial calculation on the scale of the development fund for the capital and provincial administrations

						With equal amount		Without equal amount	
	Equal amount	Population (2008)		Poverty rate (2010)		Total fund	Per capita fund	Total fund	Per capita fund
	US$	Persons	US$	%	US$	US$	US$	US$	US$
Banteay Meanchey	100,000	677,872	67,787	29.7	297,000	464,787	0.7	364,787	0.5
Battambang	100,000	1,025,174	102,517	28.7	287,000	489,517	0.5	389,517	0.4
Kampong Cham	100,000	1,679,992	167,999	24.3	243,000	510,999	0.3	410,999	0.2
Kampong Chhnang	100,000	472,341	47,234	30.4	304,000	451,234	1.0	351,234	0.7
Kampong Speu	100,000	716,944	71,694	30.1	301,000	472,694	0.7	372,694	0.5
Kampong Thom	100,000	631,409	63,141	32.7	327,000	490,141	0.8	390,141	0.6
Kampot	100,000	585,850	58,585	19.1	191,000	349,585	0.6	249,585	0.4
Kandal	100,000	1,265,280	126,528	15.9	159,000	385,528	0.3	285,528	0.2
Koh Kong	100,000	117,481	11,748	25.1	251,000	362,748	3.1	262,748	2.2
Kratie	100,000	319,217	31,922	37.1	371,000	502,922	1.6	402,922	1.3
Mondul Kiri	100,000	61,107	6,111	37.1	371,000	477,111	7.8	377,111	6.2
Phnom Penh	100,000	1,327,615	132,762	0.1	1,000	233,762	0.2	133,762	0.1
Preah Vihear	100,000	171,139	17,114	41.5	415,000	532,114	3.1	432,114	2.5
Prey Veng	100,000	947,372	94,737	25.5	255,000	449,737	0.5	349,737	0.4
Pursat	100,000	397,161	39,716	32.0	320,000	459,716	1.2	359,716	0.9
Ratanak Kiri	100,000	150,466	15,047	41.2	412,000	527,047	3.5	427,047	2.8
Siem Reap	100,000	896,443	89,644	31.1	311,000	500,644	0.6	400,644	0.4
Preah Sihanouk	100,000	221,396	22,140	19.6	196,000	318,140	1.4	218,140	1.0
Stung Treng	100,000	111,671	11,167	41.1	411,000	522,167	4.7	422,167	3.8
Svay Rieng	100,000	482,788	48,279	21.5	215,000	363,279	0.8	263,279	0.5
Takeo	100,000	844,906	84,491	23.4	234,000	418,491	0.5	318,491	0.4
Otdar Meanchey	100,000	185,819	18,582	36.5	365,000	483,582	2.6	383,582	2.1
Kep	100,000	35,753	3,575	21.4	214,000	317,575	8.9	217,575	6.1
Pailin	100,000	70,486	7,049	28.1	281,000	388,049	5.5	288,049	4.1
					Grand total	**10,471,568**		**8,071,568**	

Note: The fund allocation which is based on population is calculated as "population multiplied by 0.1." The fund allocation based on poverty ratio is calculated as "poverty ratio multiplied by 10,000".
Note: Poverty ratio is calculated based on the Commune Database (CDB) provided by MoP.
Source: Population Census (2008), JICA, "Kingdom of Cambodia: Study for Poverty Profile in Asian Region, Final Report (Draft)", 2010

The figures in the above table significantly change if the calculation formulas are changed. For example, if the equally divided fund is excluded from the calculation, the grand total of the fund decreases by nearly 20%. However, Phnom Penh receives the smallest amount of the fund in either case.

Table 43: Results of the calculations with and without the equal amount

(Unit: US$)

	With equal amount	Without equal amount
Grand total	10,471,568	8,071,568
Maximum	Total: 532,114 (Preah Vihear) Per capita: 8.88 (Otdar Meanchey)	Total: 432,114 (Preah Vihear) Per capita: 6.17 (Mondul Kiri)
Minimum	Total: 233,762 (Phnom Penh) Per capita: 0.18 (Phnom Penh)	Total: 133,762 (Phnom Penh) Per capita: 0.10 (Phnom Penh)

Although these calculations are not substantiated based on a rigorous assessment on the potential requirements of the province-wise public investment plan, the calculations can show indicative figures based on the policy goals and intentions of the government. For example, if the government is to use the fund discriminately for poverty alleviation and the correction of imbalances in development between the provinces, the calculation formula can be changed from "poverty ratio multiplied by 10,000" to "poverty ratio multiplied by 20,000" in order to allocate more funds to the poorer provinces.

It should be noted that a larger amount of the fund than is shown in the trial calculation may be needed if it is to bring about visible and positive changes for development. The average per capita allocation of funds is less than US$ 1 in either case of the trial calculation. In fact, more than half of the provinces receive less than US$ 1 per person in this trial calculation. Unless the provinces fund only a limited number of the development programs and projects, there is a risk that the fund will be too thinly distributed to each provincial line department and other stakeholders, which is likely to result in the implementation of many small projects such as training programs.[31]

6.2 Selection mechanism within the capital and provinces

As discussed in the previous section, the provision of the development fund is important for realizing positive impacts. In this regard, the capital and provincial development plan (CPDP) and investment program (CPIP) should be a major reference point for prioritizing the programs and projects and for allocating the disbursement of the fund. As the funding mechanism is unclear at this stage, this section describes the method and process of allocating the fund in line with the CPDP.

The CPDP includes 1) a situational analysis of the various sectors and 2) the development framework (vision, goals, objectives, and development strategy). The capital and provincial investment program (CPIP) includes three-year rolling investment projects (ongoing, committed and uncommitted) as its main content. As the CPIP includes a list of those projects that are prioritized based on the methods explained in the guideline and the process of formulating the CPDP and CPIP ensures the participation of various stakeholders including the citizens and the private sector. Therefore, compliance with the CPDP and CPIP is of utmost priority.

According to the guideline on the CPIP, the preparation of the CPIP includes the step of selecting the projects to be funded by the CP investment budget based on criteria such as the costs benefits ratio. However, it is difficult to apply costs benefits analysis to certain types of projects such as the primary education project, where it may be difficult to quantify the expected benefit (e.g., the improved knowledge level of pupils). In addition, it may not be politically feasible to select some projects for funding, purely based on the result of a costs benefits analysis.[32]

Although the guideline does not refer to such constraints, the report describes a preliminary idea on how to select projects for funding, which becomes necessary once the mechanism for funding the development efforts of the capital and provinces has been established. The processes are assumed to be taken after the CPIP has been prepared and before allocating the fund for the implementation of the projects on the CPIP's list.

Table 44: Possible process of selecting project proposals

Process	Content
1. Selection of priority sectors	Priority sectors may be selected, especially when the number of projects in CPIP is large compared with the volume of the fund.
2. Preparation of detailed proposal	More detailed project proposals should be prepared as the information in the CPIP is brief making it difficult to compare and make decision for selection.
3. Selection of project proposals	Project proposals need to be discussed and selected among the board of governors, representatives of the line departments and other stakeholders. A tentative list of selected projects needs to be approved by the council.

[31] This risk also applies to the district. NP-SNDD assumes that districts play an important role in its own development and assisting communes in their administrative boundary and the district fund should be established as a funding mechanism. If the fund is allocated without prioritization, it may become difficult to produce the positive impact in development.

[32] PILAC2 is planning to evaluate the process and output of CPDP and CPIP and make recommendation on the revision of the CPDP and CPIP guideline in 2011.

First, the selection of priority sectors is suggested, assuming that the capital and provincial administrations are not likely to receive a large amount of funding to cover all of the projects listed in the CPIP. Alternatively, the selection process can be done as a part of the process of preparing the CPIP based on the results of the situational analysis. Though the selection of priority sectors in the province seems to be politically unfeasible, it was indeed practiced in the provinces visited in the case of the PIF.

Secondly, the preparation of detailed project proposals is suggested. This is because investment projects listed in the CPIP include only limited information such as the project name, objectives, outputs, implementing agencies, duration, and beneficiaries. In addition, as mentioned earlier, the costs benefits analysis suggested in the guideline may not be applicable to certain types of projects and may not be used as a tool for the selection of projects.

Therefore, the implementing agencies need to prepare more detailed project proposals that include 1) information concerning costs, location, schedule, the number of beneficiaries and process and 2) the justification for funding in order to make it easy to compare among the projects and prioritize them. If there is a requirement to provide such necessary information as the first selection criterion among the competitive proposals, it can motivate those concerned to spend more time preparing detailed proposals which include more accurate information.

Lastly, the selection of proposals should be made by inviting as many stakeholders as possible. As the civil society and the private sector are involved in the process of preparing the CPDP and CPIP, they should be also invited to the selection process. Based on the discussions at the plenary meetings participated in by the various stakeholders, the council should then approve of the selected projects for funding.

Appendix: Breakdown of tax revenue (2009, 2010, 2011)

	Financial Law Unit: Million US$						2009/2010		2010/2011	
	2009	Share (%)	2010	Share (%)	2011	Share (%)	Change	%	Change	%
Category 1: Fiscal revenues	**1,018.3**		**1,152.5**		**1,304.0**		**134.2**	**13.2%**	**151.5**	**13.1%**
Fiscal domestic revenues	**751.1**	**100.0%**	**887.7**	**100.0%**	**1,012.1**	**100.0%**	**136.6**	**18.2%**	**124.4**	**14.0%**
1. Tax on income, profit and compensation (physical person)	35.1	4.7%	60.0	6.8%	70.4	7.0%	25.0	71.3%	10.4	17.4%
Tax on salary	26.5	3.5%	45.4	5.1%	56.1	5.5%	18.9	71.2%	10.7	23.6%
Tax on income from land and houses	8.5	1.1%	14.6	1.6%	14.3	1.4%	6.1	71.5%	(0.3)	-2.1%
2. Tax on income, profit and compensation (legal person)	142.7	19.0%	170.5	19.2%	178.1	17.6%	27.9	19.5%	7.6	4.4%
Tax on profit of public enterprises	10.7	1.4%	10.8	1.2%	12.2	1.2%	0.1	0.6%	1.4	13.3%
Tax on profit of private enterprises	131.0	17.4%	157.7	17.8%	164.0	16.2%	26.7	20.4%	6.3	4.0%
Tax on income from land and houses	1.0	0.1%	2.1	0.2%	1.9	0.2%	1.1	111.9%	(0.2)	-9.1%
3. General tax on properties and services	375.9	50.1%	432.6	48.7%	481.5	47.6%	56.7	15.1%	48.9	11.3%
Tax on income-internal regime (private enterprises)	3.7	0.5%	10.5	1.2%	10.6	1.0%	6.8	186.1%	0.1	1.0%
VAT-internal regime (public enterprises)	5.5	0.7%	5.1	0.6%	5.5	0.5%	(0.4)	-7.6%	0.4	7.2%
VAT-internal regime (private enterprises)	169.2	22.5%	195.4	22.0%	230.9	22.8%	26.2	15.5%	35.5	18.1%
VAT-import regime (diesel oil enterprises)	47.5	6.3%	52.2	5.9%	62.1	6.1%	4.7	9.9%	9.9	18.9%
VAT-import regime (other enterprises)	150.0	20.0%	169.4	19.1%	172.5	17.0%	19.4	12.9%	3.1	1.8%
4. Tax on determination of property	156.7	20.9%	185.2	20.9%	239.1	23.6%	28.6	18.3%	53.8	29.1%
Special tax on a number of goods-internal regime	28.6	3.8%	31.2	3.5%	55.6	5.5%	2.6	9.2%	24.4	78.0%
Special tax on a number of goods-import regime (diesel oil enterprises)	43.4	5.8%	57.6	6.5%	66.9	6.6%	14.1	32.6%	9.4	16.3%
Special tax on a number of goods-import regime (other enterprises)	84.6	11.3%	96.4	10.9%	116.6	11.5%	11.8	14.0%	20.1	20.9%
5. Tax on determination of services	36.9	4.9%	33.7	3.8%	37.6	3.7%	(3.2)	-8.7%	3.9	11.5%
Casino royalties	18.3	2.4%	15.1	1.7%	17.4	1.7%	(3.2)	-17.4%	2.3	15.1%
Lottery royalties	0.8	0.1%	0.0	0.0%	0.0	0.0%	(0.8)	-100.0%	0.0	#DIV/0!
Royalties of other gambling	1.2	0.2%	0.0	0.0%	0.0	0.0%	(1.2)	-100.0%	0.0	#DIV/0!
Special tax on other services	16.6	2.2%	18.6	2.1%	20.2	2.0%	2.0	12.1%	1.6	8.6%
6. Tax on use of property or implementation activities	0.3	0.0%	1.7	0.2%	1.8	0.2%	1.3	399.0%	0.1	8.9%
Domestic revenue on licenses	0.3	0.0%	1.7	0.2%	1.8	0.2%	1.3	399.0%	0.1	8.9%
7. Fiscal revenue	3.5	0.5%	3.9	0.4%	3.5	0.3%	0.4	11.4%	(0.4)	-9.1%
Tax on postages	0.8	0.1%	1.6	0.2%	1.7	0.2%	0.8	93.1%	0.1	6.2%
Fiscal fines and penalties	2.7	0.4%	2.3	0.3%	1.8	0.2%	(0.4)	-14.3%	(0.5)	-19.9%
Tax revenue on oversea business	**267.3**	**100.0%**	**264.8**	**100.0%**	**291.9**	**100.0%**	**(2.4)**	**-0.9%**	**27.1**	**10.2%**
1. Imports duties	238.0	89.1%	238.0	89.9%	267.6	91.7%	0.0	0.0%	29.6	12.4%
Customs on import	128.9	48.2%	126.7	47.8%	138.0	51.6%	(2.2)	-1.7%	11.3	8.9%
Pre-paid customs on import	14.5	5.4%	7.0	2.6%	3.8	2.7%	(7.5)	-51.6%	(3.2)	-45.9%
Customs on petroleum	56.9	21.3%	63.5	24.0%	75.2	1985.5%	6.7	11.7%	11.7	18.4%
Added tax on petroleum for road maintenance	35.8	13.4%	38.9	14.7%	46.5	61.9%	3.0	8.5%	7.7	19.7%
Income from customs sale	0.1	0.0%	0.1	0.0%	0.1	0.1%	(0.1)	-45.8%	0.0	11.2%
Other penalties on import	1.9	0.7%	1.9	0.7%	4.0	5800.0%	0.0	1.8%	2.1	108.1%
2. Exports taxes and duties	29.3	10.9%	26.8	10.1%	24.3	609.0%	(2.4)	-8.3%	(2.5)	-9.3%
Export tax on wood	1.0	0.4%	0.5	0.2%	1.0	4.2%	(0.5)	-51.9%	0.5	108.6%
Export tax on rubber	5.9	2.2%	3.1	1.2%	1.4	133.3%	(2.8)	-47.9%	(1.7)	-55.5%
Export tax on other products and agricultural goods	0.8	0.3%	1.7	0.7%	0.4	30.0%	0.9	116.7%	(1.3)	-76.2%
Management fees and export licenses	21.4	8.0%	21.4	8.1%	21.4	5186.7%	0.0	0.0%	0.0	0.0%
Other penalties on export	0.1	0.0%	0.1	0.0%	0.1	0.3%	0.0	8.3%	0.0	11.2%

Source: Law on Finance for Management, MEF (2010, 2011)

Appendix: 2009 Provincial and sector wise allocation of PIF funded by PSDD

GIS CODE	1	2	3	4	5	6	7	8	9	10	11	12	13
PROVINCE	**BMC**	**BAT**	**KPC**	**KCH**	**KSP**	**KPT**	**KAM**	**KDL**	**KKG**	**KRT**	**MKR**	**PNP**	**PVR**
Agriculture	12,620	24,750		16,000	20,400	10,600	18,620	32,100	10,500			23,050	
Commerce			7,200										
Culture	0	3,792	4,500	5,500	13,000	4,500	3,804		0				2,000
Education	3,000	5,398	32,800	0	14,000	7,000	15,120		5,500		9,500		7,000
Gender	8,500	13,500	18,800	8,750		1,000	11,850	13,250	6,925	7,075	9,000	10,800	7,550
Health	0	14,355	34,200	0	8,000	8,000			0	20,000		49,775	
Information	0		3,300	0			4,554	2,130	0				
Land Use Management	2,500	8,500		3,125		5,000		2,600	0			9,000	3,444
Labor	2,500	6,000	11,150	0		6,000	4,554		6,000				2,500
Mine Action	0			0					0				9,750
Natural Resource Management	6,210	7,450		16,700	5,000	8,000		8,060	0			12,530	
Planning	8,500	13,200	18,200	7,975	10,225	9,000	9,325	11,785	7,025	7,225	9,125	9,670	8,106
Public Works	0		25,200	0				8,150	0				
Religion	4,922			0					0				
Rural Roads	24,210	16,500	47,950	12,800		33,700	12,720	33,000	0	17,500	9,917		11,750
Social	4,923	5,065	7,600	3,250		5,000			0				
Tourism	2,500			4,520			3,120		0				2,500
Water and Sanitation	10,913	5,915	4,000	6,425	25,374			7,500	9,000			27,000	
Water Resources Management	15,472	8,000		3,000	4,713	25,529	16,908	40,300	11,000	17,500	9,000		2,500
Total PIF	**106,775**	**132,425**	**214,900**	**88,045**	**100,712**	**123,329**	**100,575**	**158,875**	**55,950**	**69,300**	**46,542**	**141,825**	**57,100**

GIS CODE	14	15	16	17	18	19	20	21	22	23	24	All Provinces	
PROVINCE	**PVG**	**PUR**	**RAT**	**SRP**	**SHV**	**STG**	**SVR**	**TAK**	**OMC**	**KEP**	**PLN**		
Agriculture	0			0		23,000		15,720	6,926	4,132		218,418	9.80%
Commerce												7,200	0.3%
Culture				5,050		0	3,000	5,050	1,561			51,757	2.3%
Education	70,000	10,000	11,000	13,517	5,500	0	25,033	20,050	0	8,479		262,897	11.7%
Gender	0	8,800	9,500	11,000	5,525	0	7,000	10,675	0	4,825	5,326	179,651	8.0%
Health	0	6,600		7,580		0	5,900	4,956	0	8,916		168,282	7.5%
Information	0		3,875	2,950	3,500	2,200	2,500	0	0			25,009	1.1%
Land Use Management	0			0		0	4,800	5,500	3,122			47,591	2.1%
Labor	13,000	8,200	6,000	4,000	2,500	0		0	2,461		2,270	77,135	3.4%
Mine Action	0			0		0		0	7,160			16,910	0.8%
Natural Resource Management	5,700			0		6,300	5,000	3,978	6,183			91,111	4.1%
Planning	9,000	7,800	9,500	11,280	5,400	7,600	8,375	10,000	5,400	5,080	5,737	214,533	9.6%
Public Works	4,000			0		0		13,096	0			50,446	2.3%
Religion	0	3,300		6,530		0		0	0			14,752	0.7%
Rural Roads	25,000	9,100		24,000		6,300	19,020	14,576	0		21,200	339,243	15.2%
Social	0	3,500	6,000	2,723	3,000	0	4,000	4,000	1,339		1,600	52,000	2.3%
Tourism	5,000	8,800		0		0	3,000	5,000	3,322	4,230	1,485	43,477	1.9%
Water and Sanitation	0	3,600	10,000	4,120	15,100	0		7,475	0	8,338	6,107	150,872	6.7%
Water Resources Management	5,000	9,000		25,150	15,500	0		8,335	10,626			227,533	10.2%
Total PIF	**136,700**	**78,700**	**55,875**	**117,900**	**56,025**	**45,400**	**87,628**	**128,411**	**48,100**	**44,000**	**43,725**	**$2,238,817**	100.0%

Source: PSDD Annual Workplan and Budget 2009